

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. 21-161-GE-AIS

FINDING AND ORDER

Entered in the Journal on July 14, 2021

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 15, 2020, in Case No. 20-259-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, 2021 (Current Authority).

{¶ 5} On March 16, 2021, Duke filed an application, pursuant to R.C. 4905.40 and 4905.41, for approval of long-term debt authority, which the Company subsequently amended through the filing of a revised exhibit on May 13, 2021 (collectively, Application). In the Application, the Company proposes, from time to time, over a period ending June 30, 2022, to execute a financing program consisting of one or a combination of the following: issue and/or sell up to \$600 million principal amount of first mortgage bonds, senior or junior unsecured indebtedness, or 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; enter into additional capital lease obligations (Capital Leases) of up to \$100 million principal amount; and enter into interest rate management agreements (Interest Agreements), within the terms and conditions set forth in the Application.

{¶ 6} Duke anticipates capital expenditures of approximately \$672 million and \$611 million in 2021 and 2022, respectively. Duke has no debt maturities in 2021 or 2022. Duke states that the Company anticipates that cash flows from operations will provide the funding for a portion of this request and, thus, Duke requests authority of \$600 million of Debt Securities and \$100 million of Capital Leases.

{¶ 7} Duke states that the Capital Leases will have structures and terms similar to other forms of debt financing, but with the potential, in certain instances, to lower the overall cost associated with financing property acquisitions.

{¶ 8} Duke is requesting Commission authorization to enter into Interest Agreements to manage its interest costs and interest rate risk.

{¶ 9} Duke proposes to use the proceeds from the issuance of the Debt Securities and the Capital Leases to provide funds for the following purposes: the acquisition of

property; the construction, completion, extension, or improvement of its facilities; the management of its capital structure, including the refinancing of securities; the discharge or lawful refunding of its obligations, or to reimburse its treasury, in part, for monies expended for such purposes; or other general corporate purposes.

{¶ 10} On June 23, 2021, Staff filed its review and recommendations. In its review, Staff notes that Duke has indicated that it has no anticipation of creating any new obligations under the Current Authority or issuing additional debt during 2021. Staff also states that Duke's requested debt parameters may appear high; however, Staff anticipates that, when issued, the actual terms of the Debt Securities will be much lower than the requested parameters, given Duke's credit ratings and current market conditions. According to Staff, Duke proposes that the Debt Securities be issued within the following parameters: a maturity of not more than 60 years; an interest rate that is not to exceed that which is generally obtainable for securities having the same or similar maturities as those issued by utility companies or utility holding companies of comparable credit quality and does not exceed the respective benchmark rate plus 400 basis points for either fixed or variable rate securities at the time of pricing; the bonds and debentures will be issued no higher than 102 percent nor less than 98 percent of the principal amount, plus accrued interest; and the commission payable will not exceed 3.5 percent of the principal amount of the Debt Securities.

{¶ 11} In regard to the proposed Capital Leases, Staff notes that Duke identifies the following parameters: a maximum term of 40 years; terms and structures similar to other forms of debt financing; and a lease cost not to exceed a rate of nine percent. Finally, Staff states that Duke seeks authority to utilize Interest Agreements to manage its overall effective interest costs and interest rate risks. Staff advises that, in general, these transactions will not impact Duke's capitalization, as there are no proceeds associated with the Interest Agreements.

{¶ 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 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 Agreements, it shall 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 Debt Securities and Capital Leases, 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 Debt Securities and Capital Leases 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 be approved for a period ending June 30, 2022, 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. 20-259-GE-AIS. It is, further,

{¶ 17} ORDERED, That Duke shall apply the proceeds from the Debt Securities and Capital Leases 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 Debt Securities and Capital Leases 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 Debt Securities and Capital Leases on the part of the state of Ohio. It is, further,

{¶ 22} 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). 21-0161-GE-AIS

Summary: Finding & Order approving 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. electronically filed by Ms. Mary E Fischer on behalf of Public Utilities Commission of Ohio