ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF DUKE ENERGY INDIANA, INC., AN INDIANA CORPORATION, FOR AUTHORITY (i) TO ISSUE UP TO $1.0 BILLION 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 $1.0 BILLION, (ii) TO EXECUTE AND DELIVER LONG TERM LOAN AGREEMENTS TO BORROW UP TO $300.0 MILLION FROM THE INDIANA FINANCE AUTHORITY, (iii) TO ENTER INTO CAPITAL LEASE OBLIGATIONS NOT TO EXCEED $100.0 MILLION PRINCIPAL IN THE AGGREGATE, (iv) TO ENTER INTO INTEREST RATE MANAGEMENT AGREEMENTS, (v) TO REALIZE THE BENEFITS OF AN ECONOMIC DEVELOPMENT INCENTIVE BY ENTERING INTO AGREEMENTS WITH RESPECT TO THE SAME, AND (vi) TO APPLY THE NET PROCEEDS OBTAINED FROM SUCH SECURITIES, LOAN AGREEMENTS, CAPITAL LEASE TRANSACTIONS AND ECONOMIC DEVELOPMENT INCENTIVE 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, TRANSACTING SAID CAPITAL LEASE TRANSACTIONS OR REALIZING THE BENEFITS OF SUCH ECONOMIC DEVELOPMENT INCENTIVE	)	CAUSE NO. 44266 APPROVED: APR 03 2013

ORDER OF THE COMMISSION

Presiding Officers:
Kari A.E. Bennett, Commissioner
Loraine L. Seyfried, Chief Administrative Law Judge

On November 7, 2012, Duke Energy Indiana, Inc. ("Duke Energy Indiana," "Petitioner," or "Company") filed its Verified Petition with the Commission initiating this matter. On

November 8, 2012, Petitioner filed the prefiled testimony of W. Bryan Buckler, Director, Corporate Finance for Duke Energy Business Services, LLC. On January 23, 2013, upon the filing of a Verified Motion by Duke Energy Indiana, the Commission issued an Interim Order extending the financing authority approved for Duke Energy Indiana in Cause No. 43951 on an interim basis from December 31, 2012 until the Commission issues a final order in this proceeding. On February 21, 2013, Duke Energy Indiana filed a Settlement Agreement that it had entered into with the Indiana Office of Utility Consumer Counselor ("OUCC") resolving all issues between the parties in this proceeding. Also on February 21, 2013, the OUCC filed the Settlement Testimony of Duane P. Jasheway, Utility Analyst in the Electric Division, and Duke Energy Indiana filed the Settlement Testimony of W. Bryan Buckler.

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 March 7, 2013, at 9:30 a.m., in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. The evidence of Petitioner and the OUCC was offered and admitted into the record without objection. No member of the public appeared at the hearing.

Based upon the applicable law and the evidence herein, the Commission now finds:

1. **Notice and 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, Indiana Code ch. 8-1-2. Petitioner requests authorization and approval for its proposed financing pursuant to Indiana Code §§ 8-1-2-76 through 8-1-2-81, and 8-1-2-83. Therefore, the Commission has jurisdiction over 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 within the State of Indiana used for the production, transmission, delivery and furnishing of such service to the public. It supplies electric energy to approximately 790,000 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.** Petitioner requests authorization and approval in this Cause to issue and sell, from time to time over a period extending two years from the issuance of this Order, up to and including $1.0 billion 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. Buckler 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 $300.0 million ("Loan Agreements," as discussed in paragraphs 4 and 5 below), to enter into up to an additional $100.0 million of capital lease obligations ("Leases," as discussed in paragraph 6 below), to enter into interest rate management agreements to help manage interest costs and risks ("Interest Rate Management Techniques"), and to enter into, from time to time, tax increment financing agreements ("TIF Agreements") for the purpose of realizing the benefits of an economic development incentive. 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 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; (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 puposes; or (f) for other general corporate purposes.

Mr. Buckler testified that the requested financing authority is necessary to allow Petitioner to fund significant capital expenditures budgeted for 2013 and 2014, as well as refinancing other debt. He stated the requested financing authority will provide the Company with the flexibility to consider a variety of financing scenarios and to take advantage of the type of financing that makes the most sense based on market conditions and opportunities. In addition, the total amount of the proposed financing, together with evidence of Petitioner's other indebtedness, will not be in excess of the fair value of Petitioner's property.

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 $300.0 million from the proceeds of revenue bonds to be issued by the Authority (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 from the sale of a refunding issue to pay the redemption costs of existing issues of Authority's Bonds.

5. Terms and Interest Rates of the Loan Agreements. Mr. Buckler testified that because 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. Buckler noted that there is a limit on the amount of the Authority's Bonds that can be issued each year.

Mr. Buckler 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 in interest costs over the term of the bonds. Mr. Buckler 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. Buckler 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 First Mortgage Bonds would also be considered as payments under the related Loan Agreement. 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 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. Petitioner would also consider arranging an irrevocable letter of credit or other forms of credit enhancements, 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. Buckler 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 terms, conditions and features. In addition, in Mr. Buckler's opinion, such rates at the time of pricing or any re-pricing will generally be lower than what Duke Energy Indiana could obtain for similar taxable securities.

6. <u>Capital Lease Financings</u>. 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, meters, transformers, transportation equipment, coal yard heavy equipment, computers, software and telecommunications equipment. Mr. Buckler testified that leasing can result in lower overall financing cost to the Company and its customers. He further testified that when leasing new equipment to be used by all Duke Energy operating companies, 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. 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, Mr. Buckler testified 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 Standards.

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

8. **Tax Increment Financing Agreements.** Petitioner proposes to realize the benefits of an economic development incentive granted to it by Knox County in consideration of Duke Energy Indiana's capital investment in the Integrated Gasification Combined Cycle ("IGCC") Project, namely real and/or personal property tax increment financing, by entering into relevant agreements with Knox County ("TIF Agreements"). Petitioner seeks Commission approval for the authority to enter into related TIF Agreements that will allow Duke Energy Indiana and its customers to realize the benefits associated with the economic development incentive described in Cause No. 43114.[1]

Mr. Buckler explained that neither the TIF Agreements nor Petitioner's obligations under such agreements will represent true additional indebtedness of Petitioner, nor are its obligations considered as part of its traditional capital raising program. Rather, tax increment financing when combined with property tax abatement is simply the best mechanism Knox County has to provide substantial incentives for job creation and local economic development efforts. Knox County has agreed to pledge a portion of the tax increment resulting from Petitioner's investment in the IGCC Project to pay bonds Knox County would issue to fund IGCC Project costs, pay costs of issuing the bonds and establishing and/or maintaining certain reserves and other funds (the "TIF Bonds"). The balance of the tax increment is to be used by Knox County in accordance with State law. Upon issuance of the TIF Bonds, Knox County will expect Petitioner to enter into a "financing agreement" within the contemplation of Ind. Code ch. 36-7-12 and, possibly, execute a note relatmg to Petitioner's obligations with respect to such financing agreement. Mr. Buckler testified that pursuant to such financing agreement, Knox County will "loan" the TIF Bond proceeds to Petitioner. As purchaser of the TIF Bonds, Petitioner will also be the source of the TIF Bond proceeds. Duke Energy Indiana proposes to use the TIF Bond

[1] Mr. Buckler referrenced Stephen Farmer's direct testimony in Cause No. 43114 stating, "on April 11, 2006, the Knox County Council unanimously approved a ten-year real estate and personal property tax abatement for property taxes otherwise payable on the IGCC plant and designated the IGCC plant as a Tax Increment Financing District . . . property taxes otherwise payable on the IGCC plant will be significantly reduced during the ten-year abatement period and the thirty-year TIF reimbursement period. Duke Energy Indiana is proposing that property taxes associated with the IGCC Project, as reduced during the ten-year abatement period and as reduced by the TIF reimbursement, be recovered via the IGCC cost recovery mechanism (Rider 61)."

proceeds (namely, return of specified amounts of incremental real and personal property taxes net of associated costs) received from Knox County to pay, or reimburse itself for payment of, IGCC Project costs.

With regard to the TIF Bonds, Mr. Buckler testified that he believes that: (i) each series of bonds will mature not more than 25 years from their respective dates of issuance; (ii) since Petitioner will purchase and hold all TIF Bonds, no underwriting commissions, agent fees or premiums will be payable; (iii) no credit enhancement will be required and no such costs will be incurred; (iv) the purchase price of each series of bonds will be at par (100% of the principal amount of bonds issued); and (v) the bonds will bear interest at rates not to exceed those generally obtainable at the time of issuing the TIF Bonds for securities having the same or similar maturities, terms, conditions and features. Mr. Buckler testified that Knox County will likely require Petitioner to pay all costs of issuance and related costs in connection with the issuance, sale and administration of all TIF Bonds, which Petitioner believes is necessary to realize the benefits of the economic development incentive. Mr. Buckler testified that, similar to what the Company has done with the traditional capital raising program, Duke Energy Indiana will provide the Commission with the final terms and conditions of the TIF Agreements.

9. <u>Settlement Agreement and Supporting Testimony</u>. The parties entered into a Settlement Agreement, a copy of which is attached and incorporated herein. In support of the Settlement Agreement, Duke Energy Indiana offered the settlement supporting testimony of Mr. Bryan Buckler and the OUCC offered the testimony of Mr. Duane P. Jasheway.

Mr. Buckler testified that Duke Energy Indiana and the OUCC have agreed that the Company's requested financing authority shall be valid for two years after the Commission's Order approving such authority, rather than through December 31, 2014, as originally requested. He stated the extension is intended to reflect the relatively extended procedural schedule negotiated by Duke Energy Indiana and the OUCC at the beginning of this proceeding. Second, the parties agreed that within 30 days of an issuance under the approved financing authority, the Company will file with the Commission and serve upon the OUCC a filing that includes: (i) the amount of the issuance; (2) a description of the terms and intended purpose; (3) the type of financing; (4) a calculation of the effective interest cost (incorporating the effects of issuance expenses on the effective cost rate); (5) a *pro forma* balance sheet reflecting the reported financing by adjusting the most recently available quarterly balance sheet by adding the debt issuance obligation amount to debt outstanding and adding the net proceeds from the debt issuance to available cash; and (6) if the purpose of such financing is to refinance existing debt, the filing shall 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). Third, the OUCC reserves the right to challenge any underlying projects funded by issuances pursuant to the authority granted in this proceeding. Fourth, the parties agreed that the yield to maturity of Notes issued under the Company's financing authority approved in this proceeding should not exceed by more than 5.0% the yield to maturity on U.S. Treasury bonds of comparable maturity at the time of pricing. In other words, the interest rate at the time of pricing a new debt obligation will reflect a credit spread to the relevant benchmark U.S. Treasury rate that will be less than or equal to 500 basis points. If the yield to maturity of Notes exceeds the yield to maturity on U.S. Treasury bonds of comparable maturity at the time of pricing by more

than 5%, Petitioner agrees to meet with the OUCC and the Commission to discuss the financing. Mr. Buckler testified that Duke Energy Indiana believes that the Settlement Agreement is reasonable and in the public interest.

At the OUCC's request, Mr. Buckler also provided additional detail about the Company's proposed TIF Agreements. Mr. Buckler explained that Duke Energy Indiana's investment in the IGCC Project will result in increased assessed valuation and incremental real and personal property tax revenue (referred to as the "Tax Increment"). Under the basic agreement with Knox County, Indiana, 55% of the increased assessed valuation/estimated Tax Increment funded through Duke Energy Indiana property tax payments is to be passed through to the relevant Knox County taxing units, with 45% used to fund payments of interest and principal on tax increment revenue bonds issued by Knox County for the IGCC Project and other required purposes. To reduce costs through the elimination of all expenses associated with a public offering, Duke Energy Indiana will buy all the TIF Bonds, meaning it will be both the property taxpayer and the owner of the TIF Bonds. As TIF Bond owner, Duke Energy Indiana will receive all the interest and principal paid by Knox County from the Tax Increment. Mr. Buckler testified that Petitioner expects the vast majority of the Tax Increment assigned to the Tax Increment Revenue Bond Indenture Trustee will be used to pay interest and principal on the TIF Bonds and to fund required payments under the TIF Bond documents. Mr. Buckler testified that the final terms and impact of the TIF Bond documents are unknown as of this filing, as they have not been finalized with Knox County. Once the terms of the principal TIF Bond documents have been finalized, Duke Energy Indiana will provide copies to the OUCC and the Commission. Mr. Buckler confirmed that retail customers will receive their jurisdictional share of the benefits of the Tax Increment Financing through the Company's Standard Contract Rider 61 – Integrated Coal Gasification Combined Cycle Generating Facility Revenue Adjustment as a reduction to the amount of property taxes paid for the facility.

Mr. Jasheway testified that the OUCC's concerns with Petitioner's financing request were: (1) to make certain that any approval of financing authority did not constitute approval of any of the projects being financed; (2) uncertainty with the exact terms of the issuance or how the funds will be spent; (3) to obtain a written report to both the OUCC and the Commission within thirty days of issuance that provides, at a minimum, the debt amount, interest rate, terms and intended purpose; (4) how Petitioner would realize the economic development incentives provided by the TIF Agreements with Knox County; and (5) the lack of a specific date by which the authority to borrow funds ceases. Mr. Jasheway testified that these concerns have been resolved with the Settlement Agreement.

10. <u>Commission Discussion and Findings</u>. Initially, the Commission notes that Duke Energy Indiana filed this Cause on November 7, 2012, less than two months prior to the expiration of the financing authority approved in Cause No. 43951. Although Petitioner and the OUCC agreed upon a procedural schedule and the need to extend financing authority until the issuance of this Order, it is incumbent upon Petitioner to file its request in a timely manner. Therefore, to the extent that Duke Energy Indiana determines that new or additional financing authority is necessary upon the expiration of the financing authority approved herein, Duke Energy Indiana shall file its petition at least six (6) months prior to the expiration of the

financing authority to ensure the Commission, the OUCC and any other interested parties have sufficient time to review and consider any future request for financing.

Regarding the Settlement Agreement entered into between Petitioner and the OUCC, it should be noted that settlements presented to the Commission are not ordinary contracts between private parties. *United States Gypsum, Inc. v. Indiana Gas Co.*, 735 N.E.2d 790, 803 (Ind. 2000). When the Commission approves a settlement, that settlement "loses its status as a strictly private contract and takes on a public interest gloss." *Id.* (quoting *Citizens Action Coalition of Ind., Inc. v. PSI Energy, Inc.*, 664 N.E.2d 401, 406 (Ind. Ct. App. 1996)). Thus, the Commission "may not accept a settlement merely because the private parties are satisfied; rather [the Commission] must consider whether the public interest will be served by accepting the settlement." *Citizens Action Coalition*, 664 N.E.2d at 406.

Furthermore, any Commission decision, ruling, or Order, including the approval of a settlement, must be supported by specific findings of fact and sufficient evidence. *United States Gypsum*, 735 N.E.2d at 795 (citing *Citizens Action Coalition of Ind., Inc. v. Public Service Co. of Ind., Inc.*, 583 N.E.2d 330, 331 (Ind. 1991)). The Commission's own procedural rules require that settlements be supported by probative evidence. 170 IAC 1-1.1-17(d). Therefore, before the Commission can approve the Settlement Agreement, we must determine whether the evidence in this case sufficiently supports the conclusions that the Settlement Agreement is reasonable, just, and in the public interest.

According to the evidence presented, Petitioner projects substantial capital expenditures during calendar years 2013 and 2014, including expenditures for environmental compliance requirements and for facility construction, improvements and maintenance. Petitioner also plans to refinance debt in the amount of $410 million. Consequently, 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,
(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. Buckler 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 TIF Agreements will allow Duke Energy Indiana and its customers to realize the benefits associated with the Knox County economic development incentive.

Based on the Commission's review of the Settlement Agreement and the evidence in support thereof, we find that the Settlement Agreement negotiated by Duke Energy Indiana and the OUCC is reasonable, supported by sufficient evidence, and in the public interest. Petitioner's proposed financing is consistent with prior financing authority and designed to enhance Duke Energy Indiana's ability to attract the best rates for financing its capital needs going forward. 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. Accordingly, the Commission finds that the Settlement Agreement should be approved.

Finally, regarding future citation to the Settlement Agreement, we find that our approval herein should be construed in a manner consistent with our finding in *Richmond Power & Light*, Cause No. 40434, (IURC March 19, 1997).

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

1. The Commission finds that the Settlement Agreement is in the public interest and is hereby approved.

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

(a) issue and sell, from time to time, over a period ending two years after the date of this Order, up to and including $1.0 billion 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 $1.0 billion; and/or

(b) enter into, from time to time over a period ending two years after the date of this Order, 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 $300.0 million aggregate principal amount of tax-exempt 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 two years after the date of this Order, up to an additional $100.0 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; and/or

(f) enter into, from time to time, over a period ending two years after the date of this Order, tax increment financing agreements for the purpose of realizing the benefits of an economic development incentive.

3. Petitioner shall, within thirty days of the financings authorized herein, file with the Commission and serve upon the OUCC a report as discussed in Finding Paragraph 9 above.

4. The authority granted by this Order shall expire two years after the date of this Order. To the extent Petitioner seeks financing authority after expiration of the authority granted herein, it shall file its petition with the Commission at least six (6) months in advance.

5. 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 Petitioner in Cause No. 43951 shall expire.

ATTERHOLT, LANDIS, MAYS AND ZIEGNER CONCUR; BENNETT ABSENT:
APPROVED: APR 03 2013

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

Brenda A. Howe

Brenda A. Howe
Secretary to the Commission

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. 44266

SETTLEMENT AGREEMENT

This Settlement Agreement is entered into this 21st day of February, 2013, by and between Duke Energy Indiana, Inc. and the Indiana Office of Utility Consumer Counselor ("OUCC") (collectively referred to as the "Parties").

NOW THEREFORE, the Parties agree as follows:

1. Scope of Agreement. This Agreement, along with the Term Sheet attached hereto as Exhibit A, comprehensively resolves all issues between the Parties associated with Duke Energy Indiana's request for authorization to engage in its proposed financing program for the two years following issuance of an Indiana Utility Regulatory Commission ("Commission") Order approving Duke Energy Indiana's proposed financing program, as filed in Cause No. 44266. The terms of the Agreement are effective upon approval by the Commission.
2. Integration. Approval of this Agreement constitutes approval of the Term Sheet set forth in Exhibit A.
3. Presentation of the Agreement. The Parties will jointly move the Commission for approval of this Agreement. The Agreement, including Exhibit A, is not severable and shall be accepted or rejected by the Commission in its entirety without modification or further condition that may be unacceptable to any Party. The Parties agree to support the approval in its entirety of the Agreement through prefiled Settlement Supporting Testimony, in-person testimony, if necessary, at the Evidentiary Hearing, and the submission of an agreed upon Proposed Order. Duke Energy Indiana and the OUCC shall file testimony in support of this Agreement on February 21, 2013. If the Order of the Commission modifies or conditions approval of this Agreement, only the Parties to this Agreement may decide to accept or reject such modification or condition.
4. Effect and Use of This Agreement.
    a. The terms of this Agreement, including the Term Sheet in Exhibit A, represent a fair, just and reasonable resolution by arms length negotiation and compromise. As set forth in the Commission Order in *In Re Petition of Richmond Power & Light*, Cause No. 40434 at page 10, as a term of this Agreement, the Commission must assure the parties that it is not the Commission's intent to allow this Agreement, or the Order approving it, to be cited as precedent by any person or deemed an admission by any Party in any other proceeding except as necessary to enforce its terms before the Commission, or any court of competent jurisdiction on these particular issues. This Agreement, including the Term Sheet in Exhibit A, is solely the result of compromise in the settlement process. Nothing contained herein is to be construed or deemed an admission, liability or wrongdoing on the part of Duke Energy Indiana. The Parties have entered into the Agreement solely to avoid further disputes and litigation with the attendant inconvenience and expenses.
    b. The evidence presented by the Parties in this Cause, or that will be presented, constitutes substantial evidence sufficient to support this Agreement and provides an adequate evidentiary basis upon which the Commission can make any findings of fact and conclusions of law necessary for the approval of this Agreement, as filed.

c. The issuance of a final Order by the Commission approving this Agreement, including the Term Sheet in Exhibit A, without modification shall terminate all proceedings with regard to this Agreement.

d. The undersigned represent and agree that they are fully authorized to execute this Agreement on behalf of their designated clients who will be bound thereby.

e. The Parties shall not appeal the agreed final Order or any subsequent Commission Order to the extent such Order is specifically implementing, without modification, the provisions of this Agreement, including the Term Sheet in Exhibit A, and the Parties shall not support any appeal of any such Order by a person not a party to this Agreement.

f. The provisions of this Agreement, including the Term Sheet in Exhibit A, shall be enforceable by any party at the Commission or any court of competent jurisdiction, whichever is applicable.

g. The communications and discussions during the negotiations and conferences that produced this Agreement, including the Term Sheet in Exhibit A, have been conducted on the explicit understanding that they are or relate to offers of settlement and shall therefore be privileged.

ACCEPTED AND AGREED this 21st day of February, 2013.

By: Scott F

Scott Franson
Indiana Office of Utility Consumer Counselor

By: Elizabeth Herriman

Elizabeth A. Herriman
Duke Energy Indiana, Inc.

Settlement Term Sheet – Cause No. 44266

1. **Duke Energy Indiana's Financing Program:**
   Duke Energy Indiana's proposed financing program is reasonable and should be approved. Duke Energy Indiana shall have the authority during the period of time provided in Section 4 below: (1) to issue and sell up to $1.0 billion principal amount of debt securities consisting of first mortgage bonds ("First Mortgage Bonds" or "Bonds"), or senior and junior debentures ("Debentures"), or to issue other long term unsecured debt ("Long Term Notes"); (2) to enter into one or more loan agreements ("Loan Agreement") to borrow up to $300.0 million by means of a tax-exempt bond issue or issues to be issued by Indiana Finance Authority (the "Authority") for terms not to exceed 40 years; (3) to enter into an additional $100.0 million of capital lease obligations; (4) to continue to enter into interest rate management agreements to help manage interest costs and risks; and (5) to enter into, from time to time, tax increment financing agreements (the "TIF Agreements") for the purpose of realizing the benefits of an economic development incentive. Duke Energy Indiana agrees that the interest rate and similar costs related to issuances pursuant to the authority granted in this proceeding will not exceed those generally obtainable at the time of pricing or re-pricing of such securities having the same or reasonably similar maturities and having reasonably similar terms, conditions and features issued by utility companies or utility holding companies of the same or reasonably comparable credit quality.
2. **Use of Proceeds:**
   Duke Energy Indiana shall be authorized to use the proceeds of the issuances for the purposes set forth in Duke Energy Indiana's testimony and exhibits.
3. **Credit Enhancements:**
   Duke Energy Indiana shall be authorized, if it determines that it is appropriate, to obtain some form of credit enhancement, such as a letter of credit, surety bond or other insurance, in order to improve the interest rate or expected term of the underlying debt security that would otherwise exist without such credit enhancement.
4. **Expiration of Authorization:**
   The authorization of Duke Energy Indiana's financing authority agreed to herein shall expire (two years from granting of authority).
5. **Periodic Reports:**
   Within thirty (30) days of each issuance authorized herein, Duke Energy Indiana shall file with the Commission and serve upon the OUCC a filing that includes: (1) the amount of the issuance, (2) a description of the terms and intended purpose, (3) the type of financing, (4) a calculation of the effective interest cost (incorporating the effects of issuance expenses on the effective cost rate), (5) a *pro forma* balance sheet reflecting the reported financing by adjusting the most recently available quarterly balance sheet by adding the debt issuance obligation amount to debt outstanding and adding the net proceeds from the debt issuance to available cash, and (6) if the purpose of such

financing is to refinance existing debt the filing shall 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). Additionally, if requested by the OUCC, Duke Energy Indiana will provide an update of current interest rate market pricing conditions.

6. **Reservation**:
   The OUCC reserves the right to challenge any underlying projects funded by issuances pursuant to the authority granted in this proceeding.
7. **Interest Rate:**
   Duke Energy Indiana agrees that the yield to maturity of Notes should not exceed by more than 5.0% the yield to maturity on U.S. Treasury bonds of comparable maturity at the time of pricing and does not expect to exceed that difference. In other words, the interest rate at the time of pricing a new debt obligation will reflect a credit spread to the relevant benchmark U.S. Treasury rate that will be less than or equal to 500 basis points.