

THE PUBLIC UTILITIES COMMISSION OF OHIO

IN THE MATTER OF THE APPLICATION OF
DUKE ENERGY OHIO, INC. FOR AUTHORITY
TO ISSUE SHORT-TERM NOTES AND OTHER
EVIDENCES OF INDEBTEDNESS.

CASE NO. 21-160-GE-AIS

FINDING AND ORDER

Entered in the Journal on June 16, 2021

I. SUMMARY

{¶ 1} The Commission approves Duke Energy Ohio, Inc.'s application to participate in the Utility Money Pool Agreement and make short-term borrowings up to \$600 million through June 30, 2022, subject to Staff's recommended conditions.

II. DISCUSSION

{¶ 2} Duke Energy Ohio, Inc. (Duke or the Company) is an electric light company as defined in R.C. 4905.03 and a public utility as defined in R.C. 4905.02 and, as such, is subject to the jurisdiction of this Commission.

{¶ 3} R.C. 4905.401 permits a public utility that is an electric light company to issue notes or other evidences of indebtedness payable at periods of not more than 12 months, when authorized by the Commission. Pursuant to the statute, Commission authorization is not required for a public utility that is an electric light company to issue short-term notes and other evidences of indebtedness aggregating not more than five percent of the par value of the other stocks, bonds, notes, and other evidences of indebtedness of the company.

{¶ 4} In Case No. 20-258-GE-AIS, the Commission authorized Duke to participate in the Utility Money Pool Agreement (Money Pool) and borrow up to \$600 million through June 30, 2021. *In re Duke Energy Ohio, Inc.*, Case No. 20-258-GE-AIS, Finding and Order (June 17, 2020). The Money Pool was created via an agreement between Duke Energy Corporation (Duke Corp.) and its multiple regulated utility subsidiaries. The Money Pool allows its participants to coordinate borrowing and loaning funds on a short-term basis.

{¶ 5} On March 16, 2021, Duke filed an application pursuant to R.C. 4905.401. In the application, the Company requests authorization to issue or renew unsecured short-term promissory notes and other evidences of indebtedness (short-term notes) not to exceed \$600 million at any one time. The Company proposes, from time to time, over a period ending June 30, 2022, to apply the proceeds of the short-term notes for: (a) the discharge or lawful refunding of its obligations, including debt; (b) the acquisition of property; (c) construction, completion, extension, renewal, and improvement of its facilities; (d) providing for the improvement and maintenance of its service; (e) the reimbursement of monies actually expended for the foregoing purposes from its income or from any other monies in its treasury not secured or obtained from the issue of its stocks, bonds, notes, or other evidences of indebtedness; (f) lending to other parties in the Money Pool; and (g) funding working capital and other corporate purposes.

{¶ 6} On March 16, 2021, Duke Corp. amended its Master Credit Agreement (Credit Agreement) to ensure that it and its wholly-owned subsidiaries (including Duke) have sufficient liquidity to support funding needs. Duke 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.

{¶ 7} In the current application, Duke is requesting \$600 million, which the Company believes will allow it to maximize its ability to maintain liquidity and access the majority of its borrowing capacity under the Credit Agreement, if necessary. Duke argues that this arrangement will 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.

{¶ 8} On June 4, 2021, Staff filed its review and recommendation. In its review, Staff notes that, consistent with R.C. 4905.401, Duke was permitted to borrow, as of March 31, 2021, up to approximately \$158.1 million, without the Commission's prior authorization

because such amount was less than five percent of the par value of Duke's other stocks, bonds, notes, and other evidences of indebtedness.

{¶ 9} In its review and recommendation, Staff explains that the cost of borrowings under the Credit Agreement is based on a rating tier to determine the applicable margin. For Duke, the drawn spread would be 107.5 basis points over London Interbank Offered Rate. Staff states that there are no outstanding borrowings for any Duke Corp. company under the agreement. For comparison, from January 1, 2021, through March 31, 2021, the cost of funds for Duke under the Credit Agreement would have been approximately 1.19 percent. The cost of borrowings over the same period through the Money Pool was approximately 0.20 percent, 99 basis points lower.

{¶ 10} Staff states that the Money Pool is a cash management program established to provide for short-term cash and working capital needs of regulated utilities and subsidiaries. Staff represents that 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).

{¶ 11} Staff represents that DEBS provides support services on a shared basis to all of Duke Corp.'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's participation in the Money Pool may continue provided that the percentage of DEBS's billed services in support of non-regulated businesses is less than a maximum of three percent of total billed services it performs.

{¶ 12} Staff avers that the billed services attributable to non-regulated entities amounted to approximately \$54.6 million from a total of \$3.7 billion DEBS billed in 2020. Thus, approximately 1.5 percent of billed services were for non-regulated entities in this

period, which Staff determined is within the limit established by the Commission. Additionally, Staff contends that Duke'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.

{¶ 13} Staff recommends its approval of Duke's application in light of its financial condition, credit profile, and anticipated financing needs. However, Staff believes that, in order to provide safeguards to insulate Duke from the financial risks associated with other parties, the Commission must impose certain conditions relating to Duke's participation in the Money Pool. Specifically, Staff suggests the following conditions:

- (1) Funds provided by Duke to the Money Pool and borrowed therefrom by the Participating Companies shall not exceed \$600 million at any one time through June 30, 2022;
- (2) 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 shall file the full details of such condition(s) in this case within ten days of such event;
- (3) 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 shall report to the Commission, in this case docket, the full particulars of such condition(s) within ten days of the imposition of those condition(s), so that the Commission may consider whether to impose similar condition(s) on Duke;

- (4) Duke 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.

Further, in order to enable Duke to continue its participation in the Money Pool with DEBS as a Participating Company, Staff recommends the following conditions:

- (5) Duke may continue to participate in the Money Pool along with DEBS provided 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 by DEBS, which is consistent with the Commission's determination in Case No. 18-237-GE-AIS; and
- (6) Duke 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.

{¶ 14} Upon review of the application and Staff's recommendations, the Commission finds that the amount of the short-term borrowings under the Money Pool, the terms thereof, and the probable cost to Duke, which are to be no less favorable than the terms as described in the application, do not appear to be unjust or unreasonable. In addition, based on the information contained in the application and supporting exhibits, and subject to Staff's recommended conditions, the purposes to which the proceeds from the borrowings through participation in the Money Pool shall be applied 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 all of Staff's recommended conditions.

III. ORDER

{¶ 15} It is, therefore,

{¶ 16} ORDERED, That Duke be authorized, through June 30, 2022, to participate in the Money Pool, pursuant to the terms and conditions as described in the application, and subject to all of Staff's recommended conditions. It is, further,

{¶ 17} ORDERED, That nothing in this Finding and Order be construed as limiting the Commission's determination of the appropriateness of Duke's future long-term security offerings issued wholly or in part for the purpose of retiring its outstanding short-term evidences of indebtedness. It is, further,

{¶ 18} ORDERED, That nothing in this Finding and Order be construed to imply any guaranty or obligation as to the unsecured notes and other evidences of indebtedness, or the associated interest, on the part of the state of Ohio. 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 a copy of this Finding and Order be served upon each party of record.

COMMISSIONERS:

Approving:

Jenifer French, Chair
M. Beth Trombold
Lawrence K. Friedeman
Daniel R. Conway
Dennis P. Deters

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

Summary: Finding & Order approving Duke Energy Ohio, Inc.'s application to participate in the Utility Money Pool Agreement and make short-term borrowings up to \$600 million through June 30, 2022, subject to Staff's recommended conditions electronically filed by Heather A Chilcote on behalf of Public Utilities Commission of Ohio