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. 18-1795-EL-AIS

FINDING AND ORDER

Entered in the Journal on May 22, 2019

I. SUMMARY

{¶ 1} The Commission authorizes The Dayton Power and Light Company to issue and sell, throughout the authorized period, up to $425 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 40 years, the proceeds of which will be used to refinance its existing $436.1 million term loan, either by repayment 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. 4905.40 permits public utilities to "issue stocks, bonds, notes, or other evidences of indebtedness, payable at periods of more than 12 months after their date of issuance, when necessary (1) [f]or the acquisition of property, the construction, completion, extension, renewal, or improvement of its facilities, or the improvement of its service; or (2) [f]or reorganization or readjustment of its indebtedness and capitalization, for the discharge or lawful refunding of its obligation, or for the reimbursement of moneys actually expended for such purposes from income or from any other moneys in the treasury of the public utility * * * not secured or obtained from the issue of stocks, bonds, notes, or other evidences of indebtedness of such public utility * * *" when authorized by the Commission.

{¶ 4} On December 4, 2018, DP&L filed an application for authority to issue and sell up to $450 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 40 years. DP&L proposed that the proceeds from the sale would be used to refinance a $437.5 million term loan secured by a pledge of outstanding First Mortgage Bonds, either by tender or call, and to pay for the costs associated with such refinancing.

{¶ 5} Subsequently, on February 6, 2019, DP&L filed an amended application in this matter for authority to issue and sell, through December 31, 2019, up to $425 million principal amount of First Mortgage Bonds, debentures, notes, and other evidences of indebtedness in one or more series (New Bonds) for a term not to exceed 40 years, the proceeds of which will be used to refinance a $436.1 million term loan secured by a pledge of outstanding First Mortgage Bonds, either by repayment or call, and to pay the cost associated with such refinancing.

{¶ 6} On March 14, 2019, DP&L filed a second amended application, which was supplemented on March 18, 2019. In the second amended application, DP&L proposed two series of First Mortgage Bonds, debentures, notes, and other evidences of indebtedness with terms of 10 years and 30 years.

{¶ 7} DP&L claims that the proposed transaction would benefit customers, noting that its current term loan facility was acquired in the term loan high-yield market as a result of DP&L's having non-investment grade credit metrics at the time of the financing. DP&L recently received credit upgrades from all three credit agencies, allowing DP&L to issue new bonds in an investment grade market that will offer better long-term pricing and financing. The proposed transaction will replace the existing $436.1 million term loan facility that is due and payable in August 2022, with longer dated debt that is expected to price similar or with a small premium to the existing variable rate for the term loan facility. DP&L claims that 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. DP&L further claims that this will help to minimize refinancing risk, including the risk of continued rising interest rates on the variable term loan facility, and that the proposed transaction is more consistent with the Company's customary refinancing program. DP&L also represents that it will pay off a portion of the long-term debt at DP&L as part of this refinancing, which will help deleverage the Company.

{¶ 8} On April 8, 2019, Staff filed its review and recommendations regarding DP&L's applications. Staff notes that, on a pro forma basis, the proposed financing would modestly improve the Company's capital structure. Although Staff notes that both of the financing methods proposed by DP&L have merit, Staff believes that a public market issuance with a fixed term in a single maturity may provide DP&L with the best financing result. Therefore, Staff asserted that DP&L's application, as amended, appears reasonable and should be approved. Additionally, Staff recommends that the Commission direct DP&L to file a summary report in this case that details all the terms and covenants of the new financing within 30 days of issuance.

{¶ 9} On May 17, 2019, DP&L filed a letter in this docket, indicating that DP&L is amenable to moving forward under the terms and conditions as recommended by Staff.

{¶ 10} Upon review of DP&L's application, as amended, the Commission finds that it is reasonable and should be approved. Accordingly, DP&L is authorized to issue and sell, through December 31, 2019, through a public market issuance, up to $425 million principal amount of First Mortgage Bonds, debentures, notes, and other evidences of indebtedness in one or more series (New Bonds) for a term not to exceed 40 years, the proceeds of which will be used to refinance a $436.1 million term loan secured by a pledge of outstanding First Mortgage Bonds, either by repayment or call, and to pay the cost associated with such refinancing. Further, the Commission finds that, because we are approving a public market issuance, there should be no provisions for the potential calling of the bonds in the event of a change of control or cross-default. Additionally, as recommended by Staff, the Commission directs DP&L to file a summary report in this case that details all the terms and covenants of the New Bonds within 30 days of issuance. Finally, the Commission finds that no hearing is necessary in this matter.

III. ORDER

{¶ 11} It is, therefore,

{¶ 12} ORDERED, That DP&L's amended application is approved and that DP&L be authorized, through December 31, 2019, to issue and sell up to $425 million principal amount of New Bonds for a term not to exceed 40 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,

{¶ 13} ORDERED, That DP&L file a summary report in this case docket that details the terms and covenants of the New Bonds within 30 days of issuance.

{¶ 14} 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,

{¶ 15} 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,

{¶ 16} 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,

{¶ 17} 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,

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

THE PUBLIC UTILITIES COMMISSION OF OHIO

Sam Randazzo, Chairman

M. Beth Trombold

Lawrence K. Friedeman

Daniel R. Conway

Dennis P. Deters

GAP/PAS/hac

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Secretary