

**BEFORE THE  
PUBLIC UTILITIES COMMISSION OF OHIO**

**THE DAYTON POWER AND LIGHT COMPANY**

**CASE NO. 20-1651-EL-AIR**

**CASE NO. 20-1652-EL-AAM**

**CASE NO. 20-1653-EL-ATA**

**2020 DISTRIBUTION BASE RATE CASE**

**BOOK I – APPLICATION AND SUPPLEMENTAL  
VOLUME 8 OF 11**

**Dayton Power and Light Company**  
**DP&L Case No. 20-1651-EL-AIR**  
**Standard Filing Requirements for Rate Increases**  
**Table of Contents**

Book #	Vol #	OAC 4901-7-01 Reference	Schedule	Description
<b>OAC 4901-7</b>				
<b>Appendix A, Chapter II, (B) Supplemental Filing Requirements</b>				
1	1	Appendix A, Chapter II, (B)(1)(a)-(f)	S-1	Most recent 5 year capital expenditures budget.
1	1	Appendix A, Chapter II, (B)(2)(a)-(c) Appendix A, Chapter II, (B)(3)(a)-(d)	S-2	Most recent 5 year financial forecast and support for the underlying assumptions.
1	1	Appendix A, Chapter II, (B)(7)	S-3	A proposed notice for newspaper publication.
1	1	Appendix A, Chapter II, (B)(8)	S-4.1	An executive summary of applicant utility's corporate process.
1	2-3	Appendix A, Chapter II, (B)(9)	S-4.2	An executive summary of applicant utility's management policies, practices, and organization.
<b>OAC 4901-7</b>				
<b>Appendix A, Chapter II, (C) Supplemental Information Provided at Filing</b>				
1	4	Appendix A, Chapter II, (C)(1)	Supplemental	The most recent Federal Energy Regulatory Commission's ("FERC") audit report.
1	4	Appendix A, Chapter II, (C)(2)	Supplemental	Prospectuses of current stock and/or bond offering of the applicant, and/or of parent company.
1	5-8	Appendix A, Chapter II, (C)(3)	Supplemental	Annual reports to shareholders of the applicant, and/or parent company for the most recent five years and the most recent statistical supplement.
1	9	Appendix A, Chapter II, (C)(4)	Supplemental	The most recent SEC Form 10-K, 10-Q, and 8-K of the applicant, and/or parent company.
1	9	Appendix A, Chapter II, (C)(5)	Supplemental	Working papers supporting the schedules.
1	9	Appendix A, Chapter II, (C)(6)	Supplemental	Worksheet showing monthly test year data by FERC account.
1	9	Appendix A, Chapter II, (C)(7)	Supplemental	CWIP included in the prior case.
1	9	Appendix A, Chapter II, (C)(8)	Supplemental	Copy of latest certificate of valuation from department of taxation.
1	9	Appendix A, Chapter II, (C)(9)	Supplemental	Monthly sales for the test year by rate schedule classification and/or customer classes.
1	9	Appendix A, Chapter II, (C)(10)	Supplemental	Written summary explaining the forecasting method used by the utility as related to test year data.
1	9	Appendix A, Chapter II, (C)(11)	Supplemental	Explanation of computation of materials and supplies.
1	10	Appendix A, Chapter II, (C)(12)	Supplemental	Depreciation expense related to specific plant accounts.
1	10	Appendix A, Chapter II, (C)(13)	Supplemental	Federal income tax information.
1	10	Appendix A, Chapter II, (C)(14)	Supplemental	Other rate base items and detailed information.
1	10	Appendix A, Chapter II, (C)(15)	Supplemental	Copy of all advertisements in the test year.
1	10	Appendix A, Chapter II, (C)(16)	Supplemental	Plant in service data from the last date certain to the date certain in the current case.
1	10	Appendix A, Chapter II, (C)(17)	Supplemental	Depreciation study showing depreciation reserves allocated to accounts.
1	10	Appendix A, Chapter II, (C)(18)	Supplemental	Depreciation study.
1	11	Appendix A, Chapter II, (C)(19)	Supplemental	Depreciation reserve data from the last date certain to the date certain in the current case.
1	11	Appendix A, Chapter II, (C)(20)	Supplemental	Construction project details for projects that are at least seventy-five percent complete.
1	11	Appendix A, Chapter II, (C)(21)	Supplemental	Surviving dollars by vintage year of placement (original cost data as of date certain for each individual plant account).
1	11	Appendix A, Chapter II, (C)(22)	Supplemental	Test year and two most recent calendar years' employee levels by month.



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**Standard Filing Requirements for Rate Increases**  
**Table of Contents**

Book #	Vol #	OAC 4901-7-01 Reference	Schedule	Description
<b>OAC 4901-7</b>				
<b>Appendix A, Chapter II, Section A</b>				
2	1	Appendix A, Chapter II, Section A(B)	A-1	Overall Financial Summary
2	1	Appendix A, Chapter II, Section A(C)	A-2	Computation of Gross Revenue Conversion Factor
2	1	Appendix A, Chapter II, Section A(D)	A-3	Calculation of Mirrored CWIP Revenue Sur-Credit Rider
<b>OAC 4901-7</b>				
<b>Appendix A, Chapter II, Section B</b>				
2	1	Appendix A, Chapter II, Section B(B)(1)	B-1	Jurisdictional Rate Base Summary
2	1	Appendix A, Chapter II, Section B(B)(2)	B-2	Plant in Service Summary by Major Property Groupings
2	1	Appendix A, Chapter II, Section B(B)(3)	B-2.1	Plant in Service By Accounts & Subaccounts
2	1	Appendix A, Chapter II, Section B(B)(4)	B-2.2	Adjustments to Plant in Service
2	1	Appendix A, Chapter II, Section B(B)(5)	B-2.3	Gross Additions, Retirements and Transfers
2	1	Appendix A, Chapter II, Section B(B)(6)	B-2.4	Lease Property
2	1	Appendix A, Chapter II, Section B(B)(7)	B-2.5	Property Excluded from Rate Base
2	1	Appendix A, Chapter II, Section B(C)(1)	B-3	Reserve for Accumulated Depreciation
2	1	Appendix A, Chapter II, Section B(C)(2)	B-3.1	Adjustments to the Reserve for Accumulated Depreciation
2	1	Appendix A, Chapter II, Section B(C)(3)	B-3.2	Depreciation Accrual Rates and Jurisdictional Reserve Balances by Accounts
2	1	Appendix A, Chapter II, Section B(C)(4)	B-3.3	Depreciation Reserve Accruals, Retirements and Transfers
2	1	Appendix A, Chapter II, Section B(C)(5)	B-3.4	Depreciation Reserve and Expense for Lease Property
2	1	Appendix A, Chapter II, Section B(D)(1)	B-4	Construction Work in Progress ("CWIP")
2	1	Appendix A, Chapter II, Section B(D)(2)	B-4.1	CWIP Percent Completed - Time
2	1	Appendix A, Chapter II, Section B(D)(3)	B-4.2	CWIP Percent Completed - Dollars
2	1	Appendix A, Chapter II, Section B(E)(1)	B-5	Allowance for Working Capital
2	1	Appendix A, Chapter II, Section B(E)(2)	B-5.1	Miscellaneous Working Capital Items
2	1	Appendix A, Chapter II, Section B(F)(1)	B-6	Other Rate Base Items Summary
2	1	Appendix A, Chapter II, Section B(F)(2)	B-6.1	Adjustments to Other Rate Base Items
2	1	Appendix A, Chapter II, Section B(F)(3)	B-6.2	Contributions in Aid of Construction ("CIAC") by Accounts and Subaccounts
2	1	Appendix A, Chapter II, Section B(G)(1)	B-7	Jurisdictional Allocation Factors
2	1	Appendix A, Chapter II, Section B(G)(2)	B-7.1	Jurisdictional Allocation Statistics
2	1	Appendix A, Chapter II, Section B(G)(3)	B-7.2	Explanation of Changes in Allocation Procedures
2	1	Appendix A, Chapter II, Section B(I)	B-9	Mirrored CWIP Allowances

**Dayton Power and Light Company**  
**DP&L Case No. 20-1651-EL-AIR**  
**Standard Filing Requirements for Rate Increases**  
**Table of Contents**

Book #	Vol #	OAC 4901-7-01 Reference	Schedule	Description
<b>OAC 4901-7</b>				
<b>Appendix A, Chapter II, Section C</b>				
2	1	Appendix A, Chapter II, Section C(B)(1)	C-1	Jurisdictional Proforma Income Statement
2	1	Appendix A, Chapter II, Section C(B)(2)	C-2	Adjusted Test Year Operating Income
2	1	Appendix A, Chapter II, Section C(B)(3)	C-2.1	Operating Revenues and Expenses by Account - Jurisdictional Allocation
2	1	Appendix A, Chapter II, Section C(C)(1)	C-3	Summary of Jurisdictional Adjustments to Operating Income
2	1	Appendix A, Chapter II, Section C(C)(2)	C-3.1 through C-3.26	Jurisdictional Adjustments to Operating Income
2	1	Appendix A, Chapter II, Section C(D)(1)	C-4	Adjusted Jurisdictional Income Taxes
2	1	Appendix A, Chapter II, Section C(D)(2)	C-4.1	Development of Jurisdictional Income Taxes Before Adjustments
2	1	Appendix A, Chapter II, Section C(D)(3)(a)	C-5	Social and service club dues
2	1	Appendix A, Chapter II, Section C(D)(3)(b)	C-6	Charitable Contributions
2	1	Appendix A, Chapter II, Section C(D)(4)	C-7	Customer Service and Informational, Sales and Miscellaneous Advertising Expense or Marketing Expense
2	1	Appendix A, Chapter II, Section C(D)(5)	C-8	Rate Case Expense
2	1	Appendix A, Chapter II, Section C(D)(6)	C-9	Operation and Maintenance Payroll Cost
2	1	Appendix A, Chapter II, Section C(D)(7)	C-9.1	Total Company Payroll Analysis by Employee Classification/Payroll Distribution
2	1	Appendix A, Chapter II, Section C(E)(1)	C-10.1	Comparative Balance Sheets for the Most Recent Five Calendar Years
2	1	Appendix A, Chapter II, Section C(E)(2)	C-10.2	Comparative Income Statements for the Most Recent Five Calendar Years
2	1	Appendix A, Chapter II, Section C(E)(3)	C-11.1	Revenue Statistics - Total Company
2	1	Appendix A, Chapter II, Section C(E)(3)	C-11.2	Revenue Statistics - Jurisdictional
2	1	Appendix A, Chapter II, Section C(E)(3)	C-11.3	Sales Statistics - Total Company
2	1	Appendix A, Chapter II, Section C(E)(3)	C-11.4	Sales Statistics - Jurisdictional
2	1	Appendix A, Chapter II, Section C(E)(4)	C-12	Analysis of Reserve for Uncollectible Accounts
<b>OAC 4901-7</b>				
<b>Appendix A, Chapter II, Section D</b>				
2	1	Appendix A, Chapter II, Section D(A)	D-1	Rate of Return Summary
2	1	Appendix A, Chapter II, Section D(B)	D-1.1	Parent-Consolidated Common Equity
2	1	Appendix A, Chapter II, Section D(C)(1)	D-2	Embedded Cost of Short-Term Debt
2	1	Appendix A, Chapter II, Section D(C)(2)	D-3	Embedded Cost of Long-Term Debt
2	1	Appendix A, Chapter II, Section D(C)(3)	D-4	Embedded Cost of Preferred Stock
2	1	Appendix A, Chapter II, Section D(D)	D-5	Comparative Financial Data

**Dayton Power and Light Company**  
**DP&L Case No. 20-1651-EL-AIR**  
**Standard Filing Requirements for Rate Increases**  
**Table of Contents**

Book #	Vol #	OAC 4901-7-01 Reference	Schedule	Description
<b>OAC 4901-7</b> <b>Appendix A, Chapter II, Section E</b>				
2	2	Appendix A, Chapter II, Section E(B)(1)	E-1	Clean Copy of Proposed Tariff Schedules
2	2	Appendix A, Chapter II, Section E(B)(2)(a)	E-2	Current Tariff Schedules
2	3	Appendix A, Chapter II, Section E(B)(2)(b)	E-2.1	Redlined Copy of Proposed Tariff Schedules
2	1	Appendix A, Chapter II, Section E(B)(3)	E-3	Rationale for Tariff Changes
2	1	Appendix A, Chapter II, Section E(B)(4)	E-3.1	Customer Charge / Minimum Bill Rationale
2	1	Appendix A, Chapter II, Section E(B)(5)	E-3.2	Cost of Service Study
2	1	Appendix A, Chapter II, Section E(C)(2)(a)	E-4	Class and Schedule Revenue Summary
2	1	Appendix A, Chapter II, Section E(C)(2)(b)	E-4.1	Annualized Test Year Revenue at Proposed Rates vs. Most Current Rates
2	1	Appendix A, Chapter II, Section E(D)	E-5	Typical Bill Comparison

### **Revenue Recognition (including Unbilled Revenue)**

Revenue is primarily earned from retail and wholesale electricity sales and electricity transmission and distribution delivery services. Revenue is recognized upon transfer of control of promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. Revenue is recorded net of any taxes assessed on and collected from customers, which are remitted to the governmental authorities.

### **Income Taxes**

We are subject to federal and state income taxes. Our income tax provision requires significant judgment and is based on calculations and assumptions that are subject to examination by the U.S. Internal Revenue Service and other tax authorities. We regularly assess the potential outcome of tax examinations when determining the adequacy of our income tax provisions by considering the technical merits of the filing position, case law, and results of previous tax examinations. Accounting guidance for uncertainty in income taxes prescribes a more-likely-than-not recognition threshold and measurement requirements for financial statement reporting of our income tax positions. Tax reserves have been established which we believe to be adequate in relation to the potential for additional assessments. Once established, reserves are adjusted only when there is more information available or when an event occurs necessitating a change to the reserves. While we believe that the amount of the tax reserves is reasonable, it is possible that the ultimate outcome of current or future examinations may be materially different than the reserve amounts.

Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of the existing assets and liabilities, and their respective income tax bases. We establish a valuation allowance when it is more likely than not that all or a portion of a deferred tax asset will not be realized.

### **Regulatory Assets and Liabilities**

Application of the provisions of GAAP relating to regulatory accounting requires us to reflect the effect of rate regulation in DPL's Consolidated Financial Statements and DP&L's Financial Statements. For regulated businesses subject to federal or state cost-of-service rate regulation, regulatory practices that assign costs to accounting periods may differ from accounting methods generally applied by non-regulated companies. When it is probable that regulators will permit the recovery of current costs through future rates charged to customers, we defer these costs as Regulatory assets that otherwise would be expensed by non-regulated companies. Likewise, we recognize Regulatory liabilities when it is probable that regulators will require customer refunds through future rates and when revenue is collected from customers for expenses that are not yet incurred. Regulatory assets are amortized into expense and Regulatory liabilities are amortized into income over the recovery period authorized by the regulator.

We evaluate our Regulatory assets to determine whether or not they are probable of recovery through future rates and make various assumptions in our analyses. The expectations of future recovery are generally based on orders issued by regulatory commissions or historical experience, as well as discussions with applicable regulatory authorities. If recovery of a regulatory asset is determined to be less than probable, it will be expensed in the period the assessment is made. We currently believe the recovery of our Regulatory assets is probable. See Note 3 – Regulatory Matters of Notes to DPL's Consolidated Financial Statements and Note 3 – Regulatory Matters of Notes to DP&L's Financial Statements.

### **AROs**

In accordance with the provisions of GAAP relating to the accounting for AROs, legal obligations associated with the retirement of long-lived assets are required to be recognized at their fair value at the time those obligations are incurred. Upon initial recognition of a legal liability, costs are capitalized as part of the related long-lived asset and allocated to expense over the useful life of the asset. These GAAP provisions also require that components of previously recorded depreciation related to the cost of removal of assets upon future retirement, whether legal AROs or not, must be removed from a company's accumulated depreciation reserve and be reclassified as a regulatory liability. We make assumptions, estimates and judgments that affect the reported amounts of assets, liabilities and expenses as they relate to AROs. These assumptions and estimates are based on historical experience and assumptions that we believe to be reasonable at the time. See Note 4 – Property, Plant and Equipment of Notes to DPL's Consolidated Financial Statements and Note 4 – Property, Plant and Equipment of Notes to DP&L's Financial Statements for more information.



### **Impairments**

In accordance with the provisions of GAAP relating to the accounting for impairments, long-lived assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset group. Impairment losses on assets held-for-sale are recognized based on the fair value of the disposal group. We determine the fair value of these assets based upon estimates of future cash flows, market value of similar assets, if available, or independent appraisals, if required. In analyzing the fair value and recoverability using future cash flows, we make projections based on a number of assumptions and estimates of growth rates, future economic conditions, assignment of discount rates and estimates of terminal values. An impairment loss is recognized if the carrying amount of the long-lived asset is not recoverable from its undiscounted cash flows. The measurement of impairment loss is the difference between the carrying amount and fair value of the asset.

### **Pension and Postretirement Benefits**

We account for and disclose pension and postemployment benefits in accordance with the provisions of GAAP relating to the accounting for pension and other postemployment plans. These GAAP provisions require the use of assumptions, such as the discount rate for liabilities and long-term rate of return on assets, in determining the obligations, annual cost, and funding requirements of the plans. See Note 9 – Benefit Plans of Notes to DPL's Consolidated Financial Statements and Note 9 – Benefit Plans of Notes to DP&L's Financial Statements for more information.

### **Contingent and Other Obligations**

During the conduct of our business, we are subject to a number of federal and state laws and regulations, as well as other factors and conditions that potentially subject us to environmental, litigation, insurance and other risks. We periodically evaluate our exposure to such risks and record estimated liabilities for those matters where a loss is considered probable and reasonably estimable in accordance with GAAP. In recording such estimated liabilities, we may make assumptions, estimates and judgments that affect the reported amounts of assets, liabilities and expenses as they relate to contingent and other obligations. These assumptions and estimates are based on historical experience and assumptions and may be subject to change. We believe such estimates and assumptions are reasonable.

### **Recently Issued Accounting Pronouncements**

A discussion of recently issued accounting pronouncements is in Note 1 – Overview and Summary of Significant Accounting Policies of Notes to DPL's Consolidated Financial Statements and Note 1 – Overview and Summary of Significant Accounting Policies of Notes to DP&L's Financial Statements and such discussion is incorporated by reference in this Management's Discussion and Analysis of Financial Condition and Results of Operations and made a part hereof.

## **LEGAL AND OTHER MATTERS**

Discussions of legal and other matters are provided in Item 1 – Business "*Environmental Matters*", Item 1 – Business "*Competition and Regulation*" and Item 3 – Legal Proceedings. Such discussions are incorporated by reference in this Management's Discussion and Analysis of Financial Condition and Results of Operations and made a part hereof.

## **Item 7A – Quantitative and Qualitative Disclosures about Market Risk**

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We are subject to certain market risks including, but not limited to, changes in commodity prices for electricity and fluctuations in interest rates. We use various market risk-sensitive instruments, including derivative contracts, primarily to limit our exposure to fluctuations in interest rates. Our U.S. Risk Management Committee (U.S. RMC), comprised of members of senior management, is responsible for establishing risk management policies and the monitoring and reporting of risk exposures related to our operations. The U.S. RMC meets on a regular basis with the objective of identifying, assessing and quantifying material risk issues and developing strategies to manage these risks.

The disclosures presented in this section are based upon a number of assumptions; actual effects may differ. The safe harbor provided in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of

1934 shall apply to the disclosures contained in this section. For further information regarding market risk, see Item 1A.-Risk Factors. Our businesses may incur substantial costs and liabilities and be exposed to price volatility as a result of risks associated with the electricity markets, which could have a material adverse effect on our financial performance; and we may not be adequately hedged against our exposure to changes in interest rates.

### **Purchased power costs**

**DP&L** conducts competitive bid auctions to purchase power for SSO service, as all of **DP&L's** SSO is sourced through the competitive bid auction.

As a result of **DPL's** exit from the majority of its coal-fired generation, changes in the prices of fuel and purchased power are not expected to have a material impact on our results of operations, financial position or cash flows.

### **Interest rate risk**

Because of our normal investing and borrowing activities, our financial results are exposed to fluctuations in interest rates, which we manage through our regular financing activities. We maintain both cash on deposit and investments in cash equivalents that may be affected by adverse interest rate fluctuations. **DPL** and **DP&L** have both fixed-rate and variable rate long-term debt. On November 21, 2016, the **DP&L** \$200.0 million variable-rate First Mortgage Bonds were hedged with floating for fixed interest rate swaps, reducing interest rate risk exposure for the term of the bonds. On January 1, 2018 the interest rate on these First Mortgage Bonds was adjusted and as a result the bonds are no longer fully hedged and are treated as variable. Market indexes can be affected by market demand, supply, market interest rates and other economic conditions. See Note 7 – Long-term debt of Notes to **DPL's** Consolidated Financial Statements and Note 7 – Long-term debt of Notes to **DP&L's** Financial Statements. At December 31, 2018, a 1% change in interest rates would result in an approximately \$14.9 million change in **DPL's** interest expense and an approximately \$5.9 million change in **DP&L's** interest expense.

### **Principal payments and interest rate detail by contractual maturity date**

The principal amount of **DPL's** long-term debt was \$1,488.4 million at December 31, 2018, consisting of **DPL's** unsecured notes, secured term loan, Capital Trust II securities along with **DP&L's** First Mortgage Bonds, tax-exempt First Mortgage Bonds and the WPAFB note. All of **DPL's** existing debt was adjusted to fair value at the Merger date according to FASB Accounting Standards Codification No. 805, "Business Combinations". The fair value of this debt at December 31, 2018 was \$1,519.6 million, based on current market prices or discounted cash flows using current rates for similar issues with similar terms and remaining maturities. The following table provides information about **DPL's** debt obligations that are sensitive to interest rate changes:

DPL \$ in millions	Years ending December 31,						Principal amount at December 31,	Fair value at December 31,
	2019	2020	2021	2022	2023	Thereafter	2018	2018
<b>Long-term debt <sup>(a)</sup></b>								
Variable-rate debt	\$ 4.5	\$ 144.5	\$ 4.5	\$ 422.6	\$ —	\$ —	\$ 576.1	\$ 576.1
Average interest rate	4.4%	3.0%	4.4%	4.4%	—%	—%		
Fixed-rate debt	\$ 99.1	\$ 0.2	\$ 780.2	\$ 0.2	\$ 0.2	\$ 32.4	912.3	943.5
Average interest rate	6.7%	4.2%	7.2%	4.2%	4.2%	6.1%		
Total							<u>\$ 1,488.4</u>	<u>\$ 1,519.6</u>



The principal amount of **DP&L's** long-term debt was \$593.8 million at December 31, 2018, consisting of its First Mortgage Bonds, tax-exempt First Mortgage Bonds and the WPAFB note. The fair value of this debt at December 31, 2018 was \$593.8 million, based on current market prices or discounted cash flows using current rates for similar issues with similar terms and remaining maturities. The following table provides information about **DP&L's** debt obligations that are sensitive to interest rate changes. The **DP&L** debt was not revalued using push-down accounting as a result of the Merger.

DP&L \$ in millions	Years ending December 31,						Principal amount at December 31,	Fair value at December 31,
	2019	2020	2021	2022	2023	Thereafter	2018	2018
<b>Long-term debt <sup>(a)</sup></b>								
Variable-rate debt	\$ 4.5	\$ 144.5	\$ 4.5	\$ 422.6	\$ —	\$ —	\$ 576.1	\$ 576.1
Average interest rate	4.4%	3.0%	4.4%	4.4%	—%	—%		
Fixed-rate debt	\$ 0.1	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 16.8	17.7	17.7
Average interest rate	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%		
Total							<u>\$ 593.8</u>	<u>\$ 593.8</u>

### **Equity price risk**

At December 31, 2018, approximately 33% of the defined benefit pension plan assets were comprised of investments in equity securities and 67% related to investments in fixed income securities, cash and cash equivalents, and alternative investments. The equity securities are carried at their market value of approximately \$105.2 million at December 31, 2018. A hypothetical 10% decrease in prices quoted by stock exchanges would result in a \$10.5 million reduction in fair value at December 31, 2018 and approximately a \$1.6 million increase to the 2019 pension expense.

### **Credit risk**

Credit risk is the risk of an obligor's failure to meet the terms of any investment contract, loan agreement or otherwise perform as agreed. Credit risk arises from all activities in which success depends on issuer, borrower or counterparty performance, whether reflected on or off the balance sheet. We limit our credit risk by assessing the creditworthiness of potential counterparties before entering into transactions with them and continue to evaluate their creditworthiness after transactions have been originated. We use the three leading corporate credit rating agencies and other current market-based qualitative and quantitative data to assess the financial strength of counterparties on an ongoing basis. We may require various forms of credit assurance from counterparties to mitigate credit risk.

## **Item 8 – Financial Statements and Supplementary Data**

This report includes the combined filing of **DPL** and **DP&L**. Throughout this report, the terms “we,” “us,” “our” and “ours” are used to refer to both **DPL** and **DP&L**, respectively and altogether, unless the context indicates otherwise. Discussions or areas of this report that apply only to **DPL** or **DP&L** will clearly be noted in the section.

## **FINANCIAL STATEMENTS**

### **DPL INC.**



## **Report of Independent Registered Public Accounting Firm**

To the Shareholder and Board of Directors of DPL Inc.

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of DPL Inc. (the Company) as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income / (loss), cash flows and shareholder's equity for each of the three years in the period ended December 31, 2018, and the related notes and schedule (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in conformity with U.S. generally accepted accounting principles.

### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2011.

Indianapolis, Indiana

February 26, 2019

**DPL INC.**  
**Consolidated Statements of Operations**

\$ in millions	Years ended December 31,		
	2018	2017	2016
<b>Revenues</b>	<b>\$ 775.9</b>	<b>\$ 743.9</b>	<b>\$ 834.2</b>
<b>Cost of revenues:</b>			
Net fuel cost	17.5	9.0	17.4
Net purchased power cost	305.0	291.0	319.1
<b>Total cost of revenues</b>	<b>322.5</b>	<b>300.0</b>	<b>336.5</b>
<b>Gross margin</b>	<b>453.4</b>	<b>443.9</b>	<b>497.7</b>
<b>Operating expenses:</b>			
Operation and maintenance	156.8	186.1	213.5
Depreciation and amortization	73.1	76.1	73.6
General taxes	73.5	77.1	68.4
Fixed-asset impairment	2.8	—	23.9
Gain on asset disposal	—	(0.6)	(0.7)
Loss on disposal of business (Note 16)	11.7	—	—
<b>Total operating expenses</b>	<b>317.9</b>	<b>338.7</b>	<b>378.7</b>
<b>Operating income</b>	<b>135.5</b>	<b>105.2</b>	<b>119.0</b>
<b>Other income / (expense), net</b>			
Interest expense	(98.0)	(110.0)	(107.4)
Charge for early redemption of debt	(6.5)	(3.3)	(3.1)
Other income	0.9	1.6	3.9
<b>Other expense, net</b>	<b>(103.6)</b>	<b>(111.7)</b>	<b>(106.6)</b>
<b>Income / (loss) from continuing operations before income tax</b>	<b>31.9</b>	<b>(6.5)</b>	<b>12.4</b>
Income tax expense / (benefit) from continuing operations	0.7	(5.0)	(2.4)
<b>Net income / (loss) from continuing operations</b>	<b>31.2</b>	<b>(1.5)</b>	<b>14.8</b>
<b>Discontinued operations (Note 15)</b>			
Income / (loss) from discontinued operations before income tax	70.5	(127.4)	(806.4)
Gain / (loss) from disposal of discontinued operations	(1.6)	14.0	49.2
Income tax expense / (benefit) from discontinued operations	30.0	(20.3)	(257.2)
<b>Net income / (loss) from discontinued operations</b>	<b>38.9</b>	<b>(93.1)</b>	<b>(500.0)</b>
<b>Net income / (loss)</b>	<b>\$ 70.1</b>	<b>\$ (94.6)</b>	<b>\$ (485.2)</b>

See Notes to Consolidated Financial Statements.

**DPL INC.**  
**Consolidated Statements of Comprehensive Income / (Loss)**

\$ in millions	Years ended December 31,		
	2018	2017	2016
<b>Net income / (loss)</b>	<b>\$ 70.1</b>	<b>\$ (94.6)</b>	<b>\$ (485.2)</b>
<b>Equity securities activity:</b>			
Change in fair value of equity securities, net of income tax expense of \$0.0, (\$0.2) and (\$0.1) for each respective period	—	0.5	0.2
Reclassification to earnings, net of income tax expense of \$0.0 for each respective period	—	(0.1)	—
Net change in fair value of equity securities	—	0.4	0.2
<b>Derivative activity:</b>			
Change in derivative fair value, net of income tax benefit / (expense) of \$0.1, (\$5.3) and (\$8.8) for each respective period	(0.1)	9.6	16.1
Reclassification to earnings, net of income tax benefit of \$0.4, \$0.3 and \$0.5 for each respective period	(0.8)	(0.7)	(0.5)
Reclassification of earnings related to discontinued operations, net of income tax benefit / (expense) of (\$1.2), \$4.1 and \$16.2 for each respective period	3.2	(7.3)	(29.2)
Net change in fair value of derivatives	2.3	1.6	(13.6)
<b>Pension and postretirement activity:</b>			
Prior service cost for the period, net of income tax benefit of \$0.6, \$0.4 and \$0.0 for each respective period	(2.2)	(0.7)	—
Net gain / (loss) for the period, net of income tax benefit / (expense) of (\$0.5), \$1.1 and \$2.4 for each respective period	1.7	(1.8)	(4.7)
Reclassification to earnings, net of income tax expense of (\$0.2), (\$0.5) and (\$0.6) for each respective period	0.6	1.0	1.0
Net change in unfunded pension and postretirement obligations	0.1	(1.5)	(3.7)
<b>Other comprehensive income / (loss)</b>	<b>2.4</b>	<b>0.5</b>	<b>(17.1)</b>
<b>Net comprehensive income / (loss)</b>	<b>\$ 72.5</b>	<b>\$ (94.1)</b>	<b>\$ (502.3)</b>

See Notes to Consolidated Financial Statements.



**DPL INC.**  
**Consolidated Balance Sheets**

\$ in millions	December 31, 2018	December 31, 2017
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 90.5	\$ 24.5
Restricted cash	21.2	0.4
Accounts receivable, net (Note 2)	90.5	64.6
Inventories (Note 2)	10.7	12.7
Taxes applicable to subsequent years	72.6	71.3
Regulatory assets, current (Note 3)	41.1	23.9
Other prepayments and current assets	12.9	12.6
Current assets of discontinued operations and held-for-sale businesses (Note 15)	8.7	315.6
Total current assets	<u>348.2</u>	<u>525.6</u>
<b>Property, plant and equipment:</b>		
Property, plant and equipment	1,615.6	1,544.1
Less: Accumulated depreciation and amortization	<u>(310.8)</u>	<u>(269.1)</u>
	1,304.8	1,275.0
Construction work in process	32.2	46.5
Total net property, plant and equipment	<u>1,337.0</u>	<u>1,321.5</u>
<b>Other non-current assets:</b>		
Regulatory assets, non-current (Note 3)	152.6	163.2
Intangible assets, net of amortization	18.4	18.8
Other deferred assets	21.6	13.8
Non-current assets of discontinued operations and held-for-sale businesses (Note 15)	5.3	6.3
Total other non-current assets	<u>197.9</u>	<u>202.1</u>
<b>Total Assets</b>	<u><b>\$ 1,883.1</b></u>	<u><b>\$ 2,049.2</b></u>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b>Current liabilities:</b>		
Current portion - long-term debt (Note 7)	\$ 103.6	\$ 4.6
Short-term debt	—	10.0
Accounts payable	58.1	48.9
Accrued taxes	76.7	77.3
Accrued interest	14.3	16.4
Customer security deposits	21.3	21.8
Regulatory liabilities, current (Note 3)	34.9	14.8
Other current liabilities	22.0	16.2
Current liabilities of discontinued operations and held-for-sale businesses (Note 15)	12.2	66.9
Total current liabilities	<u>343.1</u>	<u>276.9</u>
<b>Non-current liabilities:</b>		
Long-term debt (Note 7)	1,372.3	1,700.2
Deferred taxes (Note 8)	116.1	113.5
Taxes payable	76.1	74.8
Regulatory liabilities, non-current (Note 3)	278.3	221.2
Pension, retiree and other benefits (Note 9)	82.3	90.3
Asset retirement obligations	9.4	15.1
Other deferred credits	8.0	8.5
Non-current liabilities of discontinued operations and held-for-sale businesses (Note 15)	69.2	133.0
Total non-current liabilities	<u>2,011.7</u>	<u>2,356.6</u>
Commitments and contingencies (Note 11)		
<b>Common shareholder's deficit:</b>		
Common stock:		
1,500 shares authorized; 1 share issued and outstanding at December 31, 2018 and 2017	—	—
Other paid-in capital	2,370.5	2,330.4
Accumulated other comprehensive income	2.2	0.8
Accumulated deficit	<u>(2,844.4)</u>	<u>(2,915.5)</u>
Total common shareholder's deficit:	<u>(471.7)</u>	<u>(584.3)</u>
<b>Total Liabilities and Shareholder's Equity</b>	<u><b>\$ 1,883.1</b></u>	<u><b>\$ 2,049.2</b></u>

See Notes to Consolidated Financial Statements.

**DPL INC.**  
**Consolidated Statements of Cash Flows**

\$ in millions	Years ended December 31,		
	2018	2017	2016
<b>Cash flows from operating activities:</b>			
Net income / (loss)	\$ 70.1	\$ (94.6)	\$ (485.2)
Adjustments to reconcile Net income / (loss) to Net cash from operating activities			
Depreciation and amortization	50.2	106.9	132.3
Amortization of deferred financing costs	5.5	3.6	5.6
Unrealized (gain) / loss on derivatives	(0.2)	(1.7)	(4.3)
Deferred income taxes	(9.1)	(22.2)	(306.2)
Charge for early redemption of debt	6.5	3.3	3.1
Fixed-asset impairment	2.8	175.8	859.0
Loss / (Gain) on disposal and sale of business, net	13.3	(14.0)	(49.2)
Loss / (Gain) on asset disposal, net	(2.0)	16.1	(0.1)
Changes in certain assets and liabilities:			
Accounts receivable	45.7	18.1	25.6
Inventories	14.8	7.7	32.0
Taxes applicable to subsequent years	0.1	2.3	0.2
Deferred regulatory costs, net	(9.2)	(23.7)	4.1
Accounts payable	(16.3)	(36.3)	15.1
Accrued taxes payable	37.4	(3.7)	45.1
Accrued interest payable	(2.1)	(1.3)	(3.7)
Pension, retiree and other benefits	(3.4)	4.7	3.0
Insurance and claims costs	1.1	(2.4)	(0.5)
Other	0.7	(6.9)	(8.8)
<b>Net cash provided by operating activities</b>	<b>205.9</b>	<b>131.7</b>	<b>267.1</b>
<b>Cash flows from investing activities:</b>			
Capital expenditures	(103.6)	(121.5)	(148.5)
Proceeds from disposal and sale of business	234.9	70.1	—
Payments on disposal and sale of business	(14.5)	—	—
Proceeds from sale of property	10.6	0.1	0.2
Insurance proceeds	3.0	12.3	6.3
Other investing activities, net	(0.5)	(0.3)	0.5
<b>Net cash provided by / (used in) investing activities</b>	<b>129.9</b>	<b>(39.3)</b>	<b>(141.5)</b>
<b>Cash flows from financing activities:</b>			
Payments of deferred financing costs	—	—	(8.6)
Redemption of preferred stock	—	—	(23.5)
Retirement of debt	(240.5)	(159.5)	(577.8)
Issuance of long-term debt, net of discount	—	—	442.8
Borrowings from revolving credit facilities	30.0	102.5	15.0
Repayment of borrowings from revolving credit facilities	(40.0)	(92.5)	(15.0)
Other financing activities, net	—	(0.1)	—
<b>Net cash used in financing activities</b>	<b>(250.5)</b>	<b>(149.6)</b>	<b>(167.1)</b>
Increase in cash and restricted cash of discontinued operations and held-for-sale businesses	1.5	27.5	15.8
<b>Cash, cash equivalents and restricted cash:</b>			
Net increase / (decrease) in cash, cash equivalents and restricted cash	86.8	(29.7)	(25.7)
Balance at beginning of year	24.9	54.6	80.3
<b>Cash, cash equivalents and restricted cash at end of year</b>	<b>\$ 111.7</b>	<b>\$ 24.9</b>	<b>\$ 54.6</b>
<b>Supplemental cash flow information:</b>			
Interest paid, net of amounts capitalized	\$ 93.7	\$ 105.2	\$ 103.8
Income taxes (refunded) / paid, net	\$ (1.4)	\$ —	\$ 0.3
<b>Non-cash financing and investing activities:</b>			
Accruals for capital expenditures	\$ 10.4	\$ 12.9	\$ 16.2
Non-cash proceeds from sale of business	\$ 4.1	\$ —	\$ —
Non-cash capital contribution (Note 10)	\$ 40.0	\$ 97.1	\$ —

See Notes to Consolidated Financial Statements.



**DPL INC.**  
**Consolidated Statements of Shareholder's Equity**

	Common Stock <sup>(a)</sup>					
\$ in millions	Outstanding Shares	Amount	Other Paid-in Capital	Accumulated Other Comprehensive Income / (Loss)	Accumulated Deficit	Total
<b>Year ended December 31, 2016</b>						
Beginning balance	1	\$ —	\$ 2,237.7	\$ 17.4	\$ (2,335.7)	\$ (80.6)
Net comprehensive loss				(17.1)	(485.2)	(502.3)
Other <sup>(b)</sup>			(4.7)			(4.7)
Ending balance	1	—	2,233.0	0.3	(2,820.9)	(587.6)
<b>Year ended December 31, 2017</b>						
Net comprehensive loss				0.5	(94.6)	(94.1)
Capital contributions <sup>(c)</sup>			97.1			97.1
Other			0.3			0.3
Ending balance	1	—	2,330.4	0.8	(2,915.5)	(584.3)
<b>Year ended December 31, 2018</b>						
Net comprehensive income				2.4	70.1	72.5
Capital contributions <sup>(c)</sup>			40.0			40.0
Other <sup>(d)</sup>			0.1	(1.0)	1.0	0.1
Ending balance	1	\$ —	\$ 2,370.5	\$ 2.2	\$ (2,844.4)	\$ (471.7)

(a) 1,500 shares authorized.

(b) Includes \$5.1 million charged to Other paid-in capital for the redemption of the DP&L preferred shares. See Note 10 – Equity.

(c) Represents the conversion of a tax sharing payable to AES to contributed capital, as DP&L's 2017 ESP restricts tax sharing payments to AES during the term of the ESP. See Note 8 – Income Taxes.

(d) ASU 2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities" was effective as of January 1, 2018. This ASU requires the change in the fair value of equity instruments to be recorded in income rather than in OCI. Equity Instruments were defined to include all mutual funds, regardless of the underlying investments. Therefore, as of January 1, 2018, AOCI of \$1.6 million (\$1.0 million net of tax) was reversed to Accumulated deficit.

See Notes to Consolidated Financial Statements.

**DPL Inc.**  
**Notes to Consolidated Financial Statements**  
**For the years ended December 31, 2018, 2017 and 2016**

**Note 1 – Overview and Summary of Significant Accounting Policies**

**Description of Business**

**DPL** is a diversified regional energy company organized in 1985 under the laws of Ohio. **DPL** has one reportable segment, the Utility segment. See Note 13 – Business Segments for more information relating to our reportable segment. The terms “we”, “us”, “our” and “ours” are used to refer to **DPL** and its subsidiaries.

On November 28, 2011, **DPL** was acquired by AES in the Merger and **DPL** became a wholly-owned subsidiary of AES. Following the merger of **DPL** and Dolphin Subsidiary II, Inc., **DPL** became an indirectly wholly-owned subsidiary of AES.

**DP&L**, **DPL's** wholly-owned subsidiary, is a public utility incorporated in 1911 under the laws of Ohio. Beginning in 2001, Ohio law gave consumers the right to choose the electric generation supplier from whom they purchase retail generation service, however transmission and distribution services are still regulated. **DP&L** has the exclusive right to provide such service to its approximately 525,000 customers located in West Central Ohio. **DP&L** provides retail SSO electric service to residential, commercial, industrial and governmental customers in a 6,000 square mile area of West Central Ohio. Since January 2016, **DP&L** has been sourcing all of the generation for its SSO customers through a competitive bid process. Through September 30, 2017, **DP&L** owned undivided interests in multiple coal-fired power stations and multiple peaking electric generating facilities as well as numerous transmission facilities. On October 1, 2017, the **DP&L**-owned generating facilities, excluding the Beckjord Facility and Hutchings EGU, were transferred to AES Ohio Generation, an affiliate of **DP&L** and wholly-owned subsidiary of **DPL**, through an asset contribution agreement to a subsidiary that was merged into AES Ohio Generation. Also, Stuart Station Unit 1 was retired on October 1, 2017. Principal industries located in **DP&L's** service territory include automotive, food processing, paper, plastic, manufacturing and defense. **DP&L's** sales reflect the general economic conditions, seasonal weather patterns of the area and the market price of electricity. Through the date of Generation Separation, **DP&L** sold energy and capacity into the wholesale market.

**DPL's** other primary subsidiaries include MVIC and AES Ohio Generation. MVIC is our captive insurance company that provides insurance services to **DPL** and our subsidiaries. AES Ohio Generation owns an undivided interest in Conesville Unit 4. AES Ohio Generation sells all of its energy and capacity into the wholesale market. **DPL's** subsidiaries are wholly-owned.

On December 8, 2017, AES Ohio Generation completed the sale of the Miami Fort and Zimmer stations to subsidiaries of Dynegy in accordance with an asset purchase agreement dated April 21, 2017. In addition, on March 27, 2018, **DPL** and AES Ohio Generation completed the sale of their Peaker assets to Kimura Power, LLC. Further, on May 31, 2018, **DPL** and AES Ohio Generation retired the Stuart Station coal-fired and diesel-fired generating units and the Killen Station coal-fired generating unit and combustion turbine, as planned. See Note 15 – Discontinued Operations for additional information.

**DPL** also has a wholly-owned business trust, DPL Capital Trust II, formed for the purpose of issuing trust capital securities to investors.

**DP&L's** electric transmission and distribution businesses are subject to rate regulation by federal and state regulators. Accordingly, **DP&L** applies the accounting standards for regulated operations to its electric transmission and distribution businesses and records regulatory assets when incurred costs are expected to be recovered in future customer rates, and regulatory liabilities when current cost recoveries in customer rates relate to expected future costs or overcollections of riders.

**DPL** and its subsidiaries employed 659 people at January 31, 2019, of which 647 were employed by **DP&L**. Approximately 57% of all **DPL** employees are under a collective bargaining agreement.

**Financial Statement Presentation**

We prepare Consolidated Financial Statements for **DPL**. **DPL's** Consolidated Financial Statements include the accounts of **DPL** and its wholly-owned subsidiaries except for DPL Capital Trust II which is not consolidated, consistent with the provisions of GAAP.



AES Ohio Generation's undivided ownership interests in certain coal-fired generating stations are included in the financial statements at amortized cost, net of subsequent impairments. Operating revenues and expenses are included on a pro rata basis in the corresponding lines in the Consolidated Statement of Operations.

Through June 2018, **DP&L** had undivided ownership interests in numerous transmission facilities. These undivided interests in jointly-owned facilities were accounted for on a pro rata basis in the Consolidated Financial Statements. In June 2018, **DP&L** closed on a transmission asset transaction with Duke and AEP, where ownership stakes in certain previously co-owned transmission assets were exchanged to eliminate co-ownership. Each previously co-owned transmission asset became wholly-owned by one of **DP&L**, Duke or AEP after the transaction. See Note 4 – Property, Plant and Equipment for more information.

All material intercompany accounts and transactions are eliminated in consolidation. We have evaluated subsequent events through the date this report is issued.

Certain amounts from prior periods have been reclassified to conform to the current period presentation.

The preparation of financial statements in conformity with GAAP requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the revenues and expenses of the periods reported. Actual results could differ from these estimates. Significant items subject to such estimates and judgments include: the carrying value of Property, plant and equipment; unbilled revenues; the valuation of derivative instruments; the valuation of insurance and claims liabilities; the valuation of allowances for receivables and deferred income taxes; regulatory assets and liabilities; reserves recorded for income tax exposures; litigation; contingencies; the valuation of AROs; and assets and liabilities related to employee benefits.

### **Revenue Recognition**

Revenues are recognized from retail and wholesale electricity sales and electricity transmission and distribution delivery services. Revenue is recognized upon transfer of control of promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. Energy sales to customers are based on the reading of their meters that occurs on a systematic basis throughout the month. We recognize the revenues on our Consolidated Statements of Operations using an accrual method for retail and other energy sales that have not yet been billed, but where electricity has been consumed. This is termed “unbilled revenues” and is a widely recognized and accepted practice for utilities. At the end of each month, unbilled revenues are determined by the estimation of unbilled energy provided to customers since the date of the last meter reading, estimated line losses, the assignment of unbilled energy provided to customer classes and the average rate per customer class.

The power sales and purchases within **DP&L's** service territory are reported on a net hourly basis as revenues or purchased power on our Consolidated Statements of Operations. We record expenses when purchased electricity is received and when expenses are incurred. All of the power produced at the generation station is sold to an RTO. We record expenses when purchased electricity is received and when expenses are incurred. For additional information, see Note 14 – Revenue.

### **Allowance for Uncollectible Accounts**

We establish provisions for uncollectible accounts by using both historical average loss percentages to project future losses and by establishing specific provisions for known credit issues. Amounts are written off when reasonable collections efforts have been exhausted.

### **Property, Plant and Equipment**

We record our ownership share of our undivided interest in our jointly-held station as an asset in property, plant and equipment. New property, plant and equipment additions are stated at cost. For regulated transmission and distribution property, cost includes direct labor and material, allocable overhead expenses and an allowance for funds used during construction (AFUDC). AFUDC represents the cost of borrowed funds and equity used to finance regulated construction projects. For non-regulated property, cost also includes capitalized interest. Capitalization of AFUDC and interest ceases at either project completion or at the date specified by regulators. AFUDC and capitalized interest was \$0.5 million, \$1.7 million and \$2.1 million in the years ended December 31, 2018, 2017 and 2016, respectively.



For unregulated generation property, cost includes direct labor and material, allocable overhead expenses and interest capitalized during construction per the provisions of GAAP related to the accounting for capitalized interest.

For substantially all depreciable property, when a unit of property is retired, the original cost of that property less any salvage value is charged to Accumulated depreciation and amortization, consistent with composite depreciation practices.

Property is evaluated for impairment when events or changes in circumstances indicate that its carrying amount may not be recoverable.

### **Repairs and Maintenance**

Costs associated with maintenance activities are recognized at the time the work is performed. These costs, which include labor, materials and supplies, and outside services required to maintain equipment and facilities, are capitalized or expensed based on defined units of property.

### **Depreciation**

Depreciation expense is calculated using the straight-line method, which allocates the cost of property over its estimated useful life. For **DPL's** generation, transmission and distribution assets, straight-line depreciation is applied monthly on an average composite basis using group rates that approximated 4.3% in 2018, 5.0% in 2017 and 6.1% in 2016 (including property classified in non-current assets of discontinued operations and held-for-sale businesses in 2017 and 2016). Depreciation expense was \$66.5 million, \$70.4 million and \$67.0 million for the years ended December 31, 2018, 2017 and 2016, respectively.

### **Regulatory Accounting**

As a regulated utility, **DP&L** applies the provisions of FASC 980 "Regulated Operations", which gives recognition to the ratemaking and accounting practices of the PUCO and the FERC. Regulatory assets generally represent incurred costs that have been deferred because such costs are probable of future recovery in customer rates. Regulatory assets can also represent performance incentives permitted by the regulator. Regulatory assets have been included as allowable costs for ratemaking purposes, as authorized by the PUCO or established regulatory practices. Regulatory liabilities generally represent obligations to make refunds or future rate reductions to customers for previous over collections or the deferral of revenues collected for costs that **DP&L** expects to incur in the future.

The deferral of costs (as regulatory assets) is appropriate only when the future recovery of such costs is probable. In assessing probability, we consider such factors as specific orders from the PUCO or FERC, regulatory precedent and the current regulatory environment. To the extent recovery of costs is no longer deemed probable, related regulatory assets would be required to be expensed in current period earnings. Our regulatory assets and liabilities have been created pursuant to a specific order of the PUCO or FERC or established regulatory practices, such as other utilities under the jurisdiction of the PUCO or FERC being granted recovery of similar costs. It is probable, but not certain, that these regulatory assets will be recoverable, subject to PUCO or FERC approval. Regulatory assets and liabilities are classified as current or non-current based on the term in which recovery is expected. See Note 3 – Regulatory Matters for more information.

### **Inventories**

Inventories are carried at average cost, net of reserves, and include coal, limestone and materials and supplies used for utility operations.

### **Intangibles**

Intangibles include software, emission allowances and renewable energy credits. Emission allowances are carried on a first-in, first-out (FIFO) basis for purchased emission allowances. Net gains or losses on the sale of excess emission allowances, representing the difference between the sales proceeds and the cost of emission allowances, are recorded as a component of our fuel costs and are reflected in Operating income when realized. Emission allowances are amortized as they are used in our operations on a FIFO basis. Renewable energy credits are carried on a weighted average cost basis and amortized as they are used or retired.

Software is amortized over seven years. Amortization expense was \$6.6 million, \$5.7 million and \$6.6 million for the years ended December 31, 2018, 2017 and 2016, respectively. The estimated amortization expense of this internal-use software over the next five years is \$15.0 million (\$4.2 million in 2019, \$3.2 million in 2020, \$3.0 million in 2021, \$2.6 million in 2022 and \$2.0 million in 2023).



## **Income Taxes**

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of the existing assets and liabilities, and their respective income tax bases. We establish an allowance when it is more likely than not that all or a portion of a deferred tax asset will not be realized. Our tax positions are evaluated under a more likely than not recognition threshold and measurement analysis before they are recognized for financial statement reporting. Uncertain tax positions have been classified as noncurrent income tax liabilities unless expected to be paid within one year. Our policy for interest and penalties is to recognize interest and penalties as a component of the provision for income taxes in the Consolidated Statement of Operations.

Income taxes payable, which are includable in allowable costs for ratemaking purposes in future years, are recorded as regulatory assets or liability with a corresponding deferred tax liability or asset. Investment tax credits that reduced federal income taxes in the years they arose have been deferred and are being amortized to income over the useful lives of the properties in accordance with regulatory treatment. See Note 3 – Regulatory Matters for additional information.

DPL and its subsidiaries file U.S. federal income tax returns as part of the consolidated U.S. income tax return filed by AES. The consolidated tax liability is allocated to each subsidiary based on the separate return method which is specified in our tax allocation agreement and which provides a consistent, systematic and rational approach. See Note 8 – Income Taxes for additional information.

## **Financial Instruments**

Our Master Trust investments in debt and equity financial instruments of publicly traded entities are classified as equity investments. These equity securities are carried at fair value and unrealized gains and losses on these securities are recorded in Other income. As these financial instruments are held to be used for the benefit of employees participating in employee benefit plans and are not used for general operating purposes, they are classified as non-current in Other deferred assets on the Consolidated Balance Sheets.

## **Held-for-sale Businesses**

A business classified as held-for-sale is reflected on the balance sheet at the lower of its carrying amount or estimated fair value less cost to sell. A loss is recognized if the carrying amount of the business exceeds its estimated fair value less cost to sell. This loss is limited to the carrying value of long-lived assets until the completion of the sale, at which point, any additional loss is recognized. If the fair value of the business subsequently exceeds the carrying amount while the business is still held-for-sale, any impairment expense previously recognized will be reversed up to the lower of the previously recognized expense or the subsequent excess.

Assets and liabilities related to a business classified as held-for-sale are segregated in the current balance sheet in the period in which the business is classified as held-for-sale. Assets and liabilities of held-for-sale businesses are classified as current when they are expected to be disposed of within twelve months. Transactions between the business held-for-sale and businesses that are expected to continue to exist after the disposal are not eliminated to appropriately reflect the continuing operations and balances held-for-sale. See Note 15 – Discontinued Operations for further information.

## **Discontinued Operations**

Discontinued operations reporting occurs only when the disposal of a business or a group of assets represents a strategic shift that has (or will have) a major effect on our operations and financial results. We report financial results for discontinued operations separately from continuing operations to distinguish the financial impact of disposal transactions from ongoing operations. Prior period amounts in the statement of operations and balance sheet are retrospectively revised to reflect the businesses determined to be discontinued operations. The cash flows of businesses that are determined to be discontinued operations are included within the relevant categories within operating, investing and financing activities on the face of the Consolidated Statements of Cash Flows.

Transactions between the businesses determined to be discontinued operations and businesses that are expected to continue to exist after the disposal are not eliminated to appropriately reflect the continuing operations and balances held-for-sale. The results of discontinued operations include any gain or loss recognized on closing or adjustment of the carrying amount to fair value. See Note 15 – Discontinued Operations for further information.



## Accounting for Taxes Collected from Customers and Remitted to Governmental Authorities

**DP&L** collects certain excise taxes levied by state or local governments from its customers. **DP&L's** excise taxes and certain other taxes are accounted for on a net basis and recorded as a reduction in revenues in the accompanying Consolidated Statements of Operations. The amounts for the years ended December 31, 2018, 2017 and 2016, were \$51.7 million, \$49.4 million and \$50.9 million, respectively.

## Cash and Cash Equivalents

Cash and cash equivalents are stated at cost, which approximates fair value. All highly liquid short-term investments with original maturities of three months or less are considered cash equivalents.

## Restricted Cash

Restricted cash includes cash which is restricted as to withdrawal or usage. The nature of the restrictions includes restrictions imposed by agreements related to deposits held as collateral and cash collected under the DMR which is restricted to pay debt obligations at **DPL** and **DP&L** and position **DP&L** to modernize and/or maintain its transmission and distribution infrastructure.

The following table provides a summary of cash, cash equivalents, and restricted cash amounts reported on the Consolidated Balance Sheet that reconcile to the total of such amounts as shown on the Consolidated Statements of Cash Flows:

\$ in millions	December 31, 2018	December 31, 2017
Cash and cash equivalents	\$ 90.5	\$ 24.5
Restricted cash	21.2	0.4
Cash, Cash Equivalents, and Restricted Cash, End of Period	\$ 111.7	\$ 24.9

## Financial Derivatives

All derivatives are recognized as either assets or liabilities in the balance sheets and are measured at fair value. Changes in the fair value are recorded in earnings unless the derivative is designated as a cash flow hedge of a forecasted transaction or it qualifies for the normal purchases and sales exception.

We use interest rate hedges to manage the interest rate risk of our variable rate debt. We use cash flow hedge accounting when the hedge or a portion of the hedge is deemed to be highly effective, which results in changes in fair value being recorded within accumulated other comprehensive income, a component of shareholder's equity. We have elected not to offset net derivative positions in the financial statements. Accordingly, we do not offset such derivative positions against the fair value of amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral under master netting agreements. See Note 6 – Derivative Instruments and Hedging Activities for additional information.

## Insurance and Claims Costs

In addition to insurance obtained from third-party providers, **MVIC**, a wholly-owned captive subsidiary of **DPL**, provides insurance coverage solely to us and our subsidiaries for workers' compensation, general liability, and property damage on an ongoing basis. Insurance and Claims Costs on **DPL's** Consolidated Balance Sheets associated with **MVIC** include estimated liabilities of approximately \$4.1 million and \$3.0 million at December 31, 2018 and 2017, respectively. **DPL** has estimated liabilities for medical, life, disability, and other reserves for claims costs below certain coverage thresholds of third-party providers of approximately \$4.3 million and \$4.4 million at December 31, 2018 and 2017, respectively, within Other current liabilities and Other deferred credits on the balance sheets. The estimated liabilities for workers' compensation, medical, life and disability costs at **DPL** are actuarially determined using certain assumptions. There is uncertainty associated with these loss estimates, and actual results may differ from the estimates. Modification of these loss estimates based on experience and changed circumstances is reflected in the period in which the estimate is re-evaluated.

## Pension and Postretirement Benefits

We recognize in our Consolidated Balance Sheets an asset or liability reflecting the funded status of pension and other postretirement plans with current-year changes from actuarial gains or losses related to our regulated operations, that would otherwise be recognized in AOCI, recorded as a regulatory asset as this can be recovered through future rates. Such changes that are not related to our regulated operations are recognized in AOCI. All plan assets are recorded at fair value. We follow the measurement date provisions of the accounting guidance, which require a year-end measurement date of plan assets and obligations for all defined benefit plans.

We account for and disclose pension and postretirement benefits in accordance with the provisions of GAAP relating to the accounting for pension and other postretirement plans. These GAAP provisions require the use of assumptions, such as the discount rate for liabilities and long-term rate of return on assets, in determining the obligations, annual cost and funding requirements of the plans. Consistent with the requirements of FASC 715, we apply a disaggregated discount rate approach for determining service cost and interest cost for our defined benefit pension plans and postretirement plans.

See Note 9 – Benefit Plans for more information.

### **Related Party Transactions**

In the normal course of business, **DPL** enters into transactions with related parties. All material intercompany accounts and transactions are eliminated in **DPL's** Consolidated Financial Statements.

See Note 12 – Related Party Transactions for more information on Related Party Transactions.

### **DPL Capital Trust II**

**DPL** has a wholly-owned business trust, DPL Capital Trust II (the Trust), formed for the purpose of issuing trust capital securities to third-party investors. Effective in 2003, **DPL** deconsolidated the Trust upon adoption of the accounting standards related to variable interest entities and currently treats the Trust as an unconsolidated subsidiary. The Trust holds mandatorily redeemable trust capital securities. The investment in the Trust, which amounts to \$0.2 million and \$0.3 million at December 31, 2018 and 2017, respectively, is included in Other deferred assets within Other noncurrent assets. **DPL** also has a note payable to the Trust amounting to \$15.6 million and \$15.6 million at December 31, 2018 and 2017, respectively, that was established upon the Trust's deconsolidation in 2003. See Note 7 – Long-term debt for additional information.

In addition to the obligations under the note payable mentioned above, **DPL** also agreed to a security obligation which represents a full and unconditional guarantee of payments to the capital security holders of the Trust.



## New accounting pronouncements adopted in 2018

The following table provides a brief description of recently adopted accounting pronouncements that had an impact on our consolidated financial statements. Accounting pronouncements not listed below were assessed and determined to be either not applicable or did not have a material impact on our consolidated financial statements.

Accounting Standard	Description	Date of Adoption	Effect on the financial statements upon adoption
<b>New Accounting Standards Adopted</b>			
2018-15, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract	This standard aligns the accounting for implementation costs incurred for a cloud computing arrangement that is a service with the requirement for capitalizing implementation costs associated with developing or obtaining internal-use software. Transition method: retrospective or prospective.	October 1, 2018	We elected to early-adopt this standard on a prospective basis, effective for fiscal year 2018. The adoption of this standard did not have a material impact on our financial statements.
2018-14, Compensation — Retirement Benefits — Defined Benefit Plans — General (Subtopic 715-20): Disclosure Framework	This standard modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. Transition method: retrospective.	Early adoption elected, January 1, 2018	Impact limited to changes in financial statement disclosures.
2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost	This standard changes the presentation of non-service costs associated with defined benefit plans and updates the guidance so that only the service cost component will be eligible for capitalization. Transition method: retrospective for presentation of non-service cost and prospective for the change in capitalization.	January 1, 2018	For the years ended December 31, 2017 and 2016 we reclassified non-service pension costs from Operating expenses to Other expense of \$2.2 million and \$3.2 million, respectively.
2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)	This standard requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Transition method: retrospective.	January 1, 2018	For the years ended December 31, 2017 and 2016, we reclassified from "Net cash used in investing activities" to "Net increase / (decrease) in cash, cash equivalents and restricted cash" \$27.1 million and (\$11.8) million, respectively.
2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities	The standard significantly revises an entity's accounting related to (1) classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosures of financial instruments. Transition method: modified retrospective. Prospective for equity investments without readily determinable fair value.	January 1, 2018	We adopted this standard January 1, 2018. At that date, we transferred \$1.6 million (\$1.0 million net of tax) of unrealized gains from AOCI to Accumulated Deficit.
2014-09, 2015-14, 2016-08, 2016-10, 2016-12, 2016-20, 2017-10, 2017-13, Revenue from Contracts with Customers (Topic 606)	See discussion of the ASU below.	January 1, 2018	See impact upon adoption of the standard below.

### Adoption of FASC Topic 606, "Revenue from Contracts with Customers"

On January 1, 2018, we adopted ASU 2014-09, "Revenue from Contracts with Customers", and its subsequent corresponding updates ("FASC 606"). The core principle of this standard is that an entity shall recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. We applied the modified retrospective method of adoption to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning January 1, 2018 are presented under FASC 606, while prior period amounts were not adjusted and continue to be reported in accordance with our historic accounting under the previous revenue recognition standard. For contracts that were modified before January 1, 2018, we have not retrospectively restated the contracts for modifications. We instead reflected the aggregate effect of all modifications when identifying the satisfied and unsatisfied performance obligations, determining the transaction price and allocating the transaction price. We do not expect the adoption of the new revenue standard to have a material impact to our net income on an ongoing basis.



There was no cumulative effect to our January 1, 2018 Consolidated Balance Sheet resulting from the adoption of FASC 606.

**New accounting pronouncements issued but not yet effective** - The following table provides a brief description of recent accounting pronouncements that could have a material impact on our consolidated financial statements. Accounting pronouncements not listed below were assessed and determined to be either not applicable or are expected to have no material impact on our consolidated financial statements.

Accounting Standard	Description	Date of Adoption	Effect on the financial statements upon adoption
<b>New Accounting Standards Issued but Not Yet Effective</b>			
2018-02, Income Statement - Reporting Comprehensive Income (Topic 220), Reclassification of Certain Tax Effects from AOCI	This amendment allows a reclassification of the stranded tax effects resulting from the implementation of the Tax Cuts and Jobs Act from AOCI to retained earnings. Because this amendment only relates to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected.	January 1, 2019. Early adoption is permitted.	We do not expect any impact on our consolidated financial statements upon adoption of the standard on January 1, 2019.
2017-12, Derivatives and Hedging (Topic 815): Targeted improvements to Accounting for Hedging Activities	The standard updates the hedge accounting model to expand the ability to hedge nonfinancial and financial risk components, reduce complexity, and ease certain documentation and assessment requirements. When facts and circumstances are the same as at the previous quantitative test, a subsequent quantitative effectiveness test is not required. The standard also eliminates the requirement to separately measure and report hedge ineffectiveness. For cash flow hedges, this means that the entire change in the fair value of a hedging instrument will be recorded in other comprehensive income and amounts deferred will be reclassified to earnings in the same income statement line as the hedged item in the period in which it settles. Transition method: modified retrospective with the cumulative effect adjustment recorded to the opening balance of retained earnings as of the initial application date. Prospective for presentation and disclosures.	January 1, 2019. Early adoption is permitted.	We are currently evaluating the impact of adopting the standard on our consolidated financial statements.
2018-19, 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	The standard updates the impairment model for financial assets measured at amortized cost. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a new forward-looking "expected loss" model that generally will result in the earlier recognition of allowance for losses. For available-for-sale debt securities with unrealized losses, entities will measure credit losses as it is done today, except that the losses will be recognized as an allowance rather than a reduction in the amortized cost of the securities. Transition method: various.	January 1, 2020. Early adoption is permitted only as of January 1, 2019.	We are currently evaluating the impact of adopting the standard on our consolidated financial statements.
2016-02, 2018-01, 2018-10, 2018-11, 2018-20 Leases (Topic 842)	See discussion of the ASU below.	January 1, 2019. Early adoption is permitted.	We have adopted the standard on January 1, 2019; see below for the evaluation of the impact of its adoption on our consolidated financial statements.

#### *Adoption of FASC Topic 842, "Leases"*

ASU 2016-02 and its subsequent corresponding updates require lessees to recognize assets and liabilities for most leases but recognize expenses in a manner similar to today's accounting. For lessors, the guidance modifies the lease classification criteria and the accounting for sales-type and direct financing leases. The guidance also eliminates today's real estate-specific provisions.

The standard must be adopted using a modified retrospective approach. The FASB has provided an optional transition method, which we have elected, that allows entities to continue to apply the guidance in FASC 840 Leases to the comparative periods presented in the year of adoption. Under this transition method, we will apply the transition provisions starting on January 1, 2019.

We have elected to apply a package of practical expedients that allow lessees and lessors not to reassess: (1) whether any expired or existing contracts are or contain leases, (2) lease classification for any expired or existing leases, and (3) whether initial direct costs for any expired or existing leases qualify for capitalization under FASC 842. These three practical expedients must be elected as a package and must be consistently applied to all leases.

We have also elected to apply an optional transition practical expedient for land easements that allows an entity to continue applying its current accounting policy for all land easements that exist before the standard's effective date that were not previously accounted for under FASC 840.

We established a task force focused on the identification of contracts that would be under the scope of the new standard and on the assessment and measurement of the right-of-use assets and related liabilities. Additionally, the implementation team has been working on the configuration of a lease accounting tool that will support the implementation and the subsequent accounting. The implementation team has also evaluated changes to our business processes, systems and controls to support recognition and disclosure under the new standard.

Under FASC 842, it is expected that fewer contracts will contain a lease. However, due to the elimination of the real estate-specific guidance and changes to certain lessor classification criteria, more leases will qualify as sales-type leases and direct financing leases. Under these two models, a lessor will derecognize the asset and will recognize a lease receivable. According to FASC 842, the lease receivable includes the fair value of the plant after the contract period but does not include any variable payments such as margin on the sale of energy. Therefore, the lease receivable could be significantly different than the carrying amount of the underlying asset at lease commencement. In such circumstances, the difference between the initially recognized lease receivable and the carrying amount of the underlying asset is recognized as a gain/loss at lease commencement.

The adoption of FASC 842 did not have a material impact on our consolidated financial statements.

**Note 2 – Supplemental Financial Information**

\$ in millions	December 31,	
	2018	2017
<b>Accounts receivable, net</b>		
Customer receivables	\$ 55.8	\$ 45.2
Unbilled revenue	16.8	18.0
Due from PJM transmission enhancement settlement <sup>(a)</sup>	16.5	—
Other	2.3	2.5
Provisions for uncollectible accounts	(0.9)	(1.1)
<b>Total accounts receivable, net</b>	<b>\$ 90.5</b>	<b>\$ 64.6</b>
<b>Inventories, at average cost</b>		
Fuel and limestone	\$ 1.9	\$ 4.1
Materials and supplies	8.3	8.1
Other	0.5	0.5
<b>Total inventories, at average cost</b>	<b>\$ 10.7</b>	<b>\$ 12.7</b>

(a) - See Note 3 – Regulatory Matters for more information.



## Accumulated Other Comprehensive Income / (Loss)

The amounts reclassified out of Accumulated Other Comprehensive Income / (Loss) by component during the years ended December 31, 2018, 2017 and 2016 are as follows:

Details about Accumulated Other Comprehensive Income / (Loss) Components	Affected line item in the Consolidated Statements of Operations	Years ended December 31,		
		2018	2017	2016
\$ in millions				
Gains and losses on equity securities (Note 5):				
	Other deductions	\$ —	\$ (0.1)	\$ —
	Income tax expense	—	—	—
	Net of income taxes	—	(0.1)	—
Gains and losses on cash flow hedges (Note 6):				
	Interest expense	(1.2)	(1.0)	(1.0)
	Income tax benefit	0.4	0.3	0.5
	Net of income taxes	(0.8)	(0.7)	(0.5)
	Gain / (loss) from discontinued operations	4.4	(11.4)	(45.4)
	Tax benefit / (expense) from discontinued operations	(1.2)	4.1	16.2
	Net of income taxes	3.2	(7.3)	(29.2)
Amortization of defined benefit pension items (Note 9):				
	Other income	0.8	1.5	1.6
	Income tax expense	(0.2)	(0.5)	(0.6)
	Net of income taxes	0.6	1.0	1.0
Total reclassifications for the period, net of income taxes		\$ 3.0	\$ (7.1)	\$ (28.7)

The changes in the components of Accumulated Other Comprehensive Income / (Loss) during the years ended December 31, 2018 and 2017 are as follows:

\$ in millions	Gains / (losses) on equity securities	Gains / (losses) on cash flow hedges	Change in unfunded pension obligation	Total
Balance at December 31, 2016	\$ 0.6	\$ 13.1	\$ (13.4)	\$ 0.3
Other comprehensive income / (loss) before reclassifications	0.5	9.6	(2.5)	7.6
Amounts reclassified from accumulated other comprehensive income / (loss)	(0.1)	(8.0)	1.0	(7.1)
Net current period other comprehensive income / (loss)	0.4	1.6	(1.5)	0.5
Balance at December 31, 2017	1.0	14.7	(14.9)	0.8
Other comprehensive loss before reclassifications	—	(0.1)	(0.5)	(0.6)
Amounts reclassified from accumulated other comprehensive income to earnings	—	2.4	0.6	3.0
Net current period other comprehensive income	—	2.3	0.1	2.4
Amounts reclassified from accumulated other comprehensive income to accumulated deficit <sup>(a)</sup>	(1.0)	—	—	(1.0)
Balance at December 31, 2018	\$ —	\$ 17.0	\$ (14.8)	\$ 2.2

- (a) ASU 2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities" was effective as of January 1, 2018. This ASU requires the change in the fair value of equity instruments to be recorded in income rather than in OCI. Equity Instruments were defined to include all mutual funds, regardless of the underlying investments. Therefore, as of January 1, 2018, AOCI of \$1.6 million (\$1.0 million net of tax) was reversed to Accumulated Deficit.

## Note 3 – Regulatory Matters

### Distribution Rate Order

On September 26, 2018 the PUCO issued the DRO establishing new base distribution rates for DP&L, which became effective October 1, 2018. The DRO approved, without modification, a stipulation and recommendation



previously filed by **DP&L**, along with various intervening parties and the PUCO staff. The DRO established a revenue requirement of \$248.0 million for **DP&L**'s electric service base distribution rates which reflects an increase to distribution revenues of approximately \$29.8 million per year. In addition to the increase in base distribution rates, and among other matters, the DRO provides for a return on equity of 9.999% and a cost of long-term debt of 4.8% and for the following items:

**DIR** – The DRO authorized **DP&L** to begin charging a Distribution Investment Rider ("DIR") set initially at \$12.2 million annually, effective October 1, 2018. The DIR revenue requirement shall be updated quarterly and will increase as **DP&L** makes qualified investments in its distribution network, subject to annual revenue limits which increase each year; the revenue limit for 2019 is \$22.0 million. The DIR will expire in November 2022 unless **DP&L** files a base distribution rate case on or before October 31, 2022, in which case the DIR will expire in November 2023.

**Decoupling Rider** – The DRO eliminated provisions in the existing decoupling rider which allowed **DP&L** to recover lost revenues resulting from the implementation of energy efficiency programs and replaced it with a revenue requirement that attempts to eliminate the impacts of weather and demand on **DP&L**'s revenues from residential and commercial distribution customers beginning January 1, 2019. As a result, in years with very mild weather and/or decreased demand, **DP&L** will be able to accrue a regulatory asset for recovery through the rider to normalize the revenues. Conversely, in periods of extreme temperatures or high demand for electricity, **DP&L** may record a liability for future reimbursement to customers. The rider also includes a one-time \$3.7 million revenue requirement based on the increase in the number of **DP&L**'s residential and commercial customers from the rate case test year until September 30, 2018. Such amount was accrued and included in revenues in the third quarter of 2018 and will be collected by **DP&L** in 2019.

**TCJA** – The DRO partially resolved the TCJA impacts. The new distribution rates include the impacts of the decrease in current federal income taxes beginning October 1, 2018. The DRO did not designate how much **DP&L** may owe for any overcollection of taxes from January 1, 2018 through September 30, 2018, nor did it resolve any decrease in future rates related to amortization of excess accumulated deferred income taxes ("ADIT"). The DRO did, however, stipulate that **DP&L** must refund its customers an amount no less than \$4.0 million per year for the first five years of the amortization period unless all balances owed are fully returned within the first five years. For more on the impacts of the TCJA, see below.

**Vegetation Management Costs** – The DRO authorizes **DP&L** to defer as a regulatory asset, with no carrying costs, annual expenses for vegetation management performed by third-party vendors. For calendar year 2018 annual expenses which are incremental to the baseline of \$10.7 million can be deferred up to a \$4.6 million cap. For calendar years 2019 and thereafter, annual expenses in excess of \$15.7 million can be deferred up to a \$4.6 million annual cap. Annual spending of less than the vegetation management baseline amounts will result in a reduction to the regulatory asset or creation of a regulatory liability. For 2018, **DP&L** accrued a regulatory asset for the maximum amount of \$4.6 million based upon such provisions and spending above the baseline.

In December 2018, **DP&L** filed a Distribution Modernization Plan ("DMP") with the PUCO proposing to invest \$576.0 million in capital projects over the next 10 years. There are eight principal components of **DP&L**'s DMP: 1) Smart Meters, 2) Self-Healing Grid, 3) Customer Engagement, 4) Enhancing Sustainability and Embracing Innovation, 5) Telecommunications, 6) Physical and Cyber Security, 7) Governance and Analytics, and 8) Grid Modernization R&D.

### **ESP Order**

On March 13, 2017, **DP&L** filed an amended stipulation to its 2017 ESP, which was subject to approval by the PUCO. A final decision was issued by the PUCO on October 20, 2017, modifying and adopting the amended stipulation and recommendation. The six-year 2017 ESP establishes **DP&L**'s framework for providing retail service on a going-forward basis including rate structures, non-bypassable charges and other specific rate recovery true-up mechanisms which include, but are not limited to, the following:

- Bypassable standard offer energy rates for **DP&L**'s customers based on competitive bid auctions;
- The establishment of a three-year non-bypassable Distribution Modernization Rider (DMR) designed to collect \$105.0 million in revenue per year to pay debt obligations at **DPL** and **DP&L** and position **DP&L** to modernize and/or maintain its transmission and distribution infrastructure with an option for **DP&L** to file for



an extension of the rider for an additional two years in an amount subject to approval by the PUCO. Consistent with that settlement and the PUCO order, on January 22, 2019, **DP&L** filed a request to extend the DMR for the additional two years at an annual revenue amount of \$199.0 million. That request is pending PUCO review;

- The establishment of a non-bypassable Distribution Investment Rider to recover incremental distribution capital investments, the amount of which was established in the **DP&L** DRO;
- A non-bypassable Reconciliation Rider permitting **DP&L** to defer, recover or credit the net proceeds from selling energy and capacity received as part of **DP&L's** investment in OVEC and **DP&L's** OVEC related costs;
- Implementation by **DP&L** of a Smart Grid Rider, Economic Development Rider, Economic Development Fund, Regulatory Compliance Rider and certain other new, or changes to existing, rates, riders and competitive retail market enhancements, with tariffs consistent with the order. These riders became effective November 1, 2017;
- A commitment to commence a sale process to sell our ownership interests in the Miami Fort, Zimmer and Conesville coal-fired generation plants, with all sales proceeds used to pay debt of **DPL** and **DP&L**;
- Restrictions on **DPL** making dividend or tax sharing payments and an obligation to convert then existing tax payments owed by **DPL** to AES into equity investments in **DPL**. See Note 8 – Income Taxes and Note 10 – Equity for more information on the tax sharing payment restrictions; and
- Various other riders and competitive retail market enhancements.

On October 19, 2018 IGS, a retail electricity supplier, filed a Notice of Withdrawal from the amended settlement, citing a material modification by the PUCO's October 2017 order. To address the withdrawal, the PUCO established a new procedural schedule, including a hearing currently scheduled to begin April 1, 2019. Additionally, on January 7, 2019, the Ohio Consumers' Counsel appealed the 2017 ESP Order to the Supreme Court of Ohio. That appeal is pending.

**DP&L** is subject to a SEET threshold and is required to apply general rules for calculating earnings and comparing them to a comparable group to determine whether there were significantly excessive earnings during a given calendar year. The 2017 ESP maintains **DP&L's** return on equity SEET threshold at 12% and provides that DMR amounts are excluded from the SEET calculation. On October 22, 2018, a stipulation was reached agreeing that **DP&L** did not exceed the SEET threshold for 2016 or 2017. That stipulation is pending PUCO approval. In future years, the SEET could have a material effect on results of operations, financial condition and cash flows.

### **Impact of Tax Reform**

On January 10, 2018 the PUCO initiated a proceeding to consider the impacts of the TCJA to determine the appropriate course of action to pass benefits resulting from the legislation on to ratepayers. The PUCO also directed Ohio utilities to record deferred liabilities for the estimated reduction in federal income tax resulting from the TCJA beginning January 1, 2018. Under the terms of the ESP, **DPL** will not make tax sharing payments. Under the terms of the stipulation in the distribution rate case mentioned above, **DP&L** agreed to file an application at the PUCO by March 1, 2019 to refund eligible excess accumulated deferred income taxes (ADIT) and any related regulatory liability over a 10-year period. Excess ADIT related to depreciation life and method differences will be returned to customers in accordance with federal tax law and related regulations. **DP&L's** rates were set using the new tax rate as a result of the distribution rate case.

### **FERC Proceedings**

On May 8, 2018, **DP&L** filed to adjust its FERC jurisdictional transmission rates to reflect the effects of the decrease in federal income tax rates on the current portion of income tax expense as part of the TCJA, resulting in a decrease of approximately \$2.4 million annually. The revised rates are in effect and all **DP&L** over and undercollections dating back to the March 21st effective date were settled in December 2018.

On November 15, 2018 FERC issued a Notice of Proposed Rulemaking to address amortization of excess accumulated deferred income taxes resulting from the TCJA and their impact on transmission rates. Such notice requires all public utility transmission providers with stated transmission rates under an Open Access Transmission Tariff (OATT) to determine the amount of excess deferred income taxes caused by the TCJA. **DP&L** is unable to predict the outcome of this notice or the impact it may have on our Consolidated Financial Statements.

### **PJM Transmission Enhancement Settlement**

On May 31, 2018, the FERC issued an Order on Contested Settlement regarding the cost allocation method for existing and new transmission facilities contained in the PJM Interconnection's OATT. The FERC order approved



the settlement which reduces **DP&L's** transmission costs through PJM beginning in August 2018, including credits to reimburse **DP&L** for amounts overcharged in prior years. **DP&L** estimates the prior overcharge by PJM to be \$41.6 million, of which approximately \$14.3 million has been repaid to **DP&L** through December 31, 2018 and \$16.5 million is classified as current in "Accounts receivable, net" and \$10.8 million is classified as non-current in "Other deferred assets" on the accompanying Consolidated Balance Sheet. All of the transmission charges and credits impacted by this FERC order are items that are included for full recovery in **DP&L's** nonbypassable TCRR. Accordingly, **DP&L** has also established offsetting regulatory liabilities. While this development will have a temporary cash flow benefit to **DP&L**, there is no impact to operating income or net income as all credits will be passed to **DP&L's** customers through the TCRR, which began in November 2018.

### Regulatory Assets and Liabilities

In accordance with FASC 980, we have recognized total regulatory assets of \$193.7 million and \$187.1 million at December 31, 2018 and 2017, respectively, and total regulatory liabilities of \$313.2 million and \$236.0 million at December 31, 2018 and 2017, respectively. Regulatory assets and liabilities are classified as current or non-current based on the term in which recovery is expected. See Note 1 – Overview and Summary of Significant Accounting Policies for accounting policies regarding Regulatory Assets and Liabilities.

The following table presents **DPL's** Regulatory assets and liabilities:

\$ in millions	Type of Recovery	Amortization Through	December 31,	
			2018	2017
<b>Regulatory assets, current:</b>				
Undercollections to be collected through rate riders	A/B	2019	\$ 40.5	\$ 23.9
Rate case expenses being recovered in base rates	B	2019	0.6	—
<b>Total regulatory assets, current</b>			<b>41.1</b>	<b>23.9</b>
<b>Regulatory assets, non-current:</b>				
Pension benefits	B	Ongoing	87.5	92.4
Unrecovered OVEC charges	C	Undetermined	28.7	27.8
Fuel costs	B	2020	3.3	9.3
Regulatory compliance costs	B	2020	6.1	9.2
Smart grid and AMI costs	B	Undetermined	8.5	7.3
Unamortized loss on reacquired debt	B	Various	6.0	7.0
Deferred storm costs	A	Undetermined	4.7	2.1
Deferred vegetation management and other	A/B	Undetermined	7.8	8.1
<b>Total regulatory assets, non-current</b>			<b>152.6</b>	<b>163.2</b>
<b>Total regulatory assets</b>			<b>\$ 193.7</b>	<b>\$ 187.1</b>
<b>Regulatory liabilities, current:</b>				
Overcollection of costs to be refunded through rate riders	A/B	2019	\$ 34.9	\$ 14.8
<b>Total regulatory liabilities, current</b>			<b>34.9</b>	<b>14.8</b>
<b>Regulatory liabilities, non-current:</b>				
Estimated costs of removal - regulated property		Not Applicable	139.1	132.8
Deferred income taxes payable through rates		Various	116.3	83.4
PJM transmission enhancement settlement	A	2025	16.9	—
Postretirement benefits	B	Ongoing	6.0	5.0
<b>Total regulatory liabilities, non-current</b>			<b>278.3</b>	<b>221.2</b>
<b>Total regulatory liabilities</b>			<b>\$ 313.2</b>	<b>\$ 236.0</b>

A – Recovery of incurred costs plus rate of return.

B – Recovery of incurred costs without a rate of return.

C – Recovery not yet determined, but recovery is probable of occurring in future rate proceedings.

Current regulatory assets and liabilities primarily represent costs that are being recovered per specific rate order; recovery for the remaining costs is probable, but not certain. **DP&L** is earning a net return on \$5.5 million of this net deferral. These items include undercollection of: (i) Distribution Modernization Rider revenues, (ii) decoupling rider (see above), (iii) uncollectible rider and (iv) energy efficiency rider. It also includes the current portion of the following deferred costs which are described in greater detail below: unbilled fuel, regulatory compliance rider costs and deferred storm costs. As current liabilities, this includes overcollection of: (i) competitive bidding energy and auction costs, (ii) energy efficiency program costs, (iii) alternative energy rider, (iv) economic development rider, (v) certain transmission related costs including current portion of PJM transmission enhancement settlement (see above) and (vi) reconciliation rider.



Pension benefits represent the qualifying FASC 715 "Compensation - Retirement Benefits" costs of our regulated operations that for ratemaking purposes are deferred for future recovery. We recognize an asset for a plan's overfunded status or a liability for a plan's underfunded status, and recognize, as a component of OCI, the changes in the funded status of the plan that arise during the year that are not recognized as a component of net periodic benefit cost. This regulatory asset represents the regulated portion that would otherwise be charged as a loss to OCI. As per PUCO and FERC precedents, these costs are probable of future rate recovery.

Unrecovered OVEC charges includes the portion of charges from OVEC that were not recoverable through DP&L's fuel rider from October 2014 through October 2017. DP&L expects to recover these costs through a future rate proceeding. Beginning on November 1, 2017, such costs are being recovered through DP&L's Reconciliation Rider which was authorized as part of the 2017 ESP.

Fuel costs represent unrecovered fuel costs related to DP&L's fuel rider from 2010 through 2015 resulting from a declining SSO customer base. DP&L was granted recovery of these costs without a return through the SSO as approved in the 2017 ESP. These costs are being recovered over the three-year period that began November 1, 2017.

Regulatory compliance rider represents the long-term portion of the regulatory compliance rider which was established by the 2017 ESP to recover the following costs: (i) Consumer Education Campaign, (ii) Retail Settlement System, (iii) Generation Separation, (iv) Bill Format Redesign, (v) Green Pricing Tariff and (vi) Supplier Consolidated Billing. All of these costs except for Generation Separation earn a return. These costs are being recovered over a three-year period.

Rate case costs represents costs associated with preparing a distribution rate case. DP&L was granted recovery of these costs which do not earn a return, as part of the DRO.

Smart Grid and AMI costs represent costs incurred as a result of studying and developing distribution system upgrades and implementation of AMI. On October 19, 2010, DP&L elected to withdraw its case pertaining to the Smart Grid and AMI programs. The PUCO accepted the withdrawal in an order issued on January 5, 2011. The PUCO also indicated that it expects DP&L to continue to monitor other utilities' Smart Grid and AMI programs and to explore the potential benefits of investing in Smart Grid and AMI programs and that DP&L will, when appropriate, file new Smart Grid and/or AMI business cases in the future. DP&L requested recovery of these costs as part of the December 2018 DMP filing with the PUCO described earlier.

Unamortized loss on reacquired debt represents losses on long-term debt reacquired or redeemed in prior periods that have been deferred. These deferred losses are being amortized over the lives of the original issues in accordance with the rules of the FERC and the PUCO.

Deferred storm costs represent the long-term portion of deferred costs for major storms which occurred during 2017 and 2018. The 2017 ESP granted DP&L approval to establish a rider by which to seek recovery of these types of costs with a return. DP&L plans to file petitions seeking recovery of each calendar year of storm costs in the following calendar year. Recovery of these costs is probable by 2020, but not certain.

Estimated costs of removal - regulated property reflect an estimate of amounts collected in customer rates for costs that are expected to be incurred in the future to remove existing transmission and distribution property from service when the property is retired.

Deferred income taxes payable through rates represent deferred income tax liabilities recognized from the normalization of flow-through items as the result of taxes previously charged to customers. A deferred income tax asset or liability is created from a difference in income recognition between tax laws and accounting methods. As a regulated utility, DP&L includes in ratemaking the impacts of current income taxes and changes in deferred income tax liabilities or assets. On December 22, 2017, the TCJA was signed, which includes a provision to, among other things, reduce the federal corporate income tax rate to 21%, beginning January 1, 2018. As required by GAAP, on December 31, 2017, DP&L remeasured its deferred income tax assets and liabilities using the new expected tax rate. DP&L believes that the portion of the reduction in the net deferred tax liability which is related to deferred taxes considered in ratemaking will be used in future ratemaking to reduce jurisdictional retail rates. Accordingly, this liability reflects the estimated deferred taxes DP&L expects to return to customers in future periods.

Postretirement benefits represent the qualifying FASC 715 “Compensation – Retirement Benefits” gains related to our regulated operations that, for ratemaking purposes, are probable of being reflected in future rates. We recognize an asset for a plan’s overfunded status or a liability for a plan’s underfunded status, and recognize, as a component of OCI, the changes in the funded status of the plan that arise during the year that are not recognized as a component of net periodic benefit cost. This regulatory liability represents the regulated portion that would otherwise be reflected as a gain to OCI.

#### **Note 4 – Property, Plant and Equipment**

The following is a summary of DPL’s Property, plant and equipment with corresponding composite depreciation rates at December 31, 2018 and 2017:

\$ in millions	December 31, 2018		December 31, 2017	
		Composite Rate		Composite Rate <sup>(a)</sup>
<b>Regulated:</b>				
Transmission	\$ 223.2	4.1%	\$ 242.7	4.0%
Distribution	1,289.8	4.5%	1,197.5	4.9%
General	13.2	8.5%	13.7	7.1%
Non-depreciable	60.4	N/A	64.7	N/A
<b>Total regulated</b>	<b>1,586.6</b>		<b>1,518.6</b>	
<b>Unregulated:</b>				
Production / Generation	—	N/A	0.2	N/A
Other	21.2	6.7%	21.1	7.0%
Non-depreciable	7.8	N/A	4.2	N/A
<b>Total unregulated</b>	<b>29.0</b>		<b>25.5</b>	
<b>Total property, plant and equipment in service</b>	<b>\$ 1,615.6</b>	<b>4.3%</b>	<b>\$ 1,544.1</b>	<b>5.0%</b>

(a) Composite rates for 2017 include property classified in non-current assets of discontinued operations and held-for-sale businesses.

In June 2018, DP&L closed on a transmission asset transaction with Duke and AEP, where ownership stakes in certain previously co-owned transmission assets were exchanged to eliminate co-ownership. Each previously co-owned transmission asset became wholly-owned by one of DP&L, Duke or AEP after the transaction. This transaction also resulted in cash proceeds to DP&L of \$10.6 million and no gain or loss was recorded on the transaction.

#### **AROs**

We recognize AROs in accordance with GAAP which requires legal obligations associated with the retirement of long-lived assets to be recognized at their fair value at the time those obligations are incurred. Upon initial recognition of a legal liability, costs are capitalized as part of the related long-lived asset and depreciated over the useful life of the related asset. Our legal obligations are associated with the retirement of our long-lived assets, consisting primarily of river intake and discharge structures, coal unloading facilities, loading docks, ice breakers and ash disposal facilities. Our generation AROs related to Conesville, the closed Hutchings EGU, and the previously owned Beckjord Facility are recorded within Asset retirement obligations on the consolidated balance sheets. The generation AROs related to our other retired or sold generation facilities are recorded in Non-current liabilities of discontinued operations and held-for-sale businesses on the consolidated balance sheets and are excluded from the table below. See Note 15 – Discontinued Operations for additional information.

Estimating the amount and timing of future expenditures of this type requires significant judgment. Management routinely updates these estimates as additional information becomes available.



## Changes in the Liability for AROs

\$ in millions	
Balance at December 31, 2016	\$ 15.0
<b>Calendar 2017</b>	
Revisions to cash flow and timing estimates	(0.1)
Accretion expense	0.4
Settlements	(0.2)
Balance at December 31, 2017	15.1
<b>Calendar 2018</b>	
Revisions to cash flow and timing estimates	(2.6)
Accretion expense	0.3
Settlements <sup>(a)</sup>	(3.4)
Balance at December 31, 2018	\$ 9.4

(a) Primarily includes settlement related to transfer of Beckjord Facility. See Note 16 – Dispositions for additional information.

See Note 5 – Fair Value for further discussion on ARO revisions to cash flow and timing estimates.

## Asset Removal Costs

We continue to record costs of removal for our regulated transmission and distribution assets through our depreciation rates and recover those amounts in rates charged to our customers. There are no known legal AROs associated with these assets. We have recorded \$139.1 million and \$132.8 million in estimated costs of removal at December 31, 2018 and 2017, respectively, as regulatory liabilities for our transmission and distribution property. These amounts represent the excess of the cumulative removal costs recorded through depreciation rates versus the cumulative removal costs actually incurred. See Note 3 – Regulatory Matters for additional information.

## Changes in the Liability for Transmission and Distribution Asset Removal Costs

\$ in millions	
Balance at December 31, 2016	\$ 126.5
<b>Calendar 2017</b>	
Additions	12.0
Settlements	(5.7)
Balance at December 31, 2017	132.8
<b>Calendar 2018</b>	
Additions	14.3
Settlements	(8.0)
Balance at December 31, 2018	\$ 139.1

## Note 5 – Fair Value

The fair values of our financial instruments are based on published sources for pricing when possible. We rely on valuation models only when no other method is available to us. The fair value of our financial instruments represents estimates of possible value that may or may not be realized in the future.

The table below presents the fair value and cost of our non-derivative instruments at December 31, 2018 and 2017. See Note 6 – Derivative Instruments and Hedging Activities for the fair values of our derivative instruments.

\$ in millions	December 31, 2018		December 31, 2017	
	Cost	Fair Value	Cost	Fair Value
<b>Assets</b>				
Money market funds	\$ 0.4	\$ 0.4	\$ 0.3	\$ 0.3
Equity securities	2.4	3.5	2.5	4.2
Debt securities	4.1	4.0	4.3	4.3
Hedge funds	0.1	0.1	0.1	0.2
Tangible assets	0.1	0.1	0.1	0.1
Total assets	\$ 7.1	\$ 8.1	\$ 7.3	\$ 9.1
<b>Liabilities</b>				
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	\$ 1,475.9	\$ 1,519.6	\$ 1,704.8	\$ 1,819.3

### **Fair Value Hierarchy**

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. These inputs are then categorized as:

- Level 1 (quoted prices in active markets for identical assets or liabilities);
- Level 2 (observable inputs such as quoted prices for similar assets or liabilities or quoted prices in markets that are not active); or
- Level 3 (unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability).

Valuations of assets and liabilities reflect the value of the instrument including the values associated with counterparty risk. We include our own credit risk and our counterparty's credit risk in our calculation of fair value using global average default rates based on an annual study conducted by a large rating agency.

We did not have any transfers of the fair values of our financial instruments among Level 1, Level 2 or Level 3 of the fair value hierarchy during the years ended December 31, 2018 and 2017.

### **Debt**

The fair value of debt is based on current public market prices for disclosure purposes only. Unrealized gains or losses are not recognized in the financial statements as debt is presented at the carrying value, net of unamortized premium or discount, in the financial statements. The debt amounts include the current portion payable in the next twelve months and have maturities that range from 2019 to 2061.

### **Master Trust Assets**

DP&L established a Master Trust to hold assets that could be used for the benefit of employees participating in employee benefit plans and these assets are not used for general operating purposes. ASU 2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities" was effective as of January 1, 2018. This ASU requires the change in the fair value of equity instruments to be recorded in income rather than in OCI. Equity Instruments were defined to include all mutual funds, regardless of the underlying investments. Therefore, as of January 1, 2018, AOCI of \$1.6 million (\$1.0 million net of tax) was reversed to Accumulated Deficit and all future changes to fair value on the Master Trust Assets will be included in income in the period that the changes occur. These changes to fair value were not material for the year ended December 31, 2018. These assets are primarily comprised of open-ended mutual funds, which are valued using the net asset value per unit. These investments are recorded at fair value within Other deferred assets on the consolidated balance sheets and classified as available for sale.

During the year ended December 31, 2018, \$0.5 million (\$0.4 million after tax) of various investments were sold to facilitate the distribution of benefits.



The fair value of assets and liabilities at December 31, 2018 and 2017 and the respective category within the fair value hierarchy for DPL was determined as follows:

\$ in millions	Fair Value at December 31, 2018 (a)				Fair Value at December 31, 2017 (a)			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets</b>								
Master trust assets								
Money market funds	\$ 0.4	\$ —	\$ —	\$ 0.4	\$ 0.3	\$ —	\$ —	\$ 0.3
Equity securities	—	3.5	—	3.5	—	4.2	—	4.2
Debt securities	—	4.0	—	4.0	—	4.3	—	4.3
Hedge funds	—	0.1	—	0.1	—	0.2	—	0.2
Tangible assets	—	0.1	—	0.1	—	0.1	—	0.1
Total Master trust assets	0.4	7.7	—	8.1	0.3	8.8	—	9.1
Derivative assets								
Interest rate hedge	—	1.5	—	1.5	—	1.5	—	1.5
Total Derivative assets	—	1.5	—	1.5	—	1.5	—	1.5
Total assets	\$ 0.4	\$ 9.2	\$ —	\$ 9.6	\$ 0.3	\$ 10.3	\$ —	\$ 10.6
<b>Liabilities</b>								
Long-term debt	\$ —	\$ 1,501.9	\$ 17.7	\$ 1,519.6	\$ —	\$ 1,801.5	\$ 17.8	\$ 1,819.3
Total liabilities	\$ —	\$ 1,501.9	\$ 17.7	\$ 1,519.6	\$ —	\$ 1,801.5	\$ 17.8	\$ 1,819.3

(a) Includes credit valuation adjustment

Our financial instruments are valued using the market approach in the following categories:

- Level 1 inputs are used for money market accounts that are considered cash equivalents. The fair value is determined by reference to quoted market prices and other relevant information generated by market transactions.
- Level 2 inputs are used to value derivatives such as interest rate hedge contracts which are valued using a benchmark interest rate. Other Level 2 assets include open-ended mutual funds in the Master Trust, which are valued using the end of day NAV per unit.
- Level 3 inputs such as certain debt balances are considered a Level 3 input because the notes are not publicly traded. Our long-term debt is fair valued for disclosure purposes only.

All of the inputs to the fair value of our derivative instruments are from quoted market prices.

Our long-term debt is fair valued for disclosure purposes only and most of the fair values are determined using quoted market prices in inactive markets. These fair value inputs are considered Level 2 in the fair value hierarchy. As the Wright-Patterson Air Force Base note is not publicly traded, fair value is assumed to equal carrying value. These fair value inputs are considered Level 3 in the fair value hierarchy as there are no observable inputs. Additional Level 3 disclosures are not presented since our long-term debt is not recorded at fair value.

### Non-recurring Fair Value Measurements

We use the cost approach to determine the fair value of our AROs, which are estimated by discounting expected cash outflows to their present value at the initial recording of the liability. Cash outflows are based on the approximate future disposal cost as determined by market information, historical information or other management estimates. These inputs to the fair value of the AROs would be considered Level 3 inputs under the fair value hierarchy. In 2018, DPL recorded a net reduction to its ARO liability for Conesville's ash pond and landfill of \$2.6 million to reflect revisions to cash flow and timing estimates. The balance of AROs was \$9.4 million and \$15.1 million at December 31, 2018 and 2017, respectively, which excludes AROs associated with our discontinued operations. See Note 15 – Discontinued Operations for additional information on AROs associated with our discontinued operations.

When evaluating impairment of long-lived assets, we measure fair value using the applicable fair value measurement guidance. Impairment expense is measured by comparing the fair value at the evaluation date to the carrying amount.



The following table summarizes major categories of assets measured at fair value on a nonrecurring basis during the period and their level within the fair value hierarchy:

\$ in millions	Measurement Date	Carrying Amount (b)	Fair Value			Gross Loss
			Level 1	Level 2	Level 3	
Long-lived assets <sup>(a)</sup>						
Year ended December 31, 2016						
Conesville	December 31, 2016	\$ 25.0	\$ —	\$ —	\$ 1.1	23.9

(a) See Note 17 – Fixed-asset Impairments for further information

(b) Carrying amount at date of valuation

The following summarizes the significant unobservable inputs used in the Level 3 measurement on a non-recurring basis during the year ended December 31, 2016:

\$ in millions	Measurement date	Fair value	Valuation technique	Unobservable input	Range (weighted average)
Long-lived assets held and used:					
Year ended December 31, 2016					
Conesville	December 31, 2016	\$ 1.1	Discounted cash flow	Annual revenue growth	-19.3% to 10.9% (0.6%)
				Annual pre-tax operating margin	-54.3% to 99.4% (20.2%)
				Weighted-average cost of capital	N/A

## Note 6 – Derivative Instruments and Hedging Activities

In the normal course of business, DPL enters into various financial instruments, including derivative financial instruments. We use derivatives principally to manage the interest rate risk associated with our long-term debt. The derivatives that we use to economically hedge these risks are governed by our risk management policies for forward and futures contracts. Our net positions are continually assessed within our structured hedging programs to determine whether new or offsetting transactions are required. We monitor and value derivative positions monthly as part of our risk management processes. We use published sources for pricing, when possible, to mark positions to market. All of our derivative instruments are used for risk management purposes and are designated as cash flow hedges if they qualify under FASC 815 for accounting purposes.

At December 31, 2018, DPL's outstanding derivative instruments were as follows:

Commodity	Accounting Treatment <sup>(a)</sup>	Unit	Purchases (in thousands)	Sales (in thousands)	Net Purchases/ (Sales) (in thousands)
Interest Rate Swaps	Designated	USD	\$ 140,000.0	\$ —	\$ 140,000.0

(a) Refers to whether the derivative instruments have been designated as a cash flow hedge.

At December 31, 2017, DPL's outstanding derivative instruments were as follows:

Commodity	Accounting Treatment <sup>(a)</sup>	Unit	Purchases (in thousands)	Sales (in thousands)	Net Purchases/ (Sales) (in thousands)
FTRs <sup>(b)</sup>	Not designated	MWh	2.1	—	2.1
Natural Gas <sup>(b)</sup>	Not designated	Dths	3,322.5	(390.0)	2,932.5
Forward Power Contracts <sup>(b)</sup>	Designated	MWh	678.5	(1,667.0)	(988.5)
Forward Power Contracts <sup>(b)</sup>	Not designated	MWh	871.0	(765.6)	105.4
Interest Rate Swaps	Designated	USD	\$ 200,000.0	\$ —	\$ 200,000.0

(a) Refers to whether the derivative instruments have been designated as a cash flow hedge.

(b) As of December 31, 2017, the related asset and liability balances for these derivative instruments were classified in assets and liabilities of discontinued operations and held-for-sale businesses.

## Cash Flow Hedges

As part of our risk management processes, we identify the relationships between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. The fair

values of cash flow hedges determined by current public market prices will continue to fluctuate with changes in market prices up to contract expiration. The effective portion of the hedging transaction is recognized in AOCI and transferred to earnings using specific identification of each contract when the forecasted hedged transaction takes place or when the forecasted hedged transaction is probable of not occurring. The ineffective portion of the cash flow hedge is recognized in earnings in the current period. All risk components were considered to determine the hedge effectiveness of the cash flow hedges. With the adoption of ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted improvements to Accounting for Hedging Activities effective January 1, 2019, we will no longer be required to calculate effectiveness and thus the entire change in the fair value of a hedging instrument will be recorded in other comprehensive income and amounts deferred will be reclassified to earnings in the same income statement line as the hedged item in the period in which it settles.

In prior years, we entered into forward power contracts and forward natural gas contracts to manage commodity price risk exposure related to our generation of electricity. We do not hedge all commodity price risk. We reclassify gains and losses on forward power contracts from AOCI into earnings in those periods in which the contracts settle. As of December 31, 2018, we no longer held any positions in forward power contracts or forward natural gas contracts.

We have two interest rate swaps to hedge the variable interest on our \$140.0 million variable interest rate tax-exempt First Mortgage Bonds. The interest rate swaps have a combined notional amount of \$140.0 million and will settle monthly based on a one-month LIBOR. As of December 31, 2017, the interest rate swaps had a combined notional amount of \$200.0 million. On March 29, 2018, we settled \$60.0 million of these interest rate swaps due to the partial repayment of the underlying debt and a gain of \$0.8 million was recorded as a reduction to interest expense. Since the swap was partially settled, the remaining swaps were de-designated and then re-designated with a new hypothetical derivative. The AOCI associated with the remaining swaps will be amortized out of AOCI into interest expense over the remaining life of the underlying debt.

We use the income approach to value the swaps, which consists of forecasting future cash flows based on contractual notional amounts and applicable and available market data as of the valuation date. The most common market data inputs used in the income approach include volatilities, spot and forward benchmark interest rates (LIBOR). Forward rates with the same tenor as the derivative instrument being valued are generally obtained from published sources, with these forward rates being assessed quarterly at a portfolio-level for reasonableness versus comparable published rates. We reclassify gains and losses on the swaps out of AOCI and into earnings in those periods in which hedged interest payments occur.

The following tables provide information on gains or losses recognized in AOCI for the cash flow hedges for the periods indicated:

\$ in millions (net of tax)	Years ended December 31,					
	2018		2017		2016	
	Power	Interest Rate Hedges	Power	Interest Rate Hedges	Power	Interest Rate Hedges
Beginning accumulated derivative gain / (loss) in AOCI	\$ (2.8)	\$ 17.5	\$ (4.3)	\$ 17.4	\$ 9.2	\$ 17.5
Net gains / (losses) associated with current period hedging transactions	—	(0.1)	8.8	0.8	15.7	0.4
Net gains / (losses) reclassified to earnings:						
Interest Expense	—	(0.8)	—	(0.7)	—	(0.5)
Income / (loss) from discontinued operations before income tax	3.2	—	(7.3)	—	(29.2)	—
Ending accumulated derivative gain / (loss) in AOCI	\$ 0.4	\$ 16.6	\$ (2.8)	\$ 17.5	\$ (4.3)	\$ 17.4
Portion expected to be reclassified to earnings in the next twelve months <sup>(a)</sup>	\$ —	\$ (0.8)				
Maximum length of time that we are hedging our exposure to variability in future cash flows related to forecasted transactions (in months)	0	20				

(a) The actual amounts that we reclassify from AOCI to earnings related to power can differ from the estimate above due to market price changes.



Net gains or losses associated with the ineffective portion of the hedging transactions were immaterial in the periods presented.

### Derivatives Not Designated as Hedges

In prior years certain derivative contracts were entered into on a regular basis as part of our risk management program but did not qualify for hedge accounting or the normal purchases and sales exceptions under FASC 815. Accordingly, such contracts were recorded at fair value with changes in the fair value charged or credited to the consolidated statements of operations in the period in which the change occurred. This is commonly referred to as "MTM accounting". Contracts we entered into as part of our risk management program may have been settled financially, by physical delivery or net settled with the counterparty. We marked to market FTRs, natural gas futures and certain forward power contracts. For the years ended December 31, 2018, 2017, and 2016, all amounts related to such contracts are presented in discontinued operations. As of December 31, 2018, we no longer have any such contracts.

Certain qualifying derivative instruments we previously held were designated as normal purchases or normal sales contracts, as provided under GAAP. Derivative contracts that have been designated as normal purchases or normal sales under GAAP are not subject to MTM accounting treatment and are recognized in the consolidated statements of operations on an accrual basis. For the years ended December 31, 2018, 2017, and 2016, all amounts related to such contracts are presented in discontinued operations. As of December 31, 2018, we no longer have any such contracts.

The following tables show the amount and classification within the Consolidated Statements of Operations or Balance Sheets of the gains and losses on **DPL's** derivatives not designated as hedging instruments for the years ended December 31, 2018, 2017 and 2016:

\$ in millions	Year ended December 31, 2018			
	FTRs	Power	Natural Gas	Total
Change in unrealized gain / (loss)	\$ 0.3	\$ —	\$ (0.1)	\$ 0.2
Realized gain / (loss)	0.4	—	0.3	0.7
Total	<u>\$ 0.7</u>	<u>\$ —</u>	<u>\$ 0.2</u>	<u>\$ 0.9</u>

#### Recorded in Statement of Operations: gain / (loss)

Income / (loss) from discontinued operations before income tax	\$ 0.7	\$ —	\$ 0.2	\$ 0.9
Total	<u>\$ 0.7</u>	<u>\$ —</u>	<u>\$ 0.2</u>	<u>\$ 0.9</u>

\$ in millions	Year ended December 31, 2017			
	FTRs	Power	Natural Gas	Total
Change in unrealized gain / (loss)	\$ (0.4)	\$ 1.9	\$ 0.1	\$ 1.6
Realized gain / (loss)	0.8	(0.7)	1.5	1.6
Total	<u>\$ 0.4</u>	<u>\$ 1.2</u>	<u>\$ 1.6</u>	<u>\$ 3.2</u>

#### Recorded in Statement of Operations: gain / (loss)

Income / (loss) from discontinued operations before income tax	\$ 0.4	\$ 1.2	\$ 1.6	\$ 3.2
Total	<u>\$ 0.4</u>	<u>\$ 1.2</u>	<u>\$ 1.6</u>	<u>\$ 3.2</u>

\$ in millions	Year ended December 31, 2016			
	FTRs	Power	Natural Gas	Total
Change in unrealized gain / (loss)	\$ 0.3	\$ 4.0	\$ —	\$ 4.3
Realized gain / (loss)	(0.6)	(7.2)	2.6	(5.2)
Total	<u>\$ (0.3)</u>	<u>\$ (3.2)</u>	<u>\$ 2.6</u>	<u>\$ (0.9)</u>

#### Recorded in Statement of Operations: gain / (loss)

Income / (loss) from discontinued operations before income tax	\$ (0.3)	\$ (3.2)	\$ 2.6	\$ (0.9)
Total	<u>\$ (0.3)</u>	<u>\$ (3.2)</u>	<u>\$ 2.6</u>	<u>\$ (0.9)</u>

**DPL** has elected not to offset derivative assets and liabilities and not to offset net derivative positions against the right to reclaim cash collateral pledged (an asset) or the obligation to return cash collateral received (a liability) under derivative agreements.

The following tables summarize the derivative positions presented in the balance sheet where a right of offset exists under these arrangements and related cash collateral received or pledged; as well as the fair value, balance sheet classification and hedging designation of DPL's derivative instruments.

**Fair Values of Derivative Instruments**  
**December 31, 2018**

December 31, 2016					
\$ in millions	Hedging Designation	Gross Fair Value as presented in the Consolidated Balance Sheets <sup>(a)</sup>	Gross Amounts Not Offset in the Consolidated Balance Sheets		
			Financial Instruments with Same Counterparty in Offsetting Position	Cash Collateral	Net Amount
<b>Assets</b>					
Short-term derivative positions (presented in Other prepayments and current assets)					
Interest Rate Swaps	Designated	\$ 0.9	\$ —	\$ —	\$ 0.9
Long-term derivative positions (presented in Other deferred assets)					
Interest Rate Swaps	Designated	0.6	—	—	0.6
Total assets		\$ 1.5	\$ —	\$ —	\$ 1.5

(a) Includes credit valuation adjustment.

**Fair Values of Derivative Instruments**  
**December 31, 2017**

			December 31, 2017		
\$ in millions	Hedging Designation	Gross Fair Value as presented in the Consolidated Balance Sheets <sup>(a)</sup>	Gross Amounts Not Offset in the Consolidated Balance Sheets		
			Financial Instruments with Same Counterparty in Offsetting Position	Cash Collateral	Net Amount
<b>Assets</b>					
Short-term derivative positions (presented in Current assets of discontinued operations and held-for-sale businesses)					
Forward power contracts	Designated	\$ 4.9	\$ (4.9)	\$ —	\$ —
Forward power contracts	Not designated	5.3	(3.7)	—	1.6
FTRs	Not designated	0.2	(0.1)	—	0.1
Long-term derivative positions (presented in Other deferred assets)					
Interest rate swaps	Designated	1.5	—	—	1.5
Long-term derivative positions (presented in Non-current assets of discontinued operations and held-for-sale businesses)					
Forward power contracts	Not designated	0.6	—	—	0.6
Total assets		<u>\$ 12.5</u>	<u>\$ (8.7)</u>	<u>\$ —</u>	<u>\$ 3.8</u>
<b>Liabilities</b>					
Short-term derivative positions (presented in Current liabilities of discontinued operations and held-for-sale businesses)					
Forward power contracts	Designated	\$ 9.0	\$ (4.9)	\$ (1.4)	2.7
Forward power contracts	Not designated	5.9	(3.7)	—	2.2
Natural gas	Not designated	0.1	(0.1)	—	—
FTRs	Not designated	0.3	—	—	0.3
Total liabilities		<u>\$ 15.3</u>	<u>\$ (8.7)</u>	<u>\$ (1.4)</u>	<u>\$ 5.2</u>

(a) Includes credit valuation adjustment.



## Note 7 – Long-term debt

### Long-term debt

\$ in millions	Interest Rate	Maturity	December 31, 2018	December 31, 2017
Term loan - rates from: 3.57% - 4.82% (a) and 4.00% - 4.60% (b)		2022	\$ 436.1	\$ 440.6
Tax-exempt First Mortgage Bonds - rates from: 2.49% - 2.93% (a) and 1.29% - 1.42% (b)		2020	140.0	200.0
U.S. Government note	4.2%	2061	17.7	17.8
Unamortized deferred financing costs			(6.3)	(9.8)
Unamortized debt discounts and premiums, net			(1.4)	(2.0)
Total long-term debt at subsidiary			586.1	646.6
Bank term loan - rates from: 3.02% - 4.10% (a) and 2.67% - 3.02% (b)		2020	—	70.0
Senior unsecured bonds	6.75%	2019	99.0	200.0
Senior unsecured bonds	7.25%	2021	780.0	780.0
Note to DPL Capital Trust II (c)	8.125%	2031	15.6	15.6
Unamortized deferred financing costs			(4.3)	(6.8)
Unamortized debt discounts and premiums, net			(0.5)	(0.6)
Total long-term debt			1,475.9	1,704.8
Less: current portion			(103.6)	(4.6)
Long-term debt, net of current portion			\$ 1,372.3	\$ 1,700.2

(a) Range of interest rates for the year ended December 31, 2018.

(b) Range of interest rates for the year ended December 31, 2017.

(c) Note payable to related party. See Note 12 – Related Party Transactions for additional information.

At December 31, 2018, maturities of long-term debt are summarized as follows:

Due during the years ending December 31,  
\$ in millions

2019	\$ 103.6
2020	144.7
2021	784.7
2022	422.8
2023	0.2
Thereafter	32.4
	1,488.4
Unamortized discounts and premiums, net	(1.9)
Deferred financing costs, net	(10.6)
Total long-term debt	\$ 1,475.9

Premiums or discounts recognized at the Merger date are amortized over the life of the debt using the effective interest method.

### Significant Transactions

On March 30, 2018, DPL issued a Notice of Partial Redemption to the Trustee (U.S. Bank) on the DPL 6.75% Senior Notes due 2019. DPL notified the trustee that it was calling \$101.0 million of the \$200.0 million outstanding principal amount of these notes. These bonds were redeemed at par plus accrued interest and a make-whole premium of \$5.1 million on April 30, 2018 with cash on hand.

On March 30, 2018, DP&L commenced a redemption of \$60.0 million of outstanding tax exempt First Mortgage Bonds due 2020 at par value (plus accrued and unpaid interest). These bonds were redeemed at par plus accrued interest on April 30, 2018 with cash on hand.

On March 27, 2018, DPL made a \$70.0 million prepayment to eliminate the outstanding balance of its bank term loan in full. As of March 31, 2018, the term loan was fully paid off.

On January 3, 2018, DP&L and its lenders amended DP&L's Term Loan B credit agreement. The amendment (a) modified the definition of "applicable rate", from 2.25% per annum to 1.00% per annum - in the case of the Base Rate, and from 3.25% per annum to 2.00% per annum - in the case of the Eurodollar Rate, and (b) included a "call protection" provision which stated that in the event the loan was repriced or any portion of the loans were prepaid, repaid, refinanced, substituted, or replaced on or prior July 3, 2018, such prepayment, acceleration, repayment, refinancing, substitution or replacement would be made at 101% of the principal amount so prepaid, repaid,



refinanced, substituted or replaced. After July 3, 2018 any such transaction would occur at 100% of the principal amount of the then outstanding loans. There were no such transactions prior to July 3, 2018.

### **Debt Covenants and Restrictions**

**DPL's** revolving credit agreement and term loan have two financial covenants. The first financial covenant, a Total Debt to EBITDA ratio, is calculated at the end of each fiscal quarter by dividing total debt at the end of the current quarter by consolidated EBITDA for the four prior fiscal quarters. The ratio in the agreements is not to exceed 7.25 to 1.00 for any fiscal quarter ending September 30, 2015 through December 31, 2018; it then steps down to not exceed 7.00 to 1.00 for any fiscal quarter ending January 1, 2019 through June 30, 2019; and it then steps down to not exceed 6.75 to 1.00 for any fiscal quarter ending July 1, 2019 through December 31, 2019; and it then steps down to not exceed 6.50 to 1.00 for any fiscal quarter ending January 1, 2020 and afterward. As of December 31, 2018, this financial covenant was met with a ratio of 5.84 to 1.00.

The second financial covenant is an EBITDA to Interest Expense ratio that is calculated, at the end of each fiscal quarter, by dividing EBITDA for the four prior fiscal quarters by the consolidated interest charges for the same period. The ratio, per the agreement, is to be not less than 2.10 to 1.00 for any fiscal quarter ending September 30, 2015 through December 31, 2018; it then steps up to be not less than 2.25 to 1.00 for any fiscal quarter ending January 1, 2019 and afterward. As of December 31, 2018, this financial covenant was met with a ratio of 2.61 to 1.00.

**DPL's** secured revolving credit agreement and senior unsecured notes due 2019 also restricts dividend payments from **DPL** to **AES**, such that **DPL** cannot make dividend payments unless at the time of, and/or as a result of the distribution, (i) **DPL's** leverage ratio does not exceed 0.67 to 1.00 and **DPL's** interest coverage ratio is not less than 2.50 to 1.00 or, if such ratios are not within the parameters, (ii) **DPL's** senior long-term debt rating from two of the three major credit rating agencies is at least investment grade. As of December 31, 2018, **DPL's** senior-long term debt rating was at least investment grade by two of the three major credit rating agencies. However, **DPL** is also restricted from making dividend and tax sharing payments from **DPL** to **AES** per its 2017 ESP. This order restricts dividend payments from **DPL** to **AES** during the term of the 2017 ESP and restricts tax sharing payments from **DPL** to **AES** during the term of the DMR. On January 22, 2019, **DP&L** filed a request to extend the DMR for an additional two years. See Note 3 – Regulatory Matters for more information. As a result, as of December 31, 2018, **DPL** was prohibited under this order from making a distribution to its shareholder or making a loan to any of its affiliates (other than its subsidiaries).

**DP&L's** unsecured revolving credit agreement and Bond Purchase and Covenants Agreement (financing document entered into in connection with the sale of \$200.0 million of variable rate tax-exempt First Mortgage Bonds, dated as of August 1, 2015) have two financial covenants. The first measures Total Debt to Total Capitalization and is calculated, at the end of each fiscal quarter, by dividing total debt at the end of the quarter by total capitalization at the end of the quarter. **DP&L's** Total Debt to Total Capitalization ratio shall not be greater than 0.65 to 1.00; except that, the ratio shall be suspended if **DP&L's** long-term indebtedness is less than or equal to \$750.0 million. Additionally, the ratio shall be suspended any time after separation during which **DP&L** maintains a rating of BBB- (or in the case of Moody's Investors Service, Inc. Baa3) or higher with a stable outlook from at least one of Fitch Investors Service Inc., Standard & Poor's Ratings Services or Moody's Investors Service, Inc. As of December 31, 2018, **DP&L's** ratings meet those requirements and this ratio is suspended for the quarter ended December 31, 2018.

The second financial covenant measures EBITDA to Interest Expense. The Total Consolidated EBITDA to Consolidated Interest Charges ratio is calculated, at the end of each fiscal quarter, by dividing consolidated EBITDA for the four prior fiscal quarters by the consolidated interest charges for the same period. The ratio, per the agreement, is to be not less than 2.50 to 1.00. This covenant was met with a ratio of 8.09 to 1.00 as of December 31, 2018.

**DP&L** does not have any meaningful restrictions in its debt financing documents prohibiting dividends to its parent, **DPL**. As of December 31, 2018, **DP&L** and **DPL** were in compliance with all debt covenants, including the financial covenants described above.

Substantially all property, plant & equipment of **DP&L** is subject to the lien of the mortgage securing **DP&L's** First and Refunding Mortgage. All generation assets were released from the lien of **DP&L's** first and refunding mortgage in connection with the completion of Generation Separation on October 1, 2017.



## Note 8 – Income Taxes

DPL's components of income tax expense on continuing operations were as follows:

\$ in millions	Years ended December 31,		
	2018	2017	2016
<b>Computation of tax expense / (benefit)</b>			
Federal income tax expense / (benefit)(a)	\$ 6.7	\$ (2.3)	\$ 4.3
Increases (decreases) in tax resulting from:			
State income taxes, net of federal effect	0.1	0.1	—
Depreciation of flow-through differences	(4.6)	1.1	3.3
Investment tax credit amortized	(0.3)	(0.3)	(0.4)
Deferred tax adjustments	—	(0.7)	(9.3)
Accrual (settlement) for open tax years	—	(0.4)	2.0
Other, net <sup>(b)</sup>	(1.2)	(2.5)	(2.3)
Tax expense / (benefit)	<u>\$ 0.7</u>	<u>\$ (5.0)</u>	<u>\$ (2.4)</u>
<b>Components of tax expense / (benefit)</b>			
Federal - current	\$ (17.9)	\$ 23.8	\$ (3.3)
State and Local - current	0.5	0.2	—
Total current	<u>(17.4)</u>	<u>24.0</u>	<u>(3.3)</u>
Federal - deferred	18.3	(28.8)	0.8
State and local - deferred	(0.2)	(0.2)	0.1
Total deferred	<u>18.1</u>	<u>(29.0)</u>	<u>0.9</u>
Tax expense / (benefit)	<u>\$ 0.7</u>	<u>\$ (5.0)</u>	<u>\$ (2.4)</u>

(a) The statutory tax rate of 21% in 2018 and 35% in 2017 and 2016 was applied to pre-tax earnings.

(b) Includes expense / (benefit) of \$3.5 million and \$(0.9) million in the years ended December 31, 2017 and 2016, respectively, of income tax related to adjustments from prior years. The 2018 and 2017 tax years also include a remeasurement of deferred tax expense related to the recent enactment of the TCJA of a benefit of \$(1.2) million and \$(0.4) million, respectively.

### Effective and Statutory Rate Reconciliation

The following table summarizes a reconciliation of the U.S. statutory federal income tax rate to DPL's effective tax rate, as a percentage of income from continuing operations before taxes for the years ended December 31, 2018, 2017 and 2016:

	Years ended December 31,		
	2018	2017	2016
Statutory Federal tax rate	21.0 %	35.0 %	35.0 %
State taxes, net of Federal tax benefit	0.4 %	(1.5) %	0.2 %
AFUDC - equity	(0.1) %	4.9 %	(5.0) %
Depreciation of flow-through differences	(14.6) %	(17.6) %	26.7 %
Amortization of investment tax credits	(1.0) %	5.1 %	(3.3) %
Deferred tax adjustments	— %	11.0 %	(75.1) %
Permanent differences	— %	4.8 %	2.8 %
Other, net	(3.5) %	35.2 %	(0.7) %
Effective tax rate	<u>2.2 %</u>	<u>76.9 %</u>	<u>(19.4) %</u>

### Deferred Income Taxes

Deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and (b) operating loss carryforwards. These items are stated at the enacted tax rates that are expected to be in effect when taxes are actually paid or recovered. Investment tax credits related to utility property have been deferred and are being amortized over the estimated useful lives of the related property.

## Components of Deferred Tax Assets and Liabilities

\$ in millions	December 31,	
	2018	2017
<b>Net non-current assets / (liabilities)</b>		
Depreciation / property basis	\$ (112.0)	\$ (113.4)
Income taxes recoverable	25.0	11.0
Regulatory assets	(15.4)	(23.1)
Investment tax credit	0.5	0.7
Compensation and employee benefits	1.4	19.0
Intangibles	(0.3)	(0.4)
Long-term debt	(2.1)	(0.2)
Other <sup>(a)</sup>	(13.2)	(7.1)
<b>Net non-current liabilities</b>	<b>\$ (116.1)</b>	<b>\$ (113.5)</b>

(a) The Other caption includes deferred tax assets of \$10.9 million in 2018 and \$9.3 million in 2017 related to state and local tax net operating loss carryforwards, net of related valuation allowances of \$10.9 million in 2018 and \$9.3 million in 2017. These net operating loss carryforwards expire from 2019 to 2037.

## U.S. Tax Reform

On December 22, 2017, the U.S. enacted the TCJA. The TCJA significantly changes U.S. corporate income tax law.

In 2017, we recognized the income tax effects of the TCJA in accordance with Staff Accounting Bulletin No. 118 ("SAB 118") which provides SEC guidance on the application of FASC 740, Income Taxes, in the reporting period in which the TCJA was signed into law. Accordingly, our 2017 financial statements reflected the income tax effects of U.S. tax reform for which the accounting was complete and provisional amounts for those impacts for which the accounting under FASC 740 was incomplete, but a reasonable estimate could be determined.

We completed our calculation of the impact of the TCJA in our income tax provision for the year ended December 31, 2018 in accordance with our understanding of the TCJA and guidance available as of the date of this filing, and as a result recognized \$15.5 million and \$13.7 million of discrete tax expense in the fourth quarter of 2018 and 2017 respectively. Of this total, tax benefits of \$1.2 million and \$0.4 million are included in continuing operations in 2018 and 2017, respectively. These amounts result from the remeasurement of certain deferred tax assets and liabilities as the rates changed from 35% to 21%. The most material deferred taxes to be remeasured related to property, plant and equipment. The remeasurements of deferred tax assets and liabilities related to regulated utility property of \$17.0 million and \$135.2 million at December 31, 2018 and 2017 were recorded as regulatory liabilities and were non-cash adjustments.

Per the terms of the order issued by the PUCO on DP&L's 2017 ESP, DPL will not make any tax-sharing payments to AES and AES will forgo collection of the payments during the term of the DMR. The agreed upon term of the DMR is three years. With commission approval, the DMR can be extended two additional years allowing for the term to potentially be five years. Both the current and non-current existing tax sharing liabilities with AES were converted into additional equity investment in DPL, per the requirements of the order. Throughout the term of the DMR, further accrued tax sharing liabilities will also be converted to additional equity. All parties agreed that the initial conversion and subsequent conversions will not be reversed. During the years ended December 31, 2018 and 2017, we converted \$40.0 million and \$97.1 million, respectively, of accrued tax sharing liabilities with AES to additional equity investment in DPL in accordance with this requirement.

The following table presents the tax expense / (benefit) related to pensions, postemployment benefits, cash flow hedges and financial instruments that were credited to Accumulated other comprehensive loss.

\$ in millions	Years ended December 31,		
	2018	2017	2016
Tax expense / (benefit)	\$ 0.2	\$ 0.2	\$ (9.6)



## Uncertain Tax Positions

We apply the provisions of GAAP relating to the accounting for uncertainty in income taxes. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

\$ in millions	
Balance at December 31, 2016	\$ 3.7
<b>Calendar 2017</b>	
Tax positions taken during prior period	—
Lapse of Statute of Limitations	(0.2)
Balance at December 31, 2017	3.5
<b>Calendar 2018</b>	
Tax positions taken during prior period	—
Lapse of Statute of Limitations	—
Balance at December 31, 2018	\$ 3.5

Of the December 31, 2018 balance of unrecognized tax benefits, \$3.5 million is due to uncertainty in the timing of deductibility.

We recognize interest and penalties related to unrecognized tax benefits in Income tax expense. The amounts accrued and the tax expense / (benefit) recorded were not material for each period presented.

Following is a summary of the tax years open to examination by major tax jurisdiction:

U.S. Federal – 2011 and forward

State and Local – 2011 and forward

None of the unrecognized tax benefits are expected to significantly increase or decrease within the next twelve months other than those subject to expiring statute of limitations.

## Note 9 – Benefit Plans

### Defined Contribution Plans

**DP&L** sponsors two defined contribution plans. One is for non-union employees (the management plan) and one is for collective bargaining employees (the union plan). Both plans are qualified under Section 401 of the Internal Revenue Code.

Certain non-union and union employees become eligible to participate in their respective plan upon date of hire.

Participants may elect to contribute up to 85% of eligible compensation to their plan. Non-union participant contributions are matched 100% on the first 1% of eligible compensation and 50% on the next 5% of eligible compensation and they are fully vested in their employer contributions after 2 years of service. Union participant contributions are matched 150% but are capped at \$2,400 for 2018 and they are fully vested in their employer contributions after 3 years of service. All participants are fully vested in their own contributions.

We contributed \$3.7 million, \$3.1 million and \$5.1 million for the years ended December 31, 2018, 2017 and 2016, respectively. **DP&L** matching contributions are paid quarterly, in arrears. Therefore, the contributions by year include the fourth quarter matching contribution that is paid in the following year. **DP&L** also contributes an annual bonus to the accounts of its union participants. This payment is typically made in January of the following year.

### Defined Benefit Plans

**DP&L** sponsors a traditional defined benefit pension plan for most of the employees of **DPL** and its subsidiaries. For collective bargaining employees, the defined benefits are based on a specific dollar amount per year of service. For all other employees (management employees), the traditional defined benefit pension plan is based primarily on compensation and years of service. As of December 31, 2010, this traditional pension plan formula was closed to new management employees. A participant is 100% vested in all amounts credited to his or her account upon the completion of five vesting years, as defined in The Dayton Power and Light Company Retirement Income Plan, or the participant's death or disability. If a participant's employment is terminated, other than by death or disability, prior to such participant becoming 100% vested in his or her account, the account shall be forfeited as of the date of termination. Employees that transferred from **DP&L** to the Service Company maintain their previous eligibility to participate in the **DP&L** pension plan.

Almost all management employees beginning employment on or after January 1, 2011 participate in a cash balance pension plan formula. Similar to the traditional pension plan for management employees, the cash balance benefits are based on compensation and years of service. A participant shall become 100% vested in all amounts credited to his or her account upon the completion of three vesting years, as defined in The Dayton Power and Light Company Retirement Income Plan, or the participant's death or disability. If a participant's employment is terminated, other than by death or disability, prior to such participant becoming 100% vested in his or her account, the account shall be forfeited as of the date of termination. Vested benefits in the cash balance plan are fully portable upon termination of employment.

In addition, we have a Supplemental Executive Retirement Plan (SERP) for certain retired key executives. The SERP has an immaterial unfunded liability related to agreements for retirement benefits of certain terminated and retired key executives. We also include our net liability to our partners in our co-owned generating plants related to our share of their pension liabilities within Pension, retiree and other benefits on our Consolidated Balance Sheets.

We recognize an asset for a plan's overfunded status and a liability for a plan's underfunded status and recognize, as a component of OCI, the changes in the funded status of the plan that arise during the year that are not recognized as a component of net periodic benefit cost. For the transmission and distribution areas of our electric business, these amounts are recorded as regulatory assets and liabilities which represent the regulated portion that would otherwise be charged or credited to AOCI. We have historically recorded these costs on the accrual basis and this is how these costs have been historically recovered through customer rates. This factor, combined with the historical precedents from the PUCO and FERC, make these costs probable of future rate recovery.

#### **Postretirement Benefits**

Qualified employees who retired prior to 1987 and their dependents are eligible for health care and life insurance benefits until their death, while qualified employees who retired after 1987 are eligible for life insurance benefits and partially subsidized health care. The partially subsidized health care is at the election of the employee, who pays the majority of the cost, and is available only from their retirement until they are covered by Medicare. We have funded a portion of the union-eligible benefits using a Voluntary Employee Beneficiary Association Trust. These postretirement health care benefits and the related unfunded obligation of \$9.2 million and \$12.7 million at December 31, 2018 and 2017, respectively, were not material to the consolidated financial statements in the periods covered by this report.



The following tables set forth the changes in our pension plan's obligations and assets recorded on the Consolidated Balance Sheets at December 31, 2018 and 2017. The amounts presented in the following tables for pension obligations include the collective bargaining plan formula, traditional management plan formula and cash balance plan formula and the SERP in the aggregate and have not been adjusted for \$1.8 million and \$1.1 million of costs billed to the Service Company for the years ended December 31, 2018 and 2017.

\$ in millions	Years ended December 31,	
	2018	2017
<b>Change in benefit obligation</b>		
Benefit obligation at January 1	\$ 436.9	\$ 419.6
Service cost	6.1	5.7
Interest cost	13.8	14.2
Plan amendments	5.1	—
Plan curtailment	—	3.0
Actuarial (gain) / loss	(34.6)	28.1
Benefits paid	(40.8)	(33.7)
Benefit obligation at December 31	<u>386.5</u>	<u>436.9</u>
<b>Change in plan assets</b>		
Fair value of plan assets at January 1	357.5	341.0
Actual return on plan assets	(11.7)	44.8
Employer contributions	7.9	5.4
Benefits paid	(40.8)	(33.7)
Fair value of plan assets at December 31	<u>312.9</u>	<u>357.5</u>
<b>Unfunded status of plan</b>	<u>\$ (73.6)</u>	<u>\$ (79.4)</u>
<b>Amounts recognized in the Balance sheets</b>		
	2018	2017
Current liabilities	\$ (0.4)	\$ (0.4)
Non-current liabilities	(73.2)	(79.0)
Net liability at end of year	<u>\$ (73.6)</u>	<u>\$ (79.4)</u>
<b>Amounts recognized in Accumulated Other Comprehensive Income, Regulatory Assets and Regulatory Liabilities, pre-tax</b>		
<i>Components:</i>		
Prior service cost	\$ 9.1	\$ 4.9
Net actuarial loss	103.3	111.4
Accumulated Other Comprehensive Income, Regulatory Assets and Regulatory Liabilities, pre-tax	<u>\$ 112.4</u>	<u>\$ 116.3</u>
<i>Recorded as:</i>		
Regulatory asset	\$ 87.2	\$ 92.1
Accumulated other comprehensive income	25.2	24.2
Accumulated Other Comprehensive Income, Regulatory Assets and Regulatory Liabilities, pre-tax	<u>\$ 112.4</u>	<u>\$ 116.3</u>

The accumulated benefit obligation for our defined benefit pension plans was \$378.7 million and \$428.3 million at December 31, 2018 and 2017, respectively.

The net periodic benefit cost of the pension plans was:

\$ in millions	Years ended December 31,		
	2018	2017	2016
Service cost	\$ 6.1	\$ 5.7	\$ 5.7
Interest cost	13.8	14.2	14.7
Expected return on assets	(21.2)	(22.8)	(22.8)
Plan curtailment <sup>(a)</sup>	—	4.1	3.8
<b>Amortization of unrecognized:</b>			
Actuarial loss	6.4	5.3	4.3
Prior service cost	0.9	1.1	1.8
Net periodic benefit cost	<u>\$ 6.0</u>	<u>\$ 7.6</u>	<u>\$ 7.5</u>

**Rates relevant to each year's expense calculations**

Discount rate	3.66%	4.28%	4.49%
Expected return on plan assets	6.25%	6.50%	6.50%

(a) As a result of the decision to retire certain coal-fired plants, we recognized a plan curtailment of \$4.1 million and \$3.8 million in 2017 and 2016, respectively.

## Other Changes in Plan Assets and Benefit Obligation Recognized in Accumulated Other Comprehensive Income, Regulatory Assets and Regulatory Liabilities

\$ in millions	Years ended December 31,		
	2018	2017	2016
Net actuarial loss	\$ 3.4	\$ 9.1	\$ 20.9
Plan curtailment <sup>(a)</sup>	—	(4.1)	(3.8)
Reversal of amortization item:			
Net actuarial loss	(6.4)	(5.3)	(4.3)
Prior service cost	(0.9)	(1.1)	(1.8)
Total recognized in Accumulated Other Comprehensive Income, Regulatory Assets and Regulatory Liabilities	\$ (3.9)	\$ (1.4)	\$ 11.0
Total recognized in net periodic benefit cost and Accumulated Other Comprehensive Income, Regulatory Assets and Regulatory Liabilities	\$ 2.1	\$ 6.2	\$ 18.5

(a) As a result of the decision to retire certain coal-fired plants, we recognized a plan curtailment of \$4.1 million and \$3.8 million in 2017 and 2016, respectively.

## Significant Gains and Losses Related to Changes in the Benefit Obligation

The actuarial gain of \$34.6 million decreased the benefit obligation for the year ended December 31, 2018 and an actuarial loss of \$28.1 million increased the benefit obligation for the year ended December 31, 2017. The actuarial gain in 2018 was primarily due to an increase in the discount rate, while the actuarial loss in 2017 was primarily due to a decrease in the discount rate.

## Assumptions

Our expected return on plan asset assumptions, used to determine benefit obligations, are based on historical long-term rates of return on investments, which use the widely accepted capital market principle that assets with higher volatility generate a greater return over the long run. Current market factors, such as inflation and interest rates, as well as asset diversification and portfolio rebalancing, are evaluated when long-term capital market assumptions are determined. Peer data and historical returns are reviewed to verify reasonableness and appropriateness.

At December 31, 2018, we are maintaining our long-term rate of return assumption of 6.25% for pension plan assets. The rate of return represents our long-term assumptions based on our long-term portfolio mix. Also, at December 31, 2018, we have increased our assumed discount rate to 4.35% from 3.66% for pension expense to reflect current duration-based yield curve discount rates. A one percent increase in the rate of return assumption for pension would result in a decrease in 2019 pension expense of approximately \$3.2 million. A one percent decrease in the rate of return assumption for pension would result in an increase in 2019 pension expense of approximately \$3.2 million. A 25-basis point increase in the discount rate for pension would result in a decrease of approximately \$0.1 million to 2019 pension expense. A 25-basis point decrease in the discount rate for pension would result in an increase of approximately \$0.4 million to 2019 pension expense.

In determining the discount rate to use for valuing liabilities, we used a market yield curve on high-quality fixed income investments as of December 31, 2018. We project the expected benefit payments under the plan based on participant data and based on certain assumptions concerning mortality, retirement rates, termination rates, etc. The expected benefit payments for each year are then discounted back to the measurement date using the appropriate spot rate for each half-year from the yield curve, thereby obtaining a present value of all expected future benefit payments using the yield curve. Finally, an equivalent single discount rate is determined which produces a present value equal to the present value determined using the full yield curve.

Consistent with the requirements of FASC 715, we apply a disaggregated discount rate approach for determining service cost and interest cost for our defined benefit pension plans and postretirement plans.

In future periods, differences in the actual return on pension plan assets and assumed return, or changes in the discount rate, will affect the timing of contributions, if any, to the plans.

The weighted average assumptions used to determine benefit obligations at December 31, 2018, 2017 and 2016 were:

## Benefit Obligation Assumptions

	Pension		
	2018	2017	2016
Discount rate for obligations	4.35%	3.66%	4.28%
Rate of compensation increases	3.94%	3.94%	3.94%



## Pension Plan Assets

Plan assets are invested using a total return investment approach whereby a mix of equity securities, debt securities and other investments are used to preserve asset values, diversify risk and achieve our target investment return benchmark. Investment strategies and asset allocations are based on careful consideration of plan liabilities, the plan's funded status and our financial condition. Investment performance and asset allocation are measured and monitored on an ongoing basis.

Plan assets are managed in a balanced portfolio comprised of two major components: an equity portion and a fixed income portion. The expected role of plan equity investments is to maximize the long-term real growth of plan assets, while the role of fixed income investments is to generate current income, provide for more stable periodic returns and provide some protection against a prolonged decline in the market value of plan equity investments.

Long-term strategic asset allocation guidelines, as well as short-term tactical asset allocation guidelines, are determined by a Risk/Advisory Committee and approved by a Fiduciary Committee. These allocations consider the plan's long-term objectives. The long-term target allocations for plan assets are 24% – 52% for equity securities and 47% – 65% for fixed income securities. Equity securities include U.S. and international equity, while fixed income securities include long-duration and high-yield bond funds and emerging market debt funds.

Tactically, the committees, on a short-term basis, will make asset allocations that are outside the long-term allocation guidelines. The short-term allocation positions are likely to not exceed one-year in duration. In addition to the equity and fixed income investments, the short-term allocation may also include a relatively small allocation to alternative investments. The plan currently has a small target allocation in a core property fund.

Most of our plan assets are measured using quoted, observable prices which are considered Level One inputs in the Fair Value Hierarchy. The Core Property Collective Fund is measured using Level Two inputs that are quoted prices for identical assets in markets that are less active.

The following table summarizes our target pension plan allocation for 2018:

Asset category	Long-Term Mid-Point Target Allocation	Percentage of plan assets as of December 31,	
		2018	2017
Equity Securities	38%	33%	35%
Debt Securities	56%	58%	55%
Cash and Cash Equivalents	—%	1%	—%
Real Estate	6%	8%	10%

The fair values of our pension plan assets at December 31, 2018 by asset category are as follows:

Fair Value Measurements for Pension Plan Assets at December 31, 2018				
\$ in millions	Market Value at December 31, 2018	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Asset category</b>				
<b>Mutual funds:</b>				
U.S. equities <sup>(a)</sup>	\$ 79.3	\$ 79.3	\$ —	\$ —
International equities <sup>(a)</sup>	25.9	25.9	—	—
Fixed income <sup>(b)</sup>	143.7	143.7	—	—
<b>Fixed income securities:</b>				
U.S. Treasury securities	37.5	37.5	—	—
<b>Cash and cash equivalents:</b>				
Money market funds <sup>(c)</sup>	2.4	2.4	—	—
<b>Other investments:</b>				
Core property collective fund <sup>(d)</sup>	24.1	—	24.1	—
<b>Total pension plan assets</b>	<b>\$ 312.9</b>	<b>\$ 288.8</b>	<b>\$ 24.1</b>	<b>\$ —</b>

- (a) This category includes investments in equity securities of large, small and medium sized U.S. companies and equity securities of foreign companies including those in developing countries. The funds are valued using the net asset value method in which an average of the market prices for the underlying investments is used to value the fund.

- (b) This category includes investments in investment-grade fixed-income instruments, U.S. dollar-denominated debt securities of emerging market issuers and high yield fixed-income securities that are rated below investment grade. The funds are valued using the net asset value method in which an average of the market prices for the underlying investments is used to value the fund.
- (c) This category is comprised of investments in U.S. treasury obligations that seek to preserve principal and maintain liquidity while providing current income. The funds are valued at the assets' amortized cost to maintain a stable per share net asset value.
- (d) This category represents a property fund that invests in commercial real estate. The fair value of the fund is valued using the net asset value method in which an average of the market prices for the underlying investments is used to value the fund.

The fair values of our pension plan assets at December 31, 2017 by asset category are as follows:

Fair Value Measurements for Pension Plan Assets at December 31, 2017				
\$ in millions	Market Value at December 31, 2017	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Asset category</b>				
<b>Mutual funds:</b>				
U.S. equities <sup>(a)</sup>	\$ 78.2	\$ 78.2	\$ —	\$ —
International equities <sup>(a)</sup>	46.3	46.3	—	—
Fixed income <sup>(b)</sup>	163.3	163.3	—	—
<b>Fixed income securities:</b>				
U.S. Treasury securities	33.5	33.5	—	—
<b>Other investments: <sup>(c)</sup></b>				
Core property collective fund	36.2	—	36.2	—
<b>Total pension plan assets</b>	<b>\$ 357.5</b>	<b>\$ 321.3</b>	<b>\$ 36.2</b>	<b>\$ —</b>

- (a) This category includes investments in equity securities of large, small and medium sized U.S. companies and equity securities of foreign companies including those in developing countries. The funds are valued using the net asset value method in which an average of the market prices for the underlying investments is used to value the fund.
- (b) This category includes investments in investment-grade fixed-income instruments, U.S. dollar-denominated debt securities of emerging market issuers and high yield fixed-income securities that are rated below investment grade. The funds are valued using the net asset value method in which an average of the market prices for the underlying investments is used to value the fund.
- (c) This category represents a property fund that invests in commercial real estate. The fair value of the fund is valued using the net asset value method in which an average of the market prices for the underlying investments is used to value the fund.

## Pension Funding

We generally fund pension plan benefits as accrued in accordance with the minimum funding requirements of the Employee Retirement Income Security Act of 1974 (ERISA) and, in addition, make voluntary contributions from time to time. We contributed \$7.5 million to the pension plan in the year ended December 31, 2018 and \$5.0 million to the pension plan in each of the years ended December 31, 2017 and 2016.

We expect to make contributions of \$0.4 million to our SERP in 2019 to cover benefit payments. We also expect to make contributions of \$7.5 million to our pension plan during 2019.

Funding for the qualified Defined Benefit Pension Plan is based upon actuarially determined contributions that consider the amount deductible for income tax purposes and the minimum contribution required under ERISA, as amended by the Pension Protection Act of 2006, as well as targeted funding levels necessary to meet certain thresholds.

From an ERISA funding perspective, DP&L's funded target liability percentage was estimated to be 101%. In addition, DP&L must also contribute the normal service cost earned by active participants during the plan year. The funding of normal cost is expected to be approximately \$5.4 million in 2019, which includes \$1.9 million for plan expenses. Each year thereafter, if the plan's underfunding increases to more than the present value of the remaining annual installments, the excess is separately amortized over a seven-year period. DP&L's funding policy for the pension plans is to contribute annually no less than the minimum required by applicable law, and no more than the maximum amount that can be deducted for federal income tax purposes.



Benefit payments, which reflect future service, are expected to be paid as follows:

**Estimated future benefit payments**

\$ in millions due within the following years:

	Pension
2019	\$ 26.7
2020	\$ 26.5
2021	\$ 26.3
2022	\$ 26.0
2023	\$ 25.9
2024 - 2028	\$ 125.1

**Note 10 – Equity**

**Redeemable Preferred Stock of Subsidiary**

On October 13, 2016 (the "Redemption Date"), **DPL's** subsidiary, **DP&L** redeemed all of its issued and outstanding preferred stock, consisting of the following series: Preferred Stock, 3.75% Series A, Cumulative (the "Series A Stock"); Preferred Stock, 3.75% Series B, Cumulative (the "Series B Stock"); and Preferred Stock, 3.90% Series C, Cumulative (the "Series C Stock" and, together with the Series A Stock and the Series B Stock, the "Preferred Stock"). On the Redemption Date, the Preferred Stock of each series was redeemed at the following prices as specified in **DP&L's** Amended and Restated Articles of Incorporation, plus, in each case an amount equal to all accrued dividends payable with respect to such Preferred Stock to the Redemption Date: a price of \$102.50 per share for the Series A Stock, a price of \$103.00 per share for the Series B Stock, and a price of \$101.00 per share for the Series C Stock. Dividends on the Preferred Stock ceased to accrue on the Redemption Date. Upon redemption, the Preferred Stock was no longer outstanding, and all rights of the holders thereof as shareholders of **DP&L**, except the right to payment of the redemption price, ceased to exist. The difference between the carrying value of the Redeemable Preferred Stock of Subsidiary and the redemption amount was charged to Other paid-in capital.

**Dividend Restrictions**

**DPL's** Amended Articles of Incorporation (the Articles) contain provisions which state that **DPL** may not make a distribution to its shareholder or make a loan to any of its affiliates (other than its subsidiaries), unless: (a) there exists no Event of Default (as defined in the Articles) and no such Event of Default would result from the making of the distribution or loan; and either (b)(i) at the time of, and/or as a result of, the distribution or loan, **DPL's** leverage ratio does not exceed 0.67 to 1.00 and **DPL's** interest coverage ratio is not less than 2.50 to 1.00 or, (b)(ii) if such ratios are not within the parameters, **DPL's** senior long-term debt rating from one of the three major credit rating agencies is at least investment grade. Further, the restrictions on the payment of distributions to a shareholder and the making of loans to its affiliates (other than subsidiaries) cease to be in effect if the three major credit rating agencies confirm that a lowering of **DPL's** senior long-term debt rating below investment grade by the credit rating agencies would not occur without these restrictions. **DPL** is also restricted from making dividend and tax sharing payments from **DPL** to AES per its 2017 ESP. This order restricts dividend payments from **DPL** to AES during the term of the ESP and restricts tax sharing payments from **DPL** to AES during the term of the DMR.

**Common Stock**

Effective on the Merger date, **DPL's** Amended Articles of Incorporation provided for 1,500 authorized common shares, of which one share is outstanding at December 31, 2018.

As described above, **DPL's** Amended Articles of Incorporation contain restrictions on **DPL's** ability to make dividends, distributions and affiliate loans (other than to its subsidiaries), including restrictions on making such dividends, distributions and loans if certain financial ratios exceed specified levels and **DPL's** senior long-term debt rating from a rating agency is below investment grade. As of December 31, 2018, **DPL's** leverage ratio was at 1.47 to 1.00 and **DPL's** senior long-term debt rating from a major credit rating agency was below investment grade. As a result, as of December 31, 2018, **DPL** was prohibited under its Articles of Incorporation from making a distribution to its shareholder or making a loan to any of its affiliates (other than its subsidiaries).

**DP&L** has 50,000,000 authorized common shares, of which 41,172,173 are outstanding at December 31, 2018. All common shares are held by **DP&L's** parent, **DPL**.

**Capital Contributions from AES**

In **DP&L's** approved six-year 2017 ESP, the PUCO imposed restrictions on **DPL** making dividend payments to its parent company, AES, during the term of the ESP, as well as on making tax-sharing payments to AES during the



term of the DMR. The PUCO also required that existing tax payments owed by **DPL** to AES, and similar tax payments that accrue during the term of the DMR, be converted into equity investments in **DPL**.

As such, AES agreed to make non-cash capital contributions of \$97.1 million and waive the amount owed to it by **DPL** related to tax-sharing payments for current tax liabilities through December 31, 2017. For the year ended December 31, 2018, AES made capital contributions of \$40.0 million by converting the amount owed to it by **DPL** related to tax-sharing payments for current tax liabilities. See Note 8 – Income Taxes for additional information.

## **Note 11 – Contractual Obligations, Commercial Commitments and Contingencies**

### **Guarantees**

In the normal course of business, **DPL** enters into various agreements with its wholly-owned subsidiary, AES Ohio Generation, providing financial or performance assurance to third parties. These agreements are entered into primarily to support or enhance the creditworthiness otherwise attributed to this subsidiary on a stand-alone basis, thereby facilitating the extension of sufficient credit to accomplish this subsidiary's intended commercial purposes.

At December 31, 2018, **DPL** had \$23.6 million of guarantees on behalf of AES Ohio Generation to third parties for future financial or performance assurance under such agreements. The guarantee arrangements entered into by **DPL** with these third parties cover present and future obligations of AES Ohio Generation to such beneficiaries and are terminable at any time by **DPL** upon written notice to the beneficiaries. We had no outstanding balance of obligations for commercial transactions covered by these guarantees at December 31, 2018. The carrying amount of obligations for commercial transactions covered by these guarantees and recorded in our Consolidated Balance Sheets was \$0.9 million at December 31, 2017.

To date, **DPL** has not incurred any losses related to these guarantees and we believe it is remote that **DPL** would be required to perform or incur any losses in the future associated with any of the above guarantees.

### **Equity Ownership Interest**

**DP&L** has a 4.9% equity ownership interest in OVEC which is recorded using the cost method of accounting under GAAP. At December 31, 2018, **DP&L** could be responsible for the repayment of 4.9%, or \$68.1 million, of a \$1,389.6 million debt obligation comprised of both fixed and variable rate securities with maturities between 2019 and 2040. OVEC could also seek additional contributions from us to avoid a default in the event that other OVEC members defaulted on their respective OVEC obligations. One of the other OVEC members, with a 4.85% interest in OVEC, filed for bankruptcy protection and the bankruptcy court approved that member's rejection of the OVEC arrangement and its related obligations on July 31, 2018. We do not expect these events to have a material impact on our financial condition, results of operations or cash flows.

### **Contractual Obligations and Commercial Commitments**

We enter into various contractual obligations and other commercial commitments that may affect the liquidity of our operations. At December 31, 2018, these include:

\$ in millions	Payments due in:				
	Total	Less than 1 year	2 - 3 years	4 - 5 years	More than 5 years
Electricity purchase commitments	\$ 209.4	\$ 139.5	\$ 69.9	\$ —	\$ —
Purchase orders and other contractual obligations	\$ 40.2	\$ 11.4	\$ 14.8	\$ 14.0	\$ —

#### **Electricity purchase commitments:**

**DPL** enters into long-term contracts for the purchase of electricity. In general, these contracts are subject to variable quantities or prices and are terminable only in limited circumstances.

#### **Purchase orders and other contractual obligations:**

At December 31, 2018, **DPL** had various other contractual obligations including non-cancelable contracts to purchase goods and services with various terms and expiration dates. Due to uncertainty regarding the timing and payment of future obligations to the Service Company, and **DPL's** ability to terminate such obligations upon 90 days' notice, we have excluded such amounts in the contractual obligations table above.



## **Contingencies**

In the normal course of business, we are subject to various lawsuits, actions, proceedings, claims and other matters asserted under laws and regulations. We believe the amounts provided in our Consolidated Financial Statements, as prescribed by GAAP, are adequate in light of the probable and estimable contingencies. However, there can be no assurances that the actual amounts required to satisfy alleged liabilities from various legal proceedings, claims, tax examinations, and other matters, including the matters discussed below, and to comply with applicable laws and regulations, will not exceed the amounts reflected in our Consolidated Financial Statements. As such, costs, if any, that may be incurred in excess of those amounts provided as of December 31, 2018, cannot be reasonably determined.

## **Environmental Matters**

**DPL's** facilities and operations are subject to a wide range of federal, state and local environmental laws, rules and regulations. The environmental issues that may affect us include the following. However, as described further below, as a result of **DPL's** retirement of its Stuart and Killen generating stations, the sale of its ownership interest in the Miami Fort and Zimmer generating stations, the planned 2020 retirement of Conesville and our exiting of our generation business, certain of these environmental regulations and laws are now not expected to have a material impact on **DPL** with respect to these generating stations.

- The federal CAA and state laws and regulations (including SIPs) which require compliance, obtaining permits and reporting as to air emissions;
- Litigation with federal and certain state governments and certain special interest groups regarding whether modifications to or maintenance of certain coal-fired generating stations require additional permitting or pollution control technology, or whether emissions from coal-fired generating stations cause or contribute to global climate changes;
- Rules and future rules issued by the USEPA, the Ohio EPA or other authorities that require or will require substantial reductions in SO<sub>2</sub>, particulates, mercury, acid gases, NO<sub>x</sub>, and other air emissions.
- Rules and future rules issued by the USEPA, the Ohio EPA or other authorities that require or will require reporting and reductions of GHGs;
- Rules and future rules issued by the USEPA, the Ohio EPA or other authorities associated with the federal Clean Water Act, which prohibits the discharge of pollutants into waters of the United States except pursuant to appropriate permits; and
- Solid and hazardous waste laws and regulations, which govern the management and disposal of certain waste. The majority of solid waste created from the combustion of coal and fossil fuels is fly ash and other coal combustion by-products.

In addition to imposing continuing compliance obligations, these laws, rules and regulations authorize the imposition of substantial penalties for noncompliance, including fines, injunctive relief and other sanctions. In the normal course of business, we have investigatory and remedial activities underway at our facilities to comply, or to determine compliance, with such laws, rules and regulations. We record liabilities for loss contingencies related to environmental matters when a loss is probable of occurring and can be reasonably estimated in accordance with the provisions of GAAP. Accordingly, we have immaterial accruals for loss contingencies for environmental matters. We also have a number of environmental matters for which we have not accrued loss contingencies because the risk of loss is not probable, or a loss cannot be reasonably estimated. We evaluate the potential liability related to environmental matters quarterly and may revise our estimates. Such revisions in the estimates of the potential liabilities could have a material adverse effect on our results of operations, financial condition or cash flows.

We have several pending environmental matters associated with our current and previously owned and operated coal-fired generation units. Some of these matters could have material adverse impacts on our results of operations, financial condition or cash flows.

## **Note 12 – Related Party Transactions**

### **Service Company**

The Service Company allocates the costs for services provided based on cost drivers designed to result in fair and equitable allocations. This includes ensuring that the regulated utilities served, including **DP&L**, are not subsidizing costs incurred for the benefit of other businesses.



## Benefit Plans

DPL participates in an agreement with Health and Welfare Benefit Plans LLC, an affiliate of AES, to participate in a group benefits program, including but not limited to, health, dental, vision and life benefits. Health and Welfare Benefit Plans LLC administers the financial aspects of the group insurance program, receives all premium payments from the participating affiliates, and makes all vendor payments.

## Long-term Compensation Plan

During 2018, 2017 and 2016, many of DPL's non-union employees received benefits under the AES Long-term Compensation Plan, a deferred compensation program. This type of plan is a common employee retention tool used in our industry. Benefits under this plan are granted in the form of performance units payable in cash and AES restricted stock units. Restricted stock units vest ratably over a three-year period. The performance units payable in cash vest at the end of the three-year performance period and are subject to certain AES performance criteria. Total deferred compensation expense recorded during 2018, 2017 and 2016 was \$0.4 million, \$0.4 million and \$0.5 million, respectively, and was included in "Other Operating Expenses" on DPL's Consolidated Statements of Operations. The value of these benefits is being recognized over the 36-month vesting period and a portion is recorded as miscellaneous deferred credits with the remainder recorded as "Paid in capital" on DPL's Consolidated Balance Sheets in accordance with FASC 718 "Compensation - Stock Compensation."

The following table provides a summary of our related party transactions:

\$ in millions	Years ended December 31,		
	2018	2017	2016
Transactions with the Service Company			
Charges for services provided	\$ 41.0	\$ 46.5	\$ 42.8
Charges to the Service Company	\$ 4.9	\$ 4.2	\$ 4.6
Transactions with other AES affiliates:			
Payments for health, welfare and benefit plans	\$ 7.9	\$ 15.4	\$ 9.6
Consulting services	\$ 2.0	\$ —	\$ —
Balances with related parties:	At December 31, 2018	At December 31, 2017	
Net payable to the Service Company	\$ (4.8)	\$ (3.9)	
Net payable to other AES affiliates	\$ (0.5)	\$ (0.6)	

## DPL Capital Trust II

DPL has a wholly-owned business trust, DPL Capital Trust II (the Trust), formed for the purpose of issuing trust capital securities to third-party investors. Effective in 2003, DPL deconsolidated the Trust upon adoption of the accounting standards related to variable interest entities and currently treats the Trust as a nonconsolidated subsidiary. The Trust holds mandatorily redeemable trust capital securities. The investment in the Trust, which amounted to \$0.2 million and \$0.3 million at December 31, 2018 and 2017, respectively, is included in Other deferred assets within Other noncurrent assets. DPL also has a note payable to the Trust amounting to \$15.6 million and \$15.6 million at December 31, 2018 and 2017, respectively, that was established upon the Trust's deconsolidation in 2003. See Note 7 – Long-term debt for additional information.

In addition to the obligations under the note payable mentioned above, DPL also agreed to a security obligation which represents a full and unconditional guarantee of payments to the capital security holders of the Trust.

## Income Taxes

AES files federal and state income tax returns which consolidate DPL and its subsidiaries. Under a tax sharing agreement with AES, DPL is responsible for the income taxes associated with its own taxable income and records the provision for income taxes using a separate return method. Effective with the approval of DP&L's 2017 ESP, DPL is restricted from making tax sharing payments to AES throughout the term of the DMR and amounts that would otherwise have been tax sharing liabilities are considered deemed capital contributions. See Note 8 – Income Taxes for more information.

## Note 13 – Business Segments

Beginning with the second quarter of 2018, DPL has presented the results of operations of Miami Fort Station, Zimmer Station, the Peaker Assets, Stuart Station and Killen Station as discontinued operations as a group of components for all periods presented. For more information, see Note 15 – Discontinued Operations of Notes to DPL's Consolidated Financial Statements. AES Ohio Generation now only has operating activity coming from its



undivided ownership interest in Conesville, which does not meet the threshold to be a separate reportable operating segment. Because of this, **DPL** now manages its business through only one reportable operating segment, the Utility segment. The primary segment performance measure is income / (loss) from continuing operations before income tax as management has concluded that this measure best reflects the underlying business performance of **DPL** and is the most relevant measure considered in **DPL's** internal evaluation of the financial performance of its segments. The Utility segment is discussed further below:

### Utility Segment

The Utility segment is comprised primarily of **DP&L's** electric transmission and distribution businesses, which distribute electricity to residential, commercial, industrial and governmental customers. **DP&L** distributes electricity to more than 525,000 retail customers who are located in a 6,000 square mile area of West Central Ohio. **DP&L's** electric transmission and distribution businesses are subject to rate regulation by federal and state regulators. Accordingly, **DP&L** applies the accounting standards for regulated operations to its electric transmission and distribution businesses and records regulatory assets when incurred costs are expected to be recovered in future customer rates, and regulatory liabilities when current cost recoveries in customer rates relate to expected future costs. The Utility segment includes revenues and costs associated with our investment in OVEC and the historical results of **DP&L's** Beckjord Facility, which was closed in 2014 and transferred to a third party in the first quarter of 2018, and the Hutchings EGU, which was closed in 2013. These assets did not transfer to AES Ohio Generation as part of **DP&L's** Generation Separation on October 1, 2017. Thus, they are grouped within the Utility segment for segment reporting purposes. In addition, regulatory deferrals and collections, which include fuel deferrals in historical periods, are included in the Utility segment.

Included within the "Other" column are other businesses that do not meet the GAAP requirements for disclosure as reportable segments as well as certain corporate costs, which include interest expense on **DPL's** long-term debt and adjustments related to purchase accounting from the Merger. **DPL's** undivided interest in Conesville is now included within the "Other" column as it no longer meets the requirement for disclosure as a reportable operating segment, since the results of operations of the other generation plants are now presented as discontinued operations. The accounting policies of the reportable segments are the same as those described in Note 1 – Overview and Summary of Significant Accounting Policies. Intersegment sales and profits are eliminated in consolidation. Certain shared and corporate costs are allocated among reporting segments.

The following tables present financial information for **DPL's** reportable business segment:

\$ in millions	Utility	Other <sup>(a)</sup>	Adjustments and Eliminations	DPL Consolidated
<b>Year ended December 31, 2018</b>				
Revenues from external customers	\$ 737.8	\$ 38.1	\$ —	\$ 775.9
Intersegment revenues	0.9	2.9	(3.8)	—
<b>Total revenues</b>	<b>\$ 738.7</b>	<b>\$ 41.0</b>	<b>\$ (3.8)</b>	<b>\$ 775.9</b>
Depreciation and amortization	\$ 74.5	\$ (1.4)	\$ —	\$ 73.1
Fixed-asset impairment	\$ —	\$ 2.8	\$ —	\$ 2.8
Interest expense	\$ 27.3	\$ 70.7	\$ —	\$ 98.0
<b>Income / (loss) from continuing operations before income tax</b>	<b>\$ 104.4</b>	<b>\$ (72.5)</b>	<b>\$ —</b>	<b>\$ 31.9</b>
Cash capital expenditures	\$ 93.1	\$ 10.5	\$ —	\$ 103.6
<b>Total assets (end of year)</b>	<b>\$ 1,819.6</b>	<b>\$ 545.9</b>	<b>\$ (482.4)</b>	<b>\$ 1,883.1</b>

\$ in millions	Utility	Other <sup>(a)</sup>	Adjustments and Eliminations	DPL Consolidated
Year ended December 31, 2017				
Revenues from external customers	\$ 718.9	\$ 25.0	\$ —	\$ 743.9
Intersegment revenues	1.1	4.4	(5.5)	—
Total revenues	<u>\$ 720.0</u>	<u>\$ 29.4</u>	<u>\$ (5.5)</u>	<u>\$ 743.9</u>
Depreciation and amortization	\$ 75.3	\$ 0.8	\$ —	\$ 76.1
Interest expense	\$ 30.5	\$ 79.5	\$ —	\$ 110.0
Income / (loss) from continuing operations before income tax	\$ 88.5	\$ (95.0)	\$ —	\$ (6.5)
Cash capital expenditures	\$ 85.6	\$ 35.9	\$ —	\$ 121.5
Total assets (end of year)	\$ 1,695.9	\$ 736.5	\$ (383.2)	\$ 2,049.2

\$ in millions	Utility	Other <sup>(a)</sup>	Adjustments and Eliminations	DPL Consolidated
Year ended December 31, 2016				
Revenues from external customers	\$ 806.7	\$ 27.5	\$ —	\$ 834.2
Intersegment revenues	1.3	5.7	(7.0)	—
Total revenues	<u>\$ 808.0</u>	<u>\$ 33.2</u>	<u>\$ (7.0)</u>	<u>\$ 834.2</u>
Depreciation and amortization	\$ 71.0	\$ 2.6	\$ —	\$ 73.6
Fixed-asset impairment	\$ —	\$ 23.9	\$ —	\$ 23.9
Interest expense	\$ 25.4	\$ 82.3	\$ (0.3)	\$ 107.4
Income / (loss) from continuing operations before income tax	\$ 143.0	\$ (130.6)	\$ —	\$ 12.4
Cash capital expenditures	\$ 83.4	\$ 65.1	\$ —	\$ 148.5
Total assets (end of year)	\$ 1,710.5	\$ 1,145.9	\$ (437.2)	\$ 2,419.2

(a) "Other" includes Cash capital expenditures and Total assets related to the assets of discontinued operations and held-for-sale businesses for all periods presented.

## **Note 14 – Revenue**

Revenue is primarily earned from retail and wholesale electricity sales and electricity transmission and distribution delivery services. Revenue is recognized upon transfer of control of promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. Revenue is recorded net of any taxes assessed on and collected from customers, which are remitted to the governmental authorities.

**Retail Revenues** – DP&L energy sales to utility customers are based on the reading of meters at the customer's location that occurs on a systematic basis throughout the month. DP&L sells electricity directly to end-users, such as homes and businesses, and bills customers directly. Performance obligations for retail revenues are satisfied over time as energy is delivered and the same method is used to measure progress, and thus the performance obligation meets the criteria to be considered a series. This includes both the promise to transfer energy and other distribution and/or transmission services.

In exchange for the exclusive right to sell or distribute electricity in our service area, DP&L is subject to rate regulation by federal and state regulators. This regulation sets the framework for the prices ("tariffs") that DP&L is allowed to charge customers for electricity. Since tariffs are approved by the regulator, the price that DP&L has the right to bill corresponds directly with the value to the customer of DP&L's performance completed in each period. Therefore, revenue under these contracts is recognized using an output method measured by the MWhs delivered each month at the approved tariff.

In cases where a customer chooses to receive generation services from a CRES provider, the price for generation services is negotiated between the customer and the CRES provider, and DP&L only serves as a billing agent if requested by the CRES provider. As such, DP&L recognizes the consolidated billing arrangement with the CRES provider on a net basis, thereby recording no revenue for the generation component. Retail revenue from these customers would only be related to transmission and distribution charges.



*Wholesale Revenues* – All of the power produced from **DPL's** ownership interest in Conesville and **DP&L's** share of the power produced at OVEC is sold to PJM and these are classified as Wholesale revenues.

In PJM, the promise to sell energy as wholesale revenue is separately identifiable from participation in the capacity market and the two products can be transacted independently of one another. Therefore, wholesale revenues are a separate contract with a single performance obligation. Revenue is recorded based on the quantities (MWh) delivered in each hour during each month at the spot price, making the contract effectively "month-to-month".

*RTO Revenues* – Compensation for use of **DP&L's** transmission assets and compensation for various ancillary services are classified as RTO revenues. As **DP&L** owns and operates transmission lines in southwest Ohio within PJM, demand charges collected from network customers by PJM are then allocated to the appropriate transmission owners (i.e. **DP&L**) and recognized as transmission revenues. Additionally, as an owner of generation and transmission assets within PJM, **DPL** is compensated for various ancillary services; such as reactive supply, regulation services, scheduling reserves, operating reserves, spinning/synchronized reserves as well as congestion credits that are provided to PJM via these assets.

Transmission revenues have a single performance obligation, as transmission services represent a distinct service. Additionally, as the performance obligation is satisfied over time and the same method is used to measure progress, the performance obligation meets the criteria to be considered a series. The price that **DP&L**, as the transmission operator, has the right to bill (received as a credit from PJM) corresponds directly with the value to the customer of performance completed in each period, as the price paid is the allocation of the tariff rate (as approved by the regulator) charged to network participants.

Ancillary service revenues have a single performance obligation, as they represent a distinct service. Additionally, as the performance obligation is satisfied over time and the same method is used to measure progress, the performance obligation meets the criteria to be considered a series. The price that **DPL** has the right to bill corresponds directly with the value to the customer of performance completed in each period as the price paid is at the market price or allocation of the tariff rate (which was approved by the regulator) charged to network participants.

*RTO Capacity Revenues* – Compensation received from PJM for making installed generation capacity available to satisfy system integrity and reliability requirements is classified as RTO capacity revenues. Capacity, which is a stand-ready obligation to deliver energy when called upon by the RTO, is measured using MWs. If plant availability exceeds a contractual target, we may receive a performance bonus payment, or if the plant availability falls below a guaranteed minimum target, we may incur a non-availability penalty. Such bonuses or penalties represent a form of variable consideration and are estimated and recognized when it is probable that there will not be a significant reversal and therefore the transaction price is recognized on an output basis based on the MWs.

RTO capacity revenues have a single performance obligation, as capacity is a distinct good. Additionally, as the performance obligation is satisfied over time and the same method is used to measure progress, the performance obligation meets the criteria to be considered a series. The capacity price is set through a competitive auction process established by PJM.

**DPL's** revenue from contracts with customers was \$743.8 million for the year ended December 31, 2018. The following table presents our revenue from contracts with customers and other revenue by segment for the year ended December 31, 2018:

\$ in millions	Utility	Other	Adjustments and Eliminations	Total
	Year ended December 31, 2018			
<b>Retail Revenue</b>				
Retail revenue from contracts with customers	\$ 625.8	\$ —	\$ (1.0)	\$ 624.8
Other retail revenues <sup>(a)</sup>	32.1	—	—	32.1
<b>Wholesale Revenue</b>				
Wholesale revenue from contracts with customers	29.9	22.1	—	52.0
RTO revenue	43.1	0.1	—	43.2
RTO capacity revenues	7.8	6.6	—	14.4
Other revenues from contracts with customers <sup>(b)</sup>	—	9.4	—	9.4
Other revenues	—	2.8	(2.8)	—
<b>Total revenues</b>	<b>\$ 738.7</b>	<b>\$ 41.0</b>	<b>\$ (3.8)</b>	<b>\$ 775.9</b>

(a) Other retail revenue primarily includes alternative revenue programs not accounted for under FASC 606.

(b) Other revenues from contracts with customers primarily includes revenues for various services provided by Miami Valley Lighting.

The balances of receivables from contracts with customers were \$72.6 million and \$63.0 million as of December 31, 2018 and January 1, 2018, respectively. Payment terms for all receivables from contracts with customers are typically within 30 days.

We have elected to apply the optional disclosure exemptions under FASC 606. Therefore, we have no disclosures pertaining to revenue expected to be recognized in any future year related to remaining performance obligations, as we exclude contracts with an original length of one year or less, contracts for which we recognize revenue based on the amount we have the right to invoice for services performed, and variable consideration allocated entirely to a wholly unsatisfied performance obligation when the consideration relates specifically to our efforts to satisfy the performance obligation and depicts the amount to which we expect to be entitled for **DPL**.

#### **Note 15 – Discontinued Operations**

On December 8, 2017, **DPL** and AES Ohio Generation completed the sale transaction of their entire undivided interest in the Miami Fort Station and the Zimmer Station, which resulted in a gain on sale of \$14.0 million for the year ended December 31, 2017. On March 27, 2018, **DPL** and AES Ohio Generation completed the sale transaction of the Peaker assets to Kimura Power, LLC, which resulted in a loss on sale of \$1.9 million for the year ended December 31, 2018. Further, on May 31, 2018, **DPL** and AES Ohio Generation retired the Stuart Station coal-fired and diesel-fired generating units and the Killen Station coal-fired generating unit and combustion turbine, as planned. Consequently, in the second quarter of 2018, **DPL** determined that the disposal of this group of components as a whole represents a strategic shift by us to exit generation, and, as such, qualifies to be presented as discontinued operations. Therefore, the results of operations and financial position for this group of components were reported as such in the Consolidated Statements of Operations and Consolidated Balance Sheets for all periods presented.

Previously, on January 1, 2016, **DPL** closed on the sale of DPLER, its competitive retail business. The sale agreement was signed on December 28, 2015, and **DPL** received \$75.5 million of restricted cash on December 31, 2015 for the sale. **DPL** recorded a gain on this transaction of \$49.2 million in the first quarter of 2016. The gain included the impact of DPLER's liability to **DP&L** that transferred with the sale on January 1, 2016. As such, the results of operations of DPLER were also reported as discontinued operations in the Consolidated Statements of Operations for the year ended December 31, 2016.



The following table summarizes the major categories of assets and liabilities at the dates indicated:

\$ in millions	December 31, 2018	December 31, 2017
Restricted cash	\$ —	\$ 1.5
Accounts receivable, net	4.0	37.9
Inventories	—	19.4
Taxes applicable to subsequent years	2.3	7.4
Other prepayments and current assets	2.4	17.4
Property, plant & equipment, net	—	232.2
Intangible assets, net	5.3	5.5
Other deferred assets	—	0.6
Total assets of the disposal group classified as assets of discontinued operations and held-for-sale businesses in the balance sheets	<u>\$ 14.0</u>	<u>\$ 321.9</u>
Accounts payable	\$ 3.9	\$ 25.1
Accrued taxes	3.1	6.3
Other current liabilities	5.2	30.0
Long-term debt <sup>(a)</sup>	—	0.3
Deferred taxes <sup>(b)</sup>	(39.8)	(2.3)
Taxes payable	2.3	7.4
Pension, retiree and other benefits	9.7	10.6
Asset retirement obligations	90.4	116.6
Other deferred credits	6.6	5.9
Total liabilities of the disposal group classified as liabilities of discontinued operations and held-for-sale businesses in the balance sheets	<u>\$ 81.4</u>	<u>\$ 199.9</u>

(a) Long-term debt relates to capital leases.

(b) Deferred taxes represent the tax asset position of the discontinued group of components, which were netted with liabilities on DPL prior to classification as discontinued operations.

The following table summarizes the revenues, cost of revenues, operating and other expenses and income tax of discontinued operations for the periods indicated:

\$ in millions	Years ended December 31,		
	2018	2017	2016
Revenues	\$ 158.6	\$ 492.9	\$ 593.0
Cost of revenues	(74.3)	(249.5)	(349.6)
Operating and other expenses	(13.8)	(195.0)	(214.6)
Fixed-asset impairment	—	(175.8)	(835.2)
Income / (loss) from discontinued operations	70.5	(127.4)	(806.4)
Gain / (loss) from disposal of discontinued operations	(1.6)	14.0	49.2
Income tax expense / (benefit) from discontinued operations	30.0	(20.3)	(257.2)
Net income / (loss) from discontinued operations	<u>\$ 38.9</u>	<u>\$ (93.1)</u>	<u>\$ (500.0)</u>

Cash flows related to discontinued operations are included in our Consolidated Statements of Cash Flows. Cash flows from operating activities for discontinued operations were \$(6.8) million, \$126.8 million and \$92.3 million for the years ended December 31, 2018, 2017 and 2016, respectively. Cash flows from investing activities for discontinued operations were \$233.8 million, \$51.8 million and \$(56.8) million for the years ended December 31, 2018, 2017 and 2016, respectively.

The PUCO authorized DP&L to maintain long-term debt of \$750.0 million or 75% of its rate base, whichever is greater, until January 1, 2018, or to file an application to explain why it would not achieve those metrics. Accordingly, \$750.0 million of debt and the pro rata interest expense associated with that debt were allocated to continuing operations. All remaining interest expense is included in the discontinued operations above. The interest expense included in discontinued operations was \$0.2 million and \$0.5 million for the years December 31, 2017 and 2016, respectively.

### AROs of Discontinued Operations

DPL's retired Stuart and Killen generating facilities continue to carry ARO liabilities consisting primarily of river intake and discharge structures, coal unloading facilities, landfills, and ash disposal facilities. In the fourth quarter of 2018, DPL reduced the ARO liability related to the Stuart and Killen ash ponds and landfills by \$27.6 million based on updated internal analyses that reduced estimated closure costs associated with these ash ponds and landfills. The remaining ARO liability related to Stuart and Killen is included in the AROs in the total liabilities of the disposal

group classified as liabilities of discontinued operations and held-for-sale businesses in the balance sheets as of December 31, 2018 above. As these plants are no longer in service, the reduction to the ARO liability was also recorded as a credit to depreciation and amortization expense in the same amount. The credit to depreciation and amortization expense is included in operating and other expenses of discontinued operations for the year ended December 31, 2018 in the table above.

**Note 16 – Dispositions**

*Beckjord Facility* – On February 26, 2018, **DP&L** and its co-owners of the retired Beckjord Facility agreed to transfer their interests in the retired Facility to a third party, including their obligations to remediate the Facility and its site, and the transfer occurred on that same date. As a result, **DPL** recognized a loss on the transfer of \$11.7 million and made cash expenditures of \$14.5 million, inclusive of cash expenditures for the transfer charges. The Beckjord Facility was retired in 2014, and, as such, the income / (loss) from continuing operations before income tax related to the Beckjord Facility was immaterial for the years ended December 31, 2018, 2017 and 2016, excluding the loss on transfer noted above. Prior to the transfer, the Beckjord Facility was included in the Utility segment.

**Note 17 – Fixed-asset impairments**

During the fourth quarter of 2016, we tested the recoverability of our long-lived coal-fired generation assets. Lower forward dark spreads and capacity prices, along with the indicators at the other coal-fired facilities, collectively, resulted in an indicator of impairment for the Conesville asset group. We performed a long-lived asset impairment analysis for the Conesville asset group and determined that its carrying amount was not recoverable. The Conesville coal-fired facility asset group was determined to have a fair value of \$1.1 million using the income approach. As a result, **DPL** recognized a total pre-tax asset impairment expense of \$23.9 million.

During the year ended December 31, 2018, **DPL** recognized a total pre-tax asset impairment expense of \$2.8 million for the Conesville asset group, as it was determined that additional amounts capitalized in 2018 were not recoverable.



## **FINANCIAL STATEMENTS**

### **The Dayton Power and Light Company**

## **Report of Independent Registered Public Accounting Firm**

### **Report of Independent Registered Public Accounting Firm**

To the Shareholder and Board of Directors of The Dayton Power & Light Company

#### **Opinion on the Financial Statements**

We have audited the accompanying balance sheets of The Dayton Power & Light Company (the Company) as of December 31, 2018 and 2017, the related statements of operations, comprehensive income/(loss), cash flows and shareholder's equity for each of the three years in the period ended December 31, 2018, and the related notes and schedule (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in conformity with U.S. generally accepted accounting principles.

#### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2012.

Indianapolis, Indiana

February 26, 2019



**THE DAYTON POWER AND LIGHT COMPANY**  
**Statements of Operations**

\$ in millions	Years ended December 31,		
	2018	2017	2016
<b>Revenues</b>	<b>\$ 738.7</b>	<b>\$ 720.0</b>	<b>\$ 808.0</b>
<b>Cost of revenues:</b>			
Net fuel costs	2.4	0.5	5.3
Net purchased power cost	301.3	289.8	316.7
<b>Total cost of revenues</b>	<b>303.7</b>	<b>290.3</b>	<b>322.0</b>
<b>Gross margin</b>	<b>435.0</b>	<b>429.7</b>	<b>486.0</b>
<b>Operating expenses:</b>			
Operation and maintenance	139.7	156.5	178.4
Depreciation and amortization	74.5	75.3	71.0
General taxes	73.1	76.3	68.0
Loss / (gain) on asset disposal	0.2	(0.5)	(0.4)
Loss on disposal of business (Note 15)	12.4	—	—
<b>Total operating expenses</b>	<b>299.9</b>	<b>307.6</b>	<b>317.0</b>
<b>Operating income</b>	<b>135.1</b>	<b>122.1</b>	<b>169.0</b>
<b>Other income / (expense), net</b>			
Interest expense	(27.3)	(30.5)	(24.7)
Charge for early redemption of debt	(0.6)	(1.1)	(0.5)
Other income / (expense)	(2.8)	(2.0)	(0.2)
<b>Total other expense, net</b>	<b>(30.7)</b>	<b>(33.6)</b>	<b>(25.4)</b>
<b>Income from continuing operations before income tax</b>	<b>104.4</b>	<b>88.5</b>	<b>143.6</b>
Income tax expense from continuing operations	17.7	31.1	46.0
<b>Net income from continuing operations</b>	<b>86.7</b>	<b>57.4</b>	<b>97.6</b>
<b>Discontinued operations (Note 14)</b>			
Loss from discontinued operations before income tax	—	(56.3)	(1,338.7)
Income tax benefit from discontinued operations	—	(15.9)	(468.4)
<b>Net loss from discontinued operations</b>	<b>—</b>	<b>(40.4)</b>	<b>(870.3)</b>
<b>Net income / (loss)</b>	<b>86.7</b>	<b>17.0</b>	<b>(772.7)</b>
Dividends on preferred stock	—	—	0.7
<b>Income / (loss) attributable to common stock</b>	<b>\$ 86.7</b>	<b>\$ 17.0</b>	<b>\$ (773.4)</b>

See Notes to Financial Statements.

**THE DAYTON POWER AND LIGHT COMPANY**  
**Statements of Comprehensive Income / (Loss)**

\$ in millions	Years ended December 31,		
	2018	2017	2016
<b>Net income / (loss)</b>	<b>\$ 86.7</b>	<b>\$ 17.0</b>	<b>\$ (772.7)</b>
<b>Equity securities activity:</b>			
Change in fair value of equity securities, net of income tax expense of \$0.0, (\$0.2) and (\$0.1) for each respective period	—	0.5	0.2
Reclassification to earnings, net of income tax benefit of \$0.0, \$0.0 and \$0.0 for each respective period	—	(0.1)	—
Net change in fair value of equity securities	—	0.4	0.2
<b>Derivative activity:</b>			
Change in derivative fair value, net of income tax benefit / (expense) of \$0.1, (\$7.2) and (\$8.7) for each respective period	(0.1)	12.4	16.1
Reclassification to earnings, net of income tax benefit of \$0.4, \$0.2 and \$0.2 for each respective period	(0.7)	(0.7)	(0.8)
Reclassification of earnings related to discontinued operations, net of income tax benefit of \$0.0, \$3.0 and \$16.2 for each respective period	—	(5.5)	(29.2)
Net change in fair value of derivatives	(0.8)	6.2	(13.9)
<b>Pension and postretirement activity:</b>			
Prior service cost for the period, net of income tax benefit of \$0.6, \$1.0 and \$0.0 for each respective period	(2.2)	(1.9)	(0.1)
Net gain / (loss) for the period, net of income tax benefit / (expense) of (\$0.4), \$0.4 and \$1.1 for each respective period	1.7	(0.8)	(5.9)
Reclassification to earnings, net of income tax expense of (\$1.0), (\$2.3) and (\$1.8) for each respective period	3.3	4.5	5.9
Net change in unfunded pension and postretirement obligations	2.8	1.8	(0.1)
<b>Other comprehensive income / (loss)</b>	<b>2.0</b>	<b>8.4</b>	<b>(13.8)</b>
<b>Net comprehensive income / (loss)</b>	<b>\$ 88.7</b>	<b>\$ 25.4</b>	<b>\$ (786.5)</b>

See Notes to Financial Statements.



**THE DAYTON POWER AND LIGHT COMPANY**  
**Balance Sheets**

\$ in millions	December 31, 2018	December 31, 2017
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 45.0	\$ 5.2
Restricted cash	21.2	0.4
Accounts receivable, net (Note 2)	90.4	70.8
Inventories (Note 2)	7.7	7.3
Taxes applicable to subsequent years	72.4	71.1
Regulatory assets, current (Note 3)	41.1	23.9
Taxes receivable	19.6	6.5
Other prepayments and current assets	13.3	14.6
Total current assets	<u>310.7</u>	<u>199.8</u>
<b>Property, plant and equipment:</b>		
Property, plant and equipment	2,274.4	2,247.2
Less: Accumulated depreciation and amortization	<u>(988.0)</u>	<u>(987.3)</u>
	1,286.4	1,259.9
Construction work in process	31.7	41.5
Total net property, plant and equipment	<u>1,318.1</u>	<u>1,301.4</u>
<b>Other non-current assets:</b>		
Regulatory assets, non-current (Note 3)	152.6	163.2
Intangible assets, net of amortization	17.2	18.8
Other deferred assets	21.0	12.7
Total other non-current assets	<u>190.8</u>	<u>194.7</u>
<b>Total Assets</b>	<u><b>\$ 1,819.6</b></u>	<u><b>\$ 1,695.9</b></u>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b>Current liabilities:</b>		
Current portion - long-term debt (Note 7)	\$ 4.6	\$ 4.6
Short-term debt	—	10.0
Accounts payable	55.8	46.6
Accrued taxes	75.7	76.6
Accrued interest	0.4	0.8
Customer security deposits	21.3	21.8
Regulatory liabilities, current (Note 3)	34.9	14.8
Other current liabilities	17.5	12.9
Total current liabilities	<u>210.2</u>	<u>188.1</u>
<b>Non-current liabilities:</b>		
Long-term debt (Note 7)	581.5	642.0
Deferred taxes (Note 8)	131.7	131.0
Taxes payable	77.1	75.8
Regulatory liabilities, non-current (Note 3)	278.3	221.2
Pension, retiree and other benefits (Note 9)	83.2	91.1
Asset retirement obligations	4.7	8.0
Other deferred credits	7.6	8.0
Total non-current liabilities	<u>1,164.1</u>	<u>1,177.1</u>
Commitments and contingencies (Note 11)		
<b>Common shareholder's equity:</b>		
Common stock, par value of \$0.01 per share	0.4	0.4
50,000,000 shares authorized, 41,172,173 shares issued and outstanding		
Other paid-in capital	711.8	685.8
Accumulated other comprehensive loss	(35.3)	(36.2)
Accumulated deficit	(231.6)	(319.3)
Total common shareholder's equity	<u>445.3</u>	<u>330.7</u>
<b>Total Liabilities and Shareholder's Equity</b>	<u><b>\$ 1,819.6</b></u>	<u><b>\$ 1,695.9</b></u>

See Notes to Financial Statements.

**THE DAYTON POWER AND LIGHT COMPANY**  
**Statements of Cash Flows**

\$ in millions	Years ended December 31,		
	2018	2017	2016
<b>Cash flows from operating activities:</b>			
Net income / (loss)	\$ 86.7	\$ 17.0	\$ (772.7)
Adjustments to reconcile Net income / (loss) to Net cash from operating activities			
Depreciation and amortization	74.5	87.2	120.3
Amortization of deferred financing costs	3.1	1.1	2.9
Unrealized loss (gain) on derivatives	—	(1.0)	(4.2)
Deferred income taxes	16.3	8.1	(477.5)
Charge for early redemption of debt	0.6	1.1	0.5
Fixed-asset impairment	—	66.3	1,353.5
Loss on disposal of business	12.4	—	—
Loss / (Gain) on asset disposal	0.2	15.7	(0.1)
Changes in certain assets and liabilities:			
Accounts receivable	13.5	14.6	(8.3)
Inventories	(0.3)	10.3	32.2
Prepaid taxes	—	—	2.7
Taxes applicable to subsequent years	(1.3)	6.4	—
Deferred regulatory costs, net	(9.2)	(23.7)	4.1
Accounts payable	3.8	(48.7)	14.6
Accrued taxes payable / receivable	(12.7)	(17.5)	(10.5)
Accrued interest payable	(0.4)	(1.3)	(2.0)
Pension, retiree and other benefits	(2.4)	4.8	3.0
Other	11.0	(5.0)	(21.3)
<b>Net cash provided by operating activities</b>	<b>195.8</b>	<b>135.4</b>	<b>237.2</b>
<b>Cash flows from investing activities:</b>			
Capital expenditures	(93.1)	(101.7)	(128.3)
Payments on disposal of business	(14.5)	—	—
Proceeds from sale of property	10.6	—	0.2
Insurance proceeds	0.4	12.5	6.1
Other investing activities, net	(0.3)	(0.3)	0.4
<b>Net cash used in investing activities</b>	<b>(96.9)</b>	<b>(89.5)</b>	<b>(121.6)</b>
<b>Cash flows from financing activities:</b>			
Dividends and returns of capital paid to parent	(43.8)	(39.0)	(70.0)
Dividends paid on preferred stock	—	—	(0.7)
Retirement of long-term debt	(64.5)	(104.5)	(445.3)
Capital contribution from parent	80.0	70.0	—
Issuance of long-term debt	—	—	442.8
Deferred financing costs	—	—	(8.5)
Redemption on preferred stock	—	—	(23.5)
Borrowings from revolving credit facilities	30.0	40.0	—
Repayment of borrowings from revolving credit facilities	(40.0)	(30.0)	—
Borrowings from related party	—	30.0	10.0
Repayment of borrowings from related party	—	(35.0)	(40.0)
Other financing activities, net	—	(0.4)	—
<b>Net cash used in financing activities</b>	<b>(38.3)</b>	<b>(68.9)</b>	<b>(135.2)</b>
Increase in cash and restricted cash of discontinued operations and held-for-sale businesses	—	27.0	15.8
<b>Cash, cash equivalents, and restricted cash:</b>			
Net increase / (decrease) in cash, cash equivalents and restricted cash	60.6	4.0	(3.8)
Balance at beginning of year	5.6	1.6	5.4
<b>Cash, cash equivalents, and restricted cash at end of year</b>	<b>\$ 66.2</b>	<b>\$ 5.6</b>	<b>\$ 1.6</b>
<b>Supplemental cash flow information:</b>			
Interest paid, net of amounts capitalized	\$ 22.9	\$ 28.4	\$ 21.4
Income taxes paid, net	\$ 13.1	\$ 28.1	\$ 0.3
<b>Non-cash financing and investing activities:</b>			
Accruals for capital expenditures	\$ 10.8	\$ 19.7	\$ 14.8
Equity contribution to settle liability	\$ —	\$ —	\$ 7.5
Distribution of generation assets to subsidiary of parent	\$ (10.0)	\$ (86.2)	\$ —

See Notes to Financial Statements.



**THE DAYTON POWER AND LIGHT COMPANY**  
**Statements of Shareholder's Equity**  
Common Stock <sup>(a)</sup>

\$ in millions	Outstanding Shares	Amount	Other Paid-in Capital	Accumulated Other Comprehensive Income / (Loss)	Retained Earnings / Accumulated Deficit	Total
<b>Year ended December 31, 2016</b>						
Beginning balance	41,172,173	\$ 0.4	\$ 803.7	\$ (28.7)	\$ 437.3	\$ 1,212.7
Net comprehensive loss				(13.8)	(772.7)	(786.5)
Common stock dividends and returns of capital					(70.0)	(70.0)
Preferred stock dividends					(0.7)	(0.7)
Other			7.0		(0.2)	6.8
Ending balance	41,172,173	0.4	810.7	(42.5)	(406.3)	362.3
<b>Year ended December 31, 2017</b>						
Net comprehensive income				8.4	17.0	25.4
Common stock dividends and returns of capital			(39.0)			(39.0)
Transfer of generation assets to subsidiary of parent			(86.2)	(2.1)		(88.3)
Capital contribution from parent			70.0			70.0
Other <sup>(b)</sup>			(69.7)		70.0	0.3
Ending balance	41,172,173	0.4	685.8	(36.2)	(319.3)	330.7
<b>Year ended December 31, 2018</b>						
Net comprehensive income				2.0	86.7	88.7
Common stock dividends and returns of capital			(43.8)			(43.8)
Transfer of generation assets to subsidiary of parent <sup>(c)</sup>			(10.0)			(10.0)
Capital contribution from parent			80.0			80.0
Other <sup>(d)</sup>			(0.2)	(1.1)	1.0	(0.3)
Ending balance	<u>41,172,173</u>	<u>\$ 0.4</u>	<u>\$ 711.8</u>	<u>\$ (35.3)</u>	<u>\$ (231.6)</u>	<u>\$ 445.3</u>

(a) \$0.01 par value, 50,000,000 shares authorized.

(b) In 2017, we reclassified the presentation of the December 2016 dividend payment of \$70.0 million. This was originally recorded as a charge to Accumulated deficit but was reclassified as a charge to Other paid-in capital as it represented a return of capital.

(c) In 2018, DP&L transferred additional deferred taxes to AES Ohio Generation under the provisions of SAB 118 through an equity transaction with DPL. See Note 8 – Income Taxes for additional information.

(d) ASU 2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities" was effective as of January 1, 2018. This ASU requires the change in the fair value of equity instruments to be recorded in income rather than in OCI. Equity Instruments were defined to include all mutual funds, regardless of the underlying investments.

See Notes to Financial Statements.

**The Dayton Power and Light Company**  
**Notes to Financial Statements**  
**For the years ended December 31, 2018, 2017 and 2016**

**Note 1 – Overview and Summary of Significant Accounting Policies**

**Description of Business**

**DP&L** is a public utility incorporated in 1911 under the laws of Ohio. Beginning in 2001, Ohio law gave consumers the right to choose the electric generation supplier from whom they purchase retail generation service, however transmission and distribution services are still regulated. **DP&L** has the exclusive right to provide such service to its approximately 525,000 customers located in West Central Ohio. **DP&L** provides retail SSO electric service to residential, commercial, industrial and governmental customers in a 6,000 square mile area of West Central Ohio. Since January 2016, **DP&L** has been sourcing all of the generation for its SSO customers through a competitive bid process. Through September 30, 2017, **DP&L** owned undivided interests in multiple coal-fired power stations and multiple peaking electric generating facilities as well as numerous transmission facilities. On October 1, 2017, the **DP&L**-owned generating facilities, excluding the Beckjord Facility and Hutchings EGU, were transferred to AES Ohio Generation, an affiliate of **DP&L** and wholly-owned subsidiary of **DPL**, through an asset contribution agreement to a subsidiary that was merged into AES Ohio Generation. Also, Stuart Station Unit 1 was retired on October 1, 2017. Principal industries located in **DP&L's** service territory include automotive, food processing, paper, plastic, manufacturing and defense. **DP&L's** sales reflect the general economic conditions, seasonal weather patterns of the area and the market price of electricity. Through the date of Generation Separation, **DP&L** sold energy and capacity into the wholesale market. As a result of Generation Separation, **DP&L** now only has one reportable segment, Transmission and Distribution. In addition to **DP&L's** electric transmission and distribution businesses, the Transmission and Distribution segment includes revenues and costs associated with **DP&L's** investment in OVEC and the historical results of **DP&L's** Beckjord and Hutchings Coal generating facilities, which were either closed or sold in prior periods.

**DP&L's** electric transmission and distribution businesses are subject to rate regulation by federal and state regulators. Accordingly, **DP&L** applies the accounting standards for regulated operations to its electric transmission and distribution businesses and records regulatory assets when incurred costs are expected to be recovered in future customer rates, and regulatory liabilities when current cost recoveries in customer rates relate to expected future costs or overcollections of riders.

**DP&L** employed 647 people at January 31, 2019. Approximately 58% of all employees are under a collective bargaining agreement.

**Financial Statement Presentation**

**DP&L** does not have any subsidiaries.

Through June 2018, **DP&L** had undivided ownership interests in numerous transmission facilities. These undivided interests in jointly-owned facilities were accounted for on a pro rata basis in the Financial Statements. In June 2018, **DP&L** closed on a transmission asset transaction with Duke and AEP, where ownership stakes in certain previously co-owned transmission assets were exchanged to eliminate co-ownership. Each previously co-owned transmission asset became wholly-owned by one of **DP&L**, Duke or AEP after the transaction. See Note 4 – Property, Plant and Equipment for more information.

We have evaluated subsequent events through the date this report is issued.

Certain amounts from prior periods have been reclassified to conform to the current period presentation.

The preparation of financial statements in conformity with GAAP requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the revenues and expenses of the periods reported. Actual results could differ from these estimates. Significant items subject to such estimates and judgments include: the carrying value of Property, plant and equipment; unbilled revenues; the valuation of derivative instruments; the valuation of insurance and claims liabilities; the valuation of allowances for receivables and deferred income taxes; regulatory assets and liabilities; reserves recorded for income tax exposures; litigation; contingencies; the valuation of AROs; and assets and liabilities related to employee benefits.



### **Revenue Recognition**

Revenues are recognized from retail and wholesale electricity sales and electricity transmission and distribution delivery services. Revenue is recognized upon transfer of control of promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. Energy sales to customers are based on the reading of their meters that occurs on a systematic basis throughout the month. We recognize the revenues on our Statements of Operations using an accrual method for retail and other energy sales that have not yet been billed, but where electricity has been consumed. This is termed "unbilled revenues" and is a widely recognized and accepted practice for utilities. At the end of each month, unbilled revenues are determined by the estimation of unbilled energy provided to customers since the date of the last meter reading, estimated line losses, the assignment of unbilled energy provided to customer classes and the average rate per customer class.

The power sales and purchases within **DP&L's** service territory are reported on a net hourly basis as revenues or purchased power on our Statements of Operations. We record expenses when purchased electricity is received and when expenses are incurred. For additional information, see Note 13 – Revenue.

### **Allowance for Uncollectible Accounts**

We establish provisions for uncollectible accounts by using both historical average loss percentages to project future losses and by establishing specific provisions for known credit issues. Amounts are written off when reasonable collections efforts have been exhausted.

### **Property, Plant and Equipment**

We record our ownership share of our undivided interest in jointly-owned transmission and distribution property as an asset in property, plant and equipment. New property, plant and equipment additions are stated at cost. For regulated transmission and distribution property, cost includes direct labor and material, allocable overhead expenses and an allowance for funds used during construction (AFUDC). AFUDC represents the cost of borrowed funds and equity used to finance regulated construction projects. For non-regulated property, cost also includes capitalized interest. Capitalization of AFUDC and interest ceases at either project completion or at the date specified by regulators AFUDC and capitalized interest was \$0.5 million, \$1.5 million and \$2.0 million for the years ended December 31, 2018, 2017 and 2016, respectively.

For substantially all depreciable property, when a unit of property is retired, the original cost of that property less any salvage value is charged to Accumulated depreciation and amortization, consistent with composite depreciation practices.

Property is evaluated for impairment when events or changes in circumstances indicate that its carrying amount may not be recoverable.

### **Repairs and Maintenance**

Costs associated with maintenance activities are recognized at the time the work is performed. These costs, which include labor, materials and supplies, and outside services required to maintain equipment and facilities, are capitalized or expensed based on defined units of property.

### **Depreciation**

Depreciation expense is calculated using the straight-line method, which allocates the cost of property over its estimated useful life. For **DP&L's** transmission and distribution assets, straight-line depreciation is applied monthly on an average composite basis using group rates. For **DP&L's** transmission and distribution assets, straight-line depreciation is applied on an average annual composite basis using group rates that approximated 3.0% in 2018, 3.4% in 2017 and 4.6% in 2016. Depreciation expense was \$68.2 million, \$69.6 million and \$64.3 million for the years ended December 31, 2018, 2017 and 2016, respectively.

### **Regulatory Accounting**

As a regulated utility, **DP&L** applies the provisions of FASC 980 "Regulated Operations", which gives recognition to the ratemaking and accounting practices of the PUCO and the FERC. Regulatory assets generally represent incurred costs that have been deferred because such costs are probable of future recovery in customer rates. Regulatory assets can also represent performance incentives permitted by the regulator. Regulatory assets have been included as allowable costs for ratemaking purposes, as authorized by the PUCO or established regulatory practices. Regulatory liabilities generally represent obligations to make refunds or future rate reductions to



customers for previous over collections or the deferral of revenues collected for costs that **DP&L** expects to incur in the future.

The deferral of costs (as regulatory assets) is appropriate only when the future recovery of such costs is probable. In assessing probability, we consider such factors as specific orders from the PUCO or FERC, regulatory precedent and the current regulatory environment. To the extent recovery of costs is no longer deemed probable, related regulatory assets would be required to be expensed in current period earnings. Our regulatory assets and liabilities have been created pursuant to a specific order of the PUCO or FERC or established regulatory practices, such as other utilities under the jurisdiction of the PUCO or FERC being granted recovery of similar costs. It is probable, but not certain, that these regulatory assets will be recoverable, subject to PUCO or FERC approval. Regulatory assets and liabilities are classified as current or non-current based on the term in which recovery is expected See Note 3 – Regulatory Matters for more information.

### **Inventories**

Inventories are carried at average cost and include materials and supplies used for utility operations.

### **Intangibles**

Intangibles include software, emission allowances and renewable energy credits. Emission allowances are carried on a first-in, first-out (FIFO) basis for purchased emission allowances. Net gains or losses on the sale of excess emission allowances, representing the difference between the sales proceeds and the cost of emission allowances, are recorded as a component of our fuel costs and are reflected in Operating income when realized. Emission allowances are amortized as they are used in our operations on a FIFO basis. Renewable energy credits are carried on a weighted average cost basis and amortized as they are used or retired.

Software is amortized over seven years Amortization expense was \$6.3 million, \$5.7 million and \$6.7 million for the years ended December 31, 2018, 2017 and 2016, respectively. The estimated amortization expense of this internal-use software over the next five years is \$11.1 million (\$3.5 million in 2019, \$2.4 million in 2020, \$2.2 million in 2021, \$1.8 million in 2022 and \$1.2 million in 2023).

### **Income Taxes**

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of the existing assets and liabilities, and their respective income tax bases. We establish an allowance when it is more likely than not that all or a portion of a deferred tax asset will not be realized. Our tax positions are evaluated under a more likely than not recognition threshold and measurement analysis before they are recognized for financial statement reporting. Uncertain tax positions have been classified as noncurrent income tax liabilities unless expected to be paid within one year. Our policy for interest and penalties is to recognize interest and penalties as a component of the provision for income taxes in the Statement of Operations.

Income taxes payable, which are includable in allowable costs for ratemaking purposes in future years, are recorded as regulatory assets or liability with a corresponding deferred tax liability or asset. Investment tax credits that reduced federal income taxes in the years they arose have been deferred and are being amortized to income over the useful lives of the properties in accordance with regulatory treatment See Note 3 – Regulatory Matters for additional information.

**DP&L** files U.S. federal income tax returns as part of the consolidated U.S. income tax return filed by AES. The consolidated tax liability is allocated to each subsidiary based on the separate return method which is specified in our tax allocation agreement and which provides a consistent, systematic and rational approach See Note 8 – Income Taxes for additional information.

### **Financial Instruments**

Our Master Trust investments in debt and equity financial instruments of publicly traded entities are classified as equity investments. These equity securities are carried at fair value and unrealized gains and losses on these securities are recorded in Other income. As these financial instruments are held to be used for the benefit of employees participating in employee benefit plans and are not used for general operating purposes, they are classified as non-current in Other deferred assets on the Consolidated Balance Sheets.



## Held-for-sale Businesses

A business classified as held-for-sale is reflected on the balance sheet at the lower of its carrying amount or estimated fair value less cost to sell. A loss is recognized if the carrying amount of the business exceeds its estimated fair value less cost to sell. This loss is limited to the carrying value of long-lived assets until the completion of the sale, at which point, any additional loss is recognized. If the fair value of the business subsequently exceeds the carrying amount while the business is still held-for-sale, any impairment expense previously recognized will be reversed up to the lower of the previously recognized expense or the subsequent excess.

Assets and liabilities related to a business classified as held-for-sale are segregated in the current balance sheet in the period in which the business is classified as held-for-sale. Assets and liabilities of held-for-sale businesses are classified as current when they are expected to be disposed of within twelve months. Transactions between the business held-for-sale and businesses that are expected to continue to exist after the disposal are not eliminated to appropriately reflect the continuing operations and balances held-for-sale. See Note 14 – Generation Separation for further information.

## Discontinued Operations

Discontinued operations reporting occurs only when the disposal of a business or a group of assets represents a strategic shift that has (or will have) a major effect on our operations and financial results. We report financial results for discontinued operations separately from continuing operations to distinguish the financial impact of disposal transactions from ongoing operations. Prior period amounts in the statement of operations and balance sheet are retrospectively revised to reflect the businesses determined to be discontinued operations. The cash flows of businesses that are determined to be discontinued operations are included within the relevant categories within operating, investing and financing activities on the face of the Statements of Cash Flows.

Transactions between the businesses determined to be discontinued operations and businesses that are expected to continue to exist after the disposal are not eliminated to appropriately reflect the continuing operations and balances held-for-sale. The results of discontinued operations include any gain or loss recognized on closing or adjustment of the carrying amount to fair value. See Note 14 – Generation Separation for further information.

## Generation Separation

With the transfer of DP&L's generation assets to an affiliate (see Note 14 – Generation Separation), DP&L's generation business is presented as a discontinued operation and the operating activities have been reclassified to "Discontinued operations" in the Statements of Operations for the years ended December 31, 2017 and 2016 and in the notes to the financial statements.

## Accounting for Taxes Collected from Customers and Remitted to Governmental Authorities

DP&L collects certain excise taxes levied by state or local governments from its customers. DP&L's excise taxes and certain other taxes are accounted for on a net basis and recorded as a reduction in revenues in the accompanying Statements of Operations. The amounts for the years ended December 31, 2018, 2017 and 2016 were \$51.7 million, \$49.4 million and \$50.9 million, respectively.

## Cash and Cash Equivalents

Cash and cash equivalents are stated at cost, which approximates fair value. All highly liquid short-term investments with original maturities of three months or less are considered cash equivalents.

## Restricted Cash

Restricted cash includes cash which is restricted as to withdrawal or usage. The nature of the restrictions includes restrictions imposed by agreements related to deposits held as collateral and cash collected under the DMR which is restricted to pay debt obligations at DPL and DP&L and position DP&L to modernize and/or maintain its transmission and distribution infrastructure.

The following table provides a summary of cash, cash equivalents, and restricted cash amounts reported on the Balance Sheet that reconcile to the total of such amounts as shown on the Statements of Cash Flows:

\$ in millions	December 31, 2018	December 31, 2017
Cash and cash equivalents	\$ 45.0	\$ 5.2
Restricted cash	21.2	0.4
Cash, Cash Equivalents, and Restricted Cash, End of Period	<u>\$ 66.2</u>	<u>\$ 5.6</u>

### **Financial Derivatives**

All derivatives are recognized as either assets or liabilities in the balance sheets and are measured at fair value. Changes in the fair value are recorded in earnings unless the derivative is designated as a cash flow hedge of a forecasted transaction.

We use interest rate hedges to manage the interest rate risk of our variable rate debt. We use cash flow hedge accounting when the hedge or a portion of the hedge is deemed to be highly effective, which results in changes in fair value being recorded within accumulated other comprehensive income, a component of shareholder's equity. We have elected not to offset net derivative positions in the financial statements. Accordingly, we do not offset such derivative positions against the fair value of amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral under master netting agreements. See Note 6 – Derivative Instruments and Hedging Activities for additional information.

### **Insurance and Claims Costs**

In addition to insurance obtained from third-party providers, MVIC, a wholly-owned captive subsidiary of DPL, provides insurance coverage solely to us and other DPL subsidiaries for workers' compensation, general liability, and property damage on an ongoing basis. DP&L is responsible for claims costs below certain coverage thresholds of MVIC and third-party insurers for the insurance coverage noted above. DP&L has estimated liabilities for medical, life, disability, and other reserves for claims costs below certain coverage thresholds of third-party providers of approximately \$4.3 million and \$4.4 million at December 31, 2018 and 2017, respectively, within Other current liabilities and Other deferred credits on the balance sheets. The estimated liabilities for workers' compensation, medical, life and disability costs at DP&L are actuarially determined using certain assumptions. There is uncertainty associated with these loss estimates, and actual results may differ from the estimates. Modification of these loss estimates based on experience and changed circumstances is reflected in the period in which the estimate is re-evaluated.

### **Pension and Postretirement Benefits**

We recognize in our Balance Sheets an asset or liability reflecting the funded status of pension and other postretirement plans with current-year changes from actuarial gains or losses related to our regulated operations, that would otherwise be recognized in AOCI, recorded as a regulatory asset as this can be recovered through future rates. Such changes that are not related to our regulated operations are recognized in AOCI. All plan assets are recorded at fair value. We follow the measurement date provisions of the accounting guidance, which require a year-end measurement date of plan assets and obligations for all defined benefit plans.

We account for and disclose pension and postretirement benefits in accordance with the provisions of GAAP relating to the accounting for pension and other postretirement plans. These GAAP provisions require the use of assumptions, such as the discount rate for liabilities and long-term rate of return on assets, in determining the obligations, annual cost and funding requirements of the plans. Consistent with the requirements of FASC 715, we apply a disaggregated discount rate approach for determining service cost and interest cost for our defined benefit pension plans and postretirement plans.

See Note 9 – Benefit Plans for more information.

### **Related Party Transactions**

In the normal course of business, DP&L enters into transactions with other subsidiaries of DPL or AES. See Note 12 – Related Party Transactions for additional information on Related Party Transactions.



## New accounting pronouncements adopted in 2018

The following table provides a brief description of recently adopted accounting pronouncements that had an impact on our consolidated financial statements. Accounting pronouncements not listed below were assessed and determined to be either not applicable or did not have a material impact on our financial statements.

Accounting Standard	Description	Date of Adoption	Effect on the financial statements upon adoption
<b>New Accounting Standards Adopted</b>			
2018-15, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract	This standard aligns the accounting for implementation costs incurred for a cloud computing arrangement that is a service with the requirement for capitalizing implementation costs associated with developing or obtaining internal-use software. Transition method: retrospective or prospective.	October 1, 2018	We elected to early-adopt this standard on a prospective basis, effective for fiscal year 2018. The adoption of this standard did not have a material impact on our financial statements.
2018-14, Compensation — Retirement Benefits — Defined Benefit Plans — General (Subtopic 715-20): Disclosure Framework	This standard modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. Transition method: retrospective.	Early adoption elected, January 1, 2018	Impact limited to changes in financial statement disclosures.
2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost	This standard changes the presentation of non-service costs associated with defined benefit plans and updates the guidance so that only the service cost component will be eligible for capitalization. Transition method: retrospective for presentation of non-service cost and prospective for the change in capitalization.	January 1, 2018	For the years ended December 31, 2017 and 2016 we reclassified non-service pension costs from Operating expenses to Other expense of (\$1.5) million and (\$0.9) million, respectively.
2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)	This standard requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Transition method: retrospective.	January 1, 2018	For the years ended December 31, 2017 and 2016, we reclassified from "Net cash used in investing activities" to "Net increase / (decrease) in cash, cash equivalents and restricted cash" \$26.6 million and (\$11.9) million, respectively.
2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities	The standard significantly revises an entity's accounting related to (1) classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosures of financial instruments. Transition method: modified retrospective. Prospective for equity investments without readily determinable fair value.	January 1, 2018	We adopted this standard January 1, 2018. At that date, we transferred \$1.7 million (\$1.1 million net of tax) of unrealized gains from AOCI to Retained Earnings.
2014-09, 2015-14, 2016-08, 2016-10, 2016-12, 2016-20, 2017-10, 2017-13, Revenue from Contracts with Customers (Topic 606)	See discussion of the ASU below.	January 1, 2018	See impact upon adoption of the standard below.

### Adoption of FASC Topic 606, "Revenue from Contracts with Customers"

On January 1, 2018, we adopted ASU 2014-09, "Revenue from Contracts with Customers", and its subsequent corresponding updates ("FASC 606"). The core principle of this standard is that an entity shall recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. We applied the modified retrospective method of adoption to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning January 1, 2018 are presented under FASC 606, while prior period amounts were not adjusted and continue to be reported in accordance with our historic accounting under the previous revenue recognition standard. For contracts that were modified before January 1, 2018, we have not retrospectively restated the contracts for modifications. We instead reflected the aggregate effect of all modifications when identifying the satisfied and unsatisfied performance obligations, determining the transaction price and allocating the transaction price. We do not expect the adoption of the new revenue standard to have a material impact to our net income on an ongoing basis.



There was no cumulative effect to our January 1, 2018 Balance Sheet resulting from the adoption of FASC 606.

**New accounting pronouncements issued but not yet effective** - The following table provides a brief description of recent accounting pronouncements that could have a material impact on our financial statements. Accounting pronouncements not listed below were assessed and determined to be either not applicable or are expected to have no material impact on our financial statements.

Accounting Standard	Description	Date of Adoption	Effect on the financial statements upon adoption
<b>New Accounting Standards Issued but Not Yet Effective</b>			
2018-02, Income Statement - Reporting Comprehensive Income (Topic 220), Reclassification of Certain Tax Effects from AOCI	This amendment allows a reclassification of the stranded tax effects resulting from the implementation of the Tax Cuts and Jobs Act from AOCI to retained earnings. Because this amendment only relates to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected.	January 1, 2019. Early adoption is permitted.	We do not expect any impact on our financial statements upon adoption of the standard on January 1, 2019.
2017-12, Derivatives and Hedging (Topic 815): Targeted improvements to Accounting for Hedging Activities	The standard updates the hedge accounting model to expand the ability to hedge nonfinancial and financial risk components, reduce complexity, and ease certain documentation and assessment requirements. When facts and circumstances are the same as at the previous quantitative test, a subsequent quantitative effectiveness test is not required. The standard also eliminates the requirement to separately measure and report hedge ineffectiveness. For cash flow hedges, this means that the entire change in the fair value of a hedging instrument will be recorded in other comprehensive income and amounts deferred will be reclassified to earnings in the same income statement line as the hedged item in the period in which it settles. Transition method: modified retrospective with the cumulative effect adjustment recorded to the opening balance of retained earnings as of the initial application date. Prospective for presentation and disclosures.	January 1, 2019. Early adoption is permitted.	We are currently evaluating the impact of adopting the standard on our financial statements.
2018-19, 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	The standard updates the impairment model for financial assets measured at amortized cost. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a new forward-looking "expected loss" model that generally will result in the earlier recognition of allowance for losses. For available-for-sale debt securities with unrealized losses, entities will measure credit losses as it is done today, except that the losses will be recognized as an allowance rather than a reduction in the amortized cost of the securities. Transition method: various.	January 1, 2020. Early adoption is permitted only as of January 1, 2019.	We are currently evaluating the impact of adopting the standard on our financial statements.
2016-02, 2018-01, 2018-10, 2018-11, 2018-20 Leases (Topic 842)	See discussion of the ASU below.	January 1, 2019. Early adoption is permitted.	We will adopt the standard on January 1, 2019; see below for the evaluation of the impact of its adoption on our financial statements.

#### *Adoption of FASC Topic 842, "Leases"*

ASU 2016-02 and its subsequent corresponding updates require lessees to recognize assets and liabilities for most leases but recognize expenses in a manner similar to today's accounting. For lessors, the guidance modifies the lease classification criteria and the accounting for sales-type and direct financing leases. The guidance also eliminates today's real estate-specific provisions.

The standard must be adopted using a modified retrospective approach. The FASB has provided an optional transition method, which we have elected, that allows entities to continue to apply the guidance in FASC 840 Leases to the comparative periods presented in the year of adoption. Under this transition method, we will apply the transition provisions starting on January 1, 2019.

We have elected to apply a package of practical expedients that allow lessees and lessors not to reassess: (1) whether any expired or existing contracts are or contain leases, (2) lease classification for any expired or existing leases, and (3) whether initial direct costs for any expired or existing leases qualify for capitalization under FASC 842. These three practical expedients must be elected as a package and must be consistently applied to all leases. We have also elected to apply an optional transition practical expedient for land easements that allows an entity to



continue applying its current accounting policy for all land easements that exist before the standard's effective date that were not previously accounted for under FASC 840.

We established a task force focused on the identification of contracts that would be under the scope of the new standard and on the assessment and measurement of the right-of-use assets and related liabilities. Additionally, the implementation team has been working on the configuration of a lease accounting tool that will support the implementation and the subsequent accounting. The implementation team has also evaluated changes to our business processes, systems and controls to support recognition and disclosure under the new standard.

Under FASC 842, it is expected that fewer contracts will contain a lease. However, due to the elimination of the real estate-specific guidance and changes to certain lessor classification criteria, more leases will qualify as sales-type leases and direct financing leases. Under these two models, a lessor will derecognize the asset and will recognize a lease receivable. According to FASC 842, the lease receivable includes the fair value of the plant after the contract period but does not include any variable payments such as margin on the sale of energy. Therefore, the lease receivable could be significantly different than the carrying amount of the underlying asset at lease commencement. In such circumstances, the difference between the initially recognized lease receivable and the carrying amount of the underlying asset is recognized as a gain/loss at lease commencement.

The adoption of FASC 842 did not have a material impact on our financial statements.

## **Note 2 – Supplemental Financial Information**

\$ in millions	December 31,	
	2018	2017
<b>Accounts receivable, net</b>		
Customer receivables	\$ 53.3	\$ 44.2
Unbilled revenue	16.8	18.0
Amounts due from partners in jointly-owned stations	—	5.0
Due from PJM transmission enhancement settlement <sup>(a)</sup>	16.5	—
Due from affiliates	2.3	0.6
Other	2.4	4.1
Provisions for uncollectible accounts	(0.9)	(1.1)
<b>Total accounts receivable, net</b>	<b>\$ 90.4</b>	<b>\$ 70.8</b>
<b>Inventories, at average cost</b>		
Materials and supplies	\$ 7.1	\$ 6.9
Other	0.6	0.4
<b>Total inventories, at average cost</b>	<b>\$ 7.7</b>	<b>\$ 7.3</b>

(a) - See Note 3 – Regulatory Matters for more information.

## Accumulated Other Comprehensive Income / (Loss)

The amounts reclassified out of Accumulated Other Comprehensive Income / (Loss) by component during the years ended December 31, 2018, 2017 and 2016 are as follows:

Details about Accumulated Other Comprehensive Income / (Loss) Components	Affected line item in the Statements of Operations	Years ended December 31,		
\$ in millions		2018	2017	2016
Gains and losses on equity securities activity (Note 5):				
	Other deductions	\$ —	\$ (0.1)	\$ —
	Income tax expense	—	—	—
	Net of income taxes	—	(0.1)	—
Gains and losses on cash flow hedges (Note 6):				
	Interest expense	(1.1)	(0.9)	(1.0)
	Income tax benefit	0.4	0.2	0.2
	Net of income taxes	(0.7)	(0.7)	(0.8)
	Loss from discontinued operations	—	(8.5)	(45.4)
	Income tax benefit from discontinued operations	—	3.0	16.2
	Net of income taxes	—	(5.5)	(29.2)
Amortization of defined benefit pension items (Note 9):				
	Other income	4.3	6.8	7.7
	Income tax expense	(1.0)	(2.3)	(1.8)
	Net of income taxes	3.3	4.5	5.9
Total reclassifications for the period, net of income taxes		\$ 2.6	\$ (1.8)	\$ (24.1)

The changes in the components of Accumulated Other Comprehensive Income / (Loss) during the years ended December 31, 2018 and 2017 are as follows:

\$ in millions	Gains / (losses) on equity securities	Gains / (losses) on cash flow hedges	Change in unfunded pension obligation	Total
<b>Balance at December 31, 2016</b>	\$ 0.7	\$ (2.7)	\$ (40.5)	\$ (42.5)
Other comprehensive income / (loss) before reclassifications	0.5	12.4	(2.7)	10.2
Amounts reclassified from accumulated other comprehensive income / (loss)	(0.1)	(6.2)	4.5	(1.8)
Net current period other comprehensive income	0.4	6.2	1.8	8.4
Transfer of generation assets to subsidiary of parent	—	(2.1)	—	(2.1)
<b>Balance at December 31, 2017</b>	1.1	1.4	(38.7)	(36.2)
Other comprehensive loss before reclassifications	—	(0.1)	(0.5)	(0.6)
Amounts reclassified from accumulated other comprehensive income / (loss) to earnings	—	(0.7)	3.3	2.6
Net current period other comprehensive income / (loss)	—	(0.8)	2.8	2.0
Amounts reclassified from accumulated other comprehensive income to accumulated deficit <sup>(a)</sup>	(1.1)	—	—	(1.1)
<b>Balance at December 31, 2018</b>	\$ —	\$ 0.6	\$ (35.9)	\$ (35.3)

(a) ASU 2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities" was effective as of January 1, 2018. This ASU requires the change in the fair value of equity instruments to be recorded in income rather than in OCI. Equity Instruments were defined to include all mutual funds, regardless of the underlying investments.

## Note 3 – Regulatory Matters

### Distribution Rate Order

On September 26, 2018 the PUCO issued the DRO establishing new base distribution rates for DP&L, which became effective October 1, 2018. The DRO approved, without modification, a stipulation and recommendation previously filed by DP&L, along with various intervening parties and the PUCO staff. The DRO established a



revenue requirement of \$248.0 million for **DP&L's** electric service base distribution rates which reflects an increase to distribution revenues of approximately \$29.8 million per year. In addition to the increase in base distribution rates, and among other matters, the DRO provides for a return on equity of 9.999% and a cost of long-term debt of 4.8% and for the following items:

**DIR** – The DRO authorized **DP&L** to begin charging a Distribution Investment Rider ("DIR") set initially at \$12.2 million annually, effective October 1, 2018. The DIR revenue requirement shall be updated quarterly and will increase as **DP&L** makes qualified investments in its distribution network, subject to annual revenue limits which increase each year; the revenue limit for 2019 is \$22.0 million. The DIR will expire in November 2022 unless **DP&L** files a base distribution rate case on or before October 31, 2022, in which case the DIR will expire in November 2023.

**Decoupling Rider** – The DRO eliminated provisions in the existing decoupling rider which allowed **DP&L** to recover lost revenues resulting from the implementation of energy efficiency programs and replaced it with a revenue requirement that attempts to eliminate the impacts of weather and demand on **DP&L's** revenues from residential and commercial distribution customers beginning January 1, 2019. As a result, in years with very mild weather and/or decreased demand, **DP&L** will be able to accrue a regulatory asset for recovery through the rider to normalize the revenues. Conversely, in periods of extreme temperatures or high demand for electricity, **DP&L** may record a liability for future reimbursement to customers. The rider also includes a one-time \$3.7 million revenue requirement based on the increase in the number of **DP&L's** residential and commercial customers from the rate case test year until September 30, 2018. Such amount was accrued and included in revenues in the third quarter of 2018 and will be collected by **DP&L** in 2019.

**TCJA** – The DRO partially resolved the TCJA impacts. The new distribution rates include the impacts of the decrease in current federal income taxes beginning October 1, 2018. The DRO did not designate how much **DP&L** may owe for any overcollection of taxes from January 1, 2018 through September 30, 2018, nor did it resolve any decrease in future rates related to amortization of excess accumulated deferred income taxes ("ADIT"). The DRO did, however, stipulate that **DP&L** must refund its customers an amount no less than \$4.0 million per year for the first five years of the amortization period unless all balances owed are fully returned within the first five years. For more on the impacts of the TCJA, see below.

**Vegetation Management Costs** – The DRO authorizes **DP&L** to defer as a regulatory asset, with no carrying costs, annual expenses for vegetation management performed by third-party vendors. For calendar year 2018 annual expenses which are incremental to the baseline of \$10.7 million can be deferred up to a \$4.6 million cap. For calendar years 2019 and thereafter, annual expenses in excess of \$15.7 million can be deferred up to a \$4.6 million annual cap. Annual spending of less than the vegetation management baseline amounts will result in a reduction to the regulatory asset or creation of a regulatory liability. For 2018, **DP&L** accrued a regulatory asset for the maximum amount of \$4.6 million based upon such provisions and spending above the baseline.

In December 2018, **DP&L** filed a Distribution Modernization Plan ("DMP") with the PUCO proposing to invest \$576.0 million in capital projects over the next 10 years. There are eight principal components of **DP&L's** DMP: 1) Smart Meters, 2) Self-Healing Grid, 3) Customer Engagement, 4) Enhancing Sustainability and Embracing Innovation, 5) Telecommunications, 6) Physical and Cyber Security, 7) Governance and Analytics, and 8) Grid Modernization R&D.

### **ESP Order**

On March 13, 2017, **DP&L** filed an amended stipulation to its 2017 ESP, which was subject to approval by the PUCO. A final decision was issued by the PUCO on October 20, 2017, modifying and adopting the amended stipulation and recommendation. The six-year 2017 ESP establishes **DP&L's** framework for providing retail service on a going-forward basis including rate structures, non-bypassable charges and other specific rate recovery true-up mechanisms which include, but are not limited to, the following:

- Bypassable standard offer energy rates for **DP&L's** customers based on competitive bid auctions;
- The establishment of a three-year non-bypassable Distribution Modernization Rider (DMR) designed to collect \$105.0 million in revenue per year to pay debt obligations at **DPL** and **DP&L** and position **DP&L** to modernize and/or maintain its transmission and distribution infrastructure with an option for **DP&L** to file for an extension of the rider for an additional two years in an amount subject to approval by the PUCO.



Consistent with that settlement and the PUCO order, on January 22, 2019, **DP&L** filed a request to extend the DMR for the additional two years at an annual revenue amount of \$199.0 million. That request is pending PUCO review;

- The establishment of a non-bypassable Distribution Investment Rider to recover incremental distribution capital investments, the amount of which was established in the **DP&L** DRO;
- A non-bypassable Reconciliation Rider permitting **DP&L** to defer, recover or credit the net proceeds from selling energy and capacity received as part of **DP&L's** investment in OVEC and **DP&L's** OVEC related costs;
- Implementation by **DP&L** of a Smart Grid Rider, Economic Development Rider, Economic Development Fund, Regulatory Compliance Rider and certain other new, or changes to existing, rates, riders and competitive retail market enhancements, with tariffs consistent with the order. These riders became effective November 1, 2017;
- A commitment to commence a sale process to sell our ownership interests in the Miami Fort, Zimmer and Conesville coal-fired generation plants, with all sales proceeds used to pay debt of **DPL** and **DP&L**;
- Restrictions on **DPL** making dividend or tax sharing payments and an obligation to convert then existing tax payments owed by **DPL** to AES into equity investments in **DPL**. See ; Note 8 – Income Taxes and Note 10 – Equity for more information on the tax sharing payment restrictions; and
- Various other riders and competitive retail market enhancements.

On October 19, 2018 IGS, a retail electricity supplier, filed a Notice of Withdrawal from the amended settlement, citing a material modification by the PUCO's October 2017 order. To address the withdrawal, the PUCO established a new procedural schedule, including a hearing currently scheduled to begin April 1, 2019. Additionally, on January 7, 2019, the Ohio Consumers' Counsel appealed the 2017 ESP Order to the Supreme Court of Ohio. That appeal is pending.

**DP&L** is subject to a SEET threshold and is required to apply general rules for calculating earnings and comparing them to a comparable group to determine whether there were significantly excessive earnings during a given calendar year. The 2017 ESP maintains **DP&L's** return on equity SEET threshold at 12% and provides that DMR amounts are excluded from the SEET calculation. On October 22, 2018, a stipulation was reached agreeing that **DP&L** did not exceed the SEET threshold for 2016 or 2017. That stipulation is pending PUCO approval. In future years, the SEET could have a material effect on results of operations, financial condition and cash flows.

### **Impact of Tax Reform**

On January 10, 2018 the PUCO initiated a proceeding to consider the impacts of the TCJA to determine the appropriate course of action to pass benefits resulting from the legislation on to ratepayers. The PUCO also directed Ohio utilities to record deferred liabilities for the estimated reduction in federal income tax resulting from the TCJA beginning January 1, 2018. Under the terms of the ESP, **DPL** will not make tax sharing payments. Under the terms of the stipulation in the distribution rate case mentioned above, **DP&L** agreed to file an application at the PUCO by March 1, 2019 to refund eligible excess accumulated deferred income taxes (ADIT) and any related regulatory liability over a 10-year period. Excess ADIT related to depreciation life and method differences will be returned to customers in accordance with federal tax law and related regulations. **DP&L's** rates were set using the new tax rate as a result of the distribution rate case.

### **FERC Proceedings**

On May 8, 2018, **DP&L** filed to adjust its FERC jurisdictional transmission rates to reflect the effects of the decrease in federal income tax rates on the current portion of income tax expense as part of the TCJA, resulting in a decrease of approximately \$2.4 million annually. The revised rates are in effect and all **DP&L** over and undercollections dating back to the March 21st effective date were settled in December 2018.

On November 15, 2018 FERC issued a Notice of Proposed Rulemaking to address amortization of excess accumulated deferred income taxes resulting from the TCJA and their impact on transmission rates. Such notice requires all public utility transmission providers with stated transmission rates under an Open Access Transmission Tariff (OATT) to determine the amount of excess deferred income taxes caused by the TCJA. **DP&L** is unable to predict the outcome of this notice or the impact it may have on our Financial Statements

### **PJM Transmission Enhancement Settlement**

On May 31, 2018, the FERC issued an Order on Contested Settlement regarding the cost allocation method for existing and new transmission facilities contained in the PJM Interconnection's OATT. The FERC order approved the settlement which reduces **DP&L's** transmission costs through PJM beginning in August 2018, including credits



to reimburse **DP&L** for amounts overcharged in prior years. **DP&L** estimates the prior overcharge by PJM to be \$41.6 million, of which approximately \$14.3 million has been repaid to **DP&L** through December 31, 2018 and \$16.5 million is classified as current in "Accounts receivable, net" and \$10.8 million is classified as non-current in "Other deferred assets" on the accompanying Balance Sheet. All of the transmission charges and credits impacted by this FERC order are items that are included for full recovery in **DP&L's** nonbypassable TCRR. Accordingly, **DP&L** has also established offsetting regulatory liabilities. While this development will have a temporary cash flow benefit to **DP&L**, there is no impact to operating income or net income as all credits will be passed to **DP&L's** customers through the TCRR, which began in November 2018.

### Regulatory Assets and Liabilities

In accordance with FASC 980, we have recognized total regulatory assets of \$193.7 million and \$187.1 million at December 31, 2018 and 2017, respectively, and total regulatory liabilities of \$313.2 million and \$236.0 million at December 31, 2018 and 2017, respectively. Regulatory assets and liabilities are classified as current or non-current based on the term in which recovery is expected. See Note 1 – Overview and Summary of Significant Accounting Policies for accounting policies regarding Regulatory Assets and Liabilities.

The following table presents **DP&L's** Regulatory assets and liabilities:

\$ in millions	Type of Recovery	Amortization Through	December 31,	
			2018	2017
<b>Regulatory assets, current:</b>				
Undercollections to be collected through rate riders	A/B	2019	\$ 40.5	\$ 23.9
Rate case expenses being recovered in base rates	B	2019	0.6	—
<b>Total regulatory assets, current</b>			<b>41.1</b>	<b>23.9</b>
<b>Regulatory assets, non-current:</b>				
Pension benefits	B	Ongoing	87.5	92.4
Unrecovered OVEC charges	C	Undetermined	28.7	27.8
Fuel costs	B	2020	3.3	9.3
Regulatory compliance costs	B	2020	6.1	9.2
Smart grid and AMI costs	B	Undetermined	8.5	7.3
Unamortized loss on reacquired debt	B	Various	6.0	7.0
Deferred storm costs	A	Undetermined	4.7	2.1
Deferred vegetation management and other	A/B	Undetermined	7.8	8.1
<b>Total regulatory assets, non-current</b>			<b>152.6</b>	<b>163.2</b>
<b>Total regulatory assets</b>			<b>\$ 193.7</b>	<b>\$ 187.1</b>
<b>Regulatory liabilities, current:</b>				
Overcollection of costs to be refunded through rate riders	A/B	2018	\$ 34.9	\$ 14.8
<b>Total regulatory liabilities, current</b>			<b>34.9</b>	<b>14.8</b>
<b>Regulatory liabilities, non-current:</b>				
Estimated costs of removal - regulated property		Not Applicable	139.1	132.8
Deferred income taxes payable through rates		Various	116.3	83.4
PJM transmission enhancement settlement	A	2025	16.9	—
Postretirement benefits	B	Ongoing	6.0	5.0
<b>Total regulatory liabilities, non-current</b>			<b>278.3</b>	<b>221.2</b>
<b>Total regulatory liabilities</b>			<b>\$ 313.2</b>	<b>\$ 236.0</b>

A – Recovery of incurred costs plus rate of return.

B – Recovery of incurred costs without a rate of return.

C – Recovery not yet determined, but recovery is probable of occurring in future rate proceedings.

Current regulatory assets and liabilities primarily represent costs that are being recovered per specific rate order; recovery for the remaining costs is probable, but not certain. **DP&L** is earning a net return on \$5.5 million of this net deferral. These items include undercollection of: (i) Distribution Modernization Rider revenues, (ii) decoupling rider (see above), (iii) uncollectible rider and (iv) energy efficiency rider. It also includes the current portion of the following deferred costs which are described in greater detail below: unbilled fuel, regulatory compliance rider costs and deferred storm costs. As current liabilities, this includes overcollection of: (i) competitive bidding energy and auction costs, (ii) energy efficiency program costs, (iii) alternative energy rider, (iv) economic development rider, (v) certain transmission related costs including current portion of PJM transmission enhancement settlement (see above) and (vi) reconciliation rider.



Pension benefits represent the qualifying FASC 715 "Compensation - Retirement Benefits" costs of our regulated operations that for ratemaking purposes are deferred for future recovery. We recognize an asset for a plan's overfunded status or a liability for a plan's underfunded status, and recognize, as a component of OCI, the changes in the funded status of the plan that arise during the year that are not recognized as a component of net periodic benefit cost. This regulatory asset represents the regulated portion that would otherwise be charged as a loss to OCI. As per PUCO and FERC precedents, these costs are probable of future rate recovery.

Unrecovered OVEC charges includes the portion of charges from OVEC that were not recoverable through **DP&L's** fuel rider from October 2014 through October 2017. **DP&L** expects to recover these costs through a future rate proceeding. Beginning on November 1, 2017, such costs are being recovered through **DP&L's** Reconciliation Rider which was authorized as part of the 2017 ESP.

Fuel costs represent unrecovered fuel costs related to **DP&L's** fuel rider from 2010 through 2015 resulting from a declining SSO customer base. **DP&L** was granted recovery of these costs without a return through the SSO as approved in the 2017 ESP. These costs are being recovered over the three-year period that began November 1, 2017.

Regulatory compliance rider represents the long-term portion of the regulatory compliance rider which was established by the 2017 ESP to recover the following costs: (i) Consumer Education Campaign, (ii) Retail Settlement System, (iii) Generation Separation, (iv) Bill Format Redesign, (v) Green Pricing Tariff and (vi) Supplier Consolidated Billing. All of these costs except for Generation Separation earn a return. These costs are being recovered over a three-year period.

Rate case costs represents costs associated with preparing a distribution rate case. **DP&L** was granted recovery of these costs which do not earn a return, as part of the DRO.

Smart Grid and AMI costs represent costs incurred as a result of studying and developing distribution system upgrades and implementation of AMI. On October 19, 2010, **DP&L** elected to withdraw its case pertaining to the Smart Grid and AMI programs. The PUCO accepted the withdrawal in an order issued on January 5, 2011. The PUCO also indicated that it expects **DP&L** to continue to monitor other utilities' Smart Grid and AMI programs and to explore the potential benefits of investing in Smart Grid and AMI programs and that **DP&L** will, when appropriate, file new Smart Grid and/or AMI business cases in the future. **DP&L** requested recovery of these costs as part of the December 2018 DMP filing with the PUCO described earlier.

Unamortized loss on reacquired debt represents losses on long-term debt reacquired or redeemed in prior periods that have been deferred. These deferred losses are being amortized over the lives of the original issues in accordance with the rules of the FERC and the PUCO.

Deferred storm costs represent the long-term portion of deferred costs for major storms which occurred during 2017 and 2018. The 2017 ESP granted **DP&L** approval to establish a rider by which to seek recovery of these types of costs with a return. **DP&L** plans to file petitions seeking recovery of each calendar year of storm costs in the following calendar year. Recovery of these costs is probable by 2020, but not certain.

Estimated costs of removal - regulated property reflect an estimate of amounts collected in customer rates for costs that are expected to be incurred in the future to remove existing transmission and distribution property from service when the property is retired.

Deferred income taxes payable through rates represent deferred income tax liabilities recognized from the normalization of flow-through items as the result of taxes previously charged to customers. A deferred income tax asset or liability is created from a difference in income recognition between tax laws and accounting methods. As a regulated utility, **DP&L** includes in ratemaking the impacts of current income taxes and changes in deferred income tax liabilities or assets. On December 22, 2017, the TCJA was signed, which includes a provision to, among other things, reduce the federal corporate income tax rate to 21%, beginning January 1, 2018. As required by GAAP, on December 31, 2017, **DP&L** remeasured its deferred income tax assets and liabilities using the new expected tax rate. **DP&L** believes that the portion of the reduction in the net deferred tax liability which is related to deferred taxes considered in ratemaking will be used in future ratemaking to reduce jurisdictional retail rates. Accordingly, this liability reflects the estimated deferred taxes **DP&L** expects to return to customers in future periods.



Postretirement benefits represent the qualifying FASC 715 “Compensation – Retirement Benefits” gains related to our regulated operations that, for ratemaking purposes, are probable of being reflected in future rates. We recognize an asset for a plan’s overfunded status or a liability for a plan’s underfunded status, and recognize, as a component of OCI, the changes in the funded status of the plan that arise during the year that are not recognized as a component of net periodic benefit cost. This regulatory liability represents the regulated portion that would otherwise be reflected as a gain to OCI.

#### **Note 4 – Property, Plant and Equipment**

The following is a summary of DP&L’s Property, plant and equipment with corresponding composite depreciation rates at December 31, 2018 and 2017:

\$ in millions	December 31, 2018		December 31, 2017	
		Composite Rate		Composite Rate <sup>(a)</sup>
<b>Regulated:</b>				
Transmission	\$ 386.7	2.4%	\$ 414.6	2.4%
Distribution	1,796.4	3.2%	1,735.9	3.4%
General	30.9	3.6%	31.2	3.1%
Non-depreciable	60.4	N/A	64.6	N/A
<b>Total regulated</b>	<b>2,274.4</b>		<b>2,246.3</b>	
<b>Unregulated:</b>				
Other	—	N/A	0.2	2.7%
Non-depreciable	—	N/A	0.7	N/A
<b>Total unregulated</b>	<b>—</b>		<b>0.9</b>	
<b>Total property, plant and equipment in service</b>	<b>\$ 2,274.4</b>	<b>3.0%</b>	<b>\$ 2,247.2</b>	<b>3.4%</b>

In June 2018, DP&L closed on a transmission asset transaction with Duke and AEP, where ownership stakes in certain previously co-owned transmission assets were exchanged to eliminate co-ownership. Each previously co-owned transmission asset became wholly-owned by one of DP&L, Duke or AEP after the transaction. This transaction also resulted in cash proceeds to DP&L of \$10.6 million.

#### **AROs**

We recognize AROs in accordance with GAAP which requires legal obligations associated with the retirement of long-lived assets to be recognized at their fair value at the time those obligations are incurred. Upon initial recognition of a legal liability, costs are capitalized as part of the related long-lived asset and depreciated over the useful life of the related asset. The DP&L AROs are for our retired Hutchings EGU and relate primarily to asbestos removal.

Estimating the amount and timing of future expenditures of this type requires significant judgment. Management routinely updates these estimates as additional information becomes available.

#### **Changes in the Liability for Generation AROs**

\$ in millions	
Balance at December 31, 2016	\$ 8.2
<b>Calendar 2017</b>	
Accretion expense	0.1
Settlements	(0.3)
Balance at December 31, 2017	8.0
<b>Calendar 2018</b>	
Settlements <sup>(a)</sup>	(3.3)
Balance at December 31, 2018	<u>\$ 4.7</u>

(a) Primarily includes settlement related to transfer of Beckjord Facility. See Note 15 – Dispositions for additional information.

See Note 5 – Fair Value for further discussion on ARO fair value measurements.

#### **Asset Removal Costs**

We continue to record costs of removal for our regulated transmission and distribution assets through our depreciation rates and recover those amounts in rates charged to our customers. There are no known legal AROs associated with these assets. We have recorded \$139.1 million and \$132.8 million in estimated costs of removal at

December 31, 2018 and 2017, respectively, as regulatory liabilities for our transmission and distribution property. These amounts represent the excess of the cumulative removal costs recorded through depreciation rates versus the cumulative removal costs actually incurred. See Note 3 – Regulatory Matters for additional information.

### Changes in the Liability for Transmission and Distribution Asset Removal Costs

\$ in millions	
Balance at December 31, 2016	\$ 126.5
<b>Calendar 2017</b>	
Additions	12.0
Settlements	(5.7)
Balance at December 31, 2017	132.8
<b>Calendar 2018</b>	
Additions	14.3
Settlements	(8.0)
Balance at December 31, 2018	<u>\$ 139.1</u>

### Note 5 – Fair Value

The fair values of our financial instruments are based on published sources for pricing when possible. We rely on valuation models only when no other method is available to us. The fair value of our financial instruments represents estimates of possible value that may or may not be realized in the future.

The table below presents the fair value and cost of our non-derivative instruments at December 31, 2018 and 2017. See also Note 6 – Derivative Instruments and Hedging Activities for the fair values of our derivative instruments.

\$ in millions	December 31, 2018		December 31, 2017	
	Cost	Fair Value	Cost	Fair Value
<b>Assets</b>				
Money market funds	\$ 0.4	\$ 0.4	\$ 0.3	\$ 0.3
Equity securities	2.4	3.5	2.5	4.2
Debt securities	4.1	4.0	4.3	4.3
Hedge funds	0.1	0.1	0.1	0.2
Tangible assets	0.1	0.1	0.1	0.1
Total assets	<u>\$ 7.1</u>	<u>\$ 8.1</u>	<u>\$ 7.3</u>	<u>\$ 9.1</u>
	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Fair Value</b>
<b>Liabilities</b>				
Long-term debt	<u>\$ 586.1</u>	<u>\$ 593.8</u>	<u>\$ 646.6</u>	<u>\$ 658.4</u>

### Fair Value Hierarchy

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. These inputs are then categorized as:

- Level 1 (quoted prices in active markets for identical assets or liabilities);
- Level 2 (observable inputs such as quoted prices for similar assets or liabilities or quoted prices in markets that are not active); or
- Level 3 (unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability).

Valuations of assets and liabilities reflect the value of the instrument including the values associated with counterparty risk. We include our own credit risk and our counterparty's credit risk in our calculation of fair value using global average default rates based on an annual study conducted by a large rating agency.

We did not have any transfers of the fair values of our financial instruments among Level 1, Level 2 or Level 3 of the fair value hierarchy during the years ended December 31, 2018 and 2017.



## Debt

The fair value of debt is based on current public market prices for disclosure purposes only. Unrealized gains or losses are not recognized in the financial statements as debt is presented at the carrying value, net of unamortized premium or discount, in the financial statements. The debt amounts include the current portion payable in the next twelve months and have maturities that range from 2020 to 2061.

## Master Trust Assets

DP&L established a Master Trust to hold assets that could be used for the benefit of employees participating in employee benefit plans and these assets are not used for general operating purposes. ASU 2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities" was effective as of January 1, 2018. This ASU requires the change in the fair value of equity instruments to be recorded in income rather than in OCI. Equity Instruments were defined to include all mutual funds, regardless of the underlying investments. Therefore, as of January 1, 2018, AOCI of \$1.7 million (\$1.1 million net of tax) was reversed to Accumulated Deficit and all future changes to fair value on the Master Trust Assets will be included in income in the period that the changes occur. These changes to fair value were not material for the year ended December 31, 2018. These assets are primarily comprised of open-ended mutual funds, which are valued using the net asset value per unit. These investments are recorded at fair value within Other deferred assets on the consolidated balance sheets and classified as available for sale.

During the year ended December 31, 2018, \$0.5 million (\$0.4 million after tax) of various investments were sold to facilitate the distribution of benefits.

The fair value of assets and liabilities at December 31, 2018 and 2017 and the respective category within the fair value hierarchy for DP&L was determined as follows:

\$ in millions	Fair Value at December 31, 2018 (a)				Fair Value at December 31, 2017 (a)			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets</b>								
Master trust assets								
Money market funds	\$ 0.4	\$ —	\$ —	\$ 0.4	\$ 0.3	\$ —	\$ —	\$ 0.3
Equity securities	—	3.5	—	3.5	—	4.2	—	4.2
Debt securities	—	4.0	—	4.0	—	4.3	—	4.3
Hedge funds	—	0.1	—	0.1	—	0.2	—	0.2
Tangible assets	—	0.1	—	0.1	—	0.1	—	0.1
Total Master trust assets	0.4	7.7	—	8.1	0.3	8.8	—	9.1
Derivative assets								
Interest rate hedges	—	1.5	—	1.5	—	1.5	—	1.5
Total derivative assets	—	1.5	—	1.5	—	1.5	—	1.5
Total assets	\$ 0.4	\$ 9.2	\$ —	\$ 9.6	\$ 0.3	\$ 10.3	\$ —	\$ 10.6
<b>Liabilities</b>								
Long-term debt	\$ —	\$ 576.1	\$ 17.7	\$ 593.8	\$ —	\$ 640.6	\$ 17.8	\$ 658.4
Total liabilities	—	576.1	17.7	593.8	—	640.6	17.8	658.4

(a) Includes credit valuation adjustment

Our financial instruments are valued using the market approach in the following categories:

- Level 1 inputs are used for money market accounts that are considered cash equivalents. The fair value is determined by reference to quoted market prices and other relevant information generated by market transactions.
- Level 2 inputs are used to value derivatives such as interest rate hedge contracts which are valued using a benchmark interest rate. Other Level 2 assets include open-ended mutual funds in the Master Trust, which are valued using the end of day NAV per unit.
- Level 3 inputs such as certain debt balances are considered a Level 3 input because the notes are not publicly traded. Our long-term debt is fair valued for disclosure purposes only.

All of the inputs to the fair value of our derivative instruments are from quoted market prices.



Our long-term debt is fair valued for disclosure purposes only and most of the fair values are determined using quoted market prices in inactive markets. These fair value inputs are considered Level 2 in the fair value hierarchy. As the Wright-Patterson Air Force Base note is not publicly traded, fair value is assumed to equal carrying value. These fair value inputs are considered Level 3 in the fair value hierarchy as there are no observable inputs. Additional Level 3 disclosures are not presented since our long-term debt is not recorded at fair value.

### **Non-recurring Fair Value Measurements**

We use the cost approach to determine the fair value of our AROs, which are estimated by discounting expected cash outflows to their present value at the initial recording of the liability. Cash outflows are based on the approximate future disposal cost as determined by market information, historical information or other management estimates. These inputs to the fair value of the AROs would be considered Level 3 inputs under the fair value hierarchy. The balance of AROs was \$4.7 million and \$8.0 million at December 31, 2018 and 2017, respectively.

### **Note 6 – Derivative Instruments and Hedging Activities**

In the normal course of business, **DP&L** enters into various financial instruments, including derivative financial instruments. We use derivatives principally to manage the interest rate risk associated with our long-term debt. The derivatives that we use to economically hedge these risks are governed by our risk management policies for forward and futures contracts. Our net positions are continually assessed within our structured hedging programs to determine whether new or offsetting transactions are required. We monitor and value derivative positions monthly as part of our risk management processes. We use published sources for pricing, when possible, to mark positions to market. All of our derivative instruments are used for risk management purposes and are designated as cash flow hedges if they qualify under FASC 815 for accounting purposes.

**DP&L's** interest rate swaps are designated as a cash flow hedge. At December 31, 2018 and 2017, the principal balance of the interest rate hedges was \$140.0 million and \$200.0 million, respectively.

### **Cash Flow Hedges**

As part of our risk management processes, we identify the relationships between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. The fair values of cash flow hedges determined by current public market prices will continue to fluctuate with changes in market prices up to contract expiration. The effective portion of the hedging transaction is recognized in AOCI and transferred to earnings using specific identification of each contract when the forecasted hedged transaction takes place or when the forecasted hedged transaction is probable of not occurring. The ineffective portion of the cash flow hedge is recognized in earnings in the current period. All risk components were considered to determine the hedge effectiveness of the cash flow hedges. With the adoption of ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted improvements to Accounting for Hedging Activities effective January 1, 2019, we will no longer be required to calculate effectiveness and thus the entire change in the fair value of a hedging instrument will be recorded in other comprehensive income and amounts deferred will be reclassified to earnings in the same income statement line as the hedged item in the period in which it settles.

We have two interest rate swaps to hedge the variable interest on our \$140.0 million variable interest rate tax-exempt First Mortgage Bonds. The interest rate swaps have a combined notional amount of \$140.0 million and will settle monthly based on a one-month LIBOR. As of December 31, 2017, the interest rate swaps had a combined notional amount of \$200.0 million. On March 29, 2018, we settled \$60.0 million of these interest rate swaps due to the partial repayment of the underlying debt and a gain of \$0.8 million was recorded as a reduction to interest expense. Since the swap was partially settled, the remaining swaps were de-designated and then re-designated with a new hypothetical derivative. The AOCI associated with the remaining swaps will be amortized out of AOCI into interest expense over the remaining life of the underlying debt.

We use the income approach to value the swaps, which consists of forecasting future cash flows based on contractual notional amounts and applicable and available market data as of the valuation date. The most common market data inputs used in the income approach include volatilities, spot and forward benchmark interest rates (LIBOR). Forward rates with the same tenor as the derivative instrument being valued are generally obtained from published sources, with these forward rates being assessed quarterly at a portfolio-level for reasonableness versus comparable published rates. We reclassify gains and losses on the swaps out of AOCI and into earnings in those periods in which hedged interest payments occur.



The following tables provide information on gains or losses recognized in AOCI for the cash flow hedges for the periods indicated:

\$ in millions (net of tax)	Years ended December 31,				
	2018	2017		2016	
	Interest Rate Hedges	Power	Interest Rate Hedges	Power	Interest Rate Hedges
Beginning accumulated derivative gain / (loss) in AOCI	\$ 1.4	\$ (4.3)	\$ 1.6	\$ 9.2	\$ 2.0
Net gains / (losses) associated with current period hedging transactions	(0.1)	11.9	0.5	15.7	0.4
Net gains / (losses) reclassified to earnings:					
Interest expense	(0.7)	—	(0.7)	—	(0.8)
Loss from discontinued operations	—	(5.5)	—	(29.2)	—
Transfer of generation assets to subsidiary of parent	—	(2.1)	—	—	—
Ending accumulated derivative gain / (loss) in AOCI	<u>\$ 0.6</u>	<u>\$ —</u>	<u>\$ 1.4</u>	<u>\$ (4.3)</u>	<u>\$ 1.6</u>
Portion expected to be reclassified to earnings in the next twelve months	\$ 0.7				
Maximum length of time that we are hedging our exposure to variability in future cash flows related to forecasted transactions (in months)	20				

Net gains or losses associated with the ineffective portion of the hedging transactions were immaterial in the periods presented.

DP&L has elected not to offset derivative assets and liabilities and not to offset net derivative positions against the right to reclaim cash collateral pledged (an asset) or the obligation to return cash collateral received (a liability) under derivative agreements. The fair value derivative position of DP&L's interest rate swaps are as follows:

	Hedging Designation	Balance sheet classification	December 31,	
			2018	2017
Interest rate hedges in a Current asset position	Cash Flow Hedge	Other prepayments and current assets		
Gross Fair Value as presented in the Balance Sheets			\$ 0.9	\$ —
Interest rate hedges in a non-current asset position	Cash Flow Hedge	Other deferred assets		
Gross Fair Value as presented in the Balance Sheets			\$ 0.6	\$ 1.5

## Note 7 – Long-term debt

Long-term debt is as follows:

### Long-term debt

\$ in millions	Interest Rate	Maturity	December 31, 2018	December 31, 2017
Term loan - rates from: 3.57% - 4.82% (a) and 4.00% - 4.60% (b)		2022	\$ 436.1	\$ 440.6
Tax-exempt First Mortgage Bonds - rates from: 2.49% - 2.93% (a) and 1.29% - 1.42% (b)		2020	140.0	200.0
U.S. Government note	4.2%	2061	17.7	17.8
Unamortized deferred financing costs			(6.3)	(9.8)
Unamortized debt discount			(1.4)	(2.0)
Total long-term debt			<u>586.1</u>	<u>646.6</u>
Less: current portion			<u>(4.6)</u>	<u>(4.6)</u>
Long-term debt, net of current portion			<u>\$ 581.5</u>	<u>\$ 642.0</u>

(a) Range of interest rates for the year ended December 31, 2018.

(b) Range of interest rates for the year ended December 31, 2017.

At December 31, 2018, maturities of long-term debt are summarized as follows:

Due during the years ending December 31,  
\$ in millions

2019	\$	4.6
2020		144.7
2021		4.7
2022		422.8
2023		0.2
Thereafter		16.8
		<u>593.8</u>
Unamortized discounts and premiums, net		(1.4)
Deferred financing costs, net		(6.3)
Total long-term debt	\$	<u>586.1</u>

### Significant Transactions

On January 3, 2018, **DP&L** and its lenders amended **DP&L's** Term Loan B credit agreement. The amendment (a) modified the definition of "applicable rate", from 2.25% per annum to 1.00% per annum - in the case of the Base Rate, and from 3.25% per annum to 2.00% per annum - in the case of the Eurodollar Rate, and (b) included a "call protection" provision which stated that in the event the loan was repriced or any portion of the loans were prepaid, repaid, refinanced, substituted, or replaced on or prior July 3, 2018, such prepayment, acceleration, repayment, refinancing, substitution or replacement would be made at 101% of the principal amount so prepaid, repaid, refinanced, substituted or replaced. After July 3, 2018 any such transaction would occur at 100% of the principal amount of the then outstanding loans. There were no such transactions prior to July 3, 2018.

On March 30, 2018, **DP&L** commenced a redemption of \$60.0 million of outstanding tax exempt First Mortgage Bonds due 2020 at par value (plus accrued and unpaid interest). These bonds were redeemed at par plus accrued interest on April 30, 2018 with cash on hand.

### Debt Covenants and Restrictions

**DP&L's** unsecured revolving credit agreement and Bond Purchase and Covenants Agreement (financing document entered into in connection with the sale of \$200.0 million of variable rate tax-exempt First Mortgage Bonds, dated as of August 1, 2015) have two financial covenants. The first measures Total Debt to Total Capitalization and is calculated, at the end of each fiscal quarter, by dividing total debt at the end of the quarter by total capitalization at the end of the quarter. **DP&L's** Total Debt to Total Capitalization ratio shall not be greater than 0.65 to 1.00; except that, the ratio shall be suspended if **DP&L's** long-term indebtedness is less than or equal to \$750.0 million. Additionally, the ratio shall be suspended any time after separation during which **DP&L** maintains a rating of BBB- (or in the case of Moody's Investors Service, Inc. Baa3) or higher with a stable outlook from at least one of Fitch Investors Service Inc., Standard & Poor's Ratings Services or Moody's Investors Service, Inc. As of December 31, 2018, **DP&L's** ratings meet those requirements and this ratio is suspended for the quarter ended December 31, 2018.

The second financial covenant measures EBITDA to Interest Expense. The Total Consolidated EBITDA to Consolidated Interest Charges ratio is calculated, at the end of each fiscal quarter, by dividing consolidated EBITDA for the four prior fiscal quarters by the consolidated interest charges for the same period. The ratio, per the agreement, is to be not less than 2.50 to 1.00. This covenant was met with a ratio of 8.09 to 1.00 as of December 31, 2018.

**DP&L** does not have any meaningful restrictions in its debt financing documents prohibiting dividends to its parent, **DPL**.

As of December 31, 2018, **DP&L** was in compliance with all debt covenants, including the financial covenants described above.

Substantially all property, plant & equipment of **DP&L** is subject to the lien of the mortgage securing **DP&L's** First and Refunding Mortgage. All generation assets were released from the lien of **DP&L's** first and refunding mortgage in connection with the completion of Generation Separation on October 1, 2017.



## Note 8 – Income Taxes

DP&L's components of income tax expense on continuing operations were as follows:

\$ in millions	Years ended December 31,		
	2018	2017	2016
<b>Computation of tax expense</b>			
Federal income tax expense (a)	\$ 22.2	\$ 31.0	\$ 50.1
Increases (decreases) in tax resulting from:			
State income taxes, net of federal effect	0.6	0.4	0.4
Depreciation of flow-through differences	(4.3)	1.2	3.0
Investment tax credit amortized	(0.3)	(0.3)	(0.4)
Accrual (settlement) for open tax years	—	(0.5)	3.4
Other, net <sup>(b)</sup>	(0.5)	(0.7)	(10.5)
Total tax expense	<u>\$ 17.7</u>	<u>\$ 31.1</u>	<u>\$ 46.0</u>
<b>Components of tax expense</b>			
Federal - current	\$ 1.4	\$ 13.5	\$ 37.7
State and Local - current	—	0.2	0.5
Total current	<u>1.4</u>	<u>13.7</u>	<u>38.2</u>
Federal - deferred	15.5	17.0	7.7
State and local - deferred	0.8	0.4	0.1
Total deferred	<u>16.3</u>	<u>17.4</u>	<u>7.8</u>
Total tax expense	<u>\$ 17.7</u>	<u>\$ 31.1</u>	<u>\$ 46.0</u>

(a) The statutory tax rate of 21% in 2018 and 35% in 2017 and 2016 was applied to pre-tax earnings.

(b) Includes expense / (benefit) of \$(0.7) million and \$(0.4) million in the years ended December 31, 2017 and 2016, respectively, of income tax related to adjustments from prior years.

### Effective and Statutory Rate Reconciliation

The following table summarizes a reconciliation of the U.S. statutory federal income tax rate to DP&L's effective tax rate, as a percentage of income from continuing operations before taxes for the years ended December 31, 2018, 2017 and 2016:

	Years ended December 31,		
	2018	2017	2016
Statutory Federal tax rate	21.0 %	35.0 %	35.0 %
State taxes, net of Federal tax benefit	0.6 %	0.4 %	0.3 %
AFUDC - Equity	(0.1)%	1.4 %	2.1 %
Amortization of investment tax credits	(0.3)%	(0.4)%	(0.3)%
Depreciation of flow-through differences	(4.0)%	— %	— %
Other - net	(0.2)%	(1.3)%	(5.1)%
Effective tax rate	<u>17.0 %</u>	<u>35.1 %</u>	<u>32.0 %</u>

### Deferred Income Taxes

Deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and (b) operating loss carryforwards. These items are stated at the enacted tax rates that are expected to be in effect when taxes are actually paid or recovered. Investment tax credits related to utility property have been deferred and are being amortized over the estimated useful lives of the related property.

### Components of Deferred Tax Assets and Liabilities

\$ in millions	December 31,	
	2018	2017
<b>Net non-current assets / (liabilities)</b>		
Depreciation / property basis	\$ (130.6)	\$ (126.5)
Income taxes recoverable	25.0	11.0
Regulatory assets	(16.2)	(23.9)
Investment tax credit	0.5	0.4
Compensation and employee benefits	0.3	17.6
Other	(10.7)	(9.6)
Net non-current liabilities	<u>\$ (131.7)</u>	<u>\$ (131.0)</u>

**U.S. Tax Reform**

On December 22, 2017, the U.S. enacted the TCJA. The TCJA significantly changes U.S. corporate income tax law.

In 2017, we recognized the income tax effects of the TCJA in accordance with Staff Accounting Bulletin No. 118 ("SAB 118") which provides SEC guidance on the application of FASC 740, Income Taxes, in the reporting period in which the TCJA was signed into law. Accordingly, our 2017 financial statements reflected the income tax effects of U.S. tax reform for which the accounting was complete and provisional amounts for those impacts for which the accounting under FASC 740 was incomplete, but a reasonable estimate could be determined.

We completed our calculation of the impact of the TCJA in our income tax provision for the year ended December 31, 2018 in accordance with our understanding of the TCJA and guidance available as of the date of this filing. As a result of this remeasurement, certain deferred tax assets and liabilities related to regulated utility property of \$17.0 million and \$135.2 million at December 31, 2018 and 2017 were recorded as regulatory liabilities and were non-cash adjustments. These amounts result from the remeasurement of certain deferred tax assets and liabilities as the rates changed from 35% to 21%. Additionally, consistent with the provisions of SAB 118, in 2018 we finalized the remeasurement of deferred tax asset balances transferred to AES Ohio Generation as part of Generation Separation which resulted in an additional \$10.0 million return of capital to **DPL** in 2018.

The following table presents the tax expense / (benefit) related to pensions, postemployment benefits, cash flow hedges and financial instruments that were credited to Accumulated other comprehensive loss.

\$ in millions	Years ended December 31,		
	2018	2017	2016
Tax expense / (benefit)	\$ (0.3)	\$ 4.0	\$ (7.0)

**Uncertain Tax Positions**

We apply the provisions of GAAP relating to the accounting for uncertainty in income taxes. A reconciliation of the beginning and ending amount of unrecognized tax benefits for **DP&L** is as follows:

\$ in millions	
Balance at December 31, 2016	\$ 4.9
<b>Calendar 2017</b>	
Tax positions taken during prior period	—
Lapse of Statute of Limitations	(0.1)
Balance at December 31, 2017	4.8
<b>Calendar 2018</b>	
Tax positions taken during prior period	—
Lapse of Statute of Limitations	—
Balance at December 31, 2018	\$ 4.8

Of the December 31, 2018 balance of unrecognized tax benefits, \$4.8 million is due to uncertainty in the timing of deductibility.

We recognize interest and penalties related to unrecognized tax benefits in Income tax expense. The amounts accrued and tax expense / (benefit) recorded were not material for each period presented.

Following is a summary of the tax years open to examination by major tax jurisdiction:

U.S. Federal – 2011 and forward  
State and Local – 2011 and forward

None of the unrecognized tax benefits are expected to significantly increase or decrease within the next twelve months other than those subject to expiring statute of limitations.

**Note 9 – Benefit Plans****Defined Contribution Plans**

**DP&L** sponsors two defined contribution plans. One is for non-union employees (the management plan) and one is for collective bargaining employees (the union plan). Both plans are qualified under Section 401 of the Internal Revenue Code.

Certain non-union and union employees become eligible to participate in their respective plan upon date of hire.



Participants may elect to contribute up to 85% of eligible compensation to their plan. Non-union participant contributions are matched 100% on the first 1% of eligible compensation and 50% on the next 5% of eligible compensation and they are fully vested in their employer contributions after 2 years of service. Union participant contributions are matched 150% but are capped at \$2,400 for 2018 and they are fully vested in their employer contributions after 3 years of service. All participants are fully vested in their own contributions.

We contributed \$3.7 million, \$3.1 million and \$5.1 million for the years ended December 31, 2018, 2017 and 2016, respectively. **DP&L** matching contributions are paid quarterly, in arrears. Therefore, the contributions by year include the fourth quarter matching contribution that is paid in the following year. **DP&L** also contributes an annual bonus to the accounts of its union participants. This payment is typically made in January of the following year.

### **Defined Benefit Plans**

**DP&L** sponsors a traditional defined benefit pension plan for most of the employees of **DPL** and its subsidiaries. For collective bargaining employees, the defined benefits are based on a specific dollar amount per year of service. For all other employees (management employees), the traditional defined benefit pension plan is based primarily on compensation and years of service. As of December 31, 2010, this traditional pension plan formula was closed to new management employees. A participant is 100% vested in all amounts credited to his or her account upon the completion of five vesting years, as defined in The Dayton Power and Light Company Retirement Income Plan, or the participant's death or disability. If a participant's employment is terminated, other than by death or disability, prior to such participant becoming 100% vested in his or her account, the account shall be forfeited as of the date of termination. Employees that transferred from **DP&L** to the Service Company maintain their previous eligibility to participate in the **DP&L** pension plan. In addition, employees that transferred from **DP&L** to AES Ohio Generation due to Generation Separation maintain their previous eligibility to participate in the **DP&L** pension plan.

Almost all management employees beginning employment on or after January 1, 2011 participate in a cash balance pension plan formula. Similar to the traditional pension plan for management employees, the cash balance benefits are based on compensation and years of service. A participant shall become 100% vested in all amounts credited to his or her account upon the completion of three vesting years, as defined in The Dayton Power and Light Company Retirement Income Plan, or the participant's death or disability. If a participant's employment is terminated, other than by death or disability, prior to such participant becoming 100% vested in his or her account, the account shall be forfeited as of the date of termination. Vested benefits in the cash balance plan are fully portable upon termination of employment.

In addition, we have a Supplemental Executive Retirement Plan (SERP) for certain retired key executives. The SERP has an immaterial unfunded liability related to agreements for retirement benefits of certain terminated and retired key executives. We also include our net liability to our partners in our co-owned generating plants related to our share of their pension liabilities within Pension, retiree and other benefits on our Balance Sheets.

We recognize an asset for a plan's overfunded status and a liability for a plan's underfunded status and recognize, as a component of OCI, the changes in the funded status of the plan that arise during the year that are not recognized as a component of net periodic benefit cost. For the transmission and distribution areas of our electric business, these amounts are recorded as regulatory assets and liabilities which represent the regulated portion that would otherwise be charged or credited to AOCI. We have historically recorded these costs on the accrual basis and this is how these costs have been historically recovered through customer rates. This factor, combined with the historical precedents from the PUCO and FERC, make these costs probable of future rate recovery.

### **Postretirement Benefits**

Qualified employees who retired prior to 1987 and their dependents are eligible for health care and life insurance benefits until their death, while qualified employees who retired after 1987 are eligible for life insurance benefits and partially subsidized health care. The partially subsidized health care is at the election of the employee, who pays the majority of the cost, and is available only from their retirement until they are covered by Medicare. We have funded a portion of the union-eligible benefits using a Voluntary Employee Beneficiary Association Trust. These postretirement health care benefits and the related unfunded obligation of \$9.2 million and \$12.7 million at December 31, 2018 and 2017, respectively, were not material to the financial statements in the periods covered by this report.



The following tables set forth the changes in our pension plan's obligations and assets recorded on the Balance Sheets at December 31, 2018 and 2017. The amounts presented in the following tables for pension obligations include the collective bargaining plan formula, traditional management plan formula and cash balance plan formula and the SERP in the aggregate and have not been adjusted for \$1.8 million and \$1.1 million of costs billed to the Service Company for the years ended December 31, 2018 and 2017 or \$3.3 million and \$0.7 million of costs billed to AES Ohio Generation for the years ended December 31, 2018 and 2017.

\$ in millions	Years ended December 31,	
	2018	2017
<b>Change in benefit obligation</b>		
Benefit obligation at January 1	\$ 436.9	\$ 419.6
Service cost	6.1	5.7
Interest cost	13.8	14.2
Plan amendments	5.1	—
Plan curtailment	—	3.0
Actuarial (gain) / loss	(34.6)	28.1
Benefits paid	(40.8)	(33.7)
Benefit obligation at December 31	<u>386.5</u>	<u>436.9</u>
<b>Change in plan assets</b>		
Fair value of plan assets at January 1	357.5	341.0
Actual return on plan assets	(11.7)	44.8
Employer contributions	7.9	5.4
Benefits paid	(40.8)	(33.7)
Fair value of plan assets at December 31	<u>312.9</u>	<u>357.5</u>
Unfunded status of plan	<u>\$ (73.6)</u>	<u>\$ (79.4)</u>
<b>Amounts recognized in the Balance sheets</b>		
	2018	2017
Current liabilities	\$ (0.4)	\$ (0.4)
Non-current liabilities	(73.2)	(79.0)
Net liability at end of year	<u>\$ (73.6)</u>	<u>\$ (79.4)</u>
<b>Amounts recognized in Accumulated Other Comprehensive Income, Regulatory Assets and Regulatory Liabilities, pre-tax</b>		
<i>Components:</i>		
Prior service cost	\$ 10.4	\$ 6.7
Net actuarial loss	137.2	148.3
Accumulated Other Comprehensive Income, Regulatory Assets and Regulatory Liabilities, pre-tax	<u>\$ 147.6</u>	<u>\$ 155.0</u>
<i>Recorded as:</i>		
Regulatory asset	\$ 87.3	\$ 92.2
Accumulated other comprehensive income	60.3	62.8
Accumulated Other Comprehensive Income, Regulatory Assets and Regulatory Liabilities, pre-tax	<u>\$ 147.6</u>	<u>\$ 155.0</u>

The accumulated benefit obligation for our defined benefit pension plans was \$378.7 million and \$428.3 million at December 31, 2018 and 2017, respectively.

The net periodic benefit cost of the pension plans was:

\$ in millions	Years ended December 31,		
	2018	2017	2016
Service cost	\$ 6.1	\$ 5.7	\$ 5.7
Interest cost	13.8	14.2	14.7
Expected return on assets	(21.2)	(22.8)	(22.8)
Plan curtailment <sup>(a)</sup>	—	5.6	5.7
Amortization of unrecognized:			
Actuarial loss	9.4	8.7	7.2
Prior service cost	1.4	1.5	3.0
Net periodic benefit cost	<u>\$ 9.5</u>	<u>\$ 12.9</u>	<u>\$ 13.5</u>

**Rates relevant to each year's expense calculations**

Discount rate	3.66%	4.28%	4.49%
Expected return on plan assets	6.25%	6.50%	6.50%

(a) As a result of the decision to retire certain coal-fired plants, we recognized a plan curtailment of \$5.6 million and \$5.7 million in 2017 and 2016, respectively.



## Other Changes in Plan Assets and Benefit Obligation Recognized in Accumulated Other Comprehensive Income, Regulatory Assets and Regulatory Liabilities

\$ in millions	Years ended December 31,		
	2018	2017	2016
Net actuarial loss	\$ 3.4	\$ 9.1	\$ 20.9
Plan curtailment <sup>(a)</sup>	—	(5.6)	(5.7)
Reversal of amortization item:			
Net actuarial loss	(9.4)	(8.7)	(7.2)
Prior service cost	(1.4)	(1.5)	(3.0)
Total recognized in Accumulated Other Comprehensive Income, Regulatory Assets and Regulatory Liabilities	\$ (7.4)	\$ (6.7)	\$ 5.0
Total recognized in net periodic benefit cost and Accumulated Other Comprehensive Income, Regulatory Assets and Regulatory Liabilities	\$ 2.1	\$ 6.2	\$ 18.5

(a) As a result of the decision to retire certain coal-fired plants, we recognized a plan curtailment of \$5.6 million and \$5.7 million in 2017 and 2016, respectively.

## Significant Gains and Losses Related to Changes in the Benefit Obligation

The actuarial gain of \$34.6 million decreased the benefit obligation for the year ended December 31, 2018 and an actuarial loss of \$28.1 million increased the benefit obligation for the year ended December 31, 2017. The actuarial gain in 2018 was primarily due to an increase in the discount rate, while the actuarial loss in 2017 was primarily due to a decrease in the discount rate.

## Assumptions

Our expected return on plan asset assumptions, used to determine benefit obligations, are based on historical long-term rates of return on investments, which use the widely accepted capital market principle that assets with higher volatility generate a greater return over the long run. Current market factors, such as inflation and interest rates, as well as asset diversification and portfolio rebalancing, are evaluated when long-term capital market assumptions are determined. Peer data and historical returns are reviewed to verify reasonableness and appropriateness.

At December 31, 2018, we are maintaining our long-term rate of return assumption of 6.25% for pension plan assets. The rate of return represents our long-term assumptions based on our long-term portfolio mix. Also, at December 31, 2018, we have increased our assumed discount rate to 4.35% from 3.66% for pension expense to reflect current duration-based yield curve discount rates. A one percent increase in the rate of return assumption for pension would result in a decrease in 2019 pension expense of approximately \$3.2 million. A one percent decrease in the rate of return assumption for pension would result in an increase in 2019 pension expense of approximately \$3.2 million. A 25-basis point increase in the discount rate for pension would result in a decrease of approximately \$0.1 million to 2019 pension expense. A 25-basis point decrease in the discount rate for pension would result in an increase of approximately \$0.4 million to 2019 pension expense.

In determining the discount rate to use for valuing liabilities, we used a market yield curve on high-quality fixed income investments as of December 31, 2018. We project the expected benefit payments under the plan based on participant data and based on certain assumptions concerning mortality, retirement rates, termination rates, etc. The expected benefit payments for each year are then discounted back to the measurement date using the appropriate spot rate for each half-year from the yield curve, thereby obtaining a present value of all expected future benefit payments using the yield curve. Finally, an equivalent single discount rate is determined which produces a present value equal to the present value determined using the full yield curve.

In future periods, differences in the actual return on pension plan assets and assumed return, or changes in the discount rate, will affect the timing of contributions, if any, to the plans.

The weighted average assumptions used to determine benefit obligations at December 31, 2018, 2017 and 2016 were:

### Benefit Obligation Assumptions

	Pension		
	2018	2017	2016
Discount rate for obligations	4.35%	3.66%	4.28%
Rate of compensation increases	3.94%	3.94%	3.94%

## Pension Plan Assets

Plan assets are invested using a total return investment approach whereby a mix of equity securities, debt securities and other investments are used to preserve asset values, diversify risk and achieve our target investment return benchmark. Investment strategies and asset allocations are based on careful consideration of plan liabilities, the plan's funded status and our financial condition. Investment performance and asset allocation are measured and monitored on an ongoing basis.

Plan assets are managed in a balanced portfolio comprised of two major components: an equity portion and a fixed income portion. The expected role of plan equity investments is to maximize the long-term real growth of plan assets, while the role of fixed income investments is to generate current income, provide for more stable periodic returns and provide some protection against a prolonged decline in the market value of plan equity investments.

Long-term strategic asset allocation guidelines, as well as short-term tactical asset allocation guidelines, are determined by a Risk/Advisory Committee and approved by a Fiduciary Committee. These allocations consider the plan's long-term objectives. The long-term target allocations for plan assets are 24% – 52% for equity securities and 47% – 65% for fixed income securities. Equity securities include U.S. and international equity, while fixed income securities include long-duration and high-yield bond funds and emerging market debt funds.

Tactically, the committees, on a short-term basis, will make asset allocations that are outside the long-term allocation guidelines. The short-term allocation positions are likely to not exceed one-year in duration. In addition to the equity and fixed income investments, the short-term allocation may also include a relatively small allocation to alternative investments. The plan currently has a small target allocation in a core property fund.

Most of our plan assets are measured using quoted, observable prices which are considered Level One inputs in the Fair Value Hierarchy. The Core Property Collective Fund is measured using Level Two inputs that are quoted prices for identical assets in markets that are less active.

The following table summarizes our target pension plan allocation for 2018:

Asset category	Long-Term Mid-Point Target Allocation	Percentage of plan assets as of December 31,	
		2018	2017
Equity Securities	38%	33%	35%
Debt Securities	56%	58%	55%
Cash and Cash Equivalents	—%	1%	—%
Real Estate	6%	8%	10%

The fair values of our pension plan assets at December 31, 2018 by asset category are as follows:

Fair Value Measurements for Pension Plan Assets at December 31, 2018				
\$ in millions	Market Value at December 31, 2018	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Asset category</b>				
<b>Mutual funds:</b>				
U.S. equities <sup>(a)</sup>	\$ 79.3	\$ 79.3	\$ —	\$ —
International equities <sup>(a)</sup>	25.9	25.9	—	—
Fixed income <sup>(b)</sup>	143.7	143.7	—	—
<b>Fixed income securities:</b>				
U.S. Treasury securities	37.5	37.5	—	—
<b>Cash and cash equivalents:</b>				
Money market funds <sup>(c)</sup>	2.4	2.4	—	—
<b>Other investments:</b>				
Core property collective fund <sup>(d)</sup>	24.1	—	24.1	—
<b>Total pension plan assets</b>	<b>\$ 312.9</b>	<b>\$ 288.8</b>	<b>\$ 24.1</b>	<b>\$ —</b>

(a) This category includes investments in equity securities of large, small and medium sized U.S. companies and equity securities of foreign companies including those in developing countries. The funds are valued using the net asset value method in which an average of the market prices for the underlying investments is used to value the fund.

(b) This category includes investments in investment-grade fixed-income instruments, U.S. dollar-denominated debt securities of emerging market issuers and high yield fixed-income securities that are rated below investment grade. The funds are valued using the net asset value method in which an average of the market prices for the underlying investments is used to value the fund.



- (c) This category is comprised of investments in U.S. treasury obligations that seek to preserve principal and maintain liquidity while providing current income. The funds are valued at the assets' amortized cost to maintain a stable per share net asset value.
- (d) This category represents a property fund that invests in commercial real estate. The fair value of the fund is valued using the net asset value method in which an average of the market prices for the underlying investments is used to value the fund.

The fair values of our pension plan assets at December 31, 2017 by asset category are as follows:

Fair Value Measurements for Pension Plan Assets at December 31, 2017				
\$ in millions	Market Value at December 31, 2017	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Asset category</b>				
<b>Mutual funds:</b>				
U.S. equities <sup>(a)</sup>	\$ 78.2	\$ 78.2	\$ —	\$ —
International equities <sup>(a)</sup>	46.3	46.3	—	—
Fixed income <sup>(b)</sup>	163.3	163.3	—	—
<b>Fixed income securities:</b>				
U.S. Treasury securities	33.5	33.5	—	—
<b>Other investments: <sup>(c)</sup></b>				
Core property collective fund	36.2	—	36.2	—
<b>Total pension plan assets</b>	<b>\$ 357.5</b>	<b>\$ 321.3</b>	<b>\$ 36.2</b>	<b>\$ —</b>

- (a) This category includes investments in equity securities of large, small and medium sized U.S. companies and equity securities of foreign companies including those in developing countries. The funds are valued using the net asset value method in which an average of the market prices for the underlying investments is used to value the fund.
- (b) This category includes investments in investment-grade fixed-income instruments, U.S. dollar-denominated debt securities of emerging market issuers and high yield fixed-income securities that are rated below investment grade. The funds are valued using the net asset value method in which an average of the market prices for the underlying investments is used to value the fund.
- (c) This category represents a property fund that invests in commercial real estate. The fair value of the fund is valued using the net asset value method in which an average of the market prices for the underlying investments is used to value the fund.

## Pension Funding

We generally fund pension plan benefits as accrued in accordance with the minimum funding requirements of the Employee Retirement Income Security Act of 1974 (ERISA) and, in addition, make voluntary contributions from time to time. We contributed \$7.5 million to the pension plan in the year ended December 31, 2018 and \$5.0 million to the pension plan in each of the years ended December 31, 2017 and 2016.

We expect to make contributions of \$0.4 million to our SERP in 2019 to cover benefit payments. We also expect to make contributions of \$7.5 million to our pension plan during 2019.

Funding for the qualified Defined Benefit Pension Plan is based upon actuarially determined contributions that consider the amount deductible for income tax purposes and the minimum contribution required under ERISA, as amended by the Pension Protection Act of 2006, as well as targeted funding levels necessary to meet certain thresholds.

From an ERISA funding perspective, DP&L's funded target liability percentage was estimated to be 101%. In addition, DP&L must also contribute the normal service cost earned by active participants during the plan year. The funding of normal cost is expected to be approximately \$5.4 million in 2019, which includes \$1.9 million for plan expenses. Each year thereafter, if the plan's underfunding increases to more than the present value of the remaining annual installments, the excess is separately amortized over a seven-year period. DP&L's funding policy for the pension plans is to contribute annually no less than the minimum required by applicable law, and no more than the maximum amount that can be deducted for federal income tax purposes.

Benefit payments, which reflect future service, are expected to be paid as follows:

Estimated future benefit payments \$ in millions due within the following years:	Pension
2019	\$ 26.7
2020	\$ 26.5
2021	\$ 26.3
2022	\$ 26.0
2023	\$ 25.9
2024 - 2028	\$ 125.1

## **Note 10 – Equity**

### **Redeemable Preferred Stock**

On October 13, 2016 (the "Redemption Date"), **DP&L** redeemed all of its issued and outstanding preferred stock, consisting of the following series: Preferred Stock, 3.75% Series A, Cumulative (the "Series A Stock"); Preferred Stock, 3.75% Series B, Cumulative (the "Series B Stock"); and Preferred Stock, 3.90% Series C, Cumulative (the "Series C Stock" and, together with the Series A Stock and the Series B Stock, the "Preferred Stock"). On the Redemption Date, the Preferred Stock of each series was redeemed at the following prices as specified in **DP&L's** Amended and Restated Articles of Incorporation, plus, in each case an amount equal to all accrued dividends payable with respect to such Preferred Stock to the Redemption Date: a price of \$102.50 per share for the Series A Stock, a price of \$103.00 per share for the Series B Stock, and a price of \$101.00 per share for the Series C Stock. Dividends on the Preferred Stock ceased to accrue on the Redemption Date. Upon redemption, the Preferred Stock was no longer outstanding, and all rights of the holders thereof as shareholders of **DP&L**, except the right to payment of the redemption price, ceased to exist. The difference between the carrying value of the Redeemable Preferred Stock and the redemption amount was charged to Other paid-in capital.

### **Common Stock**

**DP&L** has 50,000,000 authorized common shares, of which 41,172,173 are outstanding at December 31, 2018. All common shares are held by **DP&L's** parent, **DPL**.

### **Equity Settlement of Related Party Payable**

In 2016, **DP&L** settled a \$7.5 million payable to **DPL** relating to income taxes. This payable balance was settled through equity and **DPL's** investment in **DP&L** was increased by \$7.5 million as consideration for extinguishing the payable.

### **Capital Contribution and Returns of Capital**

In 2018, **DP&L** received an \$80.0 million capital contribution from its parent, **DPL**. In addition, **DP&L** made returns of capital payments of \$43.8 million to **DPL**. In addition, **DP&L** recorded \$10.0 million in 2018 as a return of capital to transfer additional deferred tax amounts under Generation Separation. See Note 8 – Income Taxes and Note 14 – Generation Separation for more information.

In 2017, **DP&L** received a \$70.0 million capital contribution from its parent, **DPL**. In addition, **DP&L** made returns of capital payments of \$39.0 million to **DPL**. In connection with Generation Separation, **DP&L** recorded \$86.2 million as a return of capital. See Note 14 – Generation Separation for more information.

In 2016, **DP&L** made a dividend payment of \$70.0 million to **DPL**.

## **Note 11 – Contractual Obligations, Commercial Commitments and Contingencies**

### **DP&L – Equity Ownership Interest**

**DP&L** has a 4.9% equity ownership interest in OVEC which is recorded using the cost method of accounting under GAAP. At December 31, 2018, **DP&L** could be responsible for the repayment of 4.9%, or \$68.1 million, of a \$1,389.6 million debt obligation comprised of both fixed and variable rate securities with maturities between 2019 and 2040. OVEC could also seek additional contributions from us to avoid a default in the event that other OVEC members defaulted on their respective OVEC obligations. One of the other OVEC members, with a 4.85% interest in OVEC, filed for bankruptcy protection and the bankruptcy court approved that member's rejection of the OVEC arrangement and its related obligations on July 31, 2018. We do not expect these events to have a material impact on our financial condition, results of operations or cash flows.



## Contractual Obligations and Commercial Commitments

We enter into various contractual obligations and other commercial commitments that may affect the liquidity of our operations. At December 31, 2018, these include:

\$ in millions	Payments due in:				
	Total	Less than 1 year	2 - 3 years	4 - 5 years	More than 5 years
Electricity purchase commitments	\$ 209.4	\$ 139.5	\$ 69.9	\$ —	\$ —
Purchase orders and other contractual obligations	\$ 39.8	\$ 11.3	\$ 14.7	\$ 13.8	\$ —

### Electricity purchase commitments:

**DP&L** enters into long-term contracts for the purchase of electricity. In general, these contracts are subject to variable quantities or prices and are terminable only in limited circumstances.

### Purchase orders and other contractual obligations:

At December 31, 2018, **DP&L** had various other contractual obligations including non-cancelable contracts to purchase goods and services with various terms and expiration dates. Due to uncertainty regarding the timing and payment of future obligations to the Service Company, and **DP&L's** ability to terminate such obligations upon 90 days' notice, we have excluded such amounts in the contractual obligations table above

## Contingencies

In the normal course of business, we are subject to various lawsuits, actions, proceedings, claims and other matters asserted under laws and regulations. We believe the amounts provided in our Financial Statements, as prescribed by GAAP, are adequate in light of the probable and estimable contingencies. However, there can be no assurances that the actual amounts required to satisfy alleged liabilities from various legal proceedings, claims, tax examinations, and other matters, including the matters discussed below, and to comply with applicable laws and regulations, will not exceed the amounts reflected in our Financial Statements. As such, costs, if any, that may be incurred in excess of those amounts provided as of December 31, 2018, cannot be reasonably determined.

## Environmental Matters

**DP&L's** facilities and operations are subject to a wide range of federal, state and local environmental laws, rules and regulations. The environmental issues that may affect us include the following. However, as described further below, as a result of **DPL's** retirement of its Stuart and Killen generating stations, the sale of its ownership interest in the Miami Fort and Zimmer generating stations, the planned 2020 retirement of Conesville and our exiting of our generation business, certain of these environmental regulations and laws are now not expected to have a material impact on **DPL** with respect to these generating stations.

- The federal CAA and state laws and regulations (including SIPs) which require compliance, obtaining permits and reporting as to air emissions;
- Rules and future rules issued by the USEPA, the Ohio EPA or other authorities that require or will require reporting and reductions of GHGs;
- Rules and future rules issued by the USEPA, the Ohio EPA or other authorities associated with the federal Clean Water Act, which prohibits the discharge of pollutants into waters of the United States except pursuant to appropriate permits; and
- Solid and hazardous waste laws and regulations, which govern the management and disposal of certain waste.

In addition to imposing continuing compliance obligations, these laws, rules and regulations authorize the imposition of substantial penalties for noncompliance, including fines, injunctive relief and other sanctions. In the normal course of business, we have investigatory and remedial activities underway at our facilities to comply, or to determine compliance, with such laws, rules and regulations. We record liabilities for loss contingencies related to environmental matters when a loss is probable of occurring and can be reasonably estimated in accordance with the provisions of GAAP. Accordingly, we have immaterial accruals for loss contingencies for environmental matters. We also have a number of environmental matters for which we have not accrued loss contingencies because the risk of loss is not probable, or a loss cannot be reasonably estimated. We evaluate the potential liability related to environmental matters quarterly and may revise our estimates. Such revisions in the estimates of the potential liabilities could have a material adverse effect on our results of operations, financial condition or cash flows.



We have several pending environmental matters associated with our current and previously owned and operated coal-fired generation units. Some of these matters could have material adverse impacts on our results of operations, financial condition or cash flows.

## **Note 12 – Related Party Transactions**

### **Service Company**

The Service Company allocates the costs for services provided based on cost drivers designed to result in fair and equitable allocations. This includes ensuring that the regulated utilities served, including **DP&L**, are not subsidizing costs incurred for the benefit of other businesses.

### **Benefit Plans**

**DPL** participates in an agreement with Health and Welfare Benefit Plans LLC, an affiliate of AES, to participate in a group benefits program, including but not limited to, health, dental, vision and life benefits. Health and Welfare Benefit Plans LLC administers the financial aspects of the group insurance program, receives all premium payments from the participating affiliates, and makes all vendor payments.

### **Long-term Compensation Plan**

During 2018, 2017 and 2016, many of **DP&L's** non-union employees received benefits under the AES Long-term Compensation Plan, a deferred compensation program. This type of plan is a common employee retention tool used in our industry. Benefits under this plan are granted in the form of performance units payable in cash and AES restricted stock units. Restricted stock units vest ratably over a three-year period. The performance units payable in cash vest at the end of the three-year performance period and are subject to certain AES performance criteria. Total deferred compensation expense recorded during 2018, 2017 and 2016 was \$0.3 million, \$0.4 million and \$0.5 million, respectively, and was included in "Other Operating Expenses" on **DP&L's** Statements of Operations. The value of these benefits is being recognized over the 36-month vesting period and a portion is recorded as miscellaneous deferred credits with the remainder recorded as "Paid in capital" on **DP&L's** Balance Sheets in accordance with FASC 718 "Compensation - Stock Compensation."

The following table provides a summary of our related party transactions:

\$ in millions	Years ended December 31,		
	2018	2017	2016
<b>DP&amp;L Cost of revenues:</b>			
Fuel and power purchased from AES Ohio Generation	\$ —	\$ 5.4	\$ 8.7
<b>DP&amp;L Operation &amp; Maintenance Expenses:</b>			
Premiums charged for insurance services provided by MVIC <sup>(a)</sup>	\$ 2.7	\$ 3.1	\$ 3.4
<b>Transactions with the Service Company:</b>			
Charges for services provided	\$ 25.7	\$ 39.0	\$ 38.7
Charges to the Service Company	\$ 4.9	\$ 4.2	\$ 4.5
<b>Transactions with other AES affiliates:</b>			
Charges for health, welfare and benefit plans	\$ 8.7	\$ 14.3	\$ 9.4
Charges to affiliates for non-power goods or services <sup>(b)</sup>	\$ 7.1	\$ 3.7	\$ 5.7
Consulting services	\$ 2.0	\$ —	\$ —
<b>Balances with related parties:</b>	<b>At December 31, 2018</b>	<b>At December 31, 2017</b>	
Net payable to the Service Company	\$ (4.8)	\$ (3.9)	
Net receivable from / (payable) to other AES affiliates	\$ (0.5)	\$ 4.8	

(a) MVIC, a wholly-owned captive insurance subsidiary of **DPL**, provides insurance coverage to **DP&L** and other **DPL** subsidiaries for workers' compensation, general liability, property damages and directors' and officers' liability. These amounts represent insurance premiums charged by MVIC to **DP&L**.

(b) In the normal course of business **DP&L** incurred and recorded expenses on behalf of **DPL** affiliates. Such expenses included but were not limited to employee-related expenses, accounting, information technology, payroll, legal and other administration expenses. **DP&L** subsequently charged these expenses to the affiliates at **DP&L's** cost and credited the expense in which they were initially recorded.

### **Income Taxes**

AES files federal and state income tax returns which consolidate **DPL** and its subsidiaries, including **DP&L**. Under a tax sharing agreement with **DPL**, **DP&L** is responsible for the income taxes associated with its own taxable income and records the provision for income taxes using a separate return method. Under this agreement, **DP&L** had a net receivable balance of \$19.6 million and \$6.5 million at December 31, 2018 and 2017, respectively, which is



recorded in Taxes receivable on the accompanying Balance Sheets. During 2018, 2017 and 2016, **DP&L** made net payments of \$14.6 million, \$28.1 million and \$0.0 million respectively, to **DPL** for its share of income taxes.

### **Note 13 – Revenue**

Revenue is primarily earned from retail and wholesale electricity sales and electricity transmission and distribution delivery services. Revenue is recognized upon transfer of control of promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. Revenue is recorded net of any taxes assessed on and collected from customers, which are remitted to the governmental authorities.

*Retail Revenues* – **DP&L** energy sales to utility customers are based on the reading of meters at the customer's location that occurs on a systematic basis throughout the month. **DP&L** sells electricity directly to end-users, such as homes and businesses, and bills customers directly. Performance obligations for retail revenues are satisfied over time as energy is delivered and the same method is used to measure progress, and thus the performance obligation meets the criteria to be considered a series. This includes both the promise to transfer energy and other distribution and/or transmission services.

In exchange for the exclusive right to sell or distribute electricity in our service area, **DP&L** is subject to rate regulation by federal and state regulators. This regulation sets the framework for the prices ("tariffs") that **DP&L** is allowed to charge customers for electricity. Since tariffs are approved by the regulator, the price that **DP&L** has the right to bill corresponds directly with the value to the customer of **DP&L's** performance completed in each period. Therefore, revenue under these contracts is recognized using an output method measured by the MWhs delivered each month at the approved tariff.

In cases where a customer chooses to receive generation services from a CRES provider, the price for generation services is negotiated between the customer and the CRES provider, and **DP&L** only serves as a billing agent if requested by the CRES provider. As such, **DP&L** recognizes the consolidated billing arrangement with the CRES provider on a net basis, thereby recording no revenue for the generation component. Retail revenue from these customers would only be related to transmission and distribution charges.

*Wholesale Revenues* – **DP&L's** share of the power produced at OVEC is sold to PJM and is classified as Wholesale revenues.

In PJM, the promise to sell energy as wholesale revenue is separately identifiable from participation in the capacity market and the two products can be transacted independently of one another. Therefore, wholesale revenues are a separate contract with a single performance obligation. Revenue is recorded based on the quantities (MWh) delivered in each hour during each month at the spot price, making the contract effectively "month-to-month".

*RTO Revenues* – Compensation for use of **DP&L's** transmission assets and compensation for various ancillary services are classified as RTO revenues. As **DP&L** owns and operates transmission lines in southwest Ohio within PJM, demand charges collected from network customers by PJM are then allocated to the appropriate transmission owners (i.e. **DP&L**) and recognized as transmission revenues. Additionally, as an owner of generation and transmission assets within PJM, **DPL** is compensated for various ancillary services; such as reactive supply, regulation services, scheduling reserves, operating reserves, spinning/synchronized reserves as well as congestion credits that are provided to PJM via these assets.

Transmission revenues have a single performance obligation, as transmission services represent a distinct service. Additionally, as the performance obligation is satisfied over time and the same method is used to measure progress, the performance obligation meets the criteria to be considered a series. The price that **DP&L**, as the transmission operator, has the right to bill (received as a credit from PJM) corresponds directly with the value to the customer of performance completed in each period, as the price paid is the allocation of the tariff rate (as approved by the regulator) charged to network participants.

*RTO Capacity Revenues* – Compensation received from PJM for making installed generation capacity available to satisfy system integrity and reliability requirements is classified as RTO capacity revenues. Capacity, which is a stand-ready obligation to deliver energy when called upon by the RTO, is measured using MWs. If plant availability exceeds a contractual target, we may receive a performance bonus payment, or if the plant availability falls below a guaranteed minimum target, we may incur a non-availability penalty. Such bonuses or penalties represent a form of

variable consideration and are estimated and recognized when it is probable that there will not be a significant reversal and therefore the transaction price is recognized on an output basis based on the MWs.

RTO capacity revenues have a single performance obligation, as capacity is a distinct good. Additionally, as the performance obligation is satisfied over time and the same method is used to measure progress, the performance obligation meets the criteria to be considered a series. The capacity price is set through a competitive auction process established by PJM.

**DP&L's** revenue from contracts with customers was \$706.6 million for the year ended December 31, 2018. The following table presents our revenue from contracts with customers and other revenue by segment for the year ended December 31, 2018:

\$ in millions	Year ended December 31,	
	2018	
<b>Retail Revenue</b>		
Retail revenue from contracts with customers	\$	625.8
Other retail revenues <sup>(a)</sup>		32.1
<b>Wholesale Revenue</b>		
Wholesale revenue from contracts with customers		29.9
<b>RTO revenue</b>		43.1
<b>RTO capacity revenues</b>		7.8
<b>Total revenues</b>	<b>\$</b>	<b>738.7</b>

(a) Other retail revenue primarily includes alternative revenue programs not accounted for under FASC 606.

The balances of receivables from contracts with customers were \$70.1 million and \$62.1 million as of December 31, 2018 and January 1, 2018, respectively. Payment terms for all receivables from contracts with customers are typically within 30 days.

We have elected to apply the optional disclosure exemptions under FASC 606. Therefore, we have no disclosures pertaining to revenue expected to be recognized in any future year related to remaining performance obligations, as we exclude contracts with an original length of one year or less, contracts for which we recognize revenue based on the amount we have the right to invoice for services performed, and variable consideration allocated entirely to a wholly unsatisfied performance obligation when the consideration relates specifically to our efforts to satisfy the performance obligation and depicts the amount to which we expect to be entitled for **DP&L**.

#### **Note 14 – Generation Separation**

On October 1, 2017, **DP&L** completed the transfer of its generating plants, the real property on which the generation plants and generation-related assets are sited, step-up transformers and other transmission plant assets used to interconnect with the electric transmission grid, fuel inventory, equipment inventory and spare parts, working capital, and other miscellaneous generation-related assets and liabilities to AES Ohio Generation. The transfer was completed as a contribution through an asset contribution agreement to a wholly-owned subsidiary of **DP&L** after which **DP&L** then distributed all of the outstanding equity in the subsidiary to **DPL** and then the subsidiary was merged into AES Ohio Generation.



The following table summarizes the carrying amounts of **DP&L's** Generation assets that were transferred to AES Ohio Generation on October 1, 2017:

\$ in millions	October 1, 2017
<b>ASSETS</b>	
Restricted cash	\$ 2.0
Accounts receivable, net	31.3
Inventories	42.0
Taxes applicable to subsequent years	1.8
Property, plant & equipment, net	87.0
Intangible assets, net	0.7
Other assets	15.5
<b>Total assets</b>	<b>\$ 180.3</b>
<b>LIABILITIES</b>	
Accounts payable	\$ 12.4
Accrued taxes <sup>(b)</sup>	(3.9)
Long-term debt <sup>(a)</sup>	0.3
Deferred taxes <sup>(b)</sup>	(91.9)
Pension, retiree and other benefits	9.6
Unamortized investment tax credit	15.1
Asset retirement obligations	126.3
Other liabilities	24.1
<b>Total liabilities</b>	<b>\$ 92.0</b>
<b>Total accumulated other comprehensive income</b>	<b>2.1</b>
<b>Net assets transferred to AES Ohio Generation</b>	<b>\$ 86.2</b>

- (a) Long-term debt that transferred to AES Ohio Generation relates to capital leases.  
(b) Accrued taxes and deferred taxes transferred to AES Ohio Generation represent the tax asset position netted with liabilities on **DP&L** prior to Generation Separation.

**DP&L's** generation business met the criteria to be classified as a discontinued operation, and, accordingly, the historical activity has been reclassified to "Discontinued operations" in the Statements of Operations for the years ended December 31, 2017 and 2016.

The following table summarizes the revenues, cost of revenues, operating and other expenses and income tax of discontinued operations for the periods indicated:

\$ in millions	Years ended December 31,	
	2017	2016
Revenues	\$ 358.4	\$ 557.9
Cost of revenues	(191.6)	(341.1)
Operating and other expenses	(156.8)	(202.0)
Fixed-asset impairment	(66.3)	(1,353.5)
Loss from discontinued operations	(56.3)	(1,338.7)
Income tax benefit from discontinued operations	(15.9)	(468.4)
<b>Net loss from discontinued operations</b>	<b>\$ (40.4)</b>	<b>\$ (870.3)</b>

In 2018, **DP&L** transferred additional deferred taxes to AES Ohio Generation under the provisions of SAB 118 through an equity transaction with **DPL** in the amount of \$10.0 million. See Note 8 – Income Taxes for additional information.

Cash flows related to discontinued operations are included in the Statements of Cash Flows. Cash flows from operating activities for discontinued operations were \$21.8 million and \$29.9 million for the years ended December 31, 2017 and 2016, respectively. Cash flows from investing activities for discontinued operations were \$(3.5) million and \$(39.0) million for the years ended December 31, 2017 and 2016, respectively.

The PUCO authorized **DP&L** to maintain long-term debt of \$750 million or 75% of its rate base, whichever is greater, until January 1, 2018, or to file an application to explain why it would not achieve those metrics. Accordingly, \$750.0 million of debt and the pro rata interest expense associated with that debt were allocated to continuing operations. All remaining interest expense is included in discontinued operations above. The interest expense included in discontinued operations was \$0.2 million and \$0.5 million for the years ended December 31, 2017 and 2016, respectively.

**Note 15 – Dispositions**

*Beckjord Facility* – On February 26, 2018, **DP&L** and its co-owners of the retired Beckjord Facility agreed to transfer their interests in the retired Facility to a third party, including their obligations to remediate the Facility and its site, and the transfer occurred on that same date. As a result, **DP&L** recognized a loss on the transfer of \$12.4 million and made cash expenditures of \$14.5 million, inclusive of cash expenditures for the transfer charges. The Beckjord Facility was retired in 2014, and, as such, the income / (loss) from continuing operations before income tax related to the Beckjord Facility was immaterial for the years ended December 31, 2018, 2017 and 2016, excluding the loss on transfer noted above.



## **Item 9 – Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

## **Item 9A – Controls and Procedures**

### **Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosures.

We carried out the evaluation required by Rules 13a-15(b) and 15d-15(b), under the supervision and with the participation of our management, including the CEO and CFO, of the effectiveness of our “disclosure controls and procedures” (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)). Based upon this evaluation, our CEO and CFO concluded that as of December 31, 2018, our disclosure controls and procedures were effective.

### **Management’s Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- provide reasonable assurance that unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements are prevented or detected timely.

Management, including our CEO and CFO, does not expect that our internal controls will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. In addition, any evaluation of the effectiveness of controls is subject to risks that those internal controls may become inadequate in future periods because of changes in business conditions, or that the degree of compliance with the policies or procedures deteriorates.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2018. In making this assessment, management used the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in 2013. Based on this assessment, management believes that we maintained effective internal control over financial reporting as of December 31, 2018.

### **Changes in Internal Control Over Financial Reporting:**

There were no changes that occurred during the quarter ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **Item 9B – Other Information**

None.

## PART III

### Item 10 – Directors, Executive Officers and Corporate Governance

Not applicable pursuant to General Instruction I of the Form 10-K.

### Item 11 – Executive Compensation

Not applicable pursuant to General Instruction I of the Form 10-K.

### Item 12 – Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

Not applicable pursuant to General Instruction I of the Form 10-K.

### Item 13 – Certain Relationships and Related Transactions, and Director Independence

Not applicable pursuant to General Instruction I of the Form 10-K.

### Item 14 – Principal Accountant Fees and Services

#### Accountant Fees and Services

The following table presents the aggregate fees billed for professional services rendered to DPL and DP&L by Ernst & Young LLP during the years ended December 31, 2018 and 2017. Other than as set forth below, no professional services were rendered or fees billed by Ernst & Young LLP during the years ended December 31, 2018 and 2017.

	Fees billed	
	Years ended December 31,	
	2018	2017
Audit fees <sup>(a)</sup>	\$ 1,242,650	\$ 1,693,250
Audit-related Fees <sup>(b)</sup>	84,000	92,500
Tax Fees	—	—
All Other Fees	—	—
Total	<u>\$ 1,326,650</u>	<u>\$ 1,785,750</u>

- (a) Audit fees relate to professional services rendered for the audit of our annual financial statements and the reviews of our quarterly financial statements and other services that are normally provided in connection with regulatory filing or engagements and services rendered under an agreed upon procedure engagement related to environmental studies.
- (b) Audit-related fees relate to services rendered to us for assurance and related services.

The Boards of Directors of DPL Inc. and The Dayton Power and Light Company (collectively, the Board) pre-approve all audit and permitted non-audit services, including engagement fees and terms for such services in accordance with Section 10A of the Securities Exchange Act of 1934, as amended. The Board will generally pre-approve a listing of specific services and categories of services, including audit, audit-related and other services, for the upcoming or current fiscal year, subject to a specified cost level. Any material service not included in the pre-approved list of services must be separately pre-approved by the Board. In addition, all audit and permissible non-audit services in excess of the pre-approved cost level, whether or not such services are included on the pre-approved list of services, must be separately pre-approved by the Board.



## PART IV

### Item 15 – Exhibits, Financial Statements and Financial Statement Schedules

The following documents are filed as part of this report:

#### 1. Financial Statements

DPL – Report of Independent Registered Public Accounting Firms	<a href="#">51</a>
DPL – Consolidated Statements of Operations for each of the three years in the period ended December 31, 2018	<a href="#">53</a>
DPL – Consolidated Statements of Other Comprehensive Income / (Loss) for each of the three years in the period ended December 31, 2018	<a href="#">54</a>
DPL – Consolidated Balance Sheets at December 31, 2018 and 2017	<a href="#">55</a>
DPL – Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2018	<a href="#">56</a>
DPL – Consolidated Statements of Shareholder's Equity for each of the three years in the period ended December 31, 2018	<a href="#">57</a>
DPL – Notes to Consolidated Financial Statements	<a href="#">58</a>
DP&L – Report of Independent Registered Public Accounting Firm	<a href="#">100</a>
DP&L – Statements of Operations for each of the three years in the period ended December 31, 2018	<a href="#">102</a>
DP&L – Statements of Other Comprehensive Income / (Loss) for each of the three years in the period ended December 31, 2018	<a href="#">103</a>
DP&L – Balance Sheets at December 31, 2018 and 2017	<a href="#">104</a>
DP&L – Statements of Cash Flows for each of the three years in the period ended December 31, 2018	<a href="#">105</a>
DP&L – Statements of Shareholder's Equity for each of the three years in the period ended December 31, 2018	<a href="#">106</a>
DP&L – Notes to Financial Statements	<a href="#">107</a>

#### 2. Financial Statement Schedules

Schedule II – Valuation and Qualifying Accounts for each of the three years in the period ended December 31, 2018	<a href="#">149</a>
The information required to be submitted in Schedules I, III, IV and V is omitted as not applicable or not required under rules of Regulation S-X.	

## Exhibits

DPL and DP&L exhibits are incorporated by reference as described unless otherwise filed as set forth herein.

The exhibits filed as part of DPL's and DP&L's Annual Report on Form 10-K, respectively, are:

DPL	DP&L	Exhibit Number	Exhibit	Location
X		2(a)	Agreement and Plan of Merger, dated as of April 19, 2011, by and among DPL Inc., The AES Corporation and Dolphin Sub, Inc.	<a href="#">Exhibit 2.1 to Report on Form 8-K filed April 20, 2011 (File No. 1-9052)</a>
X	X	2(b)	Asset Purchase Agreement dated April 21, 2017, by and among Dynegy Zimmer, LLC, Dynegy Miami Fort, LLC, AES Ohio	<a href="#">Exhibit 2.1 to Report on Form 8-K filed April 24, 2017 (File No. 1-2385)</a>
X	X	2(c)	Asset Contribution Agreement, dated as of September 28, 2017, by and between The Dayton Power and Light Company and AES Ohio Merger Sub, LLC	<a href="#">Exhibit 2.1 to Report on Form 8-K filed on October 2, 2017 (File No. 1-2385)</a>
X	X	2(d)	Agreement and Plan of Merger, dated as of September 28, 2017, by and between AES Ohio Merger Sub, LLC and AES Ohio Generation, LLC	<a href="#">Exhibit 2.2 to Report on Form 8-K filed on October 2, 2017 (File No. 1-2385)</a>
X		2(e)	Asset Purchase Agreement, dated as of December 15, 2017, by and among AES Ohio Generation, LLC, DPL Inc., Kimura Power, LLC, and Rockland Power Partners III, LP	<a href="#">Exhibit 2(e) to Report on Form 10-K filed February 26, 2018 (File No. 1-9052)</a>
X		3(a)	Amended Articles of Incorporation of DPL Inc., as amended through January 6, 2012	<a href="#">Exhibit 3(a) to Report on Form 10-K for the year ended December 31, 2011 (File No. 1-9052)</a>
X		3(b)	Amended Regulations of DPL Inc., as amended through November 28, 2011	<a href="#">Exhibit 3.2 to Report on Form 8-K filed November 28, 2011 (File No. 1-9052)</a>
	X	3(c)	Amended Articles of Incorporation of The Dayton Power and Light Company, as of January 4, 1991	<a href="#">Exhibit 3(c) to Report on Form 10-K filed on February 26, 2018 (File No. 1-9052)</a>
	X	3(d)	Regulations of The Dayton Power and Light Company, as of April 9, 1981	<a href="#">Exhibit 3(a) to Report on Form 8-K filed on May 3, 2004 (File No. 1-2385)</a>
X	X	4(a)	Composite Indenture dated as of October 1, 1935, between The Dayton Power and Light Company and Irving Trust Company, Trustee with all amendments through the Twenty-Ninth Supplemental Indenture	<a href="#">Exhibit 4.1 to Registration Statement No. 333-183556</a>
X	X	4(b)	Forty-First Supplemental Indenture dated as of February 1, 1999, between The Dayton Power and Light Company and The Bank of New York, Trustee	<a href="#">Exhibit 4.4 to Registration Statement No. 333-183556</a>
X	X	4(c)	Forty-Second Supplemental Indenture dated as of September 1, 2003, between The Dayton Power and Light Company and The Bank of New York, Trustee	<a href="#">Exhibit 4(r) to Report on Form 10-K for the year ended December 31, 2003 (File No. 1-2385)</a>
X	X	4(d)	Forty-Third Supplemental Indenture dated as of August 1, 2005, between The Dayton Power and Light Company and The Bank of New York, Trustee	<a href="#">Exhibit 4.4 to Report on Form 8-K filed August 24, 2005 (File No. 1-2385)</a>
X		4(e)	Indenture dated as of August 31, 2001 between DPL Inc. and The Bank of New York, Trustee	<a href="#">Exhibit 4(a) to Registration Statement No. 333-74630</a>
X		4(f)	First Supplemental Indenture dated as of August 31, 2001 between DPL Inc. and The Bank of New York, as Trustee	<a href="#">Exhibit 4(b) to Registration Statement No. 333-74630</a>
X		4(g)	Amended and Restated Trust Agreement dated as of August 31, 2001 among DPL Inc., The Bank of New York, The Bank of New York (Delaware), the administrative trustees named therein, and several Holders as defined therein	<a href="#">Exhibit 4(c) to Registration Statement No. 333-74630</a>
X	X	4(h)	Loan Agreement, dated as of September 1, 2006, by and between Ohio Air Quality Development Authority and The Dayton Power and Light Company	<a href="#">Exhibit 4.1 to Report on Form 8-K filed September 19, 2006 (File No. 1-2385)</a>
X		4(i)	Indenture dated October 3, 2011, between Dolphin Subsidiary II, Inc. and Wells Fargo Bank, National Association	<a href="#">Exhibit 4.1 to Report on Form 8-K filed October 5, 2011 by The AES Corporation (File No. 1-12291)</a>
X		4(j)	Supplemental Indenture dated as of November 28, 2011, between DPL Inc. and Wells Fargo Bank, National Association	<a href="#">Exhibit 4(k) to Report on Form 10-K for the year ended December 31, 2011 (File No. 1-2385)</a>
X		4(k)	Indenture dated October 6, 2014, between DPL Inc. and U.S. Bank National Association.	<a href="#">Exhibit 4.1 to Report on Form 8-K filed October 10, 2014 (File No. 1-9052)</a>
X	X	4(l)	Loan Agreement dated August 1, 2015, between the Ohio Air Quality Development Authority and The Dayton Power and Light Company, relating to the 2015 Series A bonds	<a href="#">Exhibit 4.1 to Report on Form 8-K filed August 6, 2015 (File No. 1-2385)</a>
X	X	4(m)	Loan Agreement dated August 1, 2015, between the Ohio Air Quality Development Authority and The Dayton Power and Light Company, relating to the 2015 Series B bonds	<a href="#">Exhibit 4.2 to Report on Form 8-K filed August 6, 2015 (File No. 1-2385)</a>



DPL	DP&L	Exhibit Number	Exhibit	Location
X	X	4(n)	Forty-Eighth Supplemental Indenture dated as of August 1, 2015 between The Bank of New York Mellon, Trustee and The Dayton Power and Light Company	<a href="#">Exhibit 4.3 to Report on Form 8-K filed August 6, 2015 (File No. 1-2385)</a>
X	X	4(o)	Forty-Ninth Supplemental Indenture dated as of August 1, 2015 between The Bank of New York Mellon, Trustee and The Dayton Power and Light Company	<a href="#">Exhibit 4.4 to Report on Form 8-K filed August 6, 2015 (File No. 1-2385)</a>
X	X	4(p)	Bond Purchase and Covenants Agreement dated as of August 1, 2015, among The Dayton Power and Light Company, SunTrust Bank, as Administrative Agent, and the several lenders from time to time party thereto	<a href="#">Exhibit 4.5 to Report on Form 8-K filed August 6, 2015 (File No. 1-2385)</a>
X	X	4(q)	Amendment dated February 21, 2017 to Bond Purchase and Covenants Agreement by and among The Dayton Power and Light Company, SunTrust Bank, as Administrative Agent, and several lenders from time to time party thereto, dated as of August 1, 2015	<a href="#">Exhibit 4.R to Report Filed on Form 10-K for the year ended December 31, 2016 (File No. 1-2385)</a>
X	X	4(r)	Fiftieth Supplemental Indenture dated as of August 1, 2016, by and between The Dayton Power and Light Company and The Bank of New York Mellon, Trustee	<a href="#">Exhibit 4.3 to Report on Form 8-K filed August 30, 2016 (File No. 1-2385)</a>
X	X	4(s)	Fifty-First Supplemental Indenture between The Bank of New York Mellon, as Trustee, and The Dayton Power and Light Company	<a href="#">Exhibit 4.1 to Report on Form 8-K filed October 2, 2017 (File No. 1-2385)</a>
X		10(a)	Credit Agreement dated as of July 31, 2015, among DPL Inc., U.S. Bank National Association, as Administrative Agent, Collateral Agent, Swing Line Lender and an L/C Issuer, PNC Bank, National Association, as Syndication Agent and an L/C Issuer, Bank of America, N.A., as Documentation Agent and an L/C Issuer, and the other lenders party to the Credit Agreement	<a href="#">Exhibit 10.1 to Report on Form 8-K filed August 6, 2015 (File No. 1-9052)</a>
X		10(b)	First Amendment dated as of December 15, 2017, to Credit Agreement by and among DPL Inc., U.S. Bank National Association, as Administrative Agent, Collateral Agent, Swing Line Lender and an L/C Issuer, PNC Bank, National Association, as Syndication Agent and an L/C Issuer, Bank of America, N.A., as Documentation Agent and an L/C Issuer, and the other lenders party to the Credit Agreement, dated as of July 31, 2015	<a href="#">Exhibit 10(b) to Report on Form 10-K filed February 26, 2018 (File No. 1-9052)</a>
X		10(c)	Guaranty Agreement dated as of July 31, 2015, between DPL Energy, LLC and U.S. Bank National Association, as Administrative Agent	<a href="#">Exhibit 10.2 to Report on Form 8-K filed August 6, 2015 (File No. 1-9052)</a>
X		10(d)	Pledge Agreement dated as of July 31, 2015, between DPL Inc. and U.S. Bank National Association, as Collateral Agent	<a href="#">Exhibit 10.3 to Report on Form 8-K filed August 6, 2015 (File No. 1-9052)</a>
X		10(e)	Open-end Mortgage, Security Agreement, Assignment of Leases and Rents, and Fixture Filing, dated as of July 31, 2015, made by DPL Energy LLC to U.S. Bank National Association, as Collateral Agent and Mortgagee	<a href="#">Exhibit 10.4 to Report on Form 8-K filed August 6, 2015 (File No. 1-9052)</a>
X	X	10(f)	Credit Agreement dated as of July 31, 2015, among The Dayton Power and Light Company, PNC Bank, National Association, as Administrative Agent, Swing Line Lender and an L/C Issuer, Fifth Third Bank, as Syndication Agent and an L/C Issuer, Bank of America, N.A., as Documentation Agent and an L/C Issuer, and the other lenders party to the Credit Agreement	<a href="#">Exhibit 10.5 to Report on Form 8-K filed August 6, 2015 (File No. 1-2385)</a>
X	X	10(g)	Amendment dated as of February 21, 2017 to Credit Agreement by and among The Dayton Power and Light Company, PNC Bank, National Association, as Administrative Agent, Swing Line Lender and an L/C Issuer, Fifth Third Bank, as Syndication Agent and an L/C Issuer, Bank of America, N.A., as Documentation Agent and an L/C Issuer, and the other lenders party to the Credit Agreement, dated as of July 31, 2015	<a href="#">Exhibit 10.F to Report Filed on Form 10-K for the year ended December 31, 2016 (File No. 1-2385)</a>
X		10(h)	Open-End Leasehold Mortgage, Security Agreement, Assignment of Leases and Rents, and Fixture Filing from DPL Energy, LLC to U.S. Bank National Association, dated as of October 29, 2015	<a href="#">Exhibit 10(a) to Report on Form 10-Q for the quarter ended September 30, 2015 (File No. 1-9052)</a>
X		10(i)	First Modification to Open-End Leasehold Mortgage, Security Agreement, Assignment of Leases and Rents, and Fixture Filing between AES Ohio Generation, LLC and U.S. Bank National Association, dated as of October 1, 2017	<a href="#">Exhibit 10(i) to Report on Form 10-K filed February 26, 2018 (File No. 1-9052)</a>

DPL	DP&L	Exhibit Number	Exhibit	Location
X	X	10(j)	Credit Agreement dated August 24, 2016, among The Dayton Power and Light Company, the lenders from time to time party thereto, JPMorgan Chase Bank, N.A., as administrative agent and collateral agent, Morgan Stanley Senior Funding, Inc., as a lender and BMO Capital Markets Corp., Fifth Third Securities, The Huntington National Bank, PNC Capital Markets LLC, RBC Capital Markets, LLC, Regions Capital Markets, a division of Regions Bank, and SunTrust Robinson Humphrey, Inc., as managing agents	<a href="#">Exhibit 4.1 to Report on Form 8-K filed August 30, 2016 (File No. 1-2385)</a>
X	X	10(k)	Amendment to Credit Agreement dated as of January 3, 2018, among The Dayton Power and Light Company, JPMorgan Chase Bank, N.A., as Administrative Agent and certain of the lenders party thereto	<a href="#">Exhibit 4.1 to Report on Form 8-K filed January 5, 2018 (File No. 1-2385)</a>
X	X	10(l)	Pledge and Security Agreement dated as of August 24, 2016, between The Dayton Power and Light Company and JPMorgan Chase Bank, N.A., as collateral agent	<a href="#">Exhibit 4.2 to Report on Form 8-K filed August 30, 2016 (File No. 1-2385)</a>
X	X	10(m)	Stipulation and Recommendation dated January 30, 2017	<a href="#">Exhibit 10.1 to Report on Form 8-K filed February 3, 2017 (File No. 1-2385)</a>
X	X	10(n)	Amended Stipulation and Recommendation dated March 13, 2017	<a href="#">Exhibit 10.1 to Report on Form 8-K filed March 14, 2017 (File No. 1-2385)</a>
X		31(a)	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	<a href="#">Filed herewith as Exhibit 31(a)</a>
X		31(b)	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	<a href="#">Filed herewith as Exhibit 31(b)</a>
	X	31(c)	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	<a href="#">Filed herewith as Exhibit 31(c)</a>
	X	31(d)	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	<a href="#">Filed herewith as Exhibit 31(d)</a>
X		32(a)	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	<a href="#">Filed herewith as Exhibit 32(a)</a>
X		32(b)	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	<a href="#">Filed herewith as Exhibit 32(b)</a>
	X	32(c)	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	<a href="#">Filed herewith as Exhibit 32(c)</a>
	X	32(d)	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	<a href="#">Filed herewith as Exhibit 32(d)</a>
X	X	101.INS	XBRL Instance	Furnished herewith as Exhibit 101.INS
X	X	101.SCH	XBRL Taxonomy Extension Schema	Furnished herewith as Exhibit 101.SCH
X	X	101.CAL	XBRL Taxonomy Extension Calculation Linkbase	Furnished herewith as Exhibit 101.CAL
X	X	101.DEF	XBRL Taxonomy Extension Definition Linkbase	Furnished herewith as Exhibit 101.DEF
X	X	101.LAB	XBRL Taxonomy Extension Label Linkbase	Furnished herewith as Exhibit 101.LAB
X	X	101.PRE	XBRL Taxonomy Extension Presentation Linkbase	Furnished herewith as Exhibit 101.PRE

Exhibits referencing File No. 1-9052 have been filed by DPL Inc. and those referencing File No. 1-2385 have been filed by The Dayton Power and Light Company.

Pursuant to paragraph (b)(4)(iii)(A) of Item 601 of Regulation S-K, we may not file as an exhibit to this Form 10-K certain instruments with respect to long-term debt if the total amount of securities authorized thereunder does not exceed 10% of the total assets of us and our subsidiaries on a consolidated basis, but we hereby agree to furnish to the SEC on request any such instruments.

#### Item 16 – Form 10-K Summary

None.



## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, DPL Inc. and The Dayton Power and Light Company have duly caused this report to be signed on their behalf by the undersigned, thereunto duly authorized.

**DPL Inc.**

February 26, 2019

/s/ Barry J. Bentley

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Barry J. Bentley

Interim President and Chief Executive Officer

(principal executive officer)

**The Dayton Power and Light Company**

February 26, 2019

/s/ Barry J. Bentley

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Barry J. Bentley

Interim President and Chief Executive Officer

(principal executive officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of **DPL Inc.** and in the capacities and on the dates indicated.

<u>/s/ Kenneth J. Zagzebski</u> Kenneth J. Zagzebski	Director and Chairman	February 26, 2019
<u>/s/ Leonardo Moreno</u> Leonardo Moreno	Director	February 26, 2019
<u>/s/ Mary Stawikey</u> Mary Stawikey	Director	February 26, 2019
<u>/s/ Barry J. Bentley</u> Barry J. Bentley	Director and Interim President and Chief Executive Officer (principal executive officer)	February 26, 2019
<u>/s/ Gustavo Garavaglia</u> Gustavo Garavaglia	Chief Financial Officer (principal financial officer)	February 26, 2019
<u>/s/ Karin M. Nyhuis</u> Karin M. Nyhuis	Controller (principal accounting officer)	February 26, 2019



Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of **The Dayton Power and Light Company** and in the capacities and on the dates indicated.

<u>/s/ Kenneth J. Zagzebski</u> Kenneth J. Zagzebski	Director and Chairman	February 26, 2019
<u>/s/ Julian Nebreda</u> Julian Nebreda	Director	February 26, 2019
<u>/s/ Leonardo Moreno</u> Leonardo Moreno	Director	February 26, 2019
<u>/s/ Mark E. Miller</u> Mark E. Miller	Director	February 26, 2019
<u>/s/ Paul L. Freedman</u> Paul L. Freedman	Director	February 26, 2019
<u>/s/ Tish D. Mendoza</u> Tish D. Mendoza	Director	February 26, 2019
<u>/s/ Thomas A. Raga</u> Thomas A. Raga	Director	February 26, 2019
<u>/s/ Barry J. Bentley</u> Barry J. Bentley	Director and Interim President and Chief Executive Officer (principal executive officer)	February 26, 2019
<u>/s/ Gustavo Garavaglia</u> Gustavo Garavaglia	Vice President and Chief Financial Officer (principal financial officer)	February 26, 2019
<u>/s/ Karin M. Nyhuis</u> Karin M. Nyhuis	Controller (principal accounting officer)	February 26, 2019

**Schedule II**

DPL Inc.  
VALUATION AND QUALIFYING ACCOUNTS  
For each of the three years ended December 31, 2018

\$ in thousands

Description	Balance at Beginning of Period	Additions	Deductions <sup>(a)</sup>	Balance at End of Period
Year ended December 31, 2018				
Deducted from accounts receivable -				
Provision for uncollectible accounts	\$ 1,053	\$ 3,411	\$ 3,574	\$ 890
Deducted from deferred tax assets -				
Valuation allowance for deferred tax assets <sup>(b)</sup>	\$ 36,328	\$ 1,539	\$ 8,794	\$ 29,073
Year ended December 31, 2017				
Deducted from accounts receivable -				
Provision for uncollectible accounts	\$ 1,159	\$ 3,141	\$ 3,247	\$ 1,053
Deducted from deferred tax assets -				
Valuation allowance for deferred tax assets <sup>(b)</sup>	\$ 38,266	\$ 4,383	\$ 6,321	\$ 36,328
Year ended December 31, 2016				
Deducted from accounts receivable -				
Provision for uncollectible accounts	\$ 835	\$ 4,113	\$ 3,789	\$ 1,159
Deducted from deferred tax assets -				
Valuation allowance for deferred tax assets <sup>(b)</sup>	\$ 39,874	\$ —	\$ 1,608	\$ 38,266

(a) Amounts written off, net of recoveries of accounts previously written off

(b) Balances and activity for valuation allowances for deferred tax assets includes that of amounts presented within both the "Deferred taxes" line and the "Non-current liabilities of discontinued operations and held-for-sale businesses" line on DPL's Consolidated Balance Sheets.



THE DAYTON POWER AND LIGHT COMPANY  
VALUATION AND QUALIFYING ACCOUNTS  
For each of the three years ended December 31, 2018

\$ in thousands

Description	Balance at Beginning of Period	Additions	Deductions <sup>(a)</sup>	Balance at End of Period
Year ended December 31, 2018				
Deducted from accounts receivable -				
Provision for uncollectible accounts	\$ 1,053	\$ 3,411	\$ 3,574	\$ 890
Year ended December 31, 2017				
Deducted from accounts receivable -				
Provision for uncollectible accounts	\$ 1,159	\$ 3,141	\$ 3,247	\$ 1,053
Year ended December 31, 2016				
Deducted from accounts receivable -				
Provision for uncollectible accounts	\$ 835	\$ 4,113	\$ 3,789	\$ 1,159

(a) Amounts written off, net of recoveries of accounts previously written off

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

(x) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **December 31, 2019**

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934



**DPL INC.**  
(an Ohio corporation)

Commission file number 1-9052

1065 Woodman Drive  
Dayton, Ohio 45432  
937-259-7215

I.R.S. Employer Identification No. 31-1163136



**THE DAYTON POWER AND LIGHT COMPANY**  
(an Ohio corporation)

Commission file number 1-2385

1065 Woodman Drive  
Dayton, Ohio 45432  
937-259-7215

I.R.S. Employer Identification No. 31-0258470

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Trading Symbol(s)</u>	<u>Name of Each Exchange on Which Registered</u>
N/A	N/A	N/A

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if each registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

DPL Inc.	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
The Dayton Power and Light Company	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

Indicate by check mark if each registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

DPL Inc.	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
The Dayton Power and Light Company	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>



Indicate by check mark whether each registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

DPL Inc.	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
The Dayton Power and Light Company	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

DPL Inc. and The Dayton Power and Light Company are voluntary filers that have filed all applicable reports under Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months.

Indicate by check mark whether each registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

DPL Inc.	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
The Dayton Power and Light Company	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

	Large accelerated filer	Accelerated filer	Non- accelerated filer	Smaller reporting company	Emerging growth company
DPL Inc.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The Dayton Power and Light Company	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

DPL Inc.	<input type="checkbox"/>
The Dayton Power and Light Company	<input type="checkbox"/>

Indicate by check mark whether each registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

DPL Inc.	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
The Dayton Power and Light Company	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

All of the outstanding common stock of DPL Inc. is indirectly owned by The AES Corporation. All of the common stock of The Dayton Power and Light Company is owned by DPL Inc.

At December 31, 2019, each registrant had the following shares of common stock outstanding:

Registrant	Description	Shares Outstanding
<b>DPL Inc.</b>	<b>Common Stock, no par value</b>	<b>1</b>
<b>The Dayton Power and Light Company</b>	<b>Common Stock, \$0.01 par value</b>	<b>41,172,173</b>

Documents incorporated by reference: **None**

This combined Form 10-K is separately filed by DPL Inc. and The Dayton Power and Light Company. Information contained herein relating to any individual registrant is filed by such registrant on its own behalf. Each registrant makes no representation as to information relating to a registrant other than itself.

THE REGISTRANTS MEET THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION I(1)(a) AND (b) OF FORM 10-K AND ARE THEREFORE FILING THIS FORM WITH THE REDUCED DISCLOSURE FORMAT.



**DPL Inc. and The Dayton Power and Light Company - Annual Report on Form 10-K**  
**Year Ended December 31, 2019**

**Table of Contents**

**Page No.**

Glossary of Terms	5
<b>Part I</b>	
Item 1 – Business	9
Item 1A – Risk Factors	15
Item 1B – Unresolved Staff Comments	24
Item 2 – Properties	24
Item 3 – Legal Proceedings	24
Item 4 – Mine Safety Disclosures	24
<b>Part II</b>	
Item 5 – Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	25
Item 6 – Selected Financial Data	26
Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations	27
Item 7A – Quantitative and Qualitative Disclosures about Market Risk	45
Item 8 – Financial Statements and Supplementary Data	47
<b><u>DPL Inc.</u></b>	<b>48</b>
Consolidated Statements of Operations	50
Consolidated Statements of Comprehensive Income / (Loss)	51
Consolidated Balance Sheets	52
Consolidated Statements of Cash Flows	53
Consolidated Statements of Shareholder’s Deficit	54
Notes to Consolidated Financial Statements	55
Note 1 – Overview and Summary of Significant Accounting Policies	55
Note 2 – Supplemental Financial Information	63
Note 3 – Regulatory Matters	64
Note 4 – Property, Plant and Equipment	69
Note 5 – Fair Value	70
Note 6 – Derivative Instruments and Hedging Activities	72
Note 7 – Long-term debt	75
Note 8 – Income Taxes	77
Note 9 – Benefit Plans	79
Note 10 – Equity	86
Note 11 – Contractual Obligations, Commercial Commitments and Contingencies	86
Note 12 – Related Party Transactions	88
Note 13 – Business Segments	89
Note 14 – Revenue	91
Note 15 – Discontinued Operations	93
Note 16 – Dispositions	94
Note 17 – Fixed-asset Impairments	94
<b><u>The Dayton Power and Light Company</u></b>	<b>95</b>
Statements of Operations	97
Statements of Comprehensive Income	98
Balance Sheets	99
Statements of Cash Flows	100
Statements of Shareholder’s Equity	101
Notes to Financial Statements	102
Note 1 – Overview and Summary of Significant Accounting Policies	102
Note 2 – Supplemental Financial Information	109
Note 3 – Regulatory Matters	110
Note 4 – Property, Plant and Equipment	115
Note 5 – Fair Value	116
Note 6 – Derivative Instruments and Hedging Activities	118
Note 7 – Long-term debt	119
Note 8 – Income Taxes	121
Note 9 – Benefit Plans	122
Note 10 – Equity	128
Note 11 – Contractual Obligations, Commercial Commitments and Contingencies	128
Note 12 – Related Party Transactions	130
Note 13 – Revenue	131
Note 14 – Generation Separation	132
Note 15 – Dispositions	133
Item 9 – Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	135
Item 9A – Controls and Procedures	135
Item 9B – Other Information	136
<b>Part III</b>	
Item 10 – Directors, Executive Officers and Corporate Governance	136
Item 11 – Executive Compensation	136
Item 12 – Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters	136
Item 13 – Certain Relationships and Related Transactions and Director Independence	136
Item 14 – Principal Accountant Fees and Services	136
<b>Part IV</b>	
Item 15 – Exhibits and Financial Statement Schedules	137
Item 16 – Form 10-K Summary	140
Signatures	141
Schedule II – Valuation and Qualifying Accounts	144



## GLOSSARY OF TERMS

The following select terms, abbreviations or acronyms are used in this Form 10-K:

Term	Definition
2017 ESP	DP&L's ESP - which was approved October 20, 2017 and became effective November 1, 2017. This 2017 ESP was subsequently withdrawn, and DP&L reverted to its ESP 1 rate plan, effective December 18, 2019.
AEP Generation	AEP Generation Resources Inc. - a subsidiary of American Electric Power Company, Inc. ("AEP"). Columbus Southern Power Company merged into the Ohio Power Company, another subsidiary of AEP, effective December 31, 2011. The Ohio Power generating assets (including jointly-owned units) were transferred into AEP Generation.
AES	The AES Corporation - a global power company, the ultimate parent company of DPL
AES Ohio Generation	AES Ohio Generation, LLC - a wholly-owned subsidiary of DPL that owns and operates a generation facility from which it makes wholesale sales
AFUDC	Allowance for Funds Used During Construction
AMI	Advanced Metering Infrastructure
AOCI	Accumulated Other Comprehensive Income
ARO	Asset Retirement Obligation
ASU	Accounting Standards Update
CAA	U.S. Clean Air Act - the congressional act that directs the USEPA's regulation of stationary and mobile sources of air pollution to protect air quality and stratospheric ozone
Capacity Market	The purpose of the capacity market is to enable PJM to obtain sufficient resources to reliably meet the needs of electric customers within the PJM footprint. PJM procures capacity, through a multi-auction structure, on behalf of the load serving entities to satisfy the load obligations. There are four auctions held for each Delivery Year (running from June 1 through May 31). The Base Residual Auction is held three years in advance of the Delivery Year and there is one Incremental Auction held in each of the subsequent three years. AES Ohio Generation's capacity is in the "rest of" RTO area of PJM.
CCR	Coal Combustion Residuals - which consists of bottom ash, fly ash and air pollution
Conesville	AES Ohio Generation's interest in Unit 4 at the Conesville EGU
CPP	The Clean Power Plan - the USEPA's final carbon dioxide emission rules for existing power plants under Clean Air Act Section 111(d)
CRES	Competitive Retail Electric Service
CSAPR	Cross-State Air Pollution Rule - the USEPA's rule to address interstate air pollution transport to decrease emissions to downwind states
CWA	U.S. Clean Water Act - the congressional act that allows the USEPA's regulation of water discharges and surface water standards
DIR	Distribution Investment Rider - initially established in the 2017 ESP and authorized in the DRO to recover certain distribution capital investments placed in service beginning October 1, 2015, for the number of years, and subject to increasing annual revenue limits and other terms, as set forth in the DRO. The annual revenue limit for 2019 was \$22.0 million.
Distribution Modernization Plan	In December 2018, DP&L filed a comprehensive grid modernization plan
DMR	Distribution Modernization Rider - established in the 2017 ESP as a non-bypassable rider to collect \$105.0 million in revenue per year for the first three years of the 2017 ESP term
DPL	DPL Inc.
DPLER	DPL Energy Resources, Inc. - formerly a wholly-owned subsidiary of DPL which sold competitive electric energy and other energy services. DPLER was sold on January 1, 2016 pursuant to an agreement dated December 28, 2015.
DP&L	The Dayton Power and Light Company - the principal subsidiary of DPL and a public utility which sells, transmits and distributes electricity to residential, commercial, industrial and governmental customers in a 6,000 square mile area of West Central Ohio. DP&L is wholly-owned by DPL
DRO	Distribution Rate Order - the order issued by the PUCO on September 26, 2018 establishing new base distribution rates for DP&L, which became effective October 1, 2018
Dynegy	Dynegy, Inc. - the parent of various subsidiaries that, along with AEP Generation and AES Ohio Generation, formerly co-owned coal-fired EGUs in Ohio
EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest, taxes, depreciation and amortization
EGU	Electric Generating Unit
ELG	Steam Electric Power Effluent Limitations Guidelines - guidelines which cover wastewater discharges from power plants operating as utilities
ERISA	The Employee Retirement Income Security Act of 1974
ESP	The Electric Security Plan - a cost-based plan that a utility may file with the PUCO to establish SSO rates pursuant to Ohio law
ESP 1	ESP originally approved by PUCO order dated June 24, 2009. After DP&L withdrew its 2017 ESP Application, the PUCO approved DP&L's request to revert to rates based on its ESP 1 rate plan effective December 19, 2019. DP&L is currently operating under this ESP 1 plan.
FASB	Financial Accounting Standards Board
FASC	FASB Accounting Standards Codification
FERC	Federal Energy Regulatory Commission
First and Refunding Mortgage	DP&L's First and Refunding Mortgage, dated October 1, 1935, as amended, with the Bank of New York Mellon as Trustee



## GLOSSARY OF TERMS (cont.)

Term	Definition
FTR	Financial Transmission Rights
GAAP	Generally Accepted Accounting Principles in the United States of America
Generation Separation	The transfer on October 1, 2017, to AES Ohio Generation of the DP&L-owned generating facilities and related liabilities, excluding those of the Beckjord Facility and Hutchings EGU, pursuant to an asset contribution agreement with a subsidiary that was then merged into AES Ohio Generation
GHG	Greenhouse gas - air pollutants largely emitted from combustion
kV	Kilovolts, 1,000 volts
kWh	Kilowatt hour
LIBOR	London Inter-Bank Offering Rate
Master Trust	DP&L established a Master Trust to hold assets that could be used for the benefit of employees participating in employee benefit plans
MATS	Mercury and Air Toxics Standards - the USEPA's rules for existing and new power plants under Section 112 of the CAA
Merger	The merger of DPL and Dolphin Sub, Inc., a wholly-owned subsidiary of AES. On November 28, 2011, DPL became a wholly-owned subsidiary of AES.
Miami Valley Lighting	Miami Valley Lighting, LLC is a wholly-owned subsidiary of DPL established in 1985 to provide street and outdoor lighting services to customers in the Dayton region. Miami Valley Lighting serves businesses, communities and neighborhoods in West Central Ohio with over 70,000 lighting solutions for more than 190 businesses and 180 local governments.
MRO	Market Rate Option - a market-based plan that a utility may file with PUCO to establish SSO rates pursuant to Ohio law
MTM	Mark to Market
MVIC	Miami Valley Insurance Company is a wholly-owned insurance subsidiary of DPL that provides insurance services to DPL and its subsidiaries
MW	Megawatt
MWh	Megawatt hour
NAAQS	National Ambient Air Quality Standards - the USEPA's health and environmental based standards for six specified pollutants, as found in the ambient air
NAV	Net asset value
NERC	North American Electric Reliability Corporation - a not-for-profit international regulatory authority whose mission is to assure the effective and efficient reduction of risks to the reliability and security of the electric grid
Non-bypassable	Charges that are assessed to all customers regardless of whom the customer selects as their retail electric generation supplier
NOV	Notice of Violation - an administrative action by EPA or a state agency to address non-compliance with various federal or state anti-pollution laws or regulations
NO <sub>x</sub>	Nitrogen Oxide - an air pollutant regulated by the NAAQS under the CAA
NPDES	National Pollutant Discharge Elimination System - a permit program for industrial, municipal and other facilities that discharge to surface water
NSR	New Source Review - a preconstruction permitting program regulating new or significantly modified sources of air pollution
OCI	Other Comprehensive Income
Ohio EPA	Ohio Environmental Protection Agency
OVEC	Ohio Valley Electric Corporation, an electric generating company in which DP&L has a 4.9% interest
Peaker assets	The generation and related assets for the 586.0 MW Tait combustion turbine and diesel generation facility, the 236.0 MW Montpelier combustion turbine generation facility, the 101.5 MW Yankee combustion turbine generation and solar facility, the 25.0 MW Hutchings combustion turbine generation facility, the 12.0 MW Monument diesel generation facility and the 12.0 MW Sidney diesel generation facility
PJM	PJM Interconnection, LLC, an RTO
PRP	PRP - A Potentially Responsible Party is considered by the USEPA to be potentially responsible for ground contamination and the USEPA will commonly require PRPs to conduct an investigation to determine the source of contamination and to perform the cleanup before using Superfund money
PUCO	Public Utilities Commission of Ohio
RSC	Rate Stabilization Charge - approved as part of DP&L's ESP 1. After the 2017 ESP was withdrawn, the PUCO again continued ESP 1, including the RSC, effective December 18, 2019
RTO	Regional Transmission Organization
SB 221	Ohio Senate Bill 221 is an Ohio electric energy bill that requires all Ohio distribution utilities to file either an ESP or MRO. The law also contains, among other things, annual targets relating to advanced energy portfolio standards, renewable energy, demand reduction and energy efficiency standards.
SEC	Securities and Exchange Commission
SEET	Significantly Excessive Earnings Test - a test used by the PUCO to determine whether a utility's ESP or MRO produces significantly excessive earnings for the utility
Service Company	AES US Services, LLC - the shared services affiliate providing accounting, finance and other support services to AES' U.S. SBU businesses
SIP	A State Implementation Plan is a plan for complying with the federal CAA, administered by the USEPA. The SIP consists of narrative, rules, technical documentation and agreements that an individual state will use to clean up polluted areas.

## GLOSSARY OF TERMS (cont.)

Term	Definition
SO <sub>2</sub>	Sulfur Dioxide - an air pollutant regulated by the NAAQS under the CAA
SSO	Standard Service Offer - the retail transmission, distribution and generation services offered by a utility through regulated rates, authorized by the PUCO
TCJA	The Tax Cuts and Jobs Act of 2017 signed on December 22, 2017
U.S.	United States of America
USD	U.S. dollar
USEPA	U. S. Environmental Protection Agency
USF	The Universal Service Fund (USF) is a statewide program which provides qualified low-income customers in Ohio with income-based bills and energy efficiency education programs
U.S. SBU	U. S. Strategic Business Unit, AES' reporting unit covering the businesses in the United States, including DPL



## PART I

This report includes the combined filing of **DPL** and **DP&L**. **DPL** is a wholly-owned subsidiary of AES, a global power company. Throughout this report, the terms “we”, “us”, “our” and “ours” are used to refer to both **DPL** and **DP&L**, respectively and altogether, unless the context indicates otherwise. Discussions or areas of this report that apply only to **DPL** or **DP&L** will clearly be noted in the section.

### FORWARD-LOOKING STATEMENTS

Certain statements contained in this report are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Matters discussed in this report that relate to events or developments that are expected to occur in the future, including management’s expectations, strategic objectives, business prospects, anticipated economic performance and financial condition and other similar matters constitute forward-looking statements. Forward-looking statements are based on management’s beliefs, assumptions and expectations of future economic performance, considering the information currently available to management. These statements are not statements of historical fact and are typically identified by terms and phrases such as “anticipate”, “believe”, “intend”, “estimate”, “expect”, “continue”, “should”, “could”, “may”, “plan”, “project”, “predict”, “will” and similar expressions. Such forward-looking statements are subject to risks and uncertainties and investors are cautioned that outcomes and results may vary materially from those projected due to various factors beyond our control, including but not limited to:

- growth in our service territory and changes in demand and demographic patterns;
- weather-related damage to our electrical system;
- performance of our suppliers;
- transmission and distribution system reliability and capacity;
- regulatory actions and outcomes, including, but not limited to, the review and approval of our rates and charges by the PUCO;
- federal and state legislation and regulations;
- changes in our credit ratings or the credit ratings of AES;
- fluctuations in the value of pension plan assets, fluctuations in pension plan expenses and our ability to fund defined benefit pension plans;
- changes in financial or regulatory accounting policies;
- environmental matters, including costs of compliance with, and liabilities related to, current and future environmental laws and requirements;
- interest rates and the use of interest rate hedges, inflation rates and other costs of capital;
- the availability of capital;
- the ability of subsidiaries to pay dividends or distributions to **DPL**;
- level of creditworthiness of counterparties to contracts and transactions;
- labor strikes or other workforce factors, including the ability to attract and retain key personnel;
- facility or equipment maintenance, repairs and capital expenditures;
- significant delays or unanticipated cost increases associated with construction projects;
- the availability and cost of funds to finance working capital and capital needs, particularly during periods when the time lag between incurring costs and recovery is long and the costs are material;
- local economic conditions;
- costs and effects of legal and administrative proceedings, audits, settlements, investigations and claims and the ultimate disposition of litigation;
- industry restructuring, deregulation and competition;
- issues related to our participation in PJM, including the cost associated with membership, allocation of costs, costs associated with transmission expansion, the recovery of costs incurred and the risk of default of other PJM participants;
- changes in tax laws and the effects of our tax strategies;
- product development, technology changes and changes in prices of products and technologies;
- cyberattacks and information security breaches;
- the use of derivative contracts;
- catastrophic events such as fires, explosions, terrorist acts, acts of war, pandemic events, or natural disasters such as floods, earthquakes, tornadoes, severe winds, ice or snowstorms, droughts, or other similar occurrences; and
- the risks and other factors discussed in this report and other **DPL** and **DP&L** filings with the SEC.

Forward-looking statements speak only as of the date of the document in which they are made. We disclaim any obligation or undertaking to provide any updates or revisions to any forward-looking statement to reflect any change in our expectations or any change in events, conditions or circumstances on which the forward-looking statement is based. If we do update one or more forward-looking statements, no inference should be made that we will make additional updates with respect to those or other forward-looking statements.

## **Item 1 – Business**

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### **OVERVIEW**

**DPL** is a regional energy company incorporated in 1985 under the laws of Ohio. All of **DPL's** stock is owned by an AES subsidiary.

**DPL** has three primary subsidiaries, **DP&L**, **MVIC** and **AES Ohio Generation**. **DP&L** is a public utility providing electric transmission and distribution services in West Central Ohio. **AES Ohio Generation** owns an undivided interest in a coal-fired generating facility and sells all of its energy and capacity into the wholesale market. **MVIC** is our captive insurance company that provides insurance services to **DPL** and our other subsidiaries. For additional information, see Note 1 – Overview and Summary of Significant Accounting Policies of Notes to **DPL's** Consolidated Financial Statements and Note 1 – Overview and Summary of Significant Accounting Policies of Notes to **DP&L's** Financial Statements. All of **DPL's** subsidiaries are wholly-owned.

As an electric public utility in Ohio, **DP&L** provides regulated transmission and distribution services to its customers as well as retail SSO electric service. **DP&L's** sales reflect the general economic conditions, seasonal weather patterns and the growth of energy efficiency initiatives; however, our distribution revenues were decoupled from weather and energy efficiency variations from January 1, 2019 through December 18, 2019. In the first quarter of 2020, **DP&L** filed a petition to continue to accrue the impacts of decoupling for recovery through a future rate proceeding, but it is unknown at this time how the PUCO will rule on that petition. See Note 3 – Regulatory Matters of Notes to **DPL's** Consolidated Financial Statements and Note 3 – Regulatory Matters of Notes to **DP&L's** Financial Statements for further information.

**DPL** also has a wholly-owned business trust, **DPL Capital Trust II**, formed for the purpose of issuing trust capital securities to investors.

**DP&L** does not have any subsidiaries.

**DP&L's** electric transmission and distribution businesses are subject to rate regulation by federal and state regulators. Accordingly, **DP&L** applies the accounting standards for regulated operations to its electric transmission and distribution businesses and records regulatory assets when incurred costs are expected to be recovered in future customer rates and regulatory liabilities when current cost recoveries in customer rates relate to expected future costs or overcollections of riders.

### **GENERATING CAPACITY**

**DPL**, through **AES Ohio Generation**, owns an undivided interest in **Conesville**. **AES Ohio Generation's** share of this EGU's capacity is 129 MW. **AES Ohio Generation** sells all of its energy and capacity into the wholesale market. **AEP**, the operator of the co-owned **Conesville EGU**, has announced that Unit 4 will close by May 2020. During 2019, **DPL** continued executing on its plan to exit generation by closing on the transfer of its **Stuart and Killen EGU's**, which were retired in May 2018. For additional information on this event and **DPL's** other previously owned EGUs, see Note 15 – Discontinued Operations of Notes to **DPL's** Consolidated Financial Statements.

**DP&L** also has a 4.9% interest in **OVEC**, an electric generating company. **OVEC** has two electric generating stations located in **Cheshire, Ohio** and **Madison, Indiana** with a combined generation capacity of 2,109 MW. **DP&L's** share of this generation capacity is 103 MW.



## SEGMENTS

**DPL** manages its business through one reportable operating segment, the Utility segment. See Note 13 – Business Segments of the Notes to **DPL's** Consolidated Financial Statements for additional information regarding **DPL's** reportable segment. **DP&L** also manages its business through one reportable operating segment, the Utility segment.

## EMPLOYEES

**DPL** and its subsidiaries employed 633 people at January 31, 2020, of which 630 were employed by **DP&L**. Approximately 59% of all **DPL** employees are under a collective bargaining agreement that expires on October 31, 2020.

## SERVICE COMPANY

The Service Company provides services including accounting, legal, human resources, information technology and other services of a similar nature on behalf of companies that are part of the U.S. SBU, including, among other companies, **DPL** and **DP&L**. The Service Company allocates the costs for these services based on cost drivers designed to result in fair and equitable allocations. This includes ensuring that the regulated businesses served, including **DP&L**, are not subsidizing costs incurred for the benefit of other businesses. See Note 12 – Related Party Transactions of Notes to **DPL's** Consolidated Financial Statements and Note 12 – Related Party Transactions of Notes to **DP&L's** Financial Statements.

## SEASONALITY

The power delivery business is seasonal, and weather patterns have a material effect on energy demand. In the region we serve, demand for electricity is generally greater in the summer months associated with cooling and in the winter months associated with heating compared to other times of the year. **DP&L's** sales typically reflect the seasonal weather patterns and the growth of energy efficiency initiatives. However, the impacts of weather, energy efficiency programs and economic changes in customer demand were almost entirely eliminated in 2019 by **DP&L's** Decoupling Rider, which was in place from January 1, 2019 until December 18, 2019. Subject to PUCO decision, **DP&L** may, in the near future, have authority to create a regulatory asset for the ongoing revenues that would have been charged in the Decoupling Rider going back to December 18, 2019. See Note 3 – Regulatory Matters of Notes to **DPL's** Consolidated Financial Statements and Note 3 – Regulatory Matters of Notes to **DP&L's** Financial Statements.

Storm activity can also have an adverse effect on our operating performance. Severe storms often damage transmission and distribution equipment, thereby causing power outages, which increase repair costs. Partially mitigating this impact is **DP&L's** ability to timely recover certain O&M repair costs related to severe storms.

## MARKET STRUCTURE

### Retail rate regulation

**DP&L's** delivery service to all retail customers as well as the provisions of its SSO service are regulated by the PUCO. In addition, certain costs are considered to be non-bypassable and are therefore assessed to all **DP&L** retail customers, under the regulatory authority of the PUCO, regardless of the customer's retail electric supplier. **DP&L's** transmission rates are subject to regulation by the FERC under the Federal Power Act.

Ohio law establishes the process for determining SSO and non-bypassable rates charged by public utilities. Regulation of retail rates encompasses the timing of applications, the effective date of rate changes, the cost basis upon which the rates are set and other service-related matters. Ohio law also established the Office of the OCC, which has the authority to represent residential consumers in state and federal judicial and administrative rate proceedings.

Ohio legislation extends the jurisdiction of the PUCO to the records and accounts of certain public utility holding company systems, including **DPL**. The legislation extends the PUCO's supervisory powers to a holding company system's general condition and capitalization, among other matters, to the extent that such matters relate to the costs associated with the provision of public utility service. Based on existing PUCO and FERC authorization, regulatory assets and liabilities are recorded on the balance sheets of both **DPL** and **DP&L**. See Note 3 –



Regulatory Matters of Notes to **DPL's** Consolidated Financial Statements and Note 3 – Regulatory Matters of Notes to **DP&L's** Financial Statements.

## COMPETITION AND REGULATION

### Ohio Retail Rates

ESP 1 establishes **DP&L's** framework for providing retail service on a going-forward basis including rate structures, non-bypassable charges and other specific rate recovery true-up rider mechanisms. For more information regarding **DP&L's** ESP, see Note 3 – Regulatory Matters of Notes to **DPL's** Consolidated Financial Statements and Note 3 – Regulatory Matters of Notes to **DP&L's** Financial Statements.

On September 26, 2018, the PUCO issued the DRO establishing new base distribution rates for **DP&L**, which became effective October 1, 2018. The DRO approved, without modification, a stipulation and recommendation previously filed by **DP&L**, along with various intervening parties and the PUCO staff. The DRO established a revenue requirement of \$248.0 million for **DP&L's** electric service base distribution rates which reflects an increase to distribution revenues of approximately \$29.8 million per year. In addition to the increase in base distribution rates, among other matters, the DRO also provided for a return on equity of 9.999% and a cost of long-term debt of 4.8%.

In December 2018, **DP&L** filed a Distribution Modernization Plan with the PUCO proposing to invest \$576.0 million in capital projects over the next 10 years. There are eight principal components of **DP&L's** Distribution Modernization Plan: 1) Smart Meters, 2) Self-Healing Grid, 3) Customer Engagement, 4) Enhancing Sustainability and Embracing Innovation, 5) Telecommunications, 6) Physical and Cyber Security, 7) Governance and Analytics and 8) Grid Modernization R&D. This filing is pending before the PUCO.

These initiatives will also allow **DP&L** to be ready to leverage and integrate Distributed Energy Resources into its grid, including demonstrations of community solar, energy storage, microgrids, as well as electric vehicle charging infrastructure. If approved, **DP&L** plans to implement a comprehensive grid modernization project that will deliver benefits to customers, society as a whole and to the Company.

Ohio law and the PUCO rules contain targets relating to renewable energy, peak demand reduction and energy efficiency standards. If any targets are not met, compliance penalties will apply unless the PUCO makes certain findings that would excuse performance. **DP&L** is currently in full compliance with energy efficiency, peak demand reduction and renewable energy targets. **DP&L** is required to file an energy efficiency portfolio plan to demonstrate how it plans to continue to meet the standards. On June 15, 2017, **DP&L** filed an energy efficiency portfolio plan for programs in years 2018 through 2020, which was settled and approved by the PUCO on December 20, 2017. **DP&L** recovers the costs of its compliance with Ohio energy efficiency and renewable energy standards through separate riders which are reviewed and audited by the PUCO.

The costs associated with providing high voltage transmission service and wholesale electric sales and ancillary services are subject to FERC jurisdiction. While **DPL** has market-based rate authority for wholesale electric sales, **DPL** would be required to file an application at FERC under section 101 of Title 18 of the Code of Federal Regulations to change any of its cost-based transmission or ancillary service rates.

As a member of PJM, **DP&L** receives revenues from the RTO related to **DP&L's** transmission assets and incurs costs associated with its load obligations for retail customers. Ohio law includes a provision that would allow Ohio electric utilities to seek and obtain a reconcilable rider to recover RTO-related costs and credits. **DP&L** continues to recover non-market-based transmission and ancillary costs through its Transmission Rider.

In response to filings made by **DP&L** and AES Ohio Generation, the FERC approved on May 16, 2017 reactive power rates for the generation facilities that were owned at that time. In the same order, FERC referred to the FERC's Office of Enforcement for investigation, an issue regarding **DP&L's** reactive power charges under the previously effective rates in light of changes in **DP&L's** generation portfolio between cases. As of the date of this report, **DP&L** is unable to predict the ultimate outcome of the investigation. Several other utilities within PJM are also being investigated by FERC's Office of Enforcement with respect to the same issue of changes in the generation portfolio that occurred in between rate proceedings.

**DP&L** is also subject to a retrospective SEET threshold whereby it must demonstrate its return on equity is below 12%, excluding DMR revenues. The ultimate outcome of this and the ESP v. MRO and prospective SEET could have a material adverse effect on our results of operations, financial condition and cash flows. See Note 3 –



Regulatory Matters of Notes to **DPL's** Consolidated Financial Statements and Note 3 – Regulatory Matters of Notes to **DP&L's** Financial Statements.

**Ohio Competition**

Since January 2001, **DP&L's** electric customers have been permitted to choose their retail electric generation supplier. **DP&L** continues to have the exclusive right to provide delivery service in its state-certified territory and the obligation to procure and provide electricity to SSO customers that do not choose an alternative supplier. The PUCO maintains jurisdiction over **DP&L's** delivery of electricity, SSO and other retail electric services.

As part of Ohio's electric deregulation law, all of the state's investor-owned utilities were required to join an RTO. **DP&L** is a member of the PJM RTO. The role of the RTO is to administer a competitive wholesale market for electricity and ensure reliability of the transmission grid. PJM ensures the reliability of the high-voltage electric power system serving more than 65 million people in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia. PJM coordinates and directs the operation of the region's transmission grid, administers the world's largest competitive wholesale electricity market and plans regional transmission expansion improvements to maintain grid reliability and relieve congestion.

Like other electric utilities and energy marketers, AES Ohio Generation may sell or purchase electric products in the wholesale market. As a co-owner of a generation plant, AES Ohio Generation competes with other generators, power marketers, privately and municipally-owned electric utilities and rural electric cooperatives when selling electricity. Selling this electricity will depend not only on the performance of the generating unit, but also on how the electricity's prices, terms and conditions compare to those of other suppliers.

**ENVIRONMENTAL MATTERS**

**DPL's** and **DP&L's** facilities and operations are subject to a wide range of federal, state and local environmental laws, rules and regulations. The environmental issues that may affect us include the following. However, as described further below, as a result of **DPL's** retirement and sale of various electric generating facilities, including its Stuart and Killen generating stations, the sale of its ownership interest in the Miami Fort and Zimmer generating stations, the planned 2020 retirement of Conesville and our exiting of our generation business, certain of these environmental regulations and laws are now not expected to have a material impact on **DPL** with respect to these generating stations.

- The federal CAA and state laws and regulations (including SIPs) which require compliance, obtaining permits and reporting as to air emissions;
- Litigation with federal and certain state governments and certain special interest groups regarding whether modifications to or maintenance of certain coal-fired generating stations require additional permitting or pollution control technology, or whether emissions from coal-fired generating stations cause or contribute to global climate changes;
- Rules and future rules issued by the USEPA, the Ohio EPA or other authorities that require or will require substantial reductions in SO<sub>2</sub>, particulates, mercury, acid gases, NO<sub>x</sub> and other air emissions;
- Rules and future rules issued by the USEPA, the Ohio EPA or other authorities that require or will require reporting and reductions of GHGs;
- Rules and future rules issued by the USEPA, the Ohio EPA or other authorities associated with the federal Clean Water Act, which prohibits the discharge of pollutants into waters of the United States except pursuant to appropriate permits; and
- Solid and hazardous waste laws and regulations, which govern the management and disposal of certain waste.

In addition to imposing continuing compliance obligations, these laws, rules and regulations authorize the imposition of substantial penalties for noncompliance, including fines, injunctive relief and other sanctions. In the normal course of business, we have investigatory and remedial activities underway at our facilities to comply, or to determine compliance, with such laws, rules and regulations. We record liabilities for loss contingencies related to environmental matters when a loss is probable of occurring and can be reasonably estimated in accordance with the provisions of GAAP. Accordingly, we have immaterial accruals for loss contingencies for environmental matters. We also have a number of environmental matters for which we have not accrued loss contingencies because the risk of loss is not probable, or a loss cannot be reasonably



estimated. We evaluate the potential liability related to environmental matters quarterly and may revise our estimates. Such revisions in the estimates of the potential liabilities could have a material adverse effect on our results of operations, financial condition or cash flows. See Note 11 – Contractual Obligations, Commercial Commitments and Contingencies – "Environmental Matters" of Notes to **DPL's** Consolidated Financial Statements and Note 11 – Contractual Obligations, Commercial Commitments and Contingencies – "Environmental Matters" of Notes to **DP&L's** Financial Statements for more information regarding environmental risks, laws and regulations and legal proceedings to which we are and may be subject to in the future.

In response to Executive Orders from the U.S. President, the USEPA is currently evaluating various existing regulations to be considered for repeal, replacement, or modification. We cannot predict at this time the likely outcome of the USEPA's review of these or other existing regulations or what impact it may have on our business.

We have several pending environmental matters associated with our current and previously-owned and operated coal-fired generation units. Some of these matters could have material adverse impacts on our results of operations, financial condition or cash flows.

### **Environmental Matters Related to Air Quality**

As a result of **DPL's** retirement and subsequent sale of its Stuart and Killen generating stations, the sale of its ownership interest in the Miami Fort and Zimmer generating stations and the planned 2020 retirement of Conesville, the following environmental matters, regulations and requirements are now not expected to have a material impact on **DPL**:

- The CAA and the following regulations
  - CSAPR and associated updates;
  - MATS and any associated regulatory or judicial processes;
  - NAAQS; and
  - CPP or Affordable Clean Energy (ACE) rule.

### Litigation Involving Co-Owned Stations

As a result of a 2008 consent decree entered into with the Sierra Club and approved by the U.S. District Court for the Southern District of Ohio, **DPL** and the other owners of the Stuart generating station were subject to certain specified emission targets related to NO<sub>x</sub>, SO<sub>2</sub> and particulate matter. The consent decree also includes commitments for energy efficiency and renewable energy activities. An amendment to the consent decree was entered into and approved in 2010 to clarify how emissions would be computed during startups. Given that all of the commitments have been met and with the retirement of the Stuart generating station, **DPL** and the other owners submitted a request for termination of the consent decree to the U.S. District Court.

### Notices of Violation Involving Co-Owned Units

In June 2000, the USEPA issued an NOV to the then **DP&L**-operated Stuart generating station (co-owned by AES Ohio Generation, Dynegy and AEP Generation) for alleged violations of the CAA. The NOV contained allegations consistent with NOV's and complaints that the USEPA had brought against numerous other coal-fired utilities in the Midwest. The NOV indicated the USEPA may: (1) issue an order requiring compliance with the requirements of the Ohio SIP; or (2) bring a civil action seeking injunctive relief and civil penalties of up to \$27,500 per day for each violation. Given the retirement and sale of the Stuart generating station and the fact that there has been no action to date, we do not expect any further material developments regarding this NOV.

In January 2015, **DP&L** received NOV's from the USEPA alleging violations in opacity at the Stuart and Killen generating stations in 2014. On February 15, 2017, the USEPA issued an NOV alleging violations in opacity at the Stuart generation station in 2016. Operations at both Stuart and Killen have ceased. Given the retirement and sale of the Stuart and Killen generating stations and the fact there has been no recent activity, we do not expect any further material developments regarding these NOV's.

### Notices of Violation Involving Wholly-Owned Stations

On November 18, 2009, the USEPA issued an NOV to **DP&L** for alleged NSR violations of the CAA at the Hutchings EGU, which was closed in 2013, relating to capital projects performed in 2001 involving Unit 3 and Unit 6. We do not believe that the two projects described in the NOV were modifications subject to NSR. Given the fact there has been no recent activity, we do not expect any further material developments regarding this NOV.



### **Environmental Matters Related to Water Quality, Waste Disposal and Ash Ponds**

As a result of **DPL's** retirement and subsequent sale of its Stuart and Killen generating stations, the sale of its ownership interest in the Miami Fort and Zimmer generating stations and the planned 2020 retirement of Conesville; the following environmental matters, regulations and requirements are now not expected to have a material impact on **DPL** with respect to these generating stations (although certain other requirements related to water quality, waste disposal and ash ponds are discussed further below):

- water intake regulations, including those finalized by the USEPA on May 19, 2014;
- the appeal of the NPDES permit governing the discharge of water from the Stuart Station which was dismissed by the Ohio Environmental Review Appeals Commission on August 8, 2019;
- revised technology-based regulations governing water discharges from steam electric generating facilities, finalized by the USEPA on November 3, 2015 and commonly referred to as the ELG rules; and
- Clean Water Act rules for selenium.

#### **Notice of Potential Liability for Third Party Disposal Site**

In December 2003, **DP&L** and other parties received notices that the USEPA considered **DP&L** and other parties PRPs for the Tremont City Landfill site, located near Dayton, Ohio. On October 16, 2019, **DP&L** received another notice from the USEPA claiming that **DP&L** is a PRP for the portion of the site known as the barrel fill. While a review by **DP&L** of its records indicates that it did not contribute hazardous materials to the site, **DP&L** is currently unable to predict the outcome of this matter. If **DP&L** were required to contribute to the clean-up of the site, it could have an adverse effect on our business, financial condition or results of operations.

#### **Regulation of Waste Disposal**

In 2002, **DP&L** and other parties received a special notice that the USEPA considered **DP&L** to be a PRP for the clean-up of hazardous substances at a third-party landfill known as the South Dayton Dump ("Landfill"). Several of the parties voluntarily accepted some of the responsibility for contamination at the Landfill and, in May 2010, three of those parties, Hobart Corporation, Kelsey-Hayes Company and NCR Corporation ("PRP Group"), filed a civil complaint in Ohio federal court (the "District Court") against **DP&L** and numerous other defendants, alleging that the defendants contributed to the contamination at the landfill and were liable for contribution to the PRP group for costs associated with the investigation and remediation of the site.

While **DP&L** was able to get the initial case dismissed, the PRP Group subsequently, in 2013, entered into an additional Administrative Settlement Agreement and Order on Consent ("ASAOC") with the USEPA relating to vapor intrusion and again filed suit against **DP&L** and other defendants. Plaintiffs also added an additional ASAOC they entered into in 2016 pertaining to the investigation and remediation of all hazardous substances present in the Landfill - potentially including undefined areas outside the original dump footprint - to the vapor intrusion trial proceeding. The 2013 vapor intrusion ASAOC settled in early 2020, but the 2016 ASAOC remains to be adjudicated after completion of the remedial investigation feasibility study. While **DP&L** is unable to predict the outcome of these matters, if **DP&L** were required to contribute to the clean-up of the site, it could have a material adverse effect on our results of operations, financial condition and cash flows.

#### **Regulation of CCR**

On October 19, 2015, a USEPA rule regulating CCR under the Resource Conservation and Recovery Act as nonhazardous solid waste became effective. The rule established nationally applicable minimum criteria for the disposal of CCR in new and currently operating landfills and surface impoundments, including location restrictions, design and operating criteria, groundwater monitoring, corrective action and closure requirements and post-closure care. The primary enforcement mechanisms under this regulation would be actions commenced by the states and private lawsuits. On December 16, 2016, President Obama signed into law the Water Infrastructure Improvements for the Nation Act ("WIIN Act"), which includes provisions to implement the CCR rule through a state permitting program, or if the state chooses not to participate, a possible federal permit program. The USEPA has indicated that they will implement a phased approach to amending the CCR Rule which is in process.

It is too early to determine whether the CCR rule or any revisions to or reconsideration of the rule may have a material impact on our business, financial condition or results of operations.

#### **Notice of Violation Involving Co-Owned Units**

On September 9, 2011, **DP&L** received an NOV from the USEPA with respect to its previously co-owned Stuart generating station based on a compliance evaluation inspection conducted by the USEPA and the Ohio EPA in



2009. The notice alleged non-compliance by DP&L with certain provisions of the RCRA, the CWA NPDES permit program and the station's storm water pollution prevention plan. The notice requested that DP&L respond with the actions it has subsequently taken or plans to take to remedy the USEPA's findings and ensure that further violations will not occur. Based on its review of the findings, although there can be no assurance, we believe that the notice will not result in a material adverse effect on our results of operations, financial condition and cash flows.

## **HOW TO CONTACT DPL AND DP&L**

DPL is a regional energy company incorporated in 1985 under the laws of Ohio. Our executive offices are located at 1065 Woodman Drive, Dayton, Ohio 45432 - telephone 937-259-7215. DP&L's public internet site is <http://www.dpandl.com>. The information on this website is not incorporated by reference into this report.

## **Item 1A – Risk Factors**

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Investors should consider carefully the following risk factors that could cause our business, operating results and financial condition to be materially adversely affected. New risks may emerge at any time, and we cannot predict those risks or estimate the extent to which they may affect our business or financial performance. These risk factors should be read in conjunction with the other detailed information concerning DPL set forth in the Notes to DPL's Consolidated Financial Statements and concerning DP&L set forth in the Notes to DP&L's Financial Statements in Part II – Item 8 – Financial Statements and Supplementary Data and additional information in Part II – Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations herein. The risks and uncertainties described below are not the only ones that we face.

**We may not always be able to recover our costs to deliver electricity to our retail customers. The costs we can recover and the return on capital we are permitted to earn for certain aspects of our business are regulated and governed by the laws of Ohio and the rules, policies and procedures of the PUCO.**

In Ohio, retail generation rates are not subject to cost-based regulation, while the transmission and distribution businesses are still regulated. Even though rate regulation is premised on full recovery of prudently incurred costs and a reasonable rate of return on invested capital, there can be no assurance that the PUCO will agree that all of our costs have been prudently incurred or are recoverable. There can be no assurance that the regulatory process in which rates are determined will always result in rates that will produce a full or timely recovery of our costs or permitted rates of return. Accordingly, the revenue DP&L receives may or may not match its expenses at any given time.

Changes in or reinterpretations of, or the unexpected application of the laws, rules, policies and procedures that set or govern electric rates, permitted rates of return, rate structures, operation of a competitive bid structure to supply retail generation service to SSO customers, reliability initiatives, capital expenditures and investments and the recovery of these and other costs on a full or timely basis through rates, power market prices and the frequency and timing of rate increases, could have a material adverse effect on our results of operations, financial condition and cash flows.

**Our increased costs due to renewable energy and energy efficiency requirements may not be fully recoverable in the future.**

Ohio law contains annual targets for energy efficiency which began in 2009 and require increasing energy reductions each year compared to a baseline energy usage, up to 22.3% by 2027. Peak demand reduction targets began in 2009 with increases in required percentages each year, up to 7.75% by 2020. The renewable energy standards have increased our costs and are expected to continue to increase (and could materially increase) these costs. DP&L is currently entitled to recover costs associated with its renewable energy compliance costs, as well as its energy efficiency and demand response programs. If, in the future, we are unable to timely or fully recover these costs, it could have a material adverse effect on our results of operations, financial condition and cash flows. In addition, if we were found not to be in compliance with these standards, monetary penalties could apply. These penalties are not permitted to be recovered from customers and significant penalties could have a material adverse effect on our results of operations, financial condition and cash flows. The demand reduction and energy efficiency standards by design result in reduced energy and demand that could have a material adverse effect on our results of operations, financial condition and cash flows.



**We may be negatively affected by a lack of growth or a decline in the number of customers.**

Customer growth is affected by a number of factors outside our control, such as population changes, job and income growth, housing starts, new business formation and the overall level of economic activity. A lack of growth, or a decline, in the number of customers in our service territory could have a material adverse effect on our results of operations, financial condition and cash flows and may cause us to fail to fully realize anticipated benefits from investments and expenditures.

**We are subject to numerous environmental laws, rules and regulations that require capital expenditures, increase our cost of operations and may expose us to environmental liabilities.**

We are subject to various federal, state, regional and local environmental protection and health and safety laws and regulations governing, among other things, the remediation of retired generation and other facilities, storage, handling, use, storage, disposal and transportation of coal combustion residuals and other materials, some of which may be defined as hazardous materials, the emission and discharge of hazardous and other materials into the environment; and the health and safety of our employees. Such laws, rules and regulations can become stricter over time, and we could also become subject to additional environmental laws, rules and regulations and other requirements in the future. Environmental laws, rules and regulations also require us to comply with inspections and obtain and comply with a wide variety of environmental licenses, permits, inspections and other governmental authorizations. These laws, rules and regulations often require a lengthy and complex process of obtaining and renewing licenses, permits and other governmental authorizations from federal, state and local agencies. If we are not able to timely comply with inspections and obtain, maintain or comply with all environmental laws, rules and regulations and all licenses, permits and other government authorizations required to operate our business, then our operations could be prevented, delayed or subject to additional costs. A violation of environmental laws, rules, regulations, licenses, permits or other requirements can result in substantial fines, penalties, other sanctions, permit revocation, facility shutdowns, the imposition of stricter environmental standards and controls or other injunctive measures affecting operating assets. In addition, any actual or alleged violation of these laws, rules or regulations and other requirements may require us to expend significant resources to defend against any such actual or alleged violations. DP&L has an ownership interest in OVEC, which operates generating stations, and DPL owns an undivided interest in a separate generating station operated by DPL's co-owner of that facility. We generally are responsible for our respective pro rata share of expenditures for complying with environmental laws, rules, regulations, licenses, permits and other requirements at this generating station, but have limited control over the compliance measures taken by the operator. Under certain environmental laws, we could also be held strictly, jointly and severally responsible for costs relating to contamination at our past or present facilities and at third-party waste disposal sites. We could also be held liable for human exposure to such hazardous substances or for other environmental damage.

In particular, we are subject to potentially significant remediation expenses, enforcement initiatives, private-party lawsuits and reputational risk associated with CCR, which consists of bottom ash, fly ash and air pollution control wastes generated at our current coal-fired generation plant sites. CCR currently remains onsite at our Conesville EGU and at OVEC's EGUs, including in CCR ponds. Compliance with the CCR rule, amendments to the federal CCR rule, or other federal, state, or foreign rules or programs addressing CCR may require us to incur substantial costs. In addition, CCR, particularly with respect to its beneficial use and regulation as nonhazardous solid waste, has been the subject of interest from environmental non-governmental organizations and the media. Any of the foregoing could have a material adverse effect on our results of operations, financial condition and cash flows.

From time to time we are subject to enforcement and litigation actions for claims of noncompliance with environmental laws, rules and regulations or other environmental requirements. We cannot assure that we will be successful in defending against any claim of noncompliance. Any actual or alleged violation of these laws, rules, regulations and other requirements may require us to expend significant resources to defend against any such actual or alleged violations and expose us to unexpected costs. Our costs and liabilities relating to environmental matters could have a material adverse effect on our results of operations, financial condition and cash flows. See Item 1 - Business - Environmental Matters for a more comprehensive discussion of these and other environmental matters impacting us.

**We are reliant upon the performance of a co-owner who operates our remaining co-owned operational EGU.**

We co-own an EGU operated by the co-owner. Poor operational performance by our co-owner, misalignment of co-owner's interests with our own or lack of control over costs (such as fuel costs) incurred at this station could have an adverse effect on us. In addition, any sale of this co-owned EGU by the co-owner to a third party could enhance the risk of a misalignment of interests, lack of cost control and other operational failures.



**The use of non-derivative and derivative instruments in the normal course of business could result in losses that could negatively impact our results of operations, financial position and cash flows.**

From time to time, we use non-derivative and derivative instruments, such as swaps, options, futures and forwards, to manage financial risks. These trades are affected by a range of factors, including fluctuations in interest rates and optimization opportunities. We have attempted to manage our risk exposure by establishing and enforcing risk limits and risk management policies. Despite our efforts, however, these risk limits and management policies may not work as planned and fluctuating prices and other events could adversely affect our results of operations, financial condition and cash flows. In the absence of actively quoted market prices and pricing information from external sources, the valuation of these instruments can involve management's judgment or the use of estimates. As a result, changes in the underlying assumptions or use of alternative valuation methods could affect the reported fair value of some of these contracts. We could also recognize financial losses as a result of volatility in the market values of these contracts, a counterparty failing to perform or the underlying transactions which the instruments are intended to hedge failing to materialize, which could result in a material adverse effect on our results of operations, financial condition and cash flows.

**The Dodd-Frank Act contains significant requirements related to derivatives that, among other things, could reduce the cost effectiveness of entering into derivative transactions.**

In July 2010, The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was signed into law. The Dodd-Frank Act contains significant requirements relating to derivatives, including, among others, a requirement that certain transactions be cleared on exchanges that would necessitate the posting of cash collateral for these transactions. We are considered an end-user under the Dodd-Frank Act and therefore are exempt from most of the collateral and margining requirements. We are required to report our bilateral derivative contracts, unless our counterparty is a major swap participant or has elected to report on our behalf. Even though we qualify for an exception from these requirements, our counterparties that do not qualify for the exception may pass along any increased costs incurred by them through higher prices and reductions in unsecured credit limits or be unable to enter into certain transactions with us. The occurrence of any of these events could have a material adverse effect on our results of operations, financial condition and cash flows.

**Our business is sensitive to weather and seasonal variations.**

Weather conditions significantly affect the demand for electric power and, accordingly, our business is affected by variations in general weather conditions and unusually severe weather. As a result of these factors, our operating revenues and associated operating expenses are not generated evenly by month during the year. We forecast electric sales based on normal weather, which represents a long-term historical average. In addition, severe or unusual weather, such as floods, tornadoes and ice or snowstorms, may cause outages and property damage that may require us to incur additional costs that may not be insured or recoverable from customers. While DP&L is permitted to seek recovery of storm damage costs, if DP&L is unable to fully recover such costs in a timely manner, it could have a material adverse effect on our results of operations, financial condition and cash flows.

**Our membership in a regional transmission organization presents risks that could have a material adverse effect on our results of operations, financial condition and cash flows.**

On October 1, 2004, in compliance with Ohio law, DP&L turned over control of its transmission functions and fully integrated into PJM, a regional transmission organization.

The rules governing the various regional power markets may also change from time to time which could affect our costs and revenues and have a material adverse effect on our results of operations, financial condition and cash flows. We may be required to expand our transmission system according to decisions made by PJM rather than our internal planning process. Various proposals and proceedings before the FERC may cause transmission rates to change from time to time. In addition, PJM developed and continues to refine rules associated with the allocation and methodology of assigning costs associated with improved transmission reliability, reduced transmission congestion and firm transmission rights that may have a financial effect on us. We also incur fees and costs to participate in PJM.

Non-market-based RTO-related charges are being recovered from all retail customers through the Transmission Rider. If in the future, however, we are unable to recover all of these costs in a timely manner this could have a material adverse effect on our results of operations, financial condition and cash flows.

As members of PJM, DP&L and AES Ohio Generation are also subject to certain additional risks including those associated with the allocation of losses caused by unreimbursed defaults of other participants in PJM markets among PJM members and those associated with complaint cases filed against PJM that may seek refunds of



revenues previously earned by PJM members including DP&L and AES Ohio Generation. These amounts could be significant and have a material adverse effect on our results of operations, financial condition and cash flows.

**Costs associated with new transmission projects could have a material adverse effect on our results of operations, financial condition and cash flows.**

Annually, PJM performs a review of the capital additions required to provide reliable electric transmission services throughout its territory. PJM traditionally allocated the costs of constructing these facilities to those entities that benefited directly from the additions. Over the last several years, however, some of the costs of constructing new large transmission facilities have been “socialized” across PJM without a direct relationship between the costs assigned to and benefits received by particular PJM members. To date, the additional costs charged to DP&L for new large transmission approved projects have not been material. Over time, as more new transmission projects are constructed and if the allocation method is not changed, the annual costs could become material. DP&L is recovering the Ohio retail jurisdictional share of these allocated costs from its retail customers through the Transmission Rider. To the extent that any costs in the future are material and we are unable to recover them from our customers, such costs could have a material adverse effect on our results of operations, financial condition and cash flows.

**If we were found not to be in compliance with the mandatory reliability standards, we could be subject to sanctions, including substantial monetary penalties.**

As an owner of a bulk power transmission system, DP&L is subject to mandatory reliability standards promulgated by the NERC and enforced by the FERC. The standards are based on the functions that need to be performed to ensure the bulk power system operates reliably and is guided by reliability and market interface principles. In addition, DP&L is subject to Ohio reliability standards and targets. Compliance with reliability standards may subject us to higher operating costs or increased capital expenditures. Although we expect to recover costs and expenditures from customers through regulated rates, there can be no assurance that the PUCO will approve full recovery in a timely manner. If we were found not to be in compliance with the mandatory reliability standards, we could be subject to sanctions, including substantial monetary penalties, which could have a material adverse effect on our results of operations, financial condition and cash flows.

**We rely on access to the financial markets. General economic conditions and disruptions in the financial markets could adversely affect our ability to raise capital on favorable terms, or at all, and cause increases in our interest expense.**

From time to time we rely on access to the capital and credit markets as a source of liquidity for capital requirements not satisfied by operating cash flows. These capital and credit markets experience volatility and disruption from time to time and the ability of corporations to raise capital can be negatively affected. Disruptions in the capital and credit markets make it harder and more expensive to raise capital. Our ability to raise capital on favorable terms, or at all, can be adversely affected by unfavorable market conditions or declines in our creditworthiness, and we may be unable to access adequate funding to refinance our debt as it becomes due or finance capital expenditures. The extent of any impact will depend on several factors, including our operating cash flows, financial condition and prospects, the overall supply and demand in the credit markets, our credit ratings, credit capacity, the cost of financing, the financial condition, performance and prospects of other companies in our industry or with similar financial circumstances and other general economic and business conditions. It may also depend on the performance of credit counterparties and financial institutions with which we do business. Access to funds under our existing financing arrangements is also dependent on the ability of our counterparties to meet their financing commitments and our satisfying conditions to borrowing. Our inability to obtain financing on reasonable terms, or at all, with creditworthy counterparties could adversely affect our results of operations, financial condition and cash flows. If our available funding is limited or we are forced to fund our operations at a higher cost, these conditions may require us to curtail our business activities and increase our cost of funding, both of which would adversely impact our profitability. See Note 7 – Long-term debt of Notes to DPL's Consolidated Financial Statements and Note 7 – Long-term debt of Notes to DP&L's Financial Statements for information regarding indebtedness. See also Item 7A - Quantitative and Qualitative Disclosure about Market Risk for information related to market risks.

**Our transmission and distribution system is subject to operational, reliability and capacity risks.**

The ongoing reliable performance of our transmission and distribution system is subject to risks due to, among other things, weather damage, intentional or unintentional damage, equipment or process failure, catastrophic events, such as fires and/or explosions, facility outages, labor disputes, accidents or injuries, operator error or inoperability of key infrastructure internal or external to us and events occurring on third party systems that interconnect to and affect our system. The failure of our transmission and distribution system to fully operate and



deliver the energy demanded by customers could have a material adverse effect on our results of operations, financial condition and cash flows, and if such failures occur frequently and/or for extended periods of time, could result in adverse regulatory action. In addition, the advent and quick adoption of new products and services that require increased levels of electrical energy cannot be predicted and could result in insufficient transmission and distribution system capacity. Also, as a result of the above risks and other potential risks and hazards associated with transmission and distribution operations, we may from time to time become exposed to significant liabilities for which we may not have adequate insurance coverage. We maintain an amount of insurance protection that we believe is adequate, but there can be no assurance that our insurance will be sufficient or effective under all circumstances and against all hazards or liabilities to which we may be subject. Further, any increased costs or adverse changes in the insurance markets may cause delays or inability in maintaining insurance coverage on terms similar to those presently available to us or at all. A successful claim for which we are not fully insured could have a material adverse effect on our results of operations, financial condition and cash flows.

**Current and future conditions in the economy may adversely affect our customers, suppliers and other counterparties, which may adversely affect our results of operations, financial condition and cash flows.**

Our business, results of operations, financial condition and cash flows have been and will continue to be affected by general economic conditions. Slowing economic growth, credit market conditions, fluctuating consumer and business confidence, fluctuating commodity prices and other challenges currently affecting the general economy, have caused and may continue to cause some of our customers to experience deterioration of their businesses, cash flow shortages and difficulty obtaining financing. As a result, existing customers may reduce their electricity consumption and may not be able to fulfill their payment obligations to us in a normal, timely fashion. In addition, some existing commercial and industrial customers may discontinue their operations. Sustained downturns, recessions or a sluggish economy generally affect the markets in which we operate and negatively influence our energy operations. A contracting, slow or sluggish economy could reduce the demand for energy in areas in which we are doing business. For example, during economic downturns, our commercial and industrial customers may see a decrease in demand for their products, which in turn may lead to a decrease in the amount of energy they require. Furthermore, projects which may result in potential new customers may be delayed until economic conditions improve. Some of our suppliers, customers, other counterparties and others with whom we transact business experience financial difficulties, which may impact their ability to fulfill their obligations to us or result in their declaring bankruptcy or similar insolvency-type proceedings. For example, our counterparties on forward purchase contracts and financial institutions involved in our credit facility may become unable to fulfill their contractual obligations. We may not be able to enter into replacement agreements on terms as favorable as our existing agreements. Reduced demand for our electric services, failure by our customers to timely remit full payment owed to us and supply delays or unavailability could have a material adverse effect on our results of operations, financial condition and cash flows. In particular, the projected economic growth and total employment in DP&L's service territory are important to the realization of our forecasts for annual energy sales.

**The level of our indebtedness, and the security provided for this indebtedness, could adversely affect our financial flexibility, and a material change in market interest rates could adversely affect our results of operations, financial condition and cash flows.**

As of December 31, 2019, the carrying value of DPL's debt was \$1,507.1 million and the carrying value of DP&L's debt was \$614.4 million. Of DP&L's indebtedness, there was \$565.0 million of First Mortgage Bonds and tax-exempt bonds as of December 31, 2019, which are secured by the pledge of substantially all of the assets of DP&L under the terms of DP&L's First & Refunding Mortgage. DPL's revolving credit facility is also secured by a pledge of common stock that DPL owns in DP&L. This level of indebtedness and related security could have important consequences, including:

- increasing our vulnerability to general adverse economic and industry conditions;
- requiring us to dedicate a substantial portion of our cash flow from operations to make payments on our indebtedness, thereby reducing the availability of our cash flow to fund other corporate purposes;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and
- limiting, along with the financial and other restrictive covenants in our indebtedness, our ability to borrow additional funds, as needed.

If DP&L issues additional debt in the future, we will be subject to the terms of such debt agreements and be required to obtain regulatory approvals. To the extent we increase our leverage, the risks described above would also increase. Further, actual cash requirements in the future may be greater than expected. Accordingly, our cash flows from operations may not be sufficient to repay all of the outstanding debt as it becomes due and, in that event,



we may not be able to borrow money, sell assets or otherwise raise funds on acceptable terms, or at all, to refinance our debt as it becomes due. Additionally, any failure to comply with covenants in the instruments governing our debt could result in an event of default thereunder. For a further discussion of our outstanding debt obligations, see Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition, Liquidity and Capital Requirements and Note 7 – Long-term debt of Notes to **DPL's** Consolidated Financial Statements and Note 7 – Long-term debt of Notes to **DP&L's** Financial Statements.

**DP&L** has 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. We also maintain both cash on deposit and investments in cash equivalents from time to time that could be impacted by interest rate fluctuations. As such, any event which impacts market interest rates could have a material effect on our results of operations, financial condition and cash flows. In addition, rating agencies issue ratings on our credit and our debt that affect our borrowing costs under our financial arrangements and affect our potential pool of investors and funding sources. Credit ratings also govern the collateral provisions of certain of our contracts. If the rating agencies were to downgrade our credit ratings further, our borrowing costs would likely further increase, our potential pool of investors and funding resources could be reduced, and we could be required to post additional collateral under select contracts. These events would likely reduce our liquidity and profitability and could have a material adverse effect on our results of operations, financial condition and cash flows.

**Economic conditions relating to the asset performance and interest rates of our pension and postemployment benefit plans could materially and adversely impact our results of operations, financial condition and cash flows.**

Pension costs are based upon a number of actuarial assumptions, including an expected long-term rate of return on pension plan assets, level of employer contributions, the expected life span of pension plan beneficiaries and the discount rate used to determine the present value of future pension obligations. Any of these assumptions could prove to be wrong, resulting in a shortfall of our pension and postemployment benefit plan assets compared to obligations under our pension and postemployment benefit plans. Further, the performance of the capital markets affects the values of the assets that are held in trust to satisfy future obligations under our pension and postemployment benefit plans. These assets are subject to market fluctuations and will yield uncertain returns, which may fall below our projected return rates. A decline in the market value of the pension and postemployment benefit plan assets will increase the funding requirements under our pension and postemployment benefit plans if the actual asset returns do not recover these declines in value in the foreseeable future. Future pension funding requirements, and the timing of funding payments, may also be subject to changes in legislation. We are responsible for funding any shortfall of our pension and postemployment benefit plans' assets compared to obligations under the pension and postemployment benefit plans, and a significant increase in our pension liabilities could materially and adversely impact our results of operations, financial condition and cash flows. We are subject to the Pension Protection Act of 2006, which requires underfunded pension plans to improve their funding ratios within prescribed intervals based on the level of their underfunding. As a result, our required contributions to these plans, at times, have increased and may increase in the future. In addition, our pension and postemployment benefit plan liabilities are sensitive to changes in interest rates. When interest rates decrease, the discounted liabilities increase benefit expense and funding requirements. Further, changes in demographics, including increased numbers of retirements or changes in life expectancy assumptions, may also increase the funding requirements for the obligations related to the pension and other postemployment benefit plans. Declines in market values and increased funding requirements could have a material adverse effect on our results of operations, financial condition and cash flows.

**Counterparties providing materials or services may fail to perform their obligations, which could harm our results of operations, financial condition and cash flows.**

We enter into transactions with and rely on many counterparties in connection with our business, including for purchased power, for our capital improvements and additions and to provide professional services, such as actuarial calculations, payroll processing and various consulting services. If any of these counterparties fails to perform its obligations to us or becomes unavailable, our business plans may be materially disrupted, we may be forced to discontinue certain operations if a cost-effective alternative is not readily available or we may be forced to enter into alternative arrangements at then-current market prices that may exceed our contractual prices and cause delays. Although our agreements are designed to mitigate the consequences of a potential default by the counterparty, our actual exposure may be greater than relief provided by these mitigation provisions. Any of the foregoing could result in regulatory actions, cost overruns, delays or other losses, any of which (or a combination of which) could have a material adverse effect on our results of operations, financial condition and cash flows.



Further, from time to time our construction program may call for extensive expenditures for capital improvements and additions, including the installation of upgrades, improvements to transmission and distribution facilities, as well as other initiatives. As a result, we may engage contractors and enter into agreements to acquire necessary materials and/or obtain required construction related services. In addition, some contracts may provide for us to assume the risk of price escalation and availability of certain metals and key components. This could force us to enter into alternative arrangements at then-current market prices that may exceed our contractual prices and cause construction delays. It could also subject us to enforcement action by regulatory authorities to the extent that such a contractor failure resulted in a failure by DP&L to comply with requirements or expectations, particularly with regard to the cost of the project. If these events were to occur, we might incur losses or delays in completing construction.

**Accidental improprieties and undetected errors in our internal controls and information reporting could result in the disallowance of cost recovery, noncompliant disclosure or incorrect payment processing.**

Our internal controls, accounting policies and practices and internal information systems are designed to enable us to capture and process transactions and information in a timely and accurate manner in compliance with GAAP in the United States of America, laws and regulations, taxation requirements and federal securities laws and regulations in order to, among other things, disclose and report financial and other information in connection with the recovery of our costs and with our reporting requirements under federal securities, tax and other laws and regulations and to properly process payments. We have also implemented corporate governance, internal control and accounting policies and procedures in connection with the Sarbanes-Oxley Act of 2002. Our internal controls and policies have been and continue to be closely monitored by management and our Board of Directors. While we believe these controls, policies, practices and systems are adequate to verify data integrity, unanticipated and unauthorized actions of employees, temporary lapses in internal controls due to shortfalls in oversight or resource constraints could lead to improprieties and undetected errors that could result in the disallowance of cost recovery, noncompliant disclosure and reporting or incorrect payment processing. The consequences of these events could have a material adverse effect on our results of operations, financial condition and cash flows.

**New accounting standards or changes to existing accounting standards could materially affect how we report our results of operations, financial condition and cash flows.**

DPL's Consolidated Financial Statements and DP&L's Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America. The SEC, FASB or other authoritative bodies or governmental entities may issue new pronouncements or new interpretations of existing accounting standards that may require us to change our accounting policies. These changes are beyond our control, can be difficult to predict and could materially affect how we report our results of operations, financial condition and cash flows. We could be required to apply a new or revised standard retroactively, which could adversely affect our financial condition. In addition, in preparing our Financial Statements, management is required to make estimates and assumptions. Actual results could differ significantly from those estimates.

**We are subject to extensive laws and local, state and federal regulation, as well as litigation and other proceedings that could affect our operations and costs.**

As an electric utility, DP&L is subject to extensive regulation at both the federal and state level. For example, at the federal level, DP&L is regulated by the FERC and the NERC and, at the state level, by the PUCO. The regulatory power of the PUCO over DP&L is both comprehensive and typical of the traditional form of regulation generally imposed by state public utility commissions. We face the risk of unexpected or adverse regulatory action. Regulatory discretion is reasonably broad in Ohio. DP&L is subject to regulation by the PUCO as to our services and facilities, the valuation of property, the construction, purchase, or lease of electric facilities, the classification of accounts, rates of depreciation, the increase or decrease in retail rates and charges, the issuance of securities and incurrence of debt, the acquisition and sale of some public utility properties or securities and certain other matters. As a result of the Energy Policy Act of 2005 and subsequent legislation affecting the electric utility industry, we have been required to comply with rules and regulations in areas including mandatory reliability standards, cybersecurity, transmission expansion and energy efficiency. Complying with the regulatory environment to which we are subject requires us to expend a significant amount of funds and resources. The failure to comply with this regulatory environment could subject us to substantial financial costs and penalties and changes, either forced or voluntary, in the way we operate our business that could have a material adverse effect on our results of operations, financial condition and cash flows.

We are subject to litigation, regulatory proceedings, administrative proceedings, audits, settlements, investigations and claims from time to time that require us to expend significant funds to address. There can be no assurance that the outcome of these matters will not have a material adverse effect on our business, results of operations, financial condition and cash flows. Asbestos and other regulated substances are, and may continue to be, present at our



facilities, and we have been named as a defendant in asbestos litigation. The continued presence of asbestos and other regulated substances at these facilities could result in additional litigation being brought against us, which could have a material adverse effect on our results of operations, financial condition and cash flows. See Item 1 - Business - Competition and Regulation, Item 1 - Business - Environmental Matters, and Item 3 - Legal Proceedings for a summary of significant regulatory matters and legal proceedings involving us.

**Tax legislation initiatives or challenges to our tax positions could adversely affect our operations and financial condition.**

We are subject to the tax laws and regulations of the U.S. federal, state and local governments. From time to time, legislative measures may be enacted that could adversely affect our overall tax positions regarding income or other taxes. There can be no assurance that our effective tax rate or tax payments will not be adversely affected by these legislative measures.

For example, the United States federal government recently enacted tax reform that, among other things, reduces U.S. federal corporate income tax rates, imposes limits on tax deductions for interest expense and changes the rules related to capital expenditure cost recovery. There are a number of uncertainties and ambiguities as to the interpretation and application of many of the provisions of the newly enacted tax reform measure. Given the unpredictability of these possible changes and their potential interdependency, it remains difficult to assess the overall effect such tax changes will have on our earnings and cash flow, and the extent to which such changes could adversely impact our results of operations. As the impacts of the new law are determined, and as yet-to-be-released regulations and other guidance interpreting the new law are issued and finalized, our financial results could be materially impacted.

In addition, U.S. federal, state and local tax laws and regulations are extremely complex and subject to varying interpretations. There can be no assurance that our tax positions will be sustained if challenged by relevant tax authorities and if not sustained, there could be a material adverse effect on our results of operations, financial condition and cash flows.

**If we are unable to maintain a qualified and properly motivated workforce, it could have a material adverse effect on our results of operations, financial condition and cash flows.**

One of the challenges we face is to retain a skilled, efficient and cost-effective workforce while recruiting new talent to replace losses in knowledge and skills due to resignations, terminations or retirements. This undertaking could require us to make additional financial commitments and incur increased costs. If we are unable to successfully attract and retain an appropriately qualified workforce, it could have a material adverse effect on our results of operations, financial condition and cash flows. In addition, we have employee compensation plans that reward the performance of our employees. We seek to ensure that our compensation plans encourage acceptable levels for risk and high performance through pay mix, performance metrics and timing. We may not be able to successfully train new personnel as current workers with significant knowledge and expertise retire. We also may be unable to staff our business with qualified personnel in the event of significant absenteeism related to a pandemic illness. Excessive risk-taking by our employees to achieve performance targets, through mitigated by policies and procedures, could result in events that have a material adverse effect on our results of operations, financial condition and cash flows.

**We are subject to collective bargaining agreements that could adversely affect our business, results of operations, financial condition and cash flows.**

We are subject to collective bargaining agreements with employees who are members of a union. Over half of our employees are represented by a collective bargaining agreement. While we believe that we maintain a satisfactory relationship with our employees, it is possible that labor disruptions affecting some or all of our operations could occur during the period of the collective bargaining agreement or at the expiration of the collective bargaining agreement before a new agreement is negotiated. Work stoppages by, or poor relations or ineffective negotiations with, our employees or other workforce issues could have a material adverse effect on our results of operations, financial condition and cash flows.

**Potential security breaches (including cybersecurity breaches) and terrorism risks could adversely affect our businesses.**

We operate in a highly regulated industry that requires the continued operation of sophisticated systems and network infrastructure at our generation stations, fuel storage facilities and transmission and distribution facilities. We also use various financial, accounting and other systems in our businesses. These systems and facilities are vulnerable to unauthorized access due to hacking, viruses, other cybersecurity attacks and other causes. In



particular, given the importance of energy and the electric grid, there is the possibility that our systems and facilities could be targets of terrorism or acts of war. We have implemented measures to help prevent unauthorized access to our systems and facilities, including network and system monitoring, identification and deployment of secure technologies and certain other measures to comply with mandatory regulatory reliability standards. Pursuant to NERC requirements, we have a robust cybersecurity plan in place and are subject to regular audits by an independent auditor approved by the NERC. We routinely test our systems and facilities against these regulatory requirements in order to measure compliance, assess potential security risks and identify areas for improvement. In addition, we provide cybersecurity training for our employees and perform exercises designed to raise employee awareness of cyber risks on a regular basis. To date, cyber-attacks on our business and operations have not had a material impact on our operations or financial results. Despite these efforts, if our systems or facilities were to be breached or disabled, we may be unable to recover them in a timely manner to fulfill critical business functions, including the supply of electric services to our customers, and we could experience decreases in revenues and increases in costs that could have a material adverse effect on our results of operations, financial condition and cash flows.

In the course of our business, we also store and use customer, employee and other personal information and other confidential and sensitive information, including personally identifiable information and personal financial information. If our or our third-party vendors' systems were to be breached or disabled, sensitive and confidential information and other data could be compromised, which could result in negative publicity, remediation costs and potential litigation, damages, consent orders, injunctions, fines and other relief.

To help mitigate these risks, we maintain insurance coverage against some, but not all, potential losses, including coverage for illegal acts against us. However, insurance may not be adequate to protect us against all costs and liabilities associated with these risks.

**DPL is a holding company and parent of DP&L and other subsidiaries. DPL's cash flow is dependent on the cash flows of DP&L and its other subsidiaries and their ability to pay cash to DPL.**

DPL is a holding company with no material assets other than the ownership of its subsidiaries, and accordingly all cash is generated by the activities of its subsidiaries, principally DP&L. As such, DPL's cash flow is largely dependent on the cash flows of DP&L and its ability to pay cash to DPL. The impact of the recent ESP and other regulatory proceedings on DP&L's revenues adversely affects DPL's ability to satisfy the financial covenants in its secured revolving credit facility. In addition, there are a number of other rate proceedings pending or anticipated that we cannot predict the outcome of, which could adversely affect DPL's ability to satisfy these covenants. See Note 3 – Regulatory Matters of Notes to DPL's Consolidated Financial Statements and Note 3 – Regulatory Matters of Notes to DP&L's Financial Statements for descriptions of DP&L's ESP and other regulatory proceedings and Note 7 – Long-term debt of Notes to DPL's Consolidated Financial Statements and Note 7 – Long-term debt of Notes to DP&L's Financial Statements for information regarding indebtedness and our financial covenants related to indebtedness. In addition, DP&L is regulated by the PUCO, which possesses broad oversight powers to ensure that the needs of utility customers are being met. The PUCO could impose additional restrictions on the ability of DP&L to distribute, loan or advance cash to DPL pursuant to these broad powers. A significant limitation on DP&L's ability to pay dividends or loan or advance funds to DPL could have a material adverse effect on DPL's results of operations, financial condition and cash flows.

**Our ownership by AES subjects us to potential risks that are beyond our control.**

All of DP&L's common stock is owned by DPL, and DPL is an indirectly wholly owned subsidiary of AES. Due to our relationship with AES, any adverse developments and announcements concerning AES may impair our ability to access the capital markets and to otherwise conduct business. In particular, downgrades in AES's credit ratings could result in DPL's or DP&L's credit ratings being downgraded.

**Impairment of long-lived assets would negatively affect our consolidated results of operations and net worth.**

Long-lived assets are amortized or depreciated over their estimated useful lives. Long-lived assets are evaluated for impairment only when impairment indicators are present. The recoverability assessment of long-lived assets requires making estimates and assumptions to determine fair value, as described above.



## **Item 1B – Unresolved Staff Comments**

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None.

## **Item 2 – Properties**

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Information relating to our properties is contained in Note 4 – Property, Plant and Equipment of Notes to **DPL's** Consolidated Financial Statements and Note 4 – Property, Plant and Equipment of Notes to **DP&L's** Financial Statements.

Our executive offices are located at 1065 Woodman Drive, Dayton, Ohio. This facility and the remainder of our material properties are owned directly by **DP&L** or AES Ohio Generation. These properties include our distribution service center in Dayton, Ohio, various substations and other transmission and distribution equipment and property.

Substantially all property, plant & equipment of **DP&L** is subject to the lien of the mortgage securing **DP&L's** First and Refunding Mortgage. All generation assets were released from the lien of **DP&L's** first and refunding mortgage in connection with the completion of Generation Separation on October 1, 2017. See Note 14 – Generation Separation of Notes to **DP&L's** Financial Statements.

## **Item 3 – Legal Proceedings**

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**DPL** and **DP&L** are involved in certain claims, suits and legal proceedings in the normal course of business. **DPL** and **DP&L** have accrued for litigation and claims where it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. **DPL** and **DP&L** believe, based upon information they currently possess and considering established reserves for estimated liabilities and insurance coverage, that the ultimate outcome of these proceedings and actions is unlikely to have a material adverse effect on their financial statements. It is reasonably possible, however, that some matters could be decided unfavorably and could require **DPL** or **DP&L** to pay damages or make expenditures in amounts that could be material but cannot be estimated as of December 31, 2019.

The following additional information is incorporated by reference into this Item: information about the legal proceedings contained in Item 1 - Business - Competition and Regulation and Item 1 - Business - Environmental Matters.

## **Item 4 – Mine Safety Disclosures**

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Not applicable.

## PART II

### **Item 5 – Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

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All of the outstanding common stock of **DPL** is owned indirectly by AES and directly by a wholly-owned subsidiary of AES. As a result, **DPL's** stock is not listed for trading on any stock exchange. **DP&L's** common stock is held solely by **DPL** and, as a result, is not listed for trading on any stock exchange.

#### **Dividends and return of capital**

During the years ended December 31, 2019, 2018 and 2017, **DPL** paid no dividends to AES. **DP&L** declares and pays dividends on its common shares to its parent **DPL** from time to time as declared by the **DP&L** board. Return of capital payments and dividends on common shares in the amounts of \$95.0 million, \$43.8 million and \$39.0 million were declared and paid in the years ended December 31, 2019, 2018 and 2017, respectively.

**DPL's** Amended Articles of Incorporation contain restrictions on **DPL's** ability to make dividends, distributions and affiliate loans (other than to its subsidiaries), including restrictions on making such dividends, distributions and loans if certain financial ratios exceed specified levels and **DPL's** senior long-term debt rating from a rating agency is below investment grade. As of December 31, 2019, **DPL's** leverage ratio was at 1.32 to 1.00 and **DPL's** senior long-term debt rating from a major credit rating agency was below investment grade. As a result, as of December 31, 2019, **DPL** was prohibited under its Articles of Incorporation from making a distribution to its shareholder or making a loan to any of its affiliates (other than its subsidiaries).

**DP&L's** 2017 ESP contained restrictions on dividend or tax sharing payments from **DPL** to AES. See Note 10 – Equity for more information and Note 8 – Income Taxes for more information about the tax sharing payment restrictions.



## Item 6 – Selected Financial Data

The following table presents our selected financial data which should be read in conjunction with **DPL's** audited Consolidated Financial Statements and the related Notes thereto, **DP&L's** audited Financial Statements and the related Notes thereto and Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations. The "Results of Operations" discussion in Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations addresses significant fluctuations in operating data. **DPL's** common stock is wholly-owned by an indirect subsidiary of AES and therefore **DPL** does not report earnings or dividends on a per-share basis. Other information that management believes is important in understanding trends in our business is also included in this table. The total electric sales and Statements of Operations Data for **DPL** for 2015 and the Balance Sheet Data for **DPL** for 2015 - 2016 are not comparable to the total electric sales and Statements of Operations Data for 2016 - 2019 and the Balance Sheet Data for 2017 - 2019, respectively, as these periods have not been adjusted to reflect the reclassification of the generation business, excluding Conesville, as a discontinued operation. The total electric sales and Balance Sheet Data for **DP&L** for 2015 are not comparable to the total electric sales and Balance Sheet Data for 2016 - 2019, respectively, as these periods have not been adjusted to reflect the Generation Separation and its reclassification as a discontinued operation.

<b>DPL</b>					
\$ in millions except per share amounts or as indicated	Years ended December 31,				
	2019	2018	2017	2016	2015
Total electric sales (millions of kWh)	15,108	15,728	14,679	15,406	20,756
<b>Statements of Operations Data</b>					
Revenues	\$ 763.3	\$ 775.9	\$ 743.9	\$ 834.2	\$ 1,612.8
Goodwill impairment	\$ —	\$ —	\$ —	\$ —	\$ 317.0
Fixed-asset impairment <sup>(a)</sup>	\$ 3.5	\$ 2.8	\$ —	\$ 23.9	\$ —
Operating income / (loss)	\$ 147.5	\$ 135.5	\$ 105.2	\$ 119.0	\$ (109.9)
Income / (loss) from continuing operations	\$ 45.9	\$ 31.2	\$ (1.5)	\$ 14.8	\$ (251.4)
Income / (loss) from discontinued operations, net of tax	\$ 59.5	\$ 38.9	\$ (93.1)	\$ (500.0)	\$ 12.4
Net income / (loss)	\$ 105.4	\$ 70.1	\$ (94.6)	\$ (485.2)	\$ (239.0)
Capital expenditures	\$ 168.1	\$ 103.6	\$ 121.5	\$ 148.5	\$ 137.2
<b>Balance Sheet Data (end of period):</b>					
Total assets	\$ 1,935.8	\$ 1,883.1	\$ 2,049.2	\$ 2,419.2	\$ 3,324.7
Long-term debt <sup>(b)</sup>	\$ 1,223.3	\$ 1,372.3	\$ 1,700.2	\$ 1,828.7	\$ 1,420.5
Redeemable preferred stock of subsidiary	\$ —	\$ —	\$ —	\$ —	\$ 18.4
Total common shareholder's deficit	\$ (371.9)	\$ (471.7)	\$ (584.3)	\$ (587.6)	\$ (80.6)

(a) Fixed-asset impairments of \$175.8 million and \$835.2 million in 2017 and 2016, respectively, have been reclassified to discontinued operations.

(b) Excluded from this line are the current maturities of long-term debt.

<b>DP&amp;L</b>					
\$ in millions except per share amounts or as indicated	Years ended December 31,				
	2019	2018	2017	2016	2015
Total electric sales (millions of kWh)	14,628	15,194	14,401	15,008	26,394
<b>Statements of Operations Data</b>					
Revenues	\$ 735.4	\$ 738.7	\$ 720.0	\$ 808.0	\$ 857.0
Operating income	\$ 150.7	\$ 135.1	\$ 122.1	\$ 169.0	\$ 222.2
Income from continuing operations	\$ 124.9	\$ 86.7	\$ 57.4	\$ 97.6	\$ 130.0
Loss from discontinued operations, net of tax <sup>(a)</sup>	\$ —	\$ —	\$ (40.4)	\$ (870.3)	\$ (23.6)
Net income / (loss) attributable to common stock	\$ 124.9	\$ 86.7	\$ 17.0	\$ (773.4)	\$ 105.5
Capital expenditures	\$ 167.1	\$ 93.1	\$ 101.7	\$ 128.3	\$ 127.0
<b>Balance Sheet Data (end of period):</b>					
Total assets	\$ 1,883.2	\$ 1,819.6	\$ 1,695.9	\$ 2,035.1	\$ 3,359.6
Long-term debt <sup>(b)</sup>	\$ 434.6	\$ 581.5	\$ 642.0	\$ 731.5	\$ 313.6
Redeemable preferred stock	\$ —	\$ —	\$ —	\$ —	\$ 22.9
Total common shareholder's equity	\$ 473.4	\$ 445.3	\$ 330.7	\$ 362.3	\$ 1,212.7
Number of shareholders - preferred stock	—	—	—	—	180

(a) Fixed-asset impairments of \$66.3 million and \$1,353.5 million in 2017 and 2016, respectively, have been reclassified to discontinued operations.

(b) Excluded from this line are the current maturities of long-term debt.



## **Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations**

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The following discussion and analysis should be read in conjunction with **DPL's** audited Consolidated Financial Statements and the related Notes thereto and **DP&L's** audited Financial Statements and the related Notes thereto included in Item 8 – Financial Statements and Supplementary Data of this Form 10-K. The following discussion contains forward-looking statements. Our actual results may differ materially from the results suggested by these forward-looking statements. See "Forward-Looking Statements" at the beginning of this Form 10-K and Item 1A – Risk Factors. For a list of certain abbreviations or acronyms in this discussion, see Glossary of Terms at the beginning of this Form 10-K.

### **OVERVIEW OF 2019 RESULTS AND STRATEGIC PERFORMANCE**

The most important matters on which we focus in evaluating our financial condition and operating performance and allocating our resources include: (i) recurring factors which have significant impacts on operating performance such as: regulatory action, environmental matters, weather and weather-related damage in our service area, customer growth, and the local economy; (ii) our progress on performance improvement and growth strategies designed to maintain high standards in several operating areas (including safety, customer satisfaction, operations, financial and enterprise-wide performance, talent management/people, capital allocation/sustainability and corporate social responsibility) simultaneously; and (iii) our short-term and long-term financial and operating strategies. For a discussion of how we are impacted by regulation and environmental matters, please see Note 2, "Regulatory Matters" to the Financial Statements and "Environmental Matters" in "Item 1. Business."

#### **Operational Excellence**

Our objective is to optimize **DP&L's** performance in the U.S. utility industry by focusing on the following areas: safety, operations (reliability and customer satisfaction), financial and enterprise-wide performance (efficiency and cost savings, talent management/people, capital allocation/sustainability and corporate social responsibility). We set and measure these objectives carefully, balancing them in a way and to a degree necessary to ensure a sustainable high level of performance in these areas simultaneously as compared to our peers. We monitor our performance in these areas, and where practical and meaningful, compare performance in some areas to peer utilities. Because some of our financial and enterprise-wide performance measures are company-specific performance goals, they are not benchmarked.

Our safety performance is measured by both leading and lagging metrics. Our leading safety metrics track safety observations, safety meeting engagement and the reporting of non-injury near misses. Our lagging safety metrics track lost workday cases, severity rate, and recordable incidents. We are committed to excellence in safety and have implemented various programs to increase safety awareness and improve work practices.

**DP&L** measures delivery reliability by Customer Average Interruption Duration Index ("CAIDI"), System Average Interruption Duration Index ("SAIDI") and System Average Interruption Frequency Index ("SAIFI") and benchmarks the reliability metrics against other utilities at both the state and national levels. We measure customer satisfaction using Research America Utilities Market Research - Consumer Insight. Monitoring performance in the areas such as competitive rates, operational reliability and customer service supports our ongoing work to deliver reliable service to our customers.

### **EXECUTIVE SUMMARY**

The following review of results of operations compares the results for the year ended December 31, 2019 to the results for the year ended December 31, 2018. For discussion of results of operations for the year ended December 31, 2017, see Item 7. - Management's Discussion and Analysis of Financial Condition and Results of Operations of our 2018 Annual Report on Form 10-K, filed with the SEC on February 26, 2019.



## DPL

Compared with the prior year, **DPL's** results for the year ended December 31, 2019 reflects a decrease in income from continuing operations before income tax of \$7.8 million, or 24%, primarily due to factors including, but not limited to:

\$ in millions	2019 vs. 2018
Decrease due to a higher loss on early extinguishment of debt in 2019, primarily due to the make-whole premium on the partial prepayment of the 7.25% Senior Notes due 2021	\$ (38.4)
Decrease due to the deferral of revenue to adjust for the impacts of the TCJA	(14.0)
Decrease due to higher taxes other than income	(4.7)
Impact of the distribution rate order, including higher distribution rates, the DIR, and the Decoupling Rider, partially offset by changes to <b>DP&amp;L's</b> ESP	22.4
Increase due to the loss on transfer of the Beckjord facility in the first quarter of 2018	11.7
Lower interest expense due to debt payments made in 2017 and 2018	15.8
Other	(0.6)
<b>Net change in income from continuing operations before income tax</b>	<b>\$ (7.8)</b>

## DP&L

Compared with the prior year, **DP&L's** results for the year ended December 31, 2019 reflects an increase in income from continuing operations before income tax of \$19.9 million, or 19%, primarily due to factors including, but not limited to:

\$ in millions	2019 vs. 2018
Impact of the distribution rate order, including higher distribution rates, the DIR, and the Decoupling Rider, partially offset by changes to <b>DP&amp;L's</b> ESP	\$ 22.4
Increase due to the loss on transfer of the Beckjord facility in the first quarter of 2018	12.4
Decrease due to the deferral of revenue to adjust for the impacts of the TCJA	(14.0)
Decrease due to higher taxes other than income	(4.6)
Other	3.7
<b>Net change in income from continuing operations before income tax</b>	<b>\$ 19.9</b>

## RESULTS OF OPERATIONS – DPL

DPL's results of operations include the results of its subsidiaries, including the consolidated results of its principal subsidiary DP&L. All material intercompany accounts and transactions have been eliminated in consolidation. A separate specific discussion of the results of operations for DP&L is presented elsewhere in this report.

### Statement of Operations Highlights – DPL

\$ in millions	Years ended December 31,		
	2019	2018	2017
<b>Revenues:</b>			
Retail	\$ 667.3	\$ 656.9	\$ 641.5
Wholesale	30.3	52.0	31.9
RTO ancillary	43.7	43.2	47.4
Capacity revenues	11.5	14.4	12.1
Miscellaneous revenues	10.5	9.4	11.0
<b>Total revenues</b>	<b>763.3</b>	<b>775.9</b>	<b>743.9</b>
<b>Operating costs and expenses:</b>			
Net fuel cost	16.0	17.5	9.0
Purchased power:			
Purchased power	227.9	244.9	231.4
RTO charges	24.0	57.8	57.5
RTO capacity charges	1.1	2.3	2.1
Net purchased power cost	253.0	305.0	291.0
Operation and maintenance	191.4	156.8	186.1
Depreciation and amortization	72.7	73.1	76.1
Taxes other than income taxes	78.2	73.5	77.1
Fixed-asset impairment	3.5	2.8	—
Loss / (gain) on asset disposal	1.0	—	(0.6)
Loss on disposal of business	—	11.7	—
<b>Total operating costs and expenses</b>	<b>615.8</b>	<b>640.4</b>	<b>638.7</b>
<b>Operating income</b>	<b>147.5</b>	<b>135.5</b>	<b>105.2</b>
<b>Other expense, net:</b>			
Interest expense	(82.2)	(98.0)	(110.0)
Loss on early extinguishment of debt	(44.9)	(6.5)	(3.3)
Other income	3.7	0.9	1.6
<b>Other expense, net</b>	<b>(123.4)</b>	<b>(103.6)</b>	<b>(111.7)</b>
<b>Income / (loss) from continuing operations before income tax (a)</b>	<b>\$ 24.1</b>	<b>\$ 31.9</b>	<b>\$ (6.5)</b>

- (a) For purposes of discussing operating results, we present and discuss Income / (loss) from continuing operations before income tax. This format is useful to investors because it allows analysis and comparability of operating trends and includes the same information that is used by management to make decisions regarding our financial performance.

The following review of consolidated results of operations compares the results for the year ended December 31, 2019 to the results for the year ended December 31, 2018. For discussion around results of operations for the year ended December 31, 2017, see Item 7.-Management's Discussion and Analysis of Financial Condition and Results of Operations of our 2018 Annual Report on Form 10-K, filed with the SEC on February 26, 2019.

### DPL – Revenues

Retail customers, especially residential and commercial customers, consume more electricity on warmer and colder days. Therefore, our retail sales demand is affected by the number of heating and cooling degree-days occurring during a year. Cooling degree-days typically have a more significant effect than heating degree-days since some residential customers do not use electricity to heat their homes. Because of the impact of the Decoupling Rider (effective January 1, 2019 through December 18, 2019), weather had a minimal impact on our 2019 net operating results. See Note 3 – Regulatory Matters of Notes to DPL's Consolidated Financial Statements for additional information.

Additionally, factors affecting DPL's wholesale sales volume include wholesale market prices; retail demand throughout the entire wholesale market area; unit availability to sell into the wholesale market; and weather conditions.



## Degree-days

	Years ended December 31,	
	2019	2018
Heating degree-days <sup>(a)</sup>	5,057	5,547
Cooling degree-days <sup>(a)</sup>	1,409	1,341

- (a) Heating and cooling degree-days are a measure of the relative heating or cooling required for a home or business. The heating degrees in a day are calculated as the degrees that the average actual daily temperature is below 65 degrees Fahrenheit. For example, if the average temperature on March 20th was 40 degrees Fahrenheit, the heating degrees for that day would be the 25-degree difference between 65 degrees and 40 degrees. Similarly, cooling degrees in a day are calculated as the degrees that the average actual daily temperature is above 65 degrees Fahrenheit.

DPL's electric sales and billed customers were as follows:

ELECTRIC SALES AND CUSTOMERS <sup>(a)</sup>		
	DPL	
	Years ended December 31,	
	2019	2018
Retail electric sales <sup>(b)</sup>	14,049	14,439
Wholesale electric sales <sup>(c)</sup>	1,059	1,289
Total electric sales	15,108	15,728
Billed electric customers (end of period)	525,801	525,166

- (a) Electric sales are presented in millions of kWh.
- (b) DPL retail electric sales represent the total transmission and distribution retail sales for the periods presented. SSO sales were 3,913 million kWh and 3,977 million kWh for the years ended December 31, 2019 and 2018, respectively.
- (c) Included within DPL wholesale electric sales are DP&L's 4.9% share of the generation output of OVEC and the generation output of Conesville.

During the year ended December 31, 2019, Revenues decreased \$12.6 million to \$763.3 million from \$775.9 million in the same period of the prior year. This decrease was a result of:

\$ in millions	2019 vs. 2018
<b>Retail</b>	
Rate	
Increase in Energy Efficiency and USF Revenue Rate Riders	\$ 39.9
Increase in base distribution rates due to the DRO	18.8
Increase due to the DIR, which was effective with the DRO <sup>(a)</sup>	16.5
Increase due to the Decoupling Rider, which was effective with the DRO and designed to eliminate the impacts of weather and demand from certain customer classes <sup>(a)</sup>	9.4
Decrease in the TCRR due to lower transmission costs and the impact of DP&L passing back the benefits of the PJM Transmission Enhancement Settlement to customers	(32.8)
Decrease due to the deferral of revenue to adjust for the impacts of the TCJA	(14.0)
Decrease due to energy efficiency lost revenues recorded in the prior year	(13.6)
Other	(1.3)
Net change in retail rate	22.9
Volume	
Decrease in volume primarily due to demand in the current year driven by a decrease in heating degree-days of 490, partially offset by an increase in cooling degree-days of 68 (excludes the decoupling impact in 2019, which is included in rates above) <sup>(a)</sup>	(15.2)
Other miscellaneous	2.7
Total retail change	10.4
<b>Wholesale</b>	
Decrease due to lower wholesale prices and lower volumes, primarily due to a 9% decrease in internal generation at Conesville and no longer serving the load of other parties through their competitive bid process	(21.7)
<b>RTO ancillary and capacity revenues</b>	
Decrease primarily due to lower capacity prices	(2.4)
<b>Other</b>	
Miscellaneous revenues	1.1
<b>Net change in Revenues</b>	<b>\$ (12.6)</b>

(a) The PUCO order approving the ESP 1 rate plan on December 18, 2019 included the removal of the DIR and Decoupling Rider. For more information, see Part II, Item 8, Note 3 – Regulatory Matters in the Notes to DPL's Consolidated Financial Statements.

### **DPL – Net Purchased Power**

During the year ended December 31, 2019, Net Purchased Power decreased \$52.0 million compared to the prior year. This decrease was a result of:

\$ in millions	2019 vs. 2018
<b>Net purchased power</b>	
Purchased power	
Rate	
Increase due to pricing in the competitive bid process	\$ 1.4
Volume	
Decrease primarily due to lower retail load served due to milder weather and lower purchases as DP&L stopped purchasing power to serve the load of other parties through their competitive bid process after May of 2018	(18.4)
Total purchased power change	(17.0)
<b>RTO charges</b>	
Decrease due to lower transmission and congestion charges, including a decrease due to benefits of the PJM Transmission Enhancement Settlement. RTO charges are incurred by DP&L as a member of PJM and primarily include transmission charges within our network, which are incurred and charged to customers in the Transmission Rider	(33.8)
<b>RTO capacity charges</b>	<b>(1.2)</b>
<b>Net change in purchased power</b>	<b>\$ (52.0)</b>



### **DPL - Operation and Maintenance**

During the year ended December 31, 2019, Operation and Maintenance expense increased \$34.6 million compared to the prior year. This increase was a result of:

\$ in millions	2019 vs. 2018
Increase in alternative energy and energy efficiency programs <sup>(a)</sup>	\$ 26.7
Increase in uncollectible expenses for the low-income payment program, which is funded by the USF Revenue Rate Rider <sup>(a)</sup>	12.7
Decrease due to prior year write-off of previously deferred rate case costs no longer deemed probable for recovery	(5.3)
Other, net	0.5
<b>Net change in Operations and Maintenance expense</b>	<b>\$ 34.6</b>

(a) There is corresponding revenue associated with these program costs resulting in minimal impact to Net income.

### **DPL – Taxes Other Than Income Taxes**

During the year ended December 31, 2019, Taxes other than income taxes increased \$4.7 million compared to the prior year. The increase was primarily the result of a favorable adjustment recorded in the second quarter of 2018 related to 2017 Ohio property taxes to reflect actual payments made in 2018.

### **DPL – Fixed-asset Impairment**

During the years ended December 31, 2019 and 2018, DPL recorded impairments of fixed assets of \$3.5 million and \$2.8 million, respectively, for Conesville, as it was determined that additional amounts capitalized for AROs in 2019 and 2018, respectively, were not recoverable.

### **DPL – Loss on Disposal of Business**

During the year ended December 31, 2018, DPL recorded a loss on disposal of business of \$11.7 million due to the loss on the transfer of business interests in the Beckjord facility.

### **DPL – Interest Expense**

During the year ended December 31, 2019, Interest expense decreased \$15.8 million compared to the prior year. The decrease was primarily the result of the reduction and refinancing of debt at DPL and DP&L in 2018 and 2019.

### **DPL – Loss on Early Extinguishment of Debt**

During the year ended December 31, 2019, Loss on early extinguishment of debt increased \$38.4 million, compared to the prior year. The increase was primarily due to the make-whole premium payment of \$41.4 million related to the \$400.0 million partial redemption of the \$780.0 million 7.25% Notes due 2021 in the second quarter of 2019, partially offset by the make-whole premium payment of \$5.1 million related to the \$101.0 million partial redemption of the 6.75% Senior Notes due 2019 in the second quarter of 2018.

### **DPL – Income Tax Expense From Continuing Operations**

Income tax expense of \$0.7 million in 2018 changed to Income tax benefit of \$21.8 million in 2019. The change of \$22.5 million was primarily due to the impact of the September 26, 2019 PUCO order, which finalized the amount of excess deferred tax balances allocable to DP&L's utility customers.

### **DPL – Discontinued Operations**

During the years ended December 31, 2019 and 2018, DPL recorded income from discontinued operations (net of tax) of \$59.5 million and \$38.9 million, respectively. This income relates to the generation components of Miami Fort, Zimmer, Stuart, Killen and the Peaker assets, which were disposed of by sale in recent years. See Part II, Item 8, Note 15 – Discontinued Operations in the Notes to DPL's Consolidated Financial Statements for further discussion.

## **RESULTS OF OPERATIONS BY SEGMENT – DPL**

DPL has presented the results of operations of Miami Fort Station, Zimmer Station, the Peaker Assets, Stuart Station and Killen Station as discontinued operations as a group of components for all periods presented. For more information, see Note 15 – Discontinued Operations of Notes to DPL's Consolidated Financial Statements. As such, AES Ohio Generation only has operating activity coming from its undivided ownership interest in Conesville, which does not meet the threshold to be a separate reportable operating segment. Because of this, DPL manages its business through only one reportable operating segment, the Utility segment. The primary segment performance measure is income / (loss) from continuing operations before income tax as management has concluded that this

measure best reflects the underlying business performance of **DPL** and is the most relevant measure considered in **DPL's** internal evaluation of the financial performance of its segments. The Utility segment is discussed further below:

#### Utility Segment

The Utility segment is comprised primarily of **DP&L's** electric transmission and distribution businesses, which distribute electricity to residential, commercial, industrial and governmental customers. **DP&L** distributes electricity to more than 526,000 retail customers who are located in a 6,000 square mile area of West Central Ohio. **DP&L's** electric transmission and distribution businesses are subject to rate regulation by federal and state regulators. Accordingly, **DP&L** applies the accounting standards for regulated operations to its electric transmission and distribution businesses and records regulatory assets when incurred costs are expected to be recovered in future customer rates and regulatory liabilities when current cost recoveries in customer rates relate to expected future costs. The Utility segment includes revenues and costs associated with our investment in OVEC and the historical results of **DP&L's** Beckjord Facility, which was closed in 2014 and transferred to a third party in the first quarter of 2018, and the Hutchings Coal generating facility, which was closed in 2013. These assets did not transfer to AES Ohio Generation as part of **DP&L's** Generation Separation on October 1, 2017. Thus, they are grouped within the Utility segment for segment reporting purposes. In addition, regulatory deferrals and collections, which include fuel deferrals in historical periods, are included in the Utility segment.

Included within the "Other" column are other businesses that do not meet the GAAP requirements for disclosure as reportable segments as well as certain corporate costs, which include interest expense and loss on early extinguishment of debt on **DPL's** long-term debt as well as adjustments related to purchase accounting from the Merger. **DPL's** undivided interest in Conesville is included within the "Other" column as it no longer meets the requirement for disclosure as a reportable operating segment, since the results of operations of the other EGUs are presented as discontinued operations. The accounting policies of the reportable segments are the same as those described in Note 1 – Overview and Summary of Significant Accounting Policies. Intersegment sales, costs of sales and expenses are eliminated in consolidation. Certain shared and corporate costs are allocated between "Other" and the Utility reporting segment.

See Note 13 – Business Segments of Notes to **DPL's** Consolidated Financial Statements for additional information regarding **DPL's** reportable segment.

The following table presents **DPL's** Income / (loss) from continuing operations before income tax by business segment:

\$ in millions	Years ended December 31,		
	2019	2018	2017
Utility	\$ 124.3	\$ 104.4	\$ 88.5
Other	(100.2)	(72.5)	(95.0)
Income / (loss) from continuing operations before income tax	\$ 24.1	\$ 31.9	\$ (6.5)

#### **Statement of Operations Highlights - DPL – Utility Segment**

The results of operations of the Utility segment for **DPL** are identical in all material respects and for all periods presented to those of **DP&L**, which are included in Part II - Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations (Statement of Operations Highlights - **DP&L**) of this Form 10-K.



## RESULTS OF OPERATIONS – DP&L

### Statement of Operations Highlights – DP&L

\$ in millions	Years ended December 31,		
	2019	2018	2017
<b>Revenues:</b>			
Retail	\$ 667.3	\$ 657.9	\$ 642.6
Wholesale	17.2	29.9	23.6
RTO ancillary	43.5	43.1	47.2
Capacity revenues	6.2	7.8	6.6
Miscellaneous revenues	1.2	—	—
<b>Total revenues</b>	<b>735.4</b>	<b>738.7</b>	<b>720.0</b>
<b>Operating costs and expenses:</b>			
Net fuel cost	2.5	2.4	0.5
Purchased power:			
Purchased power	227.6	243.5	230.6
RTO charges	23.0	55.6	57.2
RTO capacity charges	—	2.2	2.0
Net purchased power cost	250.6	301.3	289.8
Operation and maintenance	183.0	139.7	156.5
Depreciation and amortization	70.8	74.5	75.3
Taxes other than income taxes	77.7	73.1	76.3
Loss / (gain) on asset disposal	0.1	0.2	(0.5)
Loss on disposal of business (Note 15)	—	12.4	—
<b>Total operating costs and expenses</b>	<b>584.7</b>	<b>603.6</b>	<b>597.9</b>
<b>Operating income</b>	<b>150.7</b>	<b>135.1</b>	<b>122.1</b>
<b>Other expense, net:</b>			
Interest expense	(26.0)	(27.3)	(30.5)
Loss on early extinguishment of debt	—	(0.6)	(1.1)
Other expense	(0.4)	(2.8)	(2.0)
<b>Other expense, net</b>	<b>(26.4)</b>	<b>(30.7)</b>	<b>(33.6)</b>
<b>Income from continuing operations before income tax (a)</b>	<b>\$ 124.3</b>	<b>\$ 104.4</b>	<b>\$ 88.5</b>

- (a) For purposes of discussing operating results, we present and discuss Income from continuing operations before income tax. This format is useful to investors because it allows analysis and comparability of operating trends and includes the same information that is used by management to make decisions regarding our financial performance.

The following review of results of operations compares the results for the year ended December 31, 2019 to the results for the year ended December 31, 2018. For discussion around results of operations for the year ended December 31, 2017, see Item 7.-Management's Discussion and Analysis of Financial Condition and Results of Operations of our 2018 Annual Report on Form 10-K, filed with the SEC on February 26, 2019.

#### **DP&L – Revenues**

Retail customers, especially residential and commercial customers, consume more electricity on warmer and colder days. Therefore, our retail sales demand is affected by the number of heating and cooling degree-days occurring during a year. Cooling degree-days typically have a more significant effect than heating degree-days since some residential customers do not use electricity to heat their homes. Because of the impact of the Decoupling Rider (effective January 1, 2019 through December 18, 2019), weather had a minimal impact on our 2019 net operating results.

DP&L's electric sales and billed customers were as follows:

ELECTRIC SALES AND CUSTOMERS <sup>(a)</sup>		
	DP&L	
	Years ended December 31,	
	2019	2018
Retail electric sales <sup>(b)</sup>	14,049	14,439
Wholesale electric sales <sup>(c)</sup>	579	755
Total electric sales	14,628	15,194
Billed electric customers (end of period)	525,801	525,166

(a) Electric sales are presented in millions of kWh.

(b) DP&L retail electric sales represent the total transmission and distribution retail sales for the periods presented. SSO sales were 3,913 million kWh and 3,977 million kWh for the years ended December 31, 2019 and 2018, respectively.

(c) Included within wholesale electric sales is DP&L's 4.9% share of the generation output of OVEC.

During the year ended December 31, 2019, Revenues decreased \$3.3 million to \$735.4 million from \$738.7 million in the same period of the prior year. This decrease was a result of:

\$ in millions	2019 vs. 2018
<b>Retail</b>	
Rate	
Increase in Energy Efficiency and USF Revenue Rate Riders	\$ 39.9
Increase in base distribution rates due to the DRO	18.8
Increase due to the DIR, which was effective with the DRO <sup>(a)</sup>	16.5
Increase due to the Decoupling Rider, which was effective with the DRO and designed to eliminate the impacts of weather and demand from certain customer classes <sup>(a)</sup>	9.4
Decrease in the TCRR due to lower transmission costs and the impact of DP&L passing back the benefits of the PJM Transmission Enhancement Settlement to customers	(32.8)
Decrease due to the deferral of revenue to adjust for the impacts of the TCJA	(14.0)
Decrease due to energy efficiency lost revenues recorded in the prior year	(13.6)
Other	(1.3)
Net change in retail rate	22.9
Volume	
Decrease in volume primarily due to demand in the current year driven by a decrease in heating degree-days of 490, partially offset by an increase in cooling degree-days of 68 (excludes the decoupling impact in 2019, which is included in rates above) <sup>(a)</sup>	(15.2)
Other miscellaneous	1.7
Total retail change	9.4
<b>Wholesale</b>	
Decrease due to lower wholesale prices and lower volumes, primarily due to no longer serving the load of other parties through their competitive bid process	(12.7)
<b>RTO ancillary and capacity revenues</b>	
Decrease primarily due to lower capacity prices	(1.2)
<b>Other</b>	
Miscellaneous revenues	1.2
<b>Net change in Revenues</b>	<b>\$ (3.3)</b>

(a) The PUCO order approving the ESP 1 rate plan on December 18, 2019 included the removal of the DIR and Decoupling Rider. For more information, see Part II, Item 8, Note 3 – Regulatory Matters in the Notes to DP&L's Financial Statements.



### **DP&L – Net Purchased Power**

During the year ended December 31, 2019, Net Purchased Power decreased \$50.7 million compared to the prior year. This decrease was a result of:

\$ in millions	2019 vs. 2018
<b>Net purchased power</b>	
Purchased power	
Rate	
Increase due to pricing in the competitive bid process	\$ 2.4
Volume	
Decrease primarily due to lower retail load served due to milder weather and lower purchases as DP&L stopped purchasing power to serve the load of other parties through their competitive bid process after May of 2018	(18.3)
Total purchased power change	(15.9)
RTO charges	
Decrease due to lower transmission and congestion charges, including a decrease due to benefits of the PJM Transmission Enhancement Settlement. RTO charges are incurred by DP&L as a member of PJM and primarily include transmission charges within our network, which are incurred and charged to customers in the Transmission Rider	(32.6)
RTO capacity charges	(2.2)
<b>Net change in purchased power</b>	<b>\$ (50.7)</b>

### **DP&L - Operation and Maintenance**

During the year ended December 31, 2019, Operation and Maintenance expense increased \$43.3 million compared to the prior year. This increase was a result of:

\$ in millions	2019 vs. 2018
Increase in alternative energy and energy efficiency programs <sup>(a)</sup>	\$ 26.7
Increase in uncollectible expenses for the low-income payment program, which is funded by the USF Revenue Rate Rider <sup>(a)</sup>	12.7
Increase in costs charged from the Service Company for services provided	6.3
Decrease due to prior year write-off of previously deferred rate case costs	(5.3)
Other, net	2.9
<b>Net change in Operations and Maintenance expense</b>	<b>\$ 43.3</b>

(a) There is corresponding revenue associated with these program costs resulting in minimal impact to Net income.

### **DP&L – Depreciation and Amortization**

During the year ended December 31, 2019, Depreciation and amortization expense decreased \$3.7 million compared to the prior year. The decrease was primarily due to lower software amortization in 2019.

### **DP&L – Taxes Other Than Income Taxes**

During the year ended December 31, 2019, General taxes increased \$4.6 million compared to the prior year. The increase was primarily the result of a favorable adjustment made in 2018 for 2017 Ohio property taxes to reflect actual payments.

### **DP&L – Loss on Disposal of Business**

During the year ended December 31, 2018, DP&L recorded a loss on disposal of business of \$12.4 million due to the loss on the transfer of business interests in the Beckjord facility.

### **DP&L – Interest Expense**

During the year ended December 31, 2019, Interest expense decreased \$1.3 million compared to the prior year. The decrease was primarily the result of debt repayments at DP&L in 2019 and 2018.

### **DP&L – Income Tax Expense**

During the year ended December 31, 2019, Income tax expense of \$17.7 million in 2018 changed to Income tax benefit of \$0.6 million in 2019 primarily due to the impact of the September 26, 2019 PUCO order, which finalized the amount of excess deferred tax balances allocable to DP&L's utility customers. This change was partially offset by higher pre-tax income in the current year compared to the prior year.

## KEY TRENDS AND UNCERTAINTIES

Following the issuance of the DRO in September 2018 and the resulting changes to the Decoupling Rider effective January 1, 2019, our financial results were not driven by retail demand and weather but were impacted by customer growth within our service territory. However, the Decoupling Rider was removed with the withdrawal of the 2017 ESP and approved ESP 1 rates, and weather may impact future results. See further discussion on these changes in Note 3 – Regulatory Matters of Notes to **DPL's** Consolidated Financial Statements and Note 3 – Regulatory Matters of Notes to **DP&L's** Financial Statements. In addition, **DPL's** and **DP&L's** financial results are likely to be driven by other factors including, but not limited to:

- regulatory outcomes;
- the passage of new legislation, implementation of regulations or other changes in regulations;
- timely recovery of transmission and distribution expenditures; and
- exiting the remaining generation asset currently co-owned by AES Ohio Generation.

### **Operational**

As part of our announced plan to exit our generation businesses, we retired the Stuart and Killen EGUs in May 2018, and closed on the transfer of these facilities to a third party in December 2019. In addition, we closed on a sale of our Peaker assets in March 2018. In October 2018, AEP, the operator of the co-owned Conesville EGU, announced that Unit 4 would close by May 2020. For additional information on these events and **DPL's** coal-fired facilities, see Note 15 – Discontinued Operations of Notes to **DPL's** Consolidated Financial Statements.

### **Macroeconomic and Political**

#### **United States Tax Law Reform**

**Federal Taxes** - In December 2017, the United States enacted the TCJA. The legislation significantly revised the U.S. corporate income tax system by, among other things, lowering the corporate income tax rate, introducing new limitations on interest expense deductions in 2018. These changes impacted our 2018 and 2019 effective tax rates and will materially impact our effective tax rate in future periods. Our interpretation of the TCJA may change as the U.S. Treasury and the Internal Revenue Service issue additional guidance. Such changes may be material.

**State Taxes** - The local taxing authorities in Ohio have largely conformed to the TCJA.

#### **Reference Rate Reform**

In July 2017, the U.K. Financial Conduct Authority announced that it intends to phase out LIBOR by the end of 2021. In the U.S., the Alternative Reference Rate Committee at the Federal Reserve identified the Secured Overnight Financing Rate ("SOFR") as its preferred alternative rate for LIBOR; alternative reference rates in other key markets are under development. We maintain financial instruments that use LIBOR as an interest rate benchmark and have begun to engage with our counterparties to discuss specific action items to be undertaken in order to prepare for amendments when they become due.

### **Regulatory Environment**

For a comprehensive discussion of the market structure and regulation of **DPL** and **DP&L**, see Part I, Item 1 - Business – Competition and Regulation.

On November 21, 2019, the PUCO issued an order modifying **DP&L's** Electric Security Plan ("ESP") by removing the DMR. On December 18, 2019, the PUCO partially approved **DP&L's** subsequent request to revert to the prior ESP 1 rates and maintain several other riders that were previously in effect; however, certain of those riders were disallowed. In the first quarter of 2020, **DP&L** filed a petition seeking authority to record regulatory assets to accrue revenues that would have otherwise been collected under the ESP through the Decoupling Rider. The outcome of this petition is pending.

For more information regarding **DP&L's** ESP, see Note 3 – Regulatory Matters of Notes to **DPL's** Consolidated Financial Statements and Note 3 – Regulatory Matters of Notes to **DP&L's** Financial Statements.



## CAPITAL RESOURCES AND LIQUIDITY

Cash, cash equivalents and restricted cash for **DPL** and **DP&L** was \$47.0 million and \$21.3 million, respectively, at December 31, 2019. At that date, neither **DPL** nor **DP&L** had short-term investments. **DPL** and **DP&L** had aggregate principal amounts of long-term debt outstanding of \$1,378.1 million and \$582.5 million, respectively, at December 31, 2019.

Approximately \$140.2 million of **DPL's** long-term debt and \$140.2 million of **DP&L's** long-term debt matures within the next twelve months, which we expect to repay using a combination of cash on hand, net cash provided by operating activities and/or net proceeds from the issuance of new debt. From time to time, we may elect to repurchase our outstanding debt through cash purchases, privately negotiated transactions or otherwise when management believes such repurchases are favorable to make. The amounts involved in any such repurchases may be material.

We depend on timely and continued access to capital markets to manage our liquidity needs. The inability to raise capital on favorable terms, to refinance existing indebtedness or to fund operations and other commitments during times of political or economic uncertainty could have material adverse effects on our financial condition and results of operations. In addition, changes in the timing of tariff increases or delays in the regulatory determinations as well as unfavorable regulatory outcomes could have a material adverse effect on our results of operations, financial condition and cash flows.

**DP&L** must first seek approval from the PUCO to issue new stocks, bonds, notes and other evidences of indebtedness. Annually, **DP&L** must receive authority to issue and assume liability on short-term debt, not to exceed 12 months. **DP&L** received an order from the PUCO granting authority through December 31, 2020 to, among other things, issue up to \$300.0 million in aggregate principal amount of short-term indebtedness. **DP&L** must also receive authority to issue and assume liability on long-term debt, in excess of 12 months. **DP&L** last received approval in 2019 to, among other things, issue up to \$425.0 million in aggregate principal amount of long-term indebtedness for a term not to exceed 40 years. **DP&L** also has restrictions on the amount of new debt that may be issued due to contractual obligations of AES and by financial covenant restrictions under existing debt obligations. **DP&L** does not believe such restrictions will be a limiting factor in our ability to issue debt in the ordinary course of prudent business operations.

## CASH FLOWS

**DPL's** financial condition, liquidity and capital requirements include the consolidated results of its principal subsidiary **DP&L**. All material intercompany accounts and transactions have been eliminated in consolidation.

### Cash Flow Analysis - DPL:

DPL \$ in millions	Years ended December 31,		
	2019	2018	2017
Net cash provided by operating activities	\$ 180.3	\$ 205.9	\$ 131.7
Net cash provided by / (used in) investing activities	(222.6)	129.9	(39.3)
Net cash used in financing activities	(22.4)	(250.5)	(149.6)
Increase in cash and restricted cash of discontinued operations and held-for-sale businesses	—	1.5	27.5
Net increase / (decrease) in cash, cash equivalents and restricted cash	(64.7)	86.8	(29.7)
Balance at beginning of year	111.7	24.9	54.6
Cash, cash equivalents and restricted cash at end of year	\$ 47.0	\$ 111.7	\$ 24.9

## Fiscal year 2019 versus 2018:

### DPL – Net cash from operating activities

\$ in millions	For the years ended December 31,		\$ change
	2019	2018	2019 vs. 2018
Net income / (loss)	\$ 105.4	\$ 70.1	\$ 35.3
Depreciation and amortization	58.7	55.7	3.0
Impairment expenses	3.5	2.8	0.7
Loss on early extinguishment of debt	44.9	6.5	38.4
Other adjustments to Net income / (loss)	(4.0)	2.2	(6.2)
Net income / (loss), adjusted for non-cash items	208.5	137.3	71.2
Net change in operating assets and liabilities	(28.2)	68.6	(96.8)
Net cash provided by operating activities	<u>\$ 180.3</u>	<u>\$ 205.9</u>	<u>\$ (25.6)</u>

The net change in operating assets and liabilities for the year ended December 31, 2019 compared to the year ended December 31, 2018 was driven by the following:

\$ in millions	\$ change
Decrease from accrued taxes primarily due to a current year income tax benefit and prior year income tax expense	\$ (58.6)
Decrease from accounts receivable primarily due to lower collections following the sale or closure of plants in 2018	(35.5)
Decrease from inventory primarily due a significant decrease in inventory balances in 2018 due to the closure of the Stuart and Killen plants	(19.0)
Decrease from other non-current liabilities primarily due to the settlement of the Joint Owners' Agreement with the co-owners of Stuart and Killen in the current year	(14.1)
Increase from accounts payable primarily due to timing of payments	26.0
Other	4.4
Net change in cash from changes in operating assets and liabilities	<u>\$ (96.8)</u>

### DPL – Net cash from investing activities

During the year ended December 31, 2019, net cash used in investing activities was \$(222.6) million compared to net cash provided by investing activities of \$129.9 million for the year ended December 31, 2018. This \$352.5 million decrease primarily relates to a \$234.9 million decrease in proceeds from the sale of DPL's Peaker Assets in 2018. Additionally, payments on disposal of business increased \$36.5 million in 2019 primarily due to payments on the transfer of the retired Stuart and Killen generating facilities. Lastly, capital expenditures increased \$64.5 million from the prior year mainly due to significant storm restoration costs and increased spending on transmission projects.

### DPL – Net cash from financing activities

During the year ended December 31, 2019, net cash used in financing activities was \$(22.4) million compared to net cash used in financing activities of \$(250.5) million for the year ended December 31, 2018. This \$228.1 million decrease in cash used primarily relates to \$154.0 million increase in net draws on revolving credit facilities. Additionally, net repayments on long-term debt, including early payment premiums, decreased \$84.2 million.

### Cash Flow Analysis - DP&L:

DP&L \$ in millions	Years ended December 31,		
	2019	2018	2017
Net cash provided by operating activities	\$ 199.9	\$ 195.8	\$ 135.4
Net cash used in investing activities	(170.6)	(96.9)	(89.5)
Net cash used in financing activities	(74.2)	(38.3)	(68.9)
Increase in cash and restricted cash of discontinued operations and held-for-sale businesses	—	—	27.0
Net increase / (decrease) in cash, cash equivalents and restricted cash	(44.9)	60.6	4.0
Balance at beginning of year	66.2	5.6	1.6
Cash, cash equivalents and restricted cash at end of year	<u>\$ 21.3</u>	<u>\$ 66.2</u>	<u>\$ 5.6</u>



## Fiscal year 2019 versus 2018:

### **DP&L – Net cash from operating activities**

\$ in millions	For the years ended December 31,		\$ change
	2019	2018	2019 vs. 2018
Net income	\$ 124.9	\$ 86.7	\$ 38.2
Depreciation and amortization	74.5	77.6	(3.1)
Other adjustments to Net income	(9.7)	28.9	(38.6)
Net income, adjusted for non-cash items	189.7	193.2	(3.5)
Net change in operating assets and liabilities	10.2	2.6	7.6
Net cash provided by operating activities	<u>\$ 199.9</u>	<u>\$ 195.8</u>	<u>\$ 4.1</u>

Net operating assets and liabilities for the year ended December 31, 2019 did not change significantly compared to the year ended December 31, 2018.

### **DP&L – Net cash from investing activities**

During the year ended December 31, 2019, net cash used in investing activities was \$(170.6) million compared to net cash used in investing activities of \$(96.9) million for the year ended December 31, 2018. This \$73.7 million increase in cash used primarily relates to an increase in capital expenditures of \$74.0 million, which was driven by significant storm restoration costs and increased spending on transmission projects in 2019, and proceeds of \$10.6 million related to the transmission asset swap with Duke and AEP in 2018. These were partially offset by the payment on the disposal of Beckjord of \$14.5 million in 2018.

### **DP&L – Net cash from financing activities**

During the year ended December 31, 2019, net cash used in financing activities was \$(74.2) million compared to net cash used in financing activities of \$(38.3) million during the year ended December 31, 2018. This \$35.9 million increase in cash used primarily relates to an \$80.0 million capital contribution from **DPL** in 2018 and a \$51.2 million increase in returns of capital paid to **DPL** in 2019. These items were partially offset by a \$50.7 million decrease in net repayments on long-term debt, including early payment premiums, and a \$50.0 million increase in net draws on revolving credit facilities in 2019.

### **Liquidity**

We expect our existing sources of liquidity to remain sufficient to meet our anticipated operating needs. Our business is capital intensive, requiring significant resources to fund operating expenses, construction expenditures, scheduled debt maturities and carrying costs, taxes and dividend payments. For 2020 and subsequent years, we expect to satisfy these requirements with cash from operations, funds from debt financing and/or equity capital contributions as our internal liquidity needs and market conditions warrant. We also expect that the borrowing capacity under bank credit facilities will continue to be available to manage working capital requirements during those periods.

At December 31, 2019, **DPL** and **DP&L** have access to the following revolving credit facilities:

\$ in millions	Type	Maturity	Commitment	Amounts available as of December 31, 2019
<b>DPL</b>	Revolving	June 2023	\$ 125.0	\$ 11.3
<b>DP&amp;L</b>	Revolving	June 2024	175.0	133.9
			<u>\$ 300.0</u>	<u>\$ 145.2</u>

**DPL** has a revolving credit facility of \$125.0 million, with a \$75.0 million letter of credit sublimit and a feature that provides **DPL** the ability to increase the size of the facility by an additional \$50.0 million. This facility is secured by a pledge of common stock that **DPL** owns in **DP&L**, limited to the amount permitted to be pledged under certain Indentures dated October 3, 2011 and April 17, 2019 between **DPL** and Wells Fargo Bank, NA and U.S. Bank National Association, respectively, as Trustee. The facility expires in June 2023. At December 31, 2019, there were five letters of credit in the aggregate amount of \$9.7 million outstanding under this facility and \$104.0 million drawn under this facility, with the remaining \$11.3 million available to **DPL**. Fees associated with this facility were not material during the years ended December 31, 2019, 2018 or 2017.

**DP&L's** revolving credit facility has a commitment of \$175.0 million, with a \$75.0 million letter of credit sublimit and a feature that provides **DP&L** the ability to increase the size of the facility by an additional \$100.0 million. This facility expires June 2024. At December 31, 2019, **DP&L** had \$40.0 million drawn under this facility and had one letter of credit in the amount of \$1.1 million outstanding, with the remaining \$133.9 million available to **DP&L**. Fees associated with this facility were not material during the years ended December 31, 2019, 2018 or 2017.

## **Capital Requirements**

### **Construction Additions**

\$ in millions	Actual			Projected		
	2017	2018	2019	2020	2021	2022
DPL	\$ 108	\$ 84	\$ 161	\$ 210	\$ 211	\$ 200
DP&L	\$ 83	\$ 82	\$ 159	\$ 206	\$ 209	\$ 198

Capital projects are subject to continuing review and are revised in light of changes in financial and economic conditions, load forecasts, legislative and regulatory developments and changing environmental laws, rules and regulations, among other factors.

**DPL** is projecting to spend an estimated \$621.0 million in capital projects for the period 2020 through 2022, which includes an estimated \$613.0 million for **DP&L**. **DP&L's** projection includes expected spending under **DP&L's** Distribution Modernization Plan filed with the PUCO in December 2018 as well as new transmission projects. See Note 3 – Regulatory Matters of Notes to **DPL's** Consolidated Financial Statements and Note 3 – Regulatory Matters of Notes to **DP&L's** Financial Statements for more information.

**DP&L** is subject to the mandatory reliability standards of NERC and ReliabilityFirst Corporation (RF), one of the six NERC regions, of which **DP&L** is a member. **DP&L** anticipates spending approximately \$73.0 million within the next five years to reinforce its transmission system to comply with mandatory NERC and FERC Form 715 planning requirements. These anticipated costs are included in the overall capital projections above.

## **Debt Covenants**

For information regarding our long-term debt covenants, see Note 7 – Long-term debt of Notes to **DPL's** Consolidated Financial Statements and Note 7 – Long-term debt of Notes to **DP&L's** Financial Statements.

## **Debt Ratings**

The following table outlines the debt ratings and outlook for **DPL** and **DP&L**, along with the effective or affirmed date of each rating.

	DPL	DP&L	Outlook	Effective or Affirmed
Fitch Ratings	BBB- <sup>(a)</sup> / BB+ <sup>(b)</sup>	BBB+ <sup>(c)</sup>	Negative	December 2019
Moody's Investors Service, Inc.	Ba1 <sup>(b)</sup>	A3 <sup>(c)</sup>	Negative	December 2019
Standard & Poor's Financial Services LLC	BB <sup>(b)</sup>	BBB <sup>(c)</sup>	Negative	November 2019

- (a) Rating relates to **DPL's** senior secured debt.
- (b) Rating relates to **DPL's** senior unsecured debt.
- (c) Rating relates to **DP&L's** senior secured debt.

## **Credit Ratings**

The following table outlines the credit ratings (issuer/corporate rating) and outlook for each company, along with the effective or affirmed dates of each rating and outlook for **DPL** and **DP&L**.

	DPL	DP&L	Outlook	Effective or Affirmed
Fitch Ratings	BB+	BBB-	Negative	December 2019
Moody's Investors Service, Inc.	Ba1	Baa2	Negative	December 2019
Standard & Poor's Financial Services LLC	BB	BB	Negative	November 2019

If the rating agencies reduce our debt or credit ratings, our borrowing costs may increase, our potential pool of investors and funding resources may be reduced and we may be required to post additional collateral under certain contracts. These events may have an adverse effect on our results of operations, financial condition and cash



flows. In addition, any such reduction in our debt or credit ratings may adversely affect the trading price of our outstanding debt securities. Non-investment grade companies may experience higher costs to issue new securities.

## **Off-Balance Sheet Arrangements**

### **DPL – Guarantees**

In the normal course of business, **DPL** enters into various agreements with its wholly-owned subsidiary, AES Ohio Generation, providing financial or performance assurance to third parties. These agreements are entered into primarily to support or enhance the creditworthiness otherwise attributed to the subsidiary on a stand-alone basis, thereby facilitating the extension of sufficient credit to accomplish this subsidiary's intended commercial purposes. During the year ended December 31, 2019, **DPL** did not incur any losses related to the guarantees of these obligations and we believe it is unlikely that **DPL** would be required to perform or incur any losses in the future associated with any of the above guarantees.

At December 31, 2019, **DPL** had \$21.0 million of guarantees on behalf of AES Ohio Generation to third parties for future financial or performance assurance under such agreements. The guarantee arrangements entered into by **DPL** with these third parties cover present and future obligations of AES Ohio Generation to such beneficiaries and are terminable at any time by **DPL** upon written notice to the beneficiaries. There were no outstanding balances for commercial transactions covered by these guarantees at December 31, 2019 or December 31, 2018.

**DP&L** owns a 4.9% equity ownership interest in OVEC which is recorded using the cost method of accounting under GAAP. At December 31, 2019, **DP&L** could be responsible for the repayment of 4.9%, or \$66.4 million, of a \$1,354.7 million debt obligation comprised of both fixed and variable rate securities with maturities between 2022 and 2040. This would only happen if this electric generation company defaulted on its debt payments. At December 31, 2019, we have no knowledge of such a default.

### **Commercial Commitments and Contractual Obligations**

We enter into various contractual obligations and other commercial commitments that may affect the liquidity of our operations. At December 31, 2019, these include:

\$ in millions	Payments due in:				
	Total	Less than 1 year	2 - 3 years	4 - 5 years	More than 5 years
<b>DPL:</b>					
Long-term debt	\$ 1,378.1	\$ 140.2	\$ 380.4	\$ 0.4	\$ 857.1
Interest payments	741.7	64.9	94.4	72.4	510.0
Pension and postretirement payments	259.5	27.6	54.0	52.7	125.2
Electricity purchase commitments	173.2	115.8	57.4	—	—
Purchase orders and other contractual obligations	52.8	45.0	7.8	—	—
Total contractual obligations	<u>\$ 2,605.3</u>	<u>\$ 393.5</u>	<u>\$ 594.0</u>	<u>\$ 125.5</u>	<u>\$ 1,492.3</u>

\$ in millions	Payments due in:				
	Total	Less than 1 year	2 - 3 years	4 - 5 years	More than 5 years
<b>DP&amp;L:</b>					
Long-term debt	\$ 582.5	\$ 140.2	\$ 0.4	\$ 0.4	\$ 441.5
Interest payments	515.1	18.7	35.0	35.0	426.4
Pension and postretirement payments	259.5	27.6	54.0	52.7	125.2
Electricity purchase commitments	173.2	115.8	57.4	—	—
Purchase orders and other contractual obligations	52.5	44.7	7.8	—	—
Total contractual obligations	<u>\$ 1,582.8</u>	<u>\$ 347.0</u>	<u>\$ 154.6</u>	<u>\$ 88.1</u>	<u>\$ 993.1</u>

### **Long-term debt:**

**DPL's** Long-term debt at December 31, 2019 consists of **DPL's** unsecured notes and Capital Trust II securities, along with **DP&L's** First Mortgage Bonds, tax-exempt First Mortgage Bonds and the Wright-Patterson Air Force Base (WPAFB) note. These long-term debt amounts include current maturities but exclude unamortized debt discounts, premiums and fair value adjustments.

**DP&L's** Long-term debt at December 31, 2019 consists of its First Mortgage Bonds, tax-exempt First Mortgage Bonds and the WPAFB note. These long-term debt amounts include current maturities but exclude unamortized debt discounts.



See Note 7 – Long-term debt of the Notes to **DPL's** Consolidated Financial Statements and Note 7 – Long-term debt of the Notes to **DP&L's** Financial Statements.

Interest payments:

Interest payments are associated with the long-term debt described above. The interest payments relating to variable-rate debt are projected using the interest rates in effect at December 31, 2019.

Pension and postretirement payments:

At December 31, 2019, **DPL**, through its principal subsidiary **DP&L**, had estimated future benefit payments as outlined in Note 9 – Benefit Plans of Notes to **DPL's** Consolidated Financial Statements and Note 9 – Benefit Plans of Notes to **DP&L's** Financial Statements. These estimated future benefit payments are projected through 2029. This amount also includes postretirement benefit costs.

Electricity purchase commitments:

**DPL** enters into long-term contracts for the purchase of electricity. In general, these contracts are subject to variable quantities or prices and are terminable only in limited circumstances.

Purchase orders and other contractual obligations:

At December 31, 2019, **DPL** and **DP&L** had various other contractual obligations including contracts to purchase goods and services with various terms and expiration dates. Due to uncertainty regarding the timing and payment of future obligations to the Service Company, and **DPL's** and **DP&L's** ability to terminate such obligations upon 90 days' notice, we have excluded such amounts in the contractual obligations table above. This table also does not include regulatory liabilities (see Note 3 – Regulatory Matters of Notes to **DPL's** Consolidated Financial Statements and Note 3 – Regulatory Matters of Notes to **DP&L's** Financial Statements) or contingencies (see Note 11 – Contractual Obligations, Commercial Commitments and Contingencies of Notes to **DPL's** Consolidated Financial Statements and Note 11 – Contractual Obligations, Commercial Commitments and Contingencies of Notes to **DP&L's** Financial Statements). See Note 12 – Related Party Transactions of Notes to **DPL's** Consolidated Financial Statements and Note 12 – Related Party Transactions of Notes to **DP&L's** Financial Statements for additional information on charges between related parties and amounts due to or from related parties.

Reserve for uncertain tax positions:

Due to the uncertainty regarding the timing of future cash outflows associated with our unrecognized tax benefits of \$3.5 million at December 31, 2019, we are unable to make a reliable estimate of the periods of cash settlement with the respective tax authorities and have not included such amounts in the contractual obligations table above.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

**DPL's** Consolidated Financial Statements and **DP&L's** Financial Statements are prepared in accordance with GAAP. In connection with the preparation of these financial statements, our management is required to make assumptions, estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and the related disclosure of contingent liabilities. These assumptions, estimates and judgments are based on our historical experience and assumptions that we believe to be reasonable at the time. However, because future events and their effects cannot be determined with certainty, the determination of estimates requires the exercise of judgment. Our critical accounting estimates are those which require assumptions to be made about matters that are highly uncertain. Our significant accounting policies are described in Note 1 – Overview and Summary of Significant Accounting Policies of Notes to **DPL's** Consolidated Financial Statements and Note 1 – Overview and Summary of Significant Accounting Policies of Notes to **DP&L's** Financial Statements.

Different estimates could have a material effect on our financial results. Judgments and uncertainties affecting the application of these policies and estimates may result in materially different amounts being reported under different conditions or circumstances. Historically, however, recorded estimates have not differed materially from actual results. Significant items subject to such judgments include: the carrying value of property, plant and equipment; unbilled revenues; the valuation of allowances for deferred income taxes; regulatory assets and liabilities; reserves recorded for income tax exposures; litigation; contingencies; the valuation of AROs; and assets and liabilities related to employee benefits.



### **Revenue Recognition (including Unbilled Revenue)**

Revenue is primarily earned from retail and wholesale electricity sales and electricity transmission and distribution delivery services. Revenue is recognized upon transfer of control of promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. Revenue is recorded net of any taxes assessed on and collected from customers, which are remitted to the governmental authorities. At the end of each month, amounts of energy delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenue is accrued. In making our estimates of unbilled revenue, we use complex models that consider various factors including daily generation volumes; known amounts of energy usage by nearly all residential, small commercial and industrial customers; estimated line losses; and estimated customer rates based on prior period billings. Given the use of these models, and that customers are billed on a monthly cycle, we believe it is unlikely that materially different results will occur in future periods when revenue is billed. The effect on 2019 revenues and ending unbilled revenues of a one percentage point change in estimated line losses for the month of December 2019 is immaterial. An allowance for potential credit losses is maintained and amounts are written off when normal collection efforts have been exhausted.

### **Income Taxes**

We are subject to federal and state income taxes. Our income tax provision requires significant judgment and is based on calculations and assumptions that are subject to examination by the U.S. Internal Revenue Service and other tax authorities. We regularly assess the potential outcome of tax examinations when determining the adequacy of our income tax provisions by considering the technical merits of the filing position, case law and results of previous tax examinations. Accounting guidance for uncertainty in income taxes prescribes a more-likely-than-not recognition threshold and measurement requirements for financial statement reporting of our income tax positions. Tax reserves have been established which we believe to be adequate in relation to the potential for additional assessments. Once established, reserves are adjusted only when there is more information available or when an event occurs necessitating a change to the reserves. While we believe that the amount of the tax reserves is reasonable, it is possible that the ultimate outcome of current or future examinations may be materially different than the reserve amounts.

Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of the existing assets and liabilities and their respective income tax bases. We establish a valuation allowance when it is more likely than not that all or a portion of a deferred tax asset will not be realized.

### **Regulatory Assets and Liabilities**

Application of the provisions of GAAP relating to regulatory accounting requires us to reflect the effect of rate regulation in **DPL's** Consolidated Financial Statements and **DP&L's** Financial Statements. For regulated businesses subject to federal or state cost-of-service rate regulation, regulatory practices that assign costs to accounting periods may differ from accounting methods generally applied by non-regulated companies. When it is probable that regulators will permit the recovery of current costs through future rates charged to customers, we defer these costs as Regulatory assets that otherwise would be expensed by non-regulated companies. Likewise, we recognize Regulatory liabilities when it is probable that regulators will require customer refunds through future rates and when revenue is collected from customers for expenses that are not yet incurred. Regulatory assets are amortized into expense and Regulatory liabilities are amortized into income over the recovery period authorized by the regulator.

We evaluate our Regulatory assets to determine whether or not they are probable of recovery through future rates and make various assumptions in our analyses. The expectations of future recovery are generally based on orders issued by regulatory commissions or historical experience, as well as discussions with applicable regulatory authorities. If recovery of a regulatory asset is determined to be less than probable, it will be expensed in the period the assessment is made. We currently believe the recovery of our Regulatory assets is probable. See Note 3 – Regulatory Matters of Notes to **DPL's** Consolidated Financial Statements and Note 3 – Regulatory Matters of Notes to **DP&L's** Financial Statements.

### **AROs**

In accordance with the provisions of GAAP relating to the accounting for AROs, legal obligations associated with the retirement of long-lived assets are required to be recognized at their fair value at the time those obligations are incurred. Upon initial recognition of a legal liability, costs are capitalized as part of the related long-lived asset and allocated to expense over the useful life of the asset. These GAAP provisions also require that components of previously recorded depreciation related to the cost of removal of assets upon future retirement, whether legal



AROs or not, must be removed from a company's accumulated depreciation reserve and be reclassified as a regulatory liability. We make assumptions, estimates and judgments that affect the reported amounts of assets, liabilities and expenses as they relate to AROs. These assumptions and estimates are based on historical experience and assumptions that we believe to be reasonable at the time. See Note 4 – Property, Plant and Equipment of Notes to **DPL's** Consolidated Financial Statements and Note 4 – Property, Plant and Equipment of Notes to **DP&L's** Financial Statements for more information.

### **Impairments**

In accordance with the provisions of GAAP relating to the accounting for impairments, long-lived assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset group. Impairment losses on assets held-for-sale are recognized based on the fair value of the disposal group. We determine the fair value of these assets based upon estimates of future cash flows, market value of similar assets, if available, or independent appraisals, if required. In analyzing the fair value and recoverability using future cash flows, we make projections based on a number of assumptions and estimates of growth rates, future economic conditions, assignment of discount rates and estimates of terminal values. An impairment loss is recognized if the carrying amount of the long-lived asset is not recoverable from its undiscounted cash flows. The measurement of impairment loss is the difference between the carrying amount and fair value of the asset.

### **Pension and Postretirement Benefits**

We account for and disclose pension and postemployment benefits in accordance with the provisions of GAAP relating to the accounting for pension and other postemployment plans. These GAAP provisions require the use of assumptions, such as the discount rate for liabilities and long-term rate of return on assets, in determining the obligations, annual cost and funding requirements of the plans. See Note 9 – Benefit Plans of Notes to **DPL's** Consolidated Financial Statements and Note 9 – Benefit Plans of Notes to **DP&L's** Financial Statements for more information.

### **Contingent and Other Obligations**

During the conduct of our business, we are subject to a number of federal and state laws and regulations, as well as other factors and conditions that potentially subject us to environmental, litigation, insurance and other risks. We periodically evaluate our exposure to such risks and record estimated liabilities for those matters where a loss is considered probable and reasonably estimable in accordance with GAAP. In recording such estimated liabilities, we may make assumptions, estimates and judgments that affect the reported amounts of assets, liabilities and expenses as they relate to contingent and other obligations. These assumptions and estimates are based on historical experience and assumptions and may be subject to change. We believe such estimates and assumptions are reasonable.

### **Recently Issued Accounting Pronouncements**

A discussion of recently issued accounting pronouncements is in Note 1 – Overview and Summary of Significant Accounting Policies of Notes to **DPL's** Consolidated Financial Statements and Note 1 – Overview and Summary of Significant Accounting Policies of Notes to **DP&L's** Financial Statements and such discussion is incorporated by reference in this Management's Discussion and Analysis of Financial Condition and Results of Operations and made a part hereof.

## **LEGAL AND OTHER MATTERS**

Discussions of legal and other matters are provided in Item 1 – Business "*Environmental Matters*", Item 1 – Business "*Competition and Regulation*" and Item 3 – Legal Proceedings. Such discussions are incorporated by reference in this Management's Discussion and Analysis of Financial Condition and Results of Operations and made a part hereof.

## **Item 7A – Quantitative and Qualitative Disclosures about Market Risk**

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We are subject to certain market risks including, but not limited to, changes in commodity prices for electricity and fluctuations in interest rates. We use various market risk-sensitive instruments, including derivative contracts, primarily to limit our exposure to fluctuations in interest rates. Our U.S. Risk Management Committee (U.S. RMC),



comprised of members of senior management, is responsible for establishing risk management policies and the monitoring and reporting of risk exposures related to our operations. The U.S. RMC meets on a regular basis with the objective of identifying, assessing and quantifying material risk issues and developing strategies to manage these risks.

The disclosures presented in this section are based upon a number of assumptions; actual effects may differ. The safe harbor provided in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 shall apply to the disclosures contained in this section. For further information regarding market risk, see Item 1A.-Risk Factors. Our businesses may incur substantial costs and liabilities and be exposed to price volatility as a result of risks associated with the electricity markets, which could have a material adverse effect on our financial performance; and we may not be adequately hedged against our exposure to changes in interest rates.

#### **Purchased power costs**

**DP&L** conducts competitive bid auctions to purchase power for SSO service, as all of **DP&L's** SSO is sourced through the competitive bid auction.

As a result of **DPL's** exit from the majority of its coal-fired generation, changes in the prices of fuel and purchased power are not expected to have a material impact on our results of operations, financial position or cash flows.

#### **Interest rate risk**

We use long-term debt as a significant source of capital in our business, which exposes us to interest rate risk. We do not enter into market risk sensitive instruments for trading purposes. We manage our exposure to interest rate risk through the use of fixed-rate debt and by refinancing existing long-term debt at times when it is deemed economic and prudent. **DPL** and **DP&L** have both fixed-rate and variable rate long-term debt. On November 21, 2016, the **DP&L** \$200.0 million variable-rate First Mortgage Bonds were hedged with floating for fixed interest rate swaps, reducing interest rate risk exposure for the term of the bonds. On January 1, 2018 the interest rate on these bonds was adjusted and as a result the bonds are no longer fully hedged and are treated as variable. In 2018, we redeemed \$60.0 million of these bonds, resulting in a combined notional amount of \$140.0 million as of December 31, 2019 and 2018. In regard to our fixed rate debt, the interest rate risk with respect to long-term debt primarily relates to the potential impact a change in interest rates has on the fair value of our fixed-rate debt and not on our financial condition or results of operations. Our interest rate risk on our fixed-rate debt is associated with refinancing activity. Market indexes can be affected by market demand, supply, market interest rates and other economic conditions. See Note 7 – Long-term debt of Notes to **DPL's** Consolidated Financial Statements and Note 7 – Long-term debt of Notes to **DP&L's** Financial Statements.

At December 31, 2019, our variable rate debt consisted of \$104.0 million under **DPL's** revolving credit facility, \$40.0 million under **DP&L's** revolving credit facility and \$140.0 million under **DP&L's** tax-exempt first mortgage bonds. At December 31, 2019, a 100-basis point change in the applicable rates on our variable-rate debt would result in an approximately \$2.8 million change in **DPL's** interest expense and an approximately \$1.8 million change in **DP&L's** interest expense.

#### **Principal payments and interest rate detail by contractual maturity date**

The principal amount of **DPL's** long-term debt was \$1,378.1 million at December 31, 2019, consisting of **DPL's** unsecured notes, secured term loan, Capital Trust II securities along with **DP&L's** First Mortgage Bonds, tax-exempt First Mortgage Bonds and the WPAFB note. All of **DPL's** existing debt was adjusted to fair value at the Merger date according to FASB Accounting Standards Codification No. 805, "Business Combinations". The fair value of this debt at December 31, 2019 was \$1,404.0 million, based on current market prices or discounted cash flows using current rates for similar issues with similar terms and remaining maturities. The following table provides information about **DPL's** debt obligations that are sensitive to interest rate changes:

DPL \$ in millions	Years ending December 31,						Principal amount at December 31,	Fair value at December 31,
	2020	2021	2022	2023	2024	Thereafter	2019	2019
<b>Long-term debt</b>								
Variable-rate debt	\$ 140.0	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 140.0	\$ 140.0
Average interest rate	4.2%	—%	—%	—%	—%	—%		
Fixed-rate debt	\$ 0.2	\$ 380.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 857.1	1,238.1	1,264.0
Average interest rate	2.4%	7.2%	4.2%	4.2%	4.2%	4.3%		
Total							<u>\$ 1,378.1</u>	<u>\$ 1,404.0</u>

The principal amount of **DP&L's** long-term debt was \$582.5 million at December 31, 2019, consisting of its First Mortgage Bonds, tax-exempt First Mortgage Bonds and the WPAFB note. The fair value of this debt at December 31, 2019 was \$600.5 million, based on current market prices or discounted cash flows using current rates for similar issues with similar terms and remaining maturities. The following table provides information about **DP&L's** debt obligations that are sensitive to interest rate changes. The **DP&L** debt was not revalued using push-down accounting as a result of the Merger.

DP&L \$ in millions	Years ending December 31,						Principal amount at December 31,	Fair value at December 31,
	2020	2021	2022	2023	2024	Thereafter	2019	2019
<b>Long-term debt</b>								
Variable-rate debt	\$ 140.0	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 140.0	\$ 140.0
Average interest rate	2.4%	—%	—%	—%	—%	—%		
Fixed-rate debt	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 441.5	442.5	460.5
Average interest rate	4.2%	4.2%	4.2%	4.2%	4.2%	4.0%		
Total							<u>\$ 582.5</u>	<u>\$ 600.5</u>

### Equity price risk

At December 31, 2019, approximately 40% of the defined benefit pension plan assets were comprised of investments in equity securities and 60% related to investments in fixed income securities, cash and cash equivalents and alternative investments. The equity securities are carried at their market value of approximately \$142.9 million at December 31, 2019. A hypothetical 10% decrease in prices quoted by stock exchanges would result in a \$14.3 million reduction in fair value at December 31, 2019 and approximately a \$2.0 million increase to the 2020 pension expense.

### Credit risk

Credit risk is the risk of an obligor's failure to meet the terms of any investment contract, loan agreement or otherwise perform as agreed. Credit risk arises from all activities in which success depends on issuer, borrower or counterparty performance, whether reflected on or off the balance sheet. We limit our credit risk by assessing the creditworthiness of potential counterparties before entering into transactions with them and continue to evaluate their creditworthiness after transactions have been originated. We use the three leading corporate credit rating agencies and other current market-based qualitative and quantitative data to assess the financial strength of counterparties on an ongoing basis. We may require various forms of credit assurance from counterparties to mitigate credit risk.

## **Item 8 – Financial Statements and Supplementary Data**

This report includes the combined filing of **DPL** and **DP&L**. Throughout this report, the terms “we,” “us,” “our” and “ours” are used to refer to both **DPL** and **DP&L**, respectively and altogether, unless the context indicates otherwise. Discussions or areas of this report that apply only to **DPL** or **DP&L** will clearly be noted in the section.



## **FINANCIAL STATEMENTS**

**DPL INC.**

## **Report of Independent Registered Public Accounting Firm**

To the Shareholder and Board of Directors of DPL Inc.

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of DPL Inc. (the Company) as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income / (loss), cash flows and shareholder's equity for each of the three years in the period ended December 31, 2019, and the related notes and schedule (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 in conformity with U.S. generally accepted accounting principles.

### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2011.

Indianapolis, Indiana

February 27, 2020



**DPL INC.**  
**Consolidated Statements of Operations**

\$ in millions	Years ended December 31,		
	2019	2018	2017
<b>Revenues</b>	<b>\$ 763.3</b>	<b>\$ 775.9</b>	<b>\$ 743.9</b>
<b>Operating costs and expenses</b>			
Net fuel cost	16.0	17.5	9.0
Net purchased power cost	253.0	305.0	291.0
Operation and maintenance	191.4	156.8	186.1
Depreciation and amortization	72.7	73.1	76.1
Taxes other than income taxes	78.2	73.5	77.1
Fixed-asset impairment (Note 17)	3.5	2.8	—
Loss / (gain) on asset disposal	1.0	—	(0.6)
Loss on disposal of business (Note 16)	—	11.7	—
<b>Total operating costs and expenses</b>	<b>615.8</b>	<b>640.4</b>	<b>638.7</b>
<b>Operating income</b>	<b>147.5</b>	<b>135.5</b>	<b>105.2</b>
<b>Other income / (expense), net</b>			
Interest expense	(82.2)	(98.0)	(110.0)
Loss on early extinguishment of debt	(44.9)	(6.5)	(3.3)
Other income	3.7	0.9	1.6
<b>Other expense, net</b>	<b>(123.4)</b>	<b>(103.6)</b>	<b>(111.7)</b>
<b>Income / (loss) from continuing operations before income tax</b>	<b>24.1</b>	<b>31.9</b>	<b>(6.5)</b>
Income tax expense / (benefit) from continuing operations	(21.8)	0.7	(5.0)
<b>Net income / (loss) from continuing operations</b>	<b>45.9</b>	<b>31.2</b>	<b>(1.5)</b>
<b>Discontinued operations (Note 15)</b>			
Income / (loss) from discontinued operations before income tax	55.0	70.5	(127.4)
Gain / (loss) from disposal of discontinued operations	20.1	(1.6)	14.0
Income tax expense / (benefit) from discontinued operations	15.6	30.0	(20.3)
<b>Net income / (loss) from discontinued operations</b>	<b>59.5</b>	<b>38.9</b>	<b>(93.1)</b>
<b>Net income / (loss)</b>	<b>\$ 105.4</b>	<b>\$ 70.1</b>	<b>\$ (94.6)</b>

See Notes to Consolidated Financial Statements.

**DPL INC.**  
**Consolidated Statements of Comprehensive Income / (Loss)**

\$ in millions	Years ended December 31,		
	2019	2018	2017
<b>Net income / (loss)</b>	<b>\$ 105.4</b>	<b>\$ 70.1</b>	<b>\$ (94.6)</b>
<b>Equity securities activity:</b>			
Change in fair value of equity securities, net of income tax expense of \$0.0, \$0.0 and (\$0.2) for each respective period	—	—	0.5
Reclassification to earnings, net of income tax expense of \$0.0 for each respective period	—	—	(0.1)
Net change in fair value of equity securities	—	—	0.4
<b>Derivative activity:</b>			
Change in derivative fair value, net of income tax benefit / (expense) of \$0.1, \$0.1 and (\$5.3) for each respective period	(1.0)	(0.1)	9.6
Reclassification to earnings, net of income tax expense of \$0.1, \$0.4 and \$0.3 for each respective period	(1.1)	(0.8)	(0.7)
Reclassification of earnings related to discontinued operations, net of income tax expense / (benefit) of (\$0.4), (\$1.2) and \$4.1 for each respective period	(0.4)	3.2	(7.3)
Net change in fair value of derivatives	(2.5)	2.3	1.6
<b>Pension and postretirement activity:</b>			
Prior service cost for the period, net of income tax benefit of \$0.0, \$0.6 and \$0.4 for each respective period	(0.1)	(2.2)	(0.7)
Net gain / (loss) for the period, net of income tax benefit / (expense) of \$0.8, (\$0.5) and \$1.1 for each respective period	(3.4)	1.7	(1.8)
Reclassification to earnings, net of income tax benefit of \$0.0, (\$0.2) and (\$0.5) for each respective period	0.2	0.6	1.0
Net change in unfunded pension and postretirement obligations	(3.3)	0.1	(1.5)
<b>Other comprehensive income / (loss)</b>	<b>(5.8)</b>	<b>2.4</b>	<b>0.5</b>
<b>Net comprehensive income / (loss)</b>	<b>\$ 99.6</b>	<b>\$ 72.5</b>	<b>\$ (94.1)</b>

See Notes to Consolidated Financial Statements.



**DPL INC.**  
**Consolidated Balance Sheets**

\$ in millions	December 31, 2019	December 31, 2018
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 36.5	\$ 90.5
Restricted cash	10.5	21.2
Accounts receivable, net (Note 2)	68.6	90.5
Inventories (Note 2)	14.1	10.7
Taxes applicable to subsequent years	77.8	72.6
Regulatory assets, current (Note 3)	19.7	41.1
Taxes receivable	23.6	—
Prepayments and other current assets	7.6	12.9
Current assets of discontinued operations and held-for-sale businesses (Note 15)	17.7	8.7
<b>Total current assets</b>	<b>276.1</b>	<b>348.2</b>
<b>Property, plant and equipment:</b>		
Property, plant & equipment	1,701.9	1,615.6
Less: Accumulated depreciation and amortization	(362.6)	(310.8)
	1,339.3	1,304.8
Construction work in process	106.3	32.2
<b>Total net property, plant &amp; equipment</b>	<b>1,445.6</b>	<b>1,337.0</b>
<b>Other non-current assets:</b>		
Regulatory assets, non-current (Note 3)	173.8	152.6
Intangible assets, net of amortization	19.4	18.4
Other non-current assets	20.9	21.6
Non-current assets of discontinued operations and held-for-sale businesses (Note 15)	—	5.3
<b>Total other non-current assets</b>	<b>214.1</b>	<b>197.9</b>
<b>Total assets</b>	<b>\$ 1,935.8</b>	<b>\$ 1,883.1</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b>Current liabilities:</b>		
Short-term and current portion of long-term debt (Note 7)	\$ 283.8	\$ 103.6
Accounts payable	74.4	58.1
Accrued taxes	79.6	76.7
Accrued interest	11.4	14.3
Customer deposits	20.7	21.3
Regulatory liabilities, current (Note 3)	27.9	34.9
Accrued and other current liabilities	21.2	22.0
Current liabilities of discontinued operations and held-for-sale businesses (Note 15)	6.9	12.2
<b>Total current liabilities</b>	<b>525.9</b>	<b>343.1</b>
<b>Non-current liabilities:</b>		
Long-term debt (Note 7)	1,223.3	1,372.3
Deferred income taxes (Note 8)	127.2	116.1
Taxes payable	81.4	76.1
Regulatory liabilities, non-current (Note 3)	243.6	278.3
Accrued pension and other post-retirement benefits (Note 9)	79.9	82.3
Other non-current liabilities	20.2	17.4
Non-current liabilities of discontinued operations and held-for-sale businesses (Note 15)	6.2	69.2
<b>Total non-current liabilities</b>	<b>1,781.8</b>	<b>2,011.7</b>
<b>Commitments and contingencies (Note 11)</b>		
<b>Common shareholder's deficit:</b>		
Common stock:		
1,500 shares authorized; 1 share issued and outstanding		
at December 31, 2019 and 2018	—	—
Other paid-in capital	2,370.7	2,370.5
Accumulated other comprehensive income / (loss)	(3.6)	2.2
Accumulated deficit	(2,739.0)	(2,844.4)
<b>Total common shareholder's deficit:</b>	<b>(371.9)</b>	<b>(471.7)</b>
<b>Total liabilities and shareholder's equity</b>	<b>\$ 1,935.8</b>	<b>\$ 1,883.1</b>

See Notes to Consolidated Financial Statements.

**DPL INC.**  
**Consolidated Statements of Cash Flows**

\$ in millions	Years ended December 31,		
	2019	2018	2017
<b>Cash flows from operating activities:</b>			
Net income / (loss)	\$ 105.4	\$ 70.1	\$ (94.6)
Adjustments to reconcile Net income / (loss) to Net cash from operating activities			
Depreciation and amortization	53.1	50.2	106.9
Amortization of deferred financing costs	5.6	5.5	3.6
Deferred income taxes	15.2	(9.1)	(22.2)
Loss on early extinguishment of debt	44.9	6.5	3.3
Fixed-asset impairment	3.5	2.8	175.8
Loss / (gain) on disposal and sale of business, net	(20.1)	13.3	(14.0)
Loss / (gain) on asset disposal, net	0.9	(2.0)	16.1
Changes in certain assets and liabilities:			
Accounts receivable, net	10.2	45.7	18.1
Inventories	(4.2)	14.8	7.7
Taxes applicable to subsequent years	(2.8)	0.1	2.3
Deferred regulatory costs, net	(2.2)	(9.2)	(23.7)
Accounts payable	9.7	(16.3)	(36.3)
Accrued taxes payable / receivable	(21.2)	37.4	(3.7)
Accrued interest	(2.9)	(2.1)	(1.3)
Accrued pension and other post-retirement benefits	(8.8)	(3.4)	4.7
Insurance and claims costs	—	1.1	(2.4)
Other non-current liabilities	(14.6)	(0.5)	(4.8)
Other	8.6	1.0	(3.8)
<b>Net cash provided by operating activities</b>	<b>180.3</b>	<b>205.9</b>	<b>131.7</b>
<b>Cash flows from investing activities:</b>			
Capital expenditures	(168.1)	(103.6)	(121.5)
Proceeds from disposal and sale of business	—	234.9	70.1
Payments on disposal and sale of business	(51.0)	(14.5)	—
Proceeds from sale of property	—	10.6	0.1
Insurance proceeds	—	3.0	12.3
Other investing activities, net	(3.5)	(0.5)	(0.3)
<b>Net cash provided by / (used in) investing activities</b>	<b>(222.6)</b>	<b>129.9</b>	<b>(39.3)</b>
<b>Cash flows from financing activities:</b>			
Payments of deferred financing costs	(9.9)	—	—
Retirement of debt	(978.0)	(240.5)	(159.5)
Issuance of long-term debt, net of discount	821.7	—	—
Borrowings from revolving credit facilities	204.0	30.0	102.5
Repayment of borrowings from revolving credit facilities	(60.0)	(40.0)	(92.5)
Other financing activities, net	(0.2)	—	(0.1)
<b>Net cash used in financing activities</b>	<b>(22.4)</b>	<b>(250.5)</b>	<b>(149.6)</b>
Increase in cash and restricted cash of discontinued operations and held-for-sale businesses	—	1.5	27.5
<b>Cash, cash equivalents and restricted cash:</b>			
Net increase / (decrease) in cash, cash equivalents and restricted cash	(64.7)	86.8	(29.7)
Balance at beginning of year	111.7	24.9	54.6
<b>Cash, cash equivalents and restricted cash at end of year</b>	<b>\$ 47.0</b>	<b>\$ 111.7</b>	<b>\$ 24.9</b>
<b>Supplemental cash flow information:</b>			
Interest paid, net of amounts capitalized	\$ 80.8	\$ 93.7	\$ 105.2
Income taxes (refunded) / paid, net	\$ 1.8	\$ (1.4)	\$ —
Non-cash financing and investing activities:			
Accruals for capital expenditures	\$ 16.9	\$ 10.4	\$ 12.9
Non-cash proceeds from sale of business	\$ —	\$ 4.1	\$ —
Non-cash capital contribution (Note 10)	\$ —	\$ 40.0	\$ 97.1

See Notes to Consolidated Financial Statements.



**DPL INC.**  
**Consolidated Statements of Shareholder's Deficit**

	Common Stock <sup>(a)</sup>					
\$ in millions	Outstanding Shares	Amount	Other Paid-in Capital	Accumulated Other Comprehensive Income / (Loss)	Accumulated Deficit	Total
<b>Year ended December 31, 2017</b>						
Beginning balance	1	\$ —	\$ 2,233.0	\$ 0.3	\$ (2,820.9)	\$ (587.6)
Net comprehensive loss				0.5	(94.6)	(94.1)
Capital contributions <sup>(b)</sup>			97.1			97.1
Other			0.3			0.3
Ending balance	1	—	2,330.4	0.8	(2,915.5)	(584.3)
<b>Year ended December 31, 2018</b>						
Net comprehensive income				2.4	70.1	72.5
Capital contributions <sup>(b)</sup>			40.0			40.0
Other <sup>(c)</sup>			0.1	(1.0)	1.0	0.1
Ending balance	1	—	2,370.5	2.2	(2,844.4)	(471.7)
<b>Year ended December 31, 2019</b>						
Net comprehensive income				(5.8)	105.4	99.6
Other			0.2			0.2
Ending balance	1	\$ —	\$ 2,370.7	\$ (3.6)	\$ (2,739.0)	\$ (371.9)

(a) 1,500 shares authorized.

(b) Represents the conversion of a tax sharing payable to AES to contributed capital, as DP&L's 2017 ESP restricted tax sharing payments to AES during the term of the ESP. See Note 8 – Income Taxes.

(c) ASU 2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities" was effective as of January 1, 2018. This ASU requires the change in the fair value of equity instruments to be recorded in income rather than in OCI. Equity Instruments were defined to include all mutual funds, regardless of the underlying investments. Therefore, as of January 1, 2018, AOCI of \$1.6 million (\$1.0 million net of tax) was reversed to Accumulated deficit.

See Notes to Consolidated Financial Statements.

**DPL Inc.**  
**Notes to Consolidated Financial Statements**  
**For the years ended December 31, 2019, 2018 and 2017**

**Note 1 – Overview and Summary of Significant Accounting Policies**

**Description of Business**

**DPL** is a diversified regional energy company organized in 1985 under the laws of Ohio. **DPL** has one reportable segment, the Utility segment. See Note 13 – Business Segments for more information relating to our reportable segment. The terms “we”, “us”, “our” and “ours” are used to refer to **DPL** and its subsidiaries.

On November 28, 2011, **DPL** was acquired by AES in the Merger and **DPL** became a wholly-owned subsidiary of AES. Following the merger of **DPL** and Dolphin Subsidiary II, Inc., **DPL** became an indirectly wholly-owned subsidiary of AES.

**DP&L**, **DPL's** wholly-owned subsidiary, is a public utility incorporated in 1911 under the laws of Ohio. Beginning in 2001, Ohio law gave consumers the right to choose the electric generation supplier from whom they purchase retail generation service, however transmission and distribution services are still regulated. **DP&L** has the exclusive right to provide such service to its approximately 526,000 customers located in West Central Ohio. **DP&L** provides retail SSO electric service to residential, commercial, industrial and governmental customers in a 6,000 square mile area of West Central Ohio. **DP&L** sources all of the generation for its SSO customers through a competitive bid process. Through September 30, 2017, **DP&L** owned undivided interests in multiple coal-fired power stations and multiple peaking electric generating facilities as well as numerous transmission facilities. On October 1, 2017, the **DP&L**-owned generating facilities, excluding the Beckjord Facility and Hutchings EGU, were transferred to AES Ohio Generation, an affiliate of **DP&L** and wholly-owned subsidiary of **DPL**, through an asset contribution agreement to a subsidiary that was merged into AES Ohio Generation. Principal industries located in **DP&L's** service territory include automotive, food processing, paper, plastic, manufacturing and defense. **DP&L's** sales reflect the general economic conditions, seasonal weather patterns of the area and the market price of electricity. Through the date of Generation Separation, **DP&L** sold energy and capacity into the wholesale market.

**DPL's** other primary subsidiaries include MVIC and AES Ohio Generation. MVIC is our captive insurance company that provides insurance services to **DPL** and our subsidiaries. AES Ohio Generation owns an undivided interest in Conesville. AES Ohio Generation sells all of its energy and capacity into the wholesale market. **DPL's** subsidiaries are wholly-owned.

On December 8, 2017, AES Ohio Generation completed the sale of the Miami Fort and Zimmer stations to subsidiaries of Dynegy in accordance with an asset purchase agreement dated April 21, 2017. In addition, on March 27, 2018, **DPL** and AES Ohio Generation completed the sale of their Peaker assets to Kimura Power, LLC. Further, on May 31, 2018, **DPL** and AES Ohio Generation retired the Stuart Station coal-fired and diesel-fired generating units and the Killen Station coal-fired generating unit and combustion turbine, as planned. On December 20, 2019, **DPL** and AES Ohio Generation, together with AES Ohio Generation's joint owners in the retired Stuart and Killen generating facilities, completed the transfer of the retired generating facilities, including the associated environmental liabilities, to an unaffiliated third-party purchaser. See Note 15 – Discontinued Operations for additional information.

**DPL** also has a wholly-owned business trust, DPL Capital Trust II, formed for the purpose of issuing trust capital securities to investors.

**DP&L's** electric transmission and distribution businesses are subject to rate regulation by federal and state regulators. Accordingly, **DP&L** applies the accounting standards for regulated operations to its electric transmission and distribution businesses and records regulatory assets when incurred costs are expected to be recovered in future customer rates and regulatory liabilities when current cost recoveries in customer rates relate to expected future costs or overcollections of riders.

**DPL** and its subsidiaries employed 633 people at January 31, 2020, of which 630 were employed by **DP&L**. Approximately 59% of all **DPL** employees are under a collective bargaining agreement that expires on October 31, 2020.



**Financial Statement Presentation**

We prepare Consolidated Financial Statements for **DPL**. **DPL's** Consolidated Financial Statements include the accounts of **DPL** and its wholly-owned subsidiaries except for **DPL Capital Trust II** which is not consolidated, consistent with the provisions of GAAP.

AES Ohio Generation's undivided ownership interest in a coal-fired generating station is included in the financial statements at amortized cost, net of subsequent impairments. Operating revenues and expenses are included on a pro rata basis in the corresponding lines in the Consolidated Statement of Operations.

Through June 2018, **DP&L** had undivided ownership interests in numerous transmission facilities. These undivided interests in jointly-owned facilities were accounted for on a pro rata basis in the Consolidated Financial Statements. In June 2018, **DP&L** closed on a transmission asset transaction with Duke and AEP, where ownership stakes in certain previously co-owned transmission assets were exchanged to eliminate co-ownership. Each previously co-owned transmission asset became wholly-owned by one of **DP&L**, Duke or AEP after the transaction. See Note 4 – Property, Plant and Equipment for more information.

All material intercompany accounts and transactions are eliminated in consolidation. We have evaluated subsequent events through the date this report is issued.

Certain amounts from prior periods have been reclassified to conform to the current period presentation.

**Use of Management Estimates**

The preparation of financial statements in conformity with GAAP requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the revenues and expenses of the periods reported. Actual results could differ from these estimates. Significant items subject to such estimates and judgments include: the carrying value of Property, plant and equipment; unbilled revenues; the valuation of derivative instruments; the valuation of insurance and claims liabilities; the valuation of allowances for receivables and deferred income taxes; regulatory assets and liabilities; reserves recorded for income tax exposures; litigation; contingencies; the valuation of AROs; and assets and liabilities related to employee benefits.

**Cash and Cash Equivalents**

Cash and cash equivalents are stated at cost, which approximates fair value. All highly liquid short-term investments with original maturities of three months or less are considered cash equivalents.

**Restricted Cash**

Restricted cash includes cash which is restricted as to withdrawal or usage. The nature of the restriction includes an agreement related to cash collected under the DMR, which is restricted to pay debt obligations at **DPL** and **DP&L** and position **DP&L** to modernize and/or maintain its transmission and distribution infrastructure.

The following table summarizes cash, cash equivalents and restricted cash amounts reported on the Consolidated Balance Sheet that reconcile to the total of such amounts as shown on the Consolidated Statements of Cash Flows:

\$ in millions	December 31, 2019	December 31, 2018
Cash and cash equivalents	\$ 36.5	\$ 90.5
Restricted cash	10.5	21.2
Cash, Cash Equivalents and Restricted Cash, End of Period	\$ 47.0	\$ 111.7

**Allowance for Uncollectible Accounts**

We establish provisions for uncollectible accounts by using both historical average loss percentages to project future losses and by establishing specific provisions for known credit issues. Amounts are written off when reasonable collections efforts have been exhausted.

**Inventories**

Inventories are carried at average cost, net of reserves, and include coal, limestone and materials and supplies used for utility operations.



## **Regulatory Accounting**

As a regulated utility, **DP&L** applies the provisions of FASC 980 "Regulated Operations", which gives recognition to the ratemaking and accounting practices of the PUCO and the FERC. Regulatory assets generally represent incurred costs that have been deferred because such costs are probable of future recovery in customer rates. Regulatory assets can also represent performance incentives permitted by the regulator. Regulatory assets have been included as allowable costs for ratemaking purposes, as authorized by the PUCO or established regulatory practices. Regulatory liabilities generally represent obligations to make refunds or future rate reductions to customers for previous over collections or the deferral of revenues collected for costs that **DP&L** expects to incur in the future.

The deferral of costs (as regulatory assets) is appropriate only when the future recovery of such costs is probable. In assessing probability, we consider such factors as specific orders from the PUCO or FERC, regulatory precedent and the current regulatory environment. To the extent recovery of costs is no longer deemed probable, related regulatory assets would be required to be expensed in current period earnings. Our regulatory assets and liabilities have been created pursuant to a specific order of the PUCO or FERC or established regulatory practices, such as other utilities under the jurisdiction of the PUCO or FERC being granted recovery of similar costs. It is probable, but not certain, that these regulatory assets will be recoverable, subject to PUCO or FERC approval. Regulatory assets and liabilities are classified as current or non-current based on the term in which recovery is expected. See Note 3 – Regulatory Matters for more information.

## **Property, Plant and Equipment**

We record our ownership share of our undivided interest in our jointly-held station as an asset in property, plant and equipment. We record our ownership share of our undivided interest in jointly-owned transmission and distribution property as an asset in property, plant and equipment. New property, plant and equipment additions are stated at cost. For regulated transmission and distribution property, cost includes direct labor and material, allocable overhead expenses and an allowance for funds used during construction (AFUDC). AFUDC represents the cost of borrowed funds and equity used to finance regulated construction projects. Capitalization of AFUDC and interest ceases at either project completion or at the date specified by regulators. AFUDC and capitalized interest was \$3.2 million, \$0.5 million and \$1.7 million in the years ended December 31, 2019, 2018 and 2017, respectively.

For unregulated generation property, cost includes direct labor and material, allocable overhead expenses and interest capitalized during construction per the provisions of GAAP related to the accounting for capitalized interest.

For substantially all depreciable property, when a unit of property is retired, the original cost of that property less any salvage value is charged to Accumulated depreciation and amortization, consistent with composite depreciation practices.

Property is evaluated for impairment when events or changes in circumstances indicate that its carrying amount may not be recoverable.

## **Depreciation**

Depreciation expense is calculated using the straight-line method, which allocates the cost of property over its estimated useful life. For **DPL's** generation, transmission and distribution assets, straight-line depreciation is applied monthly on an average composite basis using group rates that approximated 4.0% in 2019, 4.3% in 2018 and 5.0% in 2017 (including property classified in non-current assets of discontinued operations and held-for-sale businesses in 2017). Depreciation expense was \$68.1 million, \$66.5 million and \$70.4 million for the years ended December 31, 2019, 2018 and 2017, respectively.

## **Intangibles**

Intangibles include software, emission allowances and renewable energy credits. Emission allowances are carried on a first-in, first-out (FIFO) basis for purchased emission allowances. Net gains or losses on the sale of excess emission allowances, representing the difference between the sales proceeds and the cost of emission allowances, are recorded as a component of our fuel costs and are reflected in Operating income when realized. Emission allowances are amortized as they are used in our operations on a FIFO basis. Renewable energy credits are carried on a weighted average cost basis and amortized as they are used or retired.

Software is amortized over seven years. Amortization expense was \$4.6 million, \$6.6 million and \$5.7 million for the years ended December 31, 2019, 2018 and 2017, respectively. The estimated amortization expense of this internal-



use software over the next five years is \$15.3 million (\$4.6 million in 2020, \$4.6 million in 2021, \$4.6 million in 2022 and \$1.5 million in 2023).

### **Debt Issuance Costs**

Costs incurred in connection with the issuance of long-term debt are deferred and presented as a direct reduction from the face amount of that debt and amortized over the related financing period using the effective interest method. Debt issuance costs related to a line-of-credit or revolving credit facility are deferred and presented as an asset and amortized over the related financing period. Make-whole payments in connection with early debt retirements are classified as cash flows used in financing activities.

### **Financial Instruments**

Our Master Trust investments in debt and equity financial instruments of publicly traded entities are classified as equity investments. These equity securities are carried at fair value and unrealized gains and losses on these securities are recorded in Other income. As these financial instruments are held to be used for the benefit of employees participating in employee benefit plans and are not used for general operating purposes, they are classified as non-current in Other non-current assets on the Consolidated Balance Sheets.

### **Financial Derivatives**

All derivatives are recognized as either assets or liabilities in the balance sheets and are measured at fair value. Changes in the fair value are recorded in earnings unless the derivative is designated as a cash flow hedge of a forecasted transaction or it qualifies for the normal purchases and sales exception.

We use interest rate hedges to manage the interest rate risk of our variable rate debt. We use cash flow hedge accounting when the hedge or a portion of the hedge is deemed to be highly effective, which results in changes in fair value being recorded within accumulated other comprehensive income / (loss), a component of shareholder's deficit. We have elected not to offset net derivative positions in the financial statements. Accordingly, we do not offset such derivative positions against the fair value of amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral under master netting agreements. See Note 6 – Derivative Instruments and Hedging Activities for additional information.

### **Insurance and Claims Costs**

In addition to insurance obtained from third-party providers, MVIC, a wholly-owned captive subsidiary of DPL, provides insurance coverage solely to us and our subsidiaries for workers' compensation, general liability and property damage on an ongoing basis. Insurance and claims costs associated with MVIC include estimated liabilities of approximately \$4.5 million and \$4.1 million at December 31, 2019 and 2018, respectively, within Accrued and other current liabilities on the DPL Consolidated Balance Sheets. DPL has estimated liabilities for medical, life, disability and other reserves for claims costs below certain coverage thresholds of third-party providers of approximately \$3.3 million and \$4.3 million at December 31, 2019 and 2018, respectively, within Accrued and other current liabilities and Other non-current liabilities on the balance sheets. The estimated liabilities for workers' compensation, medical, life and disability costs at DPL are actuarially determined using certain assumptions. There is uncertainty associated with these loss estimates, and actual results may differ from the estimates. Modification of these loss estimates based on experience and changed circumstances is reflected in the period in which the estimate is re-evaluated.

### **Revenue Recognition**

Revenues are recognized from retail and wholesale electricity sales and electricity transmission and distribution delivery services. Revenue is recognized upon transfer of control of promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. Energy sales to customers are based on the reading of their meters that occurs on a systematic basis throughout the month. We recognize the revenues on our Consolidated Statements of Operations using an accrual method for retail and other energy sales that have not yet been billed, but where electricity has been consumed. This is termed "unbilled revenues" and is a widely recognized and accepted practice for utilities. At the end of each month, unbilled revenues are determined by the estimation of unbilled energy provided to customers since the date of the last meter reading, estimated line losses, the assignment of unbilled energy provided to customer classes and the average rate per customer class.

The power sales and purchases within DP&L's service territory are reported on a net hourly basis as revenues or purchased power on our Consolidated Statements of Operations. All of the power produced at the generation



station is sold to an RTO. We record expenses when purchased electricity is received and when expenses are incurred. For additional information, see Note 14 – Revenue.

### **Accounting for Taxes Collected from Customers and Remitted to Governmental Authorities**

DP&L collects certain excise taxes levied by state or local governments from its customers. DP&L's excise taxes and certain other taxes are accounted for on a net basis and recorded as a reduction in revenues in the accompanying Consolidated Statements of Operations. The amounts for the years ended December 31, 2019, 2018 and 2017, were \$50.1 million, \$51.7 million and \$49.4 million, respectively.

### **Repairs and Maintenance**

Costs associated with maintenance activities are recognized at the time the work is performed. These costs, which include labor, materials and supplies and outside services required to maintain equipment and facilities, are capitalized or expensed based on defined units of property.

### **Pension and Postretirement Benefits**

We recognize in our Consolidated Balance Sheets an asset or liability reflecting the funded status of pension and other postretirement plans with current-year changes from actuarial gains or losses related to our regulated operations, that would otherwise be recognized in AOCI, recorded as a regulatory asset as this can be recovered through future rates. Such changes that are not related to our regulated operations are recognized in AOCI. All plan assets are recorded at fair value. We follow the measurement date provisions of the accounting guidance, which require a year-end measurement date of plan assets and obligations for all defined benefit plans.

We account for and disclose pension and postretirement benefits in accordance with the provisions of GAAP relating to the accounting for pension and other postretirement plans. These GAAP provisions require the use of assumptions, such as the discount rate for liabilities and long-term rate of return on assets, in determining the obligations, annual cost and funding requirements of the plans. Consistent with the requirements of FASC 715, we apply a disaggregated discount rate approach for determining service cost and interest cost for our defined benefit pension plans and postretirement plans.

See Note 9 – Benefit Plans for more information.

### **Income Taxes**

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of the existing assets and liabilities and their respective income tax bases. We establish an allowance when it is more likely than not that all or a portion of a deferred tax asset will not be realized. Our tax positions are evaluated under a more likely than not recognition threshold and measurement analysis before they are recognized for financial statement reporting. Uncertain tax positions have been classified as noncurrent income tax liabilities unless expected to be paid within one year. Our policy for interest and penalties is to recognize interest and penalties as a component of the provision for income taxes in the Consolidated Statement of Operations.

Income taxes payable, which are includable in allowable costs for ratemaking purposes in future years, are recorded as regulatory assets or liabilities with a corresponding deferred tax liability or asset. Investment tax credits that reduced federal income taxes in the years they arose have been deferred and are being amortized to income over the useful lives of the properties in accordance with regulatory treatment. See Note 3 – Regulatory Matters for additional information.

DPL and its subsidiaries file U.S. federal income tax returns as part of the consolidated U.S. income tax return filed by AES. The consolidated tax liability is allocated to each subsidiary based on the separate return method which is specified in our tax allocation agreement and which provides a consistent, systematic and rational approach. See Note 8 – Income Taxes for additional information.

### **Related Party Transactions**

In the normal course of business, DPL enters into transactions with related parties. All material intercompany accounts and transactions are eliminated in DPL's Consolidated Financial Statements. See Note 12 – Related Party Transactions for more information on Related Party Transactions.



## **DPL Capital Trust II**

DPL has a wholly-owned business trust, DPL Capital Trust II (the Trust), formed for the purpose of issuing trust capital securities to third-party investors. In 2003, DPL deconsolidated the Trust upon adoption of the accounting standards related to variable interest entities and currently treats the Trust as an unconsolidated subsidiary. The Trust holds mandatorily redeemable trust capital securities. The investment in the Trust, which amounts to \$0.2 million and \$0.2 million at December 31, 2019 and 2018, respectively, is included within Other noncurrent assets on the consolidated balance sheets. DPL also has a note payable to the Trust amounting to \$15.6 million and \$15.6 million at December 31, 2019 and 2018, respectively, that was established upon the Trust's deconsolidation in 2003. See Note 7 – Long-term debt for additional information.

In addition to the obligations under the note payable mentioned above, DPL also agreed to a security obligation which represents a full and unconditional guarantee of payments to the capital security holders of the Trust.

## **Held-for-sale Businesses**

A business classified as held-for-sale is reflected on the balance sheet at the lower of its carrying amount or estimated fair value less cost to sell. A loss is recognized if the carrying amount of the business exceeds its estimated fair value less cost to sell. This loss is limited to the carrying value of long-lived assets until the completion of the sale, at which point, any additional loss is recognized. If the fair value of the business subsequently exceeds the carrying amount while the business is still held-for-sale, any impairment expense previously recognized will be reversed up to the lower of the previously recognized expense or the subsequent excess.

Assets and liabilities related to a business classified as held-for-sale are segregated in the current balance sheet in the period in which the business is classified as held-for-sale. Assets and liabilities of held-for-sale businesses are classified as current when they are expected to be disposed of within twelve months. Transactions between the business held-for-sale and businesses that are expected to continue to exist after the disposal are not eliminated to appropriately reflect the continuing operations and balances held-for-sale. See Note 15 – Discontinued Operations for further information.

## **Discontinued Operations**

Discontinued operations reporting occurs only when the disposal of a business or a group of assets represents a strategic shift that has (or will have) a major effect on our operations and financial results. We report financial results for discontinued operations separately from continuing operations to distinguish the financial impact of disposal transactions from ongoing operations. Prior period amounts in the statement of operations and balance sheet are retrospectively revised to reflect the businesses determined to be discontinued operations. The cash flows of businesses that are determined to be discontinued operations are included within the relevant categories within operating, investing and financing activities on the face of the Consolidated Statements of Cash Flows.

Transactions between the businesses determined to be discontinued operations and businesses that are expected to continue to exist after the disposal are not eliminated to appropriately reflect the continuing operations and balances held-for-sale. The results of discontinued operations include any gain or loss recognized on closing or adjustment of the carrying amount to fair value. See Note 15 – Discontinued Operations for further information.

## **New accounting pronouncements**

The following table provides a brief description of recent accounting pronouncements that had an impact on our consolidated financial statements. Accounting pronouncements not listed below were assessed and determined to be either not applicable or did not have a material impact on our consolidated financial statements.

Accounting Standard	Description	Date of Adoption	Effect on the financial statements upon adoption
<b>New Accounting Standards Adopted</b>			
2017-12, Derivatives and Hedging (Topic 815): Targeted improvements to Accounting for Hedging Activities	The standard updates the hedge accounting model to expand the ability to hedge nonfinancial and financial risk components, reduce complexity and ease certain documentation and assessment requirements. When facts and circumstances are the same as at the previous quantitative test, a subsequent quantitative effectiveness test is not required. The standard also eliminates the requirement to separately measure and report hedge ineffectiveness. For cash flow hedges, this means that the entire change in the fair value of a hedging instrument will be recorded in other comprehensive income and amounts deferred will be reclassified to earnings in the same income statement line as the hedged item in the period in which it settles. Transition method: modified retrospective with the cumulative effect adjustment recorded to the opening balance of retained earnings as of the initial application date. Prospective for presentation and disclosures.	January 1, 2019.	The adoption of this standard had no material effect on our consolidated financial statements.
2018-02, Income Statement - Reporting Comprehensive Income (Topic 220), Reclassification of Certain Tax Effects from AOCI	This amendment allows a reclassification of the stranded tax effects resulting from the implementation of the Tax Cuts and Jobs Act from AOCI to retained earnings. Because this amendment only relates to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected.	January 1, 2019.	The adoption of this standard had no material effect on our consolidated financial statements.
2016-02, 2018-01, 2018-10, 2018-11, 2018-20 Leases (Topic 842)	See discussion of the ASU below.	January 1, 2019.	The adoption of this standard had no material effect on our consolidated financial statements.

### ***Adoption of FASC Topic 842, "Leases"***

On January 1, 2019, we adopted FASC 842 *Leases* and its subsequent corresponding updates ("FASC 842"). Under this standard, lessees are required to recognize assets and liabilities for most leases on the balance sheet and recognize expenses in a manner similar to the prior accounting method. For lessors, the guidance modifies the lease classification criteria and the accounting for sales-type and direct financing leases. The guidance eliminates previous real estate-specific provisions.

Under FASC 842, it is expected that fewer contracts will contain a lease. However, due to the elimination of the real estate-specific guidance and changes to certain lessor classification criteria, more leases will qualify as sales-type leases and direct financing leases. Under these two models, a lessor will derecognize the asset and will recognize a net investment in a lease. According to FASC 842, the net investment in the lease includes the fair value of the plant after the contract period but does not include variable payments such as margin on the sale of energy. Therefore, the net investment in the lease could be significantly different than the carrying amount of the underlying asset at lease commencement. In such circumstances, the difference between the initially recognized net investment in the lease and the carrying amount of the underlying asset is recognized as a gain/loss at lease commencement.

During the course of adopting FASC 842, we applied various practical expedients including:

- The package of practical expedients (applied to all leases) that allowed lessees and lessors not to reassess:
  - a. whether any expired or existing contracts are or contain leases,
  - b. lease classification for any expired or existing leases, and
  - c. whether initial direct costs for any expired or existing leases qualify for capitalization under FASC 842.
- The transition practical expedient related to land easements, allowing us to carry forward our accounting treatment for land easements on existing agreements, and



- The transition practical expedient for lessees that allowed businesses to not separate lease and non-lease components. We applied the practical expedient to all classes of underlying assets when valuing right-of-use assets and lease liabilities. Contracts where we are the lessor were separated between the lease and non-lease components.

We applied the modified retrospective method of adoption and elected to continue to apply the guidance in FASC 840 *Leases* to the comparative periods presented in the year of adoption. Under this transition method, we applied the transition provisions starting at the date of adoption.

The adoption of FASC 842 did not have a material impact on our consolidated financial statements.

**New accounting pronouncements issued but not yet effective** - The following table provides a brief description of recent accounting pronouncements that could have a material impact on our consolidated financial statements. Accounting pronouncements not listed below were assessed and determined to be either not applicable or are expected to have no material impact on our consolidated financial statements.

Accounting Standard	Description	Date of Adoption	Effect on the financial statements upon adoption
<b>New Accounting Standards Issued but Not Yet Effective</b>			
2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes	The standard removes certain exceptions for recognizing deferred taxes for investments, performing intra-period allocation and calculating income taxes in interim periods. It also adds guidance to reduce complexity in certain areas, including recognizing deferred taxes for tax goodwill and allocating taxes to members of a consolidated group.  Transition Method: various	January 1, 2021. Early adoption is permitted.	We are currently evaluating the impact of adopting the standard on our consolidated financial statements.
2016-13, 2018-19, 2019-04, 2019-05, 2019-10, Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	See discussion of the ASUs below.	January 1, 2020. Early adoption is permitted only as of January 1, 2019.	We will adopt the standard on January 1, 2020; see below for the evaluation of the impact of the adoption on the consolidated financial statements.

ASU 2016-13 and its subsequent corresponding updates will update the impairment model for financial assets measured at amortized cost, known as the Current Expected Credit Loss ("CECL") model. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a new forward-looking "expected loss" model that generally will result in the earlier recognition of allowance for losses. For available-for-sale debt securities with unrealized losses, entities will measure credit losses as it is done today, except that unrealized losses due to credit-related factors will be recognized as an allowance on the balance sheet with a corresponding adjustment to earnings in the income statement. There are various transition methods available upon adoption.

We are currently evaluating the impact of adopting the standard on our consolidated financial statements. We expect that the new current expected credit loss model will primarily impact the calculation of expected credit losses on \$69.0 million in gross trade accounts receivable. We do not expect a material impact to result from the application of CECL on our trade accounts receivable.

## Note 2 – Supplemental Financial Information

\$ in millions	December 31,	
	2019	2018
<b>Accounts receivable, net</b>		
Customer receivables	\$ 46.3	\$ 55.8
Unbilled revenue	19.4	16.8
Amounts due from affiliates	0.3	—
Due from PJM transmission enhancement settlement <sup>(a)</sup>	1.8	16.5
Other	1.2	2.3
Provisions for uncollectible accounts	(0.4)	(0.9)
<b>Total accounts receivable, net</b>	<b>\$ 68.6</b>	<b>\$ 90.5</b>
<b>Inventories, at average cost</b>		
Fuel and limestone	\$ 3.5	\$ 1.9
Materials and supplies	10.6	8.3
Other	—	0.5
<b>Total inventories, at average cost</b>	<b>\$ 14.1</b>	<b>\$ 10.7</b>

(a) See Note 3 – Regulatory Matters for more information.

### Accumulated Other Comprehensive Income / (Loss)

The amounts reclassified out of Accumulated Other Comprehensive Income / (Loss) by component during the years ended December 31, 2019, 2018 and 2017 are as follows:

Details about Accumulated Other Comprehensive Income / (Loss) Components	Affected line item in the Consolidated Statements of Operations	Years ended December 31,		
		2019	2018	2017
\$ in millions				
Gains and losses on equity securities (Note 5):				
	Other deductions	\$ —	\$ —	\$ (0.1)
	Income tax expense	—	—	—
	Net of income taxes	—	—	(0.1)
Gains and losses on cash flow hedges (Note 6):				
	Interest expense	(1.2)	(1.2)	(1.0)
	Income tax expense	0.1	0.4	0.3
	Net of income taxes	(1.1)	(0.8)	(0.7)
	Loss / (gain) from discontinued operations	—	4.4	(11.4)
	Tax expense / (benefit) from discontinued operations	(0.4)	(1.2)	4.1
	Net of income taxes	(0.4)	3.2	(7.3)
Amortization of defined benefit pension items (Note 9):				
	Other expense	0.2	0.8	1.5
	Income tax benefit	—	(0.2)	(0.5)
	Net of income taxes	0.2	0.6	1.0
<b>Total reclassifications for the period, net of income taxes</b>		<b>\$ (1.3)</b>	<b>\$ 3.0</b>	<b>\$ (7.1)</b>



The changes in the components of Accumulated Other Comprehensive Income / (Loss) during the years ended December 31, 2019 and 2018 are as follows:

\$ in millions	Gains / (losses) on equity securities	Gains / (losses) on cash flow hedges	Change in unfunded pension obligation	Total
<b>Balance at December 31, 2017</b>	<u>\$ 1.0</u>	<u>\$ 14.7</u>	<u>\$ (14.9)</u>	<u>\$ 0.8</u>
Other comprehensive loss before reclassifications	—	(0.1)	(0.5)	(0.6)
Amounts reclassified from accumulated other comprehensive income to earnings	—	2.4	0.6	3.0
Net current period other comprehensive income	<u>—</u>	<u>2.3</u>	<u>0.1</u>	<u>2.4</u>
Amounts reclassified from accumulated other comprehensive income to accumulated deficit <sup>(a)</sup>	(1.0)	—	—	(1.0)
<b>Balance at December 31, 2018</b>	<u>—</u>	<u>17.0</u>	<u>(14.8)</u>	<u>2.2</u>
Other comprehensive loss before reclassifications	—	(1.0)	(3.5)	(4.5)
Amounts reclassified from accumulated other comprehensive income / (loss) to earnings	—	(1.5)	0.2	(1.3)
Net current period other comprehensive loss	<u>—</u>	<u>(2.5)</u>	<u>(3.3)</u>	<u>(5.8)</u>
<b>Balance at December 31, 2019</b>	<u>\$ —</u>	<u>\$ 14.5</u>	<u>\$ (18.1)</u>	<u>\$ (3.6)</u>

- (a) ASU 2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities" was effective as of January 1, 2018. This ASU requires the change in the fair value of equity instruments to be recorded in income rather than in OCI. Equity Instruments were defined to include all mutual funds, regardless of the underlying investments. Therefore, as of January 1, 2018, AOCI of \$1.6 million (\$1.0 million net of tax) was reversed to Accumulated Deficit.

### Note 3 – Regulatory Matters

#### **Distribution Rate Order**

On September 26, 2018 the PUCO issued the DRO establishing new base distribution rates for **DP&L**, which became effective October 1, 2018. The DRO approved, without modification, a stipulation and recommendation previously filed by **DP&L**, along with various intervening parties and the PUCO staff. The DRO established a revenue requirement for **DP&L**'s electric service base distribution rates of \$248.0 million, reflecting an increase to distribution revenues of approximately \$29.8 million per year. The DRO, in conjunction with the 2017 ESP, provided for the following items (among other matters):

- **DIR** - The DRO authorized **DP&L** to earn amounts through a Distribution Investment Rider ("DIR") set initially at \$12.2 million annually, effective October 1, 2018. The DIR revenue cap for 2019 was \$22.0 million. The DIR was removed on December 18, 2019 when the 2017 ESP was modified.
- **Decoupling Rider** - The DRO authorized a revenue requirement methodology that attempts to eliminate the impacts of weather and demand on **DP&L**'s revenues for residential and commercial distribution customers beginning January 1, 2019 by providing for certain distribution revenues to be collected through a Decoupling Rider. **DP&L** collected revenues under the Decoupling Rider until it was removed on December 18, 2019 when the 2017 ESP was modified.

#### **DP&L ESP Orders**

Ohio law requires utilities to file either an ESP or MRO plan to establish SSO rates. From November 1, 2017 through December 18, 2019, **DP&L** operated pursuant to an approved ESP plan, which **DP&L** initially filed on March 13, 2017 (the "2017 ESP"). The 2017 ESP included the following:

- A bypassable standard offer energy rider for **DP&L**'s customers based on competitive bid auctions;
- The establishment of a three-year non-bypassable DMR to collect \$105.0 million in revenue per year to pay debt obligations at **DPL** and **DP&L** and position **DP&L** to modernize and/or maintain its transmission and distribution infrastructure;
- The establishment of the DIR, a non-bypassable Distribution Investment Rider to recover distribution capital investments incremental to the amount included in rate base in the **DP&L** DRO;



- A non-bypassable Reconciliation Rider, which allowed **DP&L** to recover its net ongoing costs from its investment in OVEC;
- Implementation, effective November 1, 2017, of a Smart Grid Rider, Economic Development Rider, Economic Development Fund, Regulatory Compliance Rider and certain other new, or changes to existing rates and riders and competitive retail market enhancements, with tariffs consistent with the 2017 ESP;
- A commitment to commence a sale process to sell our ownership interests in the Miami Fort, Zimmer and Conesville coal-fired generation plants, with all sales proceeds used to pay debt of **DPL** and **DP&L**, and
- Restrictions on **DPL** making dividend or tax sharing payments and an obligation to convert then existing tax payments owed by **DPL** to AES into equity investments in **DPL**.

On November 21, 2019, the PUCO issued a supplemental order modifying the 2017 ESP Stipulation by, among other matters, removing the DMR, which reduced **DPL's** annual revenues by \$105.0 million beginning November 29, 2019. As a result, **DP&L** filed a Notice of Withdrawal of its 2017 ESP Application and requested to revert to rates based on its ESP 1. On December 18, 2019, the PUCO approved **DP&L's** Notice of Withdrawal and reversion to its ESP 1 rate plan. Among other items, the PUCO Order approving the ESP 1 rate plan includes:

- Reinstating the non-bypassable RSC Rider, which provides annual revenues of approximately \$79.0 million;
- Continuation of **DP&L's** Transmission Cost Recovery Rider, Storm Rider and the bypassable standard offer energy rate for **DP&L's** customers based on competitive bid auctions;
- A placeholder rider to recover grid modernization costs, called the Infrastructure Investment Rider;
- A requirement to conduct both an ESP v. MRO Test and a prospective SEET no later than April 1, 2020; and
- Removal of the DIR, Reconciliation Rider, Decoupling Rider, Regulatory Compliance rider, and the Uncollectible rider.

**DP&L** is also subject to a retrospective SEET threshold whereby it must demonstrate its return on equity is below 12%, excluding DMR revenues. The ultimate outcome of this and the ESP v. MRO and prospective SEET could have a material adverse effect on our results of operations, financial condition and cash flows.

Separate from the ESP process, **DP&L** filed a petition seeking recovery of ongoing OVEC costs through a Legacy Generation Rider and was granted approval effective January 1, 2020. Additionally, in the first quarter of 2020, **DP&L** filed a separate petition seeking authority to record a regulatory asset to accrue revenues that would have otherwise been collected under the 2017 ESP through the Decoupling Rider. The outcome of this petition is pending.

Certain parties which intervened in the ESP proceedings have filed petitions for rehearing of the recent PUCO ESP orders; some of which seek to eliminate **DP&L's** RSC from the ESP 1 rates that are currently in place and others seek to re-implement the 2017 ESP, but without the DMR. We are unable to predict the outcomes of these petitions, but if these result in terms that are more adverse than **DP&L's** current ESP rate plan, it could have a material adverse effect on our results of operations, financial condition and cash flows.

### **Regulatory Impact of Tax Reform**

On January 10, 2018 the PUCO initiated a proceeding to consider the impacts of the TCJA to determine the appropriate course of action to pass benefits resulting from the legislation on to ratepayers. The PUCO also directed Ohio utilities to record deferred liabilities for the estimated reduction in federal income tax resulting from the TCJA beginning January 1, 2018. Under the terms of the stipulation in the distribution rate case mentioned above, **DP&L** filed an application at the PUCO to refund eligible excess accumulated deferred income taxes (ADIT) and any related regulatory liability over a 10-year period with a minimum reversal of \$4.0 million per year over the first five years. Excess ADIT related to depreciation life and method differences will be returned to customers in accordance with federal tax law and related regulations. **DP&L's** rates were set using the new tax rate as a result of the distribution rate case. Consistent with the DRO requirement, **DP&L** filed an application on March 1, 2019 and subsequently entered into a stipulation to resolve all remaining TCJA items related to its distribution rates. That stipulation was approved by the PUCO on September 26, 2019. In accordance with terms of that stipulation, **DP&L** will return a total of \$65.1 million (\$83.2 million when including taxes associated with the refunds). In connection with this stipulation, we reduced our long-term regulatory liability related to deferred income taxes by \$23.4 million. See Note 8 – Income Taxes for additional information.



### **FERC Proceedings**

On May 8, 2018, **DP&L** filed to adjust its FERC jurisdictional transmission rates to reflect the effects of the decrease in federal income tax rates on the current portion of income tax expense as part of the TCJA, resulting in a decrease of approximately \$2.4 million annually. The revised rates are in effect and all **DP&L** over and undercollections dating back to the March 21st effective date were settled in December 2018.

On November 15, 2018 FERC issued a Notice of Proposed Rulemaking to address amortization of excess accumulated deferred income taxes resulting from the TCJA and their impact on transmission rates. Such notice requires all public utility transmission providers with stated transmission rates under an Open Access Transmission Tariff (OATT) to determine the amount of excess deferred income taxes caused by the TCJA. **DP&L** is unable to predict the outcome of this notice or the impact it may have on our Consolidated Financial Statements.

### **PJM Transmission Enhancement Settlement**

On May 31, 2018, the FERC issued an Order on Contested Settlement regarding the cost allocation method for existing and new transmission facilities contained in the PJM Interconnection's OATT. The FERC order approved the settlement which reduces **DP&L's** transmission costs through PJM beginning in August 2018, including credits to reimburse **DP&L** for amounts overcharged in prior years. **DP&L** estimates the prior overcharge by PJM to be \$41.1 million, of which approximately \$30.4 million has been repaid to **DP&L** through December 31, 2019 and \$1.8 million is classified as current in "*Accounts receivable, net*" and \$8.9 million is classified as non-current in "*Other non-current assets*" on the accompanying Consolidated Balance Sheet. All of the transmission charges and credits impacted by this FERC order are items that are included for full recovery in **DP&L's** non-bypassable TCRR. Accordingly, **DP&L** has also established offsetting regulatory liabilities. While this development will have a temporary cash flow benefit to **DP&L**, there is no impact to operating income or net income as all credits will be passed to **DP&L's** customers through the TCRR, which began in November 2018.

### **Regulatory Assets and Liabilities**

In accordance with FASB 980, we have recognized total regulatory assets of \$193.5 million and \$193.7 million at December 31, 2019 and 2018, respectively, and total regulatory liabilities of \$271.5 million and \$313.2 million at December 31, 2019 and 2018, respectively. Regulatory assets and liabilities are classified as current or non-current based on the term in which recovery is expected. See Note 1 – Overview and Summary of Significant Accounting Policies for accounting policies regarding Regulatory Assets and Liabilities.

The following table presents **DPL's** Regulatory assets and liabilities:

\$ in millions	Type of Recovery	Amortization Through	December 31,	
			2019	2018
<b>Regulatory assets, current:</b>				
Undercollections to be collected through rate riders	A/B	2020	\$ 19.1	\$ 40.5
Rate case expenses being recovered in base rates	B	2020	0.6	0.6
<b>Total regulatory assets, current</b>			<b>19.7</b>	<b>41.1</b>
<b>Regulatory assets, non-current:</b>				
Pension benefits	B	Ongoing	83.9	87.5
Unrecovered OVEC charges	C	Undetermined	29.1	28.7
Fuel costs	B		—	3.3
Regulatory compliance costs	B	Undetermined	6.3	6.1
Smart grid and AMI costs	B	Undetermined	8.5	8.5
Unamortized loss on reacquired debt	B	Various	10.0	6.0
Deferred storm costs	A	Undetermined	5.1	4.7
Deferred vegetation management and other	A/B	Undetermined	12.7	7.8
Decoupling deferral	C	Undetermined	13.8	—
Uncollectible deferral	C	Undetermined	4.4	—
<b>Total regulatory assets, non-current</b>			<b>173.8</b>	<b>152.6</b>
<b>Total regulatory assets</b>			<b>\$ 193.5</b>	<b>\$ 193.7</b>
<b>Regulatory liabilities, current:</b>				
Overcollection of costs to be refunded through rate riders	A/B	2020	\$ 27.9	\$ 34.9
<b>Total regulatory liabilities, current</b>			<b>27.9</b>	<b>34.9</b>
<b>Regulatory liabilities, non-current:</b>				
Estimated costs of removal - regulated property		Not Applicable	143.6	139.1
Deferred income taxes payable through rates		Various	73.6	116.3
TCJA regulatory liability	B	Ongoing	12.9	—
PJM transmission enhancement settlement	A	2025	8.9	16.9
Postretirement benefits	B	Ongoing	4.6	6.0
<b>Total regulatory liabilities, non-current</b>			<b>243.6</b>	<b>278.3</b>
<b>Total regulatory liabilities</b>			<b>\$ 271.5</b>	<b>\$ 313.2</b>

A – Recovery of incurred costs plus rate of return.

B – Recovery of incurred costs without a rate of return.

C – Recovery not yet determined, but recovery is probable of occurring in future rate proceedings.

Current regulatory assets and liabilities primarily represent costs that are being recovered per specific rate order; recovery for the remaining costs is probable, but not certain. **DP&L** is earning a net return on \$5.5 million of this net deferral. These items include undercollection of: (i) Energy Efficiency Rider, (ii) Alternative Energy Rider, (iii) unrecovered OVEC costs and (iv) Economic Development Rider. It also includes the current portion of deferred fuel costs and deferred storm costs, which are described in greater detail below. As current liabilities, this includes overcollection of competitive bidding energy and auction costs and certain transmission related costs including the current portion of the PJM transmission enhancement settlement (see above).

Pension benefits represent the qualifying FASC 715 “Compensation - Retirement Benefits” costs of our regulated operations that for ratemaking purposes are deferred for future recovery. We recognize an asset for a plan’s overfunded status or a liability for a plan’s underfunded status, and recognize, as a component of OCI, the changes in the funded status of the plan that arise during the year that are not recognized as a component of net periodic benefit cost. This regulatory asset represents the regulated portion that would otherwise be charged as a loss to OCI. As per PUCO and FERC precedents, these costs are probable of future rate recovery.

Unrecovered OVEC charges includes the portion of charges from OVEC that were not recoverable through **DP&L's** Fuel Rider from October 2014 through October 2017. Additionally, it includes net OVEC costs from December 19, 2019 through December 31, 2019. **DP&L** expects to recover these costs through a future rate proceeding. Beginning on November 1, 2017, through December 18, 2019, current OVEC costs were being recovered through **DP&L's** reconciliation rider which was authorized as part of the 2017 ESP. Beginning January 1, 2020, **DP&L** began recovering its current net OVEC costs through its Legacy Generation Rider, established pursuant to ORC 4928.148.



Fuel costs represent unrecovered fuel costs related to **DP&L's** Fuel Rider from 2010 through 2015 resulting from a declining SSO customer base. **DP&L** was granted recovery of these costs without a return through the SSO as approved in the 2017 ESP; this authorization continued in the approval of ESP 1. These costs are being recovered over the three-year period that began November 1, 2017.

Regulatory compliance costs represent the long-term portion of the regulatory compliance costs which include the following costs: (i) Consumer Education Campaign, (ii) Retail Settlement System, (iii) Generation Separation, (iv) Bill Format Redesign, (v) Green Pricing Tariff and (vi) Supplier Consolidated Billing. All of these costs except for Generation Separation earn a return. These costs were being recovered over a three-year period that began November 1, 2017 through a rider approved in the 2017 ESP. That rider was eliminated with the approval of the ESP 1 rate plan, so the balance as of December 18, 2019 remains a regulatory asset for future recovery.

Rate case costs represents costs associated with preparing a distribution rate case. **DP&L** was granted recovery of these costs which do not earn a return, as part of the DRO.

Smart Grid and AMI costs represent costs incurred as a result of studying and developing distribution system upgrades and implementation of AMI. In a PUCO order on January 5, 2011, the PUCO indicated that it expects **DP&L** to continue to monitor other utilities' Smart Grid and AMI programs and to explore the potential benefits of investing in Smart Grid and AMI programs and that **DP&L** will, when appropriate, file new Smart Grid and/or AMI business cases in the future. **DP&L** requested recovery of these costs as part of the December 2018 Distribution Modernization Plan filing with the PUCO described in Item 1 Business - COMPETITION AND REGULATION.

Unamortized loss on reacquired debt represents losses on long-term debt reacquired or redeemed in prior periods that have been deferred. These deferred losses are being amortized over the lives of the original issues in accordance with the rules of the FERC and the PUCO.

Deferred storm costs represent the long-term portion of deferred costs for major storms which occurred during 2017, 2018 and 2019. The 2017 ESP granted **DP&L** approval to establish a rider by which to seek recovery of these types of costs with a return. This authorization continued in the approval of ESP 1. **DP&L** plans to file petitions seeking recovery of each calendar year of storm costs in the following calendar year. Recovery of these costs is probable, but not certain.

Vegetation management costs represents costs incurred from outside contractors for tree trimming and other vegetation management services. Calculation terms were agreed to in the stipulation approved in the DRO. The terms were an annual baseline of \$10.7 million in 2018 and \$15.7 million thereafter. Amounts over the baseline will be deferred subject to an annual deferral maximum of \$4.6 million. Annual spending less than the vegetation management baseline amount will result in a reduction to the regulatory asset or creation of a regulatory liability. A future filing will be made to determine how this cost will be collected from or returned to customers.

Decoupling deferral represents the change in the revenue requirement based on a per customer methodology in the stipulation approved in the DRO and includes deferrals through December 18, 2019. These costs were previously recovered through a Decoupling Rider; however, **DP&L** withdrew its application in the 2017 ESP and in doing so, the PUCO ordered on December 18, 2019 in the ESP 1 order, that **DP&L** no longer has a Decoupling Rider. As described above, **DP&L** recently filed a petition seeking authority to record a regulatory asset to accrue revenues that would have otherwise been collected through the Decoupling Rider.

Uncollectible deferral represents deferred uncollectible expense associated with the nonpayment of electric service, less the revenues associated with the bypassable uncollectible portion of the standard offer rate. The DRO established that these costs would be recovered in a rider outside of base rates, thus no uncollectible expense is included in base rates. A future filing will be made to determine how these expenses will be collected from customers.

Estimated costs of removal - regulated property reflect an estimate of amounts collected in customer rates for costs that are expected to be incurred in the future to remove existing transmission and distribution property from service when the property is retired.

Deferred income taxes payable through rates represent deferred income tax liabilities recognized from the normalization of flow-through items as the result of taxes previously charged to customers. A deferred income tax asset or liability is created from a difference in income recognition between tax laws and accounting methods. As a



regulated utility, **DP&L** includes in ratemaking the impacts of current income taxes and changes in deferred income tax liabilities or assets. Accordingly, this liability reflects the estimated deferred taxes **DP&L** expects to return to customers in future periods.

TCJA regulatory liability represents the long-term portion of both protected and unprotected excess ADIT for both transmission and distribution portions, grossed up to reflect the revenue requirement. As a part of the DRO, **DP&L** agreed that savings from the TCJA attributable to distribution facilities, including the excess ADIT and the regulatory liability, constitute amounts that will be returned to customers. As a result of the TCJA and subsequent DRO, **DP&L** entered into a stipulation to resolve all remaining TCJA items related to its distribution rates, including a proposal to return no less than \$4.0 million per year for the first five years unless fully returned in the first five years via a tax savings cost rider for the distribution portion of the balance. On September 26, 2019, an order approved the stipulation in its entirety.

Transmission rates are regulated by FERC and **DP&L** has reduced its stated transmission rate to reflect the effects of the lower current tax rate. With respect to the transmission portion of amortization of excess ADIT, on November 15, 2018, FERC issued a Notice of Proposed Rulemaking entitled, "Public Utility Transmission Rate Changes to Address Accumulated Deferred Income Taxes." Among other things, this notice proposes "to require all public utilities with transmission stated rates to determine the amount of excess and deferred income tax caused by the Tax Cuts and Jobs Act's reduction to the federal corporate income tax rate and return or recover this amount to or from customers." **DP&L** is a public utility with transmission stated rates and will make a filing in conformance to the requirements once the proposed rule is finalized.

Postretirement benefits represent the qualifying FASC 715 "Compensation – Retirement Benefits" gains related to our regulated operations that, for ratemaking purposes, are probable of being reflected in future rates. We recognize an asset for a plan's overfunded status or a liability for a plan's underfunded status, and recognize, as a component of OCI, the changes in the funded status of the plan that arise during the year that are not recognized as a component of net periodic benefit cost. This regulatory liability represents the regulated portion that would otherwise be reflected as a gain to OCI.

#### **Note 4 – Property, Plant and Equipment**

The following is a summary of **DPL's** Property, plant and equipment with corresponding composite depreciation rates at December 31, 2019 and 2018:

\$ in millions	December 31, 2019		December 31, 2018	
		Composite Rate		Composite Rate
<b>Regulated:</b>				
Transmission	\$ 235.8	3.9%	\$ 223.2	4.1%
Distribution	1,364.2	4.1%	1,289.8	4.5%
General	16.5	9.0%	13.2	8.5%
Non-depreciable	61.6	N/A	60.4	N/A
<b>Total regulated</b>	<b>1,678.1</b>		<b>1,586.6</b>	
<b>Unregulated:</b>				
Other	19.0	7.6%	21.2	6.7%
Non-depreciable	4.8	N/A	7.8	N/A
<b>Total unregulated</b>	<b>23.8</b>		<b>29.0</b>	
<b>Total property, plant and equipment in service</b>	<b>\$ 1,701.9</b>	<b>4.0%</b>	<b>\$ 1,615.6</b>	<b>4.3%</b>

In June 2018, **DP&L** closed on a transmission asset transaction with Duke and AEP, where ownership stakes in certain previously co-owned transmission assets were exchanged to eliminate co-ownership. Each previously co-owned transmission asset became wholly-owned by one of **DP&L**, Duke or AEP after the transaction. This transaction also resulted in cash proceeds to **DP&L** of \$10.6 million and no gain or loss was recorded on the transaction.

#### **AROs**

We recognize AROs in accordance with GAAP which requires legal obligations associated with the retirement of long-lived assets to be recognized at their fair value at the time those obligations are incurred. Upon initial recognition of a legal liability, costs are capitalized as part of the related long-lived asset and depreciated over the useful life of the related asset. Our legal obligations are associated with the retirement of our long-lived assets,



consisting primarily of asbestos abatement and ash disposal facilities. Our generation AROs related to Conesville and the closed Hutchings EGU are recorded within Other non-current liabilities on the consolidated balance sheets. As of December 31, 2018, the AROs related to the retired Stuart and Killen generating facilities were recorded in Non-current liabilities of discontinued operations and held-for-sale businesses on the consolidated balance sheets and are excluded from the table below. See Note 15 – Discontinued Operations for additional information.

Estimating the amount and timing of future expenditures of this type requires significant judgment. Management routinely updates these estimates as additional information becomes available.

### Changes in the Liability for AROs

	2019	2018
Balance as of January 1	\$ 9.4	\$ 15.1
Revisions to cash flow and timing estimates	3.4	(2.6)
Accretion expense	0.2	0.3
Settlements <sup>(a)</sup>	—	(3.4)
Balance as of December 31	<u>\$ 13.0</u>	<u>\$ 9.4</u>

(a) Primarily includes settlement related to transfer of Beckjord Facility. See Note 16 – Dispositions for additional information.

### Asset Removal Costs

We continue to record costs of removal for our regulated transmission and distribution assets through our depreciation rates and recover those amounts in rates charged to our customers. There are no known legal AROs associated with these assets. We have recorded \$143.6 million and \$139.1 million in estimated costs of removal at December 31, 2019 and 2018, respectively, as regulatory liabilities for our transmission and distribution property. These amounts represent the excess of the cumulative removal costs recorded through depreciation rates versus the cumulative removal costs actually incurred. See Note 3 – Regulatory Matters for additional information.

### Changes in the Liability for Transmission and Distribution Asset Removal Costs

	2019	2018
Balance as of January 1	\$ 139.1	\$ 132.8
Additions	14.8	14.3
Settlements	(10.3)	(8.0)
Balance as of December 31	<u>\$ 143.6</u>	<u>\$ 139.1</u>

### Note 5 – Fair Value

The fair values of our financial instruments are based on published sources for pricing when possible. We rely on valuation models only when no other method is available to us. The fair value of our financial instruments represents estimates of possible value that may or may not be realized in the future.

The table below presents the fair value and cost of our non-derivative instruments at December 31, 2019 and 2018. See Note 6 – Derivative Instruments and Hedging Activities for the fair values of our derivative instruments.

\$ in millions	December 31, 2019		December 31, 2018	
	Cost	Fair Value	Cost	Fair Value
<b>Assets</b>				
Money market funds	\$ 0.3	\$ 0.3	\$ 0.4	\$ 0.4
Equity securities	2.3	4.2	2.4	3.5
Debt securities	4.0	4.1	4.1	4.0
Hedge funds	0.1	0.1	0.1	0.1
Tangible assets	0.1	0.1	0.1	0.1
Total assets	<u>\$ 6.8</u>	<u>\$ 8.8</u>	<u>\$ 7.1</u>	<u>\$ 8.1</u>
<b>Liabilities</b>				
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	<u>\$ 1,363.1</u>	<u>\$ 1,404.0</u>	<u>\$ 1,475.9</u>	<u>\$ 1,519.6</u>

### **Fair Value Hierarchy**

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. These inputs are then categorized as:

- Level 1 (quoted prices in active markets for identical assets or liabilities);
- Level 2 (observable inputs such as quoted prices for similar assets or liabilities or quoted prices in markets that are not active); or
- Level 3 (unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability).

Valuations of assets and liabilities reflect the value of the instrument including the values associated with counterparty risk. We include our own credit risk and our counterparty's credit risk in our calculation of fair value using global average default rates based on an annual study conducted by a large rating agency.

We did not have any transfers of the fair values of our financial instruments among Level 1, Level 2 or Level 3 of the fair value hierarchy during the years ended December 31, 2019 and 2018.

### **Debt**

The fair value of debt is based on current public market prices for disclosure purposes only. Unrealized gains or losses are not recognized in the financial statements as debt is presented at the carrying value, net of unamortized premium or discount, in the financial statements. The debt amounts include the current portion payable in the next twelve months and have maturities that range from 2020 to 2061.

### **Master Trust Assets**

DP&L established a Master Trust to hold assets that could be used for the benefit of employees participating in employee benefit plans and these assets are not used for general operating purposes. ASU 2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities" was effective as of January 1, 2018. This ASU requires the change in the fair value of equity instruments to be recorded in income rather than in OCI. Equity Instruments were defined to include all mutual funds, regardless of the underlying investments. Therefore, as of January 1, 2018, AOCI of \$1.6 million (\$1.0 million net of tax) was reversed to Accumulated Deficit and all future changes to fair value on the Master Trust Assets will be included in income in the period that the changes occur. These changes to fair value were not material for the years ended December 31, 2019 or 2018. These assets are primarily comprised of open-ended mutual funds, which are valued using the net asset value per unit. These investments are recorded at fair value within Other deferred assets on the consolidated balance sheets and classified as available for sale.

During the year ended December 31, 2019, \$0.3 million (\$0.2 million after tax) of various investments were sold to facilitate the distribution of benefits.



## Table of Contents

The fair value of assets and liabilities at December 31, 2019 and 2018 and the respective category within the fair value hierarchy for DPL was determined as follows:

\$ in millions	Fair Value at December 31, 2019 (a)				Fair Value at December 31, 2018 (a)			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets</b>								
Master trust assets								
Money market funds	\$ 0.3	\$ —	\$ —	\$ 0.3	\$ 0.4	\$ —	\$ —	\$ 0.4
Equity securities	—	4.2	—	4.2	—	3.5	—	3.5
Debt securities	—	4.1	—	4.1	—	4.0	—	4.0
Hedge funds	—	0.1	—	0.1	—	0.1	—	0.1
Tangible assets	—	0.1	—	0.1	—	0.1	—	0.1
Total Master trust assets	0.3	8.5	—	8.8	0.4	7.7	—	8.1
Derivative assets								
Interest rate hedge	—	0.1	—	0.1	—	1.5	—	1.5
Total Derivative assets	—	0.1	—	0.1	—	1.5	—	1.5
Total assets	\$ 0.3	\$ 8.6	\$ —	\$ 8.9	\$ 0.4	\$ 9.2	\$ —	\$ 9.6
<b>Liabilities</b>								
Long-term debt	\$ —	\$ 1,386.5	\$ 17.5	\$ 1,404.0	\$ —	\$ 1,501.9	\$ 17.7	\$ 1,519.6
Total liabilities	\$ —	\$ 1,386.5	\$ 17.5	\$ 1,404.0	\$ —	\$ 1,501.9	\$ 17.7	\$ 1,519.6

(a) Includes credit valuation adjustment

Our financial instruments are valued using the market approach in the following categories:

- Level 1 inputs are used for money market accounts that are considered cash equivalents. The fair value is determined by reference to quoted market prices and other relevant information generated by market transactions.
- Level 2 inputs are used to value derivatives such as interest rate hedge contracts which are valued using a benchmark interest rate. Other Level 2 assets include open-ended mutual funds in the Master Trust, which are valued using the end of day NAV per unit.
- Level 3 inputs such as certain debt balances are considered a Level 3 input because the notes are not publicly traded. Our long-term debt is fair valued for disclosure purposes only.

All of the inputs to the fair value of our derivative instruments are from quoted market prices.

Our long-term debt is fair valued for disclosure purposes only and most of the fair values are determined using quoted market prices in inactive markets. These fair value inputs are considered Level 2 in the fair value hierarchy. As the Wright-Patterson Air Force Base note is not publicly traded, fair value is assumed to equal carrying value. These fair value inputs are considered Level 3 in the fair value hierarchy as there are no observable inputs. Additional Level 3 disclosures are not presented since our long-term debt is not recorded at fair value.

### Note 6 – Derivative Instruments and Hedging Activities

In the normal course of business, DPL enters into various financial instruments, including derivative financial instruments. We use derivatives principally to manage the interest rate risk associated with our long-term debt. The derivatives that we use to economically hedge these risks are governed by our risk management policies for forward and futures contracts. Our net positions are continually assessed within our structured hedging programs to determine whether new or offsetting transactions are required. We monitor and value derivative positions monthly as part of our risk management processes. We use published sources for pricing, when possible, to mark positions to market. All of our derivative instruments are used for risk management purposes and are designated as cash flow hedges if they qualify under FASC 815 for accounting purposes.

DPL's interest rate swaps are designated as a cash flow hedge and have a combined notional amount of \$140.0 million as of December 31, 2019 and 2018.

## Cash Flow Hedges

As part of our risk management processes, we identify the relationships between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. The fair values of cash flow hedges determined by current public market prices will continue to fluctuate with changes in market prices up to contract expiration. With the adoption of ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted improvements to Accounting for Hedging Activities effective January 1, 2019, we will no longer be required to calculate effectiveness and thus the entire change in the fair value of a hedging instrument will be recorded in other comprehensive income and amounts deferred will be reclassified to earnings in the same income statement line as the hedged item in the period in which it settles.

In prior years, we entered into forward power contracts and forward natural gas contracts to manage commodity price risk exposure related to our generation of electricity. We do not hedge all commodity price risk. We reclassify gains and losses on forward power contracts from AOCI into earnings in those periods in which the contracts settle. As of December 31, 2018, we no longer held any positions in forward power contracts or forward natural gas contracts.

We have two interest rate swaps to hedge the variable interest on our \$140.0 million variable interest rate tax-exempt First Mortgage Bonds due August 2020. The interest rate swaps have a combined notional amount of \$140.0 million and will settle monthly based on a one-month LIBOR. The original notional amount was \$200.0 million, but on March 29, 2018, we settled \$60.0 million of these interest rate swaps due to the partial repayment of the underlying debt and a gain of \$0.8 million was recorded as a reduction to interest expense. Since the swap was partially settled, the remaining swaps were de-designated and then re-designated with a new hypothetical derivative. The AOCI associated with the remaining swaps will be amortized out of AOCI into interest expense over the remaining life of the underlying debt.

We use the income approach to value the swaps, which consists of forecasting future cash flows based on contractual notional amounts and applicable and available market data as of the valuation date. The most common market data inputs used in the income approach include volatilities, spot and forward benchmark interest rates (LIBOR). Forward rates with the same tenor as the derivative instrument being valued are generally obtained from published sources, with these forward rates being assessed quarterly at a portfolio-level for reasonableness versus comparable published rates. We reclassify gains and losses on the swaps out of AOCI and into earnings in those periods in which hedged interest payments occur.

The following tables provide information on gains or losses recognized in AOCI for the cash flow hedges for the periods indicated:

\$ in millions (net of tax)	Years ended December 31,					
	2019		2018		2017	
	Power	Interest Rate Hedges	Power	Interest Rate Hedges	Power	Interest Rate Hedges
Beginning accumulated derivative gain / (loss) in AOCI	\$ 0.4	\$ 16.6	\$ (2.8)	\$ 17.5	\$ (4.3)	\$ 17.4
Net gains / (losses) associated with current period hedging transactions	—	(1.0)	—	(0.1)	8.8	0.8
Net (gains) / losses reclassified to earnings:						
Interest Expense	—	(1.1)	—	(0.8)	—	(0.7)
(Income) / loss from discontinued operations before income tax	(0.4)	—	3.2	—	(7.3)	—
Ending accumulated derivative gain / (loss) in AOCI	\$ —	\$ 14.5	\$ 0.4	\$ 16.6	\$ (2.8)	\$ 17.5
Portion expected to be reclassified to earnings in the next twelve months		\$ (1.1)				
Maximum length of time that we are hedging our exposure to variability in future cash flows related to forecasted transactions (in months)			8			

Net gains or losses associated with the ineffective portion of the hedging transactions were immaterial for the years ended December 31, 2018 and 2017.



### Derivatives Not Designated as Hedges

In prior years certain derivative contracts were entered into on a regular basis as part of our risk management program but did not qualify for hedge accounting or the normal purchases and sales exceptions under FASC 815. Accordingly, such contracts were recorded at fair value with changes in the fair value charged or credited to the consolidated statements of operations in the period in which the change occurred. This is commonly referred to as "MTM accounting". Contracts we entered into as part of our risk management program may have been settled financially, by physical delivery or net settled with the counterparty. For the years ended December 31, 2018 and 2017, all amounts related to such contracts are presented in discontinued operations. As of December 31, 2018, we no longer had any such contracts.

Certain qualifying derivative instruments we previously held were designated as normal purchases or normal sales contracts, as provided under GAAP. Derivative contracts that have been designated as normal purchases or normal sales under GAAP are not subject to MTM accounting treatment and are recognized in the consolidated statements of operations on an accrual basis. For the years ended December 2018 and 2017, all amounts related to such contracts are presented in discontinued operations. As of December 31, 2018, we no longer had any such contracts.

The following tables show the amount and classification within the Consolidated Statements of Operations or Balance Sheets of the gains and losses on **DPL's** derivatives not designated as hedging instruments for the years ended December 31, 2018 and 2017:

\$ in millions	Year ended December 31, 2018			
	FTRs	Power	Natural Gas	Total
Change in unrealized gain / (loss)	\$ 0.3	\$ —	\$ (0.1)	\$ 0.2
Realized gain / (loss)	0.4	—	0.3	0.7
Total	<u>\$ 0.7</u>	<u>\$ —</u>	<u>\$ 0.2</u>	<u>\$ 0.9</u>

#### Recorded in Statement of Operations: gain / (loss)

Income / (loss) from discontinued operations before income tax	\$ 0.7	\$ —	\$ 0.2	\$ 0.9
Total	<u>\$ 0.7</u>	<u>\$ —</u>	<u>\$ 0.2</u>	<u>\$ 0.9</u>

\$ in millions	Year ended December 31, 2017			
	FTRs	Power	Natural Gas	Total
Change in unrealized gain / (loss)	\$ (0.4)	\$ 1.9	\$ 0.1	\$ 1.6
Realized gain / (loss)	0.8	(0.7)	1.5	1.6
Total	<u>\$ 0.4</u>	<u>\$ 1.2</u>	<u>\$ 1.6</u>	<u>\$ 3.2</u>

#### Recorded in Statement of Operations: gain / (loss)

Income / (loss) from discontinued operations before income tax	\$ 0.4	\$ 1.2	\$ 1.6	\$ 3.2
Total	<u>\$ 0.4</u>	<u>\$ 1.2</u>	<u>\$ 1.6</u>	<u>\$ 3.2</u>

When applicable, **DPL** has elected not to offset derivative assets and liabilities and not to offset net derivative positions against the right to reclaim cash collateral pledged (an asset) or the obligation to return cash collateral received (a liability) under derivative agreements. As of December 31, 2019 and 2018, **DPL** did not have any offsetting positions.

The following table summarizes the fair value, balance sheet classification and hedging designation of **DPL's** derivative instruments.

	Hedging Designation	Balance sheet classification	December 31,	
			2019	2018
Interest rate hedges in a current asset position	Cash Flow Hedge	Prepayments and other current assets	\$ 0.1	\$ 0.9
Interest rate hedges in a non-current asset position	Cash Flow Hedge	Other non-current assets	\$ —	\$ 0.6

## Note 7 – Long-term debt

### Long-term debt

\$ in millions	Interest Rate	Maturity	December 31, 2019	December 31, 2018
First Mortgage Bonds	3.95%	2049	\$ 425.0	\$ —
Term loan - rates from: 3.57% - 4.82% (a) and 4.00% - 4.60% (b)		2022	—	436.1
Tax-exempt First Mortgage Bonds - rates from: 2.49% - 2.93% (a) and 1.29% - 1.42% (b)		2020	140.0	140.0
U.S. Government note	4.2%	2061	17.5	17.7
Unamortized deferred financing costs			(5.4)	(6.3)
Unamortized debt discounts and premiums, net			(2.7)	(1.4)
Total long-term debt at subsidiary			574.4	586.1
Senior unsecured bonds	6.75%		—	99.0
Senior unsecured bonds	7.25%	2021	380.0	780.0
Senior unsecured bonds	4.35%	2029	400.0	—
Note to DPL Capital Trust II (c)	8.125%	2031	15.6	15.6
Unamortized deferred financing costs			(5.9)	(4.3)
Unamortized debt discounts and premiums, net			(1.0)	(0.5)
Total long-term debt			1,363.1	1,475.9
Less: current portion			(139.8)	(103.6)
Long-term debt, net of current portion			\$ 1,223.3	\$ 1,372.3

(a) Range of interest rates for the year ended December 31, 2019.

(b) Range of interest rates for the year ended December 31, 2018.

(c) Note payable to related party. See Note 12 – Related Party Transactions for additional information.

At December 31, 2019, maturities of long-term debt are summarized as follows:

Due during the years ending December 31,	
\$ in millions	
2020	\$ 140.2
2021	380.2
2022	0.2
2023	0.2
2024	0.2
Thereafter	857.1
	1,378.1
Unamortized discounts and premiums, net	(3.7)
Deferred financing costs, net	(11.3)
Total long-term debt	\$ 1,363.1

Premiums or discounts recognized at the Merger date are amortized over the life of the debt using the effective interest method.

### Revolving Credit Facilities

At December 31, 2019 **DPL** had outstanding borrowings on its revolving credit facility of \$104.0 million and at December 31, 2018 there were no outstanding borrowings on its revolving credit facility. At December 31, 2019 **DP&L** had outstanding borrowings on its revolving credit facility of \$40.0 million and at December 31, 2018 there were no outstanding borrowings on its revolving credit facility.

### Significant Transactions

On June 19, 2019, **DP&L** amended and restated its unsecured revolving credit facility. The revolving credit facility has a \$175.0 million borrowing limit, with a \$75.0 million letter of credit sublimit, a feature that provides **DP&L** the ability to increase the size of the facility by an additional \$100.0 million, a maturity date of June 2024, and a provision that provides **DP&L** the option to request up to two one-year extensions of the maturity date.

On June 6, 2019, **DP&L** closed on a \$425.0 million issuance of First Mortgage Bonds due 2049. These new bonds carry an interest rate of 3.95%. The proceeds of this issuance were used to repay in full the outstanding principal of \$435.0 million of **DP&L's** variable rate Term Loan B credit agreement.

On June 19, 2019, **DPL** amended and restated its secured revolving credit facility. The revolving credit facility has a \$125.0 million borrowing limit, with a \$75.0 million letter of credit sublimit, a feature that provides **DPL** the ability to increase the size of the facility by an additional \$50.0 million, and a maturity date of June 2023.



On April 17, 2019, **DPL** closed a \$400.0 million issuance of senior unsecured notes. These notes carry an interest rate of 4.35% and mature on April 15, 2029. Proceeds from the issuance and cash on hand were used to settle a partial redemption for \$400.0 million of **DPL's** 7.25% senior unsecured notes maturing October 15, 2021, as discussed below. After the redemption, the **DPL** 7.25% senior notes due in 2021 have an outstanding balance of \$380.0 million.

On April 8, 2019, **DPL** issued a Notice of Partial Redemption to the Trustee (Wells Fargo Bank N.A.) on the **DPL** 7.25% Senior Notes due 2021. **DPL** redeemed \$400.0 million of the \$780.0 million outstanding principal amount of these notes on May 7, 2019. These bonds were redeemed at par plus accrued interest and a make-whole premium of \$41.4 million.

On March 4, 2019, **DPL** issued a Notice of Full Redemption to the Trustee (U.S. Bank) on the **DPL** 6.75% Senior Notes due 2019. **DPL** redeemed the remaining \$99.0 million outstanding principal amount of these notes on April 4, 2019. These bonds were redeemed at par plus accrued interest and a make-whole premium of \$1.5 million with cash on hand.

On March 30, 2018, **DPL** issued a Notice of Partial Redemption to the Trustee (U.S. Bank) on the **DPL** 6.75% Senior Notes due 2019. **DPL** notified the trustee that it was calling \$101.0 million of the \$200.0 million outstanding principal amount of these notes. These bonds were redeemed at par plus accrued interest and a make-whole premium of \$5.1 million on April 30, 2018 with cash on hand.

On March 30, 2018, **DP&L** commenced a redemption of \$60.0 million of outstanding tax exempt First Mortgage Bonds due 2020 at par value (plus accrued and unpaid interest). These bonds were redeemed at par plus accrued interest on April 30, 2018 with cash on hand.

On March 27, 2018, **DPL** made a \$70.0 million prepayment to eliminate the outstanding balance of its bank term loan in full. As of March 31, 2018, the term loan was fully paid off.

On January 3, 2018, **DP&L** and its lenders amended **DP&L's** Term Loan B credit agreement. The amendment (a) modified the definition of "applicable rate", from 2.25% per annum to 1.00% per annum - in the case of the Base Rate and from 3.25% per annum to 2.00% per annum - in the case of the Eurodollar Rate and (b) included a "call protection" provision which stated that in the event the loan was repriced or any portion of the loans were prepaid, repaid, refinanced, substituted, or replaced on or prior July 3, 2018, such prepayment, acceleration, repayment, refinancing, substitution or replacement would be made at 101% of the principal amount so prepaid, repaid, refinanced, substituted or replaced. After July 3, 2018 any such transaction would occur at 100% of the principal amount of the then outstanding loans. There were no such transactions prior to July 3, 2018.

#### **Debt Covenants and Restrictions**

**DPL's** revolving credit agreement has two financial covenants. The first financial covenant, a Total Debt to EBITDA ratio, is calculated at the end of each fiscal quarter by dividing total debt at the end of the current quarter by consolidated EBITDA for the four prior fiscal quarters. The ratio in the agreements is not to exceed 7.00 to 1.00. As of December 31, 2019, this financial covenant was met with a ratio of 5.83 to 1.00.

The second financial covenant is an EBITDA to Interest Expense ratio that is calculated, at the end of each fiscal quarter, by dividing EBITDA for the four prior fiscal quarters by the consolidated interest charges for the same period. The ratio, per the agreement, is to be not less than 2.25 to 1.00 for any fiscal quarter. As of December 31, 2019, this financial covenant was met with a ratio of 3.20 to 1.00.

**DPL's** secured revolving credit agreement also restricts dividend payments from **DPL** to AES, such that **DPL** cannot make dividend payments unless at the time of, and/or as a result of the distribution, (i) **DPL's** leverage ratio does not exceed 0.67 to 1.00 and **DPL's** interest coverage ratio is not less than 2.50 to 1.00 or, if such ratios are not within the parameters, (ii) **DPL's** senior long-term debt rating from two of the three major credit rating agencies is at least investment grade. As a result, as of December 31, 2019, **DPL** was prohibited from making a distribution to its shareholder or making a loan to any of its affiliates (other than its subsidiaries).

**DP&L's** Bond Purchase and Covenants Agreement (financing document entered into in connection with the sale of \$200.0 million of variable rate tax-exempt First Mortgage Bonds, dated as of August 1, 2015) has two financial



covenants. The first measures Total Debt to Total Capitalization and is calculated, at the end of each fiscal quarter, by dividing total debt at the end of the quarter by total capitalization at the end of the quarter. **DP&L's** Total Debt to Total Capitalization ratio shall not be greater than 0.65 to 1.00; except that the ratio is suspended as **DP&L's** long-term indebtedness is less than or equal to \$750.0 million. This financial covenant was met with a ratio of 0.57 to 1.00 as of December 31, 2019.

The second financial covenant measures EBITDA to Interest Expense. The Total Consolidated EBITDA to Consolidated Interest Charges ratio is calculated, at the end of each fiscal quarter, by dividing consolidated EBITDA for the four prior fiscal quarters by the consolidated interest charges for the same period. The ratio, per the agreement, is to be not less than 2.50 to 1.00. This covenant was met with a ratio of 8.51 to 1.00 as of December 31, 2019.

**DP&L's** unsecured revolving credit facility has one financial covenant. The covenant measures Total Debt to Total Capitalization and is calculated, at the end of each fiscal quarter, by dividing total debt at the end of the quarter by total capitalization at the end of the quarter. **DP&L's** Total Debt to Total Capitalization ratio shall not be greater than 0.67 to 1.00. This financial covenant was met with a ratio of 0.57 to 1.00 as of December 31, 2019.

**DP&L** does not have any meaningful restrictions in its debt financing documents prohibiting dividends to its parent, **DPL**. As of December 31, 2019, **DP&L** and **DPL** were in compliance with all debt covenants, including the financial covenants described above.

Substantially all property, plant & equipment of **DP&L** is subject to the lien of the mortgage securing **DP&L's** First and Refunding Mortgage. All generation assets were released from the lien of **DP&L's** first and refunding mortgage in connection with the completion of Generation Separation on October 1, 2017.

## **Note 8 – Income Taxes**

**DPL's** components of income tax expense for both continuing and discontinued operations were as follows:

\$ in millions Components of tax expense / (benefit)	Years ended December 31,		
	2019	2018	2017
Federal - current	\$ (22.0)	\$ 40.0	\$ (2.9)
State and Local - current	0.6	0.4	—
Total current	(21.4)	40.4	(2.9)
Federal - deferred	14.1	(9.6)	(22.0)
State and local - deferred	1.1	(0.1)	(0.4)
Total deferred	15.2	(9.7)	(22.4)
Tax expense / (benefit)	\$ (6.2)	\$ 30.7	\$ (25.3)

## **Effective and Statutory Rate Reconciliation**

The following table summarizes a reconciliation of the U.S. statutory federal income tax rate to **DPL's** effective tax rate, as a percentage of total income before taxes for the years ended December 31, 2019, 2018 and 2017:

	Years ended December 31,		
	2019	2018	2017
Statutory Federal tax rate	21.0 %	21.0 %	35.0 %
State taxes, net of Federal tax benefit	1.4 %	0.1 %	0.4 %
AFUDC - equity	(0.1)%	(0.1)%	0.2 %
Depreciation of flow-through differences	(28.2)%	(4.6)%	(1.0)%
Amortization of investment tax credits	(0.3)%	(0.3)%	0.3 %
Deferred tax adjustments	— %	15.5 %	(11.4)%
Permanent differences	— %	0.1 %	0.1 %
Other, net	— %	(1.2)%	(2.5)%
Effective tax rate	(6.2)%	30.5 %	21.1 %

## **Deferred Income Taxes**

Deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and (b) operating loss carryforwards. These items are stated at the enacted tax rates that are expected to be in effect when taxes are actually paid or recovered. Investment tax credits related to utility property have been deferred and are being amortized over the estimated useful lives of the related property.



The components of our deferred taxes are as follows:

\$ in millions	December 31,	
	2019	2018 <sup>(b)</sup>
<b>Net non-current assets / (liabilities)</b>		
Depreciation / property basis	\$ (111.8)	\$ (77.4)
Income taxes recoverable	17.1	25.0
Regulatory assets	(24.8)	(15.4)
Investment tax credit	0.6	0.6
Compensation and employee benefits	2.2	2.2
Intangibles	(0.4)	(0.4)
Long-term debt	(2.1)	(2.1)
Other <sup>(a)</sup>	(8.0)	(8.8)
Net non-current liabilities	<u>\$ (127.2)</u>	<u>\$ (76.3)</u>

- (a) The Other caption includes deferred tax assets of \$29.0 million in 2019 and \$29.9 million in 2018 related to state and local tax net operating loss carryforwards, with related valuation allowances of \$29.0 million in 2019 and \$29.9 million in 2018. These net operating loss carryforwards expire from 2020 to 2037.
- (b) The December 31, 2018 balance includes \$39.8 million of deferred tax assets related to discontinued operations that is recorded within Non-current liabilities of discontinued operations and held-for-sale businesses on the Consolidated Balance Sheets. See Note 15 – Discontinued Operations for additional information.

## U.S. Tax Reform

On December 22, 2017, the U.S. enacted the TCJA. The TCJA significantly changes U.S. corporate income tax law.

In 2017, we recognized the income tax effects of the TCJA in accordance with Staff Accounting Bulletin No. 118 (“SAB 118”) which provides SEC guidance on the application of FASC 740, Income Taxes, in the reporting period in which the TCJA was signed into law. Accordingly, our 2017 financial statements reflected the income tax effects of U.S. tax reform for which the accounting was complete and provisional amounts for those impacts for which the accounting under FASC 740 was incomplete, but a reasonable estimate could be determined.

We completed our calculation of the impact of the TCJA in our income tax provision for the year ended December 31, 2018 in accordance with our understanding of the TCJA and guidance available, and as a result recognized \$15.5 million and \$13.7 million of discrete tax expense in the fourth quarter of 2018 and 2017 respectively. Of this total, tax benefits of \$1.2 million and \$0.4 million are included in continuing operations in 2018 and 2017, respectively. These amounts result from the remeasurement of certain deferred tax assets and liabilities as the rates changed from 35% to 21%. The most material deferred taxes to be remeasured related to property, plant and equipment. The remeasurements of deferred tax assets and liabilities related to regulated utility property of \$17.0 million and \$135.2 million at December 31, 2018 and 2017 were recorded as regulatory liabilities and were non-cash adjustments.

Per the terms of DP&L's 2017 ESP, DPL could not make any tax-sharing payments to AES and AES would forgo collection of the payments during the term of the DMR. In November 2019, the PUCO discontinued the DMR. Consequently, starting in 2020, DPL is no longer subject to this restriction. During the term of the DMR, current and non-current existing tax sharing liabilities with AES were converted into additional equity investment in DPL, per the requirements of the order. The 2017 ESP also provided that none of these conversions to equity would be reversed. During the year ended December 31, 2019, we had a current tax benefit and there was no conversion of current tax liabilities in 2019. During the years ended December 31, 2018 and 2017, respectively, we converted \$40.0 million and \$97.1 million of accrued tax sharing liabilities with AES to additional equity investment in DPL in accordance with this requirement.

The following table presents the tax expense / (benefit) related to pensions, postemployment benefits, cash flow hedges and financial instruments that were credited to Accumulated other comprehensive loss.

\$ in millions	Years ended December 31,		
	2019	2018	2017
Tax expense / (benefit)	\$ (0.5)	\$ 0.2	\$ 0.2

### **Uncertain Tax Positions**

We apply the provisions of GAAP relating to the accounting for uncertainty in income taxes. The balance of unrecognized tax benefits was \$3.5 million at both December 31, 2019 and December 31, 2018. There were no changes to these amounts in either of the two years in the period ended December 31, 2019.

Of the December 31, 2019 balance of unrecognized tax benefits, \$3.5 million is due to uncertainty in the timing of deductibility. The total amount of unrecognized tax benefits anticipated to result in a net decrease to unrecognized tax benefits within 12 months of December 31, 2019 is estimated to be between \$0.0 million and \$3.0 million, primarily relating to statute of limitation lapses.

We recognize interest and penalties related to unrecognized tax benefits in Income tax expense. The amounts accrued and the tax expense / (benefit) recorded were not material for each period presented.

Following is a summary of the tax years open to examination by major tax jurisdiction:

U.S. Federal – 2011 and forward

State and Local – 2011 and forward

### **Note 9 – Benefit Plans**

#### **Defined Contribution Plans**

**DP&L** sponsors two defined contribution plans. One is for non-union employees (the management plan) and one is for collective bargaining employees (the union plan). Both plans are qualified under Section 401 of the Internal Revenue Code.

Certain non-union and union employees become eligible to participate in their respective plan upon date of hire.

Participants may elect to contribute up to 85% of eligible compensation to their plan. Non-union participant contributions are matched 100% on the first 1% of eligible compensation and 50% on the next 5% of eligible compensation and they are fully vested in their employer contributions after 2 years of service. Union participant contributions are matched 150% but are capped at \$2,500 for 2019 and they are fully vested in their employer contributions after 3 years of service. All participants are fully vested in their own contributions.

We contributed \$3.1 million, \$3.7 million and \$3.1 million for the years ended December 31, 2019, 2018 and 2017, respectively. **DP&L** matching contributions are paid quarterly, in arrears. Therefore, the contributions by year include the fourth quarter matching contribution that is paid in the following year. **DP&L** also contributes an annual bonus to the accounts of its union participants. This payment is typically made in January of the following year.

#### **Defined Benefit Plans**

**DP&L** sponsors a traditional defined benefit pension plan for most of the employees of **DPL** and its subsidiaries. For collective bargaining employees, the defined benefits are based on a specific dollar amount per year of service. For all other employees (management employees), the traditional defined benefit pension plan is based primarily on compensation and years of service. As of December 31, 2010, this traditional pension plan formula was closed to new management employees. A participant is 100% vested in all amounts credited to his or her account upon the completion of five vesting years, as defined in The Dayton Power and Light Company Retirement Income Plan, or the participant's death or disability. If a participant's employment is terminated, other than by death or disability, prior to such participant becoming 100% vested in his or her account, the account shall be forfeited as of the date of termination. Employees that transferred from **DP&L** to the Service Company maintain their previous eligibility to participate in the **DP&L** pension plan.

Almost all management employees beginning employment on or after January 1, 2011 participate in a cash balance pension plan formula. Similar to the traditional pension plan for management employees, the cash balance benefits are based on compensation and years of service. A participant shall become 100% vested in all amounts credited to his or her account upon the completion of three vesting years, as defined in The Dayton Power and Light Company Retirement Income Plan, or the participant's death or disability. If a participant's employment is terminated, other than by death or disability, prior to such participant becoming 100% vested in his or her account, the account shall be forfeited as of the date of termination. Vested benefits in the cash balance plan are fully portable upon termination of employment.



In addition, we have a Supplemental Executive Retirement Plan (SERP) for certain retired key executives. The SERP has an immaterial unfunded liability related to agreements for retirement benefits of certain terminated and retired key executives.

We recognize an asset for a plan's overfunded status and a liability for a plan's underfunded status and recognize, as a component of OCI, the changes in the funded status of the plan that arise during the year that are not recognized as a component of net periodic benefit cost. For the transmission and distribution areas of our electric business, these amounts are recorded as regulatory assets and liabilities which represent the regulated portion that would otherwise be charged or credited to AOCI. We have historically recorded these costs on the accrual basis, and this is how these costs have been historically recovered through customer rates. This factor, combined with the historical precedents from the PUCO and FERC, make these costs probable of future rate recovery.

#### **Postretirement Benefits**

Qualified employees who retired prior to 1987 and their dependents are eligible for health care and life insurance benefits until their death, while qualified employees who retired after 1987 are eligible for life insurance benefits and partially subsidized health care. The partially subsidized health care is at the election of the employee, who pays most of the cost, and is available only from their retirement until they are covered by Medicare. We have funded a portion of the union-eligible benefits using a Voluntary Employee Beneficiary Association Trust. These postretirement health care benefits and the related unfunded obligation of \$9.6 million and \$9.2 million at December 31, 2019 and 2018, respectively, were not material to the consolidated financial statements in the periods covered by this report.

## Table of Contents

The following tables set forth the changes in our pension plan's obligations and assets recorded on the Consolidated Balance Sheets at December 31, 2019 and 2018. The amounts presented in the following tables for pension obligations include the collective bargaining plan formula, traditional management plan formula and cash balance plan formula and the SERP in the aggregate and have not been adjusted for \$1.4 million, \$1.8 million and \$1.1 million of costs billed to the Service Company for the years ended December 31, 2019, 2018 and 2017, respectively.

\$ in millions	Years ended December 31,	
	2019	2018
<b>Change in benefit obligation</b>		
Benefit obligation at January 1	\$ 386.5	\$ 436.9
Service cost	3.7	6.1
Interest cost	14.9	13.8
Plan amendments	—	5.1
Actuarial (gain) / loss	42.1	(34.6)
Benefits paid	(25.7)	(40.8)
Benefit obligation at December 31	421.5	386.5
<b>Change in plan assets</b>		
Fair value of plan assets at January 1	312.9	357.5
Actual return on plan assets	57.0	(11.7)
Employer contributions	7.8	7.9
Benefits paid	(25.7)	(40.8)
Fair value of plan assets at December 31	352.0	312.9
<b>Unfunded status of plan</b>	<b>\$ (69.5)</b>	<b>\$ (73.6)</b>
<b>Amounts recognized in the Balance sheets</b>		
	2019	2018
Current liabilities	\$ (0.2)	\$ (0.4)
Non-current liabilities	(69.3)	(73.2)
Net liability at end of year	<b>\$ (69.5)</b>	<b>\$ (73.6)</b>
<b>Amounts recognized in Accumulated Other Comprehensive Income, Regulatory Assets and Regulatory Liabilities, pre-tax</b>		
<i>Components:</i>		
Prior service cost	\$ 7.9	\$ 9.1
Net actuarial loss	104.3	103.3
Accumulated Other Comprehensive Income, Regulatory Assets and Regulatory Liabilities, pre-tax	<b>\$ 112.2</b>	<b>\$ 112.4</b>
<i>Recorded as:</i>		
Regulatory asset	\$ 83.7	\$ 87.2
Accumulated other comprehensive income	28.5	25.2
Accumulated Other Comprehensive Income, Regulatory Assets and Regulatory Liabilities, pre-tax	<b>\$ 112.2</b>	<b>\$ 112.4</b>

The accumulated benefit obligation for our defined benefit pension plans was \$414.1 million and \$378.7 million at December 31, 2019 and 2018, respectively.

The net periodic benefit cost of the pension plans was:

\$ in millions	Years ended December 31,		
	2019	2018	2017
Service cost	\$ 3.7	\$ 6.1	\$ 5.7
Interest cost	14.9	13.8	14.2
Expected return on assets	(20.1)	(21.2)	(22.8)
Plan curtailment <sup>(a)</sup>	—	—	4.1
Amortization of unrecognized:			
Actuarial loss	4.2	6.4	5.3
Prior service cost	1.3	0.9	1.1
Net periodic benefit cost	<b>\$ 4.0</b>	<b>\$ 6.0</b>	<b>\$ 7.6</b>
<b>Rates relevant to each year's expense calculations</b>			
Discount rate	4.35%	3.66%	4.28%
Expected return on plan assets	6.25%	6.25%	6.50%

(a) As a result of the decision to retire certain coal-fired plants, we recognized a plan curtailment of \$4.1 million in 2017.



## Other Changes in Plan Assets and Benefit Obligation Recognized in Accumulated Other Comprehensive Income, Regulatory Assets and Regulatory Liabilities

\$ in millions	Years ended December 31,					
	2019		2018		2017	
Net actuarial loss	\$	5.3	\$	3.4	\$	9.1
Plan curtailment <sup>(a)</sup>		—		—		(4.1)
Reversal of amortization item:						
Net actuarial loss		(4.2)		(6.4)		(5.3)
Prior service cost		(1.3)		(0.9)		(1.1)
Total recognized in Accumulated Other Comprehensive Income, Regulatory Assets and Regulatory Liabilities	\$	(0.2)	\$	(3.9)	\$	(1.4)
Total recognized in net periodic benefit cost and Accumulated Other Comprehensive Income, Regulatory Assets and Regulatory Liabilities	\$	3.8	\$	2.1	\$	6.2

(a) As a result of the decision to retire certain coal-fired plants, we recognized a plan curtailment of \$4.1 million in 2017.

### Significant Gains and Losses Related to Changes in the Benefit Obligation

The actuarial loss of \$42.1 million increased the benefit obligation for the year ended December 31, 2019 and an actuarial gain of \$34.6 million decreased the benefit obligation for the year ended December 31, 2018. The actuarial loss in 2019 was primarily due to a decrease in the discount rate, while the actuarial gain in 2018 was primarily due to an increase in the discount rate.

### Assumptions

Our expected return on plan asset assumptions, used to determine benefit obligations, are based on historical long-term rates of return on investments, which use the widely accepted capital market principle that assets with higher volatility generate a greater return over the long run. Current market factors, such as inflation and interest rates, as well as asset diversification and portfolio rebalancing, are evaluated when long-term capital market assumptions are determined. Peer data and historical returns are reviewed to verify reasonableness and appropriateness.

At December 31, 2019, we are decreasing our long-term rate of return assumption to 5.60% for pension plan assets. The rate of return represents our long-term assumptions based on our long-term portfolio mix. Also, at December 31, 2019, we have decreased our assumed discount rate to 3.33% from 4.35% for pension expense to reflect current duration-based yield curve discount rates. A one percent increase in the rate of return assumption for pension would result in a decrease in 2020 pension expense of approximately \$3.3 million. A one percent decrease in the rate of return assumption for pension would result in an increase in 2020 pension expense of approximately \$3.3 million. A 25-basis point increase in the discount rate for pension would result in a decrease of approximately \$0.4 million to 2020 pension expense. A 25-basis point decrease in the discount rate for pension would result in an increase of approximately \$0.4 million to 2020 pension expense.

In determining the discount rate to use for valuing liabilities, we used a market yield curve on high-quality fixed income investments as of December 31, 2019. We project the expected benefit payments under the plan based on participant data and based on certain assumptions concerning mortality, retirement rates, termination rates, etc. The expected benefit payments for each year are then discounted back to the measurement date using the appropriate spot rate for each half-year from the yield curve, thereby obtaining a present value of all expected future benefit payments using the yield curve. Finally, an equivalent single discount rate is determined which produces a present value equal to the present value determined using the full yield curve.

Consistent with the requirements of FASC 715, we apply a disaggregated discount rate approach for determining service cost and interest cost for our defined benefit pension plans and postretirement plans.

In future periods, differences in the actual return on pension plan assets and assumed return, or changes in the discount rate, will affect the timing of contributions, if any, to the plans.

The weighted average assumptions used to determine benefit obligations at December 31, 2019, 2018 and 2017 were:

**Benefit Obligation Assumptions**

	Pension		
	2019	2018	2017
Discount rate for obligations	3.33%	4.35%	3.66%
Rate of compensation increases	3.94%	3.94%	3.94%

**Pension Plan Assets**

Plan assets are invested in multiple asset classes using a de-risking framework designed to manage the Plan's funded status volatility and minimize future cash contributions. Investment strategies and asset allocations are intended to allocate additional assets to the fixed income asset class should the Plan's funded status improve and is therefore broadly described as the Dynamic De-risking Strategy. Investment performance and asset allocation are measured and monitored on an ongoing basis.

Plan assets are managed in a balanced portfolio comprised of two major components: return seeking assets and liability hedging assets. The expected role of plan return seeking assets is to provide additional return with associated higher levels of risk, while the role of liability hedging assets is to correlate the interest rate of the fixed income investments with that of the Plan's liabilities.

Strategic asset allocation guidelines are determined by a Risk/Advisory Committee and approved by a Fiduciary Committee. These allocations consider the plan's long-term objectives. The long-term target allocations for plan assets are 40% – 50% for return seeking assets and 50% – 60% for liability hedging assets. return seeking assets include U.S. and international equity, while liability hedging assets include long-duration and high-yield bond funds and emerging market debt funds.

The investment approach is to move the Plan to a more de-risked position, if and when the overall funded status of the Plan improves, by periodically rebalancing the allocation of the Plan's investments in growth assets and liability hedging assets in accordance with the committee's glide path. This strategy requires the daily monitoring of the Plan's ratio of assets to liabilities in order to determine whether approved trigger points have been met, requiring the rebalancing of the assets.

All plan assets at December 31, 2019 are common collective trusts. With the exception of the cash and cash equivalents, the collective trusts are valued using the net asset value method and are categorized as Level 2 in the fair value hierarchy.

The following table summarizes our target pension plan allocation for 2019:



## Table of Contents

Asset category <sup>(a)</sup>	Long-Term Mid-Point Target Allocation	Percentage of plan assets as of December 31,	
		2019	2018
Equity Securities	41%	40%	33%
Debt Securities	59%	58%	58%
Cash and Cash Equivalents	—%	1%	1%
Real Estate	—%	1%	8%

The fair values of our pension plan assets at December 31, 2019 by asset category are as follows:

\$ in millions	Market Value at December 31, 2019	Quoted prices in active markets for identical assets	Significant observable inputs	Significant unobservable inputs
Asset category <sup>(f)</sup>		(Level 1)	(Level 2)	(Level 3)
Mutual fund - equities <sup>(a)</sup>	\$ 142.9	\$ —	\$ 142.9	\$ —
Mutual fund - debt <sup>(b)</sup>	115.6	—	115.6	—
Government debt securities <sup>(c)</sup>	89.1	—	89.1	—
Cash and cash equivalents <sup>(d)</sup>	1.9	1.9	—	—
<b>Other investments:</b>				
Core property collective fund <sup>(e)</sup>	2.5	—	2.5	—
<b>Total pension plan assets</b>	<b>\$ 352.0</b>	<b>\$ 1.9</b>	<b>\$ 350.1</b>	<b>\$ —</b>

- (a) This category includes investments in equity securities of U.S. companies of any market capitalization and other investments (i.e.: futures, swaps, currency forwards) of foreign, emerging markets and seeks to provide long-term total return, which includes capital appreciation and income. The funds are valued using the net asset value method.
- (b) This category includes investments in high quality issues within the U.S. corporate bond markets and global high yield bonds and emerging markets debt denominated in local currency. The funds seek to provide current income and long-term capital preservation along with access to higher yielding, relatively liquid fixed income securities. The funds are valued using the net asset value method.
- (c) This category is comprised of investments U.S. treasury strips, U.S. government agency obligations, and U.S. treasury obligations. The funds seek investment returns over the long term and are valued using the net asset value method.
- (d) This category represents an investment that seeks to maximize current income on cash reserves to the extent consistent with principal preservation and maintenance of liquidity from a portfolio of obligations of the U.S. Government, its agencies or instrumentalities, and related money market instruments. Principal preservation is a primary objective. The fund is valued at cost.
- (e) This category represents a property fund that invests in commercial real estate. The fair value of the fund is valued using the net asset value method in which an average of the market prices for the underlying investments is used to value the fund.
- (f) In 2019, the DP&L plan moved all investments into collective trusts; therefore, the 2019 balances under all asset categories shown above represent investments through collective trusts. The plan has chosen collective trusts for which the underlying investments are mutual funds, common stock, debt securities, or real estate in alignment with the target asset allocation.

Most of our plan assets at December 31, 2018 are measured using quoted, observable prices which are considered Level One inputs in the Fair Value Hierarchy. The Core Property Collective Fund is measured using Level Two inputs that are quoted prices for identical assets in markets that are less active.

The fair values of our pension plan assets at December 31, 2018 by asset category are as follows:

\$ in millions	Market Value at December 31, 2018	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Asset category <sup>(f)</sup></b>				
<b>Mutual funds:</b>				
U.S. equities <sup>(a)</sup>	\$ 79.3	\$ 79.3	\$ —	\$ —
International equities <sup>(a)</sup>	25.9	25.9	—	—
Fixed income <sup>(b)</sup>	143.7	143.7	—	—
<b>Fixed income securities:</b>				
U.S. Treasury securities	37.5	37.5	—	—
<b>Cash and cash equivalents:</b>				
Money market funds <sup>(c)</sup>	2.4	2.4	—	—
<b>Other investments:</b>				
Core property collective fund <sup>(d)</sup>	24.1	—	24.1	—
<b>Total pension plan assets</b>	<b>\$ 312.9</b>	<b>\$ 288.8</b>	<b>\$ 24.1</b>	<b>\$ —</b>

- (a) This category includes investments in equity securities of large, small and medium sized U.S. companies and equity securities of foreign companies including those in developing countries. The funds are valued using the net asset value method in which an average of the market prices for the underlying investments is used to value the fund.
- (b) This category includes investments in investment-grade fixed-income instruments, U.S. dollar-denominated debt securities of emerging market issuers and high yield fixed-income securities that are rated below investment grade. The funds are valued using the net asset value method in which an average of the market prices for the underlying investments is used to value the fund.
- (c) This category is comprised of investments in U.S. treasury obligations that seek to preserve principal and maintain liquidity while providing current income. The funds are valued at the assets' amortized cost to maintain a stable per share net asset value.
- (d) This category represents a property fund that invests in commercial real estate. The fair value of the fund is valued using the net asset value method in which an average of the market prices for the underlying investments is used to value the fund.

## Pension Funding

We generally fund pension plan benefits as accrued in accordance with the minimum funding requirements of the Employee Retirement Income Security Act of 1974 (ERISA) and, in addition, make voluntary contributions from time to time. We contributed \$7.5 million to the pension plan in each of the years ended December 31, 2019 and 2018, and \$5.0 million to the pension plan in the year ended December 31, 2017.

We expect to make contributions of \$0.2 million to our SERP in 2020 to cover benefit payments. We also expect to make contributions of \$7.5 million to our pension plan during 2020.

Funding for the qualified Defined Benefit Pension Plan is based upon actuarially determined contributions that consider the amount deductible for income tax purposes and the minimum contribution required under ERISA, as amended by the Pension Protection Act of 2006, as well as targeted funding levels necessary to meet certain thresholds.

From an ERISA funding perspective, **DP&L's** funded target liability percentage was estimated to be 100%. In addition, **DP&L** must also contribute the normal service cost earned by active participants during the plan year. The funding of normal cost is expected to be approximately \$5.3 million in 2020, which includes \$2.0 million for plan expenses. Each year thereafter, if the plan's underfunding increases to more than the present value of the remaining annual installments, the excess is separately amortized over seven years. **DP&L's** funding policy for the pension plans is to contribute annually no less than the minimum required by applicable law, and no more than the maximum amount that can be deducted for federal income tax purposes.

Benefit payments, which reflect future service, are expected to be paid as follows:

<b>Estimated future benefit payments</b>	
\$ in millions due within the following years:	Pension
2020	\$ 26.6
2021	\$ 26.3
2022	\$ 26.0
2023	\$ 25.8
2024	\$ 25.4
2025 - 2029	\$ 122.0



**Note 10 – Equity**

**Dividend Restrictions**

**DPL's** Amended Articles of Incorporation (the Articles) contain provisions which state that **DPL** may not make a distribution to its shareholder or make a loan to any of its affiliates (other than its subsidiaries), unless: (a) there exists no Event of Default (as defined in the Articles) and no such Event of Default would result from the making of the distribution or loan; and either (b)(i) at the time of, and/or as a result of, the distribution or loan, **DPL's** leverage ratio does not exceed 0.67 to 1.00 and **DPL's** interest coverage ratio is not less than 2.50 to 1.00 or, (b)(ii) if such ratios are not within the parameters, **DPL's** senior long-term debt rating from one of the three major credit rating agencies is at least investment grade. Further, the restrictions on the payment of distributions to a shareholder and the making of loans to its affiliates (other than subsidiaries) cease to be in effect if the three major credit rating agencies confirm that a lowering of **DPL's** senior long-term debt rating below investment grade by the credit rating agencies would not occur without these restrictions.

As described above, **DPL's** Amended Articles of Incorporation contain restrictions on **DPL's** ability to make dividends, distributions and affiliate loans (other than to its subsidiaries), including restrictions on making such dividends, distributions and loans if certain financial ratios exceed specified levels and **DPL's** senior long-term debt rating from a rating agency is below investment grade. As of December 31, 2019, **DPL's** leverage ratio was at 1.32 to 1.00 and **DPL's** senior long-term debt rating from a major credit rating agency was below investment grade. As a result, as of December 31, 2019, **DPL** was prohibited under its Articles of Incorporation from making a distribution to its shareholder or making a loan to any of its affiliates (other than its subsidiaries).

**Common Stock**

Effective on the Merger date, **DPL's** Amended Articles of Incorporation provided for 1,500 authorized common shares, of which one share is outstanding at December 31, 2019.

**DP&L** has 50,000,000 authorized common shares, of which 41,172,173 are outstanding at December 31, 2019. All common shares are held by **DP&L's** parent, **DPL**.

**Capital Contributions from AES**

In **DP&L's** six-year 2017 ESP, the PUCO imposed restrictions on **DPL** making dividend payments to its parent company, AES, during the term of the ESP, as well as on making tax-sharing payments to AES during the term of the DMR. The PUCO also required that existing tax payments owed by **DPL** to AES, and similar tax payments that accrue during the term of the DMR, be converted into equity investments in **DPL**. With the November 21, 2019 order from the PUCO that removed the DMR and the subsequent approval of **DP&L's** ESP 1 rate plan, these requirements were eliminated. See Note 3 – Regulatory Matters for additional information on changes to **DP&L's** ESP and the removal of the DMR.

For the year ended December 31, 2019, **DPL** had a current tax benefit so there was no conversion of current tax liabilities. For the year ended December 31, 2018, AES made capital contributions of \$40.0 million by converting the amount owed to it by **DPL** related to tax-sharing payments for current tax liabilities. For the year ended December 31, 2017, AES agreed to make non-cash capital contributions of \$97.1 million and waive the amount owed to it by **DPL** related to tax-sharing payments for current tax liabilities through December 31, 2017. See Note 8 – Income Taxes for additional information.

**Note 11 – Contractual Obligations, Commercial Commitments and Contingencies**

**Guarantees**

In the normal course of business, **DPL** enters into various agreements with its wholly-owned subsidiary, AES Ohio Generation, providing financial or performance assurance to third parties. These agreements are entered into primarily to support or enhance the creditworthiness otherwise attributed to this subsidiary on a stand-alone basis, thereby facilitating the extension of sufficient credit to accomplish this subsidiary's intended commercial purposes.

At December 31, 2019, **DPL** had \$21.0 million of guarantees on behalf of AES Ohio Generation to third parties for future financial or performance assurance under such agreements. The guarantee arrangements entered into by **DPL** with these third parties cover present and future obligations of AES Ohio Generation to such beneficiaries and are terminable at any time by **DPL** upon written notice to the beneficiaries. There were no outstanding balances for commercial transactions covered by these guarantees at December 31, 2019 or December 31, 2018.



To date, **DPL** has not incurred any losses related to these guarantees and we believe it is remote that **DPL** would be required to perform or incur any losses in the future associated with any of the above guarantees.

### **Equity Ownership Interest**

**DP&L** has a 4.9% equity ownership interest in OVEC which is recorded using the cost method of accounting under GAAP. At December 31, 2019, **DP&L** could be responsible for the repayment of 4.9%, or \$66.4 million, of a \$1,354.7 million debt obligation comprised of both fixed and variable rate securities with maturities between 2022 and 2040. OVEC could also seek additional contributions from us to avoid a default in the event that other OVEC members defaulted on their respective OVEC obligations. One of the other OVEC members, with a 4.85% interest in OVEC, filed for bankruptcy protection and the bankruptcy court approved that member's rejection of the OVEC arrangement and its related obligations on July 31, 2018. The bankruptcy court was ordered to reconsider such rejection by the U.S. Court of Appeals for the 6th Circuit on December 12, 2019. We do not expect these events to have a material impact on our financial condition, results of operations or cash flows.

### **Contractual Obligations and Commercial Commitments**

We enter into various contractual obligations and other commercial commitments that may affect the liquidity of our operations. At December 31, 2019, these include:

\$ in millions	Payments due in:				
	Total	Less than 1 year	2 - 3 years	4 - 5 years	More than 5 years
Electricity purchase commitments	\$ 173.2	\$ 115.8	\$ 57.4	\$ —	\$ —
Purchase orders and other contractual obligations	\$ 52.8	\$ 45.0	\$ 7.8	\$ —	\$ —

#### Electricity purchase commitments:

**DP&L** enters into long-term contracts for the purchase of electricity. In general, these contracts are subject to variable quantities or prices and are terminable only in limited circumstances.

#### Purchase orders and other contractual obligations:

At December 31, 2019, **DPL** had various other contractual obligations including contracts to purchase goods and services with various terms and expiration dates. Due to uncertainty regarding the timing and payment of future obligations to the Service Company, and **DPL's** ability to terminate such obligations upon 90 days' notice, we have excluded such amounts in the contractual obligations table above. This table also does not include regulatory liabilities (see Note 3 – Regulatory Matters) or contingencies (see Note 11 – Contractual Obligations, Commercial Commitments and Contingencies). See Note 12 – Related Party Transactions for additional information on charges between related parties and amounts due to or from related parties.

### **Contingencies**

In the normal course of business, we are subject to various lawsuits, actions, proceedings, claims and other matters asserted under laws and regulations. We believe the amounts provided in our Consolidated Financial Statements, as prescribed by GAAP, are adequate considering the probable and estimable contingencies. However, there can be no assurances that the actual amounts required to satisfy alleged liabilities from various legal proceedings, claims, tax examinations and other matters, including the matters discussed below, and to comply with applicable laws and regulations, will not exceed the amounts reflected in our Consolidated Financial Statements. As such, costs, if any, that may be incurred in excess of those amounts provided as of December 31, 2019, cannot be reasonably determined.

### **Environmental Matters**

**DPL's** facilities and operations are subject to a wide range of federal, state and local environmental laws, rules and regulations. The environmental issues that may affect us include the following.

- The federal CAA and state laws and regulations (including SIPs) which require compliance, obtaining permits and reporting as to air emissions;
- Litigation with federal and certain state governments and certain special interest groups regarding whether modifications to or maintenance of certain coal-fired generating stations require additional permitting or pollution control technology, or whether emissions from coal-fired generating stations cause or contribute to global climate changes;
- Rules and future rules issued by the USEPA, the Ohio EPA or other authorities that require or will require substantial reductions in SO<sub>2</sub>, particulates, mercury, acid gases, NOx and other air emissions;



- Rules and future rules issued by the USEPA, the Ohio EPA or other authorities that require or will require reporting and reductions of GHGs;
- Rules and future rules issued by the USEPA, the Ohio EPA or other authorities associated with the federal Clean Water Act, which prohibits the discharge of pollutants into waters of the United States except pursuant to appropriate permits; and
- Solid and hazardous waste laws and regulations, which govern the management and disposal of certain waste. Most of the solid waste created from the combustion of coal and fossil fuels is fly ash and other coal combustion by-products.

In addition to imposing continuing compliance obligations, these laws, rules and regulations authorize the imposition of substantial penalties for noncompliance, including fines, injunctive relief and other sanctions. In the normal course of business, we have investigatory and remedial activities underway at our facilities to comply, or to determine compliance, with such laws, rules and regulations. We record liabilities for loss contingencies related to environmental matters when a loss is probable of occurring and can be reasonably estimated in accordance with the provisions of GAAP. Accordingly, we have immaterial accruals for loss contingencies for environmental matters. We also have a number of environmental matters for which we have not accrued loss contingencies because the risk of loss is not probable, or a loss cannot be reasonably estimated. We evaluate the potential liability related to environmental matters quarterly and may revise our estimates. Such revisions in the estimates of the potential liabilities could have a material adverse effect on our results of operations, financial condition or cash flows.

We have several pending environmental matters associated with our current and previously-owned and operated coal-fired generation units. Some of these matters could have material adverse impacts on our results of operations, financial condition or cash flows.

## **Note 12 – Related Party Transactions**

### **Service Company**

The Service Company allocates the costs for services provided based on cost drivers designed to result in fair and equitable allocations. This includes ensuring that the regulated utilities served, including **DP&L**, are not subsidizing costs incurred for the benefit of other businesses.

### **Benefit Plans**

**DPL** participates in an agreement with Health and Welfare Benefit Plans LLC, an affiliate of AES, to participate in a group benefits program, including but not limited to, health, dental, vision and life benefits. Health and Welfare Benefit Plans LLC administers the financial aspects of the group insurance program, receives all premium payments from the participating affiliates, and makes all vendor payments.

### **Long-term Compensation Plan**

During 2019, 2018 and 2017, some of **DPL's** non-union employees received benefits under the AES Long-term Compensation Plan, a deferred compensation program. This type of plan is a common employee retention tool used in our industry. Benefits under this plan are granted in the form of performance units payable in cash and AES restricted stock units. Restricted stock units vest ratably over a three-year period. The performance units payable in cash vest at the end of the three-year performance period and are subject to certain AES performance criteria. Total deferred compensation expense recorded during 2019, 2018 and 2017 was \$0.0 million, \$0.4 million and \$0.4 million, respectively, and was included in "*Operation and maintenance*" on **DPL's** Consolidated Statements of Operations. The value of these benefits is being recognized over the 36-month vesting period and a portion is recorded as miscellaneous deferred credits with the remainder recorded as "*Paid in capital*" on **DPL's** Consolidated Balance Sheets in accordance with FASC 718 "*Compensation - Stock Compensation*."



The following table provides a summary of our related party transactions:

\$ in millions	Years ended December 31,		
	2019	2018	2017
Transactions with the Service Company			
Charges for services provided	\$ 33.8	\$ 41.0	\$ 46.5
Charges to the Service Company	\$ 3.6	\$ 4.9	\$ 4.2
Transactions with other AES affiliates:			
Payments for health, welfare and benefit plans	\$ 11.2	\$ 7.9	\$ 15.4
Consulting services	\$ 0.7	\$ 2.0	\$ —
Balances with related parties:	At December 31, 2019	At December 31, 2018	
Net payable to the Service Company	\$ (11.0)	\$ (4.8)	
Net receivable from / (payable to) AES and other AES affiliates (a)	\$ 2.0	\$ (0.5)	

- (a) The December 31, 2019 net receivable amount includes a \$5.1 million receivable balance with AES related to the sale of software previously recorded on AES Ohio Generation during the year ended December 31, 2019. There was no gain or loss recorded on the transaction.

### **DPL Capital Trust II**

**DPL** has a wholly-owned business trust, DPL Capital Trust II (the Trust), formed for the purpose of issuing trust capital securities to third-party investors. Effective in 2003, **DPL** deconsolidated the Trust upon adoption of the accounting standards related to variable interest entities and currently treats the Trust as a nonconsolidated subsidiary. The Trust holds mandatorily redeemable trust capital securities. The investment in the Trust, which amounted to \$0.2 million and \$0.2 million at December 31, 2019 and 2018, respectively, is included in Other non-current assets. **DPL** also has a note payable to the Trust amounting to \$15.6 million and \$15.6 million at December 31, 2019 and 2018, respectively, that was established upon the Trust's deconsolidation in 2003. See Note 7 – Long-term debt for additional information.

In addition to the obligations under the note payable mentioned above, **DPL** also agreed to a security obligation which represents a full and unconditional guarantee of payments to the capital security holders of the Trust.

### **Income Taxes**

AES files federal and state income tax returns which consolidate **DPL** and its subsidiaries. Under a tax sharing agreement with AES, **DPL** is responsible for the income taxes associated with its own taxable income and records the provision for income taxes using a separate return method. Effective with the approval of **DP&L's** 2017 ESP, through November 21, 2019, **DPL** was restricted from making tax sharing payments to AES throughout the term of the DMR and amounts that would otherwise have been tax sharing liabilities were converted to deemed capital contributions. With the November 21, 2019 order from the PUCO that removed the DMR, this requirement was eliminated. See Note 8 – Income Taxes for more information.

### **Note 13 – Business Segments**

**DPL** has presented the results of operations of Miami Fort Station, Zimmer Station, the Peaker Assets, Stuart Station and Killen Station as discontinued operations as a group of components for all periods presented. For more information, see Note 15 – Discontinued Operations of Notes to **DPL's** Consolidated Financial Statements. As such, AES Ohio Generation only has operating activity coming from its undivided ownership interest in Conesville, which does not meet the threshold to be a separate reportable operating segment. Because of this, **DPL** manages its business through only one reportable operating segment, the Utility segment. The primary segment performance measure is income / (loss) from continuing operations before income tax as management has concluded that this measure best reflects the underlying business performance of **DPL** and is the most relevant measure considered in **DPL's** internal evaluation of the financial performance of its segments. The Utility segment is discussed further below:

#### Utility Segment

The Utility segment is comprised primarily of **DP&L's** electric transmission and distribution businesses, which distribute electricity to residential, commercial, industrial and governmental customers. **DP&L** distributes electricity to more than 526,000 retail customers who are located in a 6,000 square mile area of West Central Ohio. **DP&L's** electric transmission and distribution businesses are subject to rate regulation by federal and state regulators. Accordingly, **DP&L** applies the accounting standards for regulated operations to its electric transmission and distribution businesses and records regulatory assets when incurred costs are expected to be recovered in future



customer rates and regulatory liabilities when current cost recoveries in customer rates relate to expected future costs. The Utility segment includes revenues and costs associated with our investment in OVEC and the historical results of **DP&L's** Beckjord Facility, which was closed in 2014 and transferred to a third party in the first quarter of 2018, and the Hutchings Coal generating facility, which was closed in 2013. These assets did not transfer to AES Ohio Generation as part of **DP&L's** Generation Separation on October 1, 2017. Thus, they are grouped within the Utility segment for segment reporting purposes. In addition, regulatory deferrals and collections, which include fuel deferrals in historical periods, are included in the Utility segment.

Included within the "Other" column are other businesses that do not meet the GAAP requirements for disclosure as reportable segments as well as certain corporate costs, which include interest expense and loss on early extinguishment of debt on **DPL's** long-term debt as well as adjustments related to purchase accounting from the Merger. **DPL's** undivided interest in Conesville is included within the "Other" column as it no longer meets the requirement for disclosure as a reportable operating segment, since the results of operations of the other EGUs are presented as discontinued operations. The accounting policies of the reportable segments are the same as those described in Note 1 – Overview and Summary of Significant Accounting Policies. Intersegment sales, costs of sales and expenses are eliminated in consolidation. Certain shared and corporate costs are allocated between "Other" and the Utility reporting segment.

The following tables present financial information for **DPL's** reportable business segment:

\$ in millions	Utility	Other <sup>(a)</sup>	Adjustments and Eliminations	DPL Consolidated
<b>Year ended December 31, 2019</b>				
Revenues from external customers	\$ 734.3	\$ 29.0	\$ —	\$ 763.3
Intersegment revenues	1.1	3.2	(4.3)	—
<b>Total revenues</b>	<b>\$ 735.4</b>	<b>\$ 32.2</b>	<b>\$ (4.3)</b>	<b>\$ 763.3</b>
Depreciation and amortization	\$ 70.8	\$ 1.9	\$ —	\$ 72.7
Fixed-asset impairment	\$ —	\$ 3.5	\$ —	\$ 3.5
Interest expense	\$ 26.0	\$ 56.2	\$ —	\$ 82.2
Loss on early extinguishment of debt	\$ —	\$ 44.9	\$ —	\$ 44.9
Income / (loss) from continuing operations before income tax	\$ 124.3	\$ (100.2)	\$ —	\$ 24.1
Cash capital expenditures	\$ 167.1	\$ 1.0	\$ —	\$ 168.1

\$ in millions	Utility	Other <sup>(a)</sup>	Adjustments and Eliminations	DPL Consolidated
<b>Year ended December 31, 2018</b>				
Revenues from external customers	\$ 737.8	\$ 38.1	\$ —	\$ 775.9
Intersegment revenues	0.9	2.9	(3.8)	—
<b>Total revenues</b>	<b>\$ 738.7</b>	<b>\$ 41.0</b>	<b>\$ (3.8)</b>	<b>\$ 775.9</b>
Depreciation and amortization	\$ 74.5	\$ (1.4)	\$ —	\$ 73.1
Fixed-asset impairment	\$ —	\$ 2.8	\$ —	\$ 2.8
Interest expense	\$ 27.3	\$ 70.7	\$ —	\$ 98.0
Income / (loss) from continuing operations before income tax	\$ 104.4	\$ (72.5)	\$ —	\$ 31.9
Cash capital expenditures	\$ 93.1	\$ 10.5	\$ —	\$ 103.6

\$ in millions	Utility	Other <sup>(a)</sup>	Adjustments and Eliminations	DPL Consolidated
Year ended December 31, 2017				
Revenues from external customers	\$ 718.9	\$ 25.0	\$ —	\$ 743.9
Intersegment revenues	1.1	4.4	(5.5)	—
Total revenues	<u>\$ 720.0</u>	<u>\$ 29.4</u>	<u>\$ (5.5)</u>	<u>\$ 743.9</u>
Depreciation and amortization	\$ 75.3	\$ 0.8	\$ —	\$ 76.1
Interest expense	\$ 30.5	\$ 79.5	\$ —	\$ 110.0
Income / (loss) from continuing operations before income tax	\$ 88.5	\$ (95.0)	\$ —	\$ (6.5)
Cash capital expenditures	\$ 85.6	\$ 35.9	\$ —	\$ 121.5

(a) "Other" includes Cash capital expenditures related to assets of discontinued operations and held-for-sale businesses for all periods presented.

	December 31, 2019	December 31, 2018	December 31, 2017
<b>Total Assets</b>			
Utility	\$ 1,883.2	\$ 1,819.6	\$ 1,695.9
All Other <sup>(a)</sup>	52.6	63.5	353.3
<b>DPL Consolidated</b>	<u>\$ 1,935.8</u>	<u>\$ 1,883.1</u>	<u>\$ 2,049.2</u>

(a) "All Other" includes Total assets related to the assets of discontinued operations and held-for-sale businesses and Eliminations as of December 31, 2019, 2018 and 2017.

## **Note 14 – Revenue**

Revenue is primarily earned from retail and wholesale electricity sales and electricity transmission and distribution delivery services. Revenue is recognized upon transfer of control of promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. Revenue is recorded net of any taxes assessed on and collected from customers, which are remitted to the governmental authorities.

**Retail revenue** – **DP&L** energy sales to utility customers are based on the reading of meters at the customer's location that occurs on a systematic basis throughout the month. **DP&L** sells electricity directly to end-users, such as homes and businesses, and bills customers directly. Performance obligations for retail revenues are satisfied over time as energy is delivered and the same method is used to measure progress, and thus the performance obligation meets the criteria to be considered a series. This includes both the promise to transfer energy and other distribution and/or transmission services.

In exchange for the exclusive right to sell or distribute electricity in our service area, **DP&L** is subject to rate regulation by federal and state regulators. This regulation sets the framework for the prices ("tariffs") that **DP&L** is allowed to charge customers for electricity. Since tariffs are approved by the regulator, the price that **DP&L** has the right to bill corresponds directly with the value to the customer of **DP&L's** performance completed in each period. Therefore, revenue under these contracts is recognized using an output method measured by the MWhs delivered each month at the approved tariff.

In cases where a customer chooses to receive generation services from a CRES provider, the price for generation services is negotiated between the customer and the CRES provider, and **DP&L** only serves as a billing agent if requested by the CRES provider. As such, **DP&L** recognizes the consolidated billing arrangement with the CRES provider on a net basis, thereby recording no revenue for the generation component. Retail revenue from these customers would only be related to transmission and distribution charges.

**Wholesale revenue** – All of the power produced from **DPL's** ownership interest in Conesville and **DP&L's** share of the power produced at OVEC is sold to PJM and these are classified as Wholesale revenues.

In PJM, the promise to sell energy as wholesale revenue is separately identifiable from participation in the capacity market and the two products can be transacted independently of one another. Therefore, wholesale revenues are a separate contract with a single performance obligation. Revenue is recorded based on the quantities (MWh) delivered in each hour during each month at the spot price, making the contract effectively "month-to-month".



**RTO ancillary revenue** – Compensation for use of **DP&L's** transmission assets and compensation for various ancillary services are classified as RTO ancillary revenues. As **DP&L** owns and operates transmission lines in southwest Ohio within PJM, demand charges collected from network customers by PJM are then allocated to the appropriate transmission owners (i.e. **DP&L**) and recognized as transmission revenues.

Transmission revenues have a single performance obligation, as transmission services represent a distinct service. Additionally, as the performance obligation is satisfied over time and the same method is used to measure progress, the performance obligation meets the criteria to be considered a series. The price that **DP&L**, as the transmission operator, has the right to bill (received as a credit from PJM) corresponds directly with the value to the customer of performance completed in each period, as the price paid is the allocation of the tariff rate (as approved by the regulator) charged to network participants.

**Capacity revenue** – Compensation received from PJM for making installed generation capacity available to satisfy system integrity and reliability requirements is classified as RTO capacity revenues. Capacity, which is a stand-ready obligation to deliver energy when called upon by the RTO, is measured using MWs. If plant availability exceeds a contractual target, we may receive a performance bonus payment, or if the plant availability falls below a guaranteed minimum target, we may incur a non-availability penalty. Such bonuses or penalties represent a form of variable consideration and are estimated and recognized when it is probable that there will not be a significant reversal and therefore the transaction price is recognized on an output basis based on the MWs.

RTO capacity revenues have a single performance obligation, as capacity is a distinct good. Additionally, as the performance obligation is satisfied over time and the same method is used to measure progress, the performance obligation meets the criteria to be considered a series. The capacity price is set through a competitive auction process established by PJM.

**DPL's** revenue from contracts with customers was \$740.2 million and \$743.8 million for the years ended December 31, 2019 and 2018, respectively. The following table presents our revenue from contracts with customers and other revenue by segment for the years ended December 31, 2019 and 2018:

\$ in millions	Utility	Other	Adjustments and Eliminations	Total
Year ended December 31, 2019				
<b>Retail revenue</b>				
Retail revenue from contracts with customers	\$ 645.3	\$ —	\$ —	\$ 645.3
Other retail revenue <sup>(a)</sup>	22.0	—	—	22.0
<b>Wholesale revenue</b>				
Wholesale revenue from contracts with customers	17.2	14.2	(1.1)	30.3
<b>RTO ancillary revenue</b>	43.5	0.2	—	43.7
<b>Capacity revenue</b>	6.2	5.3	—	11.5
<b>Miscellaneous revenue from contracts with customers <sup>(b)</sup></b>	—	9.4	—	9.4
<b>Miscellaneous revenue</b>	1.2	3.1	(3.2)	1.1
<b>Total revenues</b>	<u>\$ 735.4</u>	<u>\$ 32.2</u>	<u>\$ (4.3)</u>	<u>\$ 763.3</u>
Year ended December 31, 2018				
<b>Retail revenue</b>				
Retail revenue from contracts with customers	\$ 625.8	\$ —	\$ (1.0)	\$ 624.8
Other retail revenue <sup>(a)</sup>	32.1	—	—	32.1
<b>Wholesale revenue</b>				
Wholesale revenue from contracts with customers	29.9	22.1	—	52.0
<b>RTO ancillary revenue</b>	43.1	0.1	—	43.2
<b>Capacity revenue</b>	7.8	6.6	—	14.4
<b>Miscellaneous revenue from contracts with customers <sup>(b)</sup></b>	—	9.4	—	9.4
<b>Miscellaneous revenue</b>	—	2.8	(2.8)	—
<b>Total revenues</b>	<u>\$ 738.7</u>	<u>\$ 41.0</u>	<u>\$ (3.8)</u>	<u>\$ 775.9</u>

(a) Other retail revenue primarily includes alternative revenue programs not accounted for under FASC 606.

(b) Miscellaneous revenue from contracts with customers primarily includes revenues for various services provided by Miami Valley Lighting.

The balances of receivables from contracts with customers were \$65.7 million and \$72.6 million as of December 31, 2019 and 2018, respectively. Payment terms for all receivables from contracts with customers are typically within 30 days.

We have elected to apply the optional disclosure exemptions under FASC 606. Therefore, we have no disclosures pertaining to revenue expected to be recognized in any future year related to remaining performance obligations, as we exclude contracts with an original length of one year or less, contracts for which we recognize revenue based on the amount we have the right to invoice for services performed, and variable consideration allocated entirely to a wholly unsatisfied performance obligation when the consideration relates specifically to our efforts to satisfy the performance obligation and depicts the amount to which we expect to be entitled for **DPL**.

#### **Note 15 – Discontinued Operations**

*Stuart and Killen* – On May 31, 2018, **DPL** and AES Ohio Generation retired the Stuart Station coal-fired and diesel-fired generating units and the Killen Station coal-fired generating unit and combustion turbine, as planned. On December 20, 2019, **DPL** and AES Ohio Generation, together with AES Ohio Generation's joint owners in the retired Stuart and Killen generating facilities, completed the transfer of the retired generating facilities, including the associated environmental liabilities, to an unaffiliated third-party purchaser. As a result, **DPL** made cash expenditures of \$51.0 million and recognized a gain on the transfer of \$20.0 million for the year ended December 31, 2019.

*Peaker Assets* – On March 27, 2018, **DPL** and AES Ohio Generation completed the sale transaction of the Peaker assets, which resulted in net proceeds of \$234.9 million and a loss on sale of \$1.9 million for the year ended December 31, 2018.

*Miami Fort and Zimmer* – On December 8, 2017, **DPL** and AES Ohio Generation completed the sale transaction of their entire undivided interest in the Miami Fort Station and the Zimmer Station, which resulted in net proceeds of \$70.1 million and a gain on sale of \$14.0 million for the year ended December 31, 2017.

**DPL** determined that the disposal of this group of components as a whole represents a strategic shift to exit generation, and, as such, qualifies to be presented as discontinued operations. Therefore, the results of operations and financial position for this group of components were reported as such in the Consolidated Statements of Operations and Consolidated Balance Sheets for all periods presented.

The following table summarizes the major categories of assets and liabilities at the dates indicated:

\$ in millions	December 31, 2019	December 31, 2018
Accounts receivable, net	17.4	4.0
Taxes applicable to subsequent years	—	2.3
Prepayments and other current assets	0.3	2.4
Intangible assets, net of amortization	—	5.3
Total assets of the disposal group classified as assets of discontinued operations and held-for-sale businesses in the balance sheets	<u>\$ 17.7</u>	<u>\$ 14.0</u>
Accounts payable	\$ 3.8	\$ 3.9
Accrued taxes	—	3.1
Accrued and other current liabilities	3.1	5.2
Deferred income taxes <sup>(a)</sup>	—	(39.8)
Taxes payable	—	2.3
Accrued pension and other post-retirement benefits	—	9.7
Asset retirement obligations	—	90.4
Other non-current liabilities	6.2	6.6
Total liabilities of the disposal group classified as liabilities of discontinued operations and held-for-sale businesses in the balance sheets	<u>\$ 13.1</u>	<u>\$ 81.4</u>

- (a) Deferred income taxes represent the tax asset position of the discontinued group of components, which were netted with liabilities on **DPL** prior to classification as discontinued operations.



The following table summarizes the revenues, operating costs, other expenses and income tax of discontinued operations for the periods indicated:

\$ in millions	Years ended December 31,		
	2019	2018	2017
Revenues	\$ 51.4	\$ 158.6	\$ 492.9
Operating costs and other expenses	3.6	(88.1)	(444.5)
Fixed-asset impairment	—	—	(175.8)
Income / (loss) from discontinued operations	55.0	70.5	(127.4)
Gain / (loss) from disposal of discontinued operations	20.1	(1.6)	14.0
Income tax expense / (benefit) from discontinued operations	15.6	30.0	(20.3)
Net income / (loss) from discontinued operations	\$ 59.5	\$ 38.9	\$ (93.1)

Cash flows related to discontinued operations are included in our Consolidated Statements of Cash Flows. Cash flows from operating activities for discontinued operations were \$24.0 million, \$40.6 million and \$194.8 million for the years ended December 31, 2019, 2018 and 2017, respectively. Cash flows from investing activities for discontinued operations were \$(51.0) million, \$233.8 million and \$51.8 million for the years ended December 31, 2019, 2018 and 2017, respectively.

### **Joint Operating Agreement of Stuart and Killen**

Pursuant to an amended Joint Owners' Agreement for Stuart and Killen entered into in December 2019, existing assets and liabilities between the joint owners were settled and resulted in a credit to **DPL's** operating costs and other expenses of \$19.4 million for the year ended December 31, 2019 in the table above.

### **AROs of Discontinued Operations**

Prior to the transfer of the retired Stuart and Killen generating facilities, the facilities carried ARO liabilities consisting primarily of river intake and discharge structures, coal unloading facilities, landfills and ash disposal facilities. In the first quarter of 2019 and the fourth quarter of 2018, **DPL** reduced the ARO liability related to the Stuart and Killen ash ponds and landfills by \$22.5 million and \$27.6 million, respectively, based on updated internal analyses that reduced estimated closure costs associated with these ash ponds and landfills. The remaining ARO liability related to Stuart and Killen was included in the total liabilities of the disposal group classified as liabilities of discontinued operations and held-for-sale businesses in the balance sheet as of December 31, 2018 and was included in the 2019 sale described above. As these plants were no longer in service, the reductions to the ARO liability were also recorded as credits to depreciation and amortization expense in the same amounts. The credits to depreciation and amortization expense are included in operating and other expenses of discontinued operations for the years ended December 31, 2019 and 2018 in the table above.

### **Note 16 – Dispositions**

*Beckjord Facility* – On February 26, 2018, **DP&L** and its co-owners of the retired Beckjord Facility agreed to transfer their interests in the retired Facility to a third party, including their obligations to remediate the Facility and its site, and the transfer occurred on that same date. As a result, **DPL** recognized a loss on the transfer of \$11.7 million and made cash expenditures of \$14.5 million, inclusive of cash expenditures for the transfer charges. The Beckjord Facility was retired in 2014, and, as such, the income / (loss) from continuing operations before income tax related to the Beckjord Facility was immaterial for the years ended December 31, 2018 and 2017, excluding the loss on transfer noted above. Prior to the transfer, the Beckjord Facility was included in the Utility segment.

### **Note 17 – Fixed-asset Impairments**

During the years ended December 31, 2019 and 2018, **DPL** recognized a total pre-tax asset impairment expense of \$3.5 million and \$2.8 million, respectively, for the Conesville asset group, as it was determined that additional amounts capitalized for AROs in 2019 and 2018, respectively, were not recoverable.

## **FINANCIAL STATEMENTS**

### **The Dayton Power and Light Company**



## **Report of Independent Registered Public Accounting Firm**

To the Shareholder and Board of Directors of The Dayton Power & Light Company

### **Opinion on the Financial Statements**

We have audited the accompanying balance sheets of The Dayton Power & Light Company (the Company) as of December 31, 2019 and 2018, the related statements of operations, comprehensive income/(loss), cash flows and shareholder's equity for each of the three years in the period ended December 31, 2019, and the related notes and schedule (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 in conformity with U.S. generally accepted accounting principles.

### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2012.

Indianapolis, Indiana

February 27, 2020

**THE DAYTON POWER AND LIGHT COMPANY**  
**Statements of Operations**

\$ in millions	Years ended December 31,		
	2019	2018	2017
<b>Revenues</b>	<b>\$ 735.4</b>	<b>\$ 738.7</b>	<b>\$ 720.0</b>
<b>Operating costs and expenses</b>			
Net fuel costs	2.5	2.4	0.5
Net purchased power cost	250.6	301.3	289.8
Operation and maintenance	183.0	139.7	156.5
Depreciation and amortization	70.8	74.5	75.3
Taxes other than income taxes	77.7	73.1	76.3
Loss / (gain) on asset disposal	0.1	0.2	(0.5)
Loss on disposal of business (Note 15)	—	12.4	—
<b>Total operating costs and expenses</b>	<b>584.7</b>	<b>603.6</b>	<b>597.9</b>
<b>Operating income</b>	<b>150.7</b>	<b>135.1</b>	<b>122.1</b>
<b>Other income / (expense), net</b>			
Interest expense	(26.0)	(27.3)	(30.5)
Loss on early extinguishment of debt	—	(0.6)	(1.1)
Other expense	(0.4)	(2.8)	(2.0)
<b>Other expense, net</b>	<b>(26.4)</b>	<b>(30.7)</b>	<b>(33.6)</b>
<b>Income from continuing operations before income tax</b>	<b>124.3</b>	<b>104.4</b>	<b>88.5</b>
Income tax expense / (benefit) from continuing operations	(0.6)	17.7	31.1
<b>Net income from continuing operations</b>	<b>124.9</b>	<b>86.7</b>	<b>57.4</b>
<b>Discontinued operations (Note 14)</b>			
Loss from discontinued operations before income tax	—	—	(56.3)
Income tax benefit from discontinued operations	—	—	(15.9)
<b>Net loss from discontinued operations</b>	<b>—</b>	<b>—</b>	<b>(40.4)</b>
<b>Net income</b>	<b>\$ 124.9</b>	<b>\$ 86.7</b>	<b>\$ 17.0</b>

See Notes to Financial Statements.



**THE DAYTON POWER AND LIGHT COMPANY**  
**Statements of Comprehensive Income**

\$ in millions	Years ended December 31,		
	2019	2018	2017
<b>Net income</b>	<b>\$ 124.9</b>	<b>\$ 86.7</b>	<b>\$ 17.0</b>
<b>Equity securities activity:</b>			
Change in fair value of equity securities, net of income tax expense of \$0.0, \$0.0 and (\$0.2) for each respective period	—	—	0.5
Reclassification to earnings, net of income tax benefit of \$0.0, \$0.0 and \$0.0 for each respective period	—	—	(0.1)
Net change in fair value of equity securities	—	—	0.4
<b>Derivative activity:</b>			
Change in derivative fair value, net of income tax benefit / (expense) of \$0.3, \$0.1 and (\$7.2) for each respective period	(0.8)	(0.1)	12.4
Reclassification to earnings, net of income tax expense of \$0.0, \$0.4 and \$0.2 for each respective period	(0.2)	(0.7)	(0.7)
Reclassification of earnings related to discontinued operations, net of income tax expense of \$0.0, \$0.0 and \$3.0 for each respective period	—	—	(5.5)
Net change in fair value of derivatives	(1.0)	(0.8)	6.2
<b>Pension and postretirement activity:</b>			
Prior service cost for the period, net of income tax benefit of \$0.0, \$0.6 and \$1.0 for each respective period	—	(2.2)	(1.9)
Net gain / (loss) for the period, net of income tax benefit / (expense) of \$0.6, (\$0.4) and \$0.4 for each respective period	(3.6)	1.7	(0.8)
Reclassification to earnings, net of income tax benefit of (\$0.5), (\$1.0) and (\$2.3) for each respective period	3.0	3.3	4.5
Net change in unfunded pension and postretirement obligations	(0.6)	2.8	1.8
<b>Other comprehensive income / (loss)</b>	<b>(1.6)</b>	<b>2.0</b>	<b>8.4</b>
<b>Net comprehensive income</b>	<b>\$ 123.3</b>	<b>\$ 88.7</b>	<b>\$ 25.4</b>

See Notes to Financial Statements.

**THE DAYTON POWER AND LIGHT COMPANY**  
**Balance Sheets**

\$ in millions	December 31, 2019	December 31, 2018
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 10.8	\$ 45.0
Restricted cash	10.5	21.2
Accounts receivable, net (Note 2)	70.9	90.4
Inventories (Note 2)	10.4	7.7
Taxes applicable to subsequent years	77.4	72.4
Regulatory assets, current (Note 3)	19.7	41.1
Taxes receivable	35.7	19.6
Prepayments and other current assets	10.8	13.3
Total current assets	<u>246.2</u>	<u>310.7</u>
<b>Property, plant and equipment:</b>		
Property, plant & equipment	2,333.6	2,274.4
Less: Accumulated depreciation and amortization	<u>(1,012.7)</u>	<u>(988.0)</u>
	1,320.9	1,286.4
Construction work in process	104.5	31.7
Total net property, plant & equipment	<u>1,425.4</u>	<u>1,318.1</u>
<b>Other non-current assets:</b>		
Regulatory assets, non-current (Note 3)	173.8	152.6
Intangible assets, net of amortization	18.2	17.2
Other non-current assets	19.6	21.0
Total other non-current assets	<u>211.6</u>	<u>190.8</u>
<b>Total assets</b>	<b><u>\$ 1,883.2</u></b>	<b><u>\$ 1,819.6</u></b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b>Current liabilities:</b>		
Short-term and current portion of long-term debt (Note 7)	\$ 179.8	\$ 4.6
Accounts payable	74.4	55.8
Accrued taxes	79.4	75.7
Accrued interest	1.4	0.4
Customer deposits	20.6	21.3
Regulatory liabilities, current (Note 3)	27.9	34.9
Accrued and other current liabilities	16.3	17.5
Total current liabilities	<u>399.8</u>	<u>210.2</u>
<b>Non-current liabilities:</b>		
Long-term debt (Note 7)	434.6	581.5
Deferred income taxes (Note 8)	158.1	131.7
Taxes payable	82.3	77.1
Regulatory liabilities, non-current (Note 3)	243.6	278.3
Accrued pension and other post-retirement benefits (Note 9)	79.9	83.2
Other non-current liabilities	11.5	12.3
Total non-current liabilities	<u>1,010.0</u>	<u>1,164.1</u>
<b>Commitments and contingencies (Note 11)</b>		
<b>Common shareholder's equity:</b>		
Common stock, par value of \$0.01 per share	0.4	0.4
50,000,000 shares authorized, 41,172,173 shares issued and outstanding		
Other paid-in capital	617.0	711.8
Accumulated other comprehensive loss	(36.9)	(35.3)
Accumulated deficit	<u>(107.1)</u>	<u>(231.6)</u>
Total common shareholder's equity	<u>473.4</u>	<u>445.3</u>
<b>Total liabilities and shareholder's equity</b>	<b><u>\$ 1,883.2</u></b>	<b><u>\$ 1,819.6</u></b>

See Notes to Financial Statements.



**THE DAYTON POWER AND LIGHT COMPANY**  
**Statements of Cash Flows**

\$ in millions	Years ended December 31,		
	2019	2018	2017
<b>Cash flows from operating activities:</b>			
Net income	\$ 124.9	\$ 86.7	\$ 17.0
Adjustments to reconcile Net income to Net cash from operating activities			
Depreciation and amortization	70.8	74.5	87.2
Amortization of deferred financing costs	3.7	3.1	1.1
Deferred income taxes	(9.7)	16.3	8.1
Fixed-asset impairment	—	—	66.3
Loss on disposal of business	—	12.4	—
Loss on asset disposal	—	0.2	15.7
Changes in certain assets and liabilities:			
Accounts receivable, net	19.6	13.5	14.6
Inventories	(2.8)	(0.3)	10.3
Taxes applicable to subsequent years	(5.0)	(1.3)	6.4
Deferred regulatory costs, net	(2.2)	(9.2)	(23.7)
Accounts payable	12.9	3.8	(48.7)
Accrued taxes payable / receivable	(7.2)	(12.7)	(17.5)
Accrued interest	0.9	(0.4)	(1.3)
Accrued pension and other post-retirement benefits	(8.8)	(2.4)	4.8
Other	2.8	11.6	(4.9)
<b>Net cash provided by operating activities</b>	<b>199.9</b>	<b>195.8</b>	<b>135.4</b>
<b>Cash flows from investing activities:</b>			
Capital expenditures	(167.1)	(93.1)	(101.7)
Payments on disposal of business	—	(14.5)	—
Proceeds from sale of property	—	10.6	—
Insurance proceeds	—	0.4	12.5
Other investing activities, net	(3.5)	(0.3)	(0.3)
<b>Net cash used in investing activities</b>	<b>(170.6)</b>	<b>(96.9)</b>	<b>(89.5)</b>
<b>Cash flows from financing activities:</b>			
Dividends and returns of capital paid to parent	(95.0)	(43.8)	(39.0)
Capital contribution from parent	—	80.0	70.0
Retirement of long-term debt	(436.1)	(64.5)	(104.5)
Issuance of long-term debt	422.3	—	—
Payments of deferred financing costs	(5.2)	—	—
Borrowings from revolving credit facilities	60.0	30.0	40.0
Repayment of borrowings from revolving credit facilities	(20.0)	(40.0)	(30.0)
Borrowings from related party	—	—	30.0
Repayment of borrowings from related party	—	—	(35.0)
Other financing activities, net	(0.2)	—	(0.4)
<b>Net cash used in financing activities</b>	<b>(74.2)</b>	<b>(38.3)</b>	<b>(68.9)</b>
Increase in cash and restricted cash of discontinued operations and held-for-sale businesses	—	—	27.0
<b>Cash, cash equivalents and restricted cash:</b>			
Net increase / (decrease) in cash, cash equivalents and restricted cash	(44.9)	60.6	4.0
Balance at beginning of year	66.2	5.6	1.6
<b>Cash, cash equivalents and restricted cash at end of year</b>	<b>\$ 21.3</b>	<b>\$ 66.2</b>	<b>\$ 5.6</b>
<b>Supplemental cash flow information:</b>			
Interest paid, net of amounts capitalized	\$ 20.3	\$ 22.9	\$ 28.4
Income taxes paid, net	\$ 24.3	\$ 13.1	\$ 28.1
<b>Non-cash financing and investing activities:</b>			
Accruals for capital expenditures	\$ 16.5	\$ 10.8	\$ 19.7
Distribution of generation assets to subsidiary of parent	\$ —	\$ (10.0)	\$ (86.2)

See Notes to Financial Statements.

**THE DAYTON POWER AND LIGHT COMPANY**  
**Statements of Shareholder's Equity**  
Common Stock <sup>(a)</sup>

\$ in millions	Outstanding Shares	Amount	Other Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
<b>Year ended December 31, 2017</b>						
Beginning balance	41,172,173	\$ 0.4	\$ 810.7	\$ (42.5)	\$ (406.3)	\$ 362.3
Net comprehensive income				8.4	17.0	25.4
Common stock dividends and returns of capital			(39.0)			(39.0)
Transfer of generation assets to subsidiary of parent			(86.2)	(2.1)		(88.3)
Capital contribution from parent			70.0			70.0
Other <sup>(b)</sup>			(69.7)		70.0	0.3
Ending balance	41,172,173	0.4	685.8	(36.2)	(319.3)	330.7
<b>Year ended December 31, 2018</b>						
Net comprehensive income				2.0	86.7	88.7
Common stock dividends and returns of capital			(43.8)			(43.8)
Transfer of generation assets to subsidiary of parent <sup>(c)</sup>			(10.0)			(10.0)
Capital contribution from parent			80.0			80.0
Other <sup>(d)</sup>			(0.2)	(1.1)	1.0	(0.3)
Ending balance	41,172,173	0.4	711.8	(35.3)	(231.6)	445.3
<b>Year ended December 31, 2019</b>						
Net comprehensive income				(1.6)	124.9	123.3
Common stock dividends and returns of capital			(95.0)			(95.0)
Other			0.2		(0.4)	(0.2)
Ending balance	<u>41,172,173</u>	<u>\$ 0.4</u>	<u>\$ 617.0</u>	<u>\$ (36.9)</u>	<u>\$ (107.1)</u>	<u>\$ 473.4</u>

(a) \$0.01 par value, 50,000,000 shares authorized.

(b) In 2017, we reclassified the presentation of the December 2016 dividend payment of \$70.0 million. This was originally recorded as a charge to Accumulated deficit but was reclassified as a charge to Other paid-in capital as it represented a return of capital.

(c) In 2018, DP&L transferred additional deferred taxes to AES Ohio Generation under the provisions of SAB 118 through an equity transaction with DPL. See Note 8 – Income Taxes for additional information.

(d) ASU 2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities" was effective as of January 1, 2018. This ASU requires the change in the fair value of equity instruments to be recorded in income rather than in OCI. Equity Instruments were defined to include all mutual funds, regardless of the underlying investments.

See Notes to Financial Statements.



**The Dayton Power and Light Company**  
**Notes to Financial Statements**  
**For the years ended December 31, 2019, 2018 and 2017**

**Note 1 – Overview and Summary of Significant Accounting Policies**

**Description of Business**

DP&L is a public utility incorporated in 1911 under the laws of Ohio. Beginning in 2001, Ohio law gave consumers the right to choose the electric generation supplier from whom they purchase retail generation service, however transmission and distribution services are still regulated. DP&L has the exclusive right to provide such service to its approximately 526,000 customers located in West Central Ohio. DP&L provides retail SSO electric service to residential, commercial, industrial and governmental customers in a 6,000 square mile area of West Central Ohio. DP&L sources all of the generation for its SSO customers through a competitive bid process. Through September 30, 2017, DP&L owned undivided interests in multiple coal-fired power stations and multiple peaking electric generating facilities as well as numerous transmission facilities. On October 1, 2017, the DP&L-owned generating facilities, excluding the Beckjord Facility and Hutchings EGU, were transferred to AES Ohio Generation, an affiliate of DP&L and wholly-owned subsidiary of DPL, through an asset contribution agreement to a subsidiary that was merged into AES Ohio Generation. Principal industries located in DP&L's service territory include automotive, food processing, paper, plastic, manufacturing and defense. DP&L's sales reflect the general economic conditions, seasonal weather patterns of the area and the market price of electricity. Through the date of Generation Separation, DP&L sold energy and capacity into the wholesale market. As a result of Generation Separation, DP&L now only has one reportable segment, the Utility segment. In addition to DP&L's electric transmission and distribution businesses, the Utility segment includes revenues and costs associated with DP&L's investment in OVEC and the historical results of DP&L's Beckjord and Hutchings Coal generating facilities, which were either closed or sold in prior periods.

DP&L's electric transmission and distribution businesses are subject to rate regulation by federal and state regulators. Accordingly, DP&L applies the accounting standards for regulated operations to its electric transmission and distribution businesses and records regulatory assets when incurred costs are expected to be recovered in future customer rates and regulatory liabilities when current cost recoveries in customer rates relate to expected future costs or overcollections of riders.

DP&L employed 630 people at January 31, 2020. Approximately 59% of all employees are under a collective bargaining agreement that expires on October 31, 2020.

**Financial Statement Presentation**

DP&L does not have any subsidiaries.

Through June 2018, DP&L had undivided ownership interests in numerous transmission facilities. These undivided interests in jointly-owned facilities were accounted for on a pro rata basis in the Financial Statements. In June 2018, DP&L closed on a transmission asset transaction with Duke and AEP, where ownership stakes in certain previously co-owned transmission assets were exchanged to eliminate co-ownership. Each previously co-owned transmission asset became wholly-owned by one of DP&L, Duke or AEP after the transaction. See Note 4 – Property, Plant and Equipment for more information.

We have evaluated subsequent events through the date this report is issued.

Certain amounts from prior periods have been reclassified to conform to the current period presentation.

**Use of Management Estimates**

The preparation of financial statements in conformity with GAAP requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the revenues and expenses of the periods reported. Actual results could differ from these estimates. Significant items subject to such estimates and judgments include: the carrying value of Property, plant and equipment; unbilled revenues; the valuation of derivative instruments; the valuation of insurance and claims liabilities; the valuation of allowances for receivables and deferred income taxes; regulatory assets and liabilities; reserves recorded for income tax exposures; litigation; contingencies; the valuation of AROs; and assets and liabilities related to employee benefits.



**Cash and Cash Equivalents**

Cash and cash equivalents are stated at cost, which approximates fair value. All highly liquid short-term investments with original maturities of three months or less are considered cash equivalents.

**Restricted Cash**

Restricted cash includes cash which is restricted as to withdrawal or usage. The nature of the restriction includes an agreement related to cash collected under the DMR, which is restricted to pay debt obligations at **DPL** and **DP&L** and position **DP&L** to modernize and/or maintain its transmission and distribution infrastructure.

The following table summarizes cash, cash equivalents and restricted cash amounts reported on the Balance Sheet that reconcile to the total of such amounts as shown on the Statements of Cash Flows:

\$ in millions	December 31, 2018	December 31, 2017
Cash and cash equivalents	\$ 10.8	\$ 45.0
Restricted cash	10.5	21.2
Cash, Cash Equivalents and Restricted Cash, End of Period	<u>\$ 21.3</u>	<u>\$ 66.2</u>

**Allowance for Uncollectible Accounts**

We establish provisions for uncollectible accounts by using both historical average loss percentages to project future losses and by establishing specific provisions for known credit issues. Amounts are written off when reasonable collections efforts have been exhausted.

**Inventories**

Inventories are carried at average cost, net of reserves, and include materials and supplies used for utility operations.

**Regulatory Accounting**

As a regulated utility, **DP&L** applies the provisions of FASC 980 "Regulated Operations", which gives recognition to the ratemaking and accounting practices of the PUCO and the FERC. Regulatory assets generally represent incurred costs that have been deferred because such costs are probable of future recovery in customer rates. Regulatory assets can also represent performance incentives permitted by the regulator. Regulatory assets have been included as allowable costs for ratemaking purposes, as authorized by the PUCO or established regulatory practices. Regulatory liabilities generally represent obligations to make refunds or future rate reductions to customers for previous over collections or the deferral of revenues collected for costs that **DP&L** expects to incur in the future.

The deferral of costs (as regulatory assets) is appropriate only when the future recovery of such costs is probable. In assessing probability, we consider such factors as specific orders from the PUCO or FERC, regulatory precedent and the current regulatory environment. To the extent recovery of costs is no longer deemed probable, related regulatory assets would be required to be expensed in current period earnings. Our regulatory assets and liabilities have been created pursuant to a specific order of the PUCO or FERC or established regulatory practices, such as other utilities under the jurisdiction of the PUCO or FERC being granted recovery of similar costs. It is probable, but not certain, that these regulatory assets will be recoverable, subject to PUCO or FERC approval. Regulatory assets and liabilities are classified as current or non-current based on the term in which recovery is expected. See Note 3 – Regulatory Matters for more information.

**Property, Plant and Equipment**

We record our ownership share of our undivided interest in jointly-owned transmission and distribution property as an asset in property, plant and equipment. New property, plant and equipment additions are stated at cost. For regulated transmission and distribution property, cost includes direct labor and material, allocable overhead expenses and an allowance for funds used during construction (AFUDC). AFUDC represents the cost of borrowed funds and equity used to finance regulated construction projects. Capitalization of AFUDC and interest ceases at either project completion or at the date specified by regulators. AFUDC and capitalized interest was \$3.2 million, \$0.5 million and \$1.5 million in the years ended December 31, 2019, 2018 and 2017, respectively.

For substantially all depreciable property, when a unit of property is retired, the original cost of that property less any salvage value is charged to Accumulated depreciation and amortization, consistent with composite depreciation practices.



Property is evaluated for impairment when events or changes in circumstances indicate that its carrying amount may not be recoverable.

### **Depreciation**

Depreciation expense is calculated using the straight-line method, which allocates the cost of property over its estimated useful life. For **DP&L's** transmission and distribution assets, straight-line depreciation is applied monthly on an average composite basis using group rates that approximated 2.9% in 2019, 3.0% in 2018 and 3.4% in 2017. Depreciation expense was \$66.5 million, \$68.2 million and \$69.6 million for the years ended December 31, 2019, 2018 and 2017, respectively.

### **Intangibles**

Intangibles include software, emission allowances and renewable energy credits. Emission allowances are carried on a first-in, first-out (FIFO) basis for purchased emission allowances. Net gains or losses on the sale of excess emission allowances, representing the difference between the sales proceeds and the cost of emission allowances, are recorded as a component of our fuel costs and are reflected in Operating income when realized. Emission allowances are amortized as they are used in our operations on a FIFO basis. Renewable energy credits are carried on a weighted average cost basis and amortized as they are used or retired.

Software is amortized over seven years. Amortization expense was \$4.3 million, \$6.3 million and \$5.7 million for the years ended December 31, 2019, 2018 and 2017, respectively. The estimated amortization expense of this internal-use software over the next five years is \$11.1 million (\$3.5 million in 2020, \$3.3 million in 2021, \$3.2 million in 2022, \$1.0 million in 2023 and \$0.1 million in 2024).

### **Debt Issuance Costs**

Costs incurred in connection with the issuance of long-term debt are deferred and presented as a direct reduction from the face amount of that debt and amortized over the related financing period using the effective interest method. Debt issuance costs related to a line-of-credit or revolving credit facility are deferred and presented as an asset and amortized over the related financing period. Make-whole payments in connection with early debt retirements are classified as cash flows used in financing activities.

### **Financial Instruments**

Our Master Trust investments in debt and equity financial instruments of publicly traded entities are classified as equity investments. These equity securities are carried at fair value and unrealized gains and losses on these securities are recorded in Other income. As these financial instruments are held to be used for the benefit of employees participating in employee benefit plans and are not used for general operating purposes, they are classified as non-current in Other non-current assets on the Balance Sheets.

### **Financial Derivatives**

All derivatives are recognized as either assets or liabilities in the balance sheets and are measured at fair value. Changes in the fair value are recorded in earnings unless the derivative is designated as a cash flow hedge of a forecasted transaction or it qualifies for the normal purchases and sales exception.

We use interest rate hedges to manage the interest rate risk of our variable rate debt. We use cash flow hedge accounting when the hedge or a portion of the hedge is deemed to be highly effective, which results in changes in fair value being recorded within accumulated other comprehensive income / (loss), a component of shareholder's equity. We have elected not to offset net derivative positions in the financial statements. Accordingly, we do not offset such derivative positions against the fair value of amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral under master netting agreements. See Note 6 – Derivative Instruments and Hedging Activities for additional information.

### **Insurance and Claims Costs**

In addition to insurance obtained from third-party providers, MVIC, a wholly-owned captive subsidiary of **DPL**, provides insurance coverage solely to us and other **DPL** subsidiaries for workers' compensation, general liability and property damage on an ongoing basis. **DP&L** is responsible for claims costs below certain coverage thresholds of MVIC and third-party insurers for the insurance coverage noted above. **DP&L** has estimated liabilities for medical, life, disability and other reserves for claims costs below certain coverage thresholds of third-party providers of approximately \$3.3 million and \$4.3 million at December 31, 2019 and 2018, respectively, within Accrued and other current liabilities and Other non-current liabilities on the balance sheets. The estimated liabilities for workers' compensation, medical, life and disability costs at **DP&L** are actuarially determined using certain assumptions.



There is uncertainty associated with these loss estimates, and actual results may differ from the estimates. Modification of these loss estimates based on experience and changed circumstances is reflected in the period in which the estimate is re-evaluated.

### **Revenue Recognition**

Revenues are recognized from retail and wholesale electricity sales and electricity transmission and distribution delivery services. Revenue is recognized upon transfer of control of promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. Energy sales to customers are based on the reading of their meters that occurs on a systematic basis throughout the month. We recognize the revenues on our Consolidated Statements of Operations using an accrual method for retail and other energy sales that have not yet been billed, but where electricity has been consumed. This is termed "unbilled revenues" and is a widely recognized and accepted practice for utilities. At the end of each month, unbilled revenues are determined by the estimation of unbilled energy provided to customers since the date of the last meter reading, estimated line losses, the assignment of unbilled energy provided to customer classes and the average rate per customer class.

The power sales and purchases within **DP&L's** service territory are reported on a net hourly basis as revenues or purchased power on our Consolidated Statements of Operations. All of the power produced at the generation station is sold to an RTO. We record expenses when purchased electricity is received and when expenses are incurred. For additional information, see Note 13 – Revenue.

### **Accounting for Taxes Collected from Customers and Remitted to Governmental Authorities**

**DP&L** collects certain excise taxes levied by state or local governments from its customers. **DP&L's** excise taxes and certain other taxes are accounted for on a net basis and recorded as a reduction in revenues in the accompanying Statements of Operations. The amounts for the years ended December 31, 2019, 2018 and 2017, were \$50.1 million, \$51.7 million and \$49.4 million, respectively.

### **Repairs and Maintenance**

Costs associated with maintenance activities are recognized at the time the work is performed. These costs, which include labor, materials and supplies and outside services required to maintain equipment and facilities, are capitalized or expensed based on defined units of property.

### **Pension and Postretirement Benefits**

We recognize in our Balance Sheets an asset or liability reflecting the funded status of pension and other postretirement plans with current-year changes from actuarial gains or losses related to our regulated operations, that would otherwise be recognized in AOCI, recorded as a regulatory asset as this can be recovered through future rates. Such changes that are not related to our regulated operations are recognized in AOCI. All plan assets are recorded at fair value. We follow the measurement date provisions of the accounting guidance, which require a year-end measurement date of plan assets and obligations for all defined benefit plans.

We account for and disclose pension and postretirement benefits in accordance with the provisions of GAAP relating to the accounting for pension and other postretirement plans. These GAAP provisions require the use of assumptions, such as the discount rate for liabilities and long-term rate of return on assets, in determining the obligations, annual cost and funding requirements of the plans. Consistent with the requirements of FASC 715, we apply a disaggregated discount rate approach for determining service cost and interest cost for our defined benefit pension plans and postretirement plans.

See Note 9 – Benefit Plans for more information.

### **Income Taxes**

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of the existing assets and liabilities and their respective income tax bases. We establish an allowance when it is more likely than not that all or a portion of a deferred tax asset will not be realized. Our tax positions are evaluated under a more likely than not recognition threshold and measurement analysis before they are recognized for financial statement reporting. Uncertain tax positions have been classified as noncurrent income tax liabilities unless expected to be paid within one year. Our policy for interest and penalties is to recognize interest and penalties as a component of the provision for income taxes in the Statement of Operations.



Income taxes payable, which are includable in allowable costs for ratemaking purposes in future years, are recorded as regulatory assets or liabilities with a corresponding deferred tax liability or asset. Investment tax credits that reduced federal income taxes in the years they arose have been deferred and are being amortized to income over the useful lives of the properties in accordance with regulatory treatment. See Note 3 – Regulatory Matters for additional information.

**DP&L** files U.S. federal income tax returns as part of the consolidated U.S. income tax return filed by AES. The consolidated tax liability is allocated to each subsidiary based on the separate return method which is specified in our tax allocation agreement and which provides a consistent, systematic and rational approach. See Note 8 – Income Taxes for additional information.

### **Related Party Transactions**

In the normal course of business, **DP&L** enters into transactions with other subsidiaries of **DPL** or AES. See Note 12 – Related Party Transactions for more information on Related Party Transactions.

### **Held-for-sale Businesses**

A business classified as held-for-sale is reflected on the balance sheet at the lower of its carrying amount or estimated fair value less cost to sell. A loss is recognized if the carrying amount of the business exceeds its estimated fair value less cost to sell. This loss is limited to the carrying value of long-lived assets until the completion of the sale, at which point, any additional loss is recognized. If the fair value of the business subsequently exceeds the carrying amount while the business is still held-for-sale, any impairment expense previously recognized will be reversed up to the lower of the previously recognized expense or the subsequent excess.

Assets and liabilities related to a business classified as held-for-sale are segregated in the current balance sheet in the period in which the business is classified as held-for-sale. Assets and liabilities of held-for-sale businesses are classified as current when they are expected to be disposed of within twelve months. Transactions between the business held-for-sale and businesses that are expected to continue to exist after the disposal are not eliminated to appropriately reflect the continuing operations and balances held-for-sale. See Note 14 – Generation Separation for further information.

### **Discontinued Operations**

Discontinued operations reporting occurs only when the disposal of a business or a group of assets represents a strategic shift that has (or will have) a major effect on our operations and financial results. We report financial results for discontinued operations separately from continuing operations to distinguish the financial impact of disposal transactions from ongoing operations. Prior period amounts in the statement of operations and balance sheet are retrospectively revised to reflect the businesses determined to be discontinued operations. The cash flows of businesses that are determined to be discontinued operations are included within the relevant categories within operating, investing and financing activities on the face of the Consolidated Statements of Cash Flows.

Transactions between the businesses determined to be discontinued operations and businesses that are expected to continue to exist after the disposal are not eliminated to appropriately reflect the continuing operations and balances held-for-sale. The results of discontinued operations include any gain or loss recognized on closing or adjustment of the carrying amount to fair value. See Note 14 – Generation Separation for further information.

### **Generation Separation**

With the transfer of **DP&L's** generation assets to an affiliate (see Note 14 – Generation Separation), **DP&L's** generation business is presented as a discontinued operation and the operating activities have been reclassified to "Discontinued operations" in the Statements of Operations for the year ended December 31, 2017 and in the notes to the financial statements.

## **New accounting pronouncements**

The following table provides a brief description of recent accounting pronouncements that had an impact on our financial statements. Accounting pronouncements not listed below were assessed and determined to be either not applicable or did not have a material impact on our financial statements.

Accounting Standard	Description	Date of Adoption	Effect on the financial statements upon adoption
<b>New Accounting Standards Adopted</b>			
2017-12, Derivatives and Hedging (Topic 815): Targeted improvements to Accounting for Hedging Activities	The standard updates the hedge accounting model to expand the ability to hedge nonfinancial and financial risk components, reduce complexity and ease certain documentation and assessment requirements. When facts and circumstances are the same as at the previous quantitative test, a subsequent quantitative effectiveness test is not required. The standard also eliminates the requirement to separately measure and report hedge ineffectiveness. For cash flow hedges, this means that the entire change in the fair value of a hedging instrument will be recorded in other comprehensive income and amounts deferred will be reclassified to earnings in the same income statement line as the hedged item in the period in which it settles. Transition method: modified retrospective with the cumulative effect adjustment recorded to the opening balance of retained earnings as of the initial application date. Prospective for presentation and disclosures.	January 1, 2019.	The adoption of this standard had no material effect on our financial statements.
2018-02, Income Statement - Reporting Comprehensive Income (Topic 220), Reclassification of Certain Tax Effects from AOCI	This amendment allows a reclassification of the stranded tax effects resulting from the implementation of the Tax Cuts and Jobs Act from AOCI to retained earnings. Because this amendment only relates to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected.	January 1, 2019.	The adoption of this standard had no material effect on our financial statements.
2016-02, 2018-01, 2018-10, 2018-11, 2018-20 Leases (Topic 842)	See discussion of the ASU below.	January 1, 2019.	The adoption of this standard had no material effect on our financial statements.

### ***Adoption of FASC Topic 842, "Leases"***

On January 1, 2019, we adopted FASC 842 *Leases* and its subsequent corresponding updates ("FASC 842"). Under this standard, lessees are required to recognize assets and liabilities for most leases on the balance sheet and recognize expenses in a manner similar to the prior accounting method. For lessors, the guidance modifies the lease classification criteria and the accounting for sales-type and direct financing leases. The guidance eliminates previous real estate-specific provisions.

Under FASC 842, it is expected that fewer contracts will contain a lease. However, due to the elimination of the real estate-specific guidance and changes to certain lessor classification criteria, more leases will qualify as sales-type leases and direct financing leases. Under these two models, a lessor will derecognize the asset and will recognize a net investment in a lease. According to FASC 842, the net investment in the lease includes the fair value of the plant after the contract period but does not include variable payments such as margin on the sale of energy. Therefore, the net investment in the lease could be significantly different than the carrying amount of the underlying asset at lease commencement. In such circumstances, the difference between the initially recognized net investment in the lease and the carrying amount of the underlying asset is recognized as a gain/loss at lease commencement.

During the course of adopting FASC 842, we applied various practical expedients including:

- The package of practical expedients (applied to all leases) that allowed lessees and lessors not to reassess:
  - a. whether any expired or existing contracts are or contain leases,
  - b. lease classification for any expired or existing leases, and
  - c. whether initial direct costs for any expired or existing leases qualify for capitalization under FASC 842.
- The transition practical expedient related to land easements, allowing us to carry forward our accounting treatment for land easements on existing agreements, and



- The transition practical expedient for lessees that allowed businesses to not separate lease and non-lease components. We applied the practical expedient to all classes of underlying assets when valuing right-of-use assets and lease liabilities. Contracts where we are the lessor were separated between the lease and non-lease components.

We applied the modified retrospective method of adoption and elected to continue to apply the guidance in FASC 840 *Leases* to the comparative periods presented in the year of adoption. Under this transition method, we applied the transition provisions starting at the date of adoption.

The adoption of FASC 842 did not have a material impact on our financial statements.

**New accounting pronouncements issued but not yet effective** - The following table provides a brief description of recent accounting pronouncements that could have a material impact on our financial statements. Accounting pronouncements not listed below were assessed and determined to be either not applicable or are expected to have no material impact on our financial statements.

Accounting Standard	Description	Date of Adoption	Effect on the financial statements upon adoption
<b>New Accounting Standards Issued but Not Yet Effective</b>			
2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes	The standard removes certain exceptions for recognizing deferred taxes for investments, performing intra-period allocation and calculating income taxes in interim periods. It also adds guidance to reduce complexity in certain areas, including recognizing deferred taxes for tax goodwill and allocating taxes to members of a consolidated group.  Transition Method: various	January 1, 2021. Early adoption is permitted.	We are currently evaluating the impact of adopting the standard on our financial statements
2016-13, 2018-19, 2019-04, 2019-05, 2019-10, Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	See discussion of the ASUs below.	January 1, 2020. Early adoption is permitted only as of January 1, 2019.	We will adopt the standard on January 1, 2020; see below for the evaluation of the impact of the adoption on the financial statements.

ASU 2016-13 and its subsequent corresponding updates will update the impairment model for financial assets measured at amortized cost, known as the Current Expected Credit Loss ("CECL") model. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a new forward-looking "expected loss" model that generally will result in the earlier recognition of allowance for losses. For available-for-sale debt securities with unrealized losses, entities will measure credit losses as it is done today, except that unrealized losses due to credit-related factors will be recognized as an allowance on the balance sheet with a corresponding adjustment to earnings in the income statement. There are various transition methods available upon adoption.

We are currently evaluating the impact of adopting the standard on our financial statements. We expect that the new current expected credit loss model will primarily impact the calculation of expected credit losses on \$71.3 million in gross trade accounts receivable. We do not expect a material impact to result from the application of CECL on our trade accounts receivable.

## Note 2 – Supplemental Financial Information

\$ in millions	December 31,	
	2019	2018
<b>Accounts receivable, net</b>		
Customer receivables	\$ 45.0	\$ 53.3
Unbilled revenue	19.4	16.8
Amounts due from affiliates	3.9	2.3
Due from PJM transmission enhancement settlement <sup>(a)</sup>	1.8	16.5
Other	1.2	2.4
Provisions for uncollectible accounts	(0.4)	(0.9)
<b>Total accounts receivable, net</b>	<b>\$ 70.9</b>	<b>\$ 90.4</b>
<b>Inventories, at average cost</b>		
Materials and supplies	\$ 10.4	\$ 7.1
Other	—	0.6
<b>Total inventories, at average cost</b>	<b>\$ 10.4</b>	<b>\$ 7.7</b>

(a) See Note 3 – Regulatory Matters for more information.

### Accumulated Other Comprehensive Income / (Loss)

The amounts reclassified out of Accumulated Other Comprehensive Income / (Loss) by component during the years ended December 31, 2019, 2018 and 2017 are as follows:

Details about Accumulated Other Comprehensive Income / (Loss) Components	Affected line item in the Statements of Operations	Years ended December 31,		
		2019	2018	2017
\$ in millions				
Gains and losses on equity securities activity (Note 5):				
	Other deductions	\$ —	\$ —	\$ (0.1)
	Income tax expense	—	—	—
	Net of income taxes	—	—	(0.1)
Gains and losses on cash flow hedges (Note 6):				
	Interest expense	(0.2)	(1.1)	(0.9)
	Income tax expense	—	0.4	0.2
	Net of income taxes	(0.2)	(0.7)	(0.7)
	Gain from discontinued operations	—	—	(8.5)
	Income tax expense from discontinued operations	—	—	3.0
	Net of income taxes	—	—	(5.5)
Amortization of defined benefit pension items (Note 9):				
	Other expense	3.5	4.3	6.8
	Income tax benefit	(0.5)	(1.0)	(2.3)
	Net of income taxes	3.0	3.3	4.5
Total reclassifications for the period, net of income taxes		\$ 2.8	\$ 2.6	\$ (1.8)



The changes in the components of Accumulated Other Comprehensive Income / (Loss) during the years ended December 31, 2019 and 2018 are as follows:

\$ in millions	Gains / (losses) on equity securities	Gains / (losses) on cash flow hedges	Change in unfunded pension obligation	Total
<b>Balance at December 31, 2017</b>	<b>\$ 1.1</b>	<b>\$ 1.4</b>	<b>\$ (38.7)</b>	<b>\$ (36.2)</b>
Other comprehensive loss before reclassifications	—	(0.1)	(0.5)	(0.6)
Amounts reclassified from accumulated other comprehensive income / (loss) to earnings	—	(0.7)	3.3	2.6
Net current period other comprehensive income / (loss)	—	(0.8)	2.8	2.0
Amounts reclassified from accumulated other comprehensive income to accumulated deficit <sup>(a)</sup>	(1.1)	—	—	(1.1)
<b>Balance at December 31, 2018</b>	<b>—</b>	<b>0.6</b>	<b>(35.9)</b>	<b>(35.3)</b>
Other comprehensive loss before reclassifications	—	(0.8)	(3.6)	(4.4)
Amounts reclassified from accumulated other comprehensive loss to earnings	—	(0.2)	3.0	2.8
Net current period other comprehensive loss	—	(1.0)	(0.6)	(1.6)
<b>Balance at December 31, 2019</b>	<b>\$ —</b>	<b>\$ (0.4)</b>	<b>\$ (36.5)</b>	<b>\$ (36.9)</b>

(a) ASU 2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities" was effective as of January 1, 2018. This ASU requires the change in the fair value of equity instruments to be recorded in income rather than in OCI. Equity Instruments were defined to include all mutual funds, regardless of the underlying investments.

### **Note 3 – Regulatory Matters**

#### **Distribution Rate Order**

On September 26, 2018 the PUCO issued the DRO establishing new base distribution rates for **DP&L**, which became effective October 1, 2018. The DRO approved, without modification, a stipulation and recommendation previously filed by **DP&L**, along with various intervening parties and the PUCO staff. The DRO established a revenue requirement for **DP&L**'s electric service base distribution rates of \$248.0 million, reflecting an increase to distribution revenues of approximately \$29.8 million per year. The DRO, in conjunction with the 2017 ESP, provided for the following items (among other matters):

- **DIR** - The DRO authorized **DP&L** to earn amounts through a Distribution Investment Rider ("DIR") set initially at \$12.2 million annually, effective October 1, 2018. The DIR revenue cap for 2019 was \$22.0 million. The DIR was removed on December 18, 2019 when the 2017 ESP was modified.
- **Decoupling Rider** - The DRO authorized a revenue requirement methodology that attempts to eliminate the impacts of weather and demand on **DP&L**'s revenues for residential and commercial distribution customers beginning January 1, 2019 by providing for certain distribution revenues to be collected through a Decoupling Rider. **DP&L** collected revenues under the Decoupling Rider until it was removed on December 18, 2019 when the 2017 ESP was modified.

#### **DP&L ESP Orders**

Ohio law requires utilities to file either an ESP or MRO plan to establish SSO rates. From November 1, 2017 through December 18, 2019, **DP&L** operated pursuant to an approved ESP plan, which **DP&L** initially filed on March 13, 2017 (the "2017 ESP"). The 2017 ESP included the following:

- A bypassable standard offer energy rider for **DP&L**'s customers based on competitive bid auctions;
- The establishment of a three-year non-bypassable DMR to collect \$105.0 million in revenue per year to pay debt obligations at **DPL** and **DP&L** and position **DP&L** to modernize and/or maintain its transmission and distribution infrastructure;
- The establishment of the DIR, a non-bypassable Distribution Investment Rider to recover distribution capital investments incremental to the amount included in rate base in the **DP&L** DRO;
- A non-bypassable Reconciliation Rider, which allowed **DP&L** to recover its net ongoing costs from its investment in OVEC;



- Implementation, effective November 1, 2017, of a Smart Grid Rider, Economic Development Rider, Economic Development Fund, Regulatory Compliance Rider and certain other new, or changes to existing rates and riders and competitive retail market enhancements, with tariffs consistent with the 2017 ESP;
- A commitment to commence a sale process to sell our ownership interests in the Miami Fort, Zimmer and Conesville coal-fired generation plants, with all sales proceeds used to pay debt of **DPL** and **DP&L**, and
- Restrictions on **DPL** making dividend or tax sharing payments and an obligation to convert then existing tax payments owed by **DPL** to AES into equity investments in **DPL**.

On November 21, 2019, the PUCO issued a supplemental order modifying the 2017 ESP Stipulation by, among other matters, removing the DMR, which reduced **DP&L's** annual revenues by \$105.0 million beginning November 29, 2019. As a result, **DP&L** filed a Notice of Withdrawal of its 2017 ESP Application and requested to revert to rates based on its ESP 1. On December 18, 2019, the PUCO approved **DP&L's** Notice of Withdrawal and reversion to its ESP 1 rate plan. Among other items, the PUCO Order approving the ESP 1 rate plan includes:

- Reinstating the non-bypassable RSC Rider, which provides annual revenues of approximately \$79.0 million;
- Continuation of **DP&L's** Transmission Cost Recovery Rider, Storm Rider and the bypassable standard offer energy rate for **DP&L's** customers based on competitive bid auctions;
- A placeholder rider to recover grid modernization costs, called the Infrastructure Investment Rider;
- A requirement to conduct both an ESP v. MRO Test and a prospective SEET no later than April 1, 2020; and
- Removal of the DIR, Reconciliation Rider, Decoupling Rider, Regulatory Compliance rider, and the Uncollectible rider.

**DP&L** is also subject to a retrospective SEET threshold whereby it must demonstrate its return on equity is below 12%, excluding DMR revenues. The ultimate outcome of this and the ESP v. MRO and prospective SEET could have a material adverse effect on our results of operations, financial condition and cash flows.

Separate from the ESP process, **DP&L** filed a petition seeking recovery of ongoing OVEC costs through a Legacy Generation Rider and was granted approval effective January 1, 2020. Additionally, in the first quarter of 2020, **DP&L** filed a separate petition seeking authority to record a regulatory asset to accrue revenues that would have otherwise been collected under the 2017 ESP through the Decoupling Rider. The outcome of this petition is pending.

Certain parties which intervened in the ESP proceedings have filed petitions for rehearing of the recent PUCO ESP orders; some of which seek to eliminate **DP&L's** RSC from the ESP 1 rates that are currently in place and others seek to re-implement the 2017 ESP, but without the DMR. We are unable to predict the outcomes of these petitions, but if these result in terms that are more adverse than **DP&L's** current ESP rate plan, it could have a material adverse effect on our results of operations, financial condition and cash flows.

### **Regulatory Impact of Tax Reform**

On January 10, 2018 the PUCO initiated a proceeding to consider the impacts of the TCJA to determine the appropriate course of action to pass benefits resulting from the legislation on to ratepayers. The PUCO also directed Ohio utilities to record deferred liabilities for the estimated reduction in federal income tax resulting from the TCJA beginning January 1, 2018. Under the terms of the stipulation in the distribution rate case mentioned above, **DP&L** filed an application at the PUCO to refund eligible excess accumulated deferred income taxes (ADIT) and any related regulatory liability over a 10-year period with a minimum reversal of \$4.0 million per year over the first five years. Excess ADIT related to depreciation life and method differences will be returned to customers in accordance with federal tax law and related regulations. **DP&L's** rates were set using the new tax rate as a result of the distribution rate case. Consistent with the DRO requirement, **DP&L** filed an application on March 1, 2019 and subsequently entered into a stipulation to resolve all remaining TCJA items related to its distribution rates. That stipulation was approved by the PUCO on September 26, 2019. In accordance with terms of that stipulation, **DP&L** will return a total of \$65.1 million (\$83.2 million when including taxes associated with the refunds). In connection with this stipulation, we reduced our long-term regulatory liability related to deferred income taxes by \$23.4 million. See Note 8 – Income Taxes for additional information.

### **FERC Proceedings**

On May 8, 2018, **DP&L** filed to adjust its FERC jurisdictional transmission rates to reflect the effects of the decrease in federal income tax rates on the current portion of income tax expense as part of the TCJA, resulting in a



decrease of approximately \$2.4 million annually. The revised rates are in effect and all **DP&L** over and undercollections dating back to the March 21st effective date were settled in December 2018.

On November 15, 2018 FERC issued a Notice of Proposed Rulemaking to address amortization of excess accumulated deferred income taxes resulting from the TCJA and their impact on transmission rates. Such notice requires all public utility transmission providers with stated transmission rates under an Open Access Transmission Tariff (OATT) to determine the amount of excess deferred income taxes caused by the TCJA. **DP&L** is unable to predict the outcome of this notice or the impact it may have on our Financial Statements

#### **PJM Transmission Enhancement Settlement**

On May 31, 2018, the FERC issued an Order on Contested Settlement regarding the cost allocation method for existing and new transmission facilities contained in the PJM Interconnection's OATT. The FERC order approved the settlement which reduces **DP&L's** transmission costs through PJM beginning in August 2018, including credits to reimburse **DP&L** for amounts overcharged in prior years. **DP&L** estimates the prior overcharge by PJM to be \$41.1 million, of which approximately \$30.4 million has been repaid to **DP&L** through December 31, 2019 and \$1.8 million is classified as current in "*Accounts receivable, net*" and \$8.9 million is classified as non-current in "*Other non-current assets*" on the accompanying Balance Sheet. All of the transmission charges and credits impacted by this FERC order are items that are included for full recovery in **DP&L's** non-bypassable TCRR. Accordingly, **DP&L** has also established offsetting regulatory liabilities. While this development will have a temporary cash flow benefit to **DP&L**, there is no impact to operating income or net income as all credits will be passed to **DP&L's** customers through the TCRR, which began in November 2018.

#### **Regulatory Assets and Liabilities**

In accordance with FASC 980, we have recognized total regulatory assets of \$193.5 million and \$193.7 million at December 31, 2019 and 2018, respectively, and total regulatory liabilities of \$271.5 million and \$313.2 million at December 31, 2019 and 2018, respectively. Regulatory assets and liabilities are classified as current or non-current based on the term in which recovery is expected. See Note 1 – Overview and Summary of Significant Accounting Policies for accounting policies regarding Regulatory Assets and Liabilities.

The following table presents **DP&L's** Regulatory assets and liabilities:

\$ in millions	Type of Recovery	Amortization Through	December 31,	
			2019	2018
<b>Regulatory assets, current:</b>				
Undercollections to be collected through rate riders	A/B	2020	\$ 19.1	\$ 40.5
Rate case expenses being recovered in base rates	B	2020	0.6	0.6
<b>Total regulatory assets, current</b>			<b>19.7</b>	<b>41.1</b>
<b>Regulatory assets, non-current:</b>				
Pension benefits	B	Ongoing	83.9	87.5
Unrecovered OVEC charges	C	Undetermined	29.1	28.7
Fuel costs	B		—	3.3
Regulatory compliance costs	B	Undetermined	6.3	6.1
Smart grid and AMI costs	B	Undetermined	8.5	8.5
Unamortized loss on reacquired debt	B	Various	10.0	6.0
Deferred storm costs	A	Undetermined	5.1	4.7
Deferred vegetation management and other	A/B	Undetermined	12.7	7.8
Decoupling deferral	C	Undetermined	13.8	—
Uncollectible deferral	C	Undetermined	4.4	—
<b>Total regulatory assets, non-current</b>			<b>173.8</b>	<b>152.6</b>
<b>Total regulatory assets</b>			<b>\$ 193.5</b>	<b>\$ 193.7</b>
<b>Regulatory liabilities, current:</b>				
Overcollection of costs to be refunded through rate riders	A/B	2020	\$ 27.9	\$ 34.9
<b>Total regulatory liabilities, current</b>			<b>27.9</b>	<b>34.9</b>
<b>Regulatory liabilities, non-current:</b>				
Estimated costs of removal - regulated property		Not Applicable	143.6	139.1
Deferred income taxes payable through rates		Various	73.6	116.3
TCJA regulatory liability	B	Ongoing	12.9	—
PJM transmission enhancement settlement	A	2025	8.9	16.9
Postretirement benefits	B	Ongoing	4.6	6.0
<b>Total regulatory liabilities, non-current</b>			<b>243.6</b>	<b>278.3</b>
<b>Total regulatory liabilities</b>			<b>\$ 271.5</b>	<b>\$ 313.2</b>

A – Recovery of incurred costs plus rate of return.

B – Recovery of incurred costs without a rate of return.

C – Recovery not yet determined, but recovery is probable of occurring in future rate proceedings.

Current regulatory assets and liabilities primarily represent costs that are being recovered per specific rate order; recovery for the remaining costs is probable, but not certain. **DP&L** is earning a net return on \$5.5 million of this net deferral. These items include undercollection of: (i) Energy Efficiency Rider, (ii) Alternative Energy Rider, (iii) unrecovered OVEC costs and (iv) Economic Development Rider. It also includes the current portion of deferred fuel costs and deferred storm costs, which are described in greater detail below. As current liabilities, this includes overcollection of competitive bidding energy and auction costs and certain transmission related costs including the current portion of the PJM transmission enhancement settlement (see above).

Pension benefits represent the qualifying FASC 715 “Compensation - Retirement Benefits” costs of our regulated operations that for ratemaking purposes are deferred for future recovery. We recognize an asset for a plan’s overfunded status or a liability for a plan’s underfunded status, and recognize, as a component of OCI, the changes in the funded status of the plan that arise during the year that are not recognized as a component of net periodic benefit cost. This regulatory asset represents the regulated portion that would otherwise be charged as a loss to OCI. As per PUCO and FERC precedents, these costs are probable of future rate recovery.

Unrecovered OVEC charges includes the portion of charges from OVEC that were not recoverable through **DP&L's** Fuel Rider from October 2014 through October 2017. Additionally, it includes net OVEC costs from December 19, 2019 through December 31, 2019. **DP&L** expects to recover these costs through a future rate proceeding. Beginning on November 1, 2017, through December 18, 2019, current OVEC costs were being recovered through **DP&L's** reconciliation rider which was authorized as part of the 2017 ESP. Beginning January 1, 2020, **DP&L** began recovering its current net OVEC costs through its Legacy Generation Rider, established pursuant to ORC 4928.148.



Fuel costs represent unrecovered fuel costs related to **DP&L's** Fuel Rider from 2010 through 2015 resulting from a declining SSO customer base. **DP&L** was granted recovery of these costs without a return through the SSO as approved in the 2017 ESP; this authorization continued in the approval of ESP 1. These costs are being recovered over the three-year period that began November 1, 2017.

Regulatory compliance costs represent the long-term portion of the regulatory compliance costs which include the following costs: (i) Consumer Education Campaign, (ii) Retail Settlement System, (iii) Generation Separation, (iv) Bill Format Redesign, (v) Green Pricing Tariff and (vi) Supplier Consolidated Billing. All of these costs except for Generation Separation earn a return. These costs were being recovered over a three-year period that began November 1, 2017 through a rider approved in the 2017 ESP. That rider was eliminated with the approval of the ESP 1 rate plan, so the balance as of December 18, 2019 remains a regulatory asset for future recovery.

Rate case costs represents costs associated with preparing a distribution rate case. **DP&L** was granted recovery of these costs which do not earn a return, as part of the DRO.

Smart Grid and AMI costs represent costs incurred as a result of studying and developing distribution system upgrades and implementation of AMI. In a PUCO order on January 5, 2011, the PUCO indicated that it expects **DP&L** to continue to monitor other utilities' Smart Grid and AMI programs and to explore the potential benefits of investing in Smart Grid and AMI programs and that **DP&L** will, when appropriate, file new Smart Grid and/or AMI business cases in the future. **DP&L** requested recovery of these costs as part of the December 2018 Distribution Modernization Plan filing with the PUCO described in Item 1 Business - COMPETITION AND REGULATION.

Unamortized loss on reacquired debt represents losses on long-term debt reacquired or redeemed in prior periods that have been deferred. These deferred losses are being amortized over the lives of the original issues in accordance with the rules of the FERC and the PUCO.

Deferred storm costs represent the long-term portion of deferred costs for major storms which occurred during 2017, 2018 and 2019. The 2017 ESP granted **DP&L** approval to establish a rider by which to seek recovery of these types of costs with a return. This authorization continued in the approval of ESP 1. **DP&L** plans to file petitions seeking recovery of each calendar year of storm costs in the following calendar year. Recovery of these costs is probable, but not certain.

Vegetation management costs represents costs incurred from outside contractors for tree trimming and other vegetation management services. Calculation terms were agreed to in the stipulation approved in the DRO. The terms were an annual baseline of \$10.7 million in 2018 and \$15.7 million thereafter. Amounts over the baseline will be deferred subject to an annual deferral maximum of \$4.6 million. Annual spending less than the vegetation management baseline amount will result in a reduction to the regulatory asset or creation of a regulatory liability. A future filing will be made to determine how this cost will be collected from or returned to customers.

Decoupling deferral represents the change in the revenue requirement based on a per customer methodology in the stipulation approved in the DRO and includes deferrals through December 18, 2019. These costs were previously recovered through a Decoupling Rider; however, **DP&L** withdrew its application in the 2017 ESP and in doing so, the PUCO ordered on December 18, 2019 in the ESP 1 order, that **DP&L** no longer has a Decoupling Rider. As described above, **DP&L** recently filed a petition seeking authority to record a regulatory asset to accrue revenues that would have otherwise been collected through the Decoupling Rider.

Uncollectible deferral represents deferred uncollectible expense associated with the nonpayment of electric service, less the revenues associated with the bypassable uncollectible portion of the standard offer rate. The DRO established that these costs would be recovered in a rider outside of base rates, thus no uncollectible expense is included in base rates. A future filing will be made to determine how these expenses will be collected from customers.

Estimated costs of removal - regulated property reflect an estimate of amounts collected in customer rates for costs that are expected to be incurred in the future to remove existing transmission and distribution property from service when the property is retired.

Deferred income taxes payable through rates represent deferred income tax liabilities recognized from the normalization of flow-through items as the result of taxes previously charged to customers. A deferred income tax asset or liability is created from a difference in income recognition between tax laws and accounting methods. As a



regulated utility, **DP&L** includes in ratemaking the impacts of current income taxes and changes in deferred income tax liabilities or assets. Accordingly, this liability reflects the estimated deferred taxes **DP&L** expects to return to customers in future periods.

TCJA regulatory liability represents the long-term portion of both protected and unprotected excess ADIT for both transmission and distribution portions, grossed up to reflect the revenue requirement. As a part of the DRO, **DP&L** agreed that savings from the TCJA attributable to distribution facilities, including the excess ADIT and the regulatory liability, constitute amounts that will be returned to customers. As a result of the TCJA and subsequent DRO, **DP&L** entered into a stipulation to resolve all remaining TCJA items related to its distribution rates, including a proposal to return no less than \$4.0 million per year for the first five years unless fully returned in the first five years via a tax savings cost rider for the distribution portion of the balance. On September 26, 2019, an order approved the stipulation in its entirety.

Transmission rates are regulated by FERC and **DP&L** has reduced its stated transmission rate to reflect the effects of the lower current tax rate. With respect to the transmission portion of amortization of excess ADIT, on November 15, 2018, FERC issued a Notice of Proposed Rulemaking entitled, "Public Utility Transmission Rate Changes to Address Accumulated Deferred Income Taxes." Among other things, this notice proposes "to require all public utilities with transmission stated rates to determine the amount of excess and deferred income tax caused by the Tax Cuts and Jobs Act's reduction to the federal corporate income tax rate and return or recover this amount to or from customers." **DP&L** is a public utility with transmission stated rates and will make a filing in conformance to the requirements once the proposed rule is finalized.

Postretirement benefits represent the qualifying FASC 715 "Compensation – Retirement Benefits" gains related to our regulated operations that, for ratemaking purposes, are probable of being reflected in future rates. We recognize an asset for a plan's overfunded status or a liability for a plan's underfunded status, and recognize, as a component of OCI, the changes in the funded status of the plan that arise during the year that are not recognized as a component of net periodic benefit cost. This regulatory liability represents the regulated portion that would otherwise be reflected as a gain to OCI.

#### **Note 4 – Property, Plant and Equipment**

The following is a summary of **DP&L's** Property, plant and equipment with corresponding composite depreciation rates at December 31, 2019 and 2018:

\$ in millions	December 31, 2019		December 31, 2018	
		Composite Rate		Composite Rate
<b>Regulated:</b>				
Transmission	\$ 391.7	2.3%	\$ 386.7	2.4%
Distribution	1,851.2	3.0%	1,796.4	3.2%
General	30.0	4.9%	30.9	3.6%
Non-depreciable	60.7	N/A	60.4	N/A
<b>Total property, plant and equipment in service</b>	<b>\$ 2,333.6</b>	<b>2.9%</b>	<b>\$ 2,274.4</b>	<b>3.0%</b>

In June 2018, **DP&L** closed on a transmission asset transaction with Duke and AEP, where ownership stakes in certain previously co-owned transmission assets were exchanged to eliminate co-ownership. Each previously co-owned transmission asset became wholly-owned by one of **DP&L**, Duke or AEP after the transaction. This transaction also resulted in cash proceeds to **DP&L** of \$10.6 million and no gain or loss was recorded on the transaction.

#### **AROs**

We recognize AROs in accordance with GAAP which requires legal obligations associated with the retirement of long-lived assets to be recognized at their fair value at the time those obligations are incurred. Upon initial recognition of a legal liability, costs are capitalized as part of the related long-lived asset and depreciated over the useful life of the related asset. The **DP&L** AROs are for our retired Hutchings EGU and relate primarily to asbestos removal. These AROs are recorded within Other non-current liabilities on the balance sheets.

Estimating the amount and timing of future expenditures of this type requires significant judgment. Management routinely updates these estimates as additional information becomes available.



## Changes in the Liability for Generation AROs

	2019	2018
Balance at beginning of year	\$ 4.7	\$ 8.0
Settlements <sup>(a)</sup>	—	(3.3)
Balance at end of year	<u>\$ 4.7</u>	<u>\$ 4.7</u>

(a) Primarily includes settlement related to transfer of Beckjord Facility. See Note 15 – Dispositions for additional information.

## Asset Removal Costs

We continue to record costs of removal for our regulated transmission and distribution assets through our depreciation rates and recover those amounts in rates charged to our customers. There are no known legal AROs associated with these assets. We have recorded \$143.6 million and \$139.1 million in estimated costs of removal at December 31, 2019 and 2018, respectively, as regulatory liabilities for our transmission and distribution property. These amounts represent the excess of the cumulative removal costs recorded through depreciation rates versus the cumulative removal costs actually incurred. See Note 3 – Regulatory Matters for additional information.

## Changes in the Liability for Transmission and Distribution Asset Removal Costs

	2019	2018
Balance at beginning of year	\$ 139.1	\$ 132.8
Additions	14.8	14.3
Settlements	(10.3)	(8.0)
Balance at end of year	<u>\$ 143.6</u>	<u>\$ 139.1</u>

## Note 5 – Fair Value

The fair values of our financial instruments are based on published sources for pricing when possible. We rely on valuation models only when no other method is available to us. The fair value of our financial instruments represents estimates of possible value that may or may not be realized in the future.

The table below presents the fair value and cost of our non-derivative instruments at December 31, 2019 and 2018. See also Note 6 – Derivative Instruments and Hedging Activities for the fair values of our derivative instruments.

\$ in millions	December 31, 2019		December 31, 2018	
	Cost	Fair Value	Cost	Fair Value
<b>Assets</b>				
Money market funds	\$ 0.3	\$ 0.3	\$ 0.4	\$ 0.4
Equity securities	2.3	4.2	2.4	3.5
Debt securities	4.0	4.1	4.1	4.0
Hedge funds	0.1	0.1	0.1	0.1
Tangible assets	0.1	0.1	0.1	0.1
Total assets	<u>\$ 6.8</u>	<u>\$ 8.8</u>	<u>\$ 7.1</u>	<u>\$ 8.1</u>
<b>Liabilities</b>				
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	<u>\$ 574.4</u>	<u>\$ 600.5</u>	<u>\$ 586.1</u>	<u>\$ 593.8</u>

## Fair Value Hierarchy

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. These inputs are then categorized as:

- Level 1 (quoted prices in active markets for identical assets or liabilities);
- Level 2 (observable inputs such as quoted prices for similar assets or liabilities or quoted prices in markets that are not active); or
- Level 3 (unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability).

Valuations of assets and liabilities reflect the value of the instrument including the values associated with counterparty risk. We include our own credit risk and our counterparty's credit risk in our calculation of fair value using global average default rates based on an annual study conducted by a large rating agency.

We did not have any transfers of the fair values of our financial instruments among Level 1, Level 2 or Level 3 of the fair value hierarchy during the years ended December 31, 2019 and 2018.

## Debt

The fair value of debt is based on current public market prices for disclosure purposes only. Unrealized gains or losses are not recognized in the financial statements as debt is presented at the carrying value, net of unamortized premium or discount, in the financial statements. The debt amounts include the current portion payable in the next twelve months and have maturities that range from 2020 to 2061.

## Master Trust Assets

DP&L established a Master Trust to hold assets that could be used for the benefit of employees participating in employee benefit plans and these assets are not used for general operating purposes. ASU 2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities" was effective as of January 1, 2018. This ASU requires the change in the fair value of equity instruments to be recorded in income rather than in OCI. Equity Instruments were defined to include all mutual funds, regardless of the underlying investments. Therefore, as of January 1, 2018, AOCI of \$1.7 million (\$1.1 million net of tax) was reversed to Accumulated Deficit and all future changes to fair value on the Master Trust Assets will be included in income in the period that the changes occur. These changes to fair value were not material for the years ended December 31, 2019 or 2018. These assets are primarily comprised of open-ended mutual funds, which are valued using the net asset value per unit. These investments are recorded at fair value within Other deferred assets on the consolidated balance sheets and classified as available for sale.

During the year ended December 31, 2019, \$0.3 million (\$0.2 million after tax) of various investments were sold to facilitate the distribution of benefits.

The fair value of assets and liabilities at December 31, 2019 and 2018 and the respective category within the fair value hierarchy for DP&L was determined as follows:

\$ in millions	Fair Value at December 31, 2019 (a)				Fair Value at December 31, 2018 (a)			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets</b>								
Master trust assets								
Money market funds	\$ 0.3	\$ —	\$ —	\$ 0.3	\$ 0.4	\$ —	\$ —	\$ 0.4
Equity securities	—	4.2	—	4.2	—	3.5	—	3.5
Debt securities	—	4.1	—	4.1	—	4.0	—	4.0
Hedge funds	—	0.1	—	0.1	—	0.1	—	0.1
Tangible assets	—	0.1	—	0.1	—	0.1	—	0.1
Total Master trust assets	0.3	8.5	—	8.8	0.4	7.7	—	8.1
Derivative assets								
Interest rate hedges	—	0.1	—	0.1	—	1.5	—	1.5
Total derivative assets	—	0.1	—	0.1	—	1.5	—	1.5
Total assets	\$ 0.3	\$ 8.6	\$ —	\$ 8.9	\$ 0.4	\$ 9.2	\$ —	\$ 9.6
<b>Liabilities</b>								
Long-term debt	\$ —	\$ 583.0	\$ 17.5	\$ 600.5	\$ —	\$ 576.1	\$ 17.7	\$ 593.8
Total liabilities	\$ —	\$ 583.0	\$ 17.5	\$ 600.5	\$ —	\$ 576.1	\$ 17.7	\$ 593.8

(a) Includes credit valuation adjustment

Our financial instruments are valued using the market approach in the following categories:

- Level 1 inputs are used for money market accounts that are considered cash equivalents. The fair value is determined by reference to quoted market prices and other relevant information generated by market transactions.



- Level 2 inputs are used to value derivatives such as interest rate hedge contracts which are valued using a benchmark interest rate. Other Level 2 assets include open-ended mutual funds in the Master Trust, which are valued using the end of day NAV per unit.
- Level 3 inputs such as certain debt balances are considered a Level 3 input because the notes are not publicly traded. Our long-term debt is fair valued for disclosure purposes only.

All of the inputs to the fair value of our derivative instruments are from quoted market prices.

Our long-term debt is fair valued for disclosure purposes only and most of the fair values are determined using quoted market prices in inactive markets. These fair value inputs are considered Level 2 in the fair value hierarchy. As the Wright-Patterson Air Force Base note is not publicly traded, fair value is assumed to equal carrying value. These fair value inputs are considered Level 3 in the fair value hierarchy as there are no observable inputs. Additional Level 3 disclosures are not presented since our long-term debt is not recorded at fair value.

#### **Note 6 – Derivative Instruments and Hedging Activities**

In the normal course of business, DP&L enters into various financial instruments, including derivative financial instruments. We use derivatives principally to manage the interest rate risk associated with our long-term debt. The derivatives that we use to economically hedge these risks are governed by our risk management policies for forward and futures contracts. Our net positions are continually assessed within our structured hedging programs to determine whether new or offsetting transactions are required. We monitor and value derivative positions monthly as part of our risk management processes. We use published sources for pricing, when possible, to mark positions to market. All of our derivative instruments are used for risk management purposes and are designated as cash flow hedges if they qualify under FASC 815 for accounting purposes.

DP&L's interest rate swaps are designated as a cash flow hedge and have a combined notional amount of \$140.0 million as of December 31, 2019 and 2018.

#### **Cash Flow Hedges**

As part of our risk management processes, we identify the relationships between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. The fair values of cash flow hedges determined by current public market prices will continue to fluctuate with changes in market prices up to contract expiration. With the adoption of ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted improvements to Accounting for Hedging Activities effective January 1, 2019, we will no longer be required to calculate effectiveness and thus the entire change in the fair value of a hedging instrument will be recorded in other comprehensive income and amounts deferred will be reclassified to earnings in the same income statement line as the hedged item in the period in which it settles.

We have two interest rate swaps to hedge the variable interest on our \$140.0 million variable interest rate tax-exempt First Mortgage Bonds due August 2020. The interest rate swaps have a combined notional amount of \$140.0 million and will settle monthly based on a one-month LIBOR. The original notional amount was \$200.0 million, but on March 29, 2018, we settled \$60.0 million of these interest rate swaps due to the partial repayment of the underlying debt and a gain of \$0.8 million was recorded as a reduction to interest expense. Since the swap was partially settled, the remaining swaps were de-designated and then re-designated with a new hypothetical derivative. The AOCI associated with the remaining swaps will be amortized out of AOCI into interest expense over the remaining life of the underlying debt.

We use the income approach to value the swaps, which consists of forecasting future cash flows based on contractual notional amounts and applicable and available market data as of the valuation date. The most common market data inputs used in the income approach include volatilities, spot and forward benchmark interest rates (LIBOR). Forward rates with the same tenor as the derivative instrument being valued are generally obtained from published sources, with these forward rates being assessed quarterly at a portfolio-level for reasonableness versus comparable published rates. We reclassify gains and losses on the swaps out of AOCI and into earnings in those periods in which hedged interest payments occur.

## Table of Contents

The following tables provide information on gains or losses recognized in AOCI for the cash flow hedges for the periods indicated:

\$ in millions (net of tax)	Years ended December 31,			
	2019	2018	2017	
	Interest Rate Hedges	Interest Rate Hedges	Power	Interest Rate Hedges
Beginning accumulated derivative gain / (loss) in AOCI	\$ 0.6	\$ 1.4	\$ (4.3)	\$ 1.6
Net (gains) / losses associated with current period hedging transactions	(0.8)	(0.1)	11.9	0.5
Net gains reclassified to earnings:				
Interest expense	(0.2)	(0.7)	—	(0.7)
Loss from discontinued operations	—	—	(5.5)	—
Transfer of generation assets to subsidiary of parent	—	—	(2.1)	—
Ending accumulated derivative gain / (loss) in AOCI	<u>\$ (0.4)</u>	<u>\$ 0.6</u>	<u>\$ —</u>	<u>\$ 1.4</u>
Portion expected to be reclassified to earnings in the next twelve months	\$ (0.2)			
Maximum length of time that we are hedging our exposure to variability in future cash flows related to forecasted transactions (in months)	8			

Net gains or losses associated with the ineffective portion of the hedging transactions were immaterial for the years ended December 31, 2018 and 2017.

When applicable, **DP&L** has elected not to offset derivative assets and liabilities and not to offset net derivative positions against the right to reclaim cash collateral pledged (an asset) or the obligation to return cash collateral received (a liability) under derivative agreements. As of December 31, 2019 and 2018, **DP&L** did not have any offsetting positions.

The following table summarizes the fair value, balance sheet classification and hedging designation of **DP&L's** derivative instruments.:

	Hedging Designation	Balance sheet classification	December 31,	
			2019	2018
Interest rate hedges in a current asset position	Cash Flow Hedge	Prepayments and other current assets	\$ 0.1	\$ 0.9
Interest rate hedges in a non-current asset position	Cash Flow Hedge	Other non-current assets	\$ —	\$ 0.6

## Note 7 – Long-term debt

Long-term debt is as follows:

### Long-term debt

\$ in millions	Interest Rate	Maturity	December 31, 2019	December 31, 2018
First Mortgage Bonds	3.95%	2049	\$ 425.0	\$ —
Term loan - rates from: 3.57% - 4.82% (a) and 4.00% - 4.60% (b)		2022	—	436.1
Tax-exempt First Mortgage Bonds - rates from: 2.49% - 2.93% (a) and 1.29% - 1.42% (b)		2020	140.0	140.0
U.S. Government note	4.2%	2061	17.5	17.7
Unamortized deferred financing costs			(5.4)	(6.3)
Unamortized debt discount			(2.7)	(1.4)
Total long-term debt			574.4	586.1
Less: current portion			(139.8)	(4.6)
Long-term debt, net of current portion			<u>\$ 434.6</u>	<u>\$ 581.5</u>

(a) Range of interest rates for the year ended December 31, 2019.

(b) Range of interest rates for the year ended December 31, 2018.



At December 31, 2019, maturities of long-term debt are summarized as follows:

Due during the years ending December 31, \$ in millions	
2020	\$ 140.2
2021	0.2
2022	0.2
2023	0.2
2024	0.2
Thereafter	441.5
	582.5
Unamortized discounts and premiums, net	(2.7)
Deferred financing costs, net	(5.4)
Total long-term debt	<u>\$ 574.4</u>

### **Revolving Credit Facility**

At December 31, 2019 DP&L had outstanding borrowings on its revolving credit facility of \$40.0 million and at December 31, 2018 there were no outstanding borrowings on its revolving credit facility.

### **Significant Transactions**

On June 19, 2019, DP&L amended and restated its unsecured revolving credit facility. The revolving credit facility has a \$175.0 million borrowing limit, with a \$75.0 million letter of credit sublimit, a feature that provides DP&L the ability to increase the size of the facility by an additional \$100.0 million, a maturity date of June 2024, and a provision that provides DP&L the option to request up to two one-year extensions of the maturity date.

On June 6, 2019, DP&L closed on a \$425.0 million issuance of First Mortgage Bonds due 2049. These new bonds carry an interest rate of 3.95%. The proceeds of this issuance were used to repay in full the outstanding principal of \$435.0 million of DP&L's variable rate Term Loan B credit agreement.

On March 30, 2018, DP&L commenced a redemption of \$60.0 million of outstanding tax exempt First Mortgage Bonds due 2020 at par value (plus accrued and unpaid interest). These bonds were redeemed at par plus accrued interest on April 30, 2018 with cash on hand.

On January 3, 2018, DP&L and its lenders amended DP&L's Term Loan B credit agreement. The amendment (a) modified the definition of "applicable rate", from 2.25% per annum to 1.00% per annum - in the case of the Base Rate and from 3.25% per annum to 2.00% per annum - in the case of the Eurodollar Rate and (b) included a "call protection" provision which stated that in the event the loan was repriced or any portion of the loans were prepaid, repaid, refinanced, substituted, or replaced on or prior July 3, 2018, such prepayment, acceleration, repayment, refinancing, substitution or replacement would be made at 101% of the principal amount so prepaid, repaid, refinanced, substituted or replaced. After July 3, 2018 any such transaction would occur at 100% of the principal amount of the then outstanding loans. There were no such transactions prior to July 3, 2018.

### **Debt Covenants and Restrictions**

DP&L's Bond Purchase and Covenants Agreement (financing document entered into in connection with the sale of \$200.0 million of variable rate tax-exempt First Mortgage Bonds, dated as of August 1, 2015) has two financial covenants. The first measures Total Debt to Total Capitalization and is calculated, at the end of each fiscal quarter, by dividing total debt at the end of the quarter by total capitalization at the end of the quarter. DP&L's Total Debt to Total Capitalization ratio shall not be greater than 0.65 to 1.00; except that the ratio is suspended as DP&L's long-term indebtedness is less than or equal to \$750.0 million. This financial covenant was met with a ratio of 0.57 to 1.00 as of December 31, 2019.

The second financial covenant measures EBITDA to Interest Expense. The Total Consolidated EBITDA to Consolidated Interest Charges ratio is calculated, at the end of each fiscal quarter, by dividing consolidated EBITDA for the four prior fiscal quarters by the consolidated interest charges for the same period. The ratio, per the agreement, is to be not less than 2.50 to 1.00. This covenant was met with a ratio of 8.51 to 1.00 as of December 31, 2019.

DP&L's unsecured revolving credit facility has one financial covenant. The covenant measures Total Debt to Total Capitalization and is calculated, at the end of each fiscal quarter, by dividing total debt at the end of the quarter by total capitalization at the end of the quarter. DP&L's Total Debt to Total Capitalization ratio shall not be greater than 0.67 to 1.00. This financial covenant was met with a ratio of 0.57 to 1.00 as of December 31, 2019.

DP&L does not have any meaningful restrictions in its debt financing documents prohibiting dividends to its parent, DPL. As of December 31, 2019, DP&L was in compliance with all debt covenants, including the financial covenants described above.

Substantially all property, plant & equipment of DP&L is subject to the lien of the mortgage securing DP&L's First and Refunding Mortgage. All generation assets were released from the lien of DP&L's first and refunding mortgage in connection with the completion of Generation Separation on October 1, 2017.

## Note 8 – Income Taxes

DP&L's components of income tax expense were as follows:

\$ in millions	Years ended December 31,		
	2019	2018	2017
<b>Components of tax expense / (benefit)</b>			
Federal - current	\$ 8.6	\$ 1.4	\$ 13.5
State and Local - current	0.6	—	0.2
Total current	9.2	1.4	13.7
Federal - deferred	(10.9)	15.5	17.0
State and local - deferred	1.1	0.8	0.4
Total deferred	(9.8)	16.3	17.4
Tax expense / (benefit)	\$ (0.6)	\$ 17.7	\$ 31.1

## Effective and Statutory Rate Reconciliation

The following table summarizes a reconciliation of the U.S. statutory federal income tax rate to DP&L's effective tax rate, as a percentage of income before taxes for the years ended December 31, 2019, 2018 and 2017:

	Years ended December 31,		
	2019	2018	2017
Statutory Federal tax rate	21.0 %	21.0 %	35.0 %
State taxes, net of Federal tax benefit	1.3 %	0.6 %	0.4 %
AFUDC - Equity	(0.1)%	(0.1)%	1.4 %
Amortization of investment tax credits	(0.2)%	(0.3)%	(0.4)%
Depreciation of flow-through differences	(22.6)%	(4.0)%	— %
Other - net	0.1 %	(0.2)%	(1.3)%
Effective tax rate	(0.5)%	17.0 %	35.1 %

## Deferred Income Taxes

Deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and (b) operating loss carryforwards. These items are stated at the enacted tax rates that are expected to be in effect when taxes are actually paid or recovered. Investment tax credits related to utility property have been deferred and are being amortized over the estimated useful lives of the related property.

The components of our deferred taxes are as follows:

\$ in millions	December 31,	
	2019	2018
<b>Net non-current assets / (liabilities)</b>		
Depreciation / property basis	\$ (141.5)	\$ (130.6)
Income taxes recoverable	17.1	25.0
Regulatory assets	(25.6)	(16.2)
Investment tax credit	0.5	0.5
Compensation and employee benefits	3.1	0.3
Other	(11.7)	(10.7)
Net non-current liabilities	\$ (158.1)	\$ (131.7)

## U.S. Tax Reform

On December 22, 2017, the U.S. enacted the TCJA. The TCJA significantly changes U.S. corporate income tax law.

In 2017, we recognized the income tax effects of the TCJA in accordance with Staff Accounting Bulletin No. 118 ("SAB 118") which provides SEC guidance on the application of FASC 740, Income Taxes, in the reporting period in



which the TCJA was signed into law. Accordingly, our 2017 financial statements reflected the income tax effects of U.S. tax reform for which the accounting was complete and provisional amounts for those impacts for which the accounting under FASC 740 was incomplete, but a reasonable estimate could be determined.

We completed our calculation of the impact of the TCJA in our income tax provision for the year ended December 31, 2018 in accordance with our understanding of the TCJA and guidance available as of the date of this filing. As a result of this remeasurement, certain deferred tax assets and liabilities related to regulated utility property of \$17.0 million and \$135.2 million at December 31, 2018 and 2017 were recorded as regulatory liabilities and were non-cash adjustments. These amounts result from the remeasurement of certain deferred tax assets and liabilities as the rates changed from 35% to 21%. Additionally, consistent with the provisions of SAB 118, in 2018 we finalized the remeasurement of deferred tax asset balances transferred to AES Ohio Generation as part of Generation Separation which resulted in an additional \$10.0 million return of capital to **DPL** in 2018.

The following table presents the tax expense / (benefit) related to pensions, postemployment benefits, cash flow hedges and financial instruments that were credited to Accumulated other comprehensive loss.

\$ in millions	Years ended December 31,		
	2019	2018	2017
Tax expense / (benefit)	\$ (0.4)	\$ (0.3)	\$ 4.0

### Uncertain Tax Positions

We apply the provisions of GAAP relating to the accounting for uncertainty in income taxes. The balance of unrecognized tax benefits was \$4.8 million at both December 31, 2019 and December 31, 2018. There were no changes to these amounts in either of the two years in the period ended December 31, 2019.

Of the December 31, 2019 balance of unrecognized tax benefits, \$4.8 million is due to uncertainty in the timing of deductibility. The total amount of unrecognized tax benefits anticipated to result in a net decrease to unrecognized tax benefits within 12 months of December 31, 2019 is estimated to be between \$0.0 million and \$3.0 million, primarily relating to statute of limitation lapses.

We recognize interest and penalties related to unrecognized tax benefits in Income tax expense. The amounts accrued and tax expense / (benefit) recorded were not material for each period presented.

Following is a summary of the tax years open to examination by major tax jurisdiction:

U.S. Federal – 2011 and forward

State and Local – 2011 and forward

### Note 9 – Benefit Plans

#### Defined Contribution Plans

**DP&L** sponsors two defined contribution plans. One is for non-union employees (the management plan) and one is for collective bargaining employees (the union plan). Both plans are qualified under Section 401 of the Internal Revenue Code.

Certain non-union and union employees become eligible to participate in their respective plan upon date of hire.

Participants may elect to contribute up to 85% of eligible compensation to their plan. Non-union participant contributions are matched 100% on the first 1% of eligible compensation and 50% on the next 5% of eligible compensation and they are fully vested in their employer contributions after 2 years of service. Union participant contributions are matched 150% but are capped at \$2,500 for 2019 and they are fully vested in their employer contributions after 3 years of service. All participants are fully vested in their own contributions.

We contributed \$3.1 million, \$3.7 million and \$3.1 million for the years ended December 31, 2019, 2018 and 2017, respectively. **DP&L** matching contributions are paid quarterly, in arrears. Therefore, the contributions by year include the fourth quarter matching contribution that is paid in the following year. **DP&L** also contributes an annual bonus to the accounts of its union participants. This payment is typically made in January of the following year.

### **Defined Benefit Plans**

**DP&L** sponsors a traditional defined benefit pension plan for most of the employees of **DPL** and its subsidiaries. For collective bargaining employees, the defined benefits are based on a specific dollar amount per year of service. For all other employees (management employees), the traditional defined benefit pension plan is based primarily on compensation and years of service. As of December 31, 2010, this traditional pension plan formula was closed to new management employees. A participant is 100% vested in all amounts credited to his or her account upon the completion of five vesting years, as defined in The Dayton Power and Light Company Retirement Income Plan, or the participant's death or disability. If a participant's employment is terminated, other than by death or disability, prior to such participant becoming 100% vested in his or her account, the account shall be forfeited as of the date of termination. Employees that transferred from **DP&L** to the Service Company maintain their previous eligibility to participate in the **DP&L** pension plan. In addition, employees that transferred from **DP&L** to AES Ohio Generation due to Generation Separation maintain their previous eligibility to participate in the **DP&L** pension plan.

Almost all management employees beginning employment on or after January 1, 2011 participate in a cash balance pension plan formula. Similar to the traditional pension plan for management employees, the cash balance benefits are based on compensation and years of service. A participant shall become 100% vested in all amounts credited to his or her account upon the completion of three vesting years, as defined in The Dayton Power and Light Company Retirement Income Plan, or the participant's death or disability. If a participant's employment is terminated, other than by death or disability, prior to such participant becoming 100% vested in his or her account, the account shall be forfeited as of the date of termination. Vested benefits in the cash balance plan are fully portable upon termination of employment.

In addition, we have a Supplemental Executive Retirement Plan (SERP) for certain retired key executives. The SERP has an immaterial unfunded liability related to agreements for retirement benefits of certain terminated and retired key executives.

We recognize an asset for a plan's overfunded status and a liability for a plan's underfunded status and recognize, as a component of OCI, the changes in the funded status of the plan that arise during the year that are not recognized as a component of net periodic benefit cost. For the transmission and distribution areas of our electric business, these amounts are recorded as regulatory assets and liabilities which represent the regulated portion that would otherwise be charged or credited to AOCI. We have historically recorded these costs on the accrual basis, and this is how these costs have been historically recovered through customer rates. This factor, combined with the historical precedents from the PUCO and FERC, make these costs probable of future rate recovery.

### **Postretirement Benefits**

Qualified employees who retired prior to 1987 and their dependents are eligible for health care and life insurance benefits until their death, while qualified employees who retired after 1987 are eligible for life insurance benefits and partially subsidized health care. The partially subsidized health care is at the election of the employee, who pays most of the cost, and is available only from their retirement until they are covered by Medicare. We have funded a portion of the union-eligible benefits using a Voluntary Employee Beneficiary Association Trust. These postretirement health care benefits and the related unfunded obligation of \$9.6 million and \$9.2 million at December 31, 2019 and 2018, respectively, were not material to the financial statements in the periods covered by this report.



## Table of Contents

The following tables set forth the changes in our pension plan's obligations and assets recorded on the Balance Sheets at December 31, 2019 and 2018. The amounts presented in the following tables for pension obligations include the collective bargaining plan formula, traditional management plan formula and cash balance plan formula and the SERP in the aggregate and have not been adjusted for \$1.4 million, \$1.8 million and \$1.1 million of costs billed to the Service Company for the years ended December 31, 2019, 2018 and 2017, respectively, or \$1.5 million, \$3.3 million and \$0.7 million of costs billed to AES Ohio Generation for the years ended December 31, 2019, 2018 and 2017, respectively.

\$ in millions	Years ended December 31,	
	2019	2018
<b>Change in benefit obligation</b>		
Benefit obligation at January 1	\$ 386.5	\$ 436.9
Service cost	3.7	6.1
Interest cost	14.9	13.8
Plan amendments	—	5.1
Actuarial (gain) / loss	42.1	(34.6)
Benefits paid	(25.7)	(40.8)
Benefit obligation at December 31	421.5	386.5
<b>Change in plan assets</b>		
Fair value of plan assets at January 1	312.9	357.5
Actual return on plan assets	57.0	(11.7)
Employer contributions	7.8	7.9
Benefits paid	(25.7)	(40.8)
Fair value of plan assets at December 31	352.0	312.9
<b>Unfunded status of plan</b>	<b>\$ (69.5)</b>	<b>\$ (73.6)</b>
<b>Amounts recognized in the Balance sheets</b>	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
Current liabilities	\$ (0.2)	\$ (0.4)
Non-current liabilities	(69.3)	(73.2)
Net liability at end of year	<b>\$ (69.5)</b>	<b>\$ (73.6)</b>
<b>Amounts recognized in Accumulated Other Comprehensive Income, Regulatory Assets and Regulatory Liabilities, pre-tax</b>		
<i>Components:</i>		
Prior service cost	\$ 8.6	\$ 10.4
Net actuarial loss	135.5	137.2
Accumulated Other Comprehensive Income, Regulatory Assets and Regulatory Liabilities, pre-tax	<b>\$ 144.1</b>	<b>\$ 147.6</b>
<i>Recorded as:</i>		
Regulatory asset	\$ 83.7	\$ 87.3
Accumulated other comprehensive income	60.4	60.3
Accumulated Other Comprehensive Income, Regulatory Assets and Regulatory Liabilities, pre-tax	<b>\$ 144.1</b>	<b>\$ 147.6</b>

The accumulated benefit obligation for our defined benefit pension plans was \$414.1 million and \$378.7 million at December 31, 2019 and 2018, respectively.

The net periodic benefit cost of the pension plans was:

\$ in millions	Years ended December 31,		
	2019	2018	2017
Service cost	\$ 3.7	\$ 6.1	\$ 5.7
Interest cost	14.9	13.8	14.2
Expected return on assets	(20.1)	(21.2)	(22.8)
Plan curtailment <sup>(a)</sup>	—	—	5.6
Amortization of unrecognized:			
Actuarial loss	7.0	9.4	8.7
Prior service cost	1.8	1.4	1.5
Net periodic benefit cost	<b>\$ 7.3</b>	<b>\$ 9.5</b>	<b>\$ 12.9</b>
<b>Rates relevant to each year's expense calculations</b>			
Discount rate	4.35%	3.66%	4.28%
Expected return on plan assets	6.25%	6.25%	6.50%

(a) As a result of the decision to retire certain coal-fired plants, we recognized a plan curtailment of \$5.6 million in 2017.

## Other Changes in Plan Assets and Benefit Obligation Recognized in Accumulated Other Comprehensive Income, Regulatory Assets and Regulatory Liabilities

\$ in millions	Years ended December 31,		
	2019	2018	2017
Net actuarial loss	\$ 5.3	\$ 3.4	\$ 9.1
Plan curtailment <sup>(a)</sup>	—	—	(5.6)
Reversal of amortization item:			
Net actuarial loss	(7.0)	(9.4)	(8.7)
Prior service cost	(1.8)	(1.4)	(1.5)
Total recognized in Accumulated Other Comprehensive Income, Regulatory Assets and Regulatory Liabilities	\$ (3.5)	\$ (7.4)	\$ (6.7)
Total recognized in net periodic benefit cost and Accumulated Other Comprehensive Income, Regulatory Assets and Regulatory Liabilities	\$ 3.8	\$ 2.1	\$ 6.2

(a) As a result of the decision to retire certain coal-fired plants, we recognized a plan curtailment of \$5.6 million in 2017.

## Significant Gains and Losses Related to Changes in the Benefit Obligation

The actuarial loss of \$42.1 million increased the benefit obligation for the year ended December 31, 2019 and an actuarial gain of \$34.6 million decreased the benefit obligation for the year ended December 31, 2018. The actuarial loss in 2019 was primarily due to a decrease in the discount rate, while the actuarial gain in 2018 was primarily due to an increase in the discount rate.

## Assumptions

Our expected return on plan asset assumptions, used to determine benefit obligations, are based on historical long-term rates of return on investments, which use the widely accepted capital market principle that assets with higher volatility generate a greater return over the long run. Current market factors, such as inflation and interest rates, as well as asset diversification and portfolio rebalancing, are evaluated when long-term capital market assumptions are determined. Peer data and historical returns are reviewed to verify reasonableness and appropriateness.

At December 31, 2019, we are decreasing our long-term rate of return assumption to 5.60% for pension plan assets. The rate of return represents our long-term assumptions based on our long-term portfolio mix. Also, at December 31, 2019, we have decreased our assumed discount rate to 3.33% from 4.35% for pension expense to reflect current duration-based yield curve discount rates. A one percent increase in the rate of return assumption for pension would result in a decrease in 2020 pension expense of approximately \$3.3 million. A one percent decrease in the rate of return assumption for pension would result in an increase in 2020 pension expense of approximately \$3.3 million. A 25-basis point increase in the discount rate for pension would result in a decrease of approximately \$0.4 million to 2020 pension expense. A 25-basis point decrease in the discount rate for pension would result in an increase of approximately \$0.4 million to 2020 pension expense.

In determining the discount rate to use for valuing liabilities, we used a market yield curve on high-quality fixed income investments as of December 31, 2019. We project the expected benefit payments under the plan based on participant data and based on certain assumptions concerning mortality, retirement rates, termination rates, etc. The expected benefit payments for each year are then discounted back to the measurement date using the appropriate spot rate for each half-year from the yield curve, thereby obtaining a present value of all expected future benefit payments using the yield curve. Finally, an equivalent single discount rate is determined which produces a present value equal to the present value determined using the full yield curve.

Consistent with the requirements of FASC 715, we apply a disaggregated discount rate approach for determining service cost and interest cost for our defined benefit pension plans and postretirement plans.

In future periods, differences in the actual return on pension plan assets and assumed return, or changes in the discount rate, will affect the timing of contributions, if any, to the plans.



The weighted average assumptions used to determine benefit obligations at December 31, 2019, 2018 and 2017 were:

**Benefit Obligation Assumptions**

	Pension		
	2019	2018	2017
Discount rate for obligations	3.33%	4.35%	3.66%
Rate of compensation increases	3.94%	3.94%	3.94%

**Pension Plan Assets**

Plan assets are invested in multiple asset classes using a de-risking framework designed to manage the Plan's funded status volatility and minimize future cash contributions. Investment strategies and asset allocations are intended to allocate additional assets to the fixed income asset class should the Plan's funded status improve and is therefore broadly described as the Dynamic De-risking Strategy. Investment performance and asset allocation are measured and monitored on an ongoing basis.

Plan assets are managed in a balanced portfolio comprised of two major components: return seeking assets and liability hedging assets. The expected role of plan return seeking assets is to provide additional return with associated higher levels of risk, while the role of liability hedging assets is to correlate the interest rate of the fixed income investments with that of the Plan's liabilities.

Strategic asset allocation guidelines are determined by a Risk/Advisory Committee and approved by a Fiduciary Committee. These allocations consider the plan's long-term objectives. The long-term target allocations for plan assets are 40% – 50% for return seeking assets and 50% – 60% for liability hedging assets. return seeking assets include U.S. and international equity, while liability hedging assets include long-duration and high-yield bond funds and emerging market debt funds.

The investment approach is to move the Plan to a more de-risked position, if and when the overall funded status of the Plan improves, by periodically rebalancing the allocation of the Plan's investments in growth assets and liability hedging assets in accordance with the committee's glide path. This strategy requires the daily monitoring of the Plan's ratio of assets to liabilities in order to determine whether approved trigger points have been met, requiring the rebalancing of the assets.

All plan assets at December 31, 2019 are common collective trusts. With the exception of the cash and cash equivalents, the collective trusts are valued using the net asset value method and are categorized as Level 2 in the fair value hierarchy.

The following table summarizes our target pension plan allocation for 2019:

Asset category <sup>(a)</sup>	Long-Term Mid-Point Target Allocation	Percentage of plan assets as of December 31,	
		2019	2018
Equity Securities	41%	40%	33%
Debt Securities	59%	58%	58%
Cash and Cash Equivalents	—%	1%	1%
Real Estate	—%	1%	8%

## Table of Contents

The fair values of our pension plan assets at December 31, 2019 by asset category are as follows:

\$ in millions	Market Value at December 31, 2019	Quoted prices in active markets for identical assets	Significant observable inputs	Significant unobservable inputs
Asset category <sup>(f)</sup>		(Level 1)	(Level 2)	(Level 3)
Mutual fund - equities <sup>(a)</sup>	\$ 142.9	\$ —	\$ 142.9	\$ —
Mutual fund - debt <sup>(b)</sup>	115.6	—	115.6	—
Government debt securities <sup>(c)</sup>	89.1	—	89.1	—
Cash and cash equivalents <sup>(d)</sup>	1.9	1.9	—	—
<b>Other investments:</b>				
Core property collective fund <sup>(e)</sup>	2.5	—	2.5	—
<b>Total pension plan assets</b>	<b>\$ 352.0</b>	<b>\$ 1.9</b>	<b>\$ 350.1</b>	<b>\$ —</b>

- (a) This category includes investments in equity securities of U.S. companies of any market capitalization and other investments (i.e.: futures, swaps, currency forwards) of foreign, emerging markets and seeks to provide long-term total return, which includes capital appreciation and income. The funds are valued using the net asset value method.
- (b) This category includes investments in high quality issues within the U.S. corporate bond markets and global high yield bonds and emerging markets debt denominated in local currency. The funds seek to provide current income and long-term capital preservation along with access to higher yielding, relatively liquid fixed income securities. The funds are valued using the net asset value method.
- (c) This category is comprised of investments U.S. treasury strips, U.S. government agency obligations, and U.S. treasury obligations. The funds seek investment returns over the long term and are valued using the net asset value method.
- (d) This category represents an investment that seeks to maximize current income on cash reserves to the extent consistent with principal preservation and maintenance of liquidity from a portfolio of obligations of the U.S. Government, its agencies or instrumentalities, and related money market instruments. Principal preservation is a primary objective. The fund is valued at cost.
- (e) This category represents a property fund that invests in commercial real estate. The fair value of the fund is valued using the net asset value method in which an average of the market prices for the underlying investments is used to value the fund.
- (f) In 2019, the DP&L plan moved all investments into collective trusts; therefore, the 2019 balances under all asset categories shown above represent investments through collective trusts. The plan has chosen collective trusts for which the underlying investments are mutual funds, common stock, debt securities, or real estate in alignment with the target asset allocation.

Most of our plan assets at December 31, 2018 are measured using quoted, observable prices which are considered Level One inputs in the Fair Value Hierarchy. The Core Property Collective Fund is measured using Level Two inputs that are quoted prices for identical assets in markets that are less active.

The fair values of our pension plan assets at December 31, 2018 by asset category are as follows:

\$ in millions	Market Value at December 31, 2018	Quoted prices in active markets for identical assets	Significant observable inputs	Significant unobservable inputs
Asset category <sup>(f)</sup>		(Level 1)	(Level 2)	(Level 3)
<b>Mutual funds:</b>				
U.S. equities <sup>(a)</sup>	\$ 79.3	\$ 79.3	\$ —	\$ —
International equities <sup>(a)</sup>	25.9	25.9	—	—
Fixed income <sup>(b)</sup>	143.7	143.7	—	—
<b>Fixed income securities:</b>				
U.S. Treasury securities	37.5	37.5	—	—
<b>Cash and cash equivalents:</b>				
Money market funds <sup>(c)</sup>	2.4	2.4	—	—
<b>Other investments:</b>				
Core property collective fund <sup>(d)</sup>	24.1	—	24.1	—
<b>Total pension plan assets</b>	<b>\$ 312.9</b>	<b>\$ 288.8</b>	<b>\$ 24.1</b>	<b>\$ —</b>

- (a) This category includes investments in equity securities of large, small and medium sized U.S. companies and equity securities of foreign companies including those in developing countries. The funds are valued using the net asset value method in which an average of the market prices for the underlying investments is used to value the fund.
- (b) This category includes investments in investment-grade fixed-income instruments, U.S. dollar-denominated debt securities of emerging market issuers and high yield fixed-income securities that are rated below investment grade. The funds are valued using the net asset value method in which an average of the market prices for the underlying investments is used to value the fund.
- (c) This category is comprised of investments in U.S. treasury obligations that seek to preserve principal and maintain liquidity while providing current income. The funds are valued at the assets' amortized cost to maintain a stable per share net asset value.
- (d) This category represents a property fund that invests in commercial real estate. The fair value of the fund is valued using the net asset value method in which an average of the market prices for the underlying investments is used to value the fund.



**Pension Funding**

We generally fund pension plan benefits as accrued in accordance with the minimum funding requirements of the Employee Retirement Income Security Act of 1974 (ERISA) and, in addition, make voluntary contributions from time to time. We contributed \$7.5 million to the pension plan in each of the years ended December 31, 2019 and 2018, and \$5.0 million to the pension plan in the year ended December 31, 2017.

We expect to make contributions of \$0.2 million to our SERP in 2020 to cover benefit payments. We also expect to make contributions of \$7.5 million to our pension plan during 2020.

Funding for the qualified Defined Benefit Pension Plan is based upon actuarially determined contributions that consider the amount deductible for income tax purposes and the minimum contribution required under ERISA, as amended by the Pension Protection Act of 2006, as well as targeted funding levels necessary to meet certain thresholds.

From an ERISA funding perspective, **DP&L's** funded target liability percentage was estimated to be 100%. In addition, **DP&L** must also contribute the normal service cost earned by active participants during the plan year. The funding of normal cost is expected to be approximately \$5.3 million in 2020, which includes \$2.0 million for plan expenses. Each year thereafter, if the plan's underfunding increases to more than the present value of the remaining annual installments, the excess is separately amortized over seven years. **DP&L's** funding policy for the pension plans is to contribute annually no less than the minimum required by applicable law, and no more than the maximum amount that can be deducted for federal income tax purposes.

Benefit payments, which reflect future service, are expected to be paid as follows:

Estimated future benefit payments	
\$ in millions due within the following years:	
	Pension
2020	\$ 26.6
2021	\$ 26.3
2022	\$ 26.0
2023	\$ 25.8
2024	\$ 25.4
2025 - 2029	\$ 122.0

**Note 10 – Equity****Common Stock**

**DP&L** has 50,000,000 authorized common shares, of which 41,172,173 are outstanding at December 31, 2019. All common shares are held by **DP&L's** parent, **DPL**.

**Capital Contribution and Returns of Capital**

In 2019, **DP&L** made returns of capital payments of \$95.0 million to **DPL**.

In 2018, **DP&L** received an \$80.0 million capital contribution from its parent, **DPL**, and made returns of capital payments of \$43.8 million to **DPL**. In addition, **DP&L** recorded \$10.0 million in 2018 as a return of capital to transfer additional deferred tax amounts under Generation Separation. See Note 8 – Income Taxes and Note 14 – Generation Separation for more information.

In 2017, **DP&L** received a \$70.0 million capital contribution from its parent, **DPL**. In addition, **DP&L** made returns of capital payments of \$39.0 million to **DPL**. In connection with Generation Separation, **DP&L** recorded \$86.2 million as a return of capital. See Note 14 – Generation Separation for more information.

**Note 11 – Contractual Obligations, Commercial Commitments and Contingencies****DP&L – Equity Ownership Interest**

**DP&L** has a 4.9% equity ownership interest in OVEC which is recorded using the cost method of accounting under GAAP. At December 31, 2019, **DP&L** could be responsible for the repayment of 4.9%, or \$66.4 million, of a \$1,354.7 million debt obligation comprised of both fixed and variable rate securities with maturities between 2022 and 2040. OVEC could also seek additional contributions from us to avoid a default in the event that other OVEC

members defaulted on their respective OVEC obligations. One of the other OVEC members, with a 4.85% interest in OVEC, filed for bankruptcy protection and the bankruptcy court approved that member's rejection of the OVEC arrangement and its related obligations on July 31, 2018. The bankruptcy court was ordered to reconsider such rejection by the U.S. Court of Appeals for the 6th Circuit on December 12, 2019. We do not expect these events to have a material impact on our financial condition, results of operations or cash flows.

### Contractual Obligations and Commercial Commitments

We enter into various contractual obligations and other commercial commitments that may affect the liquidity of our operations. At December 31, 2019, these include:

\$ in millions	Payments due in:				
	Total	Less than 1 year	2 - 3 years	4 - 5 years	More than 5 years
Electricity purchase commitments	\$ 173.2	\$ 115.8	\$ 57.4	\$ —	\$ —
Purchase orders and other contractual obligations	\$ 52.5	\$ 44.7	\$ 7.8	\$ —	\$ —

#### Electricity purchase commitments:

**DP&L** enters into long-term contracts for the purchase of electricity. In general, these contracts are subject to variable quantities or prices and are terminable only in limited circumstances.

#### Purchase orders and other contractual obligations:

At December 31, 2019, **DP&L** had various other contractual obligations including contracts to purchase goods and services with various terms and expiration dates. Due to uncertainty regarding the timing and payment of future obligations to the Service Company, and **DP&L's** ability to terminate such obligations upon 90 days' notice, we have excluded such amounts in the contractual obligations table above. This table also does not include regulatory liabilities (see Note 3 – Regulatory Matters) or contingencies (see Note 11 – Contractual Obligations, Commercial Commitments and Contingencies). See Note 12 – Related Party Transactions for additional information on charges between related parties and amounts due to or from related parties.

### Contingencies

In the normal course of business, we are subject to various lawsuits, actions, proceedings, claims and other matters asserted under laws and regulations. We believe the amounts provided in our Financial Statements, as prescribed by GAAP, are adequate considering the probable and estimable contingencies. However, there can be no assurances that the actual amounts required to satisfy alleged liabilities from various legal proceedings, claims, tax examinations and other matters, including the matters discussed below, and to comply with applicable laws and regulations, will not exceed the amounts reflected in our Financial Statements. As such, costs, if any, that may be incurred in excess of those amounts provided as of December 31, 2019, cannot be reasonably determined.

### Environmental Matters

**DP&L's** facilities and operations are subject to a wide range of federal, state and local environmental laws, rules and regulations. The environmental issues that may affect us include the following.

- The federal CAA and state laws and regulations (including SIPs) which require compliance, obtaining permits and reporting as to air emissions;
- Rules and future rules issued by the USEPA, the Ohio EPA or other authorities that require or will require reporting and reductions of GHGs;
- Rules and future rules issued by the USEPA, the Ohio EPA or other authorities associated with the federal Clean Water Act, which prohibits the discharge of pollutants into waters of the United States except pursuant to appropriate permits; and
- Solid and hazardous waste laws and regulations, which govern the management and disposal of certain waste.

In addition to imposing continuing compliance obligations, these laws, rules and regulations authorize the imposition of substantial penalties for noncompliance, including fines, injunctive relief and other sanctions. In the normal course of business, we have investigatory and remedial activities underway at our facilities to comply, or to determine compliance, with such laws, rules and regulations. We record liabilities for loss contingencies related to environmental matters when a loss is probable of occurring and can be reasonably estimated in accordance with the provisions of GAAP. Accordingly, we have immaterial accruals for loss contingencies for environmental matters.



We also have a number of environmental matters for which we have not accrued loss contingencies because the risk of loss is not probable, or a loss cannot be reasonably estimated. We evaluate the potential liability related to environmental matters quarterly and may revise our estimates. Such revisions in the estimates of the potential liabilities could have a material adverse effect on our results of operations, financial condition or cash flows.

We have several pending environmental matters associated with our current and previously-owned and operated coal-fired generation units. Some of these matters could have material adverse impacts on our results of operations, financial condition or cash flows.

## **Note 12 – Related Party Transactions**

### **Service Company**

The Service Company allocates the costs for services provided based on cost drivers designed to result in fair and equitable allocations. This includes ensuring that the regulated utilities served, including DP&L, are not subsidizing costs incurred for the benefit of other businesses.

### **Benefit Plans**

DPL participates in an agreement with Health and Welfare Benefit Plans LLC, an affiliate of AES, to participate in a group benefits program, including but not limited to, health, dental, vision and life benefits. Health and Welfare Benefit Plans LLC administers the financial aspects of the group insurance program, receives all premium payments from the participating affiliates, and makes all vendor payments.

### **Long-term Compensation Plan**

During 2019, 2018 and 2017, many of DP&L's non-union employees received benefits under the AES Long-term Compensation Plan, a deferred compensation program. This type of plan is a common employee retention tool used in our industry. Benefits under this plan are granted in the form of performance units payable in cash and AES restricted stock units. Restricted stock units vest ratably over a three-year period. The performance units payable in cash vest at the end of the three-year performance period and are subject to certain AES performance criteria. Total deferred compensation expense recorded during 2019, 2018 and 2017 was \$(0.3) million, \$0.3 million and \$0.4 million, respectively, and was included in "Operation and maintenance" on DP&L's Statements of Operations. The value of these benefits is being recognized over the 36-month vesting period and a portion is recorded as miscellaneous deferred credits with the remainder recorded as "Paid in capital" on DP&L's Balance Sheets in accordance with FASC 718 "Compensation - Stock Compensation."

The following table provides a summary of our related party transactions:

\$ in millions	Years ended December 31,		
	2019	2018	2017
<b>DP&amp;L Cost of revenues:</b>			
Fuel and power purchased from AES Ohio Generation	\$ —	\$ —	\$ 5.4
<b>DP&amp;L Operation &amp; Maintenance Expenses:</b>			
Premiums charged for insurance services provided by MVIC <sup>(a)</sup>	\$ 3.1	\$ 2.7	\$ 3.1
<b>Transactions with the Service Company:</b>			
Charges for services provided	\$ 31.2	\$ 25.7	\$ 39.0
Charges to the Service Company	\$ 3.5	\$ 4.9	\$ 4.2
<b>Transactions with other AES affiliates:</b>			
Charges for health, welfare and benefit plans	\$ 10.4	\$ 8.7	\$ 14.3
Charges to affiliates for non-power goods or services <sup>(b)</sup>	\$ 4.1	\$ 7.1	\$ 3.7
Consulting services	\$ 0.7	\$ 2.0	\$ —
<b>Balances with related parties:</b>	<b>At December 31, 2019</b>	<b>At December 31, 2018</b>	
Net payable to the Service Company	\$ (11.0)	\$ (4.8)	
Net payable to AES and other AES affiliates	\$ (3.5)	\$ (0.5)	

- (a) MVIC, a wholly-owned captive insurance subsidiary of DPL, provides insurance coverage to DP&L and other DPL subsidiaries for workers' compensation, general liability, property damages and directors' and officers' liability. These amounts represent insurance premiums charged by MVIC to DP&L.
- (b) In the normal course of business DP&L incurred and recorded expenses on behalf of DPL affiliates. Such expenses included but were not limited to employee-related expenses, accounting, information technology, payroll, legal and other administration expenses. DP&L subsequently charged these expenses to the affiliates at DP&L's cost and credited the expense in which they were initially recorded.



## **Income Taxes**

AES files federal and state income tax returns which consolidate **DPL** and its subsidiaries, including **DP&L**. Under a tax sharing agreement with **DPL**, **DP&L** is responsible for the income taxes associated with its own taxable income and records the provision for income taxes using a separate return method. Under this agreement, **DP&L** had a net receivable balance of \$35.7 million and \$19.6 million at December 31, 2019 and 2018, respectively, which is recorded in Taxes receivable on the accompanying Balance Sheets. During 2019, 2018 and 2017, **DP&L** made net payments of \$22.5 million, \$14.6 million and \$28.1 million respectively, to **DPL** for its share of income taxes.

## **Note 13 – Revenue**

Revenue is primarily earned from retail and wholesale electricity sales and electricity transmission and distribution delivery services. Revenue is recognized upon transfer of control of promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. Revenue is recorded net of any taxes assessed on and collected from customers, which are remitted to the governmental authorities.

*Retail revenue* – **DP&L** energy sales to utility customers are based on the reading of meters at the customer's location that occurs on a systematic basis throughout the month. **DP&L** sells electricity directly to end-users, such as homes and businesses, and bills customers directly. Performance obligations for retail revenues are satisfied over time as energy is delivered and the same method is used to measure progress, and thus the performance obligation meets the criteria to be considered a series. This includes both the promise to transfer energy and other distribution and/or transmission services.

In exchange for the exclusive right to sell or distribute electricity in our service area, **DP&L** is subject to rate regulation by federal and state regulators. This regulation sets the framework for the prices ("tariffs") that **DP&L** is allowed to charge customers for electricity. Since tariffs are approved by the regulator, the price that **DP&L** has the right to bill corresponds directly with the value to the customer of **DP&L's** performance completed in each period. Therefore, revenue under these contracts is recognized using an output method measured by the MWhs delivered each month at the approved tariff.

In cases where a customer chooses to receive generation services from a CRES provider, the price for generation services is negotiated between the customer and the CRES provider, and **DP&L** only serves as a billing agent if requested by the CRES provider. As such, **DP&L** recognizes the consolidated billing arrangement with the CRES provider on a net basis, thereby recording no revenue for the generation component. Retail revenue from these customers would only be related to transmission and distribution charges.

*Wholesale revenue* – **DP&L's** share of the power produced at OVEC is sold to PJM and is classified as Wholesale revenues.

In PJM, the promise to sell energy as wholesale revenue is separately identifiable from participation in the capacity market and the two products can be transacted independently of one another. Therefore, wholesale revenues are a separate contract with a single performance obligation. Revenue is recorded based on the quantities (MWh) delivered in each hour during each month at the spot price, making the contract effectively "month-to-month".

*RTO ancillary revenue* – Compensation for use of **DP&L's** transmission assets and compensation for various ancillary services are classified as RTO ancillary revenues. As **DP&L** owns and operates transmission lines in southwest Ohio within PJM, demand charges collected from network customers by PJM are then allocated to the appropriate transmission owners (i.e. **DP&L**) and recognized as transmission revenues.

Transmission revenues have a single performance obligation, as transmission services represent a distinct service. Additionally, as the performance obligation is satisfied over time and the same method is used to measure progress, the performance obligation meets the criteria to be considered a series. The price that **DP&L**, as the transmission operator, has the right to bill (received as a credit from PJM) corresponds directly with the value to the customer of performance completed in each period, as the price paid is the allocation of the tariff rate (as approved by the regulator) charged to network participants.

*Capacity revenue* – Compensation received from PJM for making installed generation capacity available to satisfy system integrity and reliability requirements is classified as RTO capacity revenues. Capacity, which is a stand-ready obligation to deliver energy when called upon by the RTO, is measured using MWs. If plant availability



exceeds a contractual target, we may receive a performance bonus payment, or if the plant availability falls below a guaranteed minimum target, we may incur a non-availability penalty. Such bonuses or penalties represent a form of variable consideration and are estimated and recognized when it is probable that there will not be a significant reversal and therefore the transaction price is recognized on an output basis based on the MWs.

RTO capacity revenues have a single performance obligation, as capacity is a distinct good. Additionally, as the performance obligation is satisfied over time and the same method is used to measure progress, the performance obligation meets the criteria to be considered a series. The capacity price is set through a competitive auction process established by PJM.

**DP&L's** revenue from contracts with customers was \$712.2 million and \$706.6 million for the years ended December 31, 2019 and 2018, respectively. The following table presents our revenue from contracts with customers and other revenue by segment for the years ended December 31, 2019 and 2018:

\$ in millions	Years ended December 31,	
	2019	2018
<b>Retail revenue</b>		
Retail revenue from contracts with customers	\$ 645.3	\$ 625.8
Other retail revenue <sup>(a)</sup>	22.0	32.1
<b>Wholesale revenue</b>		
Wholesale revenue from contracts with customers	17.2	29.9
<b>RTO ancillary revenue</b>	43.5	43.1
<b>Capacity revenue</b>	6.2	7.8
<b>Miscellaneous revenue</b>	1.2	—
<b>Total revenues</b>	<u>\$ 735.4</u>	<u>\$ 738.7</u>

(a) Other retail revenue primarily includes alternative revenue programs not accounted for under FASC 606.

The balances of receivables from contracts with customers were \$64.4 million and \$70.1 million as of December 31, 2019 and 2018, respectively. Payment terms for all receivables from contracts with customers are typically within 30 days.

We have elected to apply the optional disclosure exemptions under FASC 606. Therefore, we have no disclosures pertaining to revenue expected to be recognized in any future year related to remaining performance obligations, as we exclude contracts with an original length of one year or less, contracts for which we recognize revenue based on the amount we have the right to invoice for services performed, and variable consideration allocated entirely to a wholly unsatisfied performance obligation when the consideration relates specifically to our efforts to satisfy the performance obligation and depicts the amount to which we expect to be entitled for **DP&L**.

#### **Note 14 – Generation Separation**

On October 1, 2017, **DP&L** completed the transfer of its generating plants, the real property on which the generation plants and generation-related assets are sited, step-up transformers and other transmission plant assets used to interconnect with the electric transmission grid, fuel inventory, equipment inventory and spare parts, working capital and other miscellaneous generation-related assets and liabilities to AES Ohio Generation. The transfer was completed as a contribution through an asset contribution agreement to a wholly-owned subsidiary of **DP&L** after which **DP&L** then distributed all of the outstanding equity in the subsidiary to **DPL** and then the subsidiary was merged into AES Ohio Generation.

The following table summarizes the carrying amounts of **DP&L's** Generation assets that were transferred to AES Ohio Generation on October 1, 2017:

<u>\$ in millions</u>	<u>October 1, 2017</u>
<b>ASSETS</b>	
Restricted cash	\$ 2.0
Accounts receivable, net	31.3
Inventories	42.0
Taxes applicable to subsequent years	1.8
Property, plant & equipment, net	87.0
Intangible assets, net of amortization	0.7
Other assets	15.5
<b>Total assets</b>	<b>\$ 180.3</b>
<b>LIABILITIES</b>	
Accounts payable	\$ 12.4
Accrued taxes <sup>(b)</sup>	(3.9)
Long-term debt <sup>(a)</sup>	0.3
Deferred income taxes <sup>(b)</sup>	(91.9)
Accrued pension and other post-retirement benefits	9.6
Unamortized investment tax credit	15.1
Asset retirement obligations	126.3
Other liabilities	24.1
<b>Total liabilities</b>	<b>92.0</b>
<b>Total accumulated other comprehensive income</b>	<b>2.1</b>
<b>Net assets transferred to AES Ohio Generation</b>	<b>\$ 86.2</b>

- (a) Long-term debt that transferred to AES Ohio Generation relates to capital leases.  
(b) Accrued taxes and deferred income taxes transferred to AES Ohio Generation represent the tax asset position netted with liabilities on **DP&L** prior to Generation Separation.

**DP&L's** generation business met the criteria to be classified as a discontinued operation, and, accordingly, the historical activity has been reclassified to "Discontinued operations" in the Statements of Operations for the year ended December 31, 2017.

The following table summarizes the revenues, operating costs, other expenses and income tax of discontinued operations for the period indicated:

<u>\$ in millions</u>	<u>Year ended December 31,</u>	
	<u>2017</u>	
Revenues	\$	358.4
Operating costs and other expenses		(348.4)
Fixed-asset impairment		(66.3)
Loss from discontinued operations		(56.3)
Income tax benefit from discontinued operations		(15.9)
<b>Net loss from discontinued operations</b>	<b>\$</b>	<b>(40.4)</b>

In 2018, **DP&L** transferred additional deferred taxes to AES Ohio Generation under the provisions of SAB 118 through an equity transaction with **DPL** in the amount of \$10.0 million. See Note 8 – Income Taxes for additional information.

Cash flows related to discontinued operations are included in the Statements of Cash Flows. Cash flows from operating activities for discontinued operations were \$21.8 million for the year ended December 31, 2017. Cash flows from investing activities for discontinued operations were \$(3.5) million and for the year ended December 31, 2017.

## **Note 15 – Dispositions**

**Beckjord Facility** – On February 26, 2018, **DP&L** and its co-owners of the retired Beckjord Facility agreed to transfer their interests in the retired Facility to a third party, including their obligations to remediate the Facility and its site, and the transfer occurred on that same date. As a result, **DP&L** recognized a loss on the transfer of \$12.4 million and made cash expenditures of \$14.5 million, inclusive of cash expenditures for the transfer charges. The Beckjord



## [Table of Contents](#)

Facility was retired in 2014, and, as such, the income / (loss) from continuing operations before income tax related to the Beckjord Facility was immaterial for the years ended December 31, 2018 and 2017, excluding the loss on transfer noted above.

## **Item 9 – Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

## **Item 9A – Controls and Procedures**

### **Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosures.

We carried out the evaluation required by Rules 13a-15(b) and 15d-15(b), under the supervision and with the participation of our management, including the CEO and CFO, of the effectiveness of our “disclosure controls and procedures” (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)). Based upon this evaluation, our CEO and CFO concluded that as of December 31, 2019, our disclosure controls and procedures were effective.

### **Management’s Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- provide reasonable assurance that unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements are prevented or detected timely.

Management, including our CEO and CFO, does not expect that our internal controls will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. In addition, any evaluation of the effectiveness of controls is subject to risks that those internal controls may become inadequate in future periods because of changes in business conditions, or that the degree of compliance with the policies or procedures deteriorates.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2019. In making this assessment, management used the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in 2013. Based on this assessment, management believes that we maintained effective internal control over financial reporting as of December 31, 2019.

### **Changes in Internal Control Over Financial Reporting:**

During the second quarter of 2019, we implemented a new core enterprise resource planning (ERP) system, which we expect to enhance our system of internal controls over financial reporting. As a result of this implementation, we modified certain existing internal controls as well as implemented new controls and procedures related to the new ERP. We continued to evaluate the design and operating effectiveness of these internal controls during the fourth quarter of 2019.

Except with respect to the implementation of the ERP, there were no changes that occurred during the quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



**Item 9B – Other Information**

None.

**PART III**

**Item 10 – Directors, Executive Officers and Corporate Governance**

Not applicable pursuant to General Instruction I of the Form 10-K.

**Item 11 – Executive Compensation**

Not applicable pursuant to General Instruction I of the Form 10-K.

**Item 12 – Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters**

Not applicable pursuant to General Instruction I of the Form 10-K.

**Item 13 – Certain Relationships and Related Transactions, and Director Independence**

Not applicable pursuant to General Instruction I of the Form 10-K.

**Item 14 – Principal Accountant Fees and Services**

**Accountant Fees and Services**

The following table presents the aggregate fees billed for professional services rendered to **DPL** and **DP&L** by Ernst & Young LLP during the years ended December 31, 2019 and 2018. Other than as set forth below, no professional services were rendered or fees billed by Ernst & Young LLP during the years ended December 31, 2019 and 2018.

	Fees billed	
	Years ended December 31,	
	2019	2018
Audit Fees <sup>(a)</sup>	\$ 1,145,845	\$ 1,296,650
Audit-related Fees <sup>(b)</sup>	297,680	84,000
Tax Fees	—	—
All Other Fees	—	—
Total	<u>\$ 1,443,525</u>	<u>\$ 1,380,650</u>

(a) Audit fees relate to professional services rendered for the audit of our annual financial statements and the reviews of our quarterly financial statements and other services that are normally provided in connection with regulatory filing or engagements and services rendered under an agreed upon procedure engagement related to environmental studies.

(b) Audit-related fees relate to services rendered to us for assurance and related services.

The Boards of Directors of DPL Inc. and The Dayton Power and Light Company (collectively, the Board) pre-approve all audit and permitted non-audit services, including engagement fees and terms for such services in accordance with Section 10A of the Securities Exchange Act of 1934, as amended. The Board will generally pre-approve a listing of specific services and categories of services, including audit, audit-related and other services, for the upcoming or current fiscal year, subject to a specified cost level. Any material service not included in the pre-approved list of services must be separately pre-approved by the Board. In addition, all audit and permissible non-audit services in excess of the pre-approved cost level, whether or not such services are included on the pre-approved list of services, must be separately pre-approved by the Board.

## PART IV

### Item 15 – Exhibits, Financial Statements and Financial Statement Schedules

The following documents are filed as part of this report:

#### 1. Financial Statements

DPL – Report of Independent Registered Public Accounting Firms	<a href="#">48</a>
DPL – Consolidated Statements of Operations for each of the three years in the period ended December 31, 2019	<a href="#">50</a>
DPL – Consolidated Statements of Comprehensive Income / (Loss) for each of the three years in the period ended December 31, 2019	<a href="#">51</a>
DPL – Consolidated Balance Sheets at December 31, 2019 and 2018	<a href="#">52</a>
DPL – Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2019	<a href="#">53</a>
DPL – Consolidated Statements of Shareholder's Deficit for each of the three years in the period ended December 31, 2019	<a href="#">54</a>
DPL – Notes to Consolidated Financial Statements	<a href="#">55</a>
DP&L – Report of Independent Registered Public Accounting Firm	<a href="#">95</a>
DP&L – Statements of Operations for each of the three years in the period ended December 31, 2019	<a href="#">97</a>
DP&L – Statements of Comprehensive Income for each of the three years in the period ended December 31, 2019	<a href="#">98</a>
DP&L – Balance Sheets at December 31, 2019 and 2018	<a href="#">99</a>
DP&L – Statements of Cash Flows for each of the three years in the period ended December 31, 2019	<a href="#">100</a>
DP&L – Statements of Shareholder's Equity for each of the three years in the period ended December 31, 2019	<a href="#">101</a>
DP&L – Notes to Financial Statements	<a href="#">102</a>

#### 2. Financial Statement Schedules

Schedule II – Valuation and Qualifying Accounts for each of the three years in the period ended December 31, 2019	<a href="#">144</a>
The information required to be submitted in Schedules I, III, IV and V is omitted as not applicable or not required under rules of Regulation S-X.	



## Exhibits

DPL and DP&L exhibits are incorporated by reference as described unless otherwise filed as set forth herein.

The exhibits filed as part of DPL's and DP&L's Annual Report on Form 10-K, respectively, are:

DPL	DP&L	Exhibit Number	Exhibit	Location
X		2(a)	Asset Purchase Agreement dated April 21, 2017, by and among Dynegey Zimmer, LLC, Dynegey Miami Fort, LLC, AES Ohio	<a href="#">Exhibit 2.1 to Report on Form 8-K filed April 24, 2017 (File No. 1-2385)</a>
X		2(b)	Asset Purchase Agreement, dated as of December 15, 2017, by and among AES Ohio Generation, LLC, DPL Inc., Kimura Power, LLC and Rockland Power Partners III, LP	<a href="#">Exhibit 2(e) to Report on Form 10-K filed February 26, 2018 (File No. 1-9052)</a>
X		3(a)	Amended Articles of Incorporation of DPL Inc., as amended through January 6, 2012	<a href="#">Exhibit 3(a) to Report on Form 10-K for the year ended December 31, 2011 (File No. 1-9052)</a>
X		3(b)	Amended Regulations of DPL Inc., as amended through November 28, 2011	<a href="#">Exhibit 3.2 to Report on Form 8-K filed November 28, 2011 (File No. 1-9052)</a>
	X	3(c)	Amended Articles of Incorporation of The Dayton Power and Light Company, as of January 4, 1991	<a href="#">Exhibit 3(c) to Report on Form 10-K filed on February 26, 2018 (File No. 1-9052)</a>
	X	3(d)	Regulations of The Dayton Power and Light Company, as of April 9, 1981	<a href="#">Exhibit 3(a) to Report on Form 8-K filed on May 3, 2004 (File No. 1-2385)</a>
X	X	4(a)	Composite Indenture dated as of October 1, 1935, between The Dayton Power and Light Company and Irving Trust Company, Trustee with all amendments through the Twenty-Ninth Supplemental Indenture	<a href="#">Exhibit 4.1 to Registration Statement No. 333-183556</a>
X	X	4(b)	Forty-First Supplemental Indenture dated as of February 1, 1999, between The Dayton Power and Light Company and The Bank of New York, Trustee	<a href="#">Exhibit 4.4 to Registration Statement No. 333-183556</a>
X	X	4(c)	Forty-Second Supplemental Indenture dated as of September 1, 2003, between The Dayton Power and Light Company and The Bank of New York, Trustee	<a href="#">Exhibit 4(r) to Report on Form 10-K for the year ended December 31, 2003 (File No. 1-2385)</a>
X	X	4(d)	Forty-Third Supplemental Indenture dated as of August 1, 2005, between The Dayton Power and Light Company and The Bank of New York, Trustee	<a href="#">Exhibit 4.4 to Report on Form 8-K filed August 24, 2005 (File No. 1-2385)</a>
X		4(e)	Indenture dated as of August 31, 2001 between DPL Inc. and The Bank of New York, Trustee	<a href="#">Exhibit 4(a) to Registration Statement No. 333-74630</a>
X		4(f)	First Supplemental Indenture dated as of August 31, 2001 between DPL Inc. and The Bank of New York, as Trustee	<a href="#">Exhibit 4(b) to Registration Statement No. 333-74630</a>
X		4(g)	Amended and Restated Trust Agreement dated as of August 31, 2001 among DPL Inc., The Bank of New York, The Bank of New York (Delaware), the administrative trustees named therein and several Holders as defined therein	<a href="#">Exhibit 4(c) to Registration Statement No. 333-74630</a>
X		4(h)	Indenture dated October 3, 2011, between Dolphin Subsidiary II, Inc. and Wells Fargo Bank, National Association	<a href="#">Exhibit 4.1 to Report on Form 8-K filed October 5, 2011 by The AES Corporation (File No. 1-12291)</a>
X		4(i)	Supplemental Indenture dated as of November 28, 2011, between DPL Inc. and Wells Fargo Bank, National Association	<a href="#">Exhibit 4(k) to Report on Form 10-K for the year ended December 31, 2011 (File No. 1-2385)</a>
X	X	4(j)	Loan Agreement dated August 1, 2015, between the Ohio Air Quality Development Authority and The Dayton Power and Light Company, relating to the 2015 Series A bonds	<a href="#">Exhibit 4.1 to Report on Form 8-K filed August 6, 2015 (File No. 1-2385)</a>
X	X	4(k)	Loan Agreement dated August 1, 2015, between the Ohio Air Quality Development Authority and The Dayton Power and Light Company, relating to the 2015 Series B bonds	<a href="#">Exhibit 4.2 to Report on Form 8-K filed August 6, 2015 (File No. 1-2385)</a>
X	X	4(l)	Forty-Eighth Supplemental Indenture dated as of August 1, 2015 between The Bank of New York Mellon, Trustee and The Dayton Power and Light Company	<a href="#">Exhibit 4.3 to Report on Form 8-K filed August 6, 2015 (File No. 1-2385)</a>
X	X	4(m)	Forty-Ninth Supplemental Indenture dated as of August 1, 2015 between The Bank of New York Mellon, Trustee and The Dayton Power and Light Company	<a href="#">Exhibit 4.4 to Report on Form 8-K filed August 6, 2015 (File No. 1-2385)</a>
X	X	4(n)	Bond Purchase and Covenants Agreement dated as of August 1, 2015, among The Dayton Power and Light Company, SunTrust Bank, as Administrative Agent and the several lenders from time to time party thereto	<a href="#">Exhibit 4.5 to Report on Form 8-K filed August 6, 2015 (File No. 1-2385)</a>
X	X	4(o)	Amendment dated February 21, 2017 to Bond Purchase and Covenants Agreement by and among The Dayton Power and Light Company, SunTrust Bank, as Administrative Agent and several lenders from time to time party thereto, dated as of August 1, 2015	<a href="#">Exhibit 4.R to Report Filed on Form 10-K for the year ended December 31, 2016 (File No. 1-2385)</a>



# Table of Contents

DPL	DP&L	Exhibit Number	Exhibit	Location
X	X	4(p)	Fiftieth Supplemental Indenture dated as of August 1, 2016, by and between The Dayton Power and Light Company and The Bank of New York Mellon, Trustee	<a href="#">Exhibit 4.3 to Report on Form 8-K filed August 30, 2016 (File No. 1-2385)</a>
X	X	4(q)	Fifty-First Supplemental Indenture between The Bank of New York Mellon, as Trustee, and The Dayton Power and Light Company	<a href="#">Exhibit 4.1 to Report on Form 8-K filed October 2, 2017 (File No. 1-2385)</a>
X		4(r)	Registration Rights Agreement dated April 17, 2019 between DPL Inc. and J.P. Morgan Securities LLC and Morgan Stanley & Co. LLC	<a href="#">Exhibit 4.2 to Report on Form 8-K filed April 17, 2019 (File No. 1-9052)</a>
X		4(s)	Indenture dated April 17, 2019 between DPL Inc. and U.S. Bank National Association, as Trustee	<a href="#">Exhibit 4.1 to Report on Form 8-K filed April 17, 2019 (File No. 1-9052)</a>
X	X	4(t)	Fifty-Second Supplemental Indenture between The Bank of New York Mellon, as Trustee, and The Dayton Power and Light Company	<a href="#">Exhibit 4.1 to Report on Form 8-K filed June 6, 2019 (File No. 1-2385)</a>
X	X	4(u)	Registration Rights Agreement dated June 6, 2019 between The Dayton Power and Light Company and BofA Securities, Inc. and J.P. Morgan Securities LLC	<a href="#">Exhibit 4.2 to Report on Form 8-K filed June 6, 2019 (File No. 1-2385)</a>
X		10(a)	Amended and Restated Credit Agreement, dated as of June 19, 2019, among DPL Inc., each lender from time to time party thereto, U.S. Bank National Association, as Administrative Agent, Collateral Agent, Swing Line Lender and an L/C Issuer, PNC Bank, National Association, as Syndication Agent and an L/C Issuer, and Fifth Third Bank, BMO Harris Bank, N.A., SunTrust Bank and The Huntington National Bank, as Documentation Agents.	<a href="#">Exhibit 10.1 to Report on Form 8-K filed June 21, 2019 (File No. 1-9052)</a>
X		10(b)	Amended and Restated Pledge Agreement, dated as of June 19, 2019, between DPL Inc. and U.S. Bank National Association, as Collateral Agent.	<a href="#">Exhibit 10.2 to Report on Form 8-K filed June 21, 2019 (File No. 1-9052)</a>
X	X	10(c)	Amended and Restated Credit Agreement, dated as of June 19, 2019, among The Dayton Power and Light Company, each lender from time to time party thereto, PNC Bank, National Association, as Administrative Agent, Swing Line Lender and an L/C Issuer, U.S. Bank National Association, as Syndication Agent and an L/C Issuer, and Fifth Third Bank, BMO Harris Bank, N.A., SunTrust Bank and The Huntington National Bank, as Documentation Agents.	<a href="#">Exhibit 10.3 to Report on Form 8-K filed June 21, 2019 (File No. 1-9052)</a>
X		31(a)	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	<a href="#">Filed herewith as Exhibit 31(a)</a>
X		31(b)	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	<a href="#">Filed herewith as Exhibit 31(b)</a>
	X	31(c)	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	<a href="#">Filed herewith as Exhibit 31(c)</a>
	X	31(d)	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	<a href="#">Filed herewith as Exhibit 31(d)</a>
X		32(a)	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	<a href="#">Filed herewith as Exhibit 32(a)</a>
X		32(b)	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	<a href="#">Filed herewith as Exhibit 32(b)</a>
	X	32(c)	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	<a href="#">Filed herewith as Exhibit 32(c)</a>
	X	32(d)	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	<a href="#">Filed herewith as Exhibit 32(d)</a>
X	X	101.INS	XBRL Instance	<a href="#">Furnished herewith as Exhibit 101.INS</a>
X	X	101.SCH	XBRL Taxonomy Extension Schema	<a href="#">Furnished herewith as Exhibit 101.SCH</a>
X	X	101.CAL	XBRL Taxonomy Extension Calculation Linkbase	<a href="#">Furnished herewith as Exhibit 101.CAL</a>
X	X	101.DEF	XBRL Taxonomy Extension Definition Linkbase	<a href="#">Furnished herewith as Exhibit 101.DEF</a>
X	X	101.LAB	XBRL Taxonomy Extension Label Linkbase	<a href="#">Furnished herewith as Exhibit 101.LAB</a>
X	X	101.PRE	XBRL Taxonomy Extension Presentation Linkbase	<a href="#">Furnished herewith as Exhibit 101.PRE</a>



Exhibits referencing File No. 1-9052 have been filed by DPL Inc. and those referencing File No. 1-2385 have been filed by The Dayton Power and Light Company.

Pursuant to paragraph (b)(4)(iii)(A) of Item 601 of Regulation S-K, we may not file as an exhibit to this Form 10-K certain instruments with respect to long-term debt if the total amount of securities authorized thereunder does not exceed 10% of the total assets of us and our subsidiaries on a consolidated basis, but we hereby agree to furnish to the SEC on request any such instruments.

**Item 16 – Form 10-K Summary**

None.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, DPL Inc. and The Dayton Power and Light Company have duly caused this report to be signed on their behalf by the undersigned, thereunto duly authorized.

**DPL Inc.**

February 27, 2020

/s/ Barry J. Bentley

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Barry J. Bentley

Interim President and Chief Executive Officer

(principal executive officer)

**The Dayton Power and Light Company**

February 27, 2020

/s/ Vincent Parisi

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Vincent Parisi

President and Chief Executive Officer

(principal executive officer)



Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of **DPL Inc.** and in the capacities and on the dates indicated.

<u>/s/ Kenneth J. Zagzebski</u> Kenneth J. Zagzebski	Director and Chairman	February 27, 2020
<u>/s/ Leonardo Moreno</u> Leonardo Moreno	Director	February 27, 2020
<u>/s/ Lisa Krueger</u> Lisa Krueger	Director	February 27, 2020
<u>/s/ Michelle A. Dreyer</u> Michelle A. Dreyer	Director	February 27, 2020
<u>/s/ Barry J. Bentley</u> Barry J. Bentley	Director, Interim President and Chief Executive Officer (principal executive officer)	February 27, 2020
<u>/s/ Gustavo Garavaglia</u> Gustavo Garavaglia	Chief Financial Officer (principal financial officer)	February 27, 2020
<u>/s/ Karin M. Nyhuis</u> Karin M. Nyhuis	Controller (principal accounting officer)	February 27, 2020

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of **The Dayton Power and Light Company** and in the capacities and on the dates indicated.

<u>/s/ Kenneth J. Zagzebski</u> Kenneth J. Zagzebski	Director and Chairman	February 27, 2020
<u>/s/ Barry J. Bentley</u> Barry J. Bentley	Director	February 27, 2020
<u>/s/ Paul Freedman</u> Paul Freedman	Director	February 27, 2020
<u>/s/ Lisa Krueger</u> Lisa Krueger	Director	February 27, 2020
<u>/s/ Tish Mendoza</u> Tish Mendoza	Director	February 27, 2020
<u>/s/ Mark Miller</u> Mark Miller	Director	February 27, 2020
<u>/s/ Leonardo Moreno</u> Leonardo Moreno	Director	February 27, 2020
<u>/s/ Thomas A. Raga</u> Thomas A. Raga	Director	February 27, 2020
<u>/s/ Vincent Parisi</u> Vincent Parisi	Director, President and Chief Executive Officer (principal executive officer)	February 27, 2020
<u>/s/ Gustavo Garavaglia</u> Gustavo Garavaglia	Vice President and Chief Financial Officer (principal financial officer)	February 27, 2020
<u>/s/ Karin M. Nyhuis</u> Karin M. Nyhuis	Controller (principal accounting officer)	February 27, 2020



**Schedule II**

DPL Inc.  
VALUATION AND QUALIFYING ACCOUNTS  
For each of the three years in the period ended December 31, 2019

\$ in thousands

Description	Balance at Beginning of Period	Additions	Deductions <sup>(a)</sup>	Balance at End of Period
Year ended December 31, 2019				
Deducted from accounts receivable -				
Provision for uncollectible accounts	\$ 890	\$ 3,005	\$ 3,511	\$ 384
Deducted from deferred tax assets -				
Valuation allowance for deferred tax assets <sup>(b)</sup>	\$ 29,907	\$ 2,197	\$ 3,092	\$ 29,012
Year ended December 31, 2018				
Deducted from accounts receivable -				
Provision for uncollectible accounts	\$ 1,053	\$ 3,411	\$ 3,574	\$ 890
Deducted from deferred tax assets -				
Valuation allowance for deferred tax assets <sup>(b)</sup>	\$ 36,328	\$ 1,715	\$ 8,136	\$ 29,907
Year ended December 31, 2017				
Deducted from accounts receivable -				
Provision for uncollectible accounts	\$ 1,159	\$ 3,141	\$ 3,247	\$ 1,053
Deducted from deferred tax assets -				
Valuation allowance for deferred tax assets <sup>(b)</sup>	\$ 38,266	\$ 4,383	\$ 6,321	\$ 36,328

(a) Amounts written off, net of recoveries of accounts previously written off.

(b) Balances and activity for valuation allowances for deferred tax assets include amounts presented within both the "Deferred income taxes" line and the "Non-current liabilities of discontinued operations and held-for-sale businesses" line on DPL's Consolidated Balance Sheets.

THE DAYTON POWER AND LIGHT COMPANY  
VALUATION AND QUALIFYING ACCOUNTS  
For each of the three years in the period ended December 31, 2019

\$ in thousands

Description	Balance at Beginning of Period	Additions	Deductions <sup>(a)</sup>	Balance at End of Period
Year ended December 31, 2019				
Deducted from accounts receivable -				
Provision for uncollectible accounts	\$ 890	\$ 3,005	\$ 3,511	\$ 384
Year ended December 31, 2018				
Deducted from accounts receivable -				
Provision for uncollectible accounts	\$ 1,053	\$ 3,411	\$ 3,574	\$ 890
Year ended December 31, 2017				
Deducted from accounts receivable -				
Provision for uncollectible accounts	\$ 1,159	\$ 3,141	\$ 3,247	\$ 1,053

(a) Amounts written off, net of recoveries of accounts previously written off.



**This foregoing document was electronically filed with the Public Utilities**

**Commission of Ohio Docketing Information System on**

**11/30/2020 2:21:29 PM**

**in**

**Case No(s). 20-1651-EL-AIR, 20-1652-EL-AAM, 20-1653-EL-ATA**

Summary: Application Book I - Application and Supplemental, Volume 8 of 11 electronically filed by Mr. Jeffrey S Sharkey on behalf of The Dayton Power and Light Company