BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of The Dayton Power and Light Company for a Finding That Its Current Electric Security Plan Passes the Significantly Excessive Earnings Test and More Favorable in the Aggregate Test in R.C. 4928.143(E).	: : :	Case No. 20-0680-EL-UNC

INITIAL COMMENTS OF THE DAYTON POWER AND LIGHT COMPANY

PUBLIC VERSION

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INITIAL COMMENTS OF
THE DAYTON POWER AND LIGHT COMPANY

I. INTRODUCTION AND SUMMARY

These Initial Comments by The Dayton Power and Light Company ("DP&L") demonstrate three points.

First, during the 2020-2023 forecast period, DP&L's current Electric Security Plan ("ESP I") is expected to be more favorable in the aggregate ("MFA") as compared to a market rate offer ("MRO"), and ESP I thus passes the MFA Test in R.C. 4928.143(E). Specifically, ESP I is expected to be more favorable than an MRO for the following reasons:

1. The MRO statute would authorize DP&L to recover a financial integrity charge ("FIC"). R.C. 4928.142(D)(4). The FIC that DP&L would collect under an MRO would exceed the Rate Stabilization Charge ("RSC") that DP&L collects under ESP I.

2. DP&L can collect [redacted] in generation-related environmental costs under an MRO (R.C. 4928.142(D)(4)), which are not recovered under ESP I.

3. ESP I includes numerous non-quantifiable benefits that an MRO would not include.

Second, DP&L projects that its return on equity ("ROE") will average [redacted] during the 2020-2030 forecast period. The methods approved by the Commission to determine a threshold for the significantly excessive earnings test ("SEET") result in a SEET threshold of

16.6%. ESP I thus is not expected to result in significantly excessive earnings and passes the SEET in R.C. 4928.143(E).

Third, if the Commission were to conclude that ESP I did not pass either test, the Commission should not invalidate the RSC. DP&L would be in a dire financial situation without the RSC and would not be able to provide safe and reliable service without it.

II. <u>PROCEDURAL HISTORY</u>

Following the Commission's Order that invalidated DP&L's Distribution Modernization Rider, DP&L withdrew and terminated ESP III. Nov. 26, 2019 Notice of Withdrawal, pp. 1-2 (Case No. 16-0395-EL-SSO). R.C. 4928.143(C)(2)(a).

If a utility terminates an ESP, R.C. 4928.143(C)(2)(b) provides that the Commission "shall" implement the terms of the utility's most recent standard service offer ("SSO"). The Commission thus issued an order implementing the terms of ESP I, which was DP&L's most recent SSO. Dec. 18, 2019 Second Finding & Order, p. 16 (Case No. 08-1094-EL-SSO). <u>Accord</u>: Aug. 26, 2016 Finding and Order, p. 4 (Case No. 08-1094-EL-SSO).

R.C. 4928.143(E) provides that if a utility's ESP exceeds three years, then the Commission shall determine whether the ESP will continue to be more favorable in the aggregate than the expected results of an MRO, and whether the ESP is expected to result in significantly excessive earnings. DP&L's ESP I has now cumulatively been in effect for over three years, so the Commission ordered DP&L to file this proceeding to determine whether ESP I passes the MFA test and SEET in R.C. 4928.143(E). Dec. 18, 2019 Finding & Order, p. 16 (Case No. 08-1094-EL-SSO).

III. BACKGROUND FACTS -- DP&L REMAINS IN FINANCIAL DISTRESS

This section of these Comments demonstrates that DP&L is now in financial distress, and will continue to be in financial distress during the 2020-2023 forecast period.

A. DP&L'S PROJECTED ROE IS LOW

During the 2020-2023 forecast period, DP&L is projected to earn an ROE of [redacted]. Malinak Test., p. 88. That ROE is [redacted] from DP&L's last rate case. Stipulation and Recommendation, p. 5 (Case No. 15-1830-EL-AIR). That [redacted] ROE is also equal to or lower than the ROEs earned by DP&L's peer companies over the last four years. Malinak Test., p. 88.

It is also important that the [redacted] ROE figure significantly overstates the actual return that DP&L's shareholders will earn on their investments in DP&L. Specifically, DP&L has written off large amounts from the book value of its assets; an ROE calculation excludes those significant write-offs from the Company's equity, but it does not change the fact that shareholders did invest that money in DP&L. Malinak Test., p. 89 n.134 and RJM-29. "Return on Invested Capital" is a better measure of the actual return earned by DP&L's shareholders on all of the money that has been invested in DP&L. Id. DP&L's projected Return on Invested Capital over the 2020-2023 forecast period is [redacted]. Id.

B. DP&L HAS AGING INFRASTRUCTURE AND DETERIORATING RELIABILITY METRICS

Due to its poor financial condition, DP&L has been making lower capital expenditures than its peer utilities. Malinak Test., pp. 47-48 and RJM-25. As a result, DP&L's infrastructure is very old: "45% of DP&L's substation assets are over 30 years old, while 24% of those assets are over 50 years old. Over 45% of DP&L's distribution poles are more than 40 years old, 35% are over 50 years old, and almost 20% of the distribution poles on the system are over 60 years old." Garvaglia Test., p. 3.

Although DP&L has managed to maintain acceptable reliability metrics during its financial crisis, those metrics have been deteriorating:

YEAR	SAIDI	SAIFI	CAIDI
2016	82.15	.69	119.08
2017	90.40	.68	133.07
2018	97.74	.83	118.41
2019	117.83	.88	133.29

C. THE CREDIT RATINGS FOR DP&L AND DPL INC. ARE POOR

Credit ratings are an excellent measure of a business' financial integrity, since those ratings are provided by a neutral third party. The current issuer credit ratings for DP&L and DPL Inc. are as follows:

DP&L

S & P: BB (two notches below investment grade), negative outlook

Fitch: BBB- (lowest investment grade rating), negative outlook

Moody's: Baa2 (one notch above investment grade), negative outlook

DPL Inc.

S & P: BB (two notches below investment grade), negative outlook

Fitch: BB+ (one notch below investment grade), negative outlook

Moody's: Ba1 (one notch below investment grade), negative outlook

Garavaglia Test., p. 10. DP&L and DPL Inc. are among the lowest-rated utility and utility holding companies in the United States. Malinak Test., pp. 69-70.

Additionally, the credit rating agencies have indicated that they would lower DP&L's credit rating even further if the RSC were to be eliminated. See Malinak Test., pp. 33-34.

D. DP&L'S FINANCIAL INTEGRITY IS LINKED TO THE FINANCIAL INTEGRITY OF DPL INC.

DP&L Witness Garavaglia explains that DPL Inc.'s financial integrity affects DP&L's financial integrity:

> "**Q. Does the financial integrity of DPL Inc. have an impact on DP&L?**
>
> A. Yes. DP&L must maintain its financial integrity to ensure that it can (a) make the necessary capital investment and operating expenses that are required in the normal course of business; (b) access debt markets to refinance existing debt obligations; (c) attract debt and equity to finance the investments required to maintain reliability and modernize its transmission and distribution infrastructure; and (d) maintain reasonably priced debt and equity capital to ensure reasonable rates to customers.
>
> If DPL Inc. cannot maintain its financial integrity, it will (a) need to minimize capital and operating expenditures at DP&L (that otherwise would be necessary to ensure safe and reliable service) in order to ensure that its own financial obligations can be met; (b) not have funds, or access to funds, that may be required to invest in DP&L and to ensure that DP&L can maintain its existing infrastructure; (c) not have funds, or access to funds, that will be required to invest in DP&L to provide the ability to modernize DP&L's distribution grid and the associated benefits for DP&L's customers and society as a whole; and (d) adversely affect its own credit ratings and the credit ratings of DP&L (all of the major credit ratings agencies "notch" the utility and the utility holding company, so that

> the utility credit ratings are directly linked to that of the utility holding company), which will increase the borrowing costs for DP&L and DPL Inc. and decrease cash available to operate and maintain DP&L's assets, or to invest in infrastructure modernization projects."

Garavaglia Test., pp 13-14.

Credit rating agencies have stated that they will downgrade DP&L if DPL Inc. experiences additional financial distress:

> "<u>S & P Global</u>: S & P Global gives the same credit rating to DP&L that it gives to DPL Inc. Thus, any downgrade of DPL Inc. will downgrade DP&L.
>
> <u>Fitch</u>: In its December 23, 2019 rating report, Fitch stated as to DPL Inc. that '[d]eteriorating regulatory relationship or successful challenges from stakeholders over approved rate plans in the future will result in negative rating actions.' Fitch further stated that as to DP&L, '[a] downgrade at DPL [Inc.] could potentially lead to negative rating actions at DP&L.'
>
> <u>Moody's</u>: In its December 30, 2019 credit opinion, Moody's stated that 'DP&L's credit quality is constrained by the significant amount of holding company debt that DPL . . . .'"

Garavaglia Test., p. 14.

Further, as explained in detail in the testimony of DP&L Witness Garavaglia, a failure by DPL Inc. to pay its debts would likely lead to lenders declaring all of DP&L's debt to be immediately due.[1] Garavaglia Test., pp. 17-21. DP&L could not pay those amounts if they became immediately due, and DP&L could not provide safe and reliable service if that occurred.

[1] DP&L is in the process of refinancing its tax-exempt bonds, and expects to close on that transaction before August 1, 2020.

E. COVID-19 CREATES ADDITIONAL RISKS FOR DP&L

The projections that DP&L used in this case do not account for the effects that COVID-19 is having on DP&L. The testimony of DP&L Witness Garavaglia explains that COVID-19 creates long-term financial implications for DP&L:

> **"Q. Has the COVID-19 virus created risks for DP&L that other utilities do not face?**
>
> A. Yes. Due to COVID-19 and the associated financial crisis, all utilities face increased risks, including risk that customer usage will decline significantly and that the customers will be unable to pay their bills. While all utilities face those issues, those issues create particular risks for DP&L due to DP&L's poor financial condition. Unlike other utilities that have strong balance sheets and ample reserve cash available, DP&L was already on the edge of financial distress and COVID-19 significantly increases the threat of that distress.
>
> * * *
>
> **Q. Are there other reasons that it is important that a utility be strong financially?**
>
> A. Yes, for example and as discussed above, the financial crisis caused by COVID-19 creates risks for DP&L that customers will use less electricity and/or be unable to pay their bills. Reduced usage is an issue because some of DP&L's rates, charges, and riders, such as the RSC, TCRR-N, and Legacy Generation Resource Rider, are volumetrically based, while the underlying expenses they are designed to recover are not necessarily reduced due to decreased usage. As a result of the state of emergency in Ohio, DP&L expects to see significantly reduced revenues . . . . This situation that we are all currently facing demonstrates the importance of utilities having sufficient cash flows to maintain safe and reliable service in times of crisis. DP&L was already in a difficult financial situation, and COVID-19 has made that situation much worse. COVID-19 thus increases DP&L's need for a financial integrity charge under a hypothetical MRO and for the RSC under DP&L's ESP."

Garavaglia Test., pp. 7-8, 16-17.

F. AES, DPL INC. AND DP&L HAVE MADE SIGNIFICANT EFFORTS TO IMPROVE DP&L'S FINANCIAL INTEGRITY

As discussed in detail in the testimony of DP&L Witness Garavaglia, AES, DPL Inc. and DP&L have taken significant steps to improve the financial integrity of DP&L. These steps include:

1. AES has invested $150 million in DP&L in 2020, and announced plans to invest another $150 million in 2021.
2. No dividend payments have been made to AES since 2012;
3. No contractually-required tax-sharing payments have been made to AES since 2012;
4. DP&L has implemented significant cost and workforce reductions;
5. DP&L and DPL Inc. have sold over [redacted] in assets, and used the net proceeds to pay down debt.

Garavaglia Test., pp. 22-25.

As a result of those actions, debt at DP&L and DPL Inc. has been reduced by approximately $1.1 billion between 2012 to 2019. Garavaglia Test., p. 25.

IV. ESP I IS MORE FAVORABLE THAN AN MRO

This section demonstrates that ESP I is expected to be more favorable in the aggregate as compared to an MRO for the following separate and independent reasons:

a. An FIC would be available under an MRO, and that FIC would exceed the RSC under ESP I;

b. DP&L could recover [redacted] in environmental expenses associated with one of its generation plants under an MRO, which expenses will not be recovered under ESP I; and

c. There are numerous non-quantifiable benefits available under ESP I that would not be available under an MRO.

A. AN FIC UNDER AN MRO WOULD EXCEED THE RSC

The MRO statute allows the Commission to adjust a utility's SSO to "address any emergency that threatens the utility's financial integrity." R.C. 4928.142(D)(4). In evaluating whether DP&L's ESP III was more favorable in the aggregate as compared to an MRO, the Commission stated that it would have approved an FIC for DP&L if DP&L had filed an application for an MRO:

> "While OCC submits the DMR and other riders would not be available under an MRO, the Commission finds that equivalent riders would also be available under R.C. 4928.142. Under an MRO, pursuant to R.C. 4928.142 the Commission may assess such charges as the Commission 'determines necessary to address any emergency that threatens the utility's financial integrity or to ensure that the resulting revenue available to the utility for providing the standard service offer is not so inadequate as to result, directly or indirectly in a taking of property without compensation pursuant to Section 19 of Article I, Ohio Constitution.' Additionally, the Commission notes that electric utilities can seek emergency rate relief under R.C. 4909.16, and the Commission has provided factors for determining whether emergency rate relief can be granted. *In re Cleveland Elec. Illum. Co.,* Case No. 88-170-EL-AIR, et al., Opinion and Order (Aug. 23, 1988), 1988 WL 1617994 (Ohio P.U.C.). We have previously identified that these factors specified by the Commission for cases brought under R.C. 4909.16 may provide guidance for factors the Commission may examine in a hypothetical application for a charge under R.C. 4928.142. *In re FirstEnergy*, Case No. 14-

1297-EL-SSO, Fifth Entry on Rehearing (October 12, 2016) at 161-163.

One of the factors the Commission has previously considered under R.C. 4909.16 is whether the utilities' bonds are considered investment grade. There, we found a utility on the 'ragged edge' of investment grade would qualify under R.C. 4909.16. *In re Cleveland Elec. Illum. Co.*, at 8. Similarly, under FirstEnergy's ESP versus MRO comparison, the Commission found that an electric utility still operating above investment grade would likely meet the standards applied by the Commission under R.C. 4909.16. *In re FirstEnergy*, at 163. Here, it is well established that DP&L and DPL Inc.'s credit ratings were respectively, at and even below the 'ragged edge' of investment grade (Co. Ex. 105). Thus, it is likely that the Commission would grant relief in response to a hypothetical application under R.C. 4928.142(D). Accordingly, we agree with DP&L and Staff witness Donlon (Staff Ex. 2 at 6) that the DMR should be excluded from a quantitative analysis as the associated charges would be available under either an MRO or an ESP."

Oct. 10, 2017 Opinion and Order, pp. 44-45 (Case No. 16-0395-EL-SSO) (emphasis added).

The testimony of DP&L Witness Garavaglia demonstrates that DP&L remains at or below the "ragged edge" of investment grade. Garavaglia Test., p. 10.

The testimony of DP&L Witness Malinak demonstrates that DP&L would experience a financial emergency during the 2020-2023 forecast period under an MRO without an FIC:

"Q. Please describe the projected financial condition and integrity of DP&L under the hypothetical MRO without an FIC.

A. Under an MRO without an FIC, DP&L would face serious and imminent financial distress. In order to preserve its capital, I assume that DP&L would not pay any dividends to DPL under this scenario and is able to refinance $140 million of debt in 2020.

> In 2020, DP&L would generate approximately [redacted] in operating cash flow, which is well below projected capital expenditures of [redacted] in that year, as well as DP&L's capital expenditures of $167 million in 2019. Despite this shortfall and the financial distress that DP&L and DPL would be experiencing, this scenario still assumes that AES would contribute $150 million in equity. Even with this equity contribution, the [redacted] operating cash flow would fall well short of the [redacted] of capital expenditures. In 2021, operating cash flow of [redacted] would fall well short of the [redacted] capital expenditures. The problems continue in the following years, as operating cash flow remains significantly below capital expenditures necessary to maintain safe and reliable service and implement grid modernization.
>
> Without equity infusions, DP&L would need to resort to its revolver to bridge the cash shortfall. However, even assuming AES would still inject the first $150 million of equity in 2020 (which would no longer be economic)[[2]] DP&L would need to increase its borrowing on the revolver to [redacted] DP&L would face rising leverage. *Debt / Capital* would reach [redacted] percent by 2023, well above the [redacted].
>
> The model-based indicated credit ratings fall from the current Baa2 to [redacted] below investment grade, for the four-year projection period. As shown in below, the yield on non-investment grade is significantly higher than for investment grade debt. This scenario demonstrates a clear financial emergency for DP&L."

Malinak Test., pp. 50-51 (footnotes omitted).

The testimony of DP&L Witness Malinak further shows that an FIC under an MRO should range between [redacted]. Malinak Test., pp. 53-57; RJM-8A; RJM-8B. An FIC of [redacted] would place DP&L in the same financial situation it would be in under ESP I, but accounts for the fact that AES would not make a $150 million investment in

[2] The $150 million equity investment for 2020 by AES has now been made.

DP&L in 2021 under an MRO. Malinak Test., p. 53; RJM-8A; Garavaglia Test., pp 26-27. A [redacted] FIC would allow DP&L to make all of its planned capital expenditures, service the debt at DP&L, and pay interest expenses at DPL Inc. Malinak Test., pp. 54-55; RJM-8B. Both methods are reasonable, so an FIC for DP&L under an MRO should range between [redacted]. Malinak Test., pp. 55-57.

In either case, ESP I is less expensive for customers than an MRO, and thus more favorable. Malinak Test., p. 80.

B. DP&L WOULD RECOVER [redacted] IN ENVIRONMENTAL EXPENSES UNDER AN MRO

The MRO statute allows utilities to recover "costs prudently incurred to comply with environmental laws and regulations." R.C. 4928.142(D)(4). The ESP statute does not allow the recovery of similar costs. R.C. 4928.143.

DP&L projects that it will spend [redacted] on environmental remediation at Hutchings Station in [redacted]. Malinak Test., p. 80. That amount would be recoverable under an MRO, and is another quantifiable benefit of ESP I to customers.

C. ESP I HAS NON-QUANTIFIABLE BENEFITS THAT AN MRO LACKS

ESP I has five non-quantifiable benefits over an MRO.

First, AES has invested $150 million of new equity into DP&L under the ESP during 2020, and plans to invest another $150 million in 2021, but AES would not make the 2021 investment under an MRO. Garavaglia Test., p. 26. The reason that AES plans to make that 2021 investment under ESP I but not under an MRO is that the Infrastructure Investment

Rider ("IIR") in ESP I would allow an accelerated recovery of that investment. Id. at 26-27. This additional equity would improve the financial condition and integrity of DP&L and DPL at a reduced cost to customers. Malinak Test., p. 81.

Second, the ESP statute would require DP&L to issue refunds to customers if its actual ROE exceeded a SEET threshold, and there is no such SEET protection for customers under an MRO. R.C. 4928.143(F); R.C. 4928.142. Customers under an MRO thus lose the benefit afforded by that protection. Malinak Test., p. 81.

Third, once the Commission has approved an MRO for a utility, then that utility will never be able to implement an ESP in the future. R.C. 4928.142(F). The Commission has repeatedly found that ESPs are more favorable in the aggregate than MROs. E.g., In re Ohio Power Co., Case No. 16-1852-EL-SSO, et al. (Apr. 25, 2018 Opinion and Order, ¶ 270); In re Duke Energy Ohio, Inc., Case No. 14-841-El-SSO (Apr. 2, 2015 Opinion and Order, pp. 96-97). The Commission would thus lose the option of approving future beneficial ESPs if it approved an MRO for DP&L. Malinak Test., p. 81.

Fourth, any FIC under an MRO would be bypassable. R.C. 4928.142(D). Customers would have an incentive to switch to competitive providers to avoid the charge. Malinak Test., p. 82. The departure of those customers would not lessen DP&L's financial needs, which means the FIC would need to stay the same, but be collected from fewer SSO customers. Id. The remaining customers would then each face a higher FIC, which would further increase the incentive for those remaining customers to switch providers. Id. That process would repeat until there are no customers left to pay the charge. Id.

Fifth, any rate increases will be more gradual under ESP I than under a hypothetical MRO. The reason that rate increases would be more gradual is that ESP I includes the IIR, which allows grid modernization investments to be included in rates on a near-real-time basis. Feb. 24, 2009 Stipulation and Recommendation, ¶ 4 (Case No. 08-1094-EL-SSO). The MRO statute does not authorize beneficial and incremental charges like the IIR. R.C. 4928.142. Under an MRO, any grid modernization investments would be included in rates only through distribution rate cases, which would result in infrequent and lumpy increases. Malinak Test., p. 82. ESP I provides for gradualism and thus minimizes rate shock. Id.

The Commission should thus conclude that ESP I is more favorable in the aggregate than an MRO, on both a quantifiable and non-quantifiable basis.

V. ESP I PASSES THE PROSPECTIVE SEET

DP&L's projected ROE averages [redacted] over the 2020-2023 forecast period. Malinak Test., p. 84. As discussed below, the testimony of DP&L witnesses Malinak and Garavaglia demonstrate that the applicable SEET threshold for DP&L should be 16.6%. DP&L's ESP I thus passes the prospective SEET in R.C. 4928.143(E).

1. **The Average ROE Earned by the Comparable Group is 10.4%**: The first step in conducting a SEET is to determine a group of companies that face comparable risks to the utility. R.C. 4928.143(E). DP&L witness Malinak identified utilities that were included in the XLU exchange as comparable to DP&L. Malinak Test., p. 85. The Commission has repeatedly approved the use of that method to identify comparable companies as part of a SEET. In re Columbus Southern Power, Case No. 11-4571-EL-UNC (Oct. 23, 2013 Opinion and Order, pp. 21, 23-24); In re Ohio Power Company, Case No. 17-1230-EL-UNC (Feb. 27, 2019 Opinion

and Order, p. 13) (citing cases). The mean ROE for that group of companies is 10.4%. Malinak Test., p. 85.

2. **<u>The Applicable SEET Threshold is 16.6%</u>**: The next step in a SEET is to determine the ROE threshold that would be considered "significantly in excess" of the ROEs earned by the comparable companies. R.C. 4928.143(E). There are two principal methods that the Commission has identified to determine that threshold:

First, the Commission has established a "safe harbor" of 200 basis points above the mean ROE earned by the comparable companies. June 30, 2010 Finding and Order, p. 29 (Case No. 09-786-EL-UNC). That safe harbor amount would be 12.4% for ESP I, and the [redacted] ROE that DP&L is projected to earn during 2020-2023 falls below that safe harbor. Malinak Test., p. 91.

Second, the Commission has multiplied the mean ROE earned by the comparable group by 1.5 to establish the SEET threshold. <u>In re Columbus Southern Power Co.</u>, Case No. 10-1261-EL-UNC (Jan. 11, 2011 Opinion and Order, p. 25). Multiplying the 10.4% ROE earned by the comparable group of companies by 1.5 results in a SEET threshold for DP&L of 15.6%. Malinak Test., p. 85.

Further, the Commission has approved an increase to the mean ROE based upon an evaluation of the plans of the utility to make future investments and the risks that the utility faces. <u>In re Columbus Southern Power Co.</u>, Case No. 10-1261-EL-UNC (Jan. 11, 2011 Opinion and Order, pp. 25-28). The testimony of DP&L witness Garavaglia shows that the mean ROE should be increased by 100 basis points for the following reasons:

1. DP&L plans to invest [redacted] during the 2020-2023 forecast period to improve its aging infrastructure and implement smart grid.
2. DP&L's ultimate parent company, The AES Corp., plans to invest $300 million in DP&L over the next two years.
3. DP&L's credit ratings show that DP&L is more risky than a typical utility.
4. DP&L faces risks that other Ohio utilities do not face, since it is not currently collecting a Distribution Investment Rider, a Decoupling Rider, or an Uncollectable Rider.
5. The termination of ESP III has resulted in a loss of approximately [redacted] in annual cash flow for DP&L.
6. Due to DP&L's perilous financial condition, COVID 19 creates significant risks for DP&L that utilities that are in better financial condition do not face.
7. Cost containment measures at DP&L mean that DP&L is already very lean, and subject to greater operational risks than a typical utility.

Garavaglia Test., pp. 3-8.

The SEET threshold using the 1.5 multiplier method and the 100 basis point adjustment is thus 16.6%. Malinak Test., p. 85. DP&L's projected ROE averages [redacted] over the 2020-2023 forecast period, so ESP I passes the SEET using this methodology as well.

VI. THE COMMISSION SHOULD CONTINUE THE RSC EVEN IF ESP I FAILS EITHER TEST

If the Commission were to conclude that DP&L's ESP I failed either the MFA test or the SEET, this section demonstrates that the Commission should not eliminate the RSC.

The testimony of DP&L Witness Malinak demonstrates that DP&L would be in a dire financial situation if the RSC was terminated, even if DP&L made no dividend payments to DPL Inc.:

> "**Q. Please describe the projected financial condition of DP&L under ESP I without the RSC.**
>
> A. This scenario is very similar to the MRO with no FIC. As in that scenario, DP&L would be in a dire financial position absent the RSC. In order to bridge the [redacted] gap in financing, DP&L would [redacted]. By [redacted], the DP&L revolver balance would be [redacted]. DP&L would have a capital structure that is far more levered than the targeted [redacted] debt capital structure, reaching [redacted] debt by [redacted].
>
> The financial condition and integrity of DP&L in this scenario would also suffer further due to the strained financial position of DPL, which is [redacted]."

Malinak Test., p. 61 (footnotes omitted). Accord: Malinak Test., RJM-18A [redacted]

The testimony of DP&L Witness Garavaglia demonstrates that DP&L could not provide safe and reliable service without the RSC:

> "**Q. Would DP&L be able to provide safe and reliable service without a financial integrity charge under an MRO or if the RSC was invalidated in this proceeding?**
>
> A. No, without a financial integrity charge in the MRO or the RSC under the ESP, DP&L would not have sufficient funds to pay its operating expenses, make needed capital expenditures and make required debt payments. DP&L

> would need to make deep and distressing cuts to its operating expenses and capital investments. Without a financial integrity charge or the RSC, the cash flows at DP&L and DPL Inc. would be insufficient to both meet debt obligations and maintain normal operations.
>
> Specifically, DP&L needs to spend between [redacted] in operating expenses per year, and make approximately [redacted] in capital expenditures each year. This includes maintaining the base capital investments of approximately [redacted] per year as well as incremental grid modernization investments. As previously mentioned, DP&L's system is in desperate need of updates and investment to prevent service degradation and its customers languishing behind the rest of the state's investment in 'modern technologies' that have become mainstream. DP&L's customers are suffering from the Company's inability to upgrade its grid. The dramatic COVID-19 pandemic has highlighted the limited capabilities of DP&L's system where the absence of advanced meter infrastructure limits the ability to remote read meters in a time when it is not safe for meter reading to take place, which could have significant negative consequences for customers impacted by the current economic shutdown. . . .
>
> DP&L would need to cut those amounts without a financial integrity charge under an MRO or the RSC under and ESP. Without those expenditures, DP&L could not operate its system, meaning that it would not be able to provide safe and reliable service. Alternatively, DP&L would have to cut debt payments, which as explained below, results in a threat to DP&L's ability to provide safe and reliable service."

Garavaglia Test., pp. 15-16.

Without an RSC, DP&L's indicated credit rating for the 2020-2023 forecast period from Moody's would be [redacted], which is [redacted] investment grade. Malinak Test, RJM-19A. DP&L's current credit rating from Moody's is Baa2, which is one notch above investment grade. Garavaglia Test., p. 10. DP&L's credit rating under Moody's would thus fall [redacted] notches without the RSC. DP&L currently is two notches below investment grade for S&P,

and has the lowest investment grade for Fitch. Id. Eliminating the RSC would likely cause DP&L's credit rating for S&P and Fitch to decline further below investment grade (S&P) or below investment grade (Fitch). DP&L witness Garavaglia explains that it is critical that DP&L have an investment grade credit rating. Garavaglia Test, pp. 11-13.

Further, as mentioned above, DP&L witness Malinak modeled this scenario assuming that DP&L [redacted].

For these reasons, if the Commission were to conclude that ESP I does not pass either the MFA test or SEET under R.C. 4928.143(E), the Commission should not invalidate the RSC.

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CERTIFICATE OF SERVICE

I certify that a copy of the foregoing Initial Comments of The Dayton Power and Light Company, has been served via electronic mail upon the following counsel of record, this 1st day of July, 2020.

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