

THE PUBLIC UTILITIES COMMISSION OF OHIO

IN THE MATTER OF THE APPLICATION OF
THE DAYTON POWER AND LIGHT
COMPANY FOR AUTHORITY TO ISSUE FIRST
MORTGAGE BONDS, DEBENTURES, NOTES,
OR OTHER EVIDENCES OF INDEBTEDNESS
OR UNSECURED NOTES.

CASE No. 16-563-EL-AIS

FINDING AND ORDER

Entered in the Journal on August 17, 2016

I. SUMMARY

{¶ 1} The Commission authorizes The Dayton Power and Light Company to issue and sell, throughout the authorized period, up to \$455 million principal amount of First Mortgage Bonds, debentures, notes, and other evidences of indebtedness in one or more series for a term not to exceed 30 years, the proceeds of which will be used to refinance its existing \$445 million of outstanding First Mortgage Bonds, either by tender or call, and to pay the cost associated with such refinancing.

II. DISCUSSION

{¶ 2} The Dayton Power and Light Company (DP&L), is a public utility, as defined in R.C. 4905.02, and is subject to the jurisdiction of this Commission.

{¶ 3} R.C. 4905.401 permits public utilities that are electric light companies to “issue notes, or other evidences of indebtedness payable at periods of not more than twelve months[,]” when authorized by the Commission. Pursuant to the statute, Commission authorization is not required for a public utility electric light company to issue short-term notes and other evidences of indebtedness aggregating “not more than five per cent of the par value of the other stocks, bonds, notes, and other evidences of indebtedness” of the company.

{¶ 4} On March 14, 2016, DP&L filed an application for authority to issue and sell up to \$455 million principal amount of First Mortgage Bonds, debentures, notes, and/or other evidences of indebtedness, in one or more series, for terms not to exceed 30 years. DP&L proposed that the proceeds from the sale would be used to refinance \$445 million of outstanding First Mortgage Bonds, either by tender or call, and to pay for the costs associated with such refinancing. DP&L then asserted that the proposed transaction would benefit customers by replacing \$445 million of existing First Mortgage Bonds that are due and payable on September 15, 2016, and would help DP&L obtain the consent of bondholders necessary to properly effectuate the transfer of DP&L's generation assets. Additionally, the initial application targeted to have underwriting or placement discounts and commissions or agent's/agents' fees not in excess of 1.25 percent of the principal amount of the First Mortgage Bonds, debentures, notes, and/or other evidences of indebtedness sold.

{¶ 5} On April 15, 2016, Staff filed its review and recommendations regarding DP&L's initial application. Staff asserted that the proposed financing requested by DP&L would not make any noticeable change on a pro forma basis in the capitalization structure of DP&L. Further, Staff noted that in Case No. 13-2420-EL-UNC, the Commission directed DP&L to achieve and maintain a capital ratio of 50 percent debt and 50 percent equity after its generation assets are transferred. *In re The Dayton Power and Light Co.*, Case No. 13-2420-EL-UNC, Finding and Order (Sept. 17, 2014). Staff stated that it believed the proposed issuance would facilitate DP&L's transfer of its generation assets and eventually arrive at a balanced capitalization structure. Staff also recommended that the Commission direct DP&L to take necessary steps to attain a balanced capitalization ratio by January 1, 2018. Staff asserted that DP&L's application was reasonable and should be approved.

{¶ 6} By Order issued on May 18, 2016, the Commission approved DP&L's application in this matter. The Commission agreed with DP&L and Staff that the proposed transaction would help DP&L obtain the consent of bondholders, which is

necessary to amend DP&L's First & Refunding Mortgage in order to properly effectuate the transfer of DP&L's generation assets. Additionally, the Commission agreed with Staff that DP&L should take necessary steps to attain a balanced capitalization ratio by January 1, 2018.

{¶ 7} Thereafter, on July 12, 2016, DP&L filed an amended application in this matter for authority to issue and sell, throughout the authorized period, up to \$455 million principal amount of First Mortgage Bonds, debentures, notes, and other evidences of indebtedness in one or more series for a term not to exceed 30 years, the proceeds of which will be used to refinance its existing \$445 million of outstanding First Mortgage Bonds, either by tender or call, and to pay the cost associated with such refinancing. DP&L argues that, since the Commission's Order adopting the initial application, DP&L has been exposed to economic and financial uncertainty arising from the Supreme Court of Ohio's opinion in *In re Application of Dayton Power & Light Co.*, 2016-Ohio-3490. Due to this economic and financial uncertainty, FitchRatings noted that it anticipates negative ratings pressure on DP&L, and S&P Global Ratings placed DP&L and DPL Inc. on CreditWatch with negative implications. Accordingly, while the initial application targeted to have underwriting or placement discounts and commissions or agent's/agents' fees not in excess of 1.25 percent of the principal amount of the new bonds sold, the Supreme Court's decision and the change in DP&L's credit profile will likely increase these costs to up to 1.5 percent of the principal amount.

{¶ 8} On August 5, 2016, Staff filed its review and recommendations regarding DP&L's amended application.

{¶ 9} Upon review of DP&L's amended application, the Commission finds that it is reasonable and should be approved. DP&L is authorized to issue and sell, throughout the authorized period, up to \$455 million principal amount of First Mortgage Bonds, debentures, notes, and other evidences of indebtedness in one or more series for a term not to exceed 30 years, the proceeds of which will be used to refinance its existing \$445 million

of outstanding First Mortgage Bonds, either by tender or call, and to pay the cost associated with such refinancing. The Commission agrees that this transaction will help DP&L obtain the consent of bondholders, which will be necessary to amend DP&L's First & Refunding Mortgage in order to properly effectuate the transfer of DP&L's generation assets. Additionally, the Commission finds that DP&L shall be authorized for underwriting or placement discounts and commissions or agent's/agents' or arranger fees not in excess of 1.5 percent of the principal amount of the First Mortgage Bonds, debentures, notes, and other evidences of indebtedness sold. Further, the Commission finds that DP&L should take necessary steps to attain a balanced capitalization ratio by January 1, 2018. Finally, the Commission finds that no hearing is necessary in this matter.

III. ORDER

{¶ 10} It is, therefore,

{¶ 11} ORDERED, That DP&L's amended application is approved and DP&L is authorized through December 31, 2016, to issue and sell up to \$455 million principal amount of First Mortgage Bonds, debentures, notes, and other evidences of indebtedness in one or more series for a term not to exceed 30 years, pursuant to R.C. 4905.40 and 4905.41, and pursuant to the terms and conditions as described in the application and this Finding and Order. It is, further,

{¶ 12} ORDERED, That the authorization granted by this Finding and Order shall not be construed as limiting the Commission's determination of the appropriateness of DP&L's future long-term security offerings issues wholly or in part for the purpose of retiring its outstanding short-term evidences of indebtedness. It is, further,

{¶ 13} ORDERED, That nothing in this Finding and Order be construed to imply any guaranty or obligation as to the unsecured notes and other evidences of indebtedness or the associated interest on the part of the state of Ohio. It is, further,

{¶ 14} ORDERED, That nothing in this Finding and Order be deemed to be binding upon the Commission in any future proceedings or investigation involving the justness or reasonableness of any rate, charge, rule, or regulation of DP&L. It is, further,

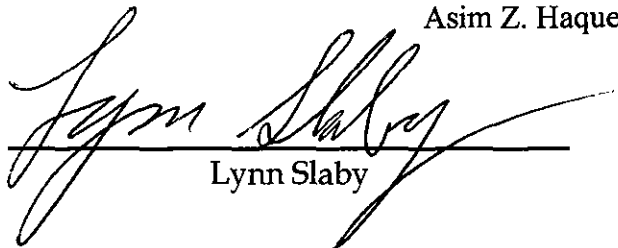
{¶ 15} ORDERED, That nothing in this Finding and Order be construed to imply any guaranty or obligation by the Commission to assure completion of any specific construction project of DP&L. It is, further,

{¶ 16} ORDERED, That a copy of this Finding and Order be served upon all parties of record.

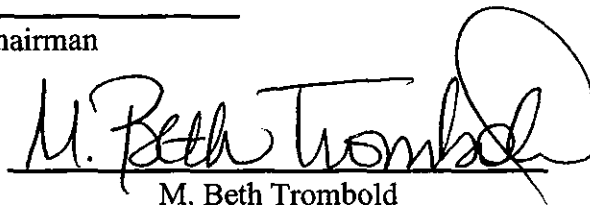
THE PUBLIC UTILITIES COMMISSION OF OHIO



Asim Z. Haque, Chairman



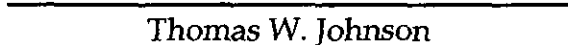
Lynn Slaby



M. Beth Trombold



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Barcy F. McNeal
Secretary