



# Public Utilities Commission

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## Commissioners

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June 4, 2021

Docketing Division  
Public Utilities Commission of Ohio  
180 East Broad Street  
Columbus, OH 43215

RE: *In the Matter of the Application of Duke Energy Ohio, Inc., for Authority to Issue Not in Excess of \$600,000,000 at Any One Time of Short-term Unsecured Notes and Other Evidences of Indebtedness, Case No. 21-0160-GE-AIS*

Dear Docketing Division:

Enclosed please find Staff's Review and Recommendation in regard to the application of Duke Energy Ohio, Inc. for authority to issue short-term debt and participate in a utility money pool, Case No. 21-0160-GE-AIS.

A handwritten signature in black ink, appearing to read "DLipthratt", written over a horizontal line.

David Lipthratt  
Chief, Accounting and Finance Division  
Rates and Analysis Department  
Public Utilities Commission of Ohio

Enclosure  
Cc: Parties of Record

BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke	)	
Energy Ohio, Inc., for Authority to Issue	)	
Not in Excess of \$600,000,000 at Any	)	Case No. 21-0160-GE-AIS
One Time of Short-term Unsecured	)	
Notes and Other Evidences of	)	
Indebtedness.	)	

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**Staff Review and Recommendation**

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**APPLICATION DESCRIPTION**

On March 16, 2021, Duke Energy Ohio, Inc. (“Duke Ohio” or the “Company”), filed an application and exhibits (“Application”) with the Public Utilities Commission of Ohio (“Commission”). The Application requests an order granting authorization to make unsecured short-term promissory notes and other evidences of indebtedness (“Short-Term Notes”), not to exceed \$600 million at any one time. Included in the Application is Commission consent to participate in the Utility Money Pool (“Money Pool”). The Application seeks authority to issue and/or renew Short-Term Notes (including through participation in the Money Pool or by borrowing from banks or other financial institutions) through June 30, 2022. The Application represents granting an authority by the Commission to supplement and replace the authority granted by the Commission in a prior case (“Current Authority”).<sup>1</sup>

Duke Ohio intends to apply the proceeds of the Short Term Notes for: a) refunding debt; b) the acquisition of property; c) construction or improvement of facilities; d) providing for improvement and maintenance of service; e) lending to other parties in the Money Pool; and f) funding working capital and other corporate purposes.

Under the provisions of Ohio Revised Code 4905.401, Duke Ohio, without action of the Commission, could borrow up to five percent of the par value of all of its outstanding long-term securities (“Statutory Exemption”). Any Ohio electric utility wishing to incur short-term obligations in excess of the Statutory Exemption must seek Commission authorization.

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<sup>1</sup> See *In the Matter of the Application of Duke Energy Ohio, Inc., for Authority to Issue Not in Excess of \$600,000,000 at Any One Time of Short-Term Unsecured Notes and Other Evidences of Indebtedness*, Case No. 20-0258-GE-AIS, Finding and Order (June 17, 2020) (2020 AIS Case)

## **REVIEW AND ANALYSIS**

As of March 31, 2021, Duke Ohio could borrow up to \$158.1 million in short-term debt under the Statutory Exemption. Looking to the future, Duke Ohio anticipates the need for short-term funding in excess of this amount. In 2021 and 2022, Duke Ohio anticipates potential capital financing requirements of \$1.28 billion.<sup>2</sup> The \$600 million in requested short-term debt authority has taken into consideration a required \$300 million offering threshold that is needed to be included in benchmark indices. This level of debt authority provides flexibility to: a) sustain longer intervals between long-term debt offerings in the capital market, b) term out short-term borrowings to long-term debt when favorable conditions exist, and c) issue larger, more liquid tranches of long-term debt.

On March 16, 2021, Duke Energy Corporation (“Duke Energy”) amended its Master Credit Agreement (the “Credit Agreement”) to ensure that it and its wholly owned subsidiaries (including Duke Ohio) have sufficient liquidity to support funding needs. Duke Ohio has an allocated sublimit of \$450 million and a maximum sublimit of \$725 million under the Credit Agreement. The \$450 million allocated sublimit represents the Company’s current borrowing authority under the Credit Agreement. Duke Ohio is requesting \$600,000,000, which will allow the Company to maximize its ability to maintain liquidity and access the majority of its borrowing capacity under the Credit Agreement, if necessary. This would provide flexibility to the Company in the event it experiences unforeseen costs and/or is unable to issue long-term debt due to adverse market conditions.

The cost of borrowings under the Credit Agreement are based on a ratings tier to determine the applicable margin. For Duke Ohio, the drawn spread would be 107.5 basis points over London Interbank Offered Rate (“LIBOR”). There are no outstanding borrowings for any Duke Energy company under the agreement. For comparisons, from January 1, 2021 through March 31, 2021, the cost of funds for Duke Ohio under the Credit Agreement would have been approximately 1.19%. The cost of borrowings over the same period through the money pool was approximately 0.20%, 99 basis points lower.

The Money Pool is a cash management program established to provide for short-term cash and working capital needs of Duke Energy’s regulated utility subsidiaries. Duke Energy Business Services LLC (“DEBS”) serves as the administrative agent of the Money Pool. Participation in the Money Pool is governed by the Utility Money Pool Agreement (“Agreement”). The Agreement defines possible sources of funds available to the Money Pool and it specifies which parties may borrow from available funds through the Money Pool (“Participating Companies”).

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<sup>2</sup> See *In the Matter of the Application of Duke Energy Ohio, Inc., for Authority to (1) Issue and Sell First Mortgage Bonds, Unsecured Debt, Long-Term Notes, (2) Enter Into Capital Lease Obligations, and (3) Enter Into Interest Rate Management Agreements*, Case No. 21-0161-GE-AIS, Application (March 16, 2021)

DEBS provides support services on a shared basis to all of Duke Energy's subsidiaries, which consist of both regulated and non-regulated businesses. DEBS also has borrowing rights through the Money Pool as a Participating Company. As a result, Staff has proposed in past applications that Duke Ohio's participation in the Money Pool may continue provided that the percentage of DEBS's billed services in support of non-regulated businesses be less than a maximum of three percent of total billed services it performs.<sup>3</sup>

The billed services attributable to non-regulated entities amounted to approximately \$54.6 million from a total \$3.7 billion DEBS billed in 2020.<sup>4</sup> Thus, approximately 1.5 percent of billed services were for non-regulated entities in this period, which is within the limit established by the Commission.

Duke Ohio's credit ratings are supportive of the authority being sought. Both Standard & Poor's (currently rated BBB+ with a Stable Outlook) and Moody's (currently rated Baa1 with a Stable Outlook) have investment grade credit ratings on Duke Ohio.

### **RECOMMENDATION**

Staff has reviewed the Application and recommends its approval in light of Duke Ohio's financial condition, credit profile, and anticipated financing needs. However, in order to provide safeguards to insulate Duke Ohio from the financial risks associated with other parties, Staff proposes that the Commission impose the following conditions on Duke Ohio's participation in the Money Pool:

- a) Funds provided by Duke Ohio to the Money Pool and borrowed therefrom by the Participating Companies shall not exceed \$600 million at any one time through June 30, 2022;
- b) Loans to the Participating Companies made through the Money Pool should be made only to those Participating Companies that have, or whose direct parent company has, an investment grade credit rating from at least one nationally recognized rating agency, or in the absence of such rating, an investment grade corporate credit rating from at least one nationally recognized rating agency. In the event the credit rating of any Participating Company, or its parent company in the case of an unrated company, falls below investment grade, Duke Ohio shall file the full details of such condition(s) in this case within 10 days of such event;
- c) If any regulatory agency having jurisdiction over one or more of the Participating Companies imposes any condition limiting the amount of short-term debt that may be loaned to any Participating Company in the Money Pool, Duke Ohio shall report to the Commission, in this case docket, the full particulars of such condition(s) within 10 days of the imposition of those

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<sup>3</sup> *Id*

<sup>4</sup> 2020 AIS Case, Report of Duke Energy Business Services Annual Filing (March 26, 2021)

condition(s), so that the Commission may consider whether to impose similar condition(s) on Duke Ohio; and

- d) Duke Ohio shall provide information relating to its participation in the Money Pool on a quarterly basis and shall file those quarterly reports in this case docket.

Furthermore, in order to permit Duke Ohio to participate in the Money Pool along with DEBS as a Participating Company, Staff recommends the following additional conditions:

- e) Duke Ohio may continue to participate in the Money Pool along with DEBS provide DEBS maintains a de minimis amount of non-regulated billed services. For the purpose of determining a de minimis in this case, Staff recommends that the Commission reaffirm a limit of no more than three percent for non-regulated billed services out of the total annual billed services out of the total annual billed services by DEBS, which is consistent with the Commission's determination in Case 18-237-GE-AIS; and
- f) Duke Ohio shall file an annual update of DEBS billed services in this case docket, prior to the expiration of any financing authority granted in this case, in order to verify a de minimis status for DEBS amount of non-regulated billed services.

**This foregoing document was electronically filed with the Public Utilities**

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**in**

**Case No(s). 21-0160-GE-AIS**

Summary: Staff Review and Recommendation in regard to the application of Duke Energy Ohio, Inc. for authority to issue short-term debt and participate in a utility money pool electronically filed by Zee Molter on behalf of PUCO Staff