

THE PUBLIC UTILITIES COMMISSION OF OHIO

**IN THE MATTER OF THE APPLICATION
OF DUKE ENERGY OHIO, INC. FOR
AUTHORITY TO ISSUE AND SELL FIRST
MORTGAGE BONDS, UNSECURED DEBT,
AND LONG-TERM NOTES, AND ENTER
INTO CAPITAL LEASE OBLIGATIONS
AND INTEREST RATE MANAGEMENT
AGREEMENTS.**

CASE No. 19-637-GE-AIS

FINDING AND ORDER

Entered in the Journal on June 19, 2019

I. SUMMARY

{¶ 1} The Commission approves Duke Energy Ohio, Inc.'s application for authority to issue and sell first mortgage bonds, unsecured debt, and long-term notes, and enter into capital lease obligations and interest rate management agreements, subject to Staff's conditions.

II. DISCUSSION

{¶ 2} Duke Energy Ohio, Inc. (Duke or the Company) is a public utility as defined in R.C. 4905.02 and, as such, is subject to the jurisdiction of this Commission.

{¶ 3} R.C. 4905.40 permits public utilities to "issue stocks, bonds, notes, and other evidences of indebtedness, payable at periods of more than twelve months after their date of issuance, when necessary" as authorized by the Commission. Pursuant to R.C. 4905.40(A)(2), an authorized company may issue notes or other evidences of indebtedness when it is necessary for, among other things, reorganization or readjustment of its indebtedness and capitalization. The application process for obtaining Commission authorization is outlined in R.C. 4905.41. The application must include the amount, purpose, and terms of the financial arrangement, as well as the total assets and liabilities of the utility.

{¶ 4} On July 25, 2018, in Case No. 18-238-GE-AIS, the Commission authorized Duke to issue and sell first mortgage bonds, unsecured debt, and long-term notes, as well as enter into capital lease obligations and interest rate management agreements, for a period ending June 30, 2019.

{¶ 5} On March 29, 2019, Duke filed an application pursuant to R.C. 4905.40 and 4905.41. In the application, the Company proposes, from time to time, over a period ending June 30, 2020, to execute a financing program consisting of one or a combination of the following: (a) issue and sell up to \$600 million principal amount of first mortgage bonds, senior and junior unsecured indebtedness, or issue other long-term unsecured indebtedness, including commercial paper classified as long-term, or any combination thereof (collectively, debt securities), provided the aggregate amount of debt securities shall not exceed \$600 million; (b) enter into additional capital lease obligations (capital leases) of up to \$100 million principal amount; and (c) enter into interest rate management agreements (interest agreements), within the terms and conditions set forth in the application.

{¶ 6} Duke anticipates spending approximately \$637 million and \$551 million in capital expenditures during the years 2019 and 2020, respectively. Duke has debt maturities of approximately \$451 million in 2019 and \$0 million in 2020.

{¶ 7} Duke states that the capital leases will have structures and terms similar to other forms of debt financing. Duke asserts that the capital leases will provide access to lower-cost funds for financing property acquisitions.

{¶ 8} Duke is requesting Commission authorization to enter into interest agreements to utilize interest rate management techniques to lower its overall effective interest cost and interest rate risks.

{¶ 9} Duke proposes, pursuant to R.C. 4905.40, to use the proceeds from the issuance of the debt securities and the capital leases (collectively, securities) to provide funds for: the acquisition of property; its construction program; the management of its capital structure; the discharge or lawful refunding of its obligations, or to reimburse its treasury, in part, for monies spent for such purposes; and other general corporate purposes.

{¶ 10} On June 6, 2019, Staff filed its review and recommendations. In its review, Staff notes that the proposed authorization of \$600 million in debt securities and \$100 million in capital leases, in addition to cash flows from operations, is expected to provide Duke with sufficient funding for its capital plan. According to Staff, Duke proposes that the debt securities will be issued with the following parameters: (a) a maturity of not more than 60 years; (b) redemption premiums, if any, are to be established in negotiation with placement agents; (c) commissions are not to exceed 3.5 percent of the principal amount; (d) the bonds and debentures will be issued no higher than 102 percent nor less than 98 percent of the principal amount, plus accrued interest; (e) if a fixed coupon, a coupon rate that does not exceed 7 percent; and (f) if a floating rate coupon, a coupon that does not exceed the London Interbank Offered Rate for U.S. dollar deposits by more than 400 basis points nor exceed 7 percent at issuance.

{¶ 11} In regards to the proposed capital leases, Staff notes that Duke identifies the parameters as: (a) a maximum term of 40 years; and (b) a lease cost comparable to other financing alternatives with similar terms, not to exceed 9 percent. Lastly, Staff states that Duke seeks authority to utilize interest agreements to manage costs associated with its debt. The application identifies products commonly used in capital markets, including interest rate swaps, options, and futures. The interest agreements are to be entered into with highly rated counterparties for a fixed period and stated notional amount.

{¶ 12} Staff recommends that Duke's application be approved, subject to the following conditions:

- (a) The authorization to consummate the financing transaction(s) to issue the debt securities and enter into capital leases within the parameters set forth in the application in no way relieves Duke of its responsibility to negotiate and obtain the best competitive market terms available.
- (b) In the event that Duke enters into interest rate management agreements, it will report, in this case docket, the terms and full particulars to the Commission within 30 days of executing the transaction(s).
- (c) Duke shall file a summary report, in this case docket, within 30 days of issuing any debt securities under the authority granted in this case. The report shall summarize the principal amount, interest rate and type of security issued; the other terms and full particulars of the debt securities, including a description of any collateral required, issuance expenses, any discounts or premiums, any credit enhancements, and any other pertinent repayment terms; and the use of proceeds from the debt securities in broad categories.
- (d) Duke shall file a summary report, in this case docket, within 30 days of entering into capital leases under the authority granted in this case. The report shall summarize the principal amount of the lease, lease term, lease cost, and other terms and full particulars of the capital leases.

{¶ 13} Upon review of the application and Staff's recommendations, the Commission finds that the aggregate amount of the securities, and the terms thereof, and the probable cost to Duke, within the parameters set forth in the application, do not

appear to be unjust or unreasonable. In addition, based on the information contained in the application, the purposes to which the proceeds from the securities shall be applied and the use of the interest agreements appear to be reasonably required by Duke to meet its present and prospective obligations to provide utility service. Therefore, the Commission finds that the application should be approved, subject to Staff's conditions.

III. ORDER

{¶ 14} It is, therefore,

{¶ 15} ORDERED, That the application is approved for a period ending June 30, 2020, subject to the conditions set forth above. It is, further,

{¶ 16} ORDERED, That the authority granted through this Finding and Order shall replace any existing unused authority granted in Case No. 18-238-GE-AIS. It is, further,

{¶ 17} ORDERED, That Duke shall apply the proceeds from the securities for the purposes set forth in this Finding and Order and otherwise pursuant to the provisions of R.C. 4905.40. It is, further,

{¶ 18} ORDERED, That the authorization granted by this Finding and Order shall not be construed as limiting the Commission's determination of the appropriateness of the securities for future ratemaking treatment. It is, further,

{¶ 19} ORDERED, That nothing in this Finding and Order shall be construed to imply any guaranty or obligation by the Commission to assure completion of any specific construction projects of Duke. It is, further,

{¶ 20} ORDERED, That nothing in this Finding and Order shall be deemed to be binding upon this Commission in any future proceeding or investigation involving the justness or reasonableness of any rate, charge, rule, or regulation. It is, further,

{¶ 21} ORDERED, That nothing in this Finding and Order shall be construed to imply any guaranty or obligation as to the securities on the part of the state of Ohio. It is, further,

{¶ 22} ORDERED, That a copy of this Finding and Order be served upon all parties of record.

COMMISSIONERS:

Approving:

Sam Randazzo, Chairman

M. Beth Trombold

Lawrence K. Friedeman

Daniel R. Conway

Dennis P. Deters

SEC/sc

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Case No(s). 19-0637-GE-AIS

Summary: Finding & Order that the Commission approves Duke Energy Ohio, Inc.'s application for authority to issue and sell first mortgage bonds, unsecured debt, and long-term notes, and enter into capital lease obligations and interest rate management agreements, subject to Staff's conditions.
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