Ohio | Public Utilities Commission

Mike DeWine, Governor
Sam Randazzo, Chairman

June 14, 2019

FILE

Docketing Division
Public Utilities Commission of Ohio
180 East Broad Street
Columbus, Ohio 43215

RE: In the Matter of the Review of the Distribution Modernization Rider of the Dayton Power and Light Company. Case No. 18-264-EL-RDR.

Dear Docketing Division:

Enclosed please find Oxford Advisor's PUBLIC Mid-Term Report to be filed in Case No. 18-264-EL-RDR.

Doris E. McCarter

Doris McCarter
Chief, Capital Recovery and Financial Analysis Division
Public Utilities Commission of Ohio

Enclosure
Cc: Parties of Record

Oxford Advisors

A COMPLIANCE REVIEW OF THE DISTRIBUTION MODERNIZATION RIDER OF THE DAYTON POWER AND LIGHT COMPANY

MID-TERM REPORT

Submitted to the:

Ohio | Public Utilities Commission

Public Utilities Commission of Ohio

180 East Broad Street, 3rd Floor, Columbus, Ohio 43215-3793

June 14, 2019

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1. Introduction

Oxford Advisors ("Oxford") has been retained by the Public Utilities Commission of Ohio (PUCO" or the "Commission") as a Third-Party Monitor In the Matter of the Review of the Distribution Modernization Rider of the Dayton Power and Light Company, in Case No. 18-264-EL-RDR to ensure that the use of the Rider DMR funds by the Dayton Power and Light Company ("DP&L") and DPL, Inc. ("DPL" and together with DP&L, the "Companies") are used in a manner consistent with the Commission's Opinion and Order dated October 20, 2017 modifying and adopting the Amended Stipulation. Oxford has taken a comprehensive approach to monitoring the Companies' use of the Rider DMR funds to ensure the funds were used appropriately in accordance with the Amended Stipulation as approved by the Commission.

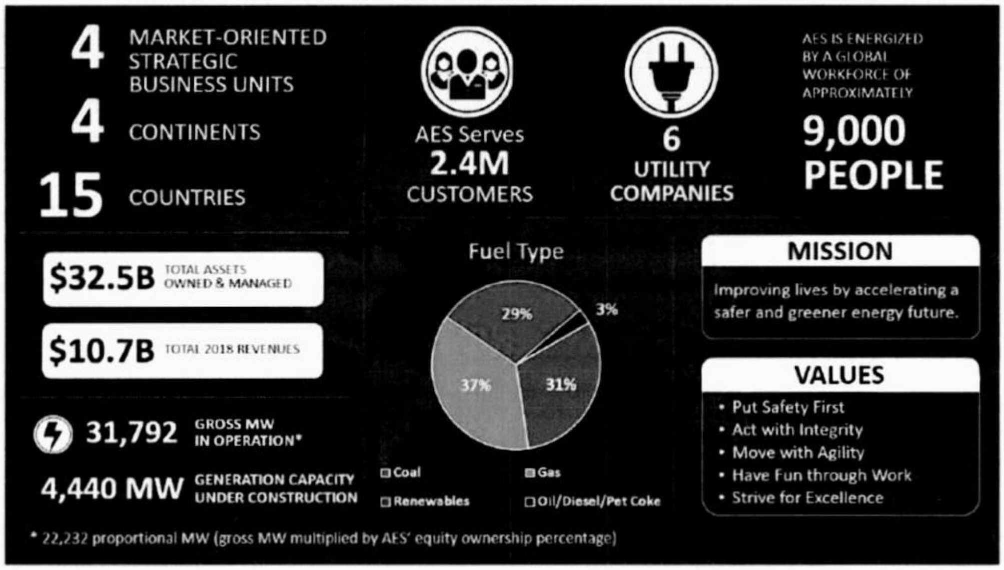
Oxford conducted a comprehensive review of DP&L's use of Rider DMR funds in accordance with the Amended Stipulation and we analyzed the financial impacts of the Rider DMR funds on DP&L and DPL. Oxford issued an initial set of interrogatories to DP&L and attended a Management Presentation at DP&L that provided an overview of the utility and discussed the key aspects of its business including the financial profile of DP&L and DPL. Oxford subsequently issued two additional sets of interrogatories. We analyzed numerous documents including, but not limited to, interrogatory responses, financial statements, annual reports and other SEC filings, rating agency reports, equity research reports and we conducted independent financial analysis.

In this Mid-Term Report, Oxford will detail DP&L's use of the Rider DMR funds, provide a financial analysis of the key metrics and financial terms impacting the credit ratings and financial strength of DP&L and DPL.

2. Corporate Structure

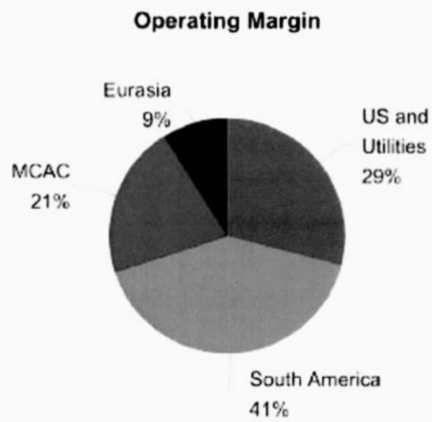
Incorporated in 1981, AES is a Fortune 500 global power company that operates a diverse portfolio of distribution businesses as well as thermal and renewable generation facilities. AES is a large, sophisticated, geographically diversified power generation holding company that relies on dividends from its subsidiaries to fund its operations, development and debt service. Future growth across AES is expected to be heavily weighted toward less carbon-intensive wind, solar and natural gas generation and infrastructure. AES has a robust backlog of projects under construction or under signed Power Purchase Agreements ("PPAs") that continues to increase to take advantage of its global scale and synergies with its existing businesses. In 2018, AES signed long-term PPAs for 2 GW of capacity and they are on pace to sign 2 to 3 GW of new PPAs annually through 2022.

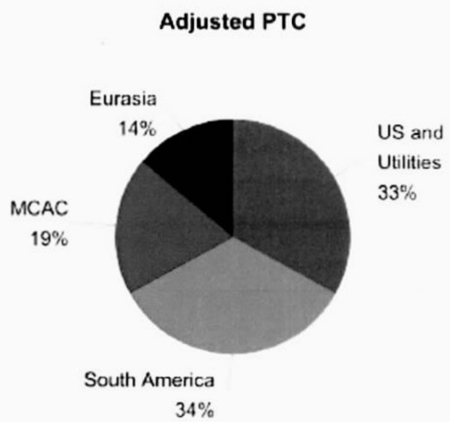
Currently AES is rated Ba1 from Moody's and BB+ from S&P and BB+ from Fitch. In 2018 it had revenues of $10.7B, net income of $1.2B, total assets of $32.5B, shareholder's equity of $3.2B and long-term debt of $17.6B. As of May 17, 2019, its market capitalization was $10.9B as AES uses aggressive financial policy to manage an ambitious growth strategy with 4.4 gigawatts of projects in construction. Diversification in its subsidiaries has effectively dampened variations in its cash flow. Liquidity is adequate due to funds from operations of approximately $689M in 2018, cash on hand of $24M and borrowing capacity of $1B under its revolver, according to S&P's analysis last year.



AES measures the operating performance of its Strategic Business Units ("SBUs") using Adjusted Pre-tax Contribution ("Adjusted PTC"), a non-GAAP measure of operating performance.

The Adjusted PTC by SBU for the year ended December 31, 2018 is shown below.





- In 2017, AES announced the sale or retirement of 4.3 GW of mostly coal-fired merchant generation representing 30% of its coal-fired capacity.
- AES is committed NOT to build or buy any new coal plants worldwide.
- AES exited its distribution business in Brazil in June 2018.
- Future growth across AES will be heavily weighted towards less carbon-intensive wind, solar and gas generation.
- AES expanded its commitment to energy storage through a partnership with Siemens to form Fluence in January 2018, a new global energy storage technology and services company. During the year, Fluence delivered or was awarded 80 projects in 17 countries, with a total capacity of 766 MW.
- AES is seeking to further reduce risk by simplifying its portfolio of generation assets, reducing the number of countries it operates in and reducing merchant risk.
- AES continues to operate a diversified portfolio of generation in countries across the globe presenting substantially more risk than the regulated operations of DP&L.

AES' stock price has risen approximately 35.6% over the past year from $12.05 to $16.34 per share and approximately 54.6% for the period of November 1, 2017 to May 17, 2019 from $10.57 to $16.34 per share, indicating that the market has a positive view of its recent performance and prospects. See chart, below.

The AES Corporation (AES)
NYSE - NYSE Delayed Price. Currency in USD

Add to watchlist

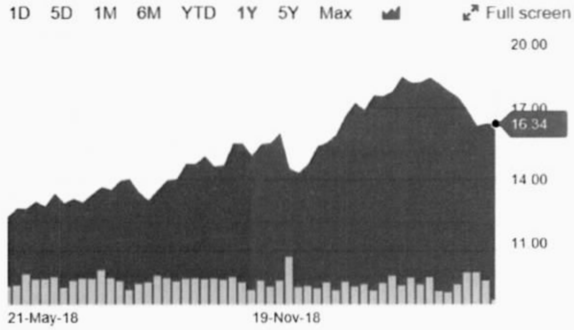
16.34 -0.01 (-0.06%)
At close: May 17 4:02PM EDT

Buy Sell

Summary Chart Conversations Statistics Historical Data Profile Financials Analysis Options Holders Sustainability

Previous Close	16.35	Market Cap	10.845B
Open	16.23	Beta (3Y Monthly)	0.52
Bid	16.30 x 3200	PE Ratio (TTM)	16.15
Ask	16.59 x 2900	EPS (TTM)	1.01
Day's Range	16.22 - 16.35	Earnings Date	Aug 5, 2019 - Aug 9, 2019
52 Week Range	11.94 - 18.52	Forward Dividend & Yield	0.55 (3.19%)
Volume	6,037,812	Ex-Dividend Date	2019-04-30
Avg. Volume	6,210,598	1y Target Est	18.00

Trade prices are not sourced from all markets



DPL Inc. (DPL) is an intermediate holding company wholly-owned by AES Corp. DPL, in turn, wholly owns three subsidiaries, DP&L, AES Ohio Generation, LLC ("Ohio Gen") and Miami Valley Insurance Co ("MVIC"). DP&L is the regulated transmission and distribution utility, Ohio Gen is the affiliated generating company which owns all power generating assets, and MVIC is the self-insurance subsidiary covering activities of DPL. DPL and DP&L have debt outstanding.

DP&L is based in Dayton, Ohio and has over 525,000 customers in 24 counties throughout the Miami Valley and has approximately 700 employees (including all of DPL). DP&L's service territory consists of 6,000 square miles, with 1,845 miles of transmission lines, 14,166 miles of distributions lines and 154 substations. DP&L had a record peak demand of 3,270 megawatts in August 2007.

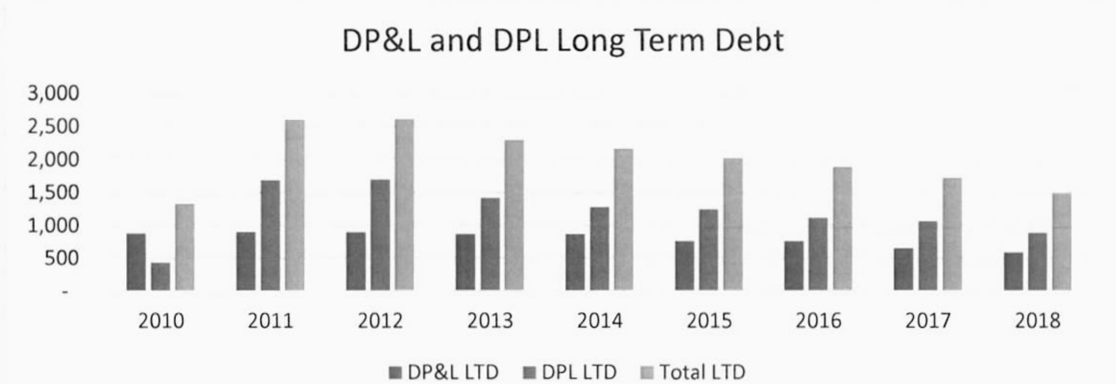
3. AES DPL Merger

On April 20, 2011, AES Corporation (NYSE: AES) executed a definitive agreement under which AES agreed to acquire DPL Inc. (NYSE: DPL) in a transaction valued at $4.7 billion on an enterprise value basis. Upon closing of the transaction, DPL would become a wholly-owned subsidiary of AES. DPL is the parent company of the Dayton Power & Light Company (DP&L). Under the terms of the agreement, AES agreed to pay $30 per share in cash to DPL shareholders. AES would pay a total of $3.5 billion in cash for the equity and assume $1.2 billion in net debt for a total transaction value of $4.7 billion.

DPL and DP&L were both downgraded in November 2011. The downgrades reflected the significantly increased credit risk of the utility and its parent due to their acquisition by AES, a lower rated entity, as well as the significant incremental parent level debt added to complete the transaction. DPL's parent debt accounted for about 65% of consolidated debt.

The high level of debt resulting from the AES DPL merger continues to challenge the financial integrity of DPL. Pre-acquisition, DP&L long term debt was $884M at year end 2010, which increased to $904M at YE 2011, the year of the acquisition closing. By YE 2018, DP&L debt was down to $594M. DPL debt pre-acquisition was $1,324M at YE 2010, increasing to $2,609M at YE 2012, and is currently $1,488M as of YE 2018.[1]

($mil)	2010	2011	2012	2013	2014	2015	2016	2017	2018
DP&L LTD	884	907	903	878	877	763	763	658	594
DPL LTD	440	1,692	1,706	1,420	1,286	1,251	1,121	1,066	895
Total LTD	1,324	2,599	2,609	2,298	2,163	2,014	1,884	1,724	1,489

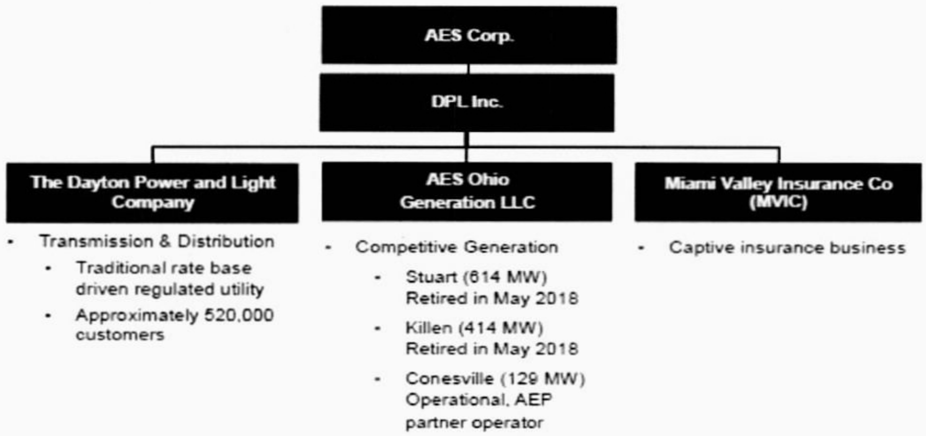


[1] Debt levels from SEC 10-K filings. *See also* Responses to OA Set 3-INT-61 and INT-73.

4. Generation Assets

DP&L formerly separated its generation assets from regulated T&D operations on October 1, 2017. Below is the current organizational structure.

Current Organizational Structure



AES Ohio Generation has been divesting and retiring its generation assets since they were transferred from DP&L.

AES Ohio Generation

DP&L Plant Locations

Key Highlights

- DP&L formally separated its generation assets from its regulated T&D operations on October 1, 2017
- Miami Fort and Zimmer stations (800 MW) sold in December 2017
  - Reduced outstanding debt $70M
- 973 MW of merchant peaking generation assets sold on March 2018
  - Reduced outstanding debt $231M
- Stuart (614 MW) and Killen (414 MW) retired in May 2018
- Conesville unit 4 (129 MW) operated by AEP currently in Operations with a merchant profile

Sale and Transfer of Power Generation Assets

Generation assets timeline

10/1/17: DP&L transfers ownership of generation facilities to affiliate AES Ohio Generation, LLC. (FERC Case No. EC16-173-000)

12/8/17: DPL through its subsidiary AES Ohio Generation sold 100% of its interests in Miami Fort and Zimmer Coal Plants; Proceeds were used to pay down DPL outstanding debt

3/27/18: DPL through its subsidiary AES Ohio Generation sold 100% of its interest in merchant peaking generation assets in Ohio and Indiana; Proceeds were used to reduce outstanding debt, related accrued and unpaid interest and early redemption premiums on the redeemed debt

5/31/18: Retirement of Killen and Stuart stations

Current: Conesville 4 continues to be operational, under the ownership of AES Ohio Generation

Oxford views the generation asset divestitures as a positive business decision.

- AES Ohio Generation's divestiture of its generation assets has reduced risk and shifted the focus of DPL to DP&L's regulated transmission and distribution business.
- The proceeds from the sales have been used to reduce debt.
  - Sale of Fort and Zimmer Stations in December 2017 ($70M Debt Reduction).
  - Sale of various merchant peaking generation assets totaling 973 MW to Kimura Power in March 2018 ($231M Debt Reduction).

DPL has reduced the risks from and exposure to the ownership of generation assets.

- Stuart and Killen retired in May 2018.
- Conesville Unit 4 remains operational with a merchant profile, but AEP expects to close the plant by May 31, 2020.
- AES Ohio Gen does not have any debt on its balance sheet.
- Total liabilities as of March 31, 2019, amount for $1.95B, out of which only $9.5M are related to asset retirement obligation "ARO" liabilities.

Asset Retirement Obligation and Non- Current Liabilities of Discontinued Operations

	DPL Inc. - Asset Retirement Obligation - In Millions					
	10-K	**1Q18**	**2Q18**	**3Q18**	**10K**	**1Q2019**
	12/31/17	3/31/18	6/30/18	9/30/18	12/31/18	3/31/19
Asset Retirement Obligation	$15.10	$128.30	$11.90	$13.50	$9.40	$9.40
Non-Current Liabilities of Disc Ops	$133		$115.90	$118.60	$69.2	$52.5
	$148.10	$128.30	$127.80	$132.10	$78.60	$61.90
Total Non- Current Liabilities	$2,356.7	$2,039.3	$2,073.6	$2,048.0	$2,011.7	$1,948.0
ARO+Dis Ops/Non-Current Liabilities	**6.28%**	**6.29%**	**6.16%**	**6.45%**	**3.91%**	**3.18%**

Non- Current Liabilities from the disposal of Generation business has decreased by $86.2M or 58% refer to the chart above. Financial risks around the estimates include labor and material costs, site conditions, market conditions, implementation schedule, and engineering design and costs. This is a positive trend for DPL.

5. Dividend Policy

Below is a summary of the DP&L and DPL dividend policy pursuant to the Amended Stipulation through the term of the Rider DMR including a potential extension of the Rider:

DPL Inc. and DP&L Dividend Policy

DP&L to DPL Inc.
▪ Payments to DPL Inc. to meet debt service requirements and other cash needs

DPL Inc. to AES Corp
DPL is restricted from issuing dividends/tax sharing payments under the following circumstances:
▪ Per its articles of incorporation and debt agreements, DPL is prohibited from issuing dividends if its debt to capital ratio is above 67%, and it must also have interest coverage ratio of at least 2.5 to 1.00, or its senior long-term debt needs to be rated at least investment grade.
▪ Per PUCO ESP order of 10/20/2017, restricts dividend payments from DPL to AES during the term of the ESP (6 years).
▪ Per PUCO ESP order of 10/20/2017, restricts tax sharing payments from DPL to AES during the term of the DMR (3 years with possible 2 year extension).

Based on the restrictions in the articles of incorporation, the debt agreements and the PUCO orders, dividend payments and tax sharing payments from DPL to AES are restricted at least through the three-year term of the Rider and its possible two-year extension. DPL has been complying with these dividend restrictions during the term of the Rider DMR. The restrictions on dividends and tax sharing payments enhanced the cash flow of DPL, increased its liquidity and increased its ability to reduce the debt of DP&L and DPL over the term of the Rider DMR.

6. Tax Sharing Agreement

Taxes are calculated based upon the taxable income of AES as a whole, taxes are not attributable or paid based upon a single source of revenue. Pursuant to the Stipulation as approved in DP&L's ESP III, DPL will not pay any taxes to AES under the tax sharing agreement and AES will convert any tax-sharing liabilities to equity for the term of the Rider DMR.

AES has converted DPL's current tax liability at the end of each quarter since the start of Rider DMR into equity and expects to continue to convert outstanding current tax liabilities to equity throughout the term of Rider DMR. The following actual and expected conversions through the term of the Rider DMR were provided in the response OA Set 1- INT-16, Attachment 1:

Quarterly tax liabilities converted to capital for DPL:

- Dec 2017 $97.1M
- Mar 2018 $44.6M
- June 2018 ($17.9M)
- Sep 2018 $3.5M
- Dec 2018 $9.8M
- Mar 2019 $1.5M

Estimated future tax liabilities expected to be converted to capital for DPL:

- 2019 [redacted]
- 2020 [redacted]

Pursuant to the Amended Stipulation, DPL has not paid any taxes to AES under the tax sharing agreement during the term of the DMR and AES has converted any tax-sharing liabilities to equity for the term of the DMR. The conversion to equity of additional tax liabilities (actuals 2017-1Q2019: $138.6 million; estimated 2019-2020: [redacted]) accrued under the tax sharing agreement with AES, will help DPL to slowly improve its debt to book capitalization ratio.

7. Use of Rider DMR Funds

In accordance with the Amended Stipulation as approved by the Commission, the Rider DMR is designed to collect $105M in revenue each year for the three-year term of the Rider. Additionally, the Stipulation provides that the Rider DMR funds be used exclusively to: (a) pay interest obligations on existing debt at DPL and DP&L; (b) make discretionary debt prepayments at DPL and DP&L; and (c) position DP&L to make capital expenditures to modernize and/or maintain DP&L's transmission and distribution infrastructure.

DP&L stated in interrogatory responses and at the Management Presentation that they will use the funds exclusively to make prepayments of principal, and scheduled payments of principal and interest on DP&L and DPL outstanding debt. *See* response to OA Set 1- INT-7. Below is a chart summarizing Rider DMR revenue received by DP&L through April 2019.

DP&L RIDER DMR REVENUE

November 1, 2017 through April 30, 2019.

DP&L RIDER DMR REVENUE RECEIVED	
Time Period	Amount
Nov to Dec 2017	$ 3,126,442
Jan to Dec 2018	107,759,782
Jan to Apr 2019	36,315,904
Total Rider DMR Revenue	$ 147,202,128
Total Rider DMR Interest	$ 250,342
TOTAL RIDER DMR RECEIPTS	$ 147,452,470

Actual revenue collected by DP&L from Rider DMR from November 1, 2017 to April 30, 2019 totaled $147,202,128. In addition, DP&L earned interest on the Rider DMR revenue totaling $250,342 over the same period resulting in total Rider DMR receipts of $147,452,470 through April 2019. *See* response to OA Set 3- INT-55. All funds received have been used to make payments of principal and interest on DP&L and DPL outstanding debt. Below is a chart detailing the disbursements for the same period.

DP&L AND DPL RIDER DMR DISBURSEMENTS

November 1, 2017 through April 30, 2019

DISBURSEMENTS	INTEREST	PRINCIPAL	TOTAL
DPL Inc			
LT 8.125% Note Cap Trust II	-	-	-
Term Loan - Principal	-	-	-
Term Loan - Interest	-	-	-
LT - 7.25% DUE 2021 - Principal	-	-	-
LT - 7.25% DUE 2021 - Interest	$ 26,750,000	-	$ 26,750,000
LT - 6.75% DUE 2019 - Principal	-	$ 40,000,000	$ 40,000,000
LT - 6.75% DUE 2019 - Interest	$ 17,000,000	-	$ 17,000,000
DPL Revolver - Principal	-	-	-
DPL Revolver - Interest	-	-	-
DPL TOTALS	$ 43,750,000	$ 40,000,000	$ 83,750,000
Dayton Power & Light			
Term Loan B -VR - $445M - Principal	-	$ 5,562,500	$ 5,562,500
Term Loan B -VR - $445M - Interest	$ 23,105,492	-	$ 23,105,492
WPAFB	-	-	-
BOND-SERIES A DUE 2020 - Principal	-	-	-
BOND-SERIES A DUE 2020 - Interest	$ 3,045,994	-	$ 3,045,994
BOND-SERIES B DUE 2020 - Principal	-	-	-
BOND-SERIES B DUE 2020 - Interest	$ 1,324,721	-	$ 1,324,721
DP&L Revolver - Principal	-	$ 22,000,000	$ 22,000,000
DP&L Revolver - Interest	-	-	-
DP&L TOTALS	$ 27,476,207	$ 27,562,500	$ 55,038,707
TOTAL DISBURSEMENTS	$ 71,226,207	$ 67,562,500	$ 138,788,707
ENDING CASH BALANCE			$ 8,663,763

The use and expected use of Rider DMR funds is outlined in the chart[2] below:

USE AND EXPECTED USE OF RIDER DMR FUNDS

	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4	Total
Sources							[redacted]							
DMR Collection	3,126	28,253	24,413	28,873	26,221	27,665	[redacted]							
Interest	-	4	13	16	34	116	[redacted]							
Total Inflows	3,126	28,257	24,425	28,889	26,254	27,781	[redacted]							
Uses							[redacted]							
DP&L Principal Payments	1,113	1,113	13,113	10,000	1,113	1,113	[redacted]							
DP&L Interest Expense	1,637	2,908	5,003	4,100	5,911	5,864	[redacted]							
Total DP&L Payments	2,749	4,021	18,116	14,100	7,024	6,977	[redacted]							
DPL Principal Payments	-	-	-	-	-	-	[redacted]							
DPL Interest Expense	-	23,750	-	20,000	-	-	[redacted]							
Total DPL Payments	-	23,750	-	20,000	-	-	[redacted]							
Total Outflows	2,749	27,771	18,116	34,100	7,024	6,977	[redacted]							
Net	377	864	7,173	1,962	21,193	41,997	[redacted]							

As summarized in the charts above, DP&L received a total of $147,452,470 from Rider DMR funds with interest for the period of November 1, 2017 through April 30, 2019. These funds were used exclusively to make payments of principal and interest on DP&L and DPL outstanding debt and discretionary prepayments of principal in compliance with the Amended Stipulation. Of the money expended a total of $83,750,000 was spent on DPL debt or approximately 60% while $55,038,707 was spent on DP&L debt or approximately 40%. The debt payments for each company were expended almost evenly between interest and principal payments with slightly more being spent on interest payments at DPL. There was a cash balance of $8,663,763 of Rider DMR funds not expended of as of April 30, 2019.

- 60% of Rider DMR receipts were used to make interest and principal payments at DPL.
- 40% of Rider DMR receipts were used to make interest and principal payments at DP&L.
- 51.3% of Rider DMR receipts were used to make interest payments
- 48.7% of Rider DMR receipts were used to make principal payments

[2] Actual results were provided by DP&L through April 2019 in response to OA Set 3-INT-55, Attachment 1. Projections through 2020 were provided by DP&L in response to OA Set 3-INT-75, Attachment 1. Oxford adjusted the projections in 2020 Q4 to reflect expected DMR funds to be received through the three year term of the Rider.

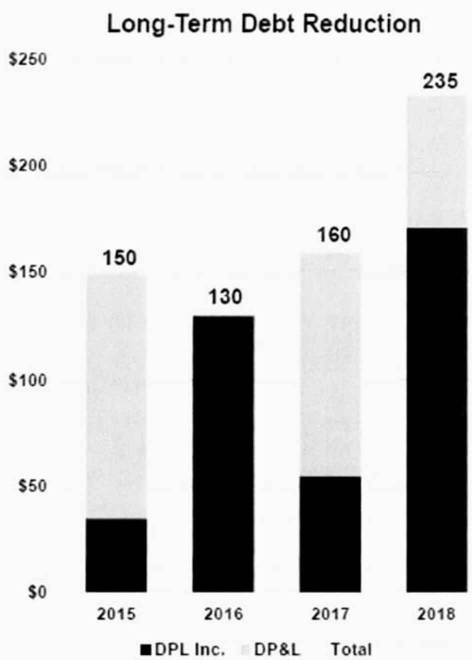
- [redacted]
- [redacted]
- [redacted]
- [redacted]

8. Debt Repayment

Below is a summary of DP&L and DPL historic long-term debt levels.[3]

DP&L Long Term Debt levels

Historic Debt Capitalization



DP&L	2014	2015	2016	2017	2018
2022 FMBs	445	445	445	440	436
2028 Tax Exempt Series	35	-	-	-	-
2034 Tax Exempt Series	179	-	-	-	-
2036 Tax Exempt Series	100	100	100	-	-
2040 Tax Exempt Series	100	-	-	-	-
2020 Tax Exempt Series	-	200	200	200	140
2061 US Gov. Note	18	18	18	18	18
Total Long-Term Debt	877	763	763	658	594
Total Equity	1,143	1,213	362	321	419
Debt to Cap	43%	40%	68%	67%	59%

DPL Inc.	2014	2015	2016	2017	2018
2020 Term Loan	160	125	125	70	-
2016 Senior Unsecured	130	130	-	-	-
2019 Senior Unsecured	200	200	200	200	99
2021 Senior Unsecured	780	780	780	780	780
2031 Capital Trust II	16	16	16	16	16
Total Long-Term Debt	1,286	1,251	1,121	1,066	895

Total Long-Term Debt	2,163	2,014	1,884	1,724	1,489

For DP&L, as of March 31, 2019 debt levels have decreased by 33% since December 31, 2014; over the same time frame equity has reduced by 58%. This impacts the overall debt to capital ratio negatively as the ratio has increased by 12% since 2014 from 43% to 55%. The greater the debt to equity the greater risk presented. The financial results ending March 31, 2019 show a 13% decrease in the Debt to Cap ratio, when comparing to the peak high in 2016, from 68% to 55%.

For DPL, as of March 31, 2019 debt levels have decreased by 31% since December 31, 2014 aided by generation asset sales. However, over the same time frame equity remains negative.

[3] Source: Management Presentation updated for Response to OA Set 3- INT-61.

On a consolidated basis, as of June 6, 2019 debt levels have decreased by 33% since December 31, 2014; over the same time frame equity at DP&L has reduced by [redacted] and equity at DPL remains negative. See the long-term debt schedule as of May 10, 2019 updated to reflect the recent refinancing of DP&L through June 6, 2019 detailed below.[4]

Long Term Debt as of June 6, 2019			
DP&L			
Interest			June 6, 2019
$ in millions	Rate	Maturity	
First Mortgage Bonds	3.95%	2049	$ 425
Tax-exempt First Mortgage Bonds	Variable	2020	140
Wright Patterson AFB Not	4.20%	2061	18
Total DP&L Long-term Debt			$ 583
Equity[5]			$ [redacted]
DP&L Debt to Capital Ratio			[redacted]
DPL			
Senior Unsecured Bonds	7.25%	2021	$ 380
Senior Unsecured Bonds	4.35%	2029	400
Note to DPL Capital Trust II (c)	8.13%	2031	16
Revolving Credit Facility	Variable	2020	73
Total DPL Long-term Debt			$ 869
Con Debt to Con Debt plus DP&L Equity			[redacted]
Total Consolidated Debt			$ 1,452

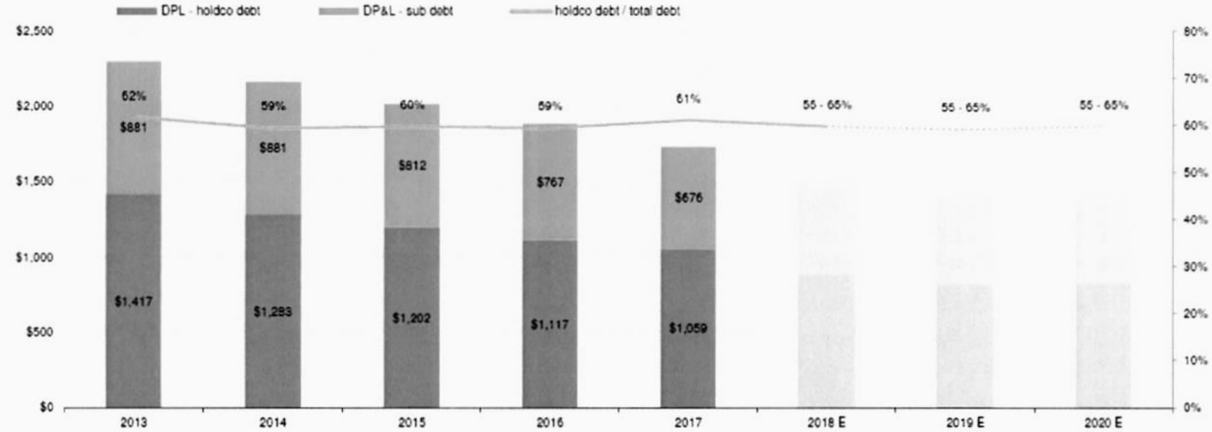
DPL is highly leveraged, and its debt levels are much higher as compared to the moderate level of debt at DP&L. Moody's notes the material amount of debt at DPL in a recent ratings report which Moody's indicates limits DP&L's financial flexibility and tempers the utility's credit quality. Moody's expects that holding company debt at DPL will remain material, and represent around 60% of the consolidated debt, one of the highest proportions of long-term debt at the parent company across its rated universe of US regulated utilities.[6]

[4] Response OA Set 3- INT-61, Attachment 1, updated by Oxford for DP&L refinancing dated June 6, 2019.
[5] Equity is as of March 31, 2019.
[6] Moody's, Dayton Power & Light Company, Update following upgrade dated December 17, 2018 at 5.

Exhibit 4

Comparison of DPL holding company debt versus DP&L debt (historical and Moody's expectations 2019 and 2020).

DPL's holding company debt significantly exceeds the utility's outstanding debt



The chart depicts reported debt amounts including unamortized debt discounts and premiums (net) as wells as unamortized deferred financing costs.
Source: DPL's annual and quarterly financial statements; Moody's Investors Service; Moody's estimates

When viewed using the metric Debt to EBITDA, its leverage *excluding* the DMR funds in 2019 and 2020 is expected to be [redacted] times in 2019, which will [redacted] in 2020 before [redacted] in 2022 and [redacted] in 2023. See the table below.

DPL WITHOUT DMR	2019	2020	2021	2022	2023
DMR	0	0			
Operating EBITDA	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Long Term Debt	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Debt / EBITDA (x)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

When the DMR is *included* for 2019 and 2020, expected leverage is decreased closer to [redacted] in 2019 [redacted] in 2020.

DPL WITH DMR	2019	2020	2021	2022	2023
DMR	105,000	86,511			
Operating EBITDA	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Long Term Debt	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Debt / EBITDA (x)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

DP&L as a stand-alone entity, however, has much lower leverage numbers. When removing the DMR revenues the leverage of DP&L is [redacted] in 2019 [redacted] in 2021 as seen in the table below:

DP&L WITHOUT DMR	2019	2020	2021	2022	2023
DMR	0	0			
Operating EBITDA	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Long Term Debt	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Debt / EBITDA (x)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Adding back DMR, DP&L shows [redacted] of DMR, 2019 and 2020 as seen in the table below:

DP&L WITH DMR	2019	2020	2021	2022	2023
DMR	105,000	86,511			
Operating EBITDA	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Long Term Debt	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Debt / EBITDA (x)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

The data shows the [redacted] at DPL compared to the [redacted] at DP&L.

9. Debt Refinancing

DPL Partial Refinancing of $780M 2021 Senior Unsecured

On April 17, 2019, DPL completed the offering of $400 million in aggregate principal amount of senior notes due 2029 (the "Notes") in a private offering conducted pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended (the "Securities Act"). DPL used the net proceeds from the offering, together with cash on hand, to redeem a portion of the $780 million aggregate principal amount outstanding of its 7.25% senior unsecured notes due 2021. These transactions follow repayment on April 4, 2019 of $99 million of outstanding 6.75% notes of 2019, which equaled 11% of the parent's outstanding debt at year-end 2018.

Payments of interest on the Notes are payable on April 15 and October 15 of each year, commencing October 15, 2019. Principal on the Notes is payable, unless earlier redeemed, on the maturity date, which is April 15, 2029. DPL may redeem some or all of the Notes at any time before January 15, 2029 at a redemption price equal to 100% of the principal amount, plus a make-whole premium calculated based on the applicable Treasury Rate (as defined in the Indenture) plus 30 basis points, plus accrued and unpaid interest, if any, to, but excluding, the redemption date. DPL may redeem some or all of the Notes at any time on or after January 15, 2029 at a redemption price equal to 100% of the principal amount, plus accrued and unpaid interest, if any, to, but excluding, the redemption date.

The Indenture contains certain restrictions, including a Limitation on Liens that restricts DPL's and certain of its subsidiaries' ability to create certain liens on its assets or properties and consolidate or merge, or convey, transfer or lease substantially all of its consolidated properties. The Indenture also requires DPL to offer to repurchase the Notes upon certain change of control events.

The new debt is at a much lower rate (4.35%) than the existing debt (7.25%) and refinances $400M of the $780M or approximately 51% of 2021 notes. However, DPL had to pay a significant prepayment penalty of $40 million and an additional $6 million in transaction costs.

The call will refinance up to $400 million of the 2021s. This will leave $380M of the 2021 notes outstanding up until their original maturity date in October 2021. This will begin to reduce the

2021 maturities into more manageable tranches. [redacted] Although the proposed transaction comes with a significant prepayment penalty, DPL believes it is a financial prudent transaction to pursue to reduce the refinancing risk in 2021. *See* response to OA Set 3- INT-71 Attachment 1.

Moody's expects the partial refinancing of $400 million and the repayment of $99 million to reduce the holding company's annual interest cash payments by around $18 million (approximately 30% of the parent's 2018 annualized cash interest payments). The parent's lower capital requirements will also leave DP&L with more of its cash flow to re-invest in growing its regulated rate base (currently $840 million). The lower outstanding balance of 2021 notes also helps DPL lengthen its debt maturity profile and reduce its refinancing risk.[7]

Oxford views the DPL refinancing favorably provided the terms of the Indenture do not trigger the Limitation of Liens placing a lien on DP&L's assets and provided it does not impair the ability of DP&L to refinance or issue new debt on favorable terms. A Limitation on Liens is a generally conventional provision which provides a negative pledge and specific carve-outs. In this case however, it includes a Significant Subsidiary reference, which includes DP&L. There are various exceptions to the foregoing Limitation on Liens listed in the Indenture and there is a specific exception related to DP&L. It appears the Limitation on Liens section provides an exception that any future secured debt of DP&L (including refinancing) would not trigger the Limitation on Liens securing the DPL Notes by placing a lien on the assets of DP&L.

DPL stated in response to Oxford interrogatories that the Notes are unsecured and do not place a lien or secured interest on DP&L. DPL also stated that DP&L's debt issuance requested in PUCO Case No. 18-1795-EL-AIS would not currently trigger securing the Senior Notes "at this time." Responses to OA Set 3- INT-77 and INT-79. While it appears the debt issuance would not currently trigger securing the Senior Notes "at this time," Oxford was unable to independently

[7] Moody's Issuer Comment dated April 16, 2019, DPL's debt management initiatives strengthen the group's balance sheet at 1.

confirm if a future event would trigger a security interest of DPL's lenders on the assets and/or stock of DP&L.

DP&L Application to Refinance First Mortgage Bonds

CASE NO. 18-1795-EL-AIS. DP&L had requested approval to refinance its Term Loan B Facility that was issued when it was in a distressed state with new long-term debt to be issued currently when its credit ratings have been materially improved allowing for more advantageous financing terms. The existing TLB outstanding was approximately of $435 million with variable rate interest of 3.57% to 4.82%. The new bonds were expected to be issued in similar amounts with fixed interest rates similar or slightly higher to the current variable rates.

Oxford views this activity favorably as a prudent measure by DP&L to limit financing risk. Oxford believes the transaction will have a positive impact for ratepayers due to the removal of interest rate risk and short-term refinancing risk inherent in the previous TLB by replacing it with a low fixed rate interest long dated maturity. It was appropriate for DP&L to issue long dated debt, as its assets are long dated, and it more closely matches liabilities and assets is a prudent economic principle. Oxford also notes that there are no cross default or change of control provisions in the indenture that could trigger a default of DP&L's debt due to a default or change of control of DPL. The Commission approved the debt issuance on May 22, 2019.

DP&L completed the offering of $425 million in aggregate principal amount of First Mortgage Bonds, 3.950% Series due 2049. DP&L used the proceeds together with cash on hand to prepay in full the variable rate $435 million balance on the credit agreement dated as of August 24, 2016.

Long-term debt

$ in millions	Interest Rate	Maturity	December 31, 2018 Adjusted (1)	December 31, 2017
DP&L				
3.95% FMB's due 2049			**425**	
Term loan - rates from: 3.57% - 4.82% (a) and 4.00% - 4.60%		2022	**0**	440.6
Tax-exempt First Mortgage Bonds - rates from: 2.49% - 2.93% (a) and 1.29% - 1.42% (b)		2020	**140**	200
U.S. Government note	4.20%	2061	**17.7**	17.8
Unamortized deferred financing costs			**-6.3**	-9.8
Unamortized debt discounts and premiums, net			**-1.4**	-2
Total long-term debt at subsidiary			575	646.6
Equity			445.3	330.7
Debt to Capital			56%	66%
DPL				
Bank term loan - rates from: 3.02% - 4.10% (a) and 2.67% - 3.02% (b)		2020	—	70
Senior unsecured bonds	6.75%	2019	99	200
Senior unsecured bonds	7.25%	2021	380	780
Senior Notes	4.35%	2029	400	0
Note to DPL Capital Trust II (c)	8.13%	2031	15.6	15.6
Unamortized deferred financing costs			-4.3	-6.8
Unamortized debt discounts and premiums, net			-0.5	-0.6
			889.8	1058.2
Total long-term debt			1464.8	1704.8
Less: current portion			-103.6	-4.6
Long-term debt, net of current portion			**1,361.20**	**1,700.20**
Equity			-471.7	-584.3
Debt to Total Capital			N/A	N/A

Source: DPL 10K's; Oxford, OPUC

(1) 5/6/19 FMB's added to debt, term loan prepaid. No other amounts adjusted

10. Forecasted Cash Flow

DP&L expects to generate significant positive free cash flow (after capex) which it intends to use for debt repayment at both DP&L and DPL. DP&L will be the main source of cash in the new regulated regime. In 2018, 2019 and 2020, DP&L is expected to generate EBITDA of $221M, [redacted] and [redacted] inclusive of DMR revenues. Interest and capex reduce EBITDA to FCF of $101M, [redacted] and [redacted] in those three years. At the consolidated DPL level, FCF is $73M, [redacted] and [redacted] in 2018, 2019, and 2020, respectively, totaling [redacted] of available cash for debt repayment due to substantial Holdco interest, capex and [redacted]. See the tables below. Response to OA Set 3- INT-66.

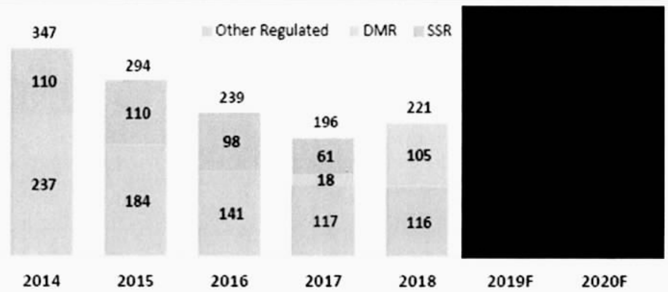
DP&L Financial Summary (millions)	2018 A	2019 F	2020 F
EBITDA	221	[redacted]	[redacted]
EBITDA net of DMR	116	[redacted]	[redacted]
Interest expense	27	[redacted]	[redacted]
CapEx	93	[redacted]	[redacted]
SmartGrid	-	[redacted]	[redacted]
Other	93	[redacted]	[redacted]
Cash Available for Debt Repayment/Dividend to DPL Inc.	101	[redacted]	[redacted]

DPL Inc. Financial Summary (millions)	2018 A	2019 F	2020 F
EBITDA	275	[redacted]	[redacted]
DP&L	221	[redacted]	[redacted]
Other	54	[redacted]	[redacted]
Interest expense	98	[redacted]	[redacted]
CapEx	104	[redacted]	[redacted]
DP&L	93	[redacted]	[redacted]
Other	11	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
Cash Available for Debt Repayment	[redacted]	[redacted]	[redacted]

The Companies planned capital investments of $[redacted] and DPL's substantial interest payments of $[redacted] during the term of Rider DMR limit the cash available for meaningful debt repayment to $[redacted] resulting in only a gradual deleveraging of its capital structure. See the charts below regarding the projected adjusted EBITDA and projected capital expenditures for DP&L and DPL through the term of Rider DMR. Response to OA Set 3- INT-64 and INT-65.

DP&L (Regulated) - Financial Results and Projections

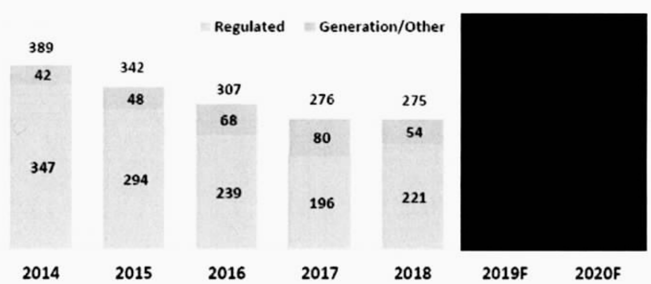
DP&L Regulated Adjusted EBITDA ($M)



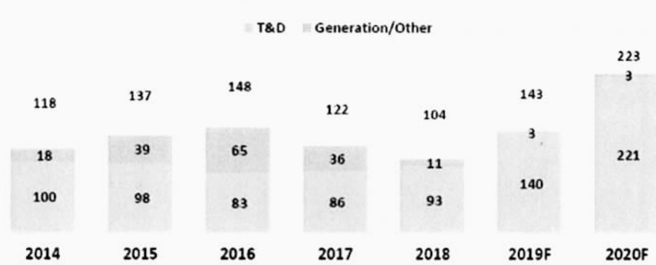
DP&L T&D CapEx ($M)

DPL - Financial Results and Projections

DPL Inc. (Consolidated) Adjusted EBITDA ($M)



DPL Inc. (Consolidated) CapEx ($M)



DP&L's projected capex increased in 2019 and 2020 in order to accommodate investments that maintain and modernize DP&L's infrastructure. EBITDA does not increase at the same rate as capex investment due to the nature of recovery on regulated investments, as well as regulatory delay. The main drivers for the increase in EBITDA in 2019 are the full implementation of the recently settled distribution rate case (Case No. 15-1830-EL-AIR) and a temporary decrease in O&M spending. O&M expenses then increase in 2020, acting as the main driver for the decrease in 2020 EBITDA. *See* response to OA Set 2- INT-40.

DP&L and DPL have indicated increased cash flow is heavily reliant on regulatory decisions including the recently settled and approved distribution rate case, distribution investment rider and the Grid Modernization Plan filings. Additionally, based on prior projections, there is zero cash available at DPL for Debt Repayment in 2019 and 2020 and the debt capitalization ratio remains excessive.

However, Moody's expects the recent partial refinancing of $400 million and the repayment of $99 million to reduce the holding company's annual interest cash payments by around $18 million (approximately 30% of the parent's 2018 annualized cash interest payments). The parent's lower capital requirements will also leave DP&L with more of its cash flow to re-invest in growing its regulated rate base (currently $840 million).[8]

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[8] *Id.*

11. Balance Sheet Optimization

A summary of DP&L and DPL's balance sheet optimization and debt repayment plan is provided below. Response to OA Set 3- INT-73. Oxford updated the information to reflect DPL's $400 million partial refinancing of the 2021 Senior Notes on April 17, 2019 and for DP&L's recent $425 million issuance and refinancing of the 2022 Term B FMBs on June 6, 2019.

Balance Sheet Optimization - Debt Repayment Plan

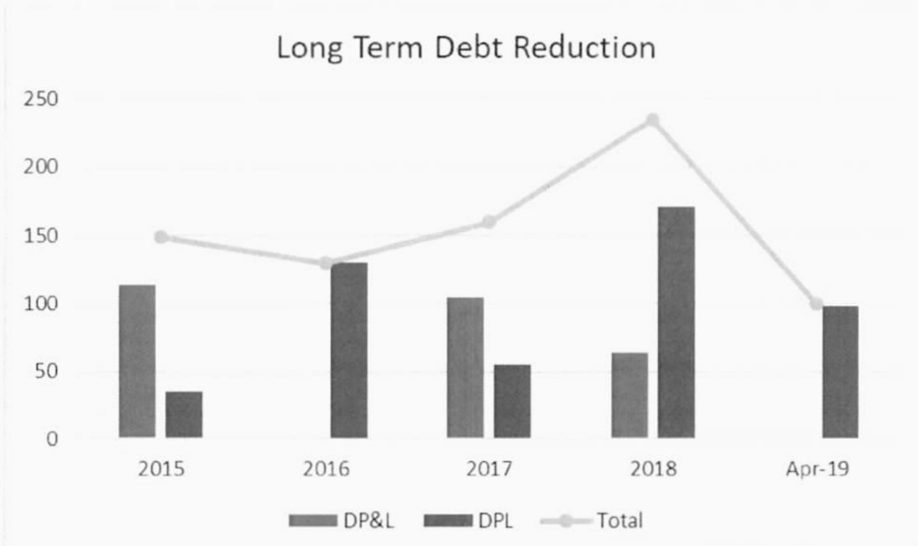
($ in Millions)	Balance as of 12/31/17	2018A	2019E	2020E	Total
2020 TE FMB A&B	200	(60)	[redacted]		
2022 Term Loan B FMB	441	(4)			
2049 First Mortgage Bonds	-				
2061 Wright Patterson AFB Note	18	(0)			
Revolving Credit Facility	10	(10)			
Total DP&L (Net)	668	(75)			
2019 Senior Notes	200	(101)			
2020 Term Loan	70	(70)			
2021 Senior Notes	780	-			
2029 Senior Notes	-				
2031 Capital Trust II Notes	16	-			
Revolving Credit Facility	-	-			
Total DPL	1,066	(171)			
Total Consolidated	1,734	(246)			
Total Debt DPL	1,066	895	[redacted]		
Total Debt DP&L	668	594			
Total Debt Consolidated	1,734	1,488			
DP&L Debt/Total Cap	67%	57%			

Debt repayment on a consolidated basis was $246M in 2018, [redacted] in 2019 and [redacted] in 2020, totaling [redacted] ([redacted] at DPL). This reduces consolidated debt from $1.73B in 2017 to [redacted] at the end of 2020. The ratio of debt to total cap at DP&L is expected to [redacted] from 67% at the end of 2017 to [redacted] at the end of 2020. An analysis of the recent financial reports indicates that DPL has been effectively reducing its outstanding debt.

Since 2015, DP&L has reduced debt by $284 million and DPL has reduced debt by $490 million for total debt reduction of $774 million through the end of April 2019.

DP&L and DPL
Long Term Debt Reduction

($mil)	2015	2016	2017	2018	Apr-19	Total
DP&L	$ 114.00	$ -	$ 105.00	$ 64.00	$ 1.00	$ 284.00
DPL	$ 35.00	$ 130.00	$ 55.00	$ 171.00	$ 99.00	$ 490.00
Total	$ 149.00	$ 130.00	$ 160.00	$ 235.00	$ 100.00	$ 774.00



On April 4, 2019, DPL repaid $99 million of outstanding 6.75% notes of 2019, which equaled 11% of the parent's outstanding debt at year-end 2018. On April 17, 2019, DPL completed the offering of $400 million in aggregate principal amount of senior notes due 2029. DPL used the net proceeds from the offering, together with cash on hand, to redeem $400 million of the $780 million aggregate principal amount outstanding of its 7.25% senior unsecured notes due 2021. Below is a summary of DP&L and DPL's debt position as of May 10, 2019. *See* response to OA Set 3- INT-61. DP&L also completed the offering on June 6, 2019 of $425 million in aggregate principal amount of First Mortgage Bonds, 3.950% Series due 2049. DP&L used the proceeds together with cash on hand to prepay in full the balance of $435 million of TLB variable rate debt.

Debt Summary

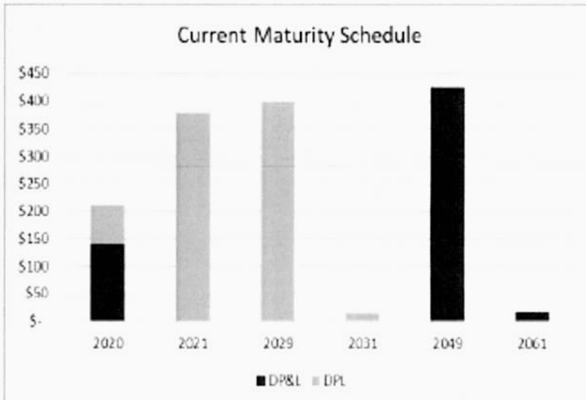
Series ($ mil)	Maturity	Rate	6/30/2018	9/30/2018	12/31/2018	3/31/2019	5/10/2019
DP&L							
2020 TE FMB A	8/1/2020 (put)	Variable	$ 100	$ 100	$ 100	$ 100	$ [redacted]
2020 TE FMB B	8/1/2020 (put)	Variable	40	40	40	40	[redacted]
2022 Term Loan B FMB	8/24/2022	Variable	438	437	436	435	[redacted]
2061 Wright Patterson AFB Note	3/11/2061	4.200%	18	18	18	18	[redacted]
Revolving Credit Facility	7/31/2020	Variable	10	-	-	-	[redacted]
Total DP&L			$ 606	$ 595	$ 594	$ 593	$ [redacted]
DPL							
2019 Senior Unsecured Bonds	10/1/2019	6.750%	$ 99	$ 99	$ 99	$ 99	$ [redacted]
2021 Senior Unsecured Bonds	10/15/2021	7.250%	780	780	780	780	[redacted]
2029 Senior Unsecured Bonds	10/15/2029	4.350%					[redacted]
2031 Capital Trust II Notes	9/1/2031	8.125%	16	16	16	16	[redacted]
Revolving Credit Facility	7/31/2020	Variable	-	-	-	-	[redacted]
Total DPL			$ 895	$ 895	$ 895	$ 895	$ [redacted]
Total Debt			$ 1,501	$ 1,489	$ 1,488	$ 1,487	$ [redacted]

Liquidity

On a consolidated basis, DPL is free cash flow positive though it is highly leveraged and faces a liquidity challenge in the form of $380M of DPL bonds due Oct 2021, with an associated $112M in interest expense from 10/2018 through 10/2021.

Current Debt Capitalization

Series	Interest Rate	Maturity	6/6/19
2049 First Mortgage Bonds	3.95%	June 2049	425
2015 Tax Exempt TL	Variable	Aug 2020 (put)	140
Wright Patterson AFB Note	4.20%	Feb 2061	18
2015 DP&L Revolver	Variable	July 2020	[redacted]
Total DP&L			[redacted]
Total DP&L Equity			[redacted]
DP&L Debt to Total Cap			[redacted]
2021 Senior Unsecured Bonds	7.25%	Oct 2021	380
2029 Senior Unsecured Bonds	4.35%	Oct 2029	400
2031 Capital Trust II Notes	8.125%	Sep 2031	16
DPL Inc. Revolver	Variable	July 2020	[redacted]
Total DPL Inc.			[redacted]
Total Consolidated			[redacted]



DP&L Key Credit Considerations

- Revolver requires minimum EBITDA/Interest of 2.50x
- Limitations on New Debt:
  - PUCO is required to approve all new debt at the utility level
  - Corporate separation plan prohibits DP&L from assuming any obligation as a guarantor of a parent or affiliate
- Liquidity
  - DP&L currently maintains a $175M revolving credit facility.

DPL Key Credit Considerations

- Term Loan & revolver current Debt/EBITDA at 7.25 to 6.50x and require minimum EBITDA/Interest of 2.1 to 2.25x
- Not permitted to distribute dividends to AES
- DPL currently maintains a $205M revolving credit facility to complement cash distributions from DP&L and AES Ohio Generation.

As of September 30, 2018, 97% of DP&L debt outstanding was made up of variable rate interest bonds, but variable interest rate debt has been reduced to only 24% as of June 7, 2019. DP&L primarily had variable rate debt that bears interest based on a prevailing rate that is reset based on a market index that can be affected by market demand, supply, market interest rates and other market conditions. As such, any event which impacts market interest rates could have had a material effect on the results of operations, financial condition and cash flows. Variable rate risk has been considerably reduced by the refinancing.

Additionally, DPL's debt outstanding consisted of high interest unsecured bonds $99 million at 6.75% maturing in October 2019; $780 million at 7.25% maturing in October 2021; and $16 million at 8.125% maturing in September 2031. There are also significant prepayment penalties and refinancing restrictions on the debt. On April 4, 2019, DPL repaid the $99 million maturing in October 2019 and on April 17, 2019, DPL completed the partial refinancing of $400 million of the $780 million maturing in October 2021.

Debt Refinancing Opportunities

Additional refinancing opportunities appear to be limited at this time, since DPL did not refinance the entire $780 million. When asked if DPL had any plans to refinance the remaining $380 million of the 2021 notes outstanding, DP&L indicated that they actively monitor the cost of debt and will continue to evaluate opportunities that would result in favorable pricing, terms, and conditions or would reduce risks such as interest rate exposure or the ability to refinance existing maturities as they come due, but they did not specify any existing plans. *See* response to OA Set 3- INT-72.

12. Rating Agencies

The rating agencies have a positive view of Rider DMR because it improves the cash flow of DP&L and DPL. In addition to the reliance of Moody's on Rider DMR as partial justification of its recent upgrades of DPL and DP&L, below is the rating agency information provided by DP&L in support of its use of Rider DMR.

Significant Progress Made in 2017 & 2018

Transactions over the past 18 months that have affected credit ratings:

- Filing an Amended ESP through the Order being issued (10-16 through 10-17)
- Announced closure of the Stuart and Killen through the actual closure (3-17 through 5-18)
- Announced sale of Miami Fort & Zimmer through sale closure (4-17 through 12-17)
- Separation of the Generation business out of DP&L (finalized 10-17)
- Announced sale of DPL's Peaking Assets through sale closure (12-17 through 3-18)
- Distribution Rate Case filing through Order (11-15 through 9-18)

	12/31/2016			03/31/2019		
	Fitch	Moody's	S&P	Fitch	Moody's	S&P
Credit Rating						
DP&L	BB+	Baa3	BB	BBB	Baa2	BBB-
DPL Inc.	B+	Ba3	BB	BBB-	Ba1	BBB-
Debt Rating						
DP&L (Secured)	BBB	Baa2	BBB-	A-	A3	BBB+
DPL Inc. (Unsecured)	BB-	Ba3	BB	BBB-	Ba1	BBB-
Outlook	Negative	Negative	Negative	Stable	Positive	Stable

Comment on Standard & Poor's Investment Grade Rating

S&P's 3/30/2018 published article after DPL announced the sale closure of the Peaking Assets stated:

- 'The company has generally achieved regulatory outcomes that support its credit quality. This includes the recent implementation of DP&L's 3rd ESP for a 6-year term, authorizing the collection of $105 million of DMR revenue annually for the next 3-years, with a PUCO option to extend for an additional 2-years. Our base-case scenario assumes that the DMR will be extended, allowing the company to further reduce its overall leverage.'
  - Extended credit opinion beyond three years
  - IG rating includes an extension of the DMR for the additional 2-years

- 'The ratings upgrade follow's DPL's announcement that it has closed on the sale of its merchant generation and related assets. The completed sale essentially transforms DPL into a low-risk T&D utility, warranting a revision of the company's business risk profile to excellent from satisfactory.'
  - First transformation, DP&L into a fully regulated T&D business
  - Second transformation, DPL Inc. into the same business model

Ratings Methodology – Fully Regulated Electric Utility

Four Key Factors when assessing credit quality:

- Regulatory Framework
  - Legislative and Judicial Underpinnings of the Regulatory Frameworks
  - Consistency and Predictability of Regulation
- Ability to Recover Costs and Earn Returns
  - Timeliness of Recovery of Operating and Capital Costs
  - Sufficiency of Rates and Returns
- Diversification
  - Market Position
  - Generation and Fuel Supply
- Financial Strength
  - (CFO – Pre WC) + Interest)) / (Interest)
  - (CFO – Pre WC) / (Debt)
  - (CFO – Pre WC) – Dividends)) / (Debt)
  - (Debt) / (Total Capitalization)

Oxford believes this rating agency information demonstrates that:

- DP&L is healthy from a credit point of view, but DPL is not.
- Linkage between DPL and DP&L limits further improvement in DP&L ratings.

13. Credit Ratings

A summary of the credit ratings of DPL and DP&L is in the chart below, including ratings prior to DMR approval.

	Reported March 31 2019 10-Q			Reported June 30, 2017 10-Q			Change in Notches		
	Moody's	S&P	Fitch	Moody's	S&P	Fitch	Moody's	S&P	Fitch
Credit Rating									
DPL	Ba1(pos)	BBB-(stable)	BBB-(stable)	Ba3(neg)	BB-(neg)	B+(neg)	+2	+3	+4
DP&L	Baa2(pos)	BBB-(stable)	BBB(stable)	Baa3(neg)	BB-(neg)	BB+(neg)	+1	+3	+2
Debt Rating									
DPL Unsecured	Ba1	BBB-	BBB-	Ba3	B+	BB-	+2	+4	+3
DP&L Secured	A3	BBB+	A-	Baa2	BBB-	BBB	+2	+2	+2
	Rating Changes Through March 2019								

DPL: Current unsecured credit ratings for DPL are Ba1, BBB- and BBB-[9] from Moody's, S&P and Fitch (the traditional order of presenting ratings). There is no longer a four-notch difference between the highest and lowest ratings, showing a convergence in opinion by the three major agencies of DPL's credit. Rating outlooks are positive, stable and stable. There are no credit watches in place for DPL. DPL's credit ratings have improved significantly since implementation of the DMR, between two and four notches from the three credit rating agencies.

DP&L: For DP&L, ratings are bifurcated into secured and unsecured ratings, reflecting the substantial additional benefit of a first mortgage over substantially all of the assets of the utility.

DP&L's unsecured debt ratings are Baa2, BBB- and BBB respectively. Secured debt ratings are A3[10], BBB+, and A-. The benefit for secured debt is two notches from all three agencies. Outlooks are positive, stable and stable. There are no credit watches in place at the DP&L level. DP&L's credit has improved between one and three notches since implementation of the DMR.

Holdco Notching: The difference between the unsecured ratings of DPL (Holdco) and DP&L (Opco) is two notches, zero notches and one notch from Moody's, S&P and Fitch, respectively. The disparate views on Holdco-Opco linkage show how the agencies are divided on how they view

[9] BB issuer default. *See also* response to OA Set 3- INT-76 for ratings for DP&L and DPL.
[10] Senior Secured Bank Credit Facility.

the Holdco notching. Notching has narrowed by one notch since Rider DMR approval from Moody's and Fitch.

AES: AES is a large, sophisticated, geographically diversified power generation holding company that relies on dividends from its subsidiaries to fund its operations, development and debt service. Currently AES is rated Ba1/positive from Moody's and BB+/Stable from S&P.

Credit Outlook

Moody's maintains a positive outlook on DPL and DP&L, even after the upgrade last year. Moody's outlook could be revised to negative if the DMR is not extended, or if credit metrics deteriorate or if DPL CFO pre/WC to Debt falls below 8%.[11]

Fitch maintains a stable outlook on DPL/DP&L with an outlook that considers a "favorable outcome in the pending application to extend the DMR…."[12] Fitch believes that "DPL and DP&L's long term rating stability depends on a reasonable order from the pending application of DMR extension."[13] The DMR is also mentioned as a Key Rating Driver by Fitch.

AES Credit Intentions

In its most recent earnings call presentation, AES stated that it intends to achieve an investment grade rating in 2019.

[11] Moody's Credit Opinions dated December 17, 2018, Dayton Power and Light, Update Following Upgrade at 2; DPL Inc. Update Following Upgrade to Ba1 at 2.
[12] Fitch DPL Inc. and Dayton Power & Light Company, dated April 10, 2019 at 1.
[13] *Id.*

14. Credit Metrics

Below is a summary of the DP&L and DPL's projected credit metrics over the term of Rider DMR. Response to OA Set 3- INT-74.

Forecast - Credit Metrics (2018-2020)

DP&L Key Financial Ratios	2018 A	2019 F	2020 F
Debt to Capitalization	57%	[redacted]	[redacted]
EBITDA/Interest (X)	8.2	[redacted]	[redacted]
Debt to EBITDA (X)	2.7	[redacted]	[redacted]
Total Debt	594	[redacted]	[redacted]
Total Equity	445	[redacted]	[redacted]

DPL Inc. Key Financial Ratios	2018 A	2019 F	2020 F
EBITDA/Interest (X)	2.8	[redacted]	[redacted]
Debt to EBITDA (X)	5.4	[redacted]	[redacted]
Total Debt	1,488	[redacted]	[redacted]

Oxford has identified the following trends associated with DP&L and DPL's forecasted credit metrics:

- Forecast debt to capital [redacted] at DP&L from [redacted] from 2018 to 2020, while EBITDA to interest [redacted] from [redacted] in 2018 to [redacted] in 2020 due to lower overall interest rates achieved by the refinancing. Debt to EBITDA [redacted] from 2018 to 2020.

- At DPL, EBITDA to interest [redacted] from [redacted] while debt to EBITDA [redacted] in 2018 to [redacted] in 2020.

- Credit metrics at DP&L [redacted] Credit metrics at DPL improve from the lower interest rates due to the refinancing, [redacted].

15. SUMMARY

Rider DMR

The Commission approved the Rider DMR on October 10, 2017 for a period of three years. The Rider DMR is designed to collect $105M in revenue each year for the three-year term of the Rider that can be used exclusively to: (a) pay interest obligations on existing debt at DPL and DP&L; (b) make discretionary debt prepayments at DPL and DP&L; and (c) position DP&L to make capital expenditures to modernize and/or maintain DP&L's transmission and distribution infrastructure. Rider DMR has helped to improve the financial position of DP&L and DPL.

The Amended Stipulation as approved by the Commission allowed DP&L to seek a two-year extension of the DMR:

> "With Commission approval, DP&L may have the option of extending the duration of Rider DMR for an additional two years. DP&L may apply for such extension by filing an application in a separate docket by June 1, 2019. The Commission will determine the amount of the Rider DMR for the two-year extension period based upon the evidence presented in the separate docket, including, but not limited to evidence of DPL Inc.'s and DP&L's financial needs and evidence of the measures undertaken by DPL Inc. and DP&L, to address their financial issues."[14]

DP&L filed an application on January 23, 2019 in Case No. 19-0162-EL-RDR, In the Matter of the Application of The Dayton Power and Light Company for Extension of Its Distribution Modernization Rider with the Commission to extend the DMR ("DMR-E") for two years and to set it at $199 million per year which DP&L states is needed to maintain its financial integrity and bring substantial benefits associated with grid modernization to its customers.

[14] Commission Order in Case No. 16-395-EL-SSO, et al dated October 20, 2017 at 6.

Use of Funds

DP&L has complied with the terms of the Amended Stipulation by using the Rider DMR funds to exclusively make payments of principal and interest on DP&L and DPL outstanding debt. Below is a summary of the Rider DMR receipts and disbursements through April 30, 2019.

SUMMARY RIDER DMR RECEIPTS AND DISBURSEMENTS

November 1, 2017 through April 30, 2019

DP&L RIDER DMR RECEIPTS			
Dayton Power & Light			*Total Receipts*
			$ 147,452,470
RIDER DMR DISBURSEMENTS			
DPL Inc	*Interest*	*Principal*	*Total DPL*
DPL TOTALS	$ 43,750,000	$ 40,000,000	**$ 83,750,000**
Dayton Power & Light	*Interest*	*Principal*	*Total DP&L*
DP&L TOTALS	$ 27,476,207	$ 27,562,500	**$ 55,038,707**
TOTAL DISBURSEMENTS	$ 71,226,207	$ 67,562,500	$ 138,788,707
ENDING CASH BALANCE			$ 8,663,763

Also, DPL has not made any dividend payments or tax sharing payments to AES, and the tax-sharing liability has been converted into an equity investment in DPL. Additionally, DP&L transferred its operational generation assets and non-debt liabilities to AES Ohio Generation and its generation fleet has either been sold or retired with the exception of its minority interest in Conesville Unit 4 which AEP plans to close by May 31, 2020. These are positive developments that have reduced debt, lowered risk and have allowed DP&L to focus on its regulated business.

Financial Condition

Since the DMR was approved, DPL and DP&L have paid down approximately $338 million in consolidated debt through 2018 primarily from the sale of generation assets including $70 million in debt reduction from the sale of the Fort and Zimmer Stations in December 2017 and $231 million in debt reduction from the sale of various merchant peaking generation assets totaling 973 MW to Kimura Power in March 2018.

Moody's recently upgraded the ratings of DPL and DP&L on October 3, 2018. Moody's upgraded the senior unsecured debt rating of DPL to Ba1 from Ba2 and upgraded the unsecured debt rating of DP&L to Baa2 from Baa3 and its senior secured rating by two notches to A3 from Baa2. Moody's maintains a positive outlook on DPL and DP&L, even after the upgrade last year. Moody's outlook could be revised to negative if the DMR is not extended, or if credit metrics deteriorate or if DPL CFO pre/WC to Debt falls below 8%.[15] Fitch maintains a stable outlook on DPL/DP&L assuming a "favorable outcome in the pending application to extend the DMR…."[16]

Debt Refinancing

DPL

On April 17, 2019, DPL completed a partial refinancing of $400 million or 51.3% of its $780 million 2021 Senior Unsecured Notes. DPL completed a private offering of $400 million in aggregate principal amount of senior notes due 2029 and used the net proceeds from the offering, together with cash on hand, to redeem a portion of the $780 million aggregate principal amount outstanding of its 7.25% senior unsecured notes due 2021. These transactions follow repayment of $99 million of outstanding 6.75% notes on April 4, 2019 maturing in October 2019, which equaled 11% of the parent's outstanding debt at year-end 2018. The new debt is at a much lower rate (4.35%) than the existing debt (7.25%), however, DPL had to pay a significant prepayment penalty of $40 million and an additional $6 million in transaction costs.

The call refinanced $400 million of the 2021s. This leaves $380 million of the 2021 notes outstanding up until their original maturity date in October 2021. This has reduced the 2021 maturities into more manageable tranches. [redacted]. Oxford views the DPL refinancing favorably provided it does not impair the ability of DP&L to refinance or issue new

[15] Moody's Credit Opinions dated December 17, 2018, Dayton Power and Light, Update Following Upgrade at 2; DPL Inc. Update Following Upgrade to Ba1 at 2.
[16] Fitch DPL Inc. and Dayton Power & Light Company, dated April 10, 2019 at 1.

debt on favorable terms and provided the Limitation of Liens is not triggered creating a lien on DP&L's assets.

DP&L

DP&L received approval in Case No. 18-1795-EL-AIS, to refinance its Term Loan B Facility that was issued when it was in a distressed state with new long-term debt to be issued currently when its credit ratings have been materially improved allowing for more advantageous financing terms. The Commission approved the debt issuance on May 22, 2019. On June 6, 2019, DP&L completed the offering of $425 million in aggregate principal amount of First Mortgage Bonds, 3.950% Series due 2049. DP&L used the proceeds from the issuance and cash on hand to prepay in full the 2022 TLB variable rate debt.

Oxford views this activity favorably as a prudent measure by DP&L to limit financing risk. Oxford believes the transaction has a positive impact for ratepayers due to the removal of interest rate risk and short-term refinancing risk inherent in the current TLB by replacing it with fixed rate interest and a long dated low interest rate maturity.

Financial Challenges at DPL Remain

Although DP&L and DPL have made progress by reducing debt, improving their financial metrics, mitigating refinancing risk and largely exiting the unregulated generation business, challenges at DPL remain. The high level of DPL debt resulting from the AES DPL merger and the generation asset impairments continues to persist. On a consolidated basis, as of June 6, 2019 debt levels have decreased by 33% since December 31, 2014 aided by the sale of generation assets; however, over the same time frame equity at DP&L reduced by 58.5% and equity at DPL remains negative with $869 million of outstanding debt at the parent company and total consolidated debt of $1.45 billion.

Moody's views favorably the recent transaction in April of the partial refinancing of DPL's $780 million outstanding 7.25% senior unsecured notes due in 2021 and the repayment of $99 million of outstanding 6.75% notes that were due in October 2019, which equaled 11% of the parent's outstanding debt at year-end 2018. According to Moody's, the material deleveraging of DPL's capital structure and the 290 basis point differential between the coupon of its 2029 4.35% notes and the 2021 7.25% notes are credit positive for DPL and its regulated utility subsidiary DP&L (DP&L, Baa2 positive). Together, Moody's expects these transactions to reduce the holding company's annual interest cash payments by around $18 million (approximately 30% of the parent's 2018 annualized cash interest payments). The parent's lower capital requirements will also leave DP&L with more of its cash flow to re-invest in growing its regulated rate base (currently $840 million). The lower outstanding balance of 2021 notes also helps DPL lengthen its debt maturity profile and reduce its refinancing risk.[17]

Moody's base case assumes that the Rider DMR will be extended through 2022, at least for the current amount of $105 million, but notes that this amount would only permit limited additional deleveraging of the group's capital structure.[18]

Fitch's ratings and Outlook assume a favorable outcome in the pending application to extend the DMR, as well as the continued conversion of tax sharing payments into equity from AES during the DMR period.[19] "Fitch believes the DMR extension is crucial for DPL and DP&L to maintain stability from a credit perspective. In addition to debt repayment, DMR will provide funding for more appropriate level of capex, which has been starved in the past few years during deregulation. Relative to its peers, DP&L has lagged behind in terms of capital replacement and growth as measured by the capex/deprecation ratio. The capex/depreciation ratio for integrated and T&D utilities' in the U.S. from 2013 to 2017 averaged 2.4x, compared with DP&L's 0.9x over the same period."[20]

The one-notch difference between DPL and DP&L's Issuer Default Ratings reflects DPL's weaker credit profile due to a high level of parent-only debt (60%). DP&L's rating is constrained as DPL relies solely on DP&L for debt service, despite its strong credit metrics on a stand-alone basis. DP&L's stand-alone credit profile is strong, but Fitch limits the notching between DPL and DP&L to one notch, as DP&L is the sole source of funding for the highly-levered DPL to service its debt and there are no material restrictions on upstream dividend from DP&L to DPL. If DPL's parent-only debt declines substantially in the future and/or there is a track record of positive rate case

[17] Moody's Issuer Comment dated April 16, 2019, DPL's debt management initiatives strengthen the group's balance sheet at 1.
[18] *Id* at 2.
[19] Fitch DPL Inc. and Dayton Power & Light Company dated April 10, 2019 at 1.
[20] *Id at 7.*

outcomes, including the extension of DMR providing long-term stability to DP&L's credit profile, Fitch could consider upgrading DP&L, widening the notching to up to two notches.

DPL and DP&L's ratings are not linked to the ratings of its sponsor, AES. AES has agreed to forgo any dividends and convert the tax-sharing payment into equity during the DMR period. However, Fitch doesn't consider such indirect support as sufficient to link the ratings of DPL and DP&L with AES. AES has not extended any guarantees to DPL's debtholders nor indicated commitment of any future liquidity support to DPL, including direct equity infusions. Fitch has assumed future funding of DPL and DP&L's capital needs will come from internally generated cash flow and access to debt capital markets.[21]

[21] *Id* at 2-3.