

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

IN THE MATTER OF THE APPLICATION	)	
OF THE DAYTON POWER AND LIGHT	)	
COMPANY FOR AUTHORITY TO	)	
BORROW AN AMOUNT NOT TO EXCEED	)	CASE NO. 15- <u>0634</u> -EL-AIS
\$210,000,000 FROM THE OHIO AIR	)	
QUALITY DEVELOPMENT AUTHORITY	)	
AND FOR AUTHORITY TO ISSUE AND	)	
DELIVER NOT MORE THAN	)	
\$210,000,000 PRINCIPAL AMOUNT	)	
OF FIRST MORTGAGE BONDS, AS	)	
SECURITY AND REQUEST FOR EXPEDITED	)	
TREATMENT	)	

**APPLICATION**

The Applicant, The Dayton Power and Light Company (the “Company” or “DP&L”), respectfully represents and states:

1. The Company is a corporation organized and existing under the laws of the State of Ohio, with its office and principal place of business in the City of Dayton, Ohio and is a public utility as defined by Sections 4905.02 and 4905.03 of the Ohio Revised Code and subject to the jurisdiction of The Public Utilities Commission of Ohio (the “Commission”).

2. The Company proposes, with the necessary consent and authority of this Commission, to borrow from the Ohio Air Quality Development Authority (the “Authority”): (a) the proceeds of the sale of State of Ohio Collateralized Pollution Control Revenue Refunding Bonds 2015 in an aggregate principal amount not to exceed \$100,000,000 (“Air Bonds Series A”); and (b) the proceeds of the sale of State of Ohio Collateralized Pollution Control Revenue Refunding Bonds 2015 in an aggregate principal amount not to exceed \$110,000,000 (“Air Bonds B”) (collectively the “Authority’s Bonds”). The Company proposes to enter into up to two Loan Agreements with the Authority to evidence and secure its obligation to repay such loans (each a “Loan Agreement” and collectively the “Loan Agreements”). The loans are for the purpose of assisting in refunding bonds (the “Existing Bonds”) issued to refund bonds originally issued to finance a portion of the costs of acquiring, constructing and installing certain

pollution control facilities and related facilities associated with the environmental control equipment at generating stations owned, in whole or part, by the Company (collectively the “Facilities”).

3. This proposed transaction will benefit customers in several respects. First, the issuance of the Authority’s Bonds and the redemption of the Existing Bonds are expected to result in a decrease to the Company’s annual long-term interest charges. Secondly, the proposed transaction will help the Company obtain the consents that will be necessary to amend its mortgage, and effectuate the transfer of its generation assets by January 1, 2017 as required by the Commission in Case Number 13-2420-EL-UNC. Thirdly, the transaction will allow DP&L to maintain low cost, short-term debt that can be prepaid without penalty, allowing the Company to repay debt as cash flows allow and be better positioned to ultimately achieve the 50/50 capitalization rate as contemplated by the Commission’s September 17, 2014 Order in Case Number 13-2420-EL-UNC. Finally, though the financing transaction involves refunding up to \$210,000,000 of Existing Bonds, in preparation for generation separation and concurrent with the proposed transaction, the Company will also redeem and retire more than \$100,000,000 of bonds.

4. The Company requests expedited treatment of this Application in order to allow it to (i) realize the benefit of liquidity and pricing that exists in the current market and (ii) maximize the financial impact in 2015 of obtaining lower cost debt; therefore, the Company seeks an Order be issued granting this Application on an expedited basis on or before May 15, 2015.

5. The Company’s obligations under each Loan Agreement will provide the Authority with sufficient revenues to enable it to pay, when due, all of the principal and premium, if any, and interest on the Authority’s Bonds. To secure its obligations to make such loan payments, the Company will issue and deliver to the Authority its First Mortgage Bonds, corresponding to the Authority’s Bonds principal amount, interest rate, maturity (not to exceed 30 years) and redemption provisions (the First Mortgage Bonds issued to the Authority, collectively the “First Mortgage Bonds”). The First Mortgage Bonds will be issued under the Forty-eighth and Forty-ninth Supplemental Indentures (each a “Supplemental Mortgage Indenture”) supplemental to the First and Refunding Mortgage (the “First Mortgage”), dated as

of October 1, 1935, between the Company and The Bank of New York Mellon, as Trustee (as successor to Irving Trust Company).

6. The Authority's Bonds will be issued pursuant to two Trust Indentures to be entered into between the Authority and an Indenture Trustee to be named (the "Indenture Trustee"). The Authority's Bonds will be special obligations of the State of Ohio, payable solely out of the revenues of the Authority derived from the payments by the Company under the applicable Loan Agreement. Pursuant to each Trust Indenture, the Authority will assign all of its rights and interests in the Company's First Mortgage Bonds to the Indenture Trustee as security for the benefit of the holders of the Authority's Bonds.

7. The Authority's Bonds will have maturity dates not in excess of 30 years, will include an obligation of the Company to repurchase the bonds at par on the five year anniversary of close (the "Put Right"), will be redeemable on any business day at a price equal to 100% of the principal amount plus accrued and unpaid interest, and will bear interest at a variable rate that will be equal to up to 65%-70% \* (LIBOR + Spread). The applicable Spread is based on the Company's current credit ratings. On the closing date of the transaction, the rate of the Authority's Bonds is expected to be approximately 1.20%, and will be reset every month thereafter; the initial public offering price of the Authority's Bonds will not exceed 100% nor be less than 100% of their principal amount and the structuring and capital fees will not exceed 1.00%, all of which will be negotiated between the Company and the selected structuring agents to be named, as representative of the purchasers of the Authority's Bonds, by means of arm's length bargaining under financial market conditions existing at the time. The Company proposes to arrange for the sale of the Authority's Bonds to the selected purchasers pursuant to separate bond purchase agreements among the Company, the Authority and the Purchasers. In addition the Company will make certain undertakings and agreements with the purchasers pursuant to a Covenant Agreement for so long as such purchasers or their assignees hold the Authority's Bonds. The cost of money will be reasonable under current market conditions for tax exempt bonds and will provide a lower cost of money than could otherwise be obtained by the Company.

8. The proposed sale of the Authority's Bonds and the issuance and delivery of the Company's First Mortgage Bonds are exempt from registration under the Securities Act of 1933, as amended. The proposed issuance of the First Mortgage Bonds relating to the Authority's Bonds will have no net material effect on the Company's capital structure, as the proceeds will be used to pay or redeem a like amount of Refunded Bonds. However, concurrent with the proposed transaction, the Company will redeem and retire more than \$100,000,000 of now outstanding bonds

9. The net proceeds obtained from the loans evidenced by each Loan Agreement will be used to refund bonds of the Authority that were issued to refund bonds previously issued to finance a portion of the cost of acquiring, constructing and installing the Facilities. The Company proposes to charge the expenses incident to the issue and sale of the Authority's Bonds to Unamortized Debt Expense and to amortize equitably over the first five years (i.e. those years prior to the Put Right) of the Authority's Bonds the expenses.

10. In support of this Application, DP&L attaches the following exhibits\*:

Exhibit A – Statements of Operations for the years ended December 31, 2014, 2013 and 2012.

Exhibit B – Balance Sheets as of December 31, 2014 and 2013.

Exhibit C – Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012.

\* The following additional exhibits will be filed as a supplement to this Application when available:

Exhibit D – Form of Loan Agreement between Ohio Air Development Authority and The Dayton Power and Light Company (Air Bonds Series A).

Exhibit E – Form of Loan Agreement between Ohio Air Quality Development Authority and The Dayton Power and Light Company (Air Bonds Series B).

Exhibit F – Form of the Forty-eighth Supplemental Indenture between the Company and The Bank of New York Mellon, as Trustee (Air Bonds Series A).

Exhibit G– Form of the Forty-ninth Supplemental Indenture between the Company and The Bank of New York Mellon, as Trustee (Air Bonds Series B).

Exhibit H – Form of the Trust Indenture between Ohio Air Development Authority and the Indenture Trustee (Air Bonds Series A).

Exhibit I– Form of the Trust Indenture between Ohio Air Quality Development Authority and the Indenture Trustee (Air Bonds Series B).

In addition, the Company will file, when available, the form of Covenant Agreement all other relevant documents and required information when finalized.

WHEREFORE, the Company respectfully requests that the Commission expeditiously approve of this Application and issue an Order:

(a) Authorizing the Company to borrow a total sum not to exceed \$210,000,000 from the Ohio Air Quality Development Authority and execute and deliver two or more Loan Agreements between the Company and the Authority for the purpose of refunding bonds issued to refund bonds originally issued to finance a portion of the cost of the acquisition, construction and installation of the Facilities;

(b) Authorizing the Company to issue and deliver to the Authority its First Mortgage Bonds corresponding to the Authority's Bonds in respect of principal amount, interest rate, maturity (not to exceed 30 years) and redemption provisions to secure its obligations to repay its borrowings pursuant to said Loan Agreements;

(c) Authorizing the Company to amortize equitably over the first five years (i.e. those years prior to the Put Right) of the Authority's Bonds the expenses related to the proposed transaction;

(d) Finding that an initial interest rate of approximately 1.20% and not to exceed 2.00% (but which is variable and subject to change) is reasonable under current market conditions for short term tax exempt bonds and that the cash proceeds from the issuance of the Authority's Bonds collateralized by the Company's First Mortgage Bonds are reasonably required for the purpose of assisting in refunding bonds issued to refund bonds originally issued to finance a portion of the cost of the acquisition, construction and installation of the Facilities;

(e) The Company further requests that an Order be issued granting this Application on an expedited basis on or before May 15, 2015 together with such other and further Orders as may be proper, so as to permit the Company to close these transactions described above in a timely manner and on the timeline expected by other parties to the transactions.

IN WITNESS WHEREOF, The Dayton Power and Light Company, by the Chief Financial Officer, has caused this Application to be executed on its behalf this 1<sup>st</sup> day of April, 2015.

THE DAYTON POWER AND LIGHT COMPANY

By Craig L. Jackson  
Craig L. Jackson, Chief Financial Officer

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Attorneys for  
The Dayton Power and Light Company

STATE OF INDIANA, COUNTY OF MARION, SS:

Before me, a Notary Public in and for the County and State aforesaid, personally came Craig L. Jackson, who being duly sworn, says that he is the Chief Financial Officer of The Dayton Power and Light Company, that he did sign the foregoing Application, and that the statements contained therein are true as he verily believes.

Sworn to before me and subscribed in my presence this 1<sup>st</sup> day of April, 2015.



Terri L. Simpson  
Notary Public



## Exhibit A

**THE DAYTON POWER AND LIGHT COMPANY**  
**STATEMENTS OF OPERATIONS**

\$ in millions	Year ended December 31,		
	2014	2013	2012
<b>Revenues</b>	\$ 1,668.3	\$ 1,551.5	\$ 1,531.8
<b>Cost of revenues:</b>			
Fuel	314.9	362.5	354.9
Purchased power	582.4	381.9	309.5
Total cost of revenues	897.3	744.4	664.4
<b>Gross margin</b>	771.0	807.1	867.4
<b>Operating expenses:</b>			
Operation and maintenance	353.2	362.1	385.9
Depreciation and amortization	144.8	140.2	141.3
General taxes	87.7	76.4	74.4
Fixed asset impairment	-	86.0	80.8
Other	(3.5)	2.5	0.2
Total operating expenses	582.2	667.2	682.6
<b>Operating income</b>	188.8	139.9	184.8
<b>Other income / (expense), net</b>			
Investment income	0.9	2.0	2.3
Interest expense	(33.9)	(37.2)	(39.1)
Other deductions	(1.1)	(2.5)	(1.7)
Total other expense, net	(34.1)	(37.7)	(38.5)
<b>Earnings (loss) from operations before income tax</b>	154.7	102.2	146.3
Income tax expense	39.7	18.6	55.1
<b>Net income</b>	115.0	83.6	91.2
Dividends on preferred stock	0.9	0.9	0.9
<b>Earnings on common stock</b>	\$ 114.1	\$ 82.7	\$ 90.3

See Notes to Financial Statements.



**THE DAYTON POWER AND LIGHT COMPANY**  
**STATEMENTS OF COMPREHENSIVE INCOME**

\$ in millions	Year ended December 31,		
	2014	2013	2012
<b>Net income</b>	<b>\$ 115.0</b>	<b>\$ 83.6</b>	<b>\$ 91.2</b>
<b>Available-for-sale securities activity:</b>			
Change in fair value of available-for-sale securities, net of income tax benefit / (expense) of \$0.2, \$0.9 and \$(0.2) for each respective period	(0.3)	(1.6)	0.5
Reclassification to earnings, net of income tax benefit / (expense) of \$(0.2), \$(0.7) and \$0.0 for each respective period	0.2	1.4	(0.1)
Total change in fair value of available-for-sale securities	(0.1)	(0.2)	0.4
<b>Derivative activity:</b>			
Change in derivative fair value, net of income tax benefit / (expense) of \$10.5, \$(0.6) and \$1.6 for each respective period	(18.8)	1.0	(3.0)
Reclassification of earnings, net of income tax benefit / (expense) of \$(11.5), \$(2.5) and \$0.5 for each respective period	15.4	2.6	(3.4)
Total change in fair value of derivatives	(3.4)	3.6	(6.4)
<b>Pension and postretirement activity:</b>			
Prior service cost for the period, net of income tax benefit / (expense) of \$0.0, \$(0.2) and \$(0.5) for each respective period	-	0.5	0.8
Net loss for the period, net of income tax benefit / (expense) of \$6.9, \$(1.9) and \$0.8 for each respective period	(12.1)	4.3	(1.5)
Reclassification to earnings, net of income tax benefit / (expense) of \$0.0, \$(1.9) and \$(1.5) for each respective period	-	3.8	2.7
Total change in unfunded pension and postretirement obligation	(12.1)	8.6	2.0
<b>Other comprehensive income / (loss)</b>	<b>(15.6)</b>	<b>12.0</b>	<b>(4.0)</b>
<b>Net comprehensive income</b>	<b>\$ 99.4</b>	<b>\$ 95.6</b>	<b>\$ 87.2</b>

See Notes to Financial Statements.

## Exhibit B

**THE DAYTON POWER AND LIGHT COMPANY**  
**BALANCE SHEETS**

\$ in millions	December 31, 2014	December 31, 2013
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 5.4	\$ 22.9
Restricted cash	16.7	13.0
Accounts receivable, net (Note 2)	152.7	147.5
Inventories (Note 2)	99.0	81.7
Taxes applicable to subsequent years	75.4	68.5
Regulatory assets, current (Note 3)	44.2	20.8
Other prepayments and current assets	41.1	32.5
Total current assets	<u>434.5</u>	<u>386.9</u>
<b>Property, plant and equipment:</b>		
Property, plant and equipment	5,120.7	5,105.3
Less: Accumulated depreciation and amortization	<u>(2,495.7)</u>	<u>(2,448.1)</u>
	2,625.0	2,657.2
Construction work in process	75.4	60.9
Total net property, plant and equipment	<u>2,700.4</u>	<u>2,718.1</u>
<b>Other non-current assets:</b>		
Regulatory assets, non-current (Note 3)	167.5	159.7
Intangible assets, net of amortization (Note 1)	7.8	8.3
Other deferred assets	28.5	40.1
Total other non-current assets	<u>203.8</u>	<u>208.1</u>
<b>Total Assets</b>	<b>\$ <u>3,338.7</u></b>	<b>\$ <u>3,313.1</u></b>

See Notes to Financial Statements.

**THE DAYTON POWER AND LIGHT COMPANY  
BALANCE SHEETS**

\$ in millions	December 31, 2014	December 31, 2013
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b>Current liabilities:</b>		
Current portion - long-term debt (Note 5)	\$ 0.1	\$ 0.2
Accounts payable	104.8	73.9
Accrued taxes	82.6	81.0
Accrued interest	9.8	9.6
Customer security deposits	34.5	33.1
Regulatory liabilities, current (Note 3)	4.4	-
Other current liabilities	44.8	59.7
Total current liabilities	<u>281.0</u>	<u>257.5</u>
<b>Non-current liabilities:</b>		
Long-term debt (Note 5)	877.0	876.9
Deferred taxes (Note 6)	650.0	632.3
Taxes payable	78.4	76.5
Regulatory liabilities, non-current (Note 3)	124.1	121.1
Pension, retiree and other benefits (Note 7)	95.9	51.6
Unamortized investment tax credit	22.4	24.9
Other deferred credits	43.6	45.4
Total non-current liabilities	<u>1,891.4</u>	<u>1,828.7</u>
<b>Redeemable preferred stock (Note 10)</b>	<b>22.9</b>	<b>22.9</b>
Commitments and contingencies (Note 12)		
<b>Common shareholder's equity:</b>		
Common stock, par value of \$0.01 per share	0.4	0.4
250,000,000 shares authorized, 41,172,173 shares issued and		
Other paid-in capital	803.5	803.5
Accumulated other comprehensive loss	(42.3)	(26.7)
Retained earnings	381.8	426.8
Total common shareholder's equity	<u>1,143.4</u>	<u>1,204.0</u>
<b>Total Liabilities and Shareholder's Equity</b>	<b>\$ <u>3,338.7</u></b>	<b>\$ <u>3,313.1</u></b>

See Notes to Financial Statements.

**THE DAYTON POWER AND LIGHT COMPANY**  
**STATEMENTS OF CASH FLOWS**

\$ in millions	Year ended December 31,		
	2014	2013	2012
<b>Cash flows from operating activities:</b>			
Net income	\$ 115.0	\$ 83.6	\$ 91.2
Adjustments to reconcile Net income (loss) to			
Net cash from operating activities			
Depreciation and amortization	144.8	140.2	141.3
Deferred income taxes	7.5	(16.8)	3.6
Fixed-asset impairment	-	86.0	80.8
Loss / (Gain) on asset disposal	(3.5)	2.5	0.2
Recognition of deferred SECA revenue	-	-	(17.8)
Changes in certain assets and liabilities:			
Accounts receivable	(7.1)	15.0	20.9
Inventories	(24.6)	27.2	14.2
Prepaid taxes	(1.1)	0.4	0.1
Taxes applicable to subsequent years	(6.9)	(1.8)	5.2
Deferred regulatory costs, net	5.4	7.8	(1.5)
Accounts payable	32.4	(5.9)	(15.3)
Accrued taxes payable	9.0	(9.1)	(8.5)
Accrued interest payable	0.1	(3.4)	5.2
Other current and deferred liabilities	(18.1)	5.9	(22.1)
Pension, retiree and other benefits	19.1	1.8	28.5
Unamortized investment tax credit	(2.5)	(2.5)	(2.5)
Other	(17.8)	4.4	16.3
<b>Net cash from operating activities</b>	<b>251.7</b>	<b>335.3</b>	<b>339.8</b>
<b>Cash flows from investing activities:</b>			
Capital expenditures	(114.2)	(122.1)	(195.5)
Decrease / (increase) in restricted cash	(3.7)	(2.3)	2.9
Purchase of renewable energy credits	(3.5)	(3.9)	(5.4)
Proceeds from sale of property	10.7	0.8	0.2
Insurance proceeds	0.9	14.2	-
Other investing activities, net	1.3	(1.2)	0.3
<b>Net cash from investing activities</b>	<b>(108.5)</b>	<b>(114.5)</b>	<b>(197.5)</b>



**THE DAYTON POWER AND LIGHT COMPANY**  
**STATEMENTS OF CASH FLOWS (continued)**

Year ended December 31,

\$ in millions	2014	2013	2012
<b>Cash flows from financing activities</b>			
Dividends paid on common stock to parent	(159.0)	(190.0)	(145.0)
Dividends paid on preferred stock	(0.9)	(0.9)	(0.9)
Retirement of long-term debt	(0.1)	(470.1)	(0.1)
Issuance of long-term debt	-	445.0	-
Deferred financing costs	(0.7)	(10.4)	-
Borrowings from related party	15.0	-	-
Repayment of borrowings from related party	(15.0)	-	-
<b>Net cash from financing activities</b>	<b>(160.7)</b>	<b>(226.4)</b>	<b>(146.0)</b>
<b>Cash and cash equivalents:</b>			
Net change	(17.5)	(5.6)	(3.7)
Balance at beginning of period	22.9	28.5	32.2
<b>Cash and cash equivalents at end of period</b>	<b>\$ 5.4</b>	<b>\$ 22.9</b>	<b>\$ 28.5</b>
<b>Supplemental cash flow information:</b>			
Interest paid, net of amounts capitalized	\$ 26.6	\$ 41.5	\$ 35.1
Income taxes (refunded) / paid, net	\$ 0.7	\$ (20.3)	\$ 61.9
Non-cash financing and investing activities:			
Accruals for capital expenditures	\$ 16.3	\$ 14.7	\$ 16.7

See Notes to Financial Statements.

**This foregoing document was electronically filed with the Public Utilities**

**Commission of Ohio Docketing Information System on**

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**Case No(s). 15-0634-EL-AIS**

Summary: Application In The Matter of the Application of the Dayton Power and Light Company for Authority to Borrow and Amount not to Exceed \$210,000,000 from the Ohio Air Quality Development Authority and for the Authority to issues and deliver not more than \$210,000,000 principal amount of first mortgage bonds, as security and request for expedited treatment. electronically filed by Ms. Jenna C. Johnson on behalf of The Dayton Power and Light Company