

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of	:	Case No. 13-2420-EL-UNC
The Dayton Power and Light Company for	:	
Approval to Maintain Its Adjusted Capital	:	
Structure	:	
	:	

**THE DAYTON POWER AND LIGHT COMPANY'S
APPLICATION TO MAINTAIN AN ADJUSTED CAPITAL STRUCTURE**

1. Pursuant to ¶ 33 of the Commission's September 17, 2014 Finding and Order in this case, DP&L files this Application to address why it may not be able to achieve a capital structure of at least 50 percent equity by January 1, 2018.
2. Specifically, in the Commission's November 22, 2011 Finding and Order, p. 9 (Case No. 11-3002-EL-MER) ("Merger Order"), the Commission approved a Stipulation and Recommendation that included the following term: "DP&L shall maintain a capital structure that includes an equity ratio of at least 50 percent."
3. In the Commission's September 17, 2014 Finding and Order, p. 18 (in this case), the Commission authorized DP&L to maintain an adjusted capital structure until January 1, 2018. The Commission further stated: "In the event that DP&L is unable to achieve the required capital structure by January 1, 2018, DP&L should file an application with the Commission no later than January 1, 2017. In its application, DP&L should explain why it is unable to achieve a capital structure of 50 percent debt to equity and detail the steps DP&L will take to reduce its debt and achieve a balanced capital structure." Id.

4. Up through the period ending September 30, 2016, DP&L's capital structure included an equity ratio of at least 50 percent. DP&L was thus in compliance with the Merger Order as it related to minimum equity capitalization requirements. However, on February 24, 2017, DP&L's Securities and Exchange Commission Form 10-K announced that for the quarter ending December 31, 2016, DP&L recognized a total pre-tax asset impairment expense of \$496.4 million, related to the Killen, Stuart, Miami Fort, Zimmer, and Conesville coal-fired facilities as well as the gas-fired peaking plant at Hutchings generating station. As a result of these asset impairments, DP&L's equity ratio dropped to approximately 32%.

5. DP&L has filed an Amended Stipulation and Recommendation in its pending Electric Security Plan case (Case No. 16-0395-EL-SSO). That Stipulation provides (among other things) that DP&L will transfer certain coal plants to an affiliate. That transfer will cause DP&L's equity ratio to fall further, and DP&L will not be able to achieve the required capital structure by January 1, 2018.

6. The steps that DP&L has taken since the September 17, 2014 Finding and Order to attempt to achieve a capital structure of at least 50% equity include the following:

- a. On July 1, 2015, DP&L redeemed and retired with cash on hand, \$35.3 million of tax-exempt First Mortgage Bonds due January 2028 and \$41.3 million of tax-exempt First Mortgage Bonds due January of 2034.
- b. On August 3, 2015, DP&L called \$100.0 million of variable rate tax-exempt First Mortgage Bonds due November 2040 and \$137.8 million of 4.8% tax-exempt First Mortgage Bonds due January of 2034. DP&L redeemed and retired \$37.8 million of these bonds with cash on hand and refinanced the \$200.0 million balance, with a new variable interest rate tax-exempt Term Loan, that can be prepaid on any business day, without penalty.

- c. On October 13, 2016 DP&L redeemed with cash on hand, \$22.9 million, or all, of its issued and outstanding preferred stock
- d. On August 24, 2016, DP&L refinanced its 1.875% First Mortgage Bonds due 2016, with a variable rate Term Loan B of \$445.0 million maturing on August 24, 2022. The Term Loan B was structured such that it can be pre-paid on any business day that is more than 1 year after the issuance date without penalty.
- e. DP&L signed an Amended Stipulation and Recommendation in Case No. 16-0395-EL-SSO, which is expected to (among other things) allow DP&L to pay down debt.

7. Assuming the Stipulation and Recommendation in Case No. 16-0395-EL-SSO is approved by the Commission, DP&L anticipates that its capital structure should return to 50% equity by the end of the ESP term.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I certify that a copy of the foregoing The Dayton Power and Light Company's Application to Maintain an Adjusted Capital Structure has been served via electronic mail upon the following counsel of record, this 31st day of March, 2017:

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Summary: Application The Dayton Power and Light Company's Application to Maintain an Adjusted Capital Structure electronically filed by Mr. Jeffrey S Sharkey on behalf of The Dayton Power and Light Company