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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,)
TRANSACTIONING SAID CAPITAL LEASE TRANSACTIONS)
OR REALIZING THE BENEFITS OF SUCH ECONOMIC)
DEVELOPMENT INCENTIVE)

CAUSE NO. 44539

APPROVED:

MAR 25 2015

ORDER OF THE COMMISSION

Presiding Officers:
Angela Rapp Weber, Commissioner
Gregory R. Ellis, Administrative Law Judge

On October 3, 2014, Duke Energy Indiana, Inc. (“Duke Energy Indiana” or “Petitioner”) filed its Verified Petition (“Petition”) with the Indiana Utility Regulatory Commission

(“Commission”) initiating this matter. On November 6, 2014, Petitioner filed the testimony of W. Bryan Buckler, Director, Corporate Finance for Duke Energy Business Services, LLC (“Business Services”). On December 18, 2014, the Indiana Office of Utility Consumer Counselor (“OUCC”) filed the testimony of Duane P. Jasheway, Utility Analyst in the Electric Division.

The Commission held an Evidentiary Hearing in this Cause on February 10, 2015, at 1:00 p.m., in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC were present and participated. The testimony and exhibits of Petitioner and the OUCC were admitted into the record without objection. No members of the general public appeared or sought to testify at the hearing.

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

1. Notice and Jurisdiction. Notice of the hearing in this Cause was given and published by the Commission as required by law. Petitioner is a public utility as defined in Ind. Code § 8-1-2-1(a). 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 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 wholly owned subsidiary of Cinergy Corp., a Delaware corporation, and 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. It owns, operates, manages, and controls plant and equipment within the State of Indiana used for the production, transmission, delivery, and furnishing of electric service to the public. Petitioner supplies electric energy to approximately 800,000 customers in various municipalities and unincorporated areas of 69 counties in the central, north central, and southern parts of the State of Indiana.

3. Proposed Financing Program and Purposes. Mr. Buckler indicated in his testimony that Petitioner projects substantial capital expenditures during the two-year period ending April 1, 2017, including: (i) environmental compliance requirements at generating stations; and (ii) the construction, improvements and maintenance of its facilities. Petitioner also plans to refinance debt in the amount of approximately \$500.0 million during this two-year period.

Petitioner requests authorization and approval in this Cause to issue and sell, from time to time, beginning April 3, 2015, through April 1, 2017, up to and including \$1.0 billion principal amount of debt securities consisting of senior and junior debentures (“Debentures”); first mortgage bonds (“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 because of 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. Petitioner also seeks authority to enter into one or more long-term loan agreements to borrow up to \$300.0 million ("Loan Agreements"), to enter into up to an additional \$100.0 million of capital lease obligations ("Capital Leases"), to enter into agreements to help manage interest costs and risks on financial obligations ("Interest Rate Management Agreements"), 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. Petitioner also requests authority to provide certain credit enhancements for the tax-exempt revenue bonds to be issued by the Indiana Finance Authority ("Authority") or other authorized issuer of tax-exempt bonds, 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 Capital 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 Petitioner's facilities, plant, and distribution system; (c) the improvement of Petitioner's service; (d) the discharge or lawful refunding of Petitioner's obligations, including the possible redemption of debt; (e) the repayment or conversion 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 \$300.0 million from the proceeds of revenue bonds to be issued by the Authority for terms not to exceed 40 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. Duke Energy Indiana will use the proceeds from the sale of a refunding issue to pay the redemption costs of existing issues of the 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 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 requests 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. To make the Authority Bonds more attractive to investors, Petitioner would issue a series of its First Mortgage Bonds to the Authority. The Authority would assign its rights to and under the First Mortgage Bonds to the trustee of the Authority Bonds. Payments made with respect to the First Mortgage Bonds would also be considered as payments under the related Loan Agreement. Satisfaction of Duke Energy Indiana's 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 the series of the Authority's Bonds. Accordingly, First Mortgage Bonds issued in connection with the Authority's Bonds would not be separately counted as Petitioner's debt since the First Mortgage Bonds would correspond directly with the indebtedness under the corresponding series of the Authority's Bonds.

Mr. Buckler further explained that by adding First Mortgage Bonds, the Authority Bonds become a secured debt instrument that carries less credit risk to investors than an unsecured bond. He noted that with less credit risk investors will generally accept a lower return, which will reduce Petitioner's borrowing costs. He noted 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 these credit enhancements if the projected interest savings from using credit-enhanced bonds would exceed the cost of the credit enhancement.

Mr. Buckler also testified that the variable or fixed interest rate payable by Duke Energy Indiana under the Loan Agreement will be determined by the market for the interest rate period selected. The rate will not exceed those rates 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, the rate 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. 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 like meters, transformers, transportation equipment, coal yard heavy equipment, computers, software, and telecommunications equipment. Mr. Buckler testified that leasing can result in a lower overall financing cost to Duke Energy Indiana and its customers. Mr. Buckler also testified concerning Petitioner's request to enter into participation agreements with its affiliates. He explained that when leasing new equipment that will be used by all Duke Energy operating companies ("Affiliate Companies"), it may be more efficient and less costly for one of the Affiliate Companies to enter into the lease for all of the utilities. This might be accomplished by Business Services under the existing service agreement between Business Services and the utility operating companies approved by the Commission in Cause No. 42873. If Petitioner determines it would be preferable to have one of the Affiliate Companies enter into the transactions on behalf of all the Affiliate Companies, this could be accomplished

under the utility 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 Agreements.** Petitioner requests authority to enter into Interest Rate Management Agreements in order to mitigate the interest rate risk associated with its proposed securities. Mr. Buckler testified that these arrangements are commonly used in today's capital markets and consist of swaps, caps, collars, floors, options, forwards, futures, forward starting swaps, or treasury locks. Duke Energy Indiana intends to enter into the arrangements solely to hedge and manage interest rate risk and not for speculative purposes.

8. **TIF 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 Project ("IGCC Project"), namely real and/or personal property tax increment financing, by entering into relevant TIF Agreements with Knox County. 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 testified that although Petitioner received Commission authority to enter into these TIF Agreements in Cause No. 44266, Petitioner has not yet finalized the agreements. Therefore, to the extent Petitioner has not finalized the TIF Agreements by April 3, 2015, it requests the extension of its authority.

Mr. Buckler noted that 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 establish and/or maintain 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 Indiana Code ch. 36-7-12 and, possibly, execute a note relating to Petitioner's obligations with respect to such financing agreement. He explained that Knox County will loan proceeds of the TIF Bonds to the Petitioner. As purchaser of the TIF Bonds, Petitioner will also be the source of the TIF Bonds proceeds. The TIF Bonds will not represent true, additional indebtedness of Duke Energy Indiana. 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. Duke Energy Indiana proposes to use the TIF Bonds 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.

¹Mr. Stephen Farmer's direct testimony in Cause No. 43114 explained that 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 Project and designated the IGCC Project as a TIF District. Property taxes will be reduced during the ten-year abatement period and the thirty-year TIF reimbursement period. Duke Energy Indiana proposed that property taxes associated with the IGCC Project be recovered via the IGCC cost recovery mechanism.

With regard to the TIF Bonds, Mr. Buckler estimates that Knox County (or other future approving governments) could issue up to \$350.0 million of TIF Bonds in one or more series during the next two decades. Mr. Buckler also 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, sale, and administration of the TIF Bonds, which Petitioner believes is necessary to realize the benefits of the economic development incentive.

Mr. Buckler explained that, similar to what the Petitioner has done with the traditional capital raising program, it will provide the Commission with the terms and conditions of the TIF Agreements once Knox County and Petitioner have finalized the terms. As described in the Petition, Duke Energy Indiana proposes to include financing agreements, notes and bond purchase agreements, and other ancillary agreements in the TIF Agreements.

9. OUCC Testimony. Mr. Jasheway provided testimony explaining that Duke Energy Indiana requests financing authority to: (1) issue and sell debt securities consisting of first mortgage bonds, senior and junior debentures or other long term unsecured debt in an aggregate principal amount not to exceed \$1.0 billion; (2) enter into long-term loan agreements to borrow up to \$300.0 million from the Authority; (3) enter into Capital Lease obligations in an aggregate amount outstanding at any one time not to exceed \$100.0 million; (4) enter into Interest Rate Management Agreements; and (5) enter into TIF Agreements with Knox County. He testified that Petitioner proposes to use the proceeds in any of the following options: (1) acquisition of property, material or working capital; (2) construction costs; (3) improvement of service; (4) the discharge or lawful refunding of obligations; (5) the repayment or conversion of short-term debt to long-term debt; or (6) other general corporate purposes. He stated that Petitioner's proposed use of debt proceeds appears reasonable.

Mr. Jasheway noted that the interest rates on Petitioner's proposed issuance of bonds will be determined by competitive bidding or by negotiation. He indicated that the OUCC does not have any concerns regarding interest rates. Petitioner's proposed interest rate language provides Petitioner with the flexibility to adjust to market conditions as necessary. He further noted that Petitioner seeks authority to enter into contractual agreements in order to mitigate the interest rate risk associated with its proposed securities. He explained that the OUCC does not oppose Petitioner's use of Interest Rate Management Agreements but emphasized the need for Petitioner to exercise caution when executing transactions of this type.

He testified that Duke Energy Indiana's credit rating has a BBB+ credit rating from Standard & Poor's ("S&P") and noted that S&P states Duke Energy Indiana's business risk profile is excellent. He also explained that the Common Equity to Total Capital average ratio of Duke Energy Indiana's proxy group ranges from 39.68% to 54.60%, with an average of 45.56%.

Duke Energy Indiana's Common Equity to Total Capital ratio of 51.95% is near the very top of the range. Thus, the debt issuances proposed by Petitioner would move it toward the middle of the range with regard to its use of tax-advantaged debt capital. He indicated the OUCC does not object to Petitioner's additional financing authority requested in this Cause.

In conclusion, Mr. Jasheway summarized the OUCC's recommendations. He indicated that the OUCC recommends approval of Petitioner's requested finance authority, including the following OUCC proposals: (1) Petitioner's issuances pursuant to this authority shall be at a competitive, market rate; and (2) Petitioner shall provide a written report to both the OUCC and the Commission within 30 days of finance issuances that provides the principal amount, applicable interest rates, how the interest rates were determined, any collateral required, term and intended purpose of the borrowing, and any other pertinent repayment terms.

10. Commission Discussion and Findings. According to the evidence presented, Petitioner projects substantial capital expenditures during the two-year period of April 3, 2015, through April 1, 2017, including expenditures for environmental compliance requirements and for the construction, improvements, and maintenance of its facilities. Petitioner also plans to refinance debt in the amount of \$500.0 million during this two-year period. The funds from the sales or issuances of the Securities and proceeds from the Loan Agreements and the Capital 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 the Capital Leases are another form of financing, which provides Petitioner with additional flexibility in meeting its financing needs. The Interest Rate Management Agreements, when utilized 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 upon the evidence submitted in this Cause, the Commission finds that, with due consideration being given to the nature of Petitioner's business, credit, future prospects and earnings, and the effect that the proposed financings may have on Duke Energy Indiana's management and efficient operation, the financing authority requested by Petitioner is reasonable and should be granted. Consistent with the OUCC's proposal, we also find that (i) Petitioner's issuances pursuant to this authority shall be at a competitive, market rate; and (ii) Petitioner shall provide a written report to both the OUCC and the Commission within 30 days of finance

issuances that provides the principal amount, applicable interest rate(s), how the interest rate(s) was (were) determined, any collateral required, term and intended purpose of the borrowing, and any other pertinent repayment terms. In addition, should Duke Energy Indiana determine that new or additional financing authority is necessary upon the expiration of the financing authority approved in this Order, Duke Energy Indiana shall file a new petition at least six 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 requests for financing.

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 the Petition and Petitioner's Exhibits, to:

(a) issue and sell, from time to time, over a period ending April 1, 2017, 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, 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 April 1, 2017, Loan Agreements with and borrow from the Authority or other authorized issuer of tax-exempt bonds, for a term not to exceed 40 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 Securities, Loan Agreements, and Capital Leases for the purposes specified; and/or

(f) enter into TIF Agreements for the purpose of realizing the benefits of an economic development incentive.

2. Petitioner shall, within 30 days of the financings authorized in this Order, file with the Commission and serve upon the OUCC a report as discussed in Finding Paragraph 10 above.

3. The authority granted by this Order shall expire on April 1, 2017. To the extent Petitioner seeks financing authority after expiration of the authority granted in this Order, it shall

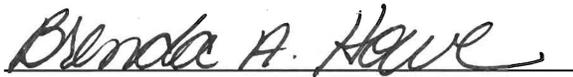
file a new petition with the Commission at least six months prior to the expiration of its financing authority.

4. 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. 44266 shall expire on April 2, 2015.

STEPHAN, MAYS-MEDLEY, HUSTON, WEBER, AND ZIEGNER CONCUR:

APPROVED: MAR 25 2015

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



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