

**PUBLIC**

**BEFORE THE**

**PUBLIC UTILITIES COMMISSION OF OHIO**

**THE DAYTON POWER AND LIGHT COMPANY**

**CASE NO. 16-0395-EL-SSO**

**CASE NO. 16-0396-EL-ATA**

**CASE NO. 16-0397-EL-AAM**

**DIRECT TESTIMONY  
OF R. JEFFREY MALINAK**

**IN SUPPORT OF STIPULATION**

**AND RECOMMENDATION**

- ☐ **MANAGEMENT POLICIES, PRACTICES, AND ORGANIZATION**
- ☐ **OPERATING INCOME**
- ☐ **RATE BASE**
- ☐ **ALLOCATIONS**
- ☐ **RATE OF RETURN**
- ☐ **RATES AND TARIFFS**
- ☒ **OTHER**

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1

2 **I. INTRODUCTION**

3 **Q. Please state your name and business address.**

4 A. My name is R. Jeffrey Malinak. I am currently a Managing Principal in the Washington,  
5 D.C. office of Analysis Group, Inc., a national economic and financial consulting  
6 services firm. My business address is 800 17<sup>th</sup> Street NW, Washington, DC 20006.

7 **Q. What is the purpose of your testimony?**

8 A. The purpose of this Testimony is to evaluate whether the Electric Security Plan ("ESP")  
9 Stipulation and Recommendation ("Stipulation") that The Dayton Power and Light  
10 Company ("DP&L"), its parent DPL Inc. ("DPL") (collectively, the "Companies") and  
11 various other parties signed passes the more favorable in the aggregate test ("MFA  
12 Test").

13 **Q. What is your educational and work background?**

14 A. I have over 25 years of experience in the field of economic and financial consulting, in  
15 which I have provided microeconomic, finance and accounting consulting advice and  
16 other services to attorneys and companies in both litigation and non-litigation settings.  
17 My main areas of expertise are financial economics and valuation of corporations and  
18 other assets. I spent approximately seven years of my career at Putnam, Hayes & Bartlett,  
19 Inc. (PHB), an economic and financial consulting firm with large consulting practices in  
20 the energy industry and other regulated industries. While at PHB, approximately half of  
21 my time was spent on litigation matters and regulatory proceedings, including rate cases,  
22 in the electric utility and energy sectors. My work on these matters included revenue

1 requirements modeling; analysis of the economics of coal mining and transportation;  
2 analysis of the operations and economics of nuclear, coal, wood scrap, and natural gas  
3 power plants; forecasting of load and related generation capacity requirements;  
4 assessment of the cost of capital for generation and for transmission and distribution  
5 (both electric and natural gas); calculation of the cost of compliance with environmental  
6 regulations; modeling and forecasting of emission allowance prices; and other topics.  
7 Since joining Analysis Group in the mid-1990s, I have continued to work on projects in  
8 the energy and environmental economics areas, including regulatory matters.

9 I hold a Master's in Business Administration in Finance and Accounting from the  
10 University of Texas at Austin and a B.A. in Social Sciences from Stanford University.  
11 My resume, which is included as Appendix A, provides more details on my background  
12 and prior experience.

13 **Q. Have you previously testified before the Public Utilities Commission of Ohio?**

14 A. Yes. I testified on behalf of DP&L in Case No. 12-426-EL-SSO.

15 **Q. How does your experience relate to your testimony in this proceeding?**

16 A. As noted above, I testified before the PUCO in Case No. 12-426-EL-SSO et al. My  
17 testimony in that case focused on the more favorable in the aggregate test, which is the  
18 issue I address here. Also in that case, I provided support to Dr. William Chambers, who  
19 testified on the financial integrity and financial condition of DP&L. I also provided  
20 rebuttal testimony on these latter two issues. More generally, I have substantial prior  
21 experience with analysis of economic and financial issues in the energy sector and with

1 the analysis of the economic impact of different rate regimes on various stakeholders,  
2 including customers.

3 **Q. Considering all terms and conditions of the Stipulation, is the Stipulation more**  
4 **favorable in the aggregate as compared to the results expected under a market rate**  
5 **offer (“MRO”)?**

6 A. Yes. The Stipulation is more favorable in the aggregate as compared to the results that  
7 would be expected under a hypothetical MRO. More specifically, the Stipulation would  
8 be superior to an MRO due to (a) quantifiable benefits totaling at least \$11.5 million over  
9 the life of the Stipulation that would not be available under an MRO, and (b) significant  
10 non-quantifiable benefits, derived, in particular, from more rapid and robust grid  
11 modernization, and commitments from AES regarding dividends and tax payments that  
12 are projected to provide approximately \$ [REDACTED] million in additional cash flow available for  
[REDACTED] debt service and improving the Company’s overall financial health. [REDACTED]

[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

19 [REDACTED] Thus, under an MRO without the non-bypassable financial  
20 integrity and distribution investment recovery charges, the Companies would be in  
21 financial distress and have a significantly increased risk of default, with its attendant  
22 disruption of operations and diversion of management time. Under these conditions,

1 DP&L's ability to provide safe and reliable service to its customers would be in peril, as  
2 would its ability to invest in grid modernization.

3 **Q. What are the key elements of the Stipulation that you consider in this Testimony?**

4 A. The Stipulation provides for an ESP with the following characteristics:

- 5 • a six-year term,
- 6 • a five-year \$90 million annual non-bypassable Distribution Modernization Rider  
7 ("DMR"), which will be used to maintain DP&L's financial integrity to allow it  
8 to continue to provide safe and reliable service to its customers, and "position  
9 DP&L to make capital expenditures to modernize and/or maintain DP&L's  
10 transmission and distribution infrastructure,"<sup>1</sup>
- 11 • a five-year \$35 million (plus depreciation) annual non-bypassable Distribution  
12 Investment Rider ("DIR-B"),<sup>2</sup> which "will be used to implement back-bone  
13 infrastructure projects designed to enable and support a longer term Smart Grid  
14 and Advanced Metering Infrastructure (AMI) roll out."<sup>3</sup>
- 15 • a six-year non-bypassable charge expected to be approximately [REDACTED]  
16 million annually to recover the net costs of DP&L's investment in the Ohio  
17 Valley Electric Cooperative facilities ("Reconciliation Rider"), and
- 18 • other terms and conditions, including other rate riders, a guarantee by the  
19 Companies that DPL Inc. will not pay dividends to AES Corporation ("AES")

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<sup>1</sup> Stipulation, pp. 5-6.

<sup>2</sup> DP&L has agreed to forego including a return on this investment in its rates until 2022. Stipulation II.2.d.

<sup>3</sup> Stipulation, p. 7.

1 and that AES will continue to forego tax payments from DPL, and miscellaneous  
2 provisions providing benefits to customers and specific customer groups.

3 **Q. Could you please describe the nature of the DIR-B in more detail?**

4 A. Yes. The DIR-B is similar to the DMR in that it will add to DP&L's revenues and cash  
5 flow, thereby supporting the Companies' financial condition and integrity. This improved  
6 financial integrity will enable DP&L to provide safe and reliable service to its customers,  
7 as well as support the Company's efforts to invest in grid modernization. However, the  
8 DIR-B differs from the DMR in that DP&L is required by the Stipulation to invest the  
9 proceeds from this charge, or approximately \$35 million per year, plus depreciation,  
10 directly in its transmission and distribution grid.

11 **Q. Do the DIR-B, DMR and Reconciliation Rider enhance DP&L's financial integrity  
12 and provide a more robust grid for customers?**

13 A. Yes. As described later in this Testimony, the DIR-B, DMR and Reconciliation Rider  
14 combine to produce an indicated credit rating for DP&L that is [REDACTED] for the  
15 entire Stipulation period. For DPL, the combined charges produce indicated debt ratings  
[REDACTED] that are a significant improvement over its ratings without these charges, [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

20 [REDACTED] Any

21 reduction or elimination of the DIR-B, DMR and/or Reconciliation Rider would risk  
22 further credit rating declines and financial distress for the Companies. This, in turn, could

1       jeopardize DP&L's ability to provide safe and reliable service to its customers, while at  
2       the same time depriving the firm of funds to build a more robust grid to enable grid  
3       modernization.

4       **Q.    Does the Commission use any specific test to determine whether an ESP should be**  
5       **approved?**

6       A.    Yes, the Commission must find that the ESP "is more favorable in the aggregate as  
7       compared to the expected results that would otherwise apply under [an MRO],"<sup>4</sup> which I  
8       refer to as the "MFA Test."

9       **Q.    Do prior Commission decisions provide guidance on how to interpret the MFA**  
10       **Test?**

11      A.    Yes. In prior rulings in which the Commission has decided that ESPs met this "more  
12      favorable in the aggregate" test, the Commission has taken a broad view of the expected  
13      effects of the different rate regimes to consider when performing this test, including  
14      (a) quantifiable differences in the prices to be charged to customers for electric  
15      generation service under each rate regime (Aggregate Price Test), (b) other quantifiable  
16      differences in customer charges (or, potentially, metrics of customer service), and  
17      (c) non-quantifiable differences.<sup>5</sup> This last category potentially includes a wide range of  
18      impacts, including expected short- and long-run effects on price, service quality,  
19      reliability and the range of product offerings. These differences also support broader

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<sup>4</sup> R.C. 4928.143(C)(1).

<sup>5</sup> Public Utilities Commission of Ohio, Opinion and Order, Case No. 11-346-EL-SSO, August 8, 2012; Public Utilities Commission of Ohio, Opinion and Order, Case No. 12-1230-EL-SSO, July 18, 2012; Public Utilities Commission of Ohio, Opinion and Order, Case No. 12-426-EL-SSO, September 4, 2013.



1 effects on Ohio's economy through the impact of electric rates and services to business  
2 and industry within the state.

3 Reflecting this broad perspective, my assessment of the MFA requirement considers  
4 multiple quantifiable and non-quantifiable characteristics of the Stipulation versus those  
5 of a hypothetical alternative MRO.

6 **Q. What assumptions do you make about the MRO, to which you compare the**  
7 **Stipulation?**

8 **A.** I consider two possible MRO scenarios.

9 1. First, I assume that non-bypassable financial integrity and/or distribution  
10 investment charges, similar to the DMR, DIR-B and Reconciliation Rider in the  
11 Stipulation, would be available under an MRO or recoverable through a  
12 distribution rate case, and thus would be requested and/or implemented by the  
13 company.<sup>6</sup> Such charges would have much the same effect on the Companies'  
14 financial results and integrity as the DMR, DIR-B and Reconciliation Rider under  
15 the Stipulation. Thus, it is reasonable to assume that the financial integrity and  
16 distribution investment charges that the PUCO would approve under an MRO or  
17 that DP&L could recover through a distribution rate case would be approximately  
18 the same size as the DMR, DIR-B and Reconciliation Rider in the Stipulation. I

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<sup>6</sup> I understand that the DMR, a financial integrity charge, may be explicitly recoverable under an MRO. In addition, I understand further that charges to customers such as the DIR-B and the Reconciliation Rider in the Stipulation also would be recoverable from customers under an MRO, with the possible exception of the Renewable Investment commitment (discussed below). While the MRO statute itself may not authorize recovery of those costs specifically, if DP&L had filed for an MRO, it could make those investments and seek to recover those costs in a distribution rate case or in another proceeding.

1 understand that this assumption is consistent with the PUCO's recent Order in the  
2 First Energy case.

3 2. Second, I assume that the MRO would not include the DMR, DIR-B,  
4 Reconciliation Rider, or any similar non-bypassable integrity and/or distribution  
5 investment recovery charges. This assumption would be relevant were the  
6 Commission to find that such charges are not allowable under an MRO.

7 **Q. What elements have you considered in your comparison of the two alternative**  
8 **plans?**

9 A. I first perform an Aggregate Price Test, which compares rates and charges to customers  
10 that choose DP&L's Standard Service Offer (SSO) under the Stipulation as compared to  
11 the rates and charges that they would pay if they chose the SSO under an MRO.

12 Second, I consider other differences between the Stipulation and an MRO that are  
13 meaningful, but whose effects are difficult or impossible to quantify accurately. These  
14 include a range of effects, such as the impact on the reliability of electricity service,  
15 assuring that DP&L has access to credit on reasonable terms to facilitate borrowing to  
16 support grid modernization and other necessary business operations, including expanding  
17 the services offered to its customers and the benefit of certain guarantees and concessions  
18 provided by the Companies under the Stipulation that I understand would not be present  
19 under an MRO.

1    **II.    AGGREGATE PRICE TEST FOR THE STIPULATION**

2    **Q.    What is the Aggregate Price Test?**

3    A.    The Aggregate Price Test is a comparison of the projected prices and charges to  
4           customers under the Stipulation as compared to an MRO. The Aggregate Price Test  
5           reflects a comparison of both bypassable and non-bypassable charges. Bypassable  
6           charges are charges that are paid only by customers that choose DP&L's SSO. Thus,  
7           customers who choose to take generation service from a Competitive Retail Electric  
8           Service ("CRES") provider "bypass" these charges. Non-bypassable charges are charges  
9           paid by all customers that receive distribution service from DP&L.

10   **Q.    Please describe the comparison of bypassable charges.**

11   A.    Under both the Stipulation and an MRO, bypassable rates beginning in 2017 will reflect  
12           the Competitive Bidding Plan ("CBP") rate, which reflects the projected results of  
13           competitive bidding for the opportunity to supply DP&L's retail customers.  
14           Consequently, the bypassable portion of SSO rates will be the same under both the MRO  
15           and Stipulation.

16   **Q.    Do you also consider non-bypassable customer charges?**

17   A.    Yes. The Aggregate Price Test explicitly considers non-bypassable charges, such as the  
18           DMR, the DIR-B and the Reconciliation Rider included in the Stipulation. Over the  
19           period of the stipulated ESP, the DMR totals \$450 million (\$90 million x 5 years), the  
20           DIR-B totals \$207.5 million, and the Reconciliation Rider totals approximately [REDACTED]  
21           [REDACTED]. As noted above, I consider two versions of the MRO, one of which  
22           assumes that financial integrity or investment charges, such as the DMR, DIR-B or

1 Reconciliation Rider, would be available under an MRO, and one that assumes such  
2 charges would not be available.

3 **Q. Please describe your Aggregate Price Test under the first version of the MRO.**

4 A. Under this version of the MRO, I assume that all three non-bypassable financial integrity  
5 and distribution investment recovery charges in the Stipulation, i.e., the DMR, DIR-B  
6 and Reconciliation Rider, would be available under an MRO and would be sought by  
7 DP&L in order to maintain its financial integrity and invest in grid modernization.

8 If the hypothetical MRO also includes these three charges, then they would have the  
9 same cost under the MRO as under the Stipulation, resulting in a neutral outcome, or a  
10 “wash” in the Aggregate Price Test. Therefore, as discussed below, the results of the  
11 MFA Test under the first version of the MRO will depend on other quantifiable and non-  
12 quantifiable costs and benefits of the stipulated ESP relative to an MRO.

13 **Q. Please describe your Aggregate Price Test under the second version of the MRO.**

14 A. I assume that the non-bypassable financial integrity and/or distribution investment  
15 recovery charges would not be available under the second version of the hypothetical  
16 MRO. If the MRO did not include the non-bypassable DMR, DIR-B and Reconciliation  
17 Rider, the stipulated ESP would be \$ [REDACTED] more  
18 expensive (in nominal terms) than the MRO. Because these charges occur over time, and  
19 the benefits to customers are in the future, I also consider a present value calculation to  
20 account for the timing and uncertainty of those payments. The appropriate discount rate  
21 for the projected future payments depends on their risk. As an indicator for this risk, I  
22 consider discount rates ranging from 4 percent to 12 percent.

1 Based on this range of discount rates, the present value of the six-year stream of non-  
2 bypassable payments ranges from \$ [REDACTED] million with the 4 percent discount rate to \$ [REDACTED]  
3 million with the 12 percent discount rate (Exhibit RJM-1). Hence, if the MRO does not  
4 include an average of approximately [REDACTED] million per year for the first five years of the  
5 stipulated ESP for the DMR, DIR-B and Reconciliation Rider, the stipulated ESP is more  
6 expensive than the MRO under the Aggregate Price Test. Thus, an assessment of whether  
7 the Stipulation is more favorable in the aggregate will hinge on whether the value of its  
8 other, non-quantifiable benefits as compared to an MRO exceeds the present value of its  
9 increased cost (\$ [REDACTED] million), as well as any non-quantifiable costs of the  
10 stipulated ESP as compared to an MRO.

11 **Q. Did you quantify any of the other non-bypassable customer charges as part of the**  
12 **Aggregate Price Test?**

13 **A.** No. DP&L has proposed several other non-bypassable charges such as the DIR-A, Storm  
14 Cost Recovery Rider and the Regulatory Compliance Rider (RCR) that I do not explicitly  
15 address in my analysis. These charges largely reflect either pass-through of various costs  
16 to customers or the recovery of costs of distribution investment that would otherwise be  
17 present in both the proposed stipulated ESP and a hypothetical MRO (through the MRO  
18 itself, a distribution rate case, or other proceeding). Consequently, they have no impact  
19 on the Aggregate Price Test.

1 **III. OTHER QUANTIFIABLE EFFECTS OF THE STIPULATION**  
2 **RELATIVE TO AN MRO**

3 **Q. Have you performed any analyses of quantifiable benefits of the Stipulation versus**  
4 **an MRO?**

5 **A. Yes. The Stipulation includes a number of other quantifiable benefits that would not be**  
6 **available under an MRO but that are available to individual signatory parties and other**  
7 **customers under the Stipulation.<sup>7</sup>**

8 1. Under the Stipulation, DP&L agreed to make economic development payments,  
9 including an Economic Development grant fund of \$1 million annually, to be  
10 used by customers within DP&L's service territory for energy programs and  
11 infrastructure, and \$2 million over the term of a Stipulation for economic  
12 development, technical assistance, and implementation, studies, workforce  
13 development and other development purposes.

14 2. DP&L will provide \$50,000 annually for energy education and reduction  
15 programs in the City of Dayton. During the first year, DP&L shareholders will  
16 fund the \$50,000 annual spending. In subsequent years of the term of the  
17 Stipulation, this spending would be recovered through a rate rider. However, if  
18 the rider is not approved by the PUCO, then shareholders are committed to  
19 making the subsequent payments.

20 3. DP&L will contribute \$100,000 annually (no more than 5 payments total) to pay  
21 up to 50 percent of a property owner's escrow reserve requirement and \$50,000

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<sup>7</sup> Stipulation, pp. 12-13, 29-37.

1           annually (no more than 5 payments total) to a revolving loan fund to support  
2           energy upgrades for small and micro businesses. During the first year,  
3           shareholders will fund this \$150,000 in annual spending. In subsequent years of  
4           the term of the stipulated ESP, this spending would be recovered through a rate  
5           rider. However, if the rider is not approved by the PUCO, then shareholders are  
6           committed to making the subsequent payments.

7           4. DP&L will provide and install necessary equipment on the DP&L side of the  
8           meter to support system safety and reliable service at the Dayton International  
9           Airport. DP&L will pay the cost of making those improvements, up to \$50,000,  
10          after which the City will pay the remainder.

11          5. DP&L will contribute \$200,000 annually for up to five years to assist the City of  
12          Dayton in providing economic development programs and providing essential city  
13          services to residents.

14          6. DP&L will contribute \$565,000 of shareholder dollars annually to benefit electric  
15          consumers at or below 200 percent of the federal poverty line or customers at risk  
16          of losing electric service.

17          7. DP&L will provide the Ohio Hospital Association ("OHA") \$200,000 annually to  
18          promote energy/demand savings among OHA members. During the first year, the  
19          \$200,000 in funding for OHA will be funded by DP&L shareholders. In  
20          subsequent years of the term of the stipulated ESP, this spending would be  
21          recovered through a rate rider. However, if the rider is not approved by the  
22          PUCO, then shareholders are committed to making the subsequent payments.

1           8. The Company will provide People Working Cooperatively, Inc. ("PWC")  
2           \$200,000 annually to fund its programs to assist DP&L's low-income, elderly,  
3           and disabled customers. During the first year, the \$200,000 in funding for PWC  
4           will be funded by shareholders. In subsequent years of the term of the stipulated  
5           ESP, this spending would be recovered through a rate rider. However, if the rider  
6           is not approved by the PUCO, then shareholders are committed to making the  
7           subsequent payments.

8           As shown in Exhibit RJM-20, these agreed-upon payments from "shareholders" would  
9           total at least \$11.5 million over five years, representing net quantifiable benefits of the  
10          stipulated ESP relative to an MRO. This total represents the low end of the quantifiable  
11          benefits because it assumes that funding after the first year will be provided through rate  
12          riders for several of the programs. If any of these riders are not approved, these  
13          quantifiable benefits from the stipulated ESP relative to an MRO could be significantly  
14          higher.

15    **IV. OTHER, NON-QUANTIFIABLE EFFECTS OF THE STIPULATION**  
16    **AND MRO**

17    **Q.    What are your principal conclusions regarding non-quantifiable benefits under the**  
18    **stipulation versus an MRO?**

19    **A.    Under the logical assumption, described above, that the PUCO would approve the three**  
20    **non-bypassable financial integrity and distribution investment recovery charges under an**  
21    **MRO (or in a distribution rate case) as well as under the stipulated ESP, the Aggregate**  
22    **Price Test would result in a wash. That is, the Stipulation and MRO would have the same**  
23    **quantifiable rate impact on customers. In that case, the non-quantifiable benefits of the**



1       Stipulation, particularly the commitment to rapid grid modernization, as well as the  
2       dividend and foregone tax payment guarantees from AES, none of which would be  
3       available under an MRO, would make the Stipulation significantly more favorable in the  
4       aggregate than an MRO.

5       The Stipulation also would be more favorable in the aggregate than an MRO without the  
6       non-bypassable financial integrity and distribution investment recovery charges due to  
7       the non-quantifiable, but significant and real, adverse effects that DP&L and its  
8       customers would suffer without such charges. In such a scenario, DP&L would have  
9       insufficient funds to provide safe and stable service to its customers, much less invest in  
10      grid modernization. The adverse effects on customers in this case would be substantial  
11      and, in my opinion, clearly would exceed the quantifiable costs of the three non-  
12      bypassable charges. In addition, the Stipulation with the DMR, DIR-B and Reconciliation  
13      Rider would have other non-quantifiable benefits that are not available under an MRO.  
14      Such non-quantifiable benefits include the AES agreements not to collect dividends or  
15      tax payments from DPL during the terms of the DMR and DIR-B, as well as a number of  
16      other commitments by the Companies in the Stipulation related to renewable energy,  
17      rapid and significant investment in grid modernization, the location of DP&L's operating  
18      headquarters in Dayton, and other items. Thus, the Stipulation would be more favorable  
19      in the aggregate than an MRO under my second MRS scenario as well.

1   **Q.    Have you examined DPL and DP&L's financial condition and integrity with and**  
2       **without charges such as the DMR, DIR-B and Reconciliation Rider in the**  
3       **Stipulation?**

4   A.    Yes. The results of this analysis are contained in Exhibits RJM-2 to RJM-5. These  
5       Exhibits are based on an analysis of financial projections for DPL and DP&L with and  
6       without the DMR, DIR-B and Reconciliation Rider included in revenues and cash flow.

7   **Q.    Why have you performed this analysis as part of your comparison of the Stipulation**  
8       **to a hypothetical MRO?**

9   A.    Because one of the critical benefits the Stipulation is that it includes non-bypassable  
10       financial integrity and distribution investment recovery charges, i.e., the DMR, DIR-B  
11       and Reconciliation Rider, that are designed to ensure that DP&L can maintain its  
12       financial integrity and continue to provide safe and reliable service to its customers, as  
13       well as to invest in grid modernization. Given the Companies' current financial condition,  
14       a rigorous analysis of the financial condition and integrity of DPL and DP&L with and  
15       without these three charges is a critical part of any MFA assessment. The results of my  
16       analysis, described below, show that (a) under an MRO without such charges, DP&L and  
17       DPL would experience financial distress, thereby imperiling DP&L's ability to provide  
18       safe and reliable service and invest in grid modernization, and (b) under the Stipulation  
19       that includes those charges, DP&L would be able to maintain its financial integrity,  
20       which would allow it to achieve its service and grid modernization goals.

V. **FINANCIAL CONDITION AND INTEGRITY OF DPL and DP&L  
WITH AND WITHOUT THE DMR, DIR-B AND RECONCILIATION  
RIDER**

A. **INTRODUCTION**

Q. What do you mean by the terms “financial condition” and “financial integrity?”

A. I use the term “financial condition” to refer to an assessment of general financial health based on a number of financial variables ranging from income statement items, such as revenue growth, profitability and cash flow, to balance sheet items, such as the amount of liquid assets, amount and types of liabilities, debt-to-capital ratios and other financial ratios.

I use the term “financial integrity” to refer more specifically to an assessment of the likelihood of default, i.e., a credit-risk assessment. Thus, one cannot assess the financial integrity of an entity or enterprise without also analyzing its financial condition. For example, as I use the term, poor financial performance (e.g., low profitability) is an indicator of poor financial condition, which will reduce financial integrity and a firm’s credit ratings, all else equal.

As I discuss below, it is typical for regulated utilities and their holding companies, such as DP&L and DPL, to maintain investment grade ratings, indicating that such ratings are necessary for maintaining full financial integrity for such firms.

Q. Is maintaining an investment grade credit rating a reasonable component of financial integrity for DPL and DP&L?

1 A. Yes. The financial economics literature recognizes several benefits of an investment  
2 grade credit rating. Of course, a higher rating is associated with a lower default rate.<sup>8</sup>  
3 Many institutions, including banks, insurance companies and broker-dealers, are either  
4 prohibited from or limited in their ability to own bonds that are rated below investment  
5 grade.<sup>9</sup> Consistent with their greater safety and the greater demand due to restrictions on  
6 institutional investors, investment grade bonds have lower yields than speculative grade  
7 bonds.

8 There is evidence that firms adjust their behavior to target credit ratings, especially near  
9 the cutoff for investment grade.<sup>10</sup> For example, firms near the investment grade boundary  
10 (Baa) have lower leverage than otherwise would be expected in order to gain an  
11 investment grade credit rating.<sup>11</sup>

12 I examined the credit ratings for transmission and distribution utilities and their parent  
13 corporations and found that very few have credit ratings below investment grade. Figure  
14 1 shows the frequency of various Moody's credit ratings for utility holding companies,  
15 including DPL. Of the 36 rated firms as of September 30, 2016, DPL is only one of three  
16 that are below investment grade, and is the lowest-rated firm in the sample. Figure 2  
17 shows similar results for integrated utility companies, including DP&L. Of the 45 rated  
18 integrated utility companies, DP&L is one of just three firms with the lowest investment  
19 grade rating ("Baa3"). The most common rating for these firms is "A3," which is three

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<sup>8</sup> Moody's, *Annual Default Study: Corporate Default and Recovery Rates, 1920-2014*, March 4, 2015.

<sup>9</sup> See, e.g., L. White, "The Credit Rating Agencies," *Journal of Economic Perspectives* 24, 2010, at 213-14.

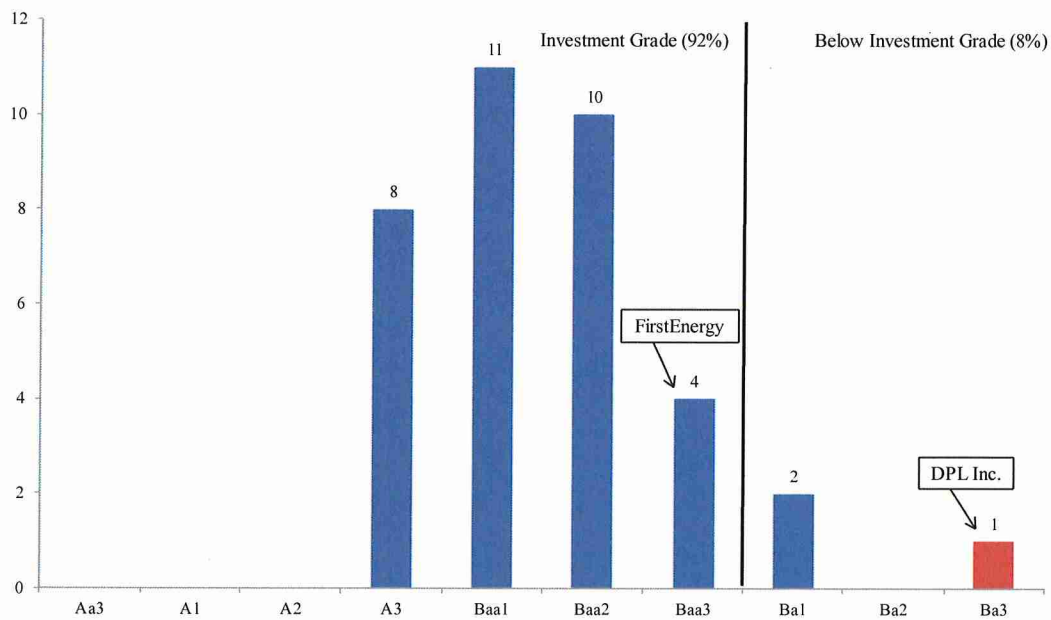
<sup>10</sup> D. Kisgen, "Credit Ratings and Capital Structure," *Journal of Financial and Quantitative Analysis* 44, 2009, at 1323, 1342; J. Graham and C. Harvey, "The Theory and Practice of Corporate Finance: Evidence from the Field," *Journal of Financial Economics* 60, 2001, at 210-11.

<sup>11</sup> D. Kisgen, "Credit Ratings and Capital Structure," *Journal of Finance* 61, 2006, at 1035, 1063.

1 notches above DP&L's current Moody's rating. Figure 3 shows that none of the 40  
 2 regulated transmission and distribution companies in my sample was rated below  
 3 investment grade.

FIGURE 1

UTILITY HOLDING COMPANIES  
 MOODY'S CURRENT LONG-TERM DEBT RATING  
 NUMBER OF COMPANIES BY RATING

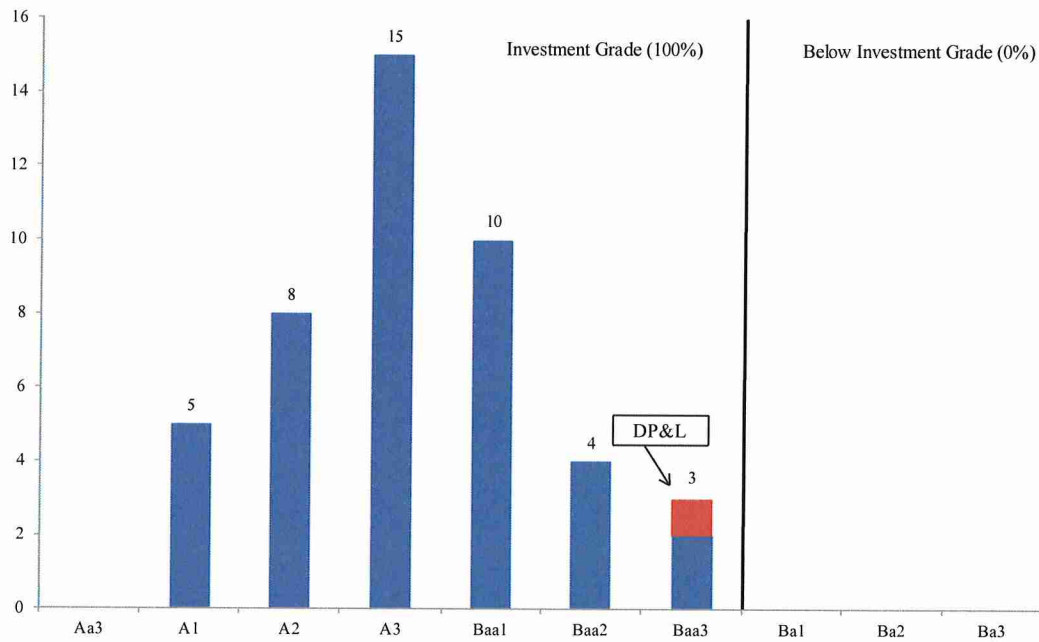


Notes & Sources:

From Moody's. Companies chosen based on Fitch Ratings, "U.S. Utilities, Power & Gas," Financial Peer Study, June 2012.  
 Includes holding companies of both electric and gas distribution utilities.

FIGURE 2

INTEGRATED UTILITY COMPANIES  
MOODY'S CURRENT LONG-TERM DEBT RATING  
NUMBER OF COMPANIES BY RATING

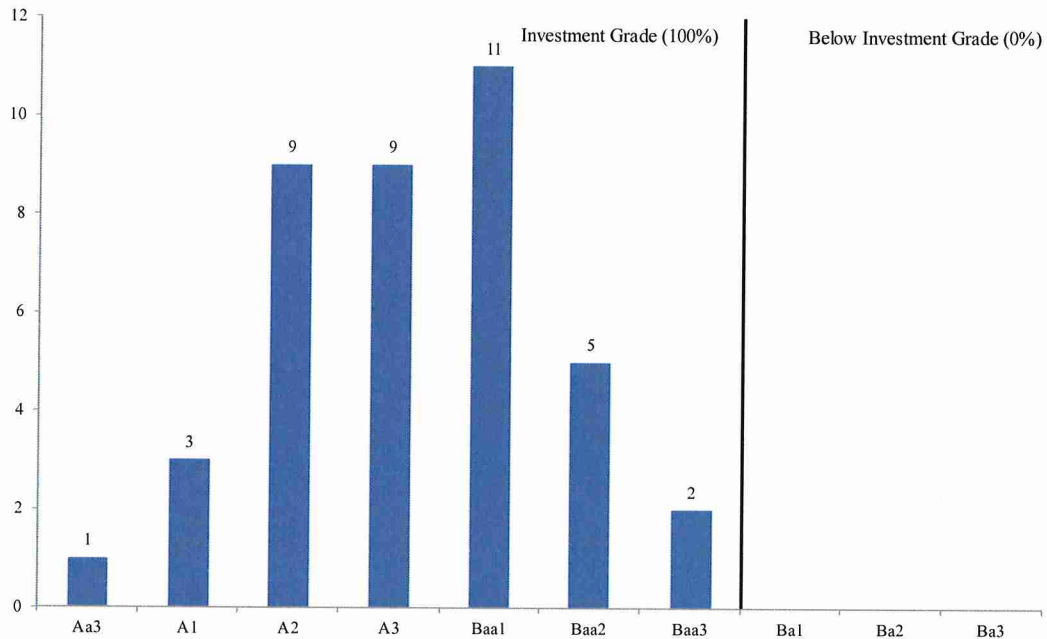


Notes & Sources:

From Moody's. Companies chosen based on Fitch Ratings, "U.S. Utilities, Power & Gas," Financial Peer Study, June 2012.  
Includes both electric and gas distribution utilities.

FIGURE 3

TRANSMISSION AND DISTRIBUTION COMPANIES  
MOODY'S CURRENT LONG-TERM DEBT RATING  
NUMBER OF COMPANIES BY RATING



Notes & Sources:

From Moody's. Companies chosen based on Fitch Ratings, "U.S. Utilities, Power & Gas," Financial Peer Study, June 2012.  
Includes holding companies of both electric and gas distribution utilities.

1 This evidence shows that utilities and their parents have a target capital structure that  
2 balances the costs and benefits of debt and results in an investment grade rating.

3 **Q. Is maintaining a reasonable return on equity an important element of financial**  
4 **integrity?**

5 **A.** Yes. Return on equity is a profitability measure that helps one to understand whether a  
6 company generates enough revenue for a given level of operating expenses and capital  
7 costs, including debt service, to allow equity investors to earn a return that is competitive  
8 with returns from other investments with similar risk profiles. Because equity holders are

1 the last stakeholders in line to receive payment (behind employees, suppliers and  
2 creditors), equity investments are riskier than debt investments. Therefore, expected  
3 returns on equity are higher than expected returns on debt to compensate for the higher  
4 risk. Importantly, in order for the company to maintain its credit and to be able to attract  
5 capital, the expected ROE should be sufficient to assure confidence in the company's  
6 financial integrity. This requirement is why the PUCO considers ROE in its rate cases,  
7 and why I relied on ROE as a measure of financial integrity in my prior testimony before  
8 the Commission.

9 **Q. What target ROE did you use in your analysis?**

10 A. In DP&L's distribution rate case, Company Witness Morin indicated that a 10.5 percent  
11 ROE was appropriate for DP&L based on a 50 percent debt-to-assets ratio.<sup>12</sup> I conclude  
12 that it is reasonable to use this rate for DPL or DP&L when operating under the  
13 Stipulation or an MRO with non-bypassable charges such as the DMR, DIR-B and  
14 Reconciliation Rider because, under that scenario, a substantial percentage of DPL and  
15 DP&L's revenues would be more certain and predictable (less risky), similar to the  
16 revenues of a regulated transmission and distribution company. However, that rate likely  
17 would be too low for scenarios without the DMR, DIR-B and Reconciliation Rider or  
18 other non-bypassable charges due to the higher risk inherent in such scenarios.  
19 Nevertheless, I use 10.5 percent as my benchmark ROE for both the Stipulation with the  
20 DMR, DIR-B and Reconciliation Rider and an MRO without such charges.

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<sup>12</sup> Direct Testimony of Dr. Roger A. Morin, Public Utilities Commission of Ohio, Case Nos.15-1830-EL-AIR, 15-1831-EL-AAM, 15-1832-ATA, at 5.



1 **Q. Please describe the organizational structure of DPL and its subsidiaries.**

2 A. The primary entities that I analyze are DPL, a diversified regional energy company that is  
3 a wholly owned indirect subsidiary of AES; and DP&L, the principal subsidiary of DPL  
4 and a public utility. DP&L currently owns a fractional interest in a fleet of six coal-fired  
5 plants, as well as peaking electric generating facilities and transmission and distribution  
6 facilities. DP&L's fractional ownership in the six coal-fired plants is summarized below:

	Ownership ( percent)	Summer Capacity (MW)	Gross Plant in Service (\$ mil.)	Net Plant in Service (\$ mil.)
Coal-fired generating fleet				
Conesville Unit #4	17	129	20.5	16.0
Killen Unit #2	67	402	659.3	334.2
Miami Fort Units #7 & 8	36	368	369.8	201.0
Stuart Units #1-4*	35	808	802.0	465.0
Zimmer Unit #1	28	371	1,121.8	732.6
OVEC	5	103		
<i>Total</i>		<i>2,181</i>	<i>2,973.4</i>	<i>1,748.8</i>

\* Includes diesel.

7 I understand that, as part of the Stipulation, DP&L has agreed to close certain of these  
8 coal generation facilities by June, 2018 and that it also has committed to commence a sale  
9 process to sell its interests in the remaining plants.<sup>13</sup>

10 In addition, DP&L has full or partial ownership of a number of combustion turbine gas-  
11 fired peaking plants and diesel plants, which collectively have a summer output of 432  
12 MW. As a parent to DP&L, these generating assets affect DPL as well.

<sup>13</sup> Stipulation II.1.d.

1 DP&L has the exclusive right to provide distribution and transmission services to  
2 approximately 517,000 customers located in West Central Ohio. Additionally, DP&L  
3 offers retail SSO electric service to residential, commercial, industrial and governmental  
4 customers in a 6,000 square mile area of West Central Ohio. DP&L sources power for its  
5 SSO customers through a competitive bid process.<sup>14</sup>

6 Principal industries located in DP&L's service territory include automotive, food  
7 processing, paper, plastic, manufacturing and defense. As a generator, DP&L sells all of  
8 its energy and capacity into the wholesale market.

9 DPL owns other subsidiaries. First, AES Ohio Generation ("AOG") owns and operates  
10 peaking generating facilities, from which it makes wholesale sales of electricity. Second,  
11 Miami Valley Insurance Company ("MVIC") is an insurance company that provides  
12 insurance services to DPL and its subsidiaries. Third, Miami Valley Lighting ("MVL")  
13 is a separate company affiliated with DP&L that provides street and outdoor lighting  
14 services to customers in the Dayton region.<sup>15</sup> DPL also has a wholly owned business  
15 trust, DPL Capital Trust II, formed for issuing trust capital securities to investors.<sup>16</sup>  
16 Together, in 2015 these businesses account for less than four percent of DPL's total  
17 revenues.<sup>17</sup>

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<sup>14</sup> DPL Inc. and DP&L Form 10-Q for the period ending 06/30/16, at 14.

<sup>15</sup> <https://lightingsimplified.com>.

<sup>16</sup> DPL Inc. and DP&L Form 10-Q for the period ending 06/30/16, at 14.

<sup>17</sup> DPL Inc. and DP&L Form 10-K for the fiscal year ending 12/31/15, at 43 and 49.

1 In addition, DPL owned DPL Energy Resources, Inc. (“DPLER”), which sold  
2 competitive electric energy and other energy services. DPL agreed to sell DPLER on  
3 December 28, 2015 and closed the sale on January 1, 2016.<sup>18</sup>

4 DPL and its subsidiaries employed 1,169 people as of June 30, 2016, of which 1,161  
5 were employed by DP&L. Approximately 62 percent of all DPL employees are under a  
6 collective bargaining agreement that expires on October 31, 2017.<sup>19</sup>

7 **Q. Why do you analyze the financial condition and integrity of DPL in addition to**  
8 **DP&L?**

9 A. The financial condition and integrity of DPL – which depends on its ability to service all  
10 of its consolidated debt – affects the financial condition and integrity of DP&L. For  
11 example, if DPL experiences financial stress, it would have a negative effect on DP&L  
12 including, but not limited to, unfavorable changes in DP&L’s credit ratings, increased  
13 cost of debt/borrowing costs, and reductions or other limits on capital expenditures or  
14 O&M that would negatively affect service quality, and redirecting management attention  
15 and effort to managing through financial distress. Also, just as importantly, in the event  
16 DP&L seeks incremental capital to finance grid modernization, it will require a healthy  
17 parent in order to receive equity capital, to complement debt capital, and to finance these  
18 modernization investments.

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<sup>18</sup> DPL Inc. and DP&L Form 10-Q for the period ending 06/30/16, at 5.

<sup>19</sup> DPL Inc. and DP&L Form 10-Q for the period ending 06/30/16, at 14.

1   **Q.     Please describe the approach that you take to measuring and analyzing the financial**  
2       **integrity of DPL.**

3   **A.     On a consolidated basis, DPL (including its subsidiaries) had approximately \$2.0 billion**  
4       **in debt as of year-end 2015, and is projected to have approximately \$ [REDACTED] in debt at**  
5       **the end of 2016. DP&L has issued its own debt, which is projected to be approximately**  
6       **\$0.8 billion at the end of 2016, leaving approximately \$1.1 billion in remaining debt at**  
7       **DPL Inc.**

8       Timely and full service of this debt issued by DPL will depend heavily on the cash flow  
9       from DP&L, DPL's primary subsidiary and source of operating profits.<sup>20</sup> DP&L's  
10      operating profits must be used to pay interest and any contractual principal obligations  
11      ("debt service obligations") on its own debt first, thereby making DPL's debt  
12      subordinated to DP&L's debt in order of payment. Second, DP&L must make the capital  
13      and operating expenditures for its transmission and distribution network in order to  
14      ensure the delivery of safe and reliable transmission and distribution service. Third,  
15      DP&L must pay its share of the ongoing capital expenditures for the coal generating  
16      plants in which it owns a partial interest. Fourth, while DP&L's remaining free cash flow  
17      will be available to service debt issued by DPL, the amount of those cash flows may be  
18      limited by regulation.<sup>21</sup> Thus, the ability of DPL to service its debt and remain a viable

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<sup>20</sup> DPL Inc. would depend to a lesser extent on cash flow from its smaller subsidiaries such as AOG, MVLT, and MVIC. For example, Moody's notes that DP&L (including the generating assets) "is expected to remain the main source of cash flows to service its material amount of holding-company's indebtedness." That is, not the miscellaneous subsidiaries, which comprise less than 4 percent of DPL's revenues. Moody's Investors Service, "Credit Opinion: DPL Inc.," October 13, 2015.

<sup>21</sup> The term "free cash flow" means net cash flow remaining after payment of all cash costs, including debt service and capital expenditures.

1 firm in the medium to long term will directly depend on the cash flows from DP&L. This  
2 concern about debt service is especially strong during the next several years.

3 **Q. What are DPL's options for servicing its debt other than using cash flow from**  
4 **DP&L?**

5 A. DPL can depend to a lesser extent on cash flow from its gas-fired generation plants and  
6 its smaller subsidiaries such as AOG, MVLT, and MVIC.<sup>22</sup> However, as stated above,  
7 total revenues from these subsidiaries represent about 4 percent of DPL's cash flows and,  
8 therefore, are insufficient to meet debt service. In the absence of sufficient cash flows  
9 from these units or DP&L, DPL would have to look to other potential sources for its debt  
10 service, which could include increases in short-term or other debt, reduction in capital  
11 expenditures, and/or reductions in operating expenses at any, or all, of its subsidiaries.  
12 However, both issuing new debt or reducing capital expenditures and/or operating  
13 expenses would be problematic. Specifically, the financial stress on the Company would  
14 make issuing new debt at reasonable rates difficult or impossible, and reductions in  
15 capital expenditures would have both short- and long-term negative effects on the  
16 Company, its subsidiaries (particularly DP&L), and the customers they serve.

17 **Q. Does a utility's financial condition and integrity influence its capital expenditures**  
18 **("capex")?**

19 A. Yes. Companies with credit ratings below investment grade are typically in some degree  
20 of financial distress. As a result, they may be forced to make difficult choices between

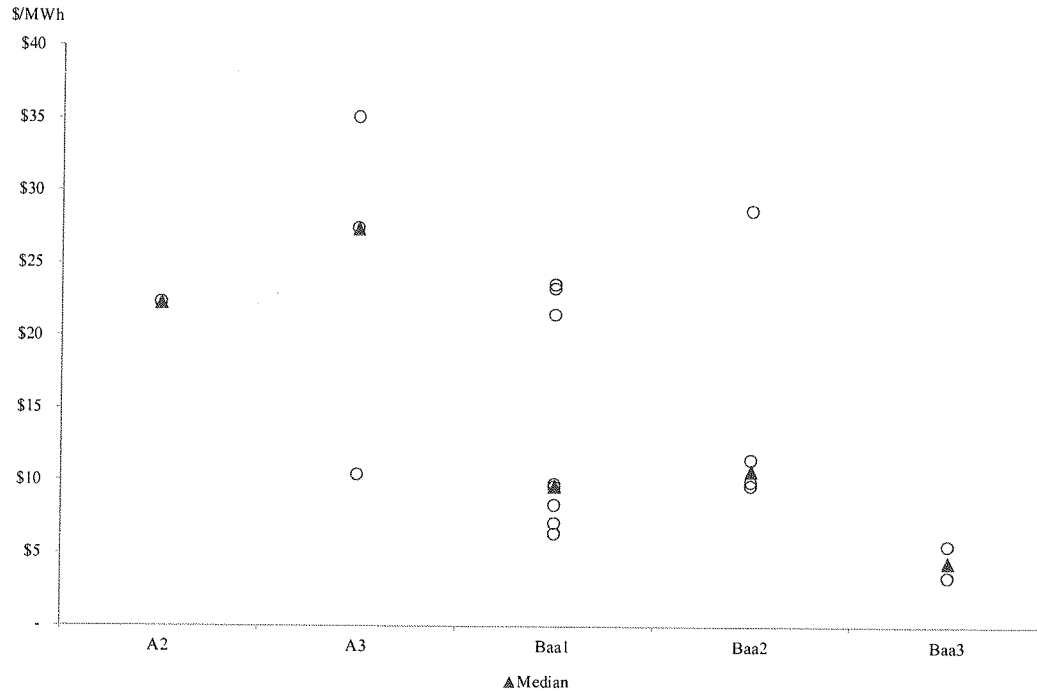
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<sup>22</sup> As noted previously, Moody's observed that DP&L is DPL's main source of cash flows to service the holding company debt. This observation is consistent with my own analysis as discussed later in my testimony.

1 investments in the future and more immediate demands on their cash. To investigate how  
2 credit ratings can affect capital expenditures, I measured capex per MWh and per retail  
3 electric customer for a sample of electricity transmission and distribution companies  
4 identified by Fitch. I focused on these firms rather than integrated utilities or utility  
5 holding companies in order to avoid confounding the results with capex on generation or  
6 other assets. Figures 4 and 5 show that there is a clear pattern, in which lower-rated  
7 utilities have lower capital expenditures as a function of measures of size. For example,  
8 as shown in Figure 4, the median capital expenditures per MWh for “A2” and “A3”  
9 utilities is about \$25/MWh, compared to approximately \$10/MWh or less for “Baa1” to  
10 “Baa3” utilities. Similarly, the median capital expenditures per customer for “A2” and  
11 “A3” electric distribution companies is about \$400-\$600, versus just over \$100 to under  
12 \$300 for “Baa1” to “Baa3” utilities. The “Baa3” utilities (which is DP&L’s rating) have  
13 the lowest level of capital expenditures under either measure.

FIGURE 4

CAPEX PER RETAIL MWH  
ELECTRIC TRANSMISSION AND DISTRIBUTION COMPANIES



Notes & Sources:

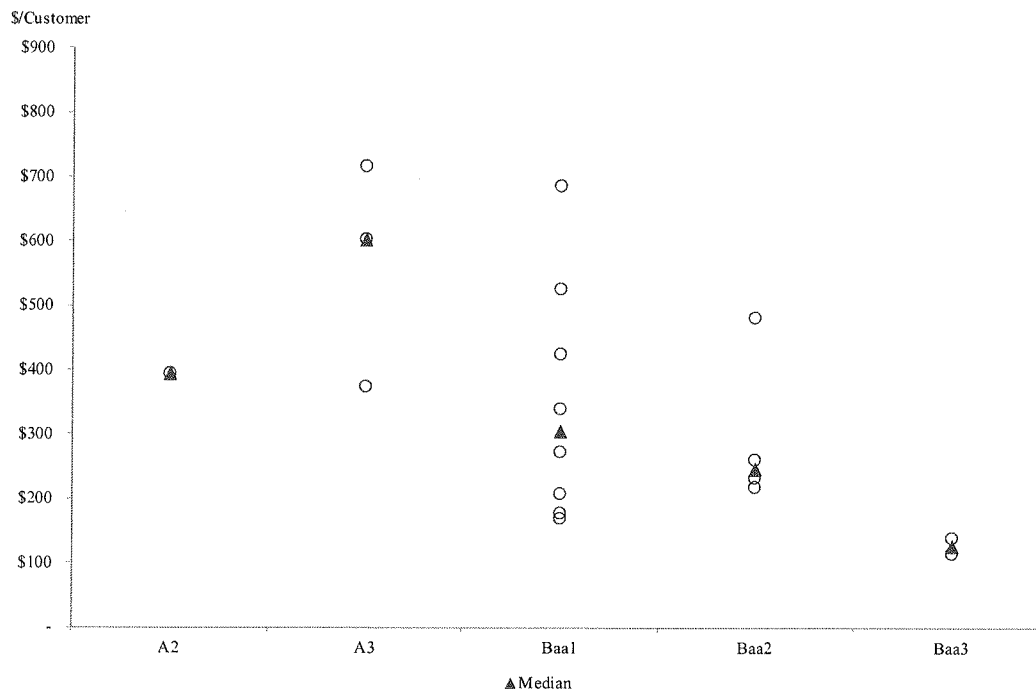
Calculated as Average CapEx for 2014-2015 divided by Average Retail Electric Volume (MWh) for 2014-2015.

CapEx and Retail Electric Volume (MWh) from SNL. Credit Ratings from Moody's.

Sample from Figure 3. Only includes Electric Transmission and Distribution Companies for which CapEx, Retail Electric Volume (MWh), and Credit Ratings were available.

FIGURE 5

CAPEX PER RETAIL ELECTRIC CUSTOMER  
ELECTRIC TRANSMISSION AND DISTRIBUTION COMPANIES



Notes & Sources:

Calculated as Average CapEx for 2014-2015 divided by Average Retail Electric Customers for 2014-2015.

CapEx and Retail Electric Customers from SNL. Credit Ratings from Moody's.

Sample from Figure 3. Only includes Electric Transmission and Distribution Companies for which CapEx, Retail Electric Volume (MWh), and Credit Ratings were available.

- 1 **Q. Is there additional support for an “integrated” approach in which one considers the**
- 2 **utility parent’s financial condition and integrity?**
- 3 **A. Yes. My approach is consistent with the Commission’s previous adoption of an**
- 4 **integrated view of financial condition and integrity. Specifically, in approving the Service**
- 5 **Stability Rider (“SSR”) in DP&L’s prior ESP filing, the Commission found that, “if one**



1 of the businesses suffers from financial losses, it may impact the entire utility, adversely  
2 affecting its ability to provide stable, reliable, or safe retail electric service.”<sup>23</sup>

3 Similarly, in the same case, the PUCO rejected intervenors’ argument that “competitive  
4 generation assets ... are not necessary for DP&L to maintain reliable distribution and  
5 transmission service.”<sup>24</sup> Also in the same case, the PUCO found that, “As the  
6 Commission has previously noted, the SSR and SSR-E are financial integrity charges  
7 intended to maintain the financial integrity of the entire company, not just the generation  
8 business.”<sup>25</sup>

9 I understand that the Commission’s recent Order in the First Energy matter also adopts  
10 this “integrated” view. Specifically, in adopting a DMR, the Commission noted that  
11 Moody’s and S&P consider the parent’s rating when rating a regulated utility. For  
12 example, the Commission stated that “S&P takes an ‘umbrella’ approach to credit ratings  
13 and that a downgrade to FirstEnergy Corp. would result in a downgrade to the  
14 Companies.”<sup>26</sup> It also stated that, “Although Moody’s rates FirstEnergy Corp. and its  
15 affiliates separately, Cleveland Electric Illuminating and Toledo Edison are both one  
16 notch above the cutoff for investment grade while Ohio Edison is three notches above

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<sup>23</sup> Public Utilities Commission of Ohio, Case No. 12-426-EL-SSO, Opinion and Order, September 4, 2013, at 22.  
Public Utilities Commission of Ohio, Case No. 12-426-EL-SSO, Fourth Entry on Rehearing, June 4, 2014, at 9.

<sup>24</sup> Public Utilities Commission of Ohio, Case No. 12-426-EL-SSO, Opinion and Order, September 4, 2013, at 18,  
22.

<sup>25</sup> Public Utilities Commission of Ohio, Case No. 12-426-EL-SSO, Fourth Entry on Rehearing, June 4, 2014, at 9.

<sup>26</sup> Public Utilities Commission of Ohio, Case No. 14-1297-EL-SSO, Fifth Entry on Rehearing, October 12, 2016, at  
162.

1 investment grade; and a downgrade to FirstEnergy Corp. would significantly impact the  
2 Companies.”<sup>27</sup>

3 **Q. Please describe how the remainder of this section will be structured.**

4 A. I begin immediately below with a description of DP&L’s service territory and the  
5 economic environment in which it operates. This description provides useful background  
6 and context for my financial analysis. Next, I explain my methodology for analyzing the  
7 financial condition and integrity of DPL and DP&L, followed by a discussion of the  
8 inputs to my financial projections with and without the DMR, DIR-B and Reconciliation  
9 Rider. The results of these projections are described at the end of the section.

10 ***B. DP&L’S SERVICE TERRITORY AND THE ECONOMIC***  
11 ***ENVIRONMENT***

12 **Q. Please describe DP&L’s service area.**

13 A. DP&L serves approximately 517,000 customers in 24 counties throughout the Miami  
14 Valley in West Central Ohio.<sup>28</sup> The service area comprises the majority of 13 counties  
15 surrounding Dayton and portions of an additional 11 counties.<sup>29</sup> According to the U.S.  
16 Census, the total population of the 13-county primary area was approximately 1.26  
17 million in 2014, virtually unchanged from the 2010 figure.

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<sup>27</sup> Public Utilities Commission of Ohio, Case No. 14-1297-EL-SSO, Fifth Entry on Rehearing, October 12, 2016, at 162-3.

<sup>28</sup> <http://www.dpandl.com/about-dpl/who-we-are/the-basics/>;  
<http://www.dpandl.com/about-dpl/who-we-are/economic-development/>.

<sup>29</sup> <http://www.dpandl.com/about-dpl/who-we-are/economic-development/>; The 13 counties include Mercer County, Auglaize County, Darke County, Shelby County, Miami County, Logan County, Champaign County, Union County, Preble County, Montgomery County, Greene County, Fayette County, and Clinton County.

1 Income levels of the service area population were close to the state average. U.S. Census  
2 data indicate that average per capita income between 2010 and 2014 was \$24,817 in the  
3 13-county primary area, as compared with the state average of \$26,520. On a per  
4 household basis, the median household income for the state was \$48,849, lower than the  
5 \$50,073 average for the 13-county primary area. Thus, on an ability-to-pay basis, the  
6 population of the DP&L service area appears to be similar to that of the remainder of  
7 Ohio. In a like vein, the unemployment rate for November 2015 showed that Clinton  
8 County was slightly above the state average of 4.7 percent, while the other 12 counties in  
9 the 13-county primary area were below the state average, according to the Bureau of  
10 Labor Statistics.

11 **Q. What is the economic outlook for DP&L's service area?**

12 A. The economy of the Dayton area has seen a slow but steady recovery since 2010 in jobs,  
13 unemployment, and output. Moody's views the stability from Wright-Patterson AFB and  
14 local universities, a quality healthcare system that serves the local population and the  
15 surrounding region, and well-developed manufacturing infrastructure as the strengths of  
16 Dayton. DP&L operates in a manufacturing-oriented region, and, as a result, a large part  
17 of its load comes from industrial and commercial customers, who tend to be relatively  
18 price sensitive.<sup>30</sup>

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<sup>30</sup> <https://www.economy.com/metro/precis-snapshot.aspx?g=MDAY>.

**C. METHODOLOGY**

**Q. Please summarize the nature of the financial analysis that you are sponsoring.**

A. One of my primary assignments is to analyze the financial condition and integrity of DPL and DP&L under the stipulated ESP with the DMR, DIR-B and Reconciliation Rider and an MRO without such charges. As discussed previously, DPL will depend heavily on DP&L to service its debt. Thus, DPL's financial integrity is largely dependent on the financial integrity of DP&L; and conversely, DP&L's financial integrity also depends on the financial integrity of DPL. As described previously, the credit rating agencies explicitly recognize this link in their rating methodologies. I understand that S&P assigns the lower of each entity's stand-alone rating to both entities.

The core methodology that I use is to analyze data from financial projections for 2017 through 2022 based on an integrated financial model I developed for both DPL and DP&L. Integrated financial models include balance sheets, income statements and cash flow statements, all of which are linked with each other in some fashion. For example, balance sheet equity is reduced or increased each year by after-tax net income from the income statement. In a similar fashion, changes in certain balance sheet accounts, such as increases and decreases in accounts receivable, affect the cash flow statement. Use of such an integrated modeling approach provides checks and balances so that financial projections are internally consistent.

Based on projections for DPL and DP&L using this integrated model, I am able to calculate various financial metrics for these entities, which are based on income, balance

1 sheet and cash flow statement variables. These metrics allow me to draw conclusions  
2 about the financial condition and integrity of each entity over time.

3 **Q. Please describe the interplay between DPL and DP&L in these projections.**

4 A. DP&L is a wholly owned subsidiary of DPL, so consolidated financial statements for  
5 DPL include those of DP&L. DP&L can distribute surplus funds to DPL as a dividend, or  
6 it can receive funds from DPL as an equity injection. Each entity issues its own debt, and  
7 DPL consolidated debt is the sum of debt that it issued directly and debt that DP&L  
8 issued.<sup>31</sup>

9 **Q. Please describe the debt held by DPL and DP&L.**

10 A. As shown in Exhibit RJM-19, DPL had approximately \$1.18 billion in outstanding debt  
11 as of September 30, 2016, composed of a \$125 million Term Loan, \$57 million in Bonds  
12 maturing in 2016, \$200 million of bonds maturing in 2019, \$780 million in Bonds  
13 maturing in 2021 and about \$16 million in a Capital Trust. DP&L had approximately  
14 \$786 million in outstanding debt, including \$445 million in First Mortgage Bonds that it  
15 recently refinanced, \$100 million in 2006 Ohio Air Quality Bonds, \$200 million in Ohio  
16 Air Quality VRDNs, an \$18 million Note with Wright Patterson Air Force Base, and a  
17 \$23 million in Preferred Series A, B, and C.

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<sup>31</sup> In the model of the stipulated ESP with the DMR, DIR-B and Reconciliation Rider, I adopt the same debt refinancing and retirement assumptions provided to me by the Company. In the model without these charges, I modify the assumptions about voluntary debt retirement and debt issuances to match the available cash flows. Specifically, I assume that DP&L will pay dividends to DPL, to service and pay down debt, equal to any surplus cash flow, and that DPL will fund its cash shortfall by first drawing on its revolving line of credit until that is exhausted, then will issue additional long-term debt. As discussed in the text, DPL likely would be unable to draw on its line of credit or borrow additional funds without the financial integrity and distribution investment recovery charges.

1 Both DPL and DP&L have financial covenants related to their debt, including  
2 Debt/EBITDA, EBITDA/Interest, and Debt/Total Capital as summarized below.<sup>32</sup>

Year	Max. Debt/ EBITDA	Min. EBITDA/Interest		Max. Debt/Capital
	DPL	DPL	DP&L	DP&L
2017	7.25	2.10	2.50	0.75
2018	7.25	2.10	2.50	0.75
2019	6.25	2.25	2.50	0.75
2020	5.75	2.25	2.50	0.75

3 When DPL is facing challenges in servicing its debt, it will have to choose to (a) issue  
4 new debt, either through drawing on its short-term debt instruments or otherwise raising  
5 new debt, (b) reduce capital investments or operating expenses at its subsidiaries in order  
6 to increase distributable cash flows, and/or (c) cut other costs at its subsidiaries or  
7 undertake other actions to generate additional cash. I understand that the Company has  
8 already pursued cost cutting initiatives, but that they will not be sufficient to allow DPL  
9 and DP&L to maintain their financial integrity absent the DMR, DIR-B and  
10 Reconciliation Rider. Reducing capital expenditures is problematic given safety and  
11 reliability priorities. Further, particularly with respect to DP&L's generating assets, Fitch  
12 describes those expenditures as already being the "bare minimum."<sup>33</sup>

13 As a result, I have adopted additional debt issuance as the modeling convention that  
14 balances the sources and uses of cash. It is important to recognize that the results of my

<sup>32</sup> Credit Agreement among DPL Inc., U.S Bank National Association, PNC Bank, National Association, and Bank of America, N.A., July 31, 2015, at 94-95; Credit Agreement among Dayton Power and Light Company, PNC Bank, National Association, Fifth Third Bank, and Bank Of America, N.A., July 31, 2015, at 79.

<sup>33</sup> Fitch Ratings, "DPL Inc. and Dayton Power & Light Company," October 7, 2014, at 2. Fitch's comment is a bit unclear, but it appears to refer to DP&L's recent capital expenditures on its coal-fired generating assets (referencing "the anticipated transfer of these assets to a nonregulated affiliate.")

1 analysis assume that DPL will be able to access such additional debt financing.  
2 Evaluating the projected financial integrity therefore requires some discussion of whether  
3 this assumed debt issuance activity is even plausible.

4 **Q. What financial metrics do you use to evaluate the financial condition and financial**  
5 **integrity of DPL and DP&L?**

6 A. One financial metric I consider for measuring the financial condition is Return on Equity  
7 (ROE). The Commission considers ROE in its rate cases, and I relied on ROE in my prior  
8 testimony before the Commission. I also consider (a) free cash flow metrics, (b) certain  
9 credit metrics, including Interest Coverage, Cash Flow / Debt, Retained Cash Flow / Debt  
10 and Debt / Capital (each as defined below) and (c) the theoretical credit rating and any  
11 changes thereof. Credit ratings are a summary measure of financial integrity, and are  
12 based on a number of the financial metrics discussed, as well as the professional  
13 judgment of the debt rating agencies.

14 **Q. What are the corporate credit ratings for DPL and DP&L?**

15 A. The most recent credit rating reports from Moody's for DPL and DP&L are from August  
16 5, 2016. At that time, Moody's rated DPL "Ba3" (equivalent to S&P rating "BB-") and  
17 rated DP&L "Baa3" (equivalent to S&P rating "BBB-"), both with a negative outlook.<sup>34</sup>  
18 The ratings from Fitch and S&P are similar and also have negative outlooks: DPL is  
19 currently rated "B+" by Fitch and "BB" by S&P.<sup>35</sup> DP&L is rated "BB+" by Fitch and

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<sup>34</sup> Moody's Investors Service, Credit Opinion: DPL Inc., August 11, 2016; Moody's Investors Service, Credit Opinion: Dayton Power & Light Company, August 11, 2016.

<sup>35</sup> SNL Energy.

“BB” by S&P.<sup>36</sup> Fitch noted that DPL’s rating outlook “can be stabilized if prospective rate relief is forthcoming, such that DPL’s consolidated adjusted debt-to-operating EBITDAR can sustain comfortably below 6x and/or FFO-lease adjusted leverage below 6.5x.”<sup>37</sup> Of note, the negative outlook on these ratings followed the Ohio Supreme Court’s decision striking down the SSR, of which at least \$37 million will no longer be available to DP&L.<sup>38</sup> Fitch noted its belief that “PUCO will ultimately authorize an alternative rider for DP&L to mitigate the Ohio Supreme Court ruling.”<sup>39</sup> The August 5, 2016 corporate credit ratings from the three major agencies are summarized in the table below using the S&P rating scale for comparison purposes.

	DPL		DP&L	
	Rating	Outlook	Rating	outlook
Moody’s (S&P scale)	BB-	negative	BBB-	negative
Fitch	B+	negative	BB+	negative
S&P	BB	negative	BB	negative

**Q. What is the significance of the negative outlook?**

A. The outlook indicates the potential direction of ratings in the short to medium term. A negative outlook means that the rating may be downgraded. Typically, rating agencies identify potential future developments that may, individually or collectively, lead to a negative rating action. In particular, Fitch revised DPL’s and DP&L’s outlook to negative and explained that, “[r]ating downgrades at DPL could be triggered by the absence of timely regulatory support in Ohio and/or continued challenging market conditions for its

<sup>36</sup> SNL Energy.

<sup>37</sup> Fitch Ratings, “Fitch Affirms DPL and DP&L; Outlook Revised to Negative,” July 12, 2016.

<sup>38</sup> Fitch Ratings, “Fitch Affirms DPL and DP&L; Outlook Revised to Negative,” July 12, 2016.

<sup>39</sup> Fitch Ratings, “Fitch Affirms DPL and DP&L; Outlook Revised to Negative,” July 12, 2016.



1 merchant generation business. Deterioration of DPL's consolidated adjusted debt-to-  
2 operating EBITDAR ratio on a sustained basis to above 7x or FFO-lease adjusted  
3 leverage sustained above 7.5x without a visible path for recovery could result in rating  
4 downgrades."<sup>40</sup>

5 **Q. How did you determine indicated credit ratings for DPL?**

6 A. I have created financial projections for 2017 through 2022 for DPL and DP&L. From  
7 those projections, I calculate four key metrics that Moody's uses to determine credit  
8 ratings for DPL and other energy companies:<sup>41</sup>

- 9 1. *Interest Coverage*
- 10 2. *Cash Flow / Debt*
- 11 3. *Retained Cash Flow / Debt*
- 12 4. *Debt / Capital*

13 For each of these variables, I summarize in Exhibit RJM-14 the range of values that  
14 Moody's considers for each credit rating.

15 *Interest Coverage* is calculated as the ratio of cash flow from operations before interest  
16 expense and changes in working capital (but after changes in other assets and liabilities  
17 such as regulatory capital and cash collateral) relative to interest expense. The ratio  
18 indicates the amount of cash flow available to pay interest, capital expenditures and other  
19 obligations per dollar of interest due, so a higher ratio is indicative of a higher credit  
20 rating. Moody's indicates that Ba-rated unregulated power companies tend to have

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<sup>40</sup> Fitch Ratings, "Fitch Affirms DPL and DP&L; Outlook Revised to Negative," July 12, 2016.

<sup>41</sup> See, e.g., Moody's Investors Service, Credit Opinion: DPL Inc., October 13, 2015.

1 *Interest Coverage* ratios of 2.8x to 4.2x and similarly rated regulated utilities tend to have  
2 ratios of 2.0x to 3.0x.<sup>42</sup>

3 *Cash Flow / Debt* is the ratio of cash flow from operations before changes in working  
4 capital relative to debt.<sup>43</sup> A higher ratio indicates a stronger financial position and a  
5 higher credit rating. Moody's indicates that Ba-rated unregulated power companies tend  
6 to have *Cash Flow / Debt* ratios of 12 percent to 20 percent and similarly rated regulated  
7 utilities tend to have ratios of 5 percent to 13 percent.<sup>44</sup>

8 *Retained Cash Flow / Debt* is similar to *Cash Flow / Debt*, except the numerator subtracts  
9 dividend payments from *Cash Flow*. For DPL, the projections do not include any  
10 dividends so there is no difference in the two measures of cash flows. Moody's indicates  
11 that Ba-rated unregulated power companies tend to have *Retained Cash Flow / Debt*  
12 ratios of 8 percent to 15 percent and similarly rated regulated utilities tend to have ratios  
13 of 0 percent to 9 percent.<sup>45</sup>

14 *Debt / Capital* is calculated as the ratio of debt to capital (which includes short- and long-  
15 term debt, common equity, preferred stock and deferred taxes). The ratio indicates the  
16 degree of financial leverage. A higher ratio (greater leverage) is indicative of a lower

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<sup>42</sup> Moody's Investors Service (2014) Rating Methodology for Unregulated Utilities and Unregulated Power Companies, at 36; Moody's Investors Service (2013) Rating Methodology for Regulated Electric and Gas Utilities, at 38. I focus on a Ba rating in order to maintain consistency with DPL Inc.'s current rating, which is based in part on DP&L owning the coal-fired generating assets.

<sup>43</sup> For DPL, I subtract income tax from operating cash flow, because operating cash flow excludes income tax due to AES's foregone taxes due from DPL.

<sup>44</sup> Moody's Investors Service (2014) Rating Methodology for Unregulated Utilities and Unregulated Power Companies, at 36; Moody's Investors Service (2013) Rating Methodology for Regulated Electric and Gas Utilities, at 38.

<sup>45</sup> Moody's Investors Service (2014) Rating Methodology for Unregulated Utilities and Unregulated Power Companies, at 36; Moody's Investors Service (2013) Rating Methodology for Regulated Electric and Gas Utilities, at 38.

credit rating. Moody's indicates that Ba-rated regulated utilities tend to have *Debt / Capital* ratios of 55 percent to 65 percent;<sup>46</sup> it does not include *Debt / Capital* among the factors with explicit weight in its evaluation of unregulated power companies.<sup>47</sup>

The table below summarizes the weights that Moody's assigns to these metrics for DPL (which it rates as a regulated utility, using its Standard Grid) and unregulated power companies.

Metric	Regulated Utilities <sup>48</sup>	Unregulated Power Companies <sup>49</sup>
<i>Interest Coverage</i>	18.75%	25%
<i>Cash Flow / Debt</i>	37.50%	50%
<i>Retained Cash Flow / Debt</i>	25.00%	25%
<i>Debt / Capital</i>	18.75%	0%

To assign a credit rating, I assign a numerical score for each metric based on the Moody's criteria in Exhibit RJM-14. For example, *Interest Coverage* of 3.0x for a regulated utility translates to a Baa rating and a score of 9. *CF / Debt* and *RCF / Debt* metrics of 10.9 percent and 10.1 percent for a regulated utility result in ratings (scores) of Ba (12) for *CF / Debt* and Baa (9) for *RCF / Debt*. A *Debt / Capital* ratio of 74.3 percent corresponds to a B rating and a score of 15.<sup>50</sup> The composite rating score would be  $0.1875 \times 9 + 0.375 \times 12 + 0.25 \times 9 + 0.1875 \times 15 = 11.25$ , which translates to a rating of "Ba1."<sup>51</sup>

<sup>46</sup> Moody's Investors Service (2013) Rating Methodology for Regulated Electric and Gas Utilities, at 38.

<sup>47</sup> Moody's Investors Service (2014) Rating Methodology for Unregulated Utilities and Unregulated Power Companies, at 36.

<sup>48</sup> Moody's Investors Service (2013) Rating Methodology for Regulated Electric and Gas Utilities, at 6.

<sup>49</sup> Moody's Investors Service (2014) Rating Methodology for Unregulated Utilities and Unregulated Power Companies, at 8

<sup>50</sup> Moody's notes that DPL has "significant financial leverage" but does not provide a grid of leverage ranges by credit rating for unregulated utility holding companies such as DPL without a DMR or other non-bypassable charge. For regulated utilities such as DP&L, Moody's does provide a grid of leverage ranges and a leverage ratio of 74

(footnote cont'd...)

1   **Q.     Which rating grid, regulated or unregulated, do you use to determine your indicated**  
2       **ratings?**

3   A.    I focus primarily on the Standard Grid for regulated utilities because that is what  
4       Moody's uses currently. Certainly the Standard Grid is appropriate for the scenario with  
5       the DMR, DIR-B and Reconciliation Rider because the non-bypassable charges  
6       significantly increase the proportion of DPL and DP&L revenues that are fixed from a  
7       regulatory perspective and, therefore, relatively certain to be realized. The Standard Grid  
8       is also appropriate because as part of the Stipulation DPL and DP&L have committed to  
9       ceasing commercial operations at two coal generation plants and commencing a sales  
10      process for the remaining coal generation plants. However, in the scenario without the  
11      DMR, DIR-B and Reconciliation Rider, DPL and DP&L will still earn revenues from  
12      their regulated transmission and distribution business and likely from coal generation  
13      assets, but would no longer earn revenues from a fixed non-bypassable charge. As a  
14      result, their total revenues would be less like regulated revenues and more like  
15      unregulated revenues. Under that scenario, therefore, the unregulated Moody's grid  
16      becomes relevant. Accordingly, I have calculated indicated ratings for DPL and DP&L  
17      using both the regulated and unregulated Moody's methodologies in the scenario without  
18      the DMR, DIR-B and Reconciliation Rider.

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(...cont'd)

percent (DPL as of June 2015) falls in the B-rated category of that grid. Moody's Investors Service (2013) Rating Methodology for Regulated Electric and Gas Utilities, at 24. Moody's Investors Service, Credit Opinion: DPL Inc., October 13, 2015.

<sup>51</sup> In Moody's rating scale each letter grade is further divided into high, medium and low based on a numerical suffix (e.g., "Ba2" is below "Ba1" but above "Ba3").

1   **Q.    Do the credit ratings assigned by the rating agencies depend on considerations other**  
2       **than the four factors that you have mentioned?**

3    A.    Yes. The credit rating agencies consider a broader array of factors, some of which require  
4       a subjective determination. I have focused on the above four quantitative factors in order  
5       to avoid subjectivity. As a result, the assigned ratings should be interpreted as indicative  
6       rather than predictions of actual ratings. However, I note that the example above uses the  
7       actual metrics for DPL as of October 13, 2015. Moody's applies a three-notch reduction  
8       to DPL's rating due to its structural subordination to DP&L,<sup>52</sup> which would result in a  
9       "B1" rating, only one notch different from the assigned rating of "Ba3" that accounts for  
10      other factors. To preserve consistency, I apply the same three-notch reduction to the grid-  
11      based ratings based on the projected financial metrics for DPL.

12      In Exhibit RJM-21, I perform a similar exercise for the parent companies of other utilities  
13      regulated by the PUCO. The indicated credit ratings for AEP Company ("Baa1") and  
14      FirstEnergy ("Baa3") are exactly equal to the assigned credit ratings after accounting for  
15      the notching due to structural subordination. For Duke Energy Corporation, the indicated  
16      "Baa2" rating is one notch below the assigned rating. These results indicate that the  
17      rating based on the grid is a reliable measure of Moody's assigned credit ratings.

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<sup>52</sup> Structural subordination refers to the fact that the creditors to a holding company owning regulated subsidiaries typically have a claim on the consolidated group's cash flows and assets that is junior to the creditors of the subsidiaries. The holding company depends on dividends from its subsidiaries to service its debt, but the regulators of the subsidiary may prevent such dividends. To account for this additional risk, Moody's will lower the grid-based rating of a parent by one to three "notches" (e.g., a Ba2 rating is one notch lower than a Ba1 rating). Moody's Investors Service (2013) Rating Methodology for Regulated Electric and Gas Utilities, at 25-26.

1   **Q.    How will you apply your calculation of indicated credit ratings in this case?**

2   A.    An indicated credit rating, or a change in an indicated credit rating, provides a measure of  
3       financial condition or integrity, or a change in those characteristics, through a connection  
4       to default risk. The lower the rating, the higher is the default risk, and vice versa. In this  
5       case, DPL will have a heavy debt load, which increases the probability of default all else  
6       equal.

7                               ***D. INPUT DATA FOR FINANCIAL PROJECTIONS***

8   **Q.    What information did you use to develop your financial projections for DPL and**  
9       **DP&L?**

10  A.    The financial projections are based on DP&L's dispatching model for the period from  
11       2017 to 2022. The pro forma financial statements that serve as the primary input to my  
12       model were provided to me by the Company.

13  **Q.    Have you done anything to assure yourself that the input data for the financial**  
14       **projections are sound?**

15  A.    Yes. I have performed the following procedures:

- 16       • I have reviewed the information provided to me by the Company and discussed the  
17       underlying assumptions with the Company personnel responsible for their  
18       preparation.
- 19       • I tested the projections by comparing them to historical performance of the Company  
20       and its peers.

- 1       • I compared the projections for the regulated utility to those filed by DP&L in its  
2       pending rate case before PUCO.<sup>53</sup>
- 3       • I have tested the reasonableness of the projections and the underlying assumptions  
4       based on a review of market data, including coal futures contracts and published  
5       energy price projections.

6   **Q.     What were the results of this analysis?**

7   A.     The projected O&M costs, debt and other information received from the Company appear  
8       reasonable based on my comparisons. In addition, the projections of DP&L's financial  
9       results are consistent with those filed in DP&L's distribution rate case. Thus, the  
10      projections implicitly assume that the PUCO will approve DP&L's distribution rates in  
11      that case.

12   **Q.     Please describe the debt-related inputs to your financial projections.**

13   A.     As of September 30, 2016, the combined entities had \$2.0 billion in debt of various types,  
14       as shown in Exhibit RJM-19. As of the end of 2016, the consolidated balance is expected  
15       to be approximately \$[REDACTED] as discussed above. DPL had \$1.18 billion in debt  
16       outstanding, including but not limited to, \$200 million of bonds maturing in 2019 and  
17       \$780 million of bonds maturing in 2021.

18       DP&L has \$786 million in debt outstanding, including \$445 million in First Mortgage  
19       Bonds that it just refinanced. I understand from the Company that this debt has several

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<sup>53</sup> Direct Testimony of Daniel A. Santacruz, Public Utilities Commission of Ohio Case Nos. 15-1830-EL-AIR, 15-1831-EL-AAM, and 15-1832-EL-ATA.

5 ***E. DPL'S AND DP&L'S PROJECTED FINANCIAL CONDITION AND***  
6 ***INTEGRITY WITHOUT THE DMR, DIR-B AND RECONCILIATION***  
7 ***RIDER***

A. [REDACTED]

<sup>54</sup> The projections underlying these ROE calculations assume that the rates requested by DP&L in its distribution rate case will be approved by the PUCO.



[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

9 [REDACTED]

10 As discussed above, it is unlikely that additional debt financing required by DPL would  
11 be available at reasonable prices given (a) its projected financially stressed situation  
12 during these years and (b) the significant amounts of DPL debt that will mature in the  
13 near future. Reducing capital or operating expenditures to generate the necessary cash  
14 would be problematic because it would have both short- and long-term negative effects  
15 on DPL, DP&L, and the customers they serve.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

22 [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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<sup>55</sup> Moody's Investors Service "Annual Default Study: Corporate Default and Recovery Rates, 1920-2014," (2015), at 26. The term "default," means a failure to service debt according to its terms.

<sup>56</sup> Credit Agreement among DPL Inc., U.S. Bank National Association, PNC Bank, National Association, and Bank of America, N.A., July 31, 2015, at 95.

FIGURE 6

DPL INC. FINANCIAL COVENANTS  
DEBT/EBITDA

Debt/EBITDA

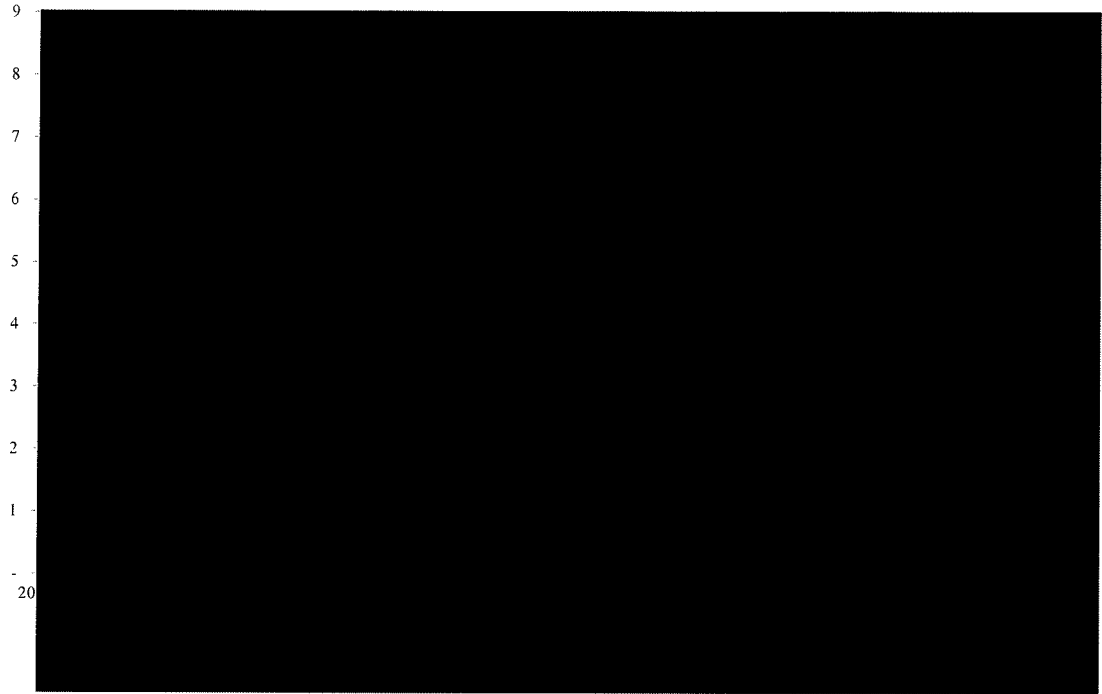


FIGURE 7

DPL INC. FINANCIAL COVENANTS  
EBITDA/INTEREST

EBITDA/Interest

4.5  
4.0  
3.5  
3.0  
2.5  
2.0  
1.5  
1.0  
0.5  
-  
20



- █ [REDACTED]
- █ [REDACTED]
- █ [REDACTED]
- █ [REDACTED]
- █ [REDACTED]
- █ [REDACTED]
- █ [REDACTED]
- █ [REDACTED]
- █ [REDACTED]
- █ [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

1   **Q.   How would DP&L's customers be affected by DPL's and DP&L's financial**  
2       **distress?**

3   **A.   DP&L's customers would face a number of negative consequences. In fact, the financial**  
4       condition of both DPL and DP&L is already compromised such that some of these  
5       negative consequences may already exist. If no DMR, DIR-B and Reconciliation Rider  
6       are awarded, and the financial condition of DPL and DP&L worsens, the impacts will be  
7       magnified and more invasive.

8       •   Based on my analysis of capital expenditures by financially distressed firms described  
9       above, DP&L would reduce or delay such expenditures. All else equal, this reduction  
10      would result in a less effective and less reliable infrastructure for delivering electric  
11      service, which would harm customers and the state of Ohio more generally.

12      •   DP&L would have no ability to finance investment in grid modernization, preventing  
13      its customers from benefiting from new technology like customers in other states.

14      •   Management and regulators' attention and effort would be diverted from their normal  
15      duties aimed at fulfilling customers' needs to dealing with the financial distress. This  
16      diversion also would cause harm to customers through reduced service quality.

17      •   The increased cost of debt at DP&L would increase electric rates.

18      •   DP&L likely would invest less in service operations, which would reduce the quality  
19      of customer service and customer satisfaction.

1 Q. Can you elaborate more on DPL's debt level absent the DMR, DIR-B and  
2 Reconciliation Rider?

3 A. [REDACTED]  
4 [REDACTED]  
5 [REDACTED]  
6 [REDACTED]  
7 [REDACTED]  
8 [REDACTED]

FIGURE 8

DPL INC. AND DP&L TOTAL DEBT



Notes &

From Supplemental Exhibit RJM-10 and Supplemental Exhibit RJM-11.

**F. DPL'S and DP&L'S PROJECTED FINANCIAL CONDITION AND  
INTEGRITY WITH THE DMR, DIR-B AND RECONCILIATION  
RIDER**

**Q. How do the results of the above analysis of the financial condition and integrity of DPL and DP&L without the DMR, DIR-B and Reconciliation Rider impact the MFA Test?**

**A.** These results show that, without the stipulated ESP with these three charges, DPL and DP&L would encounter financial distress, which would have significant negative consequences for DP&L's customers. In contrast, with these charges included in their revenues and cash flows, DPL's and DP&L's financial condition and integrity can be expected to improve significantly. My analysis of this scenario is discussed below. This significant improvement in DPL's and DP&L's finances represents a major non-quantifiable benefit of the stipulated ESP with the DMR, DIR-B and Reconciliation Rider, relative to an MRO without the three non-bypassable charges. Thus, this analysis is an important input to my "more favorable in the aggregate" analysis.

**Q. Please describe how these results would change under the stipulated ESP with the DMR, DIR-B and Reconciliation Rider included in DPL's and DP&L's revenues and cash flows.**

**A.**

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]



[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

11 [REDACTED]

12 I note that these ratings assume implicitly that the rating agencies would treat the three  
13 non-bypassable financial integrity and distribution investment recovery charges as  
14 permanent, rather than discounting it to reflect the fact they would end for the most part  
15 after 2021.

16 **Q. What impact does the improvement in credit ratings have on DPL and DP&L?**

17 A. The DMR, DIR-B and Reconciliation Rider provide immediate long-term stability and  
18 certainty regarding future cash flows, which will enable DP&L to manage successfully  
19 short-term debt maturities and to mitigate both the short- and long-term debt refinancing  
20 risks inherent in the outlook absent the three non-bypassable charges.

[REDACTED]

[REDACTED]

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<sup>57</sup> The DMR and DIR-B charges are meant primarily for mandatory debt reduction and capital investment, not “discretionary” profit. It therefore makes economic sense to exclude them from the ROE calculations. This approach is consistent with the Stipulation, which contains an agreement to exclude DMR and DIR-B “revenues [sic]” from the Significant Excessive Earnings Test (“SEET”) calculations.

1 [REDACTED]

2 [REDACTED]

3 Q. Can you explain how DPL and DP&L will pay down debt under an ESP with a  
4 DMR, DIR-B and Reconciliation Rider?

5 A. [REDACTED]  
6 [REDACTED]  
7 [REDACTED]  
8 [REDACTED]

9 Q. Does the Stipulation with the three non-bypassable financial integrity and  
10 distribution investment recovery charges provide other, non-quantifiable benefits  
11 relative to an MRO?

12 A. Yes. The Stipulation provides additional non-quantifiable benefits that would not be  
13 experienced under an MRO. In particular:

14 1. As to the renewables commitment in the Stipulation, all parties – including the  
15 Signatory Parties and Non-Opposing Parties – retain their “right to challenge the  
16 renewable investments.”<sup>58</sup> In evaluating a proposal for renewables in a separate  
17 EL-RDR proceeding, the Commission “may consider among other relevant  
18 matters the economics and proposed PPA price associated with each project, as  
19 compared to other available market prices for such projects.”<sup>59</sup> The Commission

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<sup>58</sup> Stipulation, ¶ VI.7.  
<sup>59</sup> Id. ¶ VI.6.

1           presumably would not approve those programs unless it concluded that they  
2           provided net benefits.

3           2. The Stipulation also provides for a Smart Grid Rider (“SGR”) to allow DP&L to  
4           implement grid modernization after the Commission's grid modernization  
5           initiative is complete.<sup>60</sup> Grid modernization will provide substantial non-  
6           quantifiable benefits to customers. I understand that the ESP statute has specific  
7           language authorizing the recovery of those costs as they are incurred through a  
8           rider, while the MRO statute has no such provision.<sup>61</sup> In theory, DP&L could still  
9           implement grid modernization under an MRO and seek recovery of the associated  
10          costs in a distribution rate case. However, as I note above, under my second MRO  
11          scenario in which DP&L would not have access to the funds from the financial  
12          integrity and distribution investment charges, DP&L would be experiencing  
13          severe financial distress and would not have the funds to implement grid  
14          modernization at all. Under my first scenario, in which the three non-bypassable  
15          financial integrity and distribution investment charges would be available under  
16          an MRO, there still would be a substantial delay between investment in grid  
17          modernization and the recovery of the costs in a subsequent distribution rate case.  
18          This delay would make it impossible for DP&L to implement grid modernization  
19          in a timely manner under a hypothetical MRO.

20          3. AES has made two valuable commitments in the Stipulation. The first is that it  
21          has agreed not to take any dividends from DPL during the term of the DMR and

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<sup>60</sup> Id. ¶ II.3.

<sup>61</sup> Ohio Rev. Code § 4928.143(B)(2)(h).

1           DIR-B. While AES historically has not been taking such dividends, which has  
2           benefited DP&L and its customers by allowing DPL to use all available funds to  
3           service its debt, obtaining such an agreement clearly is valuable. Second, AES has  
4           committed to continue to forego tax payments from DPL during the term of the  
5           DMR and DIR-B. This commitment is of substantial value and, from an economic  
6           perspective, represents a form of temporary equity or subordinated debt  
7           investment. The economic value of this written commitment is difficult to  
8           quantify under the circumstances. However, as a result of AES foregoing tax  
9           payments, as well as AES' agreement not to take dividends, AES is contributing  
10          approximately \$[REDACTED] million in additional cash flow available for debt service and  
11          improving the company's overall financial health over the term of the DMR and  
12          DIR-B with the three non-bypassable charges, than the cash flow it would have  
13          without the foregone tax payments (Exhibit RJM-11). These commitments, which  
14          would not be present under an MRO, thus help to ensure the Companies' return to  
15          financial integrity, thereby providing non-quantifiable benefits under the  
16          Stipulation relative to an MRO.

17          4. Under the Stipulation, DP&L would remain subject to the Significantly Excessive  
18          Earnings Test ("SEET"), while it would not be subject to that test under an MRO.  
19          The Stipulation thus provides protections to customers in the event that  
20          unexpected changes in DP&L's financial condition should occur.

21          5. I understand that once an MRO is approved, the utility cannot thereafter file an  
22          ESP. Approval of the stipulated ESP thus provides the benefit of providing

1 options to the Commission in future proceedings, to the extent that future ESPs  
2 would be more favorable than future MROs.

3 6. I understand that the Companies have agreed that DP&L will initiate a process to  
4 divest itself of its interest in the coal assets that are not closed down. The rating  
5 agencies consider DP&L's ownership of coal assets to be a "credit negative."<sup>62</sup>  
6 Therefore, this divestiture would enhance the Companies' credit rating profile  
7 under the Stipulation relative to a hypothetical MRO, all else equal. This would  
8 have several benefits for customers including, potentially, lower financing costs.

9 7. I also understand that individual signatory parties would obtain non-quantifiable  
10 benefits from the following commitments by the Companies in the Stipulation  
11 that would not be present under an MRO:<sup>63</sup>

12 a. DP&L will explore a partnership with the City of Dayton and the  
13 University of Dayton's Hanley Sustainability Institute for a program  
14 supporting mutual goals for all three of the organizations.

15 b. All City of Dayton accounts existing at the time of execution of the  
16 Stipulation will be exempt from paying redundant service charges,  
17 including the Redundant Service Rider or equivalent rider, which seek to  
18 recover the costs of providing standby or backup service.

19 c. AES will maintain DP&L's operating headquarters in the City of Dayton,  
20 Ohio. In addition to retaining jobs in the community, this commitment has

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<sup>62</sup> Moody's Investors Service, "Credit Opinion: Dayton Power & Light," March 1, 2016.

<sup>63</sup> Stipulation, ¶ X.

1 significant multiplier effects in that those employees support local  
2 businesses.

3 d. DP&L will work with the City of Dayton to develop an “apprenticeship”  
4 program targeted at Dayton residents and to provide special hiring  
5 outreach for City of Dayton residents.

6 e. DP&L and Honda will work together to develop and automate Energy Star  
7 bench marking for Honda suppliers in DP&L’s service territory.

8 f. DP&L will work with the Ohio Hospital Association on an annual energy  
9 efficiency program targeted at OHA members in the DP&L territory.

10 g. DP&L will eliminate any charges associated with the Alternate Feed  
11 Charges that currently are being charged to certain OHA members, and it  
12 will exempt OHA members from paying that charge as requested in  
13 DP&L’s pending Distribution Rate Case.

14 In sum, the Stipulation provides a number of non-quantifiable benefits that would not be  
15 available under a hypothetical MRO.

16 **Q. Have you considered any non-quantifiable or quantifiable costs or benefits from**  
17 **DP&L’s agreement to close two of the coal generation facilities in which it owns an**  
18 **interest, and to initiate a process to divest itself of its interest in the remaining coal**  
19 **plants?**

A. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

9

[REDACTED] In fact, the impact of

10

increasing investment in distribution and transmission infrastructure as well as the

11

development of 300MW of renewable energy resources has the potential to create jobs in

12

Ohio.

13 VI.

**CONCLUSIONS REGARDING THE MFA TEST**

14 Q.

Do you conclude that the Stipulation is “more favorable in the aggregate” than an MRO?

15

16 A.

Yes. Assuming that an MRO would include the DMR, DIR-B and the Reconciliation Rider, the Aggregate Price Test would be a wash and the Stipulation would be superior to an MRO due to (a) quantifiable benefits totaling at least \$11.5 million over the life of the Stipulation, and (b) significant non-quantifiable benefits, derived, in particular, from more rapid and robust grid modernization and the guarantees from AES regarding dividends and tax payments totaling over \$ [REDACTED] million in additional cash flow available for debt service and improving the company’s overall financial health.

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1 If an MRO would not include non-bypassable integrity and distribution investment  
2 charges with financial support similar to the DMR, DIR-B and Reconciliation Rider, the  
3 stipulated ESP would be more expensive based solely on the Aggregate Price Test.  
4 However, Stipulation would provide significant non-quantifiable benefits not available  
5 under an MRO, most notably (a) ensuring the financial integrity of DPL and DP&L,  
6 which would allow the Companies to provide safe and reliable service to their customers,  
7 (b) allowing DP&L to modernize its distribution grid; (c) and the other benefits identified  
8 above that would not be available under an MRO. In my opinion, these non-quantifiable  
9 benefits would clearly outweigh the higher charges based on the Aggregate Price Test.  
10 Under this scenario, therefore, the Stipulation still would be more favorable in the  
11 aggregate than a hypothetical MRO.

12 **Q. Does this conclude your direct testimony?**

13 **A.** Yes, it does.

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## CERTIFICATE OF SERVICE

I certify that a copy of the foregoing R. Jeffrey Malinak Testimony in Support of the

Stipulation and Recommendation has been served via electronic mail upon the following counsel

of record, this 6th day of February, 2017:

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## APPENDIX A

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Mr. Malinak specializes in financial economics, with particular expertise in damages estimation, applied finance theory, and business and asset valuation. He has provided deposition and arbitration testimony on economic damages issues, and has testified on financial integrity, cost of capital and economic issues in a utility rate hearing. Mr. Malinak has directed litigation projects in many industries on issues related to securities (including derivative securities), antitrust, breach of contract, taxation, regulatory economics, and intellectual property claims. Mr. Malinak has frequently addressed class certification and damages issues in securities fraud cases, as well as the myriad economic, financial, and accounting issues common to most damages calculations, such as cost of capital and prejudgment interest.

He has considerable experience in tax-related work, including leading Analysis Group teams in *Black & Decker, Inc. v. United States* and *Chemtech Royalty Associates L.P. v. United States*, as well as in financial institutions and risk management, having been heavily involved in the *Winstar* savings and loan litigations, and having also completed a major project on the risk of Fannie Mae. Mr. Malinak has acted as a management consultant to clients in the energy, environmental, and health care industries, and as an economic valuation and business strategy consultant to clients with new technology, intellectual property, and intangible assets.

He is the treasurer, head of the audit and finance committee, and a member of the executive committee and board of directors of the Meridian International Center, an international leadership organization that works with partners in the government, private, NGO, and educational sectors to create lasting international partnerships through leadership programs and cultural exchanges. Prior to joining Analysis Group, Mr. Malinak was a principal at Putnam, Hayes& Bartlett, Inc.

#### EDUCATION

M.B.A. (Finance and Accounting), University of Texas Graduate School of Business (Austin, Texas)

B.A., Social Sciences, *with Distinction*, Stanford University (Palo Alto, California)

#### PROFESSIONAL EXPERIENCE

- 2000-            *Managing Principal*, Analysis Group, Inc. (Washington, D.C.).  
Financial and economic analysis and testimony related to complex securities, finance, accounting, antitrust and general business litigation. Financial and economic consulting related to public policy issues and business and other asset valuation.
- 1997-1999      *Vice President*, Analysis Group, Inc. (Washington, D.C.).
- 1996-1997      *Vice-President and Secretary/Treasurer*, Malinak Medical Products, Inc.,  
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1994-1996      *Principal*, Putnam, Hayes & Bartlett, Inc. (Washington, D.C.).  
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## **PREVIOUS PROFESSIONAL POSITIONS**

### **Meridian International Center, Washington, D.C.**

2013-2014      Member, Audit Committee

### **American Society of International Law, Washington, D.C.**

2009-2011      Member, Audit Committee

## **SELECTED REPRESENTATIVE CONSULTING ENGAGEMENTS**

### **General Business Litigation**

#### **AMERICAN ARBITRATION ASSOCIATION, WASHINGTON, D.C.**

##### *Major Commercial Bank v. Federal Deposit Insurance Corporation*

Overall project management and analysis of the value of distressed commercial real estate and related loans. Also, in-depth analysis of proper accounting for impaired loans and Other Real Estate Owned under U.S. Generally Accepted Accounting Principles.

#### **CIRCUIT COURT FOR THE CITY OF ALEXANDRIA, VIRGINIA**

##### *General Motors Acceptance Corporation (GMAC) v. Field Auto City, Inc.*

Expert report (co-authored) regarding the damages sustained by a car dealership due to the alleged improper withdrawal of floor plan financing by GMAC.

#### **U.S. BANKRUPTCY COURT, SOUTHERN DISTRICT OF NEW YORK**

##### *In re: Genuity, et al., Debtors.*

Analysis of asset purchase agreement and damages in this bankruptcy proceeding. Key issues included the cause of bankruptcy, the value of the enterprise and the economic and financial impact of the proposed restructuring agreement.

#### **U.S. DISTRICT COURT, DISTRICT OF COLUMBIA**

##### *Philip L. Chabot, Jr. v. Brickfield, Burchette & Ritts, P.C. et al.*

Expert report regarding the value of an equity interest in a "greenfield" steel company at various stages in the firm lifecycle, including the seed capital and start-up financing stages.

#### **UNITED STATES COURT OF FEDERAL CLAIMS, WASHINGTON, D.C.**

##### *FDIC as Receiver for various Savings & Loan Institutions v. The United States*



Overall project management and analysis of damages. Key issues included the appropriateness of various damages theories and the value of leverage in the regulated thrift industry.

AMERICAN ARBITRATION ASSOCIATION, NEW YORK

*New Industries Co. (Sudan) Ltd. v. Pepsico, Inc.*

Overall case management and analysis of damages in this breach of contract case involving the original Pepsi bottler in Sudan. Key issues included the appropriate methods for projecting lost profits and the valuation of the business of a soft drink bottler.

DISTRICT OF COLUMBIA AND DELAWARE CHANCERY COURTS

*Robert Haft v. Herbert Haft and Dart Group*

Analysis of the value of large holdings of common stock and options on the common stock of a number of public and private companies with a combined \$1 billion plus in revenues. Key issues included assumptions to use in a discounted cash flow analysis (DCF), the valuation of employee stock options and the applicability of minority and marketability discounts to securities prices.

**Tax-Related Litigation**

GOVERNMENT TAX-RELATED INVESTIGATION

*Major Non-U.S. Multinational Company v. United States*

Overall case management and analysis of computerized accounting data. Work involved obtaining and analyzing all of the computerized accounting data for a large division of a major multinational to determine the way the firm accounted for certain intercompany transactions and managed its cash flow.

UNITED STATES DISTRICT COURT, NORTHERN DISTRICT OF CALIFORNIA, SAN FRANCISCO DIVISION

*SCVHG Valley Housing Group, Inc. v. United States*

Overall case management and analysis of finance and valuation issues. Work included assessing the economic substance and business purpose of a transaction involving issuance of warrants, the valuation of the warrants, and the market valuation of an S-Corp's securities.

AMERICAN ARBITRATION ASSOCIATION, CHICAGO, ILLINOIS

*Tax Payer v. Tax Transaction Participant*

Overall case management and analysis of finance and valuation issues. Work included assessing the economic substance of a transaction involving the purchase of emerging market distressed consumer and trade debt, determining the value of this distressed debt and performing "forensic accounting" analysis.

U.S. COURT OF FEDERAL CLAIMS

*National Westminster Bank, PLC. v. United States*

Overall case management and analysis of accounting issues. Work included the reconstruction of the financial statements of the U.S. branches of a foreign bank, based on accounting and other information that was incomplete and, in many cases, over 20 years old.

U.S. DISTRICT COURT, DISTRICT OF MARYLAND, BALTIMORE DIVISION

*WFC Holdings Corp. v. United States*

Overall case management and analysis of economic issues. Key issues included the economic substance and business purpose of a transaction involving the formation of a special purpose entity.

U.S. DISTRICT COURT, DISTRICT OF MARYLAND, BALTIMORE DIVISION

*Black and Decker, Inc. v. United States*

Overall case management and analysis of economic issues. Key issues included the economic substance and business purpose of a transaction involving the formation of a special purpose entity and the payoff structures of different financial instruments.

U.S. DISTRICT COURT, SOUTHERN DISTRICT OF W. VIRGINIA

*Flat Top Insurance Agency v. United States*

Expert report regarding the economic life and value of insurance renewal intangible assets to be used for tax depreciation purposes.

U.S. DISTRICT COURT, EASTERN DISTRICT OF VA, RICHMOND DIV.

*Trigon Insurance Company vs. United States of America*

Overall case management and analysis of economic issues in a tax refund case involving a customer base as an intangible asset.

**Securities and Commodity Market Litigation**

U.S. DISTRICT COURT FOR THE SOUTHERN DISTRICT OF TEXAS, HOUSTON DIVISION

*United States of America v. Mark David Radley, et al.*

Overall case management and analysis of natural gas liquids markets, propane price movements, market microstructure issues and allegations regarding market power and price manipulation. Key issues included the size and definition of the relevant market, the appropriate measurement of market power in the context of futures/forward contract markets, and appropriate methods for analyzing trading behavior and specific claims of price manipulation.

U.S. DISTRICT COURT FOR THE DISTRICT OF MARYLAND, BALTIMORE DIVISION

*United States Securities and Exchange Commission v. Agora, Inc., Pirate Investor, LLC and Frank Porter Stansberry*

Overall case management and analysis of the materiality to investors of certain information regarding a nuclear fuel processing firm contained in an investor newsletter. Key issues included the effect of public information releases on the firm's stock price.

U.S. DISTRICT COURT, DISTRICT OF MASSACHUSETTS

*Class v. Life Sciences Company 1*

Expert report on damages and participation in a mediation hearing. The analysis addressed the value of the common stock and other securities of a Life Sciences company at different times and under different assumptions.

U.S. DISTRICT COURT, DISTRICT OF MASSACHUSETTS

*Class v. Life Sciences Company 2*

Expert report on the alleged damages of the lead plaintiff, which was a hedge fund, and analysis of alleged class-wide damages. The expert report, which was filed in support of a motion in opposition to class certification, addressed the economic impact on the lead plaintiff of the simultaneous increase in value of a short position in the Life Sciences' firm's common stock and the decrease in value of the plaintiff's convertible bond position.

U.S. DISTRICT COURT FOR THE DISTRICT OF MASSACHUSETTS

*In Re: Xcelera.com Securities Litigation*

Overall case management and analysis of the efficiency of the market for the equity securities of an internet-related firm for class certification purposes in a 10b-5 matter. Key issues included the existence of limits to arbitrage (e.g., short sales constraints) and the extent of participation by traders who were trading based on non-fundamental economic criteria during the class period.

U.S. DISTRICT COURT FOR THE DISTRICT OF IDAHO

*Muzinich & Co., Inc. et al. v. Raytheon Company, et al.*

Overall case management and analysis of the efficiency of the market for the unregistered 144A bonds of a construction firm. Key issues included the existence of appropriate analyst coverage, the amount of trading volume, the nature of the reaction of the bond prices to new information and the size of the bid-ask spread.

COURT OF COMMON PLEAS, PHILADELPHIA COUNTY

*Plaintiff Class v. Sun Company, Inc.*

Overall case management and analysis of trading in Sun common stock related to allegations that a preferred stock redemption rate calculation was affected by stock price manipulation.

U.S. DISTRICT COURT, EASTERN DISTRICT OF PENNSYLVANIA

*Plaintiff Class v. Centocor, Inc.*

Analysis of alleged securities fraud damages and other economic issues in a 10b-5 matter involving allegations surrounding the announcement of the outcome of joint venture negotiations. Key issues included the measurement of abnormal stock returns in the presence of extreme volatility and the analysis of damages, if any, to various investor sub-classes, including day traders and short-sellers.

U.S. DISTRICT COURT, NORTHERN DISTRICT OF ILLINOIS

*Plaintiff Class v. Kemper Mutual Funds*

Analysis regarding distribution of returns on over 130,000 S&P500 futures transactions in investigation of improper trading and self-dealing by the fund manager in class-action involving investors in two public equity mutual funds. Key issues included definition of hedging strategies, trade matching methods and appropriate statistical methods.

TEXAS STATE COURT, BEAUMONT

*Plaintiff Class v. Paine Webber*

Analysis of the sale prices for limited partnership units. Key issues included the amount of damages sustained by two different investor classes, the average settlement amounts in securities fraud matters, and the value of a company after a roll-up reorganization into an equity financed company.

**Non-Securities Class Action Litigation**

U.S. DISTRICT COURT FOR THE DISTRICT OF NEW JERSEY

*Beverly Clark, et al., v. Prudential Insurance Company of America*

Analysis of damages and other issues related to class certification. Key issues included the appropriate damages methodology and the extent to which individual inquiry was required to accurately determine damages.

**Antitrust**

U.S. DISTRICT COURT, NORTHERN DISTRICT OF CALIFORNIA

*Central Garden & Pet Company v. The Scotts Company and Pharmacia*

Overall case management and analysis of antitrust damages. Key issues included the appropriate herbicide product market definition, the measurement of market power, and the effect of the trend towards “big box” retailers on herbicide manufacturers and distributors.

U.S. DISTRICT COURT, NORTHERN DISTRICT OF IOWA

*Act, Inc. v. Sylvan Learning Systems*

Overall case management and analysis of market power issues and antitrust damages.

TEXAS STATE COURT, CORPUS CHRISTI

*Independent Service Provider v. IBM*

Damages and antitrust analyses prepared on behalf of IBM. Key issues included definition of relevant markets, calculation of the defendant’s market share, calculation of antitrust and business disparagement damages and valuation of settlement options.

U.S. DISTRICT COURT, FLORIDA

*Thermo Electron & Rolls Royce, Inc. v. Florida Power & Light*

Analysis of damages due to alleged anticompetitive acts by an electric utility. Key issues included forecasting of fuel prices, business decision-making procedures, profitability of cogeneration facilities and the appropriate cost of capital to use in evaluating investments in electricity generation facilities.

TEXAS COURT

*ETSI Pipeline Project, et al. v. Burlington Northern, et al.*

Assistance to counsel in rebutting opposing expert’s lost profits damages claim. Key issues included the appropriate measure of lost profits and the appropriate discount and interest rates to apply in valuing the lost profits stream.

**Environmental Insurance and Other Insurance Litigation**

CONFIDENTIAL MATTER

*Financial Institution v. Group of Insurers/Reinsurers*

Analysis of potential trading and other losses due to business interruption resulting from a single disaster-type event.

SUPERIOR COURT OF THE STATE OF WASHINGTON, KING COUNTY

*Alcoa Inc., and Northwest Alloys, Inc., v. Accident and Casualty Insurance Company, et al.*

Analysis of the history of environmental regulation of various pollutants to determine the extent of government and industry knowledge regarding those pollutants at various policy dates. Analysis of economic damages due to environmental contamination.

ENVIRONMENTAL INSURANCE SETTLEMENT MATTER

*General Electric v. Environmental Insurance Firms*

Analysis of the value of future environmental remediation cost liabilities for settlement purposes, including the determination of the appropriate discount and inflation rates to use in valuing projected environmental remediation costs.

### **Intellectual Property Litigation**

#### **U.S. DISTRICT COURT, DISTRICT OF CONNECTICUT**

##### *Joint Medical Products Corporation v. Depuy, Inc., et al.*

Analysis of patent damages. Key issues: the factors driving the buying decision in the hip implant market, fixed versus variable costs and relevant licensing rates for comparable products.

#### **U.S. DISTRICT COURT, EASTERN DISTRICT OF VIRGINIA**

##### *Wang Laboratories, Inc. v. America Online, Inc. and Netscape Communications Corp.*

Valuation of patented on-line services software interface features. Key issue: the economic value of customer retention.

#### **U.S. DISTRICT COURT, EASTERN DISTRICT OF PENNSYLVANIA**

##### *BTG USA, Inc. v. Magellan Corp. / BTG v. Trimble Navigation*

Patent damages: analysis of prejudgment interest, reasonable royalty, value of inventory on hand, preparation and investments made and business commenced (as of patent reissuance) involving a patent directed to secret or secure communications technology employed in global positioning systems products.

#### **U.S. DISTRICT COURT, DISTRICT OF MASSACHUSETTS**

##### *Polaroid v. Kodak*

Patent damages: analysis and preparation of trial exhibits in support of academic witness's discount and interest rate testimony. Analysis of fixed and variable costs for use in lost profits study involving an instant photography technology patent.

### **Prospective Intellectual Property Consulting and Valuation**

#### *Internet Security/Privacy Technology*

Valuation of a patent-pending technology for enhancing the security and privacy of web-based transactions and interactions.

#### *Smartcard Technology for GSM Wireless Phones*

Valuation of a portfolio of patents in relation to their potential use in GSM wireless phones.

#### *Automotive Industry Patent Portfolio*

Preparation of a preliminary report supporting the potential value of an international portfolio of product patents in the automotive industry. Identification of industry players, description of market structure, profitability analysis of potential licensees and estimation of potential royalty payments.

#### *Biotechnology Patent*

Preparation of materials supporting the potential value of a basic process patent in the biotechnology industry. Identification of industry players, description of market structure, and profitability analysis of potential licensees.

#### *Medical Diagnostic Test Patent*

Identification of industry players, description of market structure, evaluation of alternative technologies and profitability analysis of potential licensees.

#### *Wireless Telecommunications Patent*

Preparation of a report on the potential value of a basic process patent in the wireless telecommunications industry. Identification of industry players, description of market structure, evaluation of alternative technologies and profitability analysis of potential licensees.

### **Management Consulting and Valuation Projects**

#### **CLIENT: FANNIE MAE**

Overall responsibility for assisting in the preparation of a white paper appearing on Fannie Mae's website, including analysis of the financial risk of Fannie Mae. Key issues included the appropriate model to use in evaluating the risk of a large regulated mortgage banking and guarantee business with a sophisticated hedging operation using derivatives.

#### **CLIENT: ENVIRONMENTAL INSURANCE FIRM**

Expert report regarding the appropriate discount and inflation rates to use in calculating the present value of projected environmental remediation costs. Participation in settlement meetings.

#### **CLIENT: HOSPITAL MANAGEMENT**

Analysis of the value of a hospital in connection with a proposed hospital merger transaction. Key issues included the appropriate measure of hospital profits, the cost of capital to use in valuing those profits and the impact of market forces (e.g., managed care) on the hospital's future revenues.

#### **CLIENT: MAJOR FEDERAL GOVERNMENT AGENCY**

Review of the decision making methods and data regarding a large government energy project. Key issues included the best quantitative methods to use to support the government's decision, the appropriate discount rates to use in valuing different projects and the option value of flexibility when projecting the cost of private and government mega-projects.

#### **CLIENT: WOOD FLOORING MANUFACTURER**

Preparation of an economic feasibility study for the installation of a cogeneration facility by a basketball court flooring manufacturer. Effort included extensive research into the cost of constructing a facility and the projected cost of power in the Upper Peninsula of Michigan.

### **Regulatory Consulting**

#### **SOUTH CAROLINA PUBLIC SERVICE COMMISSION, DOCKET NO. 2005-113-G (Application for Increase in Gas Rates and Charges)**

Overall project management and analysis of the appropriate cost of capital for a natural gas distribution system.

#### **U.S. ENVIRONMENTAL PROTECTION AGENCY, WASHINGTON, D.C.**

##### *Energy Industry*

Expert affidavit and declaration on behalf of a number of energy firms in a Freedom of Information Act matter regarding the value of information contained in confidential business documents.

#### **U.S. EPA AND/OR PUBLIC INTEREST GROUPS V. VARIOUS DEFENDANT FIRMS**

##### *Various Industries*

Analysis of the present value of pollution control costs allegedly avoided due to non-compliance with Clean Water Act regulations. Work included review and critique of the EPA's "BEN" financial model for calculating the economic benefit of noncompliance with Clean Water Act regulations.

## DEPOSITION AND TRIAL TESTIMONY

PUBLIC UTILITIES COMMISSION OF OHIO, Case No.'s 12-426-EL-SSO, 12-427-EL-ATA, 12-428-EL-AAM, 12-429-EL-WVR and 12-672-EL-RDR

Pre-filed direct, rebuttal, deposition and hearing testimony on the issues of (a) whether the proposed Electricity Stabilization Plan filed by Dayton Power & Light (DP&L) is more favorable in the aggregate for ratepayers than a hypothetical Market Rate Offer, (b) the impact of different rate plans on the financial integrity of DP&L, and (c) the current cost of capital for DP&L.

U.S. DISTRICT COURT, MIDDLE DISTRICT OF NORTH CAROLINA, DURHAM DIV.

*Humana Military Healthcare Services, Inc., v. Blue Cross and Blue Shield of North Carolina, et al.*

Expert report and deposition testimony regarding the amount of trade secret damages in the context of a large government managed care contract procurement.

AMERICAN ARBITRATION ASSOCIATION (BOSTON OFFICE)

*Pragmatech Software v. Silknet Software, Inc.*

Expert report and testimony at an arbitration hearing regarding the proper measure of damages in a breach of contract case involving alleged improper use of intellectual property / confidential information.

## PUBLICATIONS

"Estimating the Cost of Capital," Litigation Services Handbook, The Role of the Financial Expert, Chapter 7 (pp. 7.1-7.22), Fourth Edition (2007) (co-authored with G. Jetley and L. Stamm).

## SPEECHES/COURSES

"First Mover Advantages and e-Competition: Sustaining Superior Profitability in e-Commerce," presented as part of a panel titled, "Effective Use of Expert Witnesses in e-Commerce Antitrust Litigation," at a regional meeting of the antitrust litigation section of the American Bar Association, February 2001.

"Savings & Loan Financial Modeling Issues," presentation to the Receivership Goodwill Section of the Federal Deposit Insurance Corporation, October 2000 (confidential).

"Internet Patents -- Monetary Remedies" (with John C. Jarosz), American Intellectual Property Law Association (22nd Mid-Winter Institute titled, "IP Law in Cyberspace"), February 1999.

## NEWSLETTER ARTICLES

"Damage Awards -- Royalty Rates versus Profit Rates," IP Litigator, November/December 2000 (Volume 6, Number 6).

“Presenting Economic Expert Testimony to a Jury: Five Golden Rules,” antitrust litigation newsletter.



EXHIBIT RJM-1

NET PRESENT VALUE OF DMR, DIR-B AND RECONCILIATION RIDER  
2017 – 2022

	2017	2018	2019	2020	2021	2022	Total
DMR	\$90,000,000	\$90,000,000	\$90,000,000	\$90,000,000	\$90,000,000	-	\$450,000,000
DIR-B	\$35,500,000	\$36,500,000	\$37,500,000	\$38,500,000	\$39,500,000	\$20,000,000	\$207,500,000
Reconciliation Rider							
Total							

Net Present Value			
Discount Rate	Reconciliation		
	DMR	DIR-B	Rider
4%	\$408,598,721	\$186,012,898	
6%	\$390,320,456	\$176,644,879	
8%	\$373,441,139	\$168,061,262	
10%	\$357,822,963	\$160,178,503	
12%	\$343,344,289	\$152,923,572	

Notes & Sources:

NPV calculated using mid-year convention.

DIR in 2022 collected under DIR-A.

Reconciliation Rider from internal Company projections.

From Stipulation and Recommendation, Public Utilities Commission of Ohio Case Nos. 16-0395-EL-SSO, 16-0396-EL-ATA, 16-0397-EL-AAM, January 30, 2017, at 5-6.

EXHIBIT RJM-2

DPL INC. PRO FORMA FINANCIAL RATIOS  
WITHOUT DMR, DIR-B AND RECONCILIATION RIDER  
2017 – 2022

Ratio	2017	2018	2019	2020	2021	2022
DMR, DIR-B and Reconciliation Rider Debt						
Debt/EBITDA						
Debt/Capital						
EBITDA/Interest						
Interest Coverage						
Cash Flow/Debt						
Retained Cash Flow/Debt						
Implied Moody's Rating - Regulated Interest Coverage						
Cash Flow/Debt						
Retained Cash Flow/Debt						
Debt/Capital						
Weighted Average Indicated Rating						
Implied Moody's Rating - Unregulated Interest Coverage						
Cash Flow/Debt						
Retained Cash Flow/Debt						
Weighted Average Indicated Rating						

Notes & Sources:

In thousands.

Interest Coverage = (CFO Pre-WC + Gross Interest Expense) / Gross Interest Expense.

Cash Flow/Debt = CFO Pre-WC / DPL Inc. Consolidated Total Debt.

Retained Cash Flow/Debt = (CFO Pre-WC - Dividends) / DPL Inc. Consolidated Total Debt.

Debt/Capital = DPL Inc. Consolidated Total Debt / Total Capitalization.

Implied Regulated Ratings calculated using Moody's Rating Methodology, 'Regulated Electric and Gas Utilities,' December 23, 2013. See Exhibit RJM-14.

Weighted Average based on weights of 37.50% (Interest Coverage), 25.00% (CF/Debt), 18.75% (RCF/Debt), and 0.00% (Debt/Capital).

Implied Unregulated Ratings calculated using Moody's Rating Methodology, 'Unregulated Utilities and Unregulated Power Companies,' October 31, 2014. See Exhibit RJM-14.

Weighted Average based on weights of 25% (Interest Coverage), 50% (CF/Debt), and 25% (RCF/Debt).

Indicated Ratings reflect a three notch reduction from Weighted Average.

From Exhibit RJM-10 and Exhibit RJM-15.

EXHIBIT RJM-3

DPL INC. PRO FORMA FINANCIAL RATIOS  
WITH DMR, DIR-B AND RECONCILIATION RIDER  
2017 – 2022

Ratio	2017	2018	2019	2020	2021	2022
DMR, DIR-B and Reconciliation Rider Debt						
Debt/EBITDA						
Debt/Capital						
EBITDA/Interest						
Interest Coverage						
Cash Flow/Debt						
Retained Cash Flow/Debt						
Implied Moody's Rating - Regulated Interest Coverage						
Cash Flow/Debt						
Retained Cash Flow/Debt						
Debt/Capital						
Weighted Average Indicated Rating						
Implied Moody's Rating - Unregulated Interest Coverage						
Cash Flow/Debt						
Retained Cash Flow/Debt						
Weighted Average Indicated Rating						

Notes & Sources:

In thousands.

DIR in 2022 collected under DIR-A.

Interest Coverage = (CFO Pre-WC + Gross Interest Expense) / Gross Interest Expense.

Cash Flow/Debt = CFO Pre-WC / DPL Inc. Consolidated Total Debt.

Retained Cash Flow/Debt = (CFO Pre-WC - Dividends) / DPL Inc. Consolidated Total Debt.

Debt/Capital = DPL Inc. Consolidated Total Debt / Total Capitalization.

Implied Regulated Ratings calculated using Moody's Rating Methodology, 'Regulated Electric and Gas Utilities,' December 23, 2013. See Exhibit RJM-14.

Weighted Average based on weights of 18.75% (Interest Coverage), 37.50% (CF/Debt), 25.00% (RCF/Debt), and 18.75% (Debt/Capital).

Implied Unregulated Ratings calculated using Moody's Rating Methodology, 'Unregulated Utilities and Unregulated Power Companies,' October 31,

2014. See Exhibit RJM-14. Weighted Average based on weights of 25% (Interest Coverage), 50% (CF/Debt), and 25% (RCF/Debt).

Indicated Ratings reflect a three notch reduction from Weighted Average.

From Exhibit RJM-11 and Exhibit RJM-16.

EXHIBIT RJM-4

DP&L PRO FORMA FINANCIAL RATIOS  
WITHOUT DMR, DIR-B AND RECONCILIATION RIDER  
2017 – 2022

Ratio	2017	2018	2019	2020	2021	2022
DMR, DIR-B and Reconciliation Rider Debt						
Debt/EBITDA						
Debt/Capital						
EBITDA/Interest						
Interest Coverage						
Cash Flow/Debt						
Retained Cash Flow/Debt						
Implied Moody's Rating - Regulated						
Interest Coverage						
Cash Flow/Debt						
Retained Cash Flow/Debt						
Debt/Capital						
Weighted Average Indicated Rating						
Implied Moody's Rating - Unregulated						
Interest Coverage						
Cash Flow/Debt						
Retained Cash Flow/Debt						
Weighted Average Indicated Rating						

Notes & Sources:

In thousands.

Interest Coverage = (CFO Pre-WC + Gross Interest Expense) / Gross Interest Expense.

Cash Flow/Debt = CFO Pre-WC / DP&L Total Debt.

Retained Cash Flow/Debt = (CFO Pre-WC - Dividends) / DP&L Total Debt.

Debt/Capital = DP&L Total Debt. / Total Capitalization.

Implied Regulated Ratings calculated using Moody's Rating Methodology, 'Regulated Electric and Gas Utilities,' December 23, 2013. See Exhibit RJM-14.

Weighted Average based on weights of 18.75% (Interest Coverage), 37.50% (CF/Debt), 25.00% (RCF/Debt), and 18.75% (Debt/Capital).

Implied Unregulated Ratings calculated using Moody's Rating Methodology, 'Unregulated Utilities and Unregulated Power Companies,' October 31, 2014. See Exhibit RJM-14. Weighted Average based on weights of 25% (Interest Coverage), 50% (CF/Debt), and 25% (RCF/Debt).

Indicated Ratings reflect a three notch reduction from Weighted Average.

From Exhibit RJM-12 and Exhibit RJM-17.

**EXHIBIT RJM-5**

**DP&L PRO FORMA FINANCIAL RATIOS  
WITH DMR, DIR-B AND RECONCILIATION RIDER  
2017 – 2022**

Ratio	2017	2018	2019	2020	2021	2022
DMR, DIR-B and Reconciliation Rider Debt						
Debt/EBITDA						
Debt/Capital						
EBITDA/Interest						
Interest Coverage						
Cash Flow/Debt						
Retained Cash Flow/Debt						
Implied Moody's Rating - Regulated						
Interest Coverage						
Cash Flow/Debt						
Retained Cash Flow/Debt						
Debt/Capital						
Weighted Average						
Indicated Rating						

Notes & Sources:

In thousands.

DIR in 2022 collected under DIR-A.

Interest Coverage = (CFO Pre-WC + Gross Interest Expense) / Gross Interest Expense.

Cash Flow/Debt = CFO Pre-WC / DP&L Total Debt.

Retained Cash Flow/Debt = (CFO Pre-WC - Dividends) / DP&L Total Debt.

Debt/Capital = DP&L Total Debt. / Total Capitalization.

Implied Ratings calculated using Moody's Rating Methodology, 'Regulated Electric and Gas Utilities,' December 23, 2013. See Exhibit RJM-14.

Weighted Average based on weights of 18.75% (Interest Coverage), 37.50% (CF/Debt), 25.00% (RCF/Debt), and 18.75% (Debt/Capital).

Indicated Ratings reflect a three notch reduction from Weighted Average.

From Exhibit RJM-13 and Exhibit RJM-18.

EXHIBIT RJM-6

DP&L  
RETURN ON EQUITY (ROE)  
WITHOUT DMR, DIR-B AND RECONCILIATION RIDER

	2017	2018	2019	2020	2021	2022	Average 2017-2022
[1] Unadjusted ROE							
<b>Adjusted ROE</b>							
[2] Earnings Before Income Tax							
[3] Net Income							
[4] Total Shareholders' Equity							
[5] Prior Asset Impairment Charge							
[6] Total Shareholders' Equity, Excluding Asset Impairment							
[7] Average Annual ROE, Excluding Asset Impairment							

Notes & Sources:

- [1] = Net Income / Total Shareholders' Equity. See Exhibit RJM-17.
- [2] From Exhibit RJM-17.
- [3] = [2] \* (1 - 35.84%).
- [4] From Exhibit RJM-17.
- [5] From internal company projections.
- [6] = [4] + [5].
- [7] = [3] / [6].

EXHIBIT RJM-7

DP&L  
RETURN ON EQUITY (ROE)  
WITH DMR, DIR-B AND RECONCILIATION RIDER

	2017	2018	2019	2020	2021	2022	Average 2017-2022
[1] Unadjusted ROE							
Adjusted ROE							
[2] Earnings Before Income Tax							
[3] Less DMR, DIR-B and Reconciliation Rider							
[4] Earnings Before Income Tax, Excluding DMR, DIR-B and Reconciliation Rider							
[5] Net Income, Excluding DMR							
[6] Total Shareholders' Equity							
[7] Less Cumulative DMR, DIR-B and Reconciliation Rider							
[8] Prior Asset Impairment Charge							
[9] Total Shareholders' Equity, Excluding DMR, DIR-B and Reconciliation Rider and Asset Impairment							
[10] Total Shareholders' Equity, Excluding DMR, DIR-B and Reconciliation Rider							
[11] Average Annual ROE, Excluding DMR, DIR-B and Reconciliation Rider and Asset Impairment							
[12] Average Annual ROE, Excluding DMR, DIR-B and Reconciliation Rider							

Notes & Sources:

- [1] = Net Income / Total Shareholders' Equity. See Exhibit RJM-18.  
 [2]-[3] From Exhibit RJM-18.  
 [4] = [2] + [3].  
 [5] = [4] \* (1 - 35.84%).  
 [6] From Exhibit RJM-18.  
 [7] For 2017, equals DMR, DIR-B and Reconciliation Rider \* (1 - 35.84%). For subsequent years, equals prior year Cumulative DMR, DIR-B and Reconciliation Rider + current year DMR, DIR-B and Reconciliation Rider \* (1 - 35.84%).  
 [8] From internal company projections.  
 [9] = [6] + [7] + [8].  
 [10] = [6] + [7].  
 [11] = [5] / [9].  
 [12] = [5] / [10].

EXHIBIT RJM-8

SUMMARY OF DEBT ACTIVITY  
WITHOUT DMR, DIR-B AND RECONCILIATION RIDER  
2017 – 2022

2017 2018 2019 2020 2021 2022

Debt Issued by DPL Inc.					
[1] New Issuance					
[2] Contractual Paydown					
[3] Voluntary Paydown					
[4] Net Change in LT Debt					
[5] Revolver Draw (Paydown)					
[6] Net Change in Debt					
Debt Issued by DP&L					
[7] New Issuance					
[8] Contractual Paydown					
[9] Voluntary Paydown					
[10] Net Change in LT Debt					
[11] Revolver Draw (Paydown)					
[12] Net Change in Debt					
DPL Inc. Consolidated Debt					
[13] New Issuance					
[14] Contractual Paydown					
[15] Voluntary Paydown					
[16] Net Change in LT Debt					
[17] Revolver Draw (Paydown)					
[18] Net Change in Debt					
[19] DPL Parent Cash					
[20] DP&L Cash					
[21] Other Sub Cash					
[22] DPL Inc. Consolidated Cash					
[23] Div from (Equity to) DP&L					
[24] DPL Inc. Debt/Capital					

Notes & Sources:

In thousands.

[1]-[2] Based on internal Company projections.

[3], [5] Assumption.

[7]-[8] From internal Company projections.

[9], [11] Assumption.

[13] = [1] + [7].

[14] = [2] + [8].

[15] = [3] + [9].

[17] = [5] + [11].

[19] From Exhibit RJM-15.

[20] From Exhibit RJM-17.

[21] = 'Cash Held at Subsidiary Level' from Exhibit RJM-15 - [20].

[23] Assumption.



**EXHIBIT RJM-9**  
**SUMMARY OF DEBT ACTIVITY**  
**WITH DMR, DIR-B AND RECONCILIATION RIDER**  
**2017 – 2022**

	2017	2018	2019	2020	2021	2022
<b>Debt Issued by DPL Inc.</b>						
[1] New Issuance						
[2] Contractual Paydown						
[3] Voluntary Paydown						
<b>Net Change in LT Debt</b>						
[4] Revolver Draw (Paydown)						
[5] Net Change in Debt						
<b>Debt Issued by DP&amp;L</b>						
[7] New Issuance						
[8] Contractual Paydown						
[9] Voluntary Paydown						
<b>Net Change in LT Debt</b>						
[10] Revolver Draw (Paydown)						
[11] Net Change in Debt						
<b>DPL Inc. Consolidated Debt</b>						
[13] New Issuance						
[14] Contractual Paydown						
[15] Voluntary Paydown						
<b>Net Change in LT Debt</b>						
[16] Revolver Draw (Paydown)						
[17] Net Change in Debt						
<b>DPL Parent Cash</b>						
[19] DP&L Cash						
[20] Other Sub Cash						
<b>DPL Inc. Consolidated Cash</b>						
[22] Div from (Equity to) DP&L						
[23] DPL Inc. Debt/Capital						

**Notes & Sources:**

In thousands

[1]-[2] From internal Company projections.

[3], [5] Assumption.

[7]-[8] From internal Company projections.

[9], [11] Assumption.

[13] = [1] + [7].

[14] = [2] + [8].

[15] = [3] + [9].

[17] = [5] + [11].

[19] From Exhibit RJM-16.

[20] From Exhibit RJM-18.

[21] = 'Cash Held at Subsidiary Level' from Exhibit RJM-16 - [20].

[23] Based on internal Company projections.

EXHIBIT RJM-10

DPL INC.  
DATA FOR FINANCIAL RATIO CALCULATIONS  
WITHOUT DMR, DIR-B AND RECONCILIATION RIDER  
2017 – 2022

Description	2017	2018	2019	2020	2021	2022
<b>Statements of Income</b>						
[1] Total Revenue						
[2] Operating EBITDA						
[3] Operating Income						
[4] Gross Interest Expense						
[5] Depreciation and Amortization						
[6] Net Income						
<b>Statement of Cash Flows</b>						
[7] Net Cash Provided by Operating Activities						
[8] Change in Working Capital						
[9] Current Taxes Foregone by Parent						
[10] CFO Pre-WC						
[11] Capital Expenditures						
<b>Balance Sheet</b>						
<b>DPL Inc. Consolidated Debt</b>						
[12] Long-Term Debt						
[13] Current Portion of Long Term Debt						
[14] Short-Term Debt						
[15] Total DPL Inc. Consolidated Debt						
<b>DPL Inc. HoldCo Debt</b>						
[16] Long-Term Debt						
[17] Current Portion of Long Term Debt						
[18] Short-Term Debt						
[19] Total DPL Inc. Hold Co Debt						
<b>DP&amp;L Debt</b>						
[20] Long-Term Debt						
[21] Current Portion of Long Term Debt						
[22] Short-Term Debt						
[23] Total DP&L Debt						
[24] Shareholders' Equity						
[25] Deferred Taxes						
[26] Total Capitalization						

Notes & Sources:

In thousands.

[8] = change in Accounts Receivable + change in Inventories + change in Accounts Payable + change in Current Income Taxes Payable + change in Net General Taxes Payable + change in Accrued Interest Payable.

[10] = [7] - [8] - [9].

[26] = [15] + [24] + [25].

From Exhibit RJM-15 and Exhibit RJM-17.

EXHIBIT RJM-11

DPL INC.  
DATA FOR FINANCIAL RATIO CALCULATIONS  
WITH DMR, DIR-B AND RECONCILIATION RIDER  
2017 – 2022

Description	2017	2018	2019	2020	2021	2022
<b>Statements of Income</b>						
[1] Total Revenue						
[2] Operating EBITDA						
[3] Operating Income						
[4] Gross Interest Expense						
[5] Depreciation and Amortization						
[6] Net Income						
<b>Statement of Cash Flows</b>						
[7] Net Cash Provided by Operating Activities						
[8] Change in Working Capital						
[9] Current Taxes Foregone by Parent						
[10] CFO Pre-WC						
[11] Capital Expenditures						
<b>Balance Sheet</b>						
<b>DPL Inc. Consolidated Debt</b>						
[12] Long-Term Debt						
[13] Current Portion of Long Term Debt						
[14] Short-Term Debt						
[15] Total DPL Inc. Consolidated Debt						
<b>DPL Inc. HoldCo Debt</b>						
[16] Long-Term Debt						
[17] Current Portion of Long Term Debt						
[18] Short-Term Debt						
[19] Total DPL Inc. Hold Co Debt						
<b>DP&amp;L Debt</b>						
[20] Long-Term Debt						
[21] Current Portion of Long Term Debt						
[22] Short-Term Debt						
[23] Total DP&L Debt						
[24] Shareholders' Equity						
[25] Deferred Taxes						
[26] Total Capitalization						

Notes & Sources:

In thousands.

[8] = change in Accounts Receivable + change in Inventories + change in Accounts Payable + change in Current Income Taxes Payable + change in Net General Taxes Payable + change in Accrued Interest Payable.

[10] = [7] - [8] - [9].

[26] = [15] + [24] + [25].

From Exhibit RJM-16 and Exhibit RJM-18.

EXHIBIT RJM-12

DP&L  
DATA FOR FINANCIAL RATIO CALCULATIONS  
WITHOUT DMR, DIR-B AND RECONCILIATION RIDER  
2017 – 2022

Description	2017	2018	2019	2020	2021	2022
<u>Statements of Income</u>						
[1] Total Revenue						
[2] Operating EBITDA						
[3] Operating Income						
[4] Gross Interest Expense						
[5] Depreciation and Amortization						
[6] Net Income						
<u>Statement of Cash Flows</u>						
[7] Net Cash Provided by Operating Activities						
[8] Change in Working Capital						
[9] CFO Pre-WC						
[10] Capital Expenditures						
<u>Balance Sheet</u>						
DP&L Debt						
[11] Long-Term Debt						
[12] Current Portion of Long Term Debt						
[13] Short-Term Debt						
[14] Total DP&L Debt						
[15] Shareholders' Equity						
[16] Deferred Taxes						
[17] Total Capitalization						

Notes & Sources:

In thousands.

[8] = change in Accounts Receivable + change in Inventories + change in Accounts Payable + change in Current Income Taxes Payable  
+ change in Net General Taxes Payable + change in Accrued Interest Payable.

[9] = [7] - [8].

[17] = [14] + [15] + [16].

From Exhibit RJM-17.

EXHIBIT RJM-13

DP&L  
DATA FOR FINANCIAL RATIO CALCULATIONS  
WITH DMR, DIR-B AND RECONCILIATION RIDER  
2017 – 2022

Description	2017	2018	2019	2020	2021	2022
<u>Statements of Income</u>						
[1] Total Revenue						
[2] Operating EBITDA						
[3] Operating Income						
[4] Gross Interest Expense						
[5] Depreciation and Amortization						
[6] Net Income						
<u>Statement of Cash Flows</u>						
[7] Net Cash Provided by Operating Activities						
[8] Change in Working Capital						
[9] CFO Pre-WC						
[10] Capital Expenditures						
<u>Balance Sheet</u>						
DP&L Debt						
[11] Long-Term Debt						
[12] Current Portion of Long Term Debt						
[13] Short-Term Debt						
[14] Total DP&L Debt						
[15] Shareholders' Equity						
[16] Deferred Taxes						
[17] Total Capitalization						

Notes & Sources:

In thousands.

[8] = change in Accounts Receivable + change in Inventories + change in Accounts Payable + change in Current Income Taxes Payable  
+ change in Net General Taxes Payable + change in Accrued Interest Payable.

[9] = [7] - [8].

[17] = [14] + [15] + [16].

From Exhibit RJM-18.

# EXHIBIT RJM-14

## MOODY'S RATINGS TABLES

### Regulated Electric and Gas Utilities

Rating	Interest Coverage		CF/Debt		RCF/Debt		Debt/Capital	
	Min	Max	Min	Max	Min	Max	Min	Max
Aaa	8.0x	≥8.0x	40.0%	≥40.0%	35.0%	≥35.0%	<25.0%	25.0%
Aa	6.0x	8.0x	30.0%	40.0%	25.0%	35.0%	25.0%	35.0%
A	4.5x	6.0x	22.0%	30.0%	17.0%	25.0%	35.0%	45.0%
Baa	3.0x	4.5x	13.0%	22.0%	9.0%	17.0%	45.0%	55.0%
Ba	2.0x	3.0x	5.0%	13.0%	0.0%	9.0%	55.0%	65.0%
B	1.0x	2.0x	1.0%	5.0%	-5.0%	0.0%	65.0%	75.0%
Caa	<1.0x	1.0x	<1.0%	1.0%	<-5.0%	-5.0%	75.0%	≥75.0%

### Unregulated Utilities and Unregulated Power Companies

Rating	Interest Coverage		CF/Debt		RCF/Debt	
	Min	Max	Min	Max	Min	Max
Aaa	18.0x	≥18.0x	90.0%	≥90.0%	60.0%	≥60.0%
Aa	13.0x	18.0x	60.0%	90.0%	45.0%	60.0%
A	8.0x	13.0x	35.0%	60.0%	25.0%	45.0%
Baa	4.2x	8.0x	20.0%	35.0%	15.0%	25.0%
Ba	2.8x	4.2x	12.0%	20.0%	8.0%	15.0%
B	1.0x	2.8x	5.0%	12.0%	3.0%	8.0%
Caa	<1.0x	1.0x	<5.0%	5.0%	<3.0%	3.0%

#### Notes & Sources:

Interest Coverage = (CFO Pre-WC + Gross Interest Expense) / Gross Interest Expense.

CF/Debt = CFO Pre-WC / Total Debt.

RCF/Debt = (CFO Pre-WC - Dividends) / Total Debt.

Debt/Capital = Total Debt / Total Capitalization.

From Moody's Rating Methodology, "Regulated Electric and Gas Utilities," December 23, 2013, and Moody's Rating Methodology, Unregulated Utilities and Unregulated Power Companies, October 31, 2014.

EXHIBIT RJM-15A

DPL INC.  
INCOME STATEMENT  
WITHOUT DMR, DIR-B AND RECONCILIATION RIDER  
2017 – 2022

	2017	2018	2019	2020	2021	2022
<i>DMR, DIR-B and Reconciliation Rider</i>						
Retail Revenues						
Generation Sales						
Energy and Ancillary Sales						
Capacity Sales						
Wholesale Trading Revenues						
Other Generation Revenues						
Total Generation Revenues						
Other Revenues						
Total Revenues						
Cost of Revenues						
Fuel Related Costs						
Electricity Purchased For Resale						
Other						
Total Cost of Revenues						
Gross Margin						
O&M						
Taxes Other than Income Taxes						
Total Operating Expenses						
Operating EBITDA						
Depreciation and Amortization						
Operating Income						
Interest Expense						
Interest (Income) - Other						
Other Expense / (Income)						
Income Before Taxes						
Current Income Tax Expense						
Deferred Income Tax Expense						
Total Income Taxes						
Net Income						
Preferred Stock Dividend (Accrued)						
Net Income Attributable to AES						
Dividend to AES						
Retained Earnings						

Notes & Sources:

In thousands.

Surplus cash flows are used to prepay long-term debt. A cash flow deficit is covered by drawing on revolving line of credit.  
From internal Company projections.

EXHIBIT RJM-15B

DPL INC.

BALANCE SHEET

WITHOUT DMR, DIR-B AND RECONCILIATION RIDER

2016 – 2022

	2016	2017	2018	2019	2020	2021	2022
<b>ASSETS</b>							
Current Assets							
Cash Held at DPL Inc							
Restricted Cash Held at DPL Inc							
Cash Held at Subsidiary Level							
Accounts Receivable							
Inventory - Fuel and Raw Materials							
Inventory - Spare Parts and Supplies							
General Taxes Applicable to Future Years							
Regulatory Assets - Fixed							
Other Current Assets - Fixed							
Total Current Assets							
Property, Plant & Equipment							
Gross Plant in Service							
Construction Work in Progress							
Accumulated Depreciation							
Net PP&E							
Other Non-Current Assets							
TOTAL ASSETS							
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>							
Current Liabilities							
Accounts Payable							
Current Portion of Long-Term Debt							
Short-Term Debt							
Current Income Taxes Payable							
Other Current Liabilities							
Total Current Liabilities							
Non-Current Liabilities							
Long-Term Debt							
Deferred Income Taxes - Non-Current							
Other Non-Current Liabilities							
Total Non-Current Liabilities							
Shareholders' Equity							
Additional Paid-in Capital							
Cumulative Patent Equity Infusion							
Retained Earnings (Accumulated Deficit)							
Total Common Shareholders' Equity							
Non-Controlling Interests (Preferred Stock)							
Total Stockholders' Equity (Deficit)							
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY							

Notes & Sources:

In thousands.

Surplus cash flows are used to prepay long-term debt. A cash flow deficit is covered by drawing on revolving line of credit.

From internal company projections.



EXHIBIT RJM-15C

DPL INC.  
CASH FLOWS  
WITHOUT DMR, DIR-B AND RECONCILIATION RIDER  
2017 – 2022

	2017	2018	2019	2020	2021	2022
Operating Activities						
Net Income (Loss)						
Adjustments						
Depreciation and Amortization						
(Decrease) Increase in Accounts Payable						
Pension Contributions and Regulatory Assets						
Decrease (Increase) in Accounts Receivable						
Inventory						
Other Operating Cash Flows						
Net Cash Provided by Operating Activities						
Investing Activities						
CapEx						
Other Investing Activities						
Net Cash Used in Investing Activities						
Financing Activities						
Net borrowings Under Revolving Credit Facilities						
Issuance of Debt						
Repayments of Debt						
Debt Issuance Fees						
Preferred Stock Dividends Paid						
Dividends Paid to AES Corp						
Net Cash Provided by / (Used for) Financing Activities						
(Decrease) Increase in Cash and Cash Equivalents						

Notes & Sources:

In thousands

Surplus cash flows are used to prepay long-term debt. A cash flow deficit is covered by drawing on revolving line of credit.  
From internal Company projections.

**EXHIBIT RJM-16A**  
**DPL INC.**  
**INCOME STATEMENT**  
**WITH DMR, DIR-B AND RECONCILIATION RIDER**  
**2017 – 2022**

	2017	2018	2019	2020	2021	2022
<i>DMR, DIR-B and Reconciliation Rider</i>						
Retail Revenues						
Generation Sales						
Energy and Ancillary Sales						
Capacity Sales						
Wholesale Trading Revenues						
Other Generation Revenues						
Total Generation Revenues						
Other Revenues						
Total Revenues						
Cost of Revenues						
Fuel Related Costs						
Electricity Purchased For Resale						
Other						
Total Cost of Revenues						
Gross Margin						
O&M						
Taxes Other than Income Taxes						
Total Operating Expenses						
Operating EBITDA						
Depreciation and Amortization						
Operating Income						
Interest Expense						
Interest (Income) - Other						
Other Expense / (Income)						
Income Before Taxes						
Current Income Tax Expense						
Deferred Income Tax Expense						
Total Income Taxes						
Net Income						
Preferred Stock Dividend (Accrued)						
Net Income Attributable to AES						
Dividend to AES						
Retained Earnings						

**Notes & Sources:**  
In thousands.  
Surplus cash flows are used to prepay long-term debt. A cash flow deficit is covered by drawing on revolving line of credit. DIR in 2022 collected under DIR-A.  
From internal Company projections.

**EXHIBIT RJM-16B**  
**DPL INC.**  
**BALANCE SHEET**  
**WITH DMR, DIR-B AND RECONCILIATION RIDER**  
**2016 – 2022**

	2016	2017	2018	2019	2020	2021	2022
<b>ASSETS</b>							
Current Assets							
Cash Held at DPL Inc							
Restricted Cash Held at DPL Inc							
Cash Held at Subsidiary Level							
Accounts Receivable							
Inventory - Fuel and Raw Materials							
Inventory - Spare Parts and Supplies							
General Taxes Applicable to Future Years							
Regulatory Assets - Fixed							
Other Current Assets - Fixed							
Total Current Assets							
Property, Plant & Equipment							
Gross Plant in Service							
Construction Work in Progress							
Accumulated Depreciation							
Net PP&E							
Other Non-Current Assets							
<b>TOTAL ASSETS</b>							
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>							
Current Liabilities							
Accounts Payable							
Current Portion of Long-Term Debt							
Short-Term Debt							
Current Income Taxes Payable							
Other Current Liabilities							
Total Current Liabilities							
Non-Current Liabilities							
Long-Term Debt							
Deferred Income Taxes - Non-Current							
Other Non-Current Liabilities							
Total Non-Current Liabilities							
Shareholders' Equity							
Additional Paid-in Capital							
Cumulative Parent Equity Infusion							
Retained Earnings (Accumulated Deficit)							
Total Common Shareholders' Equity							
Non-Controlling Interests (Preferred Stock)							
Total Stockholders' Equity (Deficit)							
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>							

**Notes & Sources:**

In thousands.

Surplus cash flows are used to prepay long-term debt. A cash flow deficit is covered by drawing on revolving line of credit. DIR in 2022 collected under DIR-A.

From internal Company projections.

EXHIBIT RJM-16C

DPL INC.  
CASH FLOWS  
WITH DMR, DIR-B AND RECONCILIATION RIDER  
2017 – 2022

	2017	2018	2019	2020	2021	2022
Operating Activities						
Net Income (Loss)						
Adjustments						
Depreciation and Amortization						
Provision for Deferred Taxes						
(Decrease) Increase in Accounts Payable,						
Pension Contributions and Regulatory Assets						
Decrease (Increase) in Accounts Receivable						
Inventory						
Other Operating Cash Flows						
Net Cash Provided by Operating Activities						
Investing Activities						
CapEx						
Other Investing Activities						
Net Cash Used in Investing Activities						
Financing Activities						
Net borrowings Under Revolving Credit Facilities						
Issuance of Debt						
Repayments of Debt						
Debt Issuance Fees						
Preferred Stock Dividends Paid						
Dividends Paid to AES Corp						
Net Cash Provided by / (Used for) Financing Activities						
(Decrease) Increase in Cash and Cash Equivalents						

Notes & Sources:

In thousands.

Surplus cash flows are used to prepay long-term debt. A cash flow deficit is covered by drawing on revolving line of credit. DIR in 2022 collected under DIR-A. From internal Company projections.

EXHIBIT RJM-17A

DP&L  
INCOME STATEMENT  
WITHOUT DMR, DIR-B AND RECONCILIATION RIDER  
2017 – 2022

	2017	2018	2019	2020	2021	2022
Total Transmission Revenues						
Total Distribution Revenues						
DMR, DIR-B and Reconciliation Rider						
Total SSO Revenues						
Total Trading Book Revenues						
Total DP&L Generation Revenues						
Total Revenues						
Total Transmission COGS						
Total Distribution COGS						
Total SSO COGS						
Total Trading Book COGS						
Total DP&L Generation COGS						
Total Cost of Revenues						
Gross Margin						
Direct O&M Expense						
Indirect O&M Expense						
General Taxes						
Total Operating Expenses						
Operating EBITDA						
Depreciation and Amortization						
Operating Income						
Interest Expense						
Interest (Income) - Other						
Other Expense / (Income)						
Income before taxes, M1 & EE						
Current Income Tax Expense						
Deferred Income Tax Expense						
Total Income Taxes						
Net Income						
Preferred Stock Dividend (Accrued)						
Net Income Available to Parent						
Dividend to Parent						
Retained Earnings						

Notes & Sources:

In thousands.

Surplus cash flows are used to prepay long-term debt. A cash flow deficit is covered by drawing on revolving line of credit.  
From internal Company projections.

EXHIBIT RJM-17B

DP&L  
BALANCE SHEET  
WITHOUT DMR, DIR-B AND RECONCILIATION RIDER  
2016 – 2022

2016 2017 2018 2019 2020 2021 2022

ASSETS						
Unrestricted Cash Held at DP&L						
Restricted Cash Held at DP&L						
Accounts Receivable						
Inventory - Fuel and Raw Materials						
Inventory - Spare Parts and Supplies						
General Taxes Applicable to Future Years						
Regulatory Assets - Fixed						
Other Current Assets - Fixed						
Total Current Assets						
Gross Plant in Service						
Construction Work in Progress						
Accumulated Depreciation						
Net PP&E						
Other Non-Current Assets - Fixed						
Loss on Reacquired Debt						
Deferred Financing Costs						
Unrealized Loss on Pension - Fixed						
Other Deferred Assets (Incl. OVEC) - Fixed						
Total Deferred and Non-Current Assets						
TOTAL ASSETS						
LIABILITIES AND SHAREHOLDERS' EQUITY						
Accounts Payable						
Current Portion of Long Term Debt						
Short-Term Debt						
Current Income Taxes Payable						
Other Current Liabilities						
Total Current Liabilities						
Long Term Debt						
Interest Rate Hedges						
Accumulated Deferred Income Taxes						
Unamortized Investment Tax Credit						
Regulatory Liabilities - Fixed						
Pension & Benefit - Fixed						
Other Non-Current Liabilities - Fixed						
Total Deferred Credits & Non-Current Liabilities						
Beginning Equity						
Retained Earnings						
Total Common Shareholder's Equity						
Preferred Stock						
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY						

Notes & Sources:  
In thousands  
Surplus cash flows are used to prepay long-term debt. A cash flow deficit is covered by drawing on revolving line of credit.  
From internal Company projections.

EXHIBIT RJM-17C

DP&L  
CASH FLOWS  
WITHOUT DMR, DIR-B AND RECONCILIATION RIDER  
2017 – 2022

2017 2018 2019 2020 2021 2022

Operating Activities					
Net Income					
Adjustments					
Depreciation and Amortization					
Deferred Income Taxes					
Current Income Taxes					
(Decrease) Increase in Accounts Payable and Regulatory Assets					
Decrease (Increase) in Accounts Receivable					
Inventory					
Accrued Interest					
Capitalized Interest in Interest Expense					
Equity AFUDC in Other Expense / (Income)					
Customer Deposits					
Net General Taxes Payable					
Investment Tax Credits					
Net cash provided by operating activities					
Investing Activities					
Capital expenditures					
Net cash used for investing activities					
Financing Activities					
Issuance of L.T. Debt					
(Retirement) of L.T. Debt					
Debt issuance fees					
Issuance/(Retirement) of Short-term Debt					
Preferred Stock Dividends Paid					
Dividend paid to parent					
Net cash provided by financing activities					
Cash and Temporary Cash Investments					
(Decrease) Increase in Cash and Cash Equivalents					

Notes & Sources:

In thousands.

Surplus cash flows are used to prepay long-term debt. A cash flow deficit is covered by drawing on revolving line of credit.

From internal Company projections.

EXHIBIT RJM-18A

DP&L  
INCOME STATEMENT  
WITH DMR, DIR-B AND RECONCILIATION RIDER  
2017 – 2022

	2017	2018	2019	2020	2021	2022
Total Transmission Revenues						
Total Distribution Revenues						
DMR, DIR-B and Reconciliation Rider						
Total SSO Revenues						
Total Trading Book Revenues						
Total DP&L Generation Revenues						
Total Revenues						
Total Transmission COGS						
Total Distribution COGS						
Total SSO COGS						
Total Trading Book COGS						
Total DP&L Generation COGS						
Total Cost of Revenues						
Gross Margin						
Direct O&M Expense						
Indirect O&M Expense						
General Taxes						
Total Operating Expenses						
Operating EBITDA						
Depreciation and Amortization						
Operating Income						
Interest Expense						
Interest (Income) - Other						
Other Expense / (Income)						
Income before taxes, MI & EE						
Current Income Tax Expense						
Deferred Income Tax Expense						
Total Income Taxes						
Net Income						
Preferred Stock Dividend (Accrued)						
Net Income Available to Parent						
Dividend to Parent						
Retained Earnings						

Notes & Sources:

In thousands.

Surplus cash flows are used to prepay long-term debt. A cash flow deficit is covered by drawing on revolving line of credit. DIR in 2022 collected under DIR-A.

From internal Company projections.



**EXHIBIT RJM-18B**

**DP&L  
BALANCE SHEET  
WITH DMR, DIR-B AND RECONCILIATION RIDER  
2016 – 2022**

2016 2017 2018 2019 2020 2021 2022

<b>ASSETS</b>						
Unrestricted Cash Held at DP&L						
Restricted Cash Held at DP&L						
Accounts Receivable						
Inventory - Fuel and Raw Materials						
Inventory - Spare Parts and Supplies						
General Taxes Applicable to Future Years						
Regulatory Assets - Fixed						
Other Current Assets - Fixed						
<b>Total Current Assets</b>						
Gross Plant in Service						
Construction Work in Progress						
Accumulated Depreciation						
<b>Net PP&amp;E</b>						
Other Non-Current Assets - Fixed						
Loss on Reacquired Debt						
Deferred Financing Costs						
Unrealized Loss on Pension - Fixed						
Other Deferred Assets (Incl. OVEC) - Fixed						
<b>Total Deferred and Non-Current Assets</b>						
<b>TOTAL ASSETS</b>						
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
Accounts Payable						
Current Portion of Long Term Debt						
Short-Term Debt						
Current Income Taxes Payable						
Other Current Liabilities						
<b>Total Current Liabilities</b>						
Long Term Debt						
Interest Rate Hedges						
Accumulated Deferred Income Taxes						
Unamortized Investment Tax Credit						
Regulatory Liabilities - Fixed						
Pension & Benefit - Fixed						
Other Non-Current Liabilities - Fixed						
<b>Total Deferred Credits &amp; Non-Current Liabilities</b>						
Beginning Equity						
Retained Earnings						
<b>Total Common Shareholder's Equity</b>						
Preferred Stock						
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>						

Notes & Sources:

In thousands

Surplus cash flows are used to prepay long-term debt. A cash flow deficit is covered by drawing on revolving line of credit. DIR in 2022 collected under DIR-A. From internal Company projections.

EXHIBIT RJM-18C

DP&L  
CASH FLOWS  
WITH DMR, DIR-B AND RECONCILIATION RIDER  
2017 – 2022

	2017	2018	2019	2020	2021	2022
Operating Activities						
Net Income						
Adjustments						
Depreciation and Amortization						
Deferred Income Taxes						
Current Income Taxes						
(Decrease) Increase in Accounts Payable and Regulatory Assets						
Decrease (Increase) in Accounts Receivable						
Inventory						
Accrued Interest						
Capitalized Interest in Interest Expense						
Equity AFUDC in Other Expense / (Income)						
Customer Deposits						
Net General Taxes Payable						
Investment Tax Credits						
Net cash provided by operating activities						
Investing Activities						
Capital expenditures						
Net cash used for investing activities						
Financing Activities						
Issuance of LT Debt						
(Retirement) of LT Debt						
Debt Issuance fees						
Issuance/(Retirement) of Short-term Debt						
Preferred Stock Dividends Paid						
Dividend paid to parent						
Net cash provided by financing activities						
- Cash and Temporary Cash Investments						
(Decrease) Increase in Cash and Cash Equivalents						

Notes & Sources:

In thousands

Surplus cash flows are used to prepay long-term debt. A cash flow deficit is covered by drawing on revolving line of credit. DIR in 2022 collected under DIR-A.  
From internal Company projections.

**EXHIBIT RJM-19**

**DPL INC. AND DP&L  
OUTSTANDING DEBT AS OF SEPTEMBER 30, 2016**

	Amount Outstanding	Issued Amount	Interest Rate	Maturity Date
DPL Inc. HoldCo				
Term Loan	\$125,000	\$200,000	Variable	7/31/2020 <sup>2</sup>
2016 Bonds	\$57,000	\$450,000	6.500%	10/15/2016
2019 Bonds	\$200,000	\$200,000 <sup>1</sup>	6.750%	10/1/2019
2021 Bonds	\$780,000	\$800,000	7.250%	10/15/2021
DPL Capital Trust II	\$15,571	\$20,571	8.125%	9/1/2031
Revolver	-	\$205,000	Variable	5/10/2018
DPL Inc. HoldCo Total	\$1,177,571	\$1,675,571		
DP&L				
2016 Term Loan B FMB	\$445,000	\$445,000	4.000%	9/15/2027
2006 Ohio Air Quality	\$100,000	\$100,000	4.800%	9/1/2036
2015 Ohio Air Quality Series A	\$100,000	\$100,000	Variable	7/1/2020
2015 Ohio Air Quality Series B	\$100,000	\$100,000	Variable	7/1/2020
WPAFB Purchase Note (US Gov't)	\$18,103	\$18,691	4.200%	2/28/2061
Preferred Series A, B, C	\$22,851	\$22,851	4.710%	N/A
Revolver (PNC)	-	\$175,000	Variable	7/31/2020
DP&L Total	\$785,954	\$961,542		
DPL Inc. Consolidated Total	\$1,963,525	\$2,637,113		

Notes & Sources:

<sup>1</sup> The \$200 million issued amount of the 2019 Bonds was initially part of the 2016 Bonds so is excluded from the total to avoid double counting.

<sup>2</sup> Under certain provisions, it could be July 1, 2019.

In thousands.

From internal Company data.

**EXHIBIT RJM-20**

**STIPULATION AND RECOMMENDATION  
QUANTIFIABLE BENEFITS**

Project	Period	One Year	Five Years
Economic Development Grant Fund	Annually for Five Years	\$1,000,000	\$5,000,000
Additional Economic Development Grant Fund	Over the Term		\$2,000,000
City of Dayton: Residential Energy Education	First Year		\$50,000
City of Dayton: Property Assessed Clean Energy	First Year		\$150,000
City of Dayton: Equipment for Dayton International Airport.	One Time		\$50,000
City of Dayton: Economic Development Programs	Annually for Five Years	\$200,000	\$1,000,000
Edgemont: Consumers At or Below 200% Poverty line	Annually for Five Years	\$565,000	\$2,825,000
OHA: To Promote Energy Savings Among Members	First Year		\$200,000
PWC: Programs Which Assist Low Income, Elderly, and Disabled Customers	First Year		\$200,000
<b>Total</b>			<b>\$11,475,000</b>

Notes & Sources:

From Stipulation and Recommendation, Public Utilities Commission of Ohio Case Nos. 16-0395-EL-SSO, 16-0396-EL-ATA, 16-0397-EL-AAM, January 30, 2017, at 12-13, 29-30, 33-37.

EXHIBIT RJM-21

MOODY'S RATINGS TEST  
AS OF FEBRUARY 16, 2016

	AEP Company, Inc.		FirstEnergy Corp.		Duke Energy Corporation		DPL Inc.		
	Weight	Ratios	Rating	Ratios	Rating	Ratios	Rating	Ratios	Rating
Interest Coverage	18.75%	[A]		[B]		[C]		[D]	
CF / Debt	37.50%	5.5	A	3.7	Baa	5.2	A	3	Baa
RCF / Debt	25.00%	21.0%	Baa	13.9%	Baa	16.5%	Baa	10.9%	Ba
Debt / Capitalization	18.75%	16.3%	Baa	11.6%	Baa	11.4%	Baa	10.6%	Baa
Structural Subordination Notching		43.9%	A	54.7%	Baa	44.7%	A	74.3%	B
Indicated Rating				-1			-1		-3
Assigned Rating			Baa1		Baa3		Baa2		B1
Notch Difference			Baa1		Baa3		Baa1		Ba3
			0		0		1		1

Notes & Sources:

- [A] Moody's Credit Opinion, November 30, 2015.
- [B] Moody's Credit Opinion, January 20, 2016.
- [C] Moody's Credit Opinion, January 15, 2016.
- [D] Moody's Credit Opinion, October 13, 2015.

Interest Coverage = (CFO Pre-WC + Gross Interest Expense) / Interest Expense.

Cash Flow/Debt = CFO Pre-WC / Total DPL Inc. Consolidated Debt.

Retained Cash Flow/Debt = (CFO Pre-WC - Dividends) / Total DPL Inc. Consolidated Debt.

Debt/Capital = Total DPL Inc. Consolidated Debt / Total Capitalization.

Indicated Rating calculated using weights from Moody's report "Regulated Electric and Gas Utilities," December 2013.

**EXHIBIT RJM-22A**

**DPL INC.  
INCOME STATEMENT  
2010 – 2016<sup>1</sup>**

	2010	2011	2012	2013	2014	2015	2016 <sup>1</sup>
Revenues	\$1,831	\$1,828	\$1,668	\$1,579	\$1,717	\$1,613	\$692
Cost of revenues							
Fuel	\$384	\$392	\$362	\$367	\$305	\$260	\$127
Purchased power	\$387	\$441	\$342	\$383	\$588	\$563	\$219
Amortization of intangibles	-	-	\$95	-	-	-	-
Total cost of revenues	\$771	\$845	\$799	\$750	\$892	\$822	\$346
Gross margin	\$1,060	\$983	\$869	\$829	\$824	\$790	\$346
Operating expenses							
Operation and maintenance	\$341	\$425	\$406	\$366	\$362	\$361	\$166
Depreciation and amortization	\$139	\$141	\$125	\$129	\$136	\$135	\$69
General taxes	\$76	\$83	\$80	\$77	\$88	\$87	\$43
Goodwill impairment	-	-	\$1,817	\$306	-	\$317	-
Fixed-asset impairment	-	-	-	\$26	\$12	-	\$236
Other	-	-	\$0	\$3	(\$4)	\$0	\$0
Total operating expenses	\$556	\$649	\$2,429	\$907	\$593	\$900	\$513
Operating Income (Loss)	\$504	\$334	(\$1,559)	(\$77)	\$231	(\$110)	(\$167)
Other income /expense (net)							
Investment income	\$2	\$1	\$3	\$1	\$1	\$0	\$0
Interest expense	(\$71)	(\$70)	(\$123)	(\$124)	(\$127)	(\$118)	(\$52)
Charge for early redemption of debt	-	-	-	(\$3)	(\$31)	(\$2)	(\$3)
Other deductions	(\$2)	(\$2)	(\$2)	(\$3)	(\$2)	(\$1)	(\$1)
Total other expense, net	(\$71)	(\$87)	(\$123)	(\$128)	(\$158)	(\$122)	(\$55)
Earnings/loss from operations before income tax	\$433	\$247	(\$1,682)	(\$206)	\$73	(\$231)	(\$222)
Income tax expense	\$143	\$103	\$48	\$20	\$15	\$20	(\$88)
Net Income (Loss)	\$290	\$144	(\$1,730)	(\$226)	\$57	(\$251)	(\$135)

**Notes & Sources:**

In millions.

<sup>1</sup> Through June 30, 2016.

2010 data from DPL Inc. and The Dayton Power and Light Company Form 10-K for the fiscal year ended December 31, 2012 at 77.  
2011 data from DPL Inc. and The Dayton Power and Light Company Form 10-K for the fiscal year ended December 31, 2013 at 80.  
2012 data from DPL Inc. and The Dayton Power and Light Company Form 10-K for the fiscal year ended December 31, 2014 at 68.  
2013, 2014, and 2015 data from DPL Inc. and The Dayton Power and Light Company Form 10-K for the fiscal year ended December 31, 2015 at 13.  
2016 data from DPL Inc. and The Dayton Power and Light Company Form 10-Q for the quarterly period ended June 30, 2016 at 10.

EXHIBIT RJM-22B

**DPL INC.  
INCOME STATEMENT  
PERCENTAGE OF REVENUE  
2010 – 2016<sup>1</sup>**

	2010	2011	2012	2013	2014	2015	2016 <sup>1</sup>
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues							
Fuel	21.0%	21.4%	21.7%	23.2%	17.7%	16.1%	18.4%
Purchased power	21.2%	24.1%	20.5%	24.3%	34.2%	34.9%	31.6%
Amortization of intangibles	-	-	5.7%	-	-	-	-
Total cost of revenues	42.1%	46.2%	47.9%	47.5%	52.0%	51.0%	50.0%
Gross margin	57.9%	53.8%	52.1%	52.5%	48.0%	49.0%	50.0%
Operating expenses							
Operation and maintenance	18.6%	23.3%	24.4%	23.2%	21.1%	22.4%	23.9%
Depreciation and amortization	7.6%	7.7%	7.5%	8.2%	7.9%	8.3%	10.0%
General taxes	4.1%	4.5%	4.8%	4.9%	5.1%	5.4%	6.2%
Goodwill impairment	-	-	108.9%	19.4%	-	19.7%	-
Fixed-asset impairment	-	-	-	1.7%	0.7%	-	34.0%
Other	-	-	0.0%	0.2%	(0.2%)	0.0%	0.0%
Total operating expenses	30.3%	35.5%	145.6%	57.4%	34.6%	55.8%	74.1%
Operating Income (Loss)	27.5%	18.3%	(93.5%)	(4.9%)	13.4%	(6.8%)	(24.1%)
Other income /expense (net)							
Investment income	0.1%	0.0%	0.1%	0.1%	0.1%	0.0%	0.0%
Interest expense	(3.9%)	(3.8%)	(7.4%)	(7.9%)	(7.4%)	(7.3%)	(7.6%)
Charge for early redemption of debt	-	-	-	(0.2%)	(1.8%)	(0.1%)	(0.4%)
Other deductions	(0.1%)	(0.1%)	(0.1%)	(0.2%)	(0.1%)	(0.1%)	(0.1%)
Total other expense, net	(3.9%)	(4.8%)	(7.4%)	(8.1%)	(9.2%)	(7.5%)	(8.0%)
Earnings/loss from operations before income tax	23.7%	13.5%	(100.8%)	(13.0%)	4.2%	(14.3%)	(32.1%)
Income tax expense	7.8%	5.6%	2.9%	1.3%	0.9%	1.2%	(12.7%)
Net Income (Loss)	15.9%	7.9%	(103.7%)	(14.3%)	3.3%	(15.6%)	(19.4%)

Notes & Sources:

<sup>1</sup> Through June 30, 2016.  
From Exhibit RJM-22A.

**EXHIBIT RJM-23**

**DPL INC.  
BALANCE SHEET  
2010 – 2016<sup>1</sup>**

	2010	2011	2012	2013	2014	2015	2016 <sup>1</sup>
	[A]	[B]	[C]	[D]	[E]	[F]	[G]
<b>Current assets</b>							
Cash and cash equivalents	\$124	\$174	\$192	\$53	\$17	\$32	\$73
Short-term investments <sup>2</sup>	-	-	-	-	\$67	\$62	-
Restricted cash	-	\$14	\$11	\$14	\$17	\$93	\$33
Accounts receivable, net	\$216	\$219	\$208	\$203	\$137	\$121	\$108
Inventories	\$113	\$126	\$110	\$83	\$100	\$109	\$88
Taxes applicable to subsequent years	\$64	\$77	\$69	\$71	\$78	\$81	\$39
Regulatory assets, current	\$22	\$21	\$21	\$21	\$44	\$14	\$0
Other prepayments and current assets	\$41	\$38	\$43	\$35	\$39	\$45	\$51
<b>Total current assets</b>	<b>\$648</b>	<b>\$667</b>	<b>\$655</b>	<b>\$479</b>	<b>\$499</b>	<b>\$557</b>	<b>\$392</b>
<b>Property, plant and equipment</b>							
Property, plant and equipment	\$5,354	\$2,360	\$2,590	\$2,677	\$2,754	\$2,909	\$2,679
Less: Accumulated depreciation and amortization	(\$2,555)	(\$8)	(\$116)	(\$207)	(\$318)	(\$432)	(\$449)
Construction work in process	\$120	\$152	\$89	\$64	\$76	\$85	\$98
<b>Total net property, plant and equipment</b>	<b>\$2,918</b>	<b>\$2,505</b>	<b>\$2,564</b>	<b>\$2,534</b>	<b>\$2,513</b>	<b>\$2,562</b>	<b>\$2,327</b>
<b>Other non-current assets</b>							
Regulatory assets, non-current	\$167	\$193	\$186	\$160	\$168	\$180	\$186
Goodwill	-	\$2,576	\$759	\$453	\$317	-	-
Intangible assets, net of amortization	\$3	\$142	\$50	\$43	\$8	\$5	\$1
Other deferred assets	\$78	\$52	\$34	\$53	\$40	\$21	\$25
Assets held for sale - non-current	-	-	-	-	\$35	-	-
<b>Total other non-current assets</b>	<b>\$248</b>	<b>\$2,964</b>	<b>\$1,029</b>	<b>\$708</b>	<b>\$567</b>	<b>\$206</b>	<b>\$212</b>
<b>Total Assets</b>	<b>\$3,813</b>	<b>\$6,136</b>	<b>\$4,247</b>	<b>\$3,722</b>	<b>\$3,578</b>	<b>\$3,325</b>	<b>\$2,931</b>
<b>Current liabilities</b>							
Current portion - long-term debt	\$298	\$0	\$585	\$10	\$20	\$573	\$514
Accounts payable	\$99	\$111	\$83	\$78	\$94	\$98	\$81
Accrued taxes	\$68	\$63	\$97	\$89	\$103	\$142	\$158
Accrued interest	\$18	\$30	\$32	\$29	\$27	\$21	\$21
Customer security deposits	\$19	\$16	\$15	\$14	\$14	\$15	\$15
Regulatory liabilities, current	\$10	\$1	\$0	-	\$4	\$24	\$30
Insurance and claims costs	-	\$14	\$12	\$7	\$6	\$6	\$6
Other current liabilities <sup>3</sup>	\$43	\$69	\$97	\$64	\$46	\$130	\$65
Liabilities held for sale - current	-	-	-	-	\$17	\$2	-
<b>Total current liabilities</b>	<b>\$555</b>	<b>\$305</b>	<b>\$921</b>	<b>\$291</b>	<b>\$333</b>	<b>\$1,011</b>	<b>\$889</b>
<b>Non-current liabilities</b>							
Long-term debt	\$1,027	\$2,629	\$2,025	\$2,284	\$2,140	\$1,421	\$1,409
Deferred taxes	\$623	\$541	\$535	\$564	\$587	\$569	\$467
Taxes payable	\$114	\$97	\$68	\$79	\$81	\$84	\$39
Regulatory liabilities, non-current	\$65	\$119	\$117	\$121	\$124	\$127	\$129
Pension, retiree and other benefits	\$32	\$48	\$62	\$52	\$96	\$87	\$80
Unamortized investment tax credit	\$10	\$4	\$3	\$3	-	-	-
Other deferred credits	\$146	\$146	\$71	\$69	\$51	\$88	\$91
Liabilities held for sale - non-current	-	-	-	-	\$0	-	-
<b>Total non-current liabilities</b>	<b>\$2,017</b>	<b>\$3,582</b>	<b>\$2,882</b>	<b>\$3,173</b>	<b>\$3,078</b>	<b>\$2,376</b>	<b>\$2,216</b>
<b>Redeemable preferred stock of subsidiary</b>	<b>\$23</b>	<b>\$18</b>	<b>\$18</b>	<b>\$18</b>	<b>\$18</b>	<b>\$18</b>	<b>\$18</b>
<b>Common shareholder's equity</b>							
Other paid-in capital	-	-	-	\$2,237	\$2,237	\$2,238	\$2,238
Accumulated other comprehensive income	(\$19)	(\$0)	(\$4)	\$25	\$8	\$17	\$12
Retained Earnings (Deficit)	\$1,246	(\$6)	(\$1,806)	(\$2,022)	(\$2,097)	(\$2,336)	(\$2,441)
<b>Total common shareholder's equity</b>	<b>\$1,219</b>	<b>\$2,231</b>	<b>\$427</b>	<b>\$240</b>	<b>\$148</b>	<b>(\$81)</b>	<b>(\$191)</b>
<b>Total Liabilities and Shareholder's Equity</b>	<b>\$3,813</b>	<b>\$6,136</b>	<b>\$4,247</b>	<b>\$3,722</b>	<b>\$3,578</b>	<b>\$3,325</b>	<b>\$2,931</b>



**EXHIBIT RJM-23**

**DPL INC.  
BALANCE SHEET  
2010 – 2016<sup>1</sup>**

Notes & Sources:

In millions.

<sup>1</sup> Through June 30, 2016.

<sup>2</sup> Includes "Assets held for sales - current."

<sup>3</sup> Includes deposit received on sale of DPLER.

[A] From DPL Inc. and The Dayton Power and Light Company Form 10-K/A for the fiscal year ended December 31, 2011 at 78-79.

[B] From DPL Inc. and The Dayton Power and Light Company Form 10-K for the fiscal year ended December 31, 2012 at 81-82.

[C] From DPL Inc. and The Dayton Power and Light Company Form 10-K for the fiscal year ended December 31, 2013 at 84-85.

[D] From DPL Inc. and The Dayton Power and Light Company Form 10-K for the fiscal year ended December 31, 2014 at 72-73.

[E] From DPL Inc. and The Dayton Power and Light Company Form 10-K for the fiscal year ended December 31, 2015 at 15.

[F], [G] From DPL Inc. and The Dayton Power and Light Company Form 10-Q for the quarterly period ended June 30, 2016 at 12.

EXHIBIT RJM-24A

DP&L  
INCOME STATEMENT  
2010 – 2016<sup>1</sup>

	2010	2011	2012	2013	2014	2015	2016 <sup>1</sup>
Revenues	\$1,739	\$1,678	\$1,532	\$1,552	\$1,668	\$1,552	\$663
Cost of revenues							
Fuel	\$372	\$381	\$355	\$363	\$315	\$245	\$119
Purchased power	\$384	\$402	\$310	\$382	\$582	\$556	\$218
Total cost of revenues	\$755	\$782	\$664	\$744	\$897	\$800	\$337
Gross margin	\$983	\$896	\$867	\$807	\$771	\$752	\$326
Operating expenses							
Operation and maintenance	\$330	\$365	\$386	\$364	\$355	\$351	\$163
Depreciation and amortization	\$131	\$135	\$141	\$140	\$145	\$138	\$71
General taxes	\$72	\$76	\$74	\$74	\$86	\$85	\$42
Gain on termination of contract	-	-	-	-	-	-	(\$28)
Fixed asset impairment	-	-	\$81	\$86	-	-	\$857
Other	-	-	\$0	\$3	(\$4)	\$0	\$0
Total operating expenses	\$533	\$576	\$683	\$667	\$582	\$574	\$1,105
Operating income	\$450	\$320	\$185	\$140	\$189	\$178	(\$778)
Other income /expense, net							
Investment income	\$2	\$17	\$2	\$2	\$1	\$0	\$0
Interest expense	(\$37)	(\$38)	(\$39)	(\$37)	(\$34)	(\$31)	(\$11)
Charge for early redemption of debt	-	-	-	-	-	(\$5)	-
Other deductions	(\$2)	(\$2)	(\$2)	(\$3)	(\$1)	(\$1)	(\$0)
Total other expense, net	(\$37)	(\$23)	(\$39)	(\$38)	(\$34)	(\$36)	(\$11)
Earnings (loss) from operations before income tax	\$413	\$297	\$146	\$102	\$155	\$142	(\$789)
Income tax expense	\$135	\$104	\$55	\$19	\$40	\$35	(\$291)
Net income	\$278	\$193	\$91	\$84	\$115	\$106	(\$498)

Notes & Sources:

In millions.

<sup>1</sup> Through June 30, 2016.

2010 data from DPL Inc. and The Dayton Power and Light Company Form 10-K for the fiscal year ended December 31, 2012, at 158.

2011 data from DPL Inc. and The Dayton Power and Light Company Form 10-K for the fiscal year ended December 31, 2013, at 158.

2012 data from DPL Inc. and The Dayton Power and Light Company Form 10-K for the fiscal year ended December 31, 2014, at 129.

2013, 2014 and 2015 from DPL Inc. and The Dayton Power and Light Company Form 10-K for the fiscal year ended December 31, 2015, at 72.

2016 data from DPL Inc. and The Dayton Power and Light Company Form 10-Q for the quarterly period ended June 30, 2016 at 39.

**EXHIBIT RJM-24B**

**DP&L  
INCOME STATEMENT  
PERCENTAGE OF REVENUE  
2010 – 2016<sup>1</sup>**

	2010	2011	2012	2013	2014	2015	2016 <sup>1</sup>
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues							
Fuel	21.4%	22.7%	23.2%	23.4%	18.9%	15.8%	17.9%
Purchased power	22.1%	23.9%	20.2%	24.6%	34.9%	35.8%	32.9%
Total cost of revenues	43.4%	46.6%	43.4%	48.0%	53.8%	51.6%	50.8%
Gross margin	56.6%	53.4%	56.6%	52.0%	46.2%	48.4%	49.2%
Operating expenses							
Operation and maintenance	19.0%	21.7%	25.2%	23.5%	21.3%	22.6%	24.5%
Depreciation and amortization	7.5%	8.0%	9.2%	9.0%	8.7%	8.9%	10.7%
General taxes	4.2%	4.5%	4.9%	4.8%	5.1%	5.5%	6.3%
Gain on termination of contract	-	-	-	-	-	-	(4.2%)
Fixed asset impairment	-	-	5.3%	5.5%	-	-	129.3%
Other	-	-	0.0%	0.2%	(0.2%)	0.0%	0.0%
Total operating expenses	30.7%	34.3%	44.6%	43.0%	34.9%	37.0%	166.7%
Operating income	25.9%	19.1%	12.1%	9.0%	11.3%	11.5%	(117.4%)
Other income /expense, net							
Investment income	0.1%	1.0%	0.2%	0.1%	0.1%	0.0%	0.0%
Interest expense	(2.1%)	(2.3%)	(2.6%)	(2.4%)	(2.0%)	(2.0%)	(1.6%)
Charge for early redemption of debt	-	-	-	-	-	(0.3%)	-
Other deductions	(0.1%)	(0.1%)	(0.1%)	(0.2%)	(0.1%)	(0.0%)	(0.0%)
Total other expense, net	(2.1%)	(1.3%)	(2.5%)	(2.4%)	(2.0%)	(2.3%)	(1.6%)
Earnings (loss) from operations before income tax	23.7%	17.7%	9.6%	6.6%	9.3%	9.1%	(119.1%)
Income tax expense	7.8%	6.2%	3.6%	1.2%	2.4%	2.3%	(43.9%)
Net income	16.0%	11.5%	6.0%	5.4%	6.9%	6.9%	(75.1%)

Notes & Sources:

<sup>1</sup> Through June 30, 2016.

From Exhibit RJM-24A.

**EXHIBIT RJM-25**

**DP&L  
BALANCE SHEET  
2010 – 2016<sup>1</sup>**

	2010	2011	2012	2013	2014	2015	2016 <sup>1</sup>
	[A]	[B]	[C]	[D]	[E]	[F]	[G]
<b>Current assets</b>							
Cash and cash equivalents	\$54	\$32	\$29	\$23	\$5	\$5	\$45
Restricted cash	-	\$14	\$11	\$13	\$17	\$45	\$33
Accounts receivable, net	\$178	\$179	\$160	\$148	\$153	\$120	\$106
Inventories	\$111	\$123	\$109	\$82	\$99	\$108	\$86
Taxes applicable to subsequent years	\$63	\$72	\$67	\$69	\$75	\$79	\$39
Regulatory assets, current	\$22	\$18	\$18	\$21	\$44	\$14	\$0
Other prepayments and current assets	\$43	\$24	\$33	\$33	\$41	\$46	\$50
<b>Total current assets</b>	<b>\$471</b>	<b>\$461</b>	<b>\$426</b>	<b>\$387</b>	<b>\$435</b>	<b>\$418</b>	<b>\$360</b>
<b>Property, plant and equipment</b>							
Property, plant and equipment	\$5,094	\$5,278	\$5,249	\$5,105	\$5,121	\$5,245	\$3,052
Less: Accumulated depreciation and amortization	(\$2,453)	(\$2,569)	(\$2,516)	(\$2,448)	(\$2,496)	(\$2,584)	(\$1,263)
Construction work in process	\$120	\$151	\$88	\$61	\$75	\$78	\$84
<b>Total net property, plant and equipment</b>	<b>\$2,760</b>	<b>\$2,860</b>	<b>\$2,821</b>	<b>\$2,718</b>	<b>\$2,700</b>	<b>\$2,739</b>	<b>\$1,873</b>
<b>Other non-current assets</b>							
Regulatory assets, non-current	\$167	\$178	\$186	\$160	\$168	\$180	\$186
Intangible assets, net of amortization	\$3	\$7	\$9	\$8	\$8	\$5	\$1
Other deferred assets	\$75	\$33	\$23	\$40	\$29	\$18	\$23
<b>Total other non-current assets</b>	<b>\$244</b>	<b>\$218</b>	<b>\$218</b>	<b>\$208</b>	<b>\$204</b>	<b>\$203</b>	<b>\$210</b>
<b>Total Assets</b>	<b>\$3,475</b>	<b>\$3,538</b>	<b>\$3,464</b>	<b>\$3,313</b>	<b>\$3,339</b>	<b>\$3,360</b>	<b>\$2,442</b>
<b>Current liabilities</b>							
Current portion - long-term debt	\$0	\$0	\$570	\$0	\$0	\$443	\$445
Short-term debt	-	-	-	-	-	\$35	-
Accounts payable	\$96	\$106	\$79	\$74	\$105	\$94	\$76
Accrued taxes	\$67	\$73	\$92	\$81	\$83	\$86	\$86
Accrued interest	\$8	\$8	\$13	\$10	\$10	\$4	\$4
Customer security deposits	\$19	\$16	\$35	\$33	\$35	\$15	\$15
Regulatory liabilities, current	\$10	-	\$0	-	\$4	\$24	\$30
Other current liabilities	\$36	\$46	\$52	\$60	\$45	\$51	\$64
Advance on contract termination	-	-	-	-	-	\$28	-
<b>Total current liabilities</b>	<b>\$235</b>	<b>\$249</b>	<b>\$842</b>	<b>\$258</b>	<b>\$281</b>	<b>\$781</b>	<b>\$719</b>
<b>Non-current liabilities</b>							
Long-term debt	\$884	\$903	\$333	\$877	\$877	\$314	\$314
Deferred taxes	\$596	\$638	\$652	\$632	\$650	\$631	\$318
Taxes payable	-	\$94	\$66	\$77	\$78	\$82	\$38
Regulatory liabilities, non-current	\$114	\$119	\$117	\$121	\$124	\$127	\$129
Pension, retiree and other benefits	\$65	\$48	\$62	\$52	\$96	\$87	\$80
Unamortized investment tax credit	\$32	\$30	\$27	\$25	\$22	\$20	\$19
Other deferred credits	\$147	\$78	\$43	\$45	\$44	\$82	\$85
<b>Total non-current liabilities</b>	<b>\$1,838</b>	<b>\$1,909</b>	<b>\$1,300</b>	<b>\$1,829</b>	<b>\$1,891</b>	<b>\$1,343</b>	<b>\$983</b>
<b>Redeemable preferred stock</b>	<b>\$23</b>	<b>\$23</b>	<b>\$23</b>	<b>\$23</b>	<b>\$23</b>	<b>\$23</b>	<b>\$23</b>
<b>Common shareholder's equity</b>							
Common stock, par value of \$0.01 per share	\$0	\$0	\$0	\$0	\$0	\$0	\$0
250,000,000 shares authorized							
41,172,173 shares issued and outstanding							
Other paid-in capital	\$782	\$803	\$803	\$804	\$804	\$804	\$811
Accumulated other comprehensive loss	(\$20)	(\$35)	(\$39)	(\$27)	(\$42)	(\$29)	(\$34)
Retained earnings	\$617	\$589	\$534	\$427	\$382	\$437	(\$61)
<b>Total common shareholder's equity</b>	<b>\$1,380</b>	<b>\$1,358</b>	<b>\$1,299</b>	<b>\$1,204</b>	<b>\$1,143</b>	<b>\$1,213</b>	<b>\$717</b>
<b>Total liabilities and shareholder's equity</b>	<b>\$3,475</b>	<b>\$3,538</b>	<b>\$3,464</b>	<b>\$3,313</b>	<b>\$3,339</b>	<b>\$3,360</b>	<b>\$2,442</b>

**EXHIBIT RJM-25**

**DP&L  
BALANCE SHEET  
2010 – 2016<sup>1</sup>**

Notes & Sources:

In millions.

<sup>1</sup> Through June 30, 2016.

[A] From DPL Inc. and The Dayton Power and Light Company Form 10-K/A for the fiscal year ended December 31, 2011, at 148-49.

[B] From DPL Inc. and The Dayton Power and Light Company Form 10-K for the fiscal year ended December 31, 2012, at 162-63.

[C] From DPL Inc. and The Dayton Power and Light Company Form 10-K for the fiscal year ended December 31, 2013, at 162-63.

[D] From DPL Inc. and The Dayton Power and Light Company Form 10-K for the fiscal year ended December 31, 2014, at 133-34.

[E] From DPL Inc. and The Dayton Power and Light Company Form 10-K for the fiscal year ended December 31, 2015 at 74.

[F], [G] From DPL Inc. and The Dayton Power and Light Company Form 10-Q for the quarterly period ended June 30, 2016 at 41.

EXHIBIT RJM-26A

DPL INC.  
QUARTERLY INCOME STATEMENT  
Q1 2013 – Q2 2016

	2013				2014				2015				2016	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Revenues	\$395	\$375	\$441	\$426	\$460	\$390	\$479	\$433	\$483	\$366	\$414	\$350	\$364	\$328
Cost of revenues														
Fuel	\$89	\$86	\$100	\$93	\$90	\$61	\$85	\$69	\$76	\$54	\$71	\$58	\$67	\$60
Purchased power	\$95	\$74	\$113	\$106	\$174	\$138	\$154	\$126	\$193	\$120	\$145	\$104	\$122	\$97
Amortization of intangibles	\$2	\$2	\$2	\$2	\$0	\$0	\$0	\$0	-	-	-	-	-	-
Total cost of revenues	\$186	\$162	\$215	\$201	\$264	\$200	\$239	\$195	\$270	\$175	\$217	\$161	\$189	\$157
Gross margin	\$209	\$213	\$227	\$225	\$196	\$191	\$240	\$238	\$213	\$191	\$197	\$189	\$175	\$171
Operating expenses														
Operation and maintenance	\$99	\$101	\$97	\$99	\$105	\$96	\$94	\$94	\$87	\$85	\$101	\$88	\$89	\$77
Depreciation and amortization	\$32	\$33	\$34	\$34	\$35	\$34	\$35	\$36	\$34	\$33	\$35	\$33	\$33	\$36
General taxes	\$21	\$21	\$19	\$20	\$28	\$22	\$21	\$21	\$23	\$22	\$21	\$21	\$21	\$22
Goodwill impairment	-	-	-	\$306	\$136	-	-	-	-	-	-	\$317	-	-
Fixed-asset impairment	-	-	-	\$26	\$12	-	-	-	-	-	-	-	-	\$236
Other	-	-	-	\$3	\$0	(\$0)	(\$0)	(\$4)	\$0	(\$0)	-	\$0	\$0	-
Total operating expenses	\$152	\$155	\$151	\$488	\$315	\$151	\$150	\$147	\$144	\$140	\$157	\$459	\$143	\$370
Operating income	\$57	\$59	\$76	(\$263)	(\$119)	\$40	\$91	\$91	\$69	\$52	\$40	(\$271)	\$32	(\$199)
Other income /expense, net														
Investment income /loss	\$0	\$2	(\$1)	\$0	\$0	-	\$0	\$0	(\$0)	\$0	\$0	\$0	(\$0)	\$0
Interest expense	(\$31)	(\$30)	(\$31)	(\$33)	(\$31)	(\$32)	(\$33)	(\$31)	(\$31)	(\$31)	(\$29)	(\$28)	(\$26)	(\$26)
Charge for early retirement of debt	-	-	-	(\$3)	-	-	(\$0)	(\$31)	-	-	(\$2)	-	(\$3)	-
Other expense	(\$1)	(\$4)	-	\$2	(\$1)	(\$2)	(\$0)	\$1	(\$1)	(\$0)	(\$1)	(\$0)	(\$0)	(\$0)
Total other expense, net	(\$31)	(\$32)	(\$32)	(\$34)	(\$31)	(\$34)	(\$33)	(\$60)	(\$31)	(\$31)	(\$31)	(\$28)	(\$29)	(\$26)
Earnings /loss before income taxes	\$26	\$26	\$45	(\$296)	(\$150)	\$6	\$57	\$31	\$38	\$21	\$9	(\$299)	\$3	(\$225)
Income tax expense /benefit	\$6	\$4	\$11	\$2	\$99	(\$28)	(\$41)	(\$12)	\$11	\$6	\$0	\$3	\$1	(\$88)
Net income /loss	\$20	\$23	\$33	(\$298)	(\$249)	\$34	\$98	\$42	\$27	\$15	\$9	(\$302)	\$2	(\$137)

Notes & Sources:

In millions.  
2013 Q1 data from DPL Inc. and The Dayton Power and Light Company Form 10-Q for the quarterly period ended March 30, 2014, at 13.  
2013 Q2 data from DPL Inc. and The Dayton Power and Light Company Form 10-Q for the quarterly period ended June 30, 2014, at 13.  
2013 Q3 data from DPL Inc. and The Dayton Power and Light Company Form 10-Q for the quarterly period ended September 30, 2014, at 13.  
2014 Q1 data from DPL Inc. and The Dayton Power and Light Company Form 10-Q for the quarterly period ended March 30, 2015, at 12.  
2014 Q2 data from DPL Inc. and The Dayton Power and Light Company Form 10-Q for the quarterly period ended June 30, 2015, at 9.  
2015 Q3 and 2014 Q3 data from DPL Inc. and The Dayton Power and Light Company Form 10-Q for the quarterly period ended September 30, 2015, at 10.  
2016 Q1 and 2015 Q1 data from DPL Inc. and The Dayton Power and Light Company Form 10-Q for the quarterly period ended March 31, 2016 at 10.  
2016 Q2 and 2015 Q2 data from DPL Inc. and The Dayton Power and Light Company Form 10-Q for the quarterly period ended June 30, 2016 at 10.

EXHIBIT RJM-26B

DPL INC.  
QUARTERLY INCOME STATEMENT  
PERCENTAGE OF REVENUE  
Q1 2013 – Q2 2016

	2013				2014				2015				2016	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues														
Fuel	22.5%	22.8%	22.6%	21.8%	19.6%	15.6%	17.8%	15.8%	15.8%	14.9%	17.2%	16.5%	18.4%	18.3%
Purchased power	24.2%	19.8%	25.6%	25.0%	37.8%	35.5%	32.1%	29.2%	40.0%	32.9%	35.1%	29.6%	33.5%	29.5%
Amortization of intangibles	0.5%	0.5%	0.4%	0.4%	0.1%	0.1%	0.1%	0.1%	-	-	-	-	-	-
Total cost of revenues	47.1%	43.1%	48.6%	47.1%	57.4%	51.1%	49.9%	45.1%	55.9%	47.7%	52.4%	46.1%	51.9%	47.9%
Gross margin	52.9%	56.9%	51.4%	52.9%	42.6%	48.9%	50.1%	54.9%	44.1%	52.3%	47.6%	53.9%	48.1%	52.1%
Operating expenses														
Operation and maintenance	25.1%	26.9%	22.1%	23.3%	22.7%	24.6%	19.6%	21.6%	18.0%	23.1%	24.5%	25.2%	24.3%	23.5%
Depreciation and amortization	8.1%	8.9%	7.7%	8.0%	7.7%	8.7%	7.2%	8.3%	7.0%	9.1%	8.4%	9.3%	9.2%	11.0%
General taxes	5.3%	5.5%	4.4%	4.7%	6.0%	5.5%	4.4%	4.9%	4.8%	6.0%	5.0%	6.1%	5.8%	6.6%
Goodwill impairment	-	-	-	71.9%	29.5%	-	-	-	-	-	-	90.6%	-	-
Fixed-asset impairment	-	-	-	6.1%	2.5%	-	-	-	-	-	-	-	-	71.7%
Other	-	-	-	0.6%	0.1%	(0.1%)	(0.0%)	(0.9%)	0.1%	(0.1%)	-	0.1%	0.0%	-
Total operating expenses	38.5%	41.3%	34.1%	114.5%	68.5%	38.7%	31.2%	34.0%	29.9%	38.2%	37.9%	131.3%	39.3%	112.8%
Operating income	14.4%	15.6%	17.2%	(61.7%)	(25.9%)	10.1%	18.9%	21.0%	14.3%	14.1%	9.7%	(77.4%)	8.8%	(60.6%)
Other income /expense, net														
Investment income /loss	0.0%	0.4%	(0.1%)	0.1%	0.1%	-	0.0%	0.1%	(0.0%)	0.1%	0.0%	0.0%	(0.0%)	0.1%
Interest expense	(7.7%)	(7.9%)	(7.0%)	(7.7%)	(6.7%)	(8.2%)	(6.9%)	(7.1%)	(6.3%)	(8.4%)	(7.0%)	(8.0%)	(7.2%)	(7.9%)
Charge for early retirement of debt	-	-	-	(0.7%)	-	-	(0.0%)	(7.1%)	-	-	(0.5%)	-	(0.7%)	-
Other expense	(0.2%)	(1.1%)	-	0.4%	(0.1%)	(0.5%)	(0.0%)	0.2%	(0.1%)	(0.1%)	(0.1%)	(0.0%)	(0.1%)	(0.1%)
Total other expense, net	(7.9%)	(8.6%)	(7.1%)	(7.9%)	(6.7%)	(8.7%)	(6.9%)	(13.9%)	(6.5%)	(8.4%)	(7.6%)	(8.0%)	(8.1%)	(7.9%)
Earnings /loss before income taxes	6.6%	7.0%	10.1%	(69.5%)	(32.6%)	1.5%	12.0%	7.0%	7.8%	5.6%	2.1%	(85.4%)	0.8%	(68.6%)
Income tax expense /benefit	1.5%	0.9%	2.6%	0.4%	21.5%	(7.2%)	(8.6%)	(2.7%)	2.3%	1.6%	0.1%	0.8%	0.2%	(26.9%)
Net income /loss	5.0%	6.1%	7.5%	(69.9%)	(54.1%)	8.7%	20.5%	9.7%	5.5%	4.0%	2.1%	(86.2%)	0.6%	(41.7%)

Notes & Sources:  
From Exhibit RJM-26A.

EXHIBIT RJM-27A

DP&L  
QUARTERLY INCOME STATEMENT  
Q1 2013 – Q2 2016

	2013				2014				2015				2016	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Revenues	\$377	\$352	\$413	\$410	\$432	\$366	\$455	\$416	\$461	\$352	\$389	\$350	\$349	\$314
Cost of revenues														
Fuel	\$88	\$85	\$97	\$93	\$84	\$59	\$85	\$88	\$69	\$51	\$69	\$56	\$63	\$56
Purchased power	\$94	\$72	\$110	\$105	\$168	\$137	\$152	\$125	\$190	\$120	\$143	\$103	\$121	\$97
Total cost of revenues	\$182	\$157	\$207	\$198	\$252	\$196	\$237	\$213	\$259	\$171	\$212	\$159	\$184	\$152
Gross margin	\$194	\$195	\$206	\$212	\$180	\$170	\$218	\$203	\$202	\$181	\$178	\$191	\$165	\$161
Operating expenses:														
Operation and maintenance	\$91	\$92	\$88	\$92	\$95	\$85	\$86	\$87	\$84	\$84	\$95	\$88	\$86	\$76
Depreciation and amortization	\$34	\$35	\$36	\$36	\$37	\$35	\$36	\$37	\$35	\$34	\$35	\$35	\$34	\$37
General taxes	\$20	\$19	\$18	\$19	\$26	\$21	\$20	\$21	\$23	\$21	\$20	\$21	\$21	\$21
Fixed Asset Impairment	-	-	-	\$86	-	-	-	-	-	-	-	-	-	\$857
Gain on termination of contract	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	\$3	\$0	\$1	-	(\$5)	\$0	-	-	-	(\$28)	\$0
Total operating expenses	\$145	\$146	\$142	\$235	\$159	\$142	\$143	\$140	\$142	\$139	\$149	\$144	\$113	\$992
Operating income	\$50	\$49	\$64	(\$23)	\$21	\$29	\$76	\$64	\$60	\$42	\$29	\$47	\$52	(\$830)
Other income / (expense), net														
Investment income	\$0	\$2	\$0	\$0	\$0	\$0	\$0	\$0	(\$0)	\$0	-	\$0	(\$0)	\$0
Interest expense	(\$9)	(\$10)	(\$10)	(\$8)	(\$8)	(\$8)	(\$9)	(\$8)	(\$9)	(\$9)	(\$7)	(\$6)	(\$5)	(\$5)
Charge for early retirement of debt	(\$1)	-	-	-	-	-	-	-	-	-	(\$5)	-	-	-
Other expense	-	(\$4)	-	\$1	(\$0)	(\$0)	-	(\$0)	(\$0)	(\$0)	(\$0)	(\$0)	(\$0)	(\$0)
Total other expense, net	(\$10)	(\$12)	(\$10)	(\$5)	(\$8)	(\$9)	(\$9)	(\$8)	(\$9)	(\$9)	(\$12)	(\$6)	(\$6)	(\$5)
Earnings before income taxes	\$40	\$37	\$54	(\$28)	\$13	\$20	\$66	\$55	\$51	\$33	\$16	\$41	\$46	(\$835)
Income tax expense	\$10	\$6	\$13	(\$11)	\$4	\$6	\$13	\$17	\$15	\$9	\$1	\$10	\$12	(\$304)
Net income	\$30	\$30	\$41	(\$18)	\$9	\$14	\$53	\$39	\$37	\$24	\$16	\$30	\$34	(\$532)

Notes & Sources:

In millions

2013 Q1 data from DPL Inc. and The Dayton Power and Light Company Form 10-Q for the quarterly period ended March 30, 2014, at 50.  
2013 Q2 data from DPL Inc. and The Dayton Power and Light Company Form 10-Q for the quarterly period ended June 30, 2014, at 48.  
2013 Q3 data from DPL Inc. and The Dayton Power and Light Company Form 10-Q for the quarterly period ended September 30, 2014, at 48.  
2014 Q1 data from DPL Inc. and The Dayton Power and Light Company Form 10-Q for the quarterly period ended March 30, 2015, at 41.  
2014 Q2 data from DPL Inc. and The Dayton Power and Light Company Form 10-Q for the quarterly period ended June 30, 2015, at 39.  
2015 Q3 and 2014 Q3 data from DPL Inc. and The Dayton Power and Light Company Form 10-Q for the quarterly period ended September 30, 2015, at 42.  
2016 Q1 and 2015 Q1 data from DPL Inc. and The Dayton Power and Light Company Form 10-Q for the quarterly period ended March 31, 2016 at 36.  
2016 Q2 and 2015 Q2 data from DPL Inc. and The Dayton Power and Light Company Form 10-Q for the quarterly period ended June 30, 2016 at 39.



EXHIBIT RJM-27B

DP&L  
QUARTERLY INCOME STATEMENT  
PERCENTAGE OF REVENUE  
Q1 2013 – Q2 2016

	2013				2014				2015				2016	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues														
Fuel	23.4%	24.1%	23.4%	22.7%	19.5%	16.0%	18.6%	21.0%	15.0%	14.4%	17.7%	16.0%	18.0%	17.7%
Purchased power	25.0%	20.5%	26.7%	25.6%	38.9%	37.5%	33.5%	30.1%	41.1%	34.1%	36.6%	29.6%	34.7%	30.8%
Total cost of revenues	48.4%	44.6%	50.1%	48.3%	58.4%	53.5%	52.1%	51.1%	56.1%	48.5%	54.3%	45.5%	52.7%	48.5%
Gross margin	51.6%	55.4%	49.9%	51.7%	41.6%	46.5%	47.9%	48.9%	43.9%	51.5%	45.7%	54.5%	47.3%	51.5%
Operating expenses:														
Operation and maintenance	24.2%	26.0%	21.2%	22.4%	22.1%	23.1%	18.9%	21.0%	18.3%	23.8%	24.3%	25.1%	24.7%	24.4%
Depreciation and amortization	8.9%	10.0%	8.7%	8.7%	8.4%	9.7%	8.0%	8.8%	7.5%	9.7%	8.9%	9.9%	9.8%	11.7%
General taxes	5.3%	5.5%	4.4%	4.6%	6.1%	5.6%	4.4%	5.0%	4.9%	6.1%	5.2%	6.0%	5.9%	6.7%
Fixed Asset Impairment	-	-	-	21.0%	-	-	-	-	-	-	-	-	-	273.2%
Gain on termination of contract	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	0.6%	0.0%	0.3%	-	(1.2%)	0.1%	-	-	-	(7.9%)	0.0%
Total operating expenses	38.4%	41.5%	34.3%	57.3%	36.7%	38.7%	31.3%	33.6%	30.8%	39.6%	38.3%	41.1%	32.4%	316.1%
Operating income	13.2%	13.9%	15.6%	(5.6%)	4.9%	7.8%	16.6%	15.3%	13.1%	12.0%	7.3%	13.4%	14.8%	(264.6%)
Other income / (expense), net														
Investment income	0.0%	0.4%	0.0%	0.1%	0.1%	0.0%	0.0%	0.1%	(0.0%)	0.1%	-	0.0%	(0.0%)	0.1%
Interest expense	(2.5%)	(2.8%)	(2.5%)	(1.8%)	(1.8%)	(2.3%)	(2.1%)	(2.0%)	(1.9%)	(2.6%)	(1.8%)	(1.8%)	(1.5%)	(1.7%)
Charge for early retirement of debt	(0.2%)	-	-	-	-	-	-	-	-	-	(1.3%)	-	-	-
Other expense	-	(1.1%)	-	0.3%	(0.1%)	(0.1%)	-	(0.1%)	(0.0%)	(0.0%)	(0.1%)	(0.0%)	(0.1%)	(0.0%)
Total other expense, net	(2.6%)	(3.5%)	(2.5%)	(1.3%)	(1.8%)	(2.4%)	(2.0%)	(2.0%)	(2.0%)	(2.5%)	(3.1%)	(1.8%)	(1.6%)	(1.7%)
Earnings before income taxes	10.6%	10.4%	13.1%	(6.9%)	3.1%	5.4%	14.6%	13.3%	11.1%	9.5%	4.2%	11.6%	13.2%	(266.3%)
Income tax expense	2.5%	1.8%	3.2%	(2.6%)	0.9%	1.6%	2.9%	4.0%	3.2%	2.7%	0.2%	2.9%	3.6%	(96.8%)
Net income	8.0%	8.6%	9.9%	(4.3%)	2.2%	3.8%	11.7%	9.3%	7.9%	6.8%	4.0%	8.7%	9.7%	(169.5%)

Notes & Sources:  
From Exhibit RJM-27A.

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

**Commission of Ohio Docketing Information System on**

**2/6/2017 4:46:12 PM**

**in**

**Case No(s). 16-0395-EL-SSO, 16-0396-EL-ATA, 16-0397-EL-AAM**

Summary: Testimony Direct Testimony of R. Jeffrey Malinak in Support of Stipulation and Recommendation (Public Version) electronically filed by Mr. Jeffrey S Sharkey on behalf of The Dayton Power and Light Company