

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

Commissioner	Yes	No	Not Participating
Huston	√		
Freeman	√		
Krevda	√		
Veleta	√		
Ziegner	√		

PETITION OF DUKE ENERGY INDIANA. LLC, AN)
INDIANA LIMITED LIABILITY COMPANY, FOR)
AUTHORITY (i) TO ISSUE UP TO \$1.4 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 \$1.4 BILLION (ii) TO EXECUTE)
AND DELIVER LONG TERM LOAN AGREEMENTS)
TO BORROW UP TO \$100.0 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, AND (v) TO APPLY)
THE NET 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)
PUPOSES, (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)

CAUSE NO. 45766

APPROVED: JAN 11 2023

ORDER OF THE COMMISSION

Presiding Officers:

Sarah E. Freeman, Commissioner

Ann Pagonis, Administrative Law Judge

On September 6, 2022, Duke Energy Indiana, LLC ("Petitioner") filed its Verified Petition with the Indiana Utility Regulatory Commission ("Commission") initiating this matter. Petitioner also filed the testimony of Chris Bauer, Director, Corporate Finance & Assistant Treasurer.

On November 1, 2022, the OUCC filed the testimony of John W. Hanks, Utility Analyst in the Electric Division.

A public hearing in this Cause was held on December 1, 2022, at 10:00 a.m., in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC offered into the record their evidence, which was admitted without objection.

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

1. Notice and Jurisdiction. Notice of the hearing was published as required by law. Petitioner is a “public utility” as defined in Indiana Code § 8-1-2-1(a). Under Indiana Code §§ 8-1-2-76 through 8-1-2-81, the Commission has jurisdiction over a public utility’s issuance of bonds, notes, or other evidence of indebtedness payable at periods of more than one year. Petitioner, in relevant part, requests authorization to issue Securities, to execute and deliver long-term Loan Agreements, and to enter into Interest Rate Management Agreements for terms of more than one year. Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this proceeding.

2. Petitioner’s Characteristics. Petitioner is a limited liability company 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 Duke Energy Indiana Holdco, LLC. 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 860,000 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, Petitioner 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, as well as to Purdue University from the Purdue Combined Heat and Power facility. Substantially all of Petitioner’s operating revenues are derived from the generation, transmission, and distribution of electric energy.

3. Relief Requested. Petitioner requests authority during April 1, 2023 through April 1, 2025 (the “Financing Period”) to do the following: (A) to issue and sell up to \$1.4 billion principal amount of debt Securities to be comprised of secured first mortgage bonds, debentures or unsecured debt in any combination thereof and in one or more series provided that the aggregate principal amount shall not exceed \$1.4 billion; (B) to execute and deliver long-term Loan Agreements to borrow up to \$100.0 million from the Indiana Finance Authority (the “Authority”); (C) to enter into Capital Lease Financings not to exceed \$100.0 million principal in the aggregate; (D) to enter into Interest Rate Management Agreements; and (E) to apply the net proceeds obtained from such Securities, Loan Agreements, and Capital Lease Agreements as discussed herein (together, the “Financing Plan”).

4. Petitioner Evidence. Mr. Bauer testified the Commission authorized Petitioner’s previous financing plan in Cause No. 45433 and that authorization would end April 1, 2023.

Mr. Bauer testified Petitioner requests authorization to issue and sell during the Financing Period, up to and including \$1.4 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. Bauer testified that Petitioner currently prefers issuing First Mortgage Bonds 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 Petitioner, and long-term views of Petitioner’s capital priorities.

Mr. Bauer testified Petitioner requests authorization to enter into one or more Loan Agreements with the Authority to borrow up to \$100.0 million from the proceeds of revenue bonds to be issued by the Authority for terms not to exceed 40 years (the “Authority Bonds”). Petitioner also requests authority to provide certain credit enhancements for the Authority Bonds, including First Mortgage Bonds, supporting letters of credit (“LOCs”), and authority to continue to enter into Interest Rate Management Agreements to help manage interest cost risks. Mr. Bauer testified Petitioner will use the proceeds to pay the redemption costs of existing issues of Authority Bonds. Mr. Bauer testified that since the interest paid on the Authority Bonds is generally exempt from federal income tax, investors are willing to accept a lower interest rate than they would on a normal Petitioner bond where such interest payments would be fully taxable resulting in significant savings for Petitioner and its customers. Mr. Bauer noted that there is a limit on the amount of the Authority Bonds that can be issued each year.

Mr. Bauer explained the Authority will issue the Authority Bonds, but the Authority will have no responsibility to make payments of interest, principal, or other payments. These obligations will be solely Petitioner’s under a Loan Agreement between Petitioner and the Authority. Petitioner will negotiate the terms and interest rates for the Authority Bonds with underwriters, who will purchase the Authority 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. Bauer testified Petitioner 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.

Mr. Bauer testified Petitioner also requested the authority to provide certain credit enhancements, including LOCs and First Mortgage Bonds, to support the credit quality and lower the interest rates of the Authority Bonds. Mr. Bauer testified Petitioner would consider issuing First Mortgage Bonds that would mirror the Authority Bonds with respect to principal amount, interest rate, maturity, redemption, and purchase provisions. First Mortgage Bonds would be issued to the Authority, and the Authority would assign its rights to the trustee for the Authority Bonds to support the credit quality 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 by Petitioner of its obligation under a series of the Authority Bonds would satisfy Petitioner’s obligations under the First Mortgage Bonds or other security pledged for the series of Authority Bonds.

Accordingly, First Mortgage Bonds issued in connection with the Authority Bonds would not be separately counted as debt of Petitioner since such First Mortgage Bonds would correspond

directly with the indebtedness under the corresponding series of the Authority Bonds. Mr. Bauer testified Petitioner would also consider arranging irrevocable LOC or other forms of credit enhancements to support future payments of interest and principal on the Authority Bonds, if needed.

Mr. Bauer also testified that the interest rate payable by Petitioner 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 Bonds for Securities having similar terms, conditions, and features. Mr. Bauer stated his opinion that generally such rates at the time of pricing or any repricing would be lower than what Petitioner could obtain for similar taxable Securities.

Mr. Bauer testified Petitioner expects to use Capital Lease Financings not to exceed \$100.0 million principal in the aggregate for the acquisition of new property and newly constructed property used in Petitioner's operations. Mr. Bauer 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 the lease on behalf 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. Mr. Bauer testified if Petitioner determines it would be preferable to have one of the operating companies enter 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. Affiliate agreements would be submitted to the Commission pursuant to Petitioner's Affiliate Standards.

Petitioner also requests authority to enter into Interest Rate Management Agreements such as swaps, caps, collars, floors, options, forwards, futures, forward starting swaps, or treasury locks. Mr. Bauer testified that Interest Rate Management Techniques are commonly used in today's capital markets and Petitioner intends to enter such arrangements solely to hedge and manage interest rate risk and not for speculative purposes.

Mr. Bauer testified the funds from the sales of the Securities, the Loan Agreements, and proceeds from the Leases would be utilized to fund: (A) the acquisition of property, material, or working capital; (B) the construction, completion, extension, or improvement of its facilities such as 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; (E) the repayment or conversion of short-term to long-term indebtedness incurred by Petitioner for such purposes; and (F) for other general corporate purposes.

Mr. Bauer included Petitioner's Financial Statements in his testimony. The record evidence shows Petitioner's net original cost of utility plant in service as of June 30, 2022, was \$17.7 billion. Petitioner's outstanding debt was \$1.4 billion.

5. OUCG Testimony. Mr. Hanks testified that the OUCG recommends approval of Petitioner's financing request. Mr. Hanks testified the OUCG does not oppose Interest Rate Management Agreements, but recommends Petitioner prudently analyze such

transactions before entering into an agreement. He testified the fixed interest rate debt should not exceed the yield to maturity on U.S. Treasury bonds of comparable maturity at the time of pricing by more than five percent, and a variable rate of interest should reflect a credit spread to the relevant benchmark U.S. Treasury rate that will be less than or equal to 500 basis points. Mr. Hanks testified the OUCC does not oppose Petitioner's proposed interest rate maximums if the interest rates are within the stated maximums. Concluding, Mr. Hanks recommended approval of the Financing Plan with the following OUCC proposals:

A. Petitioner's issuances pursuant to this authority shall be at competitive, market rates;

B. An expiration date of April 1, 2025, shall be applied to the requested authority; and

C. Petitioner shall provide a written report to both the OUCC and the Commission within 30 days of finance issuances that provides: (1) the principal amount; (2) use of the debt; (3) maturity period; (4) applicable interest rate(s); (5) premiums and discounts; (6) issuance expenses; (7) collateral details; (8) repayment terms; and (9) any other terms.

6. Discussion and Findings. Pursuant to Indiana Code §§ 8-1-2-76 through 81, the Commission has the authority, after consideration of all information that may be relevant or required, to investigate and approve or disapprove a proposal by a public utility to issue bonds, notes, or other evidence of indebtedness, payable more than one year from the execution thereof of preferred or common stock. The Commission must determine whether the proposed issue is in the public interest in accordance with the laws addressing the issuance of securities by public utilities. The Commission must also find that the proposed issue is reasonably necessary in the operation and management of the utility's business so that the utility may provide adequate service and facilities.

Pursuant to Indiana Code § 8-1-2-78, a public utility may, with the approval of the Commission, issue stock, certificates of stock, bonds, notes or other evidence of indebtedness payable at periods of more than one year for: (1) the acquisition of property, material or working capital; (2) the construction, completion, extension or improvement of its facilities, plant, or distribution system; (3) the improvement of its service; (4) the discharge or lawful refunding of its obligations; and (5) the reimbursement of its treasury as provided under Indiana Code § 8-1-2-78(e). Mr. Bauer testified the proceeds of the Financing Plan would be used for: (1) the acquisition of property, material, or working capital; (2) the construction, completion, extension, or improvement of its facilities; (3) the improvement of its service; (4) the discharge or lawful refunding of its obligations, including the possible redemption of debt; (5) the repayment of short-term indebtedness incurred by Petitioner, for such purposes, or (6) for other general corporate purposes. The Commission finds that these purposes comply with the purpose requirements of Indiana Code § 8-1-2-78. We also find that Petitioner's Financing Plan is reasonably necessary in the operation and management of Petitioner's business. Thus, we find the proposed uses of these funds will serve the public interest.

Regarding the terms and conditions of the Financing Plan, Petitioner proposes to issue and sell during the Financing Period up to \$1.4 billion principal amount of debt Securities as described

herein. Petitioner currently prefers issuing First Mortgage Bonds. Mr. Bauer testified the decision regarding which instrument to issue would be predicated largely on market conditions at the time of issuance, credit spreads of Petitioner, and long-term views of Petitioner's capital priorities. Petitioner also seeks to enter into Loan Agreements for up to \$100.0 million and for up to 40 years. Petitioner plans to obtain credit enhancements for the Authority Bonds and to enter into Interest Rate Management Agreements solely to hedge and manage interest rate risk and not for speculative purposes. Petitioner will negotiate the terms and interest rate for the Authority Bonds with underwriters and 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. Bauer testified the interest rate payable by Petitioner under the Loan Agreements would be determined by the market for the rate period selected and the rate would not exceed those generally obtainable at the time of pricing or repricing of the Authority Bonds for Securities having similar terms, conditions, and features. Rates when priced would generally be lower than what Petitioner could obtain for similar taxable Securities. Petitioner requests authorization to enter into \$100.0 million of Capital Lease Financings through affiliate agreements, which will define the applicable terms and conditions and be submitted to the Commission pursuant to Petitioner's Affiliate Standards.

Based upon our review of the evidence, we find that the terms and conditions of the Financing Plan will allow Petitioner flexibility: (1) to obtain competitive market rates by taking into consideration market conditions at issuance while taking into consideration Petitioner's long-term capital needs; (2) to issue instruments of variable terms to meet Petitioner's financing needs and to be attractive to a variety of purchasers; and (3) to utilize Interest Rate Management Techniques to hedge and decrease interest rate risk, and therefore, the terms and conditions of the Financing Plan are reasonable.

Pursuant to Indiana Code § 8-1-2-79, Petitioner properly filed with the Commission a Verified Petition and set forth the required description of the Financing Program. Petitioner also provided evidence in its Petition regarding the total outstanding capitalization of the utility in relation to its total value. The record evidence shows Petitioner's net original cost of utility plant in service as of June 30, 2022, was \$17.7 billion. Petitioner's current outstanding debt was \$1.4 billion. Taking into consideration the Financing Plan's total proposed borrowing of \$1.6 billion, Petitioner's total outstanding capitalization is far less than the total fair value of property. Thus, we find the resulting capital structure is reasonable and that Petitioner's total outstanding capitalization does not exceed the total value of Petitioner's property.

Pursuant to Indiana Code § 8-1-2-80(b), the Commission has authority to impose conditions upon a public utility issuing Securities as the Commission deems reasonable. The OUCC's proposed conditions as provided in Paragraph 5(A)-(C) are deemed reasonable because they will provide useful information and allow the Commission to monitor the execution of Petitioner's Financing Plan. Thus, the Commission's approval is subject to Petitioner's compliance with the OUCC's proposed conditions.

Therefore, based upon our consideration of the evidence, we authorize Petitioner's Financing Plan as described herein.

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

1. Petitioner Duke Energy Indiana, LLC is authorized during April 1, 2023 through April 1, 2025 to do the following: (A) to issue up to \$1.4 billion principal amount of debt Securities to be comprised of secured first mortgage bonds or unsecured debt in any combination thereof and in one or more series provided that the aggregate principal amount shall not exceed 1.4 billion; (B) to execute and deliver long-term Loan Agreements to borrow up to \$100.0 million from the Indiana Finance Authority; (C) to enter into Capital Lease Financing not to exceed \$100.0 million principal in the aggregate; (D) to enter into Interest Rate Management Agreements; and (E) to apply the net proceeds obtained from such Securities, Loan Agreements, and capital lease transactions as discussed herein.

2. This Order is the sole evidence of our approval and shall constitute a certificate of authority as provided in Indiana Code § 8-1-2-80.

3. Petitioner shall, within 30 days of the financings authorized herein, file with the Commission and serve upon the OUCC a report as discussed in Paragraph 5 above.

4. The remaining unused financing authority granted Petitioner in Cause No. 45433 shall expire on April 1, 2023.

5. This Order shall be effective on and after the date of its approval.

HUSTON, FREEMAN, KREVDA, VELETA, AND ZIEGNER CONCUR:

APPROVED: JAN 11 2023

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

**Dana Kosco
Secretary to the Commission**