DP&L

March 14, 2019

Ms. Barcy McNeal
Public Utilities Commission of Ohio Docketing Division
180 East Broad Street, 11th Floor
Columbus, OH 43215

RE: *In the Matter of the Application of The Dayton Power and Light Company for Authority to Issue and Sell an Amount not to Exceed $425 Million of First Mortgage Bonds, Debentures, Notes, or Other Evidences of Indebtedness or Unsecured Bonds*, PUCO Case No. 18-1795-EL-AIS.

Dear Ms. McNeal,

Attached please find The Dayton Power and Light Company's ("DP&L") Second Amended Application in the above-referenced matter. In accordance with O.R.C. 4905.41, the Second Amended Application must be signed and verified by the president or vice president and the secretary or treasurer of DP&L. While DP&L has received the appropriate management approvals to file this Second Amended Application from the respective officers listed above, those officers are currently unable to execute affidavits due to international travel. Therefore, the required affidavits will be filed in this docket separately within 2 business days. Thank you for your attention to this matter.

Sincerely,

*Michael J. Schuler*
Michael J. Schuler (0082390)
Regulatory Counsel
The Dayton Power and Light Company

**BEFORE**
**THE PUBLIC UTILITIES COMMISSION OF OHIO**

| | | |
|---|---|---|
| **IN THE MATTER OF THE APPLICATION OF THE DAYTON POWER AND LIGHT COMPANY FOR AUTHORITY TO ISSUE AND SELL AN AMOUNT NOT TO EXCEED $425 MILLION OF FIRST MORTGAGE BONDS, DEBENTURES, NOTES, OR OTHER EVIDENCES OF INDEBTEDNESS OR UNSECURED NOTES.** | **)<br>)<br>)<br>)<br>)<br>)<br>)<br>)** | **CASE NO. 18-1795-EL-AIS** |

## SECOND AMENDED APPLICATION

The Applicant, The Dayton Power and Light Company (the “DP&L” or "the Company"), respectfully amends its Application in this matter and represents and states:

1. The Company is a corporation organized and existing under the laws of the State of Ohio, with its office and principal place of business in the City of Dayton, Ohio. As a public utility, as defined by the Revised Code of Ohio (the "Code"), the Company is subject to the jurisdiction of the Public Utilities Commission of Ohio (the “Commission”) under Sections 4905.02 and 4905.03 of the Code. The Company has filed the Amended Application in this matter under the provisions of Sections 4905.40 and 4905.41 of the Code.

2. The Company proposes, with the necessary consent and authority of this Commission, to issue and sell, from time-to-time over a period ending December 31, 2019, up to $425 million principal amount of First Mortgage Bonds, debentures, notes and/or other evidences of indebtedness, in two series, for terms not to exceed 10 years and 30

years, respectively (the "New Bonds"). The 30-year series of the New Bonds will not be less than $275 million or exceed $325 million and the remainder will be part of a 10-year series. The proceeds from the sale of the New Bonds will be used to refinance a $436.1 million term loan secured by a pledge of outstanding First Mortgage Bonds, financed in the Term Loan B market in 2016 ("Term Loan B Facility"), either by repayment or call, and to pay for the costs associated with such refinancings. At the time of refinancing, DP&L intends to pay off a portion of the Term Loan B Facility such that the principal amount of the New Bonds will not exceed $425 million. The debt to be refinanced is included as Exhibit A, attached hereto.

3. This proposed transaction will benefit customers in several respects. The Company's current Term Loan B Facility was acquired in the Term Loan B high-yield market as a result of DP&L having non-investment grade credit metrics at the time of that financing. DP&L recently received credit upgrades from all three credit agencies, allowing the Company to issue the New Bonds in an investment grade market that will offer better long-term pricing and terms. The proposed transaction will replace the $436.1 million of the existing Term Loan B Facility that is due and payable in August 2022, with longer dated debt. The 30-year series is expected to price similar or with small premium to the existing variable rate for the shorter-term Term Loan B Facility (recently 3.57-4.82 %). The longer-term New Bonds will have maturities that better match the useful life of the underlying financed assets and better pricing in light of favorable market interest rates at this time. The 10-year series is expected to price even lower and will serve to diversify DP&L's First Mortgage Bonds. Not only will this help to minimize refinancing risk, including the risk of continued rising interest rates on the variable Term Loan B Facility,

but it is more consistent with the Company's customary financing program. Finally, DP&L will be paying off a portion of the long-term debt at DP&L as part of this refinancing, which will help deleverage the Company.

4. The terms of each offering of the New Bonds will be negotiated by the Company with a group of underwriters or placement agents headed by a managing underwriter or placement agent or co-managing underwriters or placement agents. The Company requests that the Commission issue its order authorizing the issuance and sale of the New Bonds as quickly as possible, which could be prior to the time the Company reaches agreement with respect to the terms and the sale of any of the New Bonds. The Company, in conjunction with its investment bankers, has developed certain parameters under which the New Bonds are to be marketed. The parameters are based on current and historical financial market activity, financial and securities analysis, as well as the professional judgment of the Company and its investment bankers. They are intended as a gauge of market expectations that provide a reasonable allowance for potential changes in financial market conditions between the time of Commission authorization and the actual sale of the New Bonds. The inclusion of the parameters within the Order will allow the Company to market and price the New Bonds when it believes it is prudent to do so provided that the negotiated terms are within the parameters. The authorization of the sale of the New Bonds within the parameters set forth herein in no way will relieve the Company of its responsibility to negotiate and obtain the best terms available, and therefore, it is appropriate and reasonable for this Commission to authorize the Company to agree to such terms and prices within the following parameters:

5. The Company will agree to (i) an offering price or a direct purchase price, for each offering of the New Bonds, no higher than 100% and no lower than 96% of the principal amount of the New Bonds, plus accrued interest, if any; (ii) an interest rate which will result in a yield to maturity to the purchasers not in excess of 5.75% at the public offering/direct purchase; and (iii) underwriting or placement discounts and commissions or agent's/agents' fees in connection with the initial offering of the New Bonds not in excess of 1.25% of the principal amount of the New Bonds sold, which will be negotiated between the Company and the underwriter or underwriters, placement agent or agents or direct purchaser(s) or agent(s) by means of arm's length bargaining under financial conditions existing at the time. Any redemption premiums, call provisions and sinking fund terms with respect to the New Bonds will also be established as a result of such negotiations.

6. The New Bonds may be issued under and secured by the First Mortgage, dated as of October 1, 1935, between the Company and The Bank of New York Mellon, Trustee, as previously amended and supplemented and to be supplemented by one or more supplemental indentures.

7. As a result of the issuance of the New Bonds and the anticipated repayment and redemption of certain Term Loan B Facility, the Company's annual long-term interest charges are expected to change by an amount equal to the annual interest charges on the New Bonds plus amounts relating to the expenses incurred in connection with their issuance, and discounts or premiums, if any, less an amount equal to the interest charges and the unamortized expenses incurred, in connection with the issuance of, and

unamortized discounts or premiums, if any, on the repurchased and redeemed Term Loan B Facility.

8. The Company will account for the expenses of the issue and sale of, and discounts or premiums, if any, on the New Bonds as prescribed in the Federal Energy Regulatory Commission Uniform System of Accounts as currently in effect.

9. The issue and sale of the New Bonds, from time-to-time, and the money to be procured thereby are reasonably necessary for the Company to refinance bonds.

10. The maximum amount of the New Bonds proposed to be sold is just and reasonable and the cost thereof is or will be just and reasonable.

11. The Applicant states that its issuance of bonds is in accordance with the Company's electric transition plan as filed in Case No. 99-1687-EL-ATA, electric security plan as approved by the Commission in Case No. 08-1094-EL-SSO, generation separation plan as approved by the Commission in Case No. 13-2420-EL-UNC, and electric security plan as approved by the Commission in Case No. 16-395-EL-SSO, respectively.

12. As promptly as practicable after the terms of each offering of the New Bonds are determined and the issuance of such New Bonds occurs, the Company will file a written report with this Commission including, when applicable, the following information: the name(s) of the underwriter(s), if the New Bonds are sold in a public offering, or the name(s) of the purchaser(s), and the name(s) of the placement agent(s), if any, if the New Bonds are sold on a private placement basis; the aggregate principal amount to be issued and sold, and purchased by, each said underwriter, placement agent or purchaser; the maturity date; the annual interest rate; the annual interest cost; the initial offering price or the price to the purchaser in a private placement of the New Bonds; the

underwriting discount and price to underwriters or placement fee, if any; the effective cost of money to the Company; the redemption terms, if any; the sinking fund terms, if any; and such other information as the Commission may require.

13. There are attached hereto in support of this Application the following exhibits:

Exhibit A - Schedule of DP&L Term Loan B Facility proposed for refinancing.

Exhibit B - Balance Sheet as of December 31, 2018, and Statement of Results of Operations for the year ended December 31, 2018.

* The following additional exhibits, if applicable, will be filed when available:

Exhibit C - Copy of Registration Statement/Offering Memorandum

Exhibit D - Form of Underwriting Agreement

Exhibit E - Form of Supplemental Indenture

WHEREFORE, the Company requests that an Order be issued as follows:

(1) Authorizing the Company, on or before December 31, 2019, to issue and sell from time-to-time not to exceed $425 million in aggregate of two series of its First Mortgage Bonds, debentures, notes or other evidences of indebtedness upon the following terms and conditions: (i) an offering or direct purchase price, for each offering of New Bonds, no higher than 100% and no lower than 96% of the principal amount, plus accrued interest, if any; (ii) an interest rate which will result in a yield to maturity to the purchasers not in excess of 5.75% at the public offering/direct purchase; (iii) underwriting discounts and commissions or agent's fees in connection with the initial offering not in excess of 1.25% of the principal amount of the New Bonds sold, with each such issue and sale to be

made pursuant to the terms and provisions of an underwriting or private placement purchase agreement; and (iv) the two series to have terms not to exceed 10 years and 30 years, respectively; whereby the 30-year series of the New Bonds will not be less than $275 million or exceed $325 million and the remainder will be part of a 10-year series.

(2) Authorizing the Company to enter into any requisite underwriting or private placement purchase agreement.

(3) Authorizing the Company to use the proceeds from the sale of the New Bonds to refinance the outstanding Term Loan B Facility, either by repayment, tender, or call, and to pay the costs associated with the issuance of the New Bonds.

(4) Authorizing the Company to account for the expenses incident to the issue and sale of the New Bonds and discounts or premiums, if any, as prescribed in the Federal Energy Regulatory Commission Uniform System of Accounts as currently in effect.

Because of current low spreads on the issuance of first mortgage bonds, the Company requests that an Order containing the authorizations requested, together with such other and further Orders as may be proper, be issued as soon as possible.

Respectfully Submitted,

*/s/ Michael J. Schuler*____

Michael J. Schuler (0082390)
*Counsel of Record
The Dayton Power and Light Company
1065 Woodman Drive
Dayton, OH 45432
Telephone: (937) 259-7358
Facsimile: (937) 259-7178
Email: michael.schuler@aes.com

Attorney for The Dayton Power and Light Company

(willing to accept service by e-mail)

EXHIBIT A

| | |
|---|---|
| DP&L First Mortgage Bonds Series Due 2022 | $436,100,000* |
| DP&L First Mortgage Bonds Series Due 2022 Payoff | $18,100,000** |
| Redemption Costs | $0 |
| Commissions/Fees/Other Expenses | $7,000,000** |
| TOTAL | $425,000,000 |

*Notes amortize $1,112,500 each quarter until maturity

**Estimates, subject to change as actual expenses are incurred

# FINANCIAL STATEMENTS

## The Dayton Power and Light Company

**THE DAYTON POWER AND LIGHT COMPANY**
**Statements of Operations**

| | Years ended December 31, | | |
|---|---|---|---|
| $ in millions | **2018** | 2017 | 2016 |
| **Revenues** | **$ 738.7** | $ 720.0 | $ 808.0 |
| **Cost of revenues:** | | | |
| Net fuel costs | **2.4** | 0.5 | 5.3 |
| Net purchased power cost | **301.3** | 289.8 | 316.7 |
| **Total cost of revenues** | **303.7** | 290.3 | 322.0 |
| **Gross margin** | **435.0** | 429.7 | 486.0 |
| **Operating expenses:** | | | |
| Operation and maintenance | **139.7** | 156.5 | 178.4 |
| Depreciation and amortization | **74.5** | 75.3 | 71.0 |
| General taxes | **73.1** | 76.3 | 68.0 |
| Loss / (gain) on asset disposal | **0.2** | (0.5) | (0.4) |
| Loss on disposal of business (Note 15) | **12.4** | — | — |
| **Total operating expenses** | **299.9** | 307.6 | 317.0 |
| **Operating income** | **135.1** | 122.1 | 169.0 |
| **Other income / (expense), net** | | | |
| Interest expense | **(27.3)** | (30.5) | (24.7) |
| Charge for early redemption of debt | **(0.6)** | (1.1) | (0.5) |
| Other income / (expense) | **(2.8)** | (2.0) | (0.2) |
| **Total other expense, net** | **(30.7)** | (33.6) | (25.4) |
| **Income from continuing operations before income tax** | **104.4** | 88.5 | 143.6 |
| Income tax expense from continuing operations | **17.7** | 31.1 | 46.0 |
| **Net income from continuing operations** | **86.7** | 57.4 | 97.6 |
| **Discontinued operations (Note 14)** | | | |
| Loss from discontinued operations before income tax | **—** | (56.3) | (1,338.7) |
| Income tax benefit from discontinued operations | **—** | (15.9) | (468.4) |
| **Net loss from discontinued operations** | **—** | (40.4) | (870.3) |
| **Net income / (loss)** | **86.7** | 17.0 | (772.7) |
| Dividends on preferred stock | **—** | — | 0.7 |
| **Income / (loss) attributable to common stock** | **$ 86.7** | $ 17.0 | $ (773.4) |

See Notes to Condensed Financial Statements.

**THE DAYTON POWER AND LIGHT COMPANY**
**Balance Sheets**

| $ in millions | December 31, 2018 | December 31, 2017 |
|---|---|---|
| **ASSETS** | | |
| **Current assets:** | | |
| Cash and cash equivalents | $ 45.0 | $ 5.2 |
| Restricted cash | 21.2 | 0.4 |
| Accounts receivable, net (Note 2) | 90.4 | 70.8 |
| Inventories (Note 2) | 7.7 | 7.3 |
| Taxes applicable to subsequent years | 72.4 | 71.1 |
| Regulatory assets, current (Note 3) | 41.1 | 23.9 |
| Taxes receivable | 19.6 | 6.5 |
| Other prepayments and current assets | 13.3 | 14.6 |
| Total current assets | 310.7 | 199.8 |
| **Property, plant and equipment:** | | |
| Property, plant and equipment | 2,274.4 | 2,247.2 |
| Less: Accumulated depreciation and amortization | (988.0) | (987.3) |
| | 1,286.4 | 1,259.9 |
| Construction work in process | 31.7 | 41.5 |
| Total net property, plant and equipment | 1,318.1 | 1,301.4 |
| **Other non-current assets:** | | |
| Regulatory assets, non-current (Note 3) | 152.6 | 163.2 |
| Intangible assets, net of amortization | 17.2 | 18.8 |
| Other deferred assets | 21.0 | 12.7 |
| Total other non-current assets | 190.8 | 194.7 |
| **Total Assets** | $ 1,819.6 | $ 1,695.9 |
| **LIABILITIES AND SHAREHOLDER'S EQUITY** | | |
| **Current liabilities:** | | |
| Current portion - long-term debt (Note 7) | $ 4.6 | $ 4.6 |
| Short-term debt | — | 10.0 |
| Accounts payable | 55.8 | 46.6 |
| Accrued taxes | 75.7 | 76.6 |
| Accrued interest | 0.4 | 0.8 |
| Customer security deposits | 21.3 | 21.8 |
| Regulatory liabilities, current (Note 3) | 34.9 | 14.8 |
| Other current liabilities | 17.5 | 12.9 |
| Total current liabilities | 210.2 | 188.1 |
| **Non-current liabilities:** | | |
| Long-term debt (Note 7) | 581.5 | 642.0 |
| Deferred taxes (Note 8) | 131.7 | 131.0 |
| Taxes payable | 77.1 | 75.8 |
| Regulatory liabilities, non-current (Note 3) | 278.3 | 221.2 |
| Pension, retiree and other benefits (Note 9) | 83.2 | 91.1 |
| Asset retirement obligations | 4.7 | 8.0 |
| Other deferred credits | 7.6 | 8.0 |
| Total non-current liabilities | 1,164.1 | 1,177.1 |
| Commitments and contingencies (Note 11) | | |
| **Common shareholder's equity:** | | |
| Common stock, par value of $0.01 per share | 0.4 | 0.4 |
| 50,000,000 shares authorized, 41,172,173 shares issued and outstanding | | |
| Other paid-in capital | 711.8 | 685.8 |
| Accumulated other comprehensive loss | (35.3) | (36.2) |
| Accumulated deficit | (231.6) | (319.3) |
| Total common shareholder's equity | 445.3 | 330.7 |
| **Total Liabilities and Shareholder's Equity** | $ 1,819.6 | $ 1,695.9 |

See Notes to Condensed Financial Statements.

**THE DAYTON POWER AND LIGHT COMPANY**
**Statements of Cash Flows**

| $ in millions | Years ended December 31, 2018 | 2017 | 2016 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net income / (loss) | **$ 86.7** | $ 17.0 | $ (772.7) |
| Adjustments to reconcile Net income / (loss) to Net cash from operating activities | | | |
| Depreciation and amortization | **74.5** | 87.2 | 120.3 |
| Amortization of deferred financing costs | **3.1** | 1.1 | 2.9 |
| Unrealized loss (gain) on derivatives | **—** | (1.0) | (4.2) |
| Deferred income taxes | **16.3** | 8.1 | (477.5) |
| Charge for early redemption of debt | **0.6** | 1.1 | 0.5 |
| Fixed-asset impairment | **—** | 66.3 | 1,353.5 |
| Loss on disposal of business | **12.4** | — | — |
| Loss / (Gain) on asset disposal | **0.2** | 15.7 | (0.1) |
| Changes in certain assets and liabilities: | | | |
| Accounts receivable | **13.5** | 14.6 | (8.3) |
| Inventories | **(0.3)** | 10.3 | 32.2 |
| Prepaid taxes | **—** | — | 2.7 |
| Taxes applicable to subsequent years | **(1.3)** | 6.4 | — |
| Deferred regulatory costs, net | **(9.2)** | (23.7) | 4.1 |
| Accounts payable | **3.8** | (48.7) | 14.6 |
| Accrued taxes payable / receivable | **(12.7)** | (17.5) | (10.5) |
| Accrued interest payable | **(0.4)** | (1.3) | (2.0) |
| Pension, retiree and other benefits | **(2.4)** | 4.8 | 3.0 |
| Other | **11.0** | (5.0) | (21.3) |
| **Net cash provided by operating activities** | **195.8** | 135.4 | 237.2 |
| **Cash flows from investing activities:** | | | |
| Capital expenditures | **(93.1)** | (101.7) | (128.3) |
| Payments on disposal of business | **(14.5)** | — | — |
| Proceeds from sale of property | **10.6** | — | 0.2 |
| Insurance proceeds | **0.4** | 12.5 | 6.1 |
| Other investing activities, net | **(0.3)** | (0.3) | 0.4 |
| **Net cash used in investing activities** | **(96.9)** | (89.5) | (121.6) |
| **Cash flows from financing activities** | | | |
| Dividends and returns of capital paid to parent | **(43.8)** | (39.0) | (70.0) |
| Dividends paid on preferred stock | **—** | — | (0.7) |
| Retirement of long-term debt | **(64.5)** | (104.5) | (445.3) |
| Capital contribution from parent | **80.0** | 70.0 | — |
| Issuance of long-term debt | **—** | — | 442.8 |
| Deferred financing costs | **—** | — | (8.5) |
| Redemption on preferred stock | **—** | — | (23.5) |
| Borrowings from revolving credit facilities | **30.0** | 40.0 | — |
| Repayment of borrowings from revolving credit facilities | **(40.0)** | (30.0) | — |
| Borrowings from related party | **—** | 30.0 | 10.0 |
| Repayment of borrowings from related party | **—** | (35.0) | (40.0) |
| Other financing activities, net | **—** | (0.4) | — |
| **Net cash used in financing activities** | **(38.3)** | (68.9) | (135.2) |
| Increase in cash and restricted cash of discontinued operations and held-for-sale businesses | **—** | 27.0 | 15.8 |
| **Cash, cash equivalents, and restricted cash:** | | | |
| Net increase / (decrease) in cash, cash equivalents and restricted cash | **60.6** | 4.0 | (3.8) |
| Balance at beginning of year | **5.6** | 1.6 | 5.4 |
| **Cash, cash equivalents, and restricted cash at end of year** | **$ 66.2** | $ 5.6 | $ 1.6 |
| **Supplemental cash flow information:** | | | |
| Interest paid, net of amounts capitalized | **$ 22.9** | $ 28.4 | $ 21.4 |
| Income taxes paid, net | **$ 13.1** | $ 28.1 | $ 0.3 |
| Non-cash financing and investing activities: | | | |
| Accruals for capital expenditures | **$ 10.8** | $ 19.7 | $ 14.8 |
| Equity contribution to settle liability | **$ —** | $ — | $ 7.5 |
| Distribution of generation assets to subsidiary of parent | **$ (10.0)** | $ (86.2) | $ — |

See Notes to Condensed Financial Statements.