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BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of The )  
Dayton Power and Light Company for )  
Authority to Execute and Deliver Long-Term )  
Loan Agreements to Borrow up to a )  
Maximum of \$100 Million from the Ohio Air )  
Quality Development Authority or other )  
Authorized Agency )

Case No. 08-165-EL-AIS

APPLICATION

To the Honorable Public Utilities Commission of Ohio:

The Dayton Power and Light Company ("DP&L"), a public utility as defined by the Ohio Revised Code, respectfully requests and represents the following:

1. DP&L proposes, with the necessary consent and authority of this Commission, to borrow new funds from the Ohio Air Quality Development Authority, any statutory successor thereto or other authorized issuer of tax exempt bonds (the "Authority") from time to time in one or more series, for a term or terms not to exceed 40 years. The principal amount of the loans would be equal to the aggregate principal amount of tax exempt revenue bonds issued by the Authority (the "Authority's Bonds"). The purpose of the loans is to primarily refund bonds originally issued to finance or reimburse the costs of acquiring and construction of certain solid waste disposal facilities as previously authorized by this Commission on September 26, 2007 under Case No. 07-859-EL-AIS.

2. DP&L will generally use the proceeds from the loans to refund or refinance the \$90,000,000 Collateralized Air Quality Development Revenue Bonds 2007, Series A issued on or about November 15, 2007 and use any remaining proceeds to finance or reimburse the costs of acquiring and constructing certain solid waste disposal facilities and related facilities associated with the environmental control equipment at generating stations owned, in whole or part, by DP&L. DP&L proposes to enter into a Loan Agreement with the Authority to evidence and

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secure its obligation to repay such loan (each a "Loan Agreement: and collectively "the Loan Agreements").

3. DP&L's obligations under each Loan Agreement will be to repay all the principal of, the premium, if any, and the interest on, the Authority's Bonds as and when any and all payments are due. The Authority's Bonds will be special obligations payable solely out of revenues derived from the payments by DP&L under the respective Loan Agreements.

4. The Authority's Bonds will be issued pursuant to one or more indentures of trust (the "Indentures") entered into or to be entered into between the Authority and a trustee to be determined, which Indentures establish the terms of each series of the Authority's Bonds.

5. DP&L proposes that it may, in its discretion, issue first mortgage bonds, procure one or more letters of credit, or purchase bond insurance to secure DP&L's obligations under each individual Loan Agreement. Alternatively, the Loan Agreements may be unsecured. Each Loan Agreement would stand alone, allowing DP&L the option of securing or not securing its obligations. First mortgage bonds issued by DP&L in combination with the Authority's Bonds would grant bondholders (or, in some instances, the bond insurance company, if bond insurance is purchased) a security interest in certain assets of DP&L. The first mortgage bonds would mirror the terms of the Authority's Bonds with respect to the principal and the interest rate.

6. DP&L expects to negotiate and conclude terms and conditions in the Loan Agreements and the Indentures that not only allow the use of credit enhancements, but that also allow for a fixed interest rate for a variety of interest rate periods, thereby providing DP&L with increased flexibility to manage its portfolio of tax exempt debt obligations. Such flexibility will allow DP&L to manage its overall interest expense, consistent with its capital and cash flow requirements and capital market conditions.

7. In order to further enhance the flexibility of DP&L to manage interest rates, DP&L requests authority to enter into certain interest rate management arrangements such as "swaps," "caps," "collars," "floors," "options," and "forwards," "futures" or "forward starting swaps." Such interest rate management techniques are commonly used in today's capital markets, and DP&L would only enter into such arrangements solely to hedge and manage interest rate risk and not for speculative purposes.

8. It is expected that bond counsel will render its opinion that, under existing laws, including regulations and official rulings by the Internal Revenue Service, interest on the Authority's Bonds will be excluded from gross income of the recipient thereof for federal income tax purposes, except for interest on any bond held by a substantial user or a related person as those terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended. Therefore, DP&L expects the interest rate on the Authority's Bonds will be less than the interest rate DP&L would be able to obtain on taxable bonds that DP&L could issue with similar terms and conditions in the capital markets.<sup>1</sup>

9. The terms of each offering of the Authority's Bonds will be negotiated by DP&L with one or more underwriters. After approval of the terms by DP&L and the Authority, DP&L proposes to arrange for the sale of each series of the Authority's Bonds to the underwriters (assuming multiple underwriters) pursuant to one or more bond purchase agreements between the Authority and the underwriters, and pursuant to one or more letters of representation from DP&L to the Authority and the underwriters.

10. Subject to the limitations described below, DP&L proposes that the Commission issues its order authorizing DP&L to execute and deliver the Loan Agreements and any reimbursement or insurance agreements and related agreements and documents prior to the time DP&L and the underwriters reach agreement with respect to the terms of any particular series of the Authority's Bonds. DP&L will agree to an offering price no higher than 101-1/2% nor less than 98% of the principal amount of the Authority's Bonds, plus accrued interest, at an interest rate that is fixed and will not in any case be in excess of 6.0% per annum. DP&L also proposes to agree to underwriting discounts and commissions not in excess of 1.25% of the principal amount of the Authority's Bonds. DP&L proposes the Commission include such limits in its order.

11. It is anticipated that the underwriters would offer the Authority's Bonds to purchasers pursuant to one or more Official Statements. DP&L expects that the sale of the

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<sup>1</sup> In any event, the interest rate for each series of the Authority's Bonds will be determined by the capital markets, based, among other factors, on DP&L's credit rating, the fixed interest mode and period selected, whether DP&L's payment obligations are supported with any credit facility (such as bond insurance or a letter of credit from a highly rated financial institution), and general market conditions.

Authority's Bonds and the possible issuance and delivery of DP&L's first mortgage bonds will be exempt from registration under the Securities Act of 1933, as amended.

12. Each transaction described herein is and shall remain consistent with the Commissions' Order in Case No. 99-1687-EL-ETP approving DP&L's Transition Plan.

13. Although DP&L expects that the applicable interest rate on the Authority's Bonds will be less than the interest rate DP&L would be able to obtain on taxable bonds with similar terms and conditions, the effect of such interest rates on revenue requirements can be determined only in rate proceedings in which all factors relating to DP&L's revenue requirements are taken into account according to law.

14. DP&L proposes to account for the expenses and discounts or premiums, if any, of the Authority's Bonds as prescribed in the Federal Energy Regulatory Commission Uniform System of Accounts as currently in effect.

15. A balance sheet of DP&L showing its assets and liabilities as of December 31, 2007, and an income statement of DP&L for the twelve (12) months ended December 31, 2007 (audited), are attached and marked Exhibit A.

WHEREFORE, The Dayton Power and Light Company ("DP&L") requests that this Commission issue an order finding that:

- (1) DP&L is a public utility as defined in Section 4905.02, Ohio Revised Code, and as such is subject to the jurisdiction of this Commission.
- (2) The Application is filed under provisions of Section 4905.41, Ohio Revised Code.
- (3) DP&L proposes to borrow from the Ohio Air Quality Development Authority, any statutory successor thereto or other authorized issuer of tax exempt bonds (the "Authority") for a term or terms not to exceed 40 years, the proceeds of a maximum of \$100 million aggregated principal amount of the revenue bonds which may be issued in one or more series by the Authority (the "Authority's Bonds"). DP&L proposes to enter into one or more loan agreements with the Authority ("Loan Agreements") to evidence and secure its obligation to repay such loans.
- (4) The purpose of the Loan Agreements is to refund or refinance the \$90,000,000 Collateralized Air Quality Development Revenue Bonds 2007, Series A issued

on or about November 15, 2007 and use any remaining proceeds to finance or reimburse the costs of acquiring and constructing certain solid waste disposal facilities and related facilities associated with the environmental control equipment at generating stations owned, in whole or part, by DP&L.

- (5) DP&L's obligations under the Loan Agreements will be to provide the Authority with sufficient revenues to enable it to pay all of the principal of, premium, if any, and interest on, the Authority's Bonds. The Authority's Bonds will be special obligations payable solely out of revenues derived from the payments by DP&L under the Loan Agreements.
- (6) The Authority's Bonds will be issued pursuant to one or more indentures of trust ("Indentures") to be entered into between the Authority and a trustee to be determined, which Indentures will establish the terms of each series of the Authority's Bonds.
- (7) DP&L will negotiate and conclude terms and conditions in the Loan Agreements and the Indentures that will allow, but not obligate, the use of credit enhancements to improve the credit rating of one or more series of bonds and to permit the selection of fixed interest rates for a variety of interest rate periods, thereby providing DP&L with greater flexibility to effectively manage its portfolio of taxable and tax exempt debt obligations. Such flexibility will allow DP&L to manage its overall interest expense, consistent with its capital and cash flow requirements and capital market conditions.
- (8) DP&L may improve the credit rating of the Authority's Bonds by securing its payment obligations under the Loan Agreements with first mortgage bonds, letters of credit and/or bond insurance. The use of first mortgage bonds would allow bondholders (or the bond insurance company, if used in combination with bond insurance) a security interest in certain assets of DP&L. The first mortgage bonds would generally mirror the terms of the Authority's Bonds with respect to the principal and the interest rate.

If letters of credit are obtained, DP&L will enter into one or more reimbursement agreements with one or more qualified financial institutions. Such reimbursement agreements would require DP&L to reimburse the financial institutions for all drawings made under the Letters of Credit and to pay annual fees not in excess of 0.75% of the amount available under the Letter of Credit.

DP&L may also secure its payment obligations under the Loan Agreements by purchasing one or more bond insurance policies from one or more insurance creditworthy companies. DP&L will not obtain such a bond insurance policy unless the present value of the estimated debt service savings resulting from such lower interest rate is expected to exceed the amount of the premium payable by DP&L to obtain such policy.

- (9) To facilitate the issuance of this order prior to the time DP&L agrees with underwriters on the terms of the Authority's Bonds, it is appropriate and

reasonable for this Commission to authorize DP&L to execute and deliver one or more Loan Agreements with the Authority to borrow the proceeds from the sale of the Authority's Bonds at a public offering price no higher than 101-1/2% nor less than 98% of the principal amount of the Authority's Bonds, plus accrued interest, if any, at an interest rate to be determined as set forth in the Application and incorporated herein by reference, and to agree to underwriting discounts and commissions not in excess of 1.25% of the principal amount of the Authority's Bonds.

- (10) The maximum amount of the loans is just and reasonable, and the probable expense and other terms thereof, within the limits described above, to be determined pursuant to arm's length negotiation between DP&L and underwriters, are just and reasonable.
- (11) The interest rate on each series of the Authority's Bonds, which is generally exempt from federal income tax to the bondholders, will be less than the interest rate DP&L would be able to obtain on taxable bonds with similar terms and conditions. The effect of such interest rates on revenue requirements can be determined only in rate proceedings in which all factors relating to DP&L's revenue requirements are taken into account according to law.
- (12) The flexibility of DP&L to manage interest rates and interest rate risk will be further enhanced if DP&L is authorized to enter into certain interest rate management arrangements such as "swaps," "caps," "collars," "floors," "options," and "forwards," "futures" or "forward starting swaps." Such interest rate management techniques are commonly used in today's capital markets, and DP&L requests authority to enter into such arrangements solely to hedge and manage interest rate risk and not for speculative purposes.
- (13) DP&L proposes to account for the expenses and discounts or premiums, if any, of the Authority's Bonds as prescribed in the Federal Energy Regulatory Commission Uniform System of Accounts as currently in effect.
- (14) The cash proceeds from the issuance of the Authority's Bonds are reasonably required and the money to be procured therefrom is necessary for DP&L's lawful capital purposes, and the Commission is satisfied that consent and authority should be granted accordingly.

FURTHER, The DP&L requests that this Commission issue the following order:

1. DP&L is hereby authorized to borrow from the Authority in one or more series for a term or terms not to exceed 40 years the proceeds of a maximum of \$100 million aggregate principal amount of the Authority's Bonds, and in connection therewith, to execute and deliver one or more Loan Agreements between DP&L and the Authority.

2. DP&L is hereby authorized, upon DP&L's discretion, to issue and deliver first mortgage bonds corresponding to the Authority's Bonds with respect to the principal amounts and interest rates.

3. DP&L is hereby authorized, upon DP&L's discretion, to (i) obtain one or more bond insurance policies for the Authority's Bonds or any series thereof and to execute and deliver one or more insurance agreements with such bond insurers, (ii) obtain letters of credit from one or more qualified financial institutions for the Authority's Bonds or any series thereof and to execute and deliver one or more reimbursement agreements with such financial institutions, or (iii) allow the Authority's Bonds or any series thereof to be issued without the benefit of either letters of credit or bond insurance policies.

4. The Authority's Bonds shall be sold at an offering price no higher than 101-1/2% nor less than 98% of the principal amount of the Authority's Bonds, plus accrued interest, if any, at an interest rate and for interest periods to be determined as set forth in the Application and incorporated herein by reference, but such interest rate shall not to be in excess of 6.0% per annum, and underwriting discounts and commissions shall not exceed 1.25% of the principal amount of the Authority's Bonds.

5. DP&L is also authorized to enter into certain interest rate management arrangements such as "swaps," "caps," "collars," "floors," "options," and "forwards," "futures" or "forward starting swaps" solely to hedge and manage interest rate risk and not for speculative purposes.

6. When the Authority's Bonds are issued and sold, DP&L shall report to this Commission the terms and full particulars regarding the sale of the Authority's Bonds, including, but without limitation, the maturity, the principal amount, the interest rate, the amount of the discounts and commissions to the underwriters in dollars and as a percent of the principal amount of the Authority's Bonds, and the cost of funds loaned to DP&L.

7. DP&L is hereby authorized to account for the expenses and discounts or premiums, if any, of the Authority's Bonds as prescribed in the Federal Energy Regulatory Commission Uniform System of Accounts as currently in effect.

