



STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF DUKE ENERGY INDIANA, INC., AN )  
INDIANA CORPORATION, FOR AUTHORITY (i) TO )  
ISSUE UP TO \$750,000,000 PRINCIPAL AMOUNT OF )  
DEBT SECURITIES TO BE COMPRISED OF )  
PETITIONER'S SECURED FIRST MORTGAGE BONDS )  
OR UNSECURED DEBT IN ANY COMBINATION )  
THEREOF AND IN ONE OR MORE SERIES, )  
PROVIDED, HOWEVER, THE AGGREGATE )  
PRINCIPAL AMOUNT OF ALL SUCH SECURITIES )  
SHALL NOT EXCEED \$750,000,000, (ii) TO EXECUTE )  
AND DELIVER LONG TERM LOAN AGREEMENTS )  
TO BORROW UP TO \$300,000,000 FROM THE )  
INDIANA FINANCE AUTHORITY OR OTHER )  
AUTHORITY, (iii) TO ENTER INTO CAPITAL LEASE )  
OBLIGATIONS NOT TO EXCEED \$100,000,000 )  
PRINCIPAL IN THE AGGREGATE, (iv) TO ENTER )  
INTO INTEREST RATE MANAGEMENT )  
AGREEMENTS, AND (v) TO APPLY THE PROCEEDS )  
OBTAINED FROM SUCH SECURITIES, LOAN )  
AGREEMENTS AND CAPITAL LEASE )  
TRANSACTIONS TOWARD (a) THE DISCHARGE OR )  
LAWFUL REFUNDING OF ITS OBLIGATIONS )  
OUTSTANDING, OR THE REIMBURSEMENT OF ITS )  
TREASURY FOR MONEY ACTUALLY EXPENDED )  
FROM INCOME, OR FROM ANY OTHER MONEY IN )  
THE TREASURY FOR SUCH PURPOSES, (b) PAYING )  
PART OF THE COSTS OF PETITIONER'S )  
CONSTRUCTION PROGRAM AND (c) PAYING THE )  
COSTS OF ISSUING AND SELLING SAID )  
SECURITIES, EXECUTING SAID LOAN )  
AGREEMENTS OR TRANSACTING SAID CAPITAL )  
LEASE TRANSACTIONS. )

CAUSE NO. 43951

APPROVED: DEC 29 2010

BY THE COMMISSION

Larry S. Landis, Commissioner

Angela Rapp Weber, Administrative Law Judge

On September 16, 2010, Duke Energy Indiana, Inc. ("Duke Energy Indiana," "Petitioner," or "Company") filed its Verified Petition ("Petition") with the Commission initiating this matter. On September 17, 2010, Petitioner filed the prefiled testimony of M. Allen Carrick, Assistant Treasurer of Duke Energy Indiana. On November 19, 2010, the Office of

Utility Consumer Counselor (“OUCC”) filed the prefiled testimony of Duane P. Jasheway, a Utility Analyst in the OUCC’s Electric Division.

Pursuant to notice given and published as required by law, proof of which was incorporated into the record, a public hearing in this Cause was held on December 20, 2010, at 1:00 p.m., in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Both Petitioner and the OUCC were present. Petitioner and the OUCC submitted into the record their evidence without objection. No member of the public appeared or attempted to participate at the hearing. At the hearing, the Presiding Officers asked Petitioner several questions, and the parties agreed that responses to the questions would be filed with the Commission as Late Filed Exhibit B. On December 21, 2010, the Presiding Officers issued a Docket Entry, which contained the Presiding Officers’ questions. Duke Energy Indiana filed a response to the December 21, 2010 Docket Entry on December 22, 2010.

The Commission, having heard and considered the evidence, now finds that:

**1. Notice and Commission Jurisdiction.** Due, legal, and timely notice of the evidentiary hearing in this Cause was given and published by the Commission as required by law. Petitioner is a public utility within the meaning of the Public Service Commission Act, as amended, Ind. Code § 8-1-2 *et seq.* Petitioner is subject to the jurisdiction of the Commission in the manner and to the extent provided by the laws of the State of Indiana. Petitioner requests authorization and approval for its proposed financing pursuant to Ind. Code §§ 8-1-2-76 through 8-1-2-81 and 8-1-2-83. Therefore, the Commission has jurisdiction over the Petitioner and the subject matter of this proceeding.

**2. Petitioner’s Characteristics.** Petitioner is a corporation organized and existing under the laws of the State of Indiana, with its principal office at 1000 East Main Street, Plainfield, Indiana. Petitioner is a second tier wholly-owned subsidiary of Duke Energy Corporation, a Delaware Corporation. Petitioner is engaged in rendering electric public utility service in the State of Indiana, and owns, operates, manages and controls plants and equipment primarily within the State of Indiana used for the production, transmission, delivery and furnishing of such service to the public. It supplies electric energy to more than 780,000 customers in various municipalities and unincorporated areas of 69 counties in the central, north central and southern parts of the State of Indiana. In addition, Duke Energy Indiana serves various wholesale customers and provides steam service to an industrial customer whose manufacturing facility is located adjacent to Duke Energy Indiana’s Cayuga Generating Station. Substantially all of Petitioner’s operating revenues are derived from the generation, transmission and distribution of electric energy.

**3. Proposed Financing Program and Purposes.** As explained by Mr. Carrick, Petitioner requests authorization and approval, in this Cause to issue and sell, from time to time over a period ending December 31, 2012, up to and including \$750 million principal amount of debt securities consisting of senior and junior debentures (“Debentures”), First Mortgage Bonds, and other long-term unsecured debt (“Long Term Notes”) (collectively, “the Securities”). Mr. Carrick testified that Petitioner currently has a preference for issuing First Mortgage Bonds over Debentures or Long Term Notes due primarily to the current market conditions and the lower

interest costs associated with secured debt. The decision regarding which instrument to issue will be predicated largely on market conditions at the time of issuance, credit spreads of Duke Energy Indiana and long-term views of Duke Energy Indiana's capital priorities. The Company also seeks authority to enter into one or more long-term loan agreements to borrow up to \$300 million ("Loan Agreements," as discussed in paragraphs 4 and 5 below), to enter into up to an additional \$100 million of capital lease obligations ("Leases," as discussed in paragraph 6 below), and to enter into interest rate management agreements to help manage interest costs and risks ("Interest Rate Management Techniques"). The Company also seeks authority to provide certain credit enhancements for the tax-exempt revenue bonds to be issued by the Indiana Finance Authority or other authorized issuer of tax-exempt bonds ("Authority"), including the issuance of bonds and supporting letters of credit.

The funds from the sales of the Securities, the Loan Agreements, and the proceeds from the Leases will be utilized to provide funds for: (a) the acquisition of property, material or working capital, (b) the construction, completion, extension or improvement of its facilities, plant and distribution system, including systems related to solid waste disposal, (c) the improvement of its service, (d) the discharge or lawful refunding of its obligations, including the possible redemption of debt or conversion of short-term debt to long-term debt, (e) the repayment of short-term indebtedness incurred by Petitioner, for such purposes, or (f) for other general corporate purposes.

**4. Proposed Loan Agreements.** As indicated above, Petitioner requests authorization and approval, in this Cause, to enter into one or more Loan Agreements with the Authority to borrow up to \$300 million from the proceeds of revenue bonds to be issued by the Authority for terms not to exceed forty years (the "Authority's Bonds"). Petitioner also requests authority to provide certain credit enhancements for the Authority's Bonds, including First Mortgage Bonds, supporting letters of credit, and authority to continue to enter into interest rate management agreements to help manage interest cost risks. Duke Energy Indiana will use the proceeds to help pay the construction costs of certain qualified solid waste facilities or to pay the redemption costs of existing issues of Authority's Bonds.

**5. Terms and Interest Rates of the Loan Agreements.** Mr. Carrick testified that since the interest paid on the Authority's Bonds is generally exempt from federal income tax, investors are willing to accept a lower interest rate than they would on a normal Duke Energy Indiana bond where such interest payments would be fully taxable resulting in significant savings for Duke Energy Indiana and its customers. Mr. Carrick noted that there is a limit on the amount of the Authority's Bonds that can be issued each year.

Mr. Carrick explained the Authority will issue the Authority's Bonds, but the Authority will have no responsibility to make payments of interest, principal or other payments. These obligations will be solely Duke Energy Indiana's under a Loan Agreement between Duke Energy Indiana and the Authority. Duke Energy Indiana will negotiate the terms and interest rates for the Authority's Bonds with underwriters, who will purchase the Authority's Bonds and resell them. Petitioner expects to negotiate terms that allow for a variety of interest rate periods and modes to allow flexibility over the term of the bonds. Mr. Carrick testified that Duke Energy

Indiana prefers to use tax-exempt debt for the floating rate portion of its portfolio because historically tax-exempt debt has offered the lowest variable interest rates.

Petitioner also requested the authority to provide certain credit enhancements to support the credit quality, and thus lower interest rates, of the Authority's Bonds, including letters of credit and First Mortgage Bonds. Mr. Carrick testified Petitioner would consider issuing First Mortgage Bonds that would mirror the Authority's Bonds with respect to principal amount, interest rate, maturity, redemption and purchase provisions. Such First Mortgage Bonds would be issued to the Authority, and the Authority would assign its rights to the trustee for the Authority's Bonds to support the credit quality of the Authority's Bonds. Payments made with respect to the Authority's Bonds would also be considered as payments on the First Mortgage Bonds. Satisfaction by Duke Energy Indiana of its obligation under a series of the Authority's Bonds would satisfy Duke Energy Indiana's obligations under the First Mortgage Bonds or other security pledged in relation to such series of the Authority's Bonds.

Accordingly, First Mortgage Bonds or other security issued in connection with the Authority's Bonds would not be separately counted as debt of Duke Energy Indiana since such First Mortgage Bonds would correspond directly with the indebtedness under the corresponding series of the Authority's Bonds. Likewise, First Mortgage Bonds issued as security in relation to a series of the Authority's Bonds should not be counted against Petitioner's financing authority for Bonds, but instead should be considered as part of the financing authority for the Authority's Bonds. Petitioner would also consider arranging an irrevocable letter of credit or other forms of credit enhancement, each of which would support future payments of interest and principal on the Authority's Bonds, if needed. Petitioner would only use such credit enhancements if the projected interest savings from having credit enhanced bonds would exceed the cost of the credit enhancement.

Mr. Carrick also testified that the interest rate payable by Duke Energy Indiana under the Loan Agreement will be determined by the market for the rate period selected. The rate will not exceed those generally obtainable at the time of pricing, or re-pricing of the Authority's Bonds for securities having similar maturities, terms and conditions. In addition, in Mr. Carrick's opinion, such rates at the time of pricing or any re-pricing will always be lower than what Duke Energy Indiana could obtain for similar taxable securities.

**6. Capital Lease Financings.** Petitioner expects to use capital leasing, which is another form of debt financing, for the acquisition of new property and newly constructed property used in Petitioner's operations, such as, but not limited to, coal yard heavy equipment, transportation equipment, transformers, meters, computers, office equipment and intangible property such, as software. Mr. Carrick testified that leasing can result in a lower overall financing cost to the Company and its ratepayers. Mr. Carrick also testified that when leasing new equipment to be used by all Duke Energy operating companies, such as transformers, computers and office equipment, it may be more efficient and less costly for one of the Duke Energy companies to enter into the lease for all of the utilities. This might be accomplished by Duke Energy Business Services LLC ("Services") under the existing service agreement among Services, Petitioner and the other Duke Energy operating companies (approved by the Commission in Cause No. 42873). If the Company determines it would be preferable to have

one of the operating companies enter into the transactions on behalf of the other Duke Energy utilities, this could be accomplished under the operating companies' service agreement or a new affiliate agreement. In that case, the necessary affiliate agreements would be submitted to the Commission pursuant to Duke Energy Indiana's Affiliate Guidelines.

7. **Interest Rate Management Techniques.** Petitioner also requested authority to enter into certain interest rate management arrangements such as "swaps," "caps," "collars," "floors," "options," and "forwards," "futures" or "forward starting swaps." Mr. Carrick testified that these arrangements or Interest Rate Management Techniques are commonly used in today's capital markets. Duke Energy Indiana intends to enter into any such arrangements solely to hedge and manage interest rate risk and not for speculative purposes.

8. **Responses to December 21, 2010 Docket Entry.** In the December 21, 2010 Docket Entry, the Presiding Officers asked several questions concerning Duke Energy Indiana's variable rate debt. Petitioner explained in Late Filed Exhibit B that from a historical perspective, Duke Energy Indiana's variable-rate debt has been approximately 25% of total debt, plus or minus 5%. However, Duke Energy Indiana's current variable-rate debt percentage has been reduced to approximately 15% because the company has taken advantage of the favorable low fixed-rate environment.

Further, Duke Energy Indiana explained it manages its interest rate exposure by limiting its variable-rate exposures to a percentage of total capitalization and by monitoring the effects of market changes in interest rates. Duke Energy Indiana principally funds its long-lived assets with long-term fixed-rate debt. However, incorporating an amount of variable-rate debt in total capitalization takes advantage of the generally lower interest rates associated with variable-rate debt relative to fixed-rate debt while minimizing the negative impact associated with periods of rising interest rates.

According to Petitioner, the majority of Duke Energy Indiana's current variable-rate debt is in the form of tax-exempt variable-rate demand bonds supported by direct pay letters of credit. The letter of credit provider is Bank of America. Some of these bonds are remarketed daily and others are remarketed weekly by the remarketing agents. Remarketing agents for these bonds are Bank of America, KeyBank, Morgan Stanley and Wells Fargo. In addition, Duke Energy Indiana has two series of variable-rate demand bonds that are unenhanced. These bonds are remarketed weekly by the remarketing agents, Bank of America and Morgan Stanley. The counterparties or purchasers of such debt issuances are a diverse group of investors. Bank of America, Duke Energy Indiana's letter of credit provider, has a senior unsecured credit rating of A2 / A (Moody's/Standard & Poor's ("S&P")). The senior unsecured credit ratings of the above listed remarketing agents are as follows:

- Bank of America: A2 / A (Moody's / S&P)
- KeyBank: Baal / BBB+ (Moody's / S&P)
- Morgan Stanley: A2 / A (Moody's / S&P)
- Wells Fargo: A1 / AA- (Moody's / S&P)

In addition, Duke Energy Indiana stated it has outstanding borrowings through the money pool (i.e., funded through Duke Energy commercial paper issuances). The counterparties or purchasers of Duke Energy's commercial paper are a diverse group of institutional investors.

Duke Energy Indiana stated its strategy of funding its long-lived assets with long-term fixed-rate debt has not fundamentally changed. The Company continues to manage its interest rate exposure by limiting its variable-rate exposure to a percentage of total capitalization and by monitoring the effects of market changes in interest rates. Following the 2008 financial crisis and the problems associated with the auction-rate market, Duke Energy Indiana refunded \$341 million of tax-exempt auction-rate securities through the issuance of: (1) \$271 million of tax-exempt variable-rate demand bonds in January 2009, which are supported by direct pay lenders of credit and (2) \$69.6 million of tax-exempt fixed-rate term bonds in September 2010. Of that amount, \$59.6 million carry a fixed interest rate of 3.375% and mature in March 2019, while \$10 million carry a fixed interest rate of 3.75% and mature in April 2022. In 2009, Duke Energy Indiana also refunded \$105 million of tax-exempt variable-rate demand bonds through the issuance of the following tax-exempt fixed-rate term bonds: (1) \$55 million (in June), which carry a fixed interest rate of 6.00% and mature in August 2039 and (2) \$50 million (in October), which carry a fixed interest rate of 4.95% and mature in October 2040. These refunding transactions reduced Duke Energy Indiana's variable-rate exposure.

The Presiding Officers also noted in the December 21, 2010 Docket Entry that Mr. Carrick identified on page 3, lines 21–23, and continuing on page 4, lines 1–6, certain categories for which the funds raised in this Cause will be used and asked how the funds will be allocated to these categories. Petitioner explained it is difficult to forecast the allocation of funds raised to specific categories of costs with the exception of the issuance of debt to refinance existing bonds. Funds from operations and financing proceeds are both used to fund Duke Energy Indiana's business operations, including its acquisition of property, material or working capital, construction requirements (e.g., completion, extension or maintenance of its facilities, plant and distribution system), and other general corporate needs. Petitioner also stated uses of funds raised from debt issuances also depend on the timing of the debt issuance and the needs for funds at the time.

Finally, the Presiding Officers noted Mr. Carrick mentioned on page 5 of his testimony that anticipated expenditures related to the IGCC plant under construction at the Edwardsport Generating Station in Knox County, Indiana will in part be financed through one or more offerings in this Cause. The Presiding Officers asked if the debt offering proposed in this Cause is sufficient to absorb any additional cost overruns that may occur. Petitioner stated the request for financing authority in this Cause should be sufficient to allow debt issuances to complete the construction of the IGCC Project based on the current cost estimate of \$2.88 billion. Duke Energy Indiana stated its requested financing authority is sufficient to absorb some level of increased costs above the current IGCC Project cost estimate through the year 2012. However, Petitioner explained various other factors could contribute to increased financing needs during the two-year period for which this request for financing authority is made (for example, substantial capital requirements needed to satisfy potential new environmental requirements).

**9. OUCC Testimony.** Mr. Jasheway testified the OUCC does not oppose Petitioner's request for financing authority or the issuance of new debt pursuant to the requested authority for the specified purposes on or before December 31, 2012. In addition, Mr. Jasheway testified the OUCC does not oppose the Petitioner's request for continued authority to enter into Interest Rate Management Techniques. However, he emphasized the need for Petitioner to prudently exercise such authority when entering into these transactions.

Mr. Jasheway stated that Duke Energy Indiana's strength on total assets and total debt/total equity ratio has contributed to stable cash flows, and the Company has a solid credit rating. He compared standard measures of the Petitioner's financial condition to those of a peer group of utilities, and he analyzed Petitioner's cash flow. He also checked the credit rating assigned to the Petitioner by a widely-recognized rating agency, S&P. The results of Mr. Jasheway's analyses are set forth in Exhibits A and B to his prefiled testimony.

Mr. Jasheway indicated the OUCC agrees that the Petitioner should file reports each time it exercises the requested financing authority and issues securities under that authority. Specifically, Mr. Jasheway recommended that within thirty days of Petitioner exercising any aspect of the financing authority approved in this Cause, Petitioner should file a notice of issuance with the Commission, with a copy to the OUCC. The filing should indicate the principal amount borrowed, the applicable interest rate(s), how the interest rate(s) was (were) determined, any collateral required, the term of the borrowing, and any other pertinent repayment terms.

Finally, Mr. Jasheway testified that the OUCC does not waive its rights in future proceedings to review Petitioner's financing decisions to determine if Petitioner's financing transactions were consistent with the authority granted in this Cause and were reasonable and prudent at the time they were made.

**10. No Waiver.** In their proposed order, the parties agreed that the OUCC does not waive any rights in future proceedings to investigate and potentially challenge the prudence of Petitioner's management, at the time of issue, of the proposed Securities and the terms thereof, as well as the Loan Agreements, the Leases and the Interest Rate Management Techniques. The parties agreed, and this Commission does as well, that the authorization granted by this Order shall not be construed as limiting the Commission's determination of the appropriateness of the Securities, Loan Agreements, Leases and Interest Rate Management Techniques for future ratemaking treatment. The parties further agreed that the Leases are merely another form of financing and should be treated as such in any future proceedings. Also, Petitioner's future revenue requirements associated with the Leases should be no greater than if the Leases had never occurred. In addition, by agreeing to the proposed financing authority, the parties concurred that the OUCC is not agreeing to any particular rate base or ratemaking treatment of the assets to be financed and that such issues shall be preserved for future proceedings.

**11. Reporting.** Petitioner proposes that it should make a report to the Commission, with a copy to the OUCC, upon the issuance and sale of any of the Securities, the execution and delivery of any Loan Agreements, or the consummation of each material Lease. In their proposed order, the parties proposed that a Lease (or series of related leases) be deemed to be

material for this reporting requirement if it involves assets valued at \$10 million or more. The Commission finds the reporting proposal and the proposed materiality standard to be fair and reasonable, and approve both.

The Commission also finds that such reports shall include, at a minimum, the purpose of the financing, the type of financing, a description of the terms of the financing including a calculation of the effective interest cost of the financing (incorporating the effects of issuance expenses on the effective cost rate), a *pro forma* balance sheet reflecting the reported financing, and, if the purpose of such financing is to refinance existing debt, include a description of the characteristics of the debt being refinanced (e.g., amount of debt refinanced, interest rate, maturity date and any costs involved in refinancing).

**12. Discussion and Findings.** The evidence in this proceeding supports the granting of the authority requested by Petitioner in this Cause. The funds from the sales or issuances of the Securities and proceeds from the Loan Agreements and the Leases will be utilized by Petitioner for:

- (a) the acquisition of property, material or working capital,
- (b) the construction, completion, extension or improvement of its facilities, plant and distribution system, including systems related to solid waste disposal,
- (c) the improvement of its service,
- (d) the discharge or lawful refunding of its obligations, including the possible redemption of debt or conversion of short-term debt to long-term debt,
- (e) the repayment of short-term indebtedness incurred by Petitioner, for such purposes, or
- (f) for other general corporate purposes.

The Securities are traditional utility financing instruments. As Mr. Carrick testified, the Loan Agreements will provide for lower cost financing for qualified facilities, and Leases are another form of financing which provides Petitioner with additional flexibility in meeting its financing needs. The Interest Rate Management Techniques, when used as proposed by Petitioner to hedge and manage interest rate risk rather than for speculative purposes, are also utility financing tools we have approved in other cases.

The Commission finds that, with due consideration being given to the nature of Petitioner's business, credit, future prospects and earnings and the effect which the proposed financings may have on the management and efficient operation of Petitioner, the proposed financing authority is reasonable and should be granted. We further find that such financings should be authorized within the terms, conditions and parameters as set forth in Petitioner's Petition and Exhibits in this Cause, with interest rate(s) on the authorized Long Term Note(s) set at level(s) comparable to the rates on instruments having the same or reasonably similar maturities and having reasonably similar terms, conditions and features issued by similar companies, whose credit ratings are similar to those of the Petitioner.

**IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:**

1. Petitioner shall be and is hereby authorized, within the terms, conditions and parameters set forth in Petitioner's Petition and Exhibits, to:

- (a) issue and sell, from time to time over a period ending December 31, 2012, up to \$750 million principal amount of debt securities comprised of First Mortgage Bonds, Debentures, or Long Term Notes, in any combination thereof and in one or more series, on terms consistent with the parameters set forth in the Petition, provided that the aggregate of all such Securities shall not exceed \$750 million; and/or
- (b) enter into, from time to time over a period ending December 31, 2012, Loan Agreements with and borrow from the Indiana Finance Authority or other authorized issuer of tax-exempt bonds, for a term not to exceed forty years, the proceeds of a maximum of up to \$300 million aggregate principal amount of tax-exempt environmental revenue bonds that may be issued in one or more series and to provide credit enhancements such as the issuance of letters of credit and/or First Mortgage Bonds, all on terms consistent with the parameters set forth in the Petition; and/or
- (c) enter into, from time to time over a period ending December 31, 2012, up to an additional \$100 million principal amount of Capital Leases, consistent with the parameters set forth in the Petition; and/or
- (d) enter into Interest Rate Management Agreements to manage its effective interest costs on financial obligations consistent within the parameters set forth in the Petition; and/or
- (e) use the proceeds from the aforesaid Securities, Loan Agreements and Capital Leases for the purposes specified.

2. Petitioner shall, within thirty days of the completion of each of the financings authorized herein, file with the Commission and serve upon the OUCC a report as discussed in Finding Paragraph 11, above.

3. The authorization granted by this Order shall not be construed as limiting the Commission's determination of the appropriateness of the Securities, Loan Agreements, Leases or Interest Rate Management Techniques for future ratemaking treatment.

4. Petitioner shall not include any existing property that is currently in Petitioner's jurisdictional rate base in any of the Leases without further Commission approval.

5. The authority granted by this Order shall expire on December 31, 2012.

6. This Order shall be effective on and after the date of its approval. Upon the effectiveness of this Order the remaining, unused financing authority granted the Petitioner in Cause No. 43578, shall expire.

**ATTERHOLT, ZIEGNER, AND MAYS CONCUR; LANDIS ABSENT:**

**APPROVED: DEC 29 2010**

**I hereby certify that the above is a true  
and correct copy of the Order as approved.**



**Brenda A. Howe,  
Secretary to the Commission**