FirstEnergy Solutions

341 White Pond Drive, A-WAC-B3
Akron, Ohio 44320

September 19, 2016

Ms. Barcy McNeal
Administration/Docketing
Public Utilities Commission of Ohio
180 East Broad Street, 11th Floor
Columbus, Ohio 43215-3793

Re: Notice of Material Change to FirstEnergy Solutions Corp. Application Docket No. 00-1742-EL-CRS

Dear Ms. McNeal:

FirstEnergy Solutions Corp. ("FES"), pursuant to Ohio Adm.Code 4901:1-24-11, submits the enclosed bond rating report by Moody's Investors Service, which downgraded FES from Baa3 to Ba2 on or around July 29, 2016.

If the Commission has any questions regarding this submission, please feel free to contact me by phone at 330-436-2763 or via email at shuttleworthtt@firstenergycorp.com. You may also contact our legal counsel, N. Trevor Alexander, by telephone at 614-621-7774 or via email at talexander@calfee.com.

Very truly yours,

Tamara R. Shuttleworth

Tamara R. Shuttleworth

MOODY'S
INVESTORS SERVICE

Rating Action: Moody's Downgrades FirstEnergy Solutions Corp and Allegheny Energy Supply Co; Rating Outlooks remain negative

Global Credit Research - 29 Jul 2016

Approximately $5.0 billion of debt affected

New York, July 29, 2016 -- Moody's Investors Service, ("Moody's") today downgraded the senior unsecured rating for First Energy Solutions Corp (FES) to Ba2 from Baa3 and for Allegheny Energy Supply Company, LLC (AES) to Ba1 from Baa3. The Baa2 senior secured revenue bond rating for FES and the Baa3 senior unsecured rating for Allegheny Generating Company (AGC) were affirmed. The rating outlooks for FES and AES remain negative. The rating outlook for AGC was changed to stable from negative.

Moody's also assigned a Ba2 Corporate Family Rating (CFR) and Ba2-PD Probability of Default Rating (PDR) to FES and a Ba1 CFR and Ba1-PD to AES. The Baa3 Issuer rating for FES was withdrawn. Moody's also assigned an SGL-2 speculative grade liquidity rating for both FES and AES.

The Baa3 issuer rating and negative rating outlook for FirstEnergy Corp (FirstEnergy) remain unchanged.

"The lower ratings at FES and AES reflect Moody's decision to delink the ratings on these companies from that of parent FirstEnergy following its decision to eventually exit the merchant business and transition to a purely regulated utility holding company", said Swami Venkataraman, Vice President -- Senior Credit Officer. "The downgrade also reflects the weak merchant market conditions and incorporates our expectations that any assistance provided to FirstEnergy by the state of Ohio will likely not be linked to the generation business."

Downgrades:

..Issuer: Allegheny Energy Supply Company, LLC

....Senior Unsecured Regular Bond/Debenture, Downgraded to Ba1 (LGD4) from Baa3

..Issuer: Beaver (County of) PA, Industrial Devel Auth

....Senior Unsecured Revenue Bonds, Downgraded to Ba2 (LGD4) from Baa3

..Issuer: Bruce Mansfield Unit 1

....Senior Secured Pass-Through, Downgraded to Ba2 (LGD4) from Baa3

..Issuer: FirstEnergy Solutions Corp.

....Senior Unsecured Bank Credit Facility, Downgraded to Ba2 from Baa3

....Backed Senior Unsecured Regular Bond/Debenture, Downgraded to Ba2 (LGD4) from Baa3

..Issuer: Ohio Air Quality Development Authority

.... Backed Senior Unsecured Revenue Bonds, Downgraded to Ba2 (LGD4) from Baa3

..Issuer: Ohio Water Development Authority

....Backed Senior Unsecured Revenue Bonds, Downgraded to Ba2 (LGD4) from Baa3

..Issuer: Pennsylvania Economic Dev. Fin. Auth.

....Backed Senior Unsecured Revenue Bonds, Downgraded to Ba2 (LGD4) from Baa3

..Issuer: Pleasants (County of) WV, County Commission

....Backed Senior Unsecured Revenue Bonds, Downgraded to Ba1 (LGD4) from Baa3

Assignments:

..Issuer: FirstEnergy Solutions Corp.

.... Corporate Family Rating, Assigned Ba2

.... Probability of Default Rating, Assigned Ba2-PD

.... Speculative Grade Liquidity Rating, Assigned SGL-2

..Issuer: Allegheny Energy Supply Company, LLC

.... Corporate Family Rating, Assigned Ba1

.... Probability of Default Rating, Assigned Ba1-PD

.... Speculative Grade Liquidity Rating, Assigned SGL-2

Affirmations:

..Issuer: Ohio Air Quality Development Authority

....Backed Senior Secured Revenue Bonds, Affirmed Baa2

..Issuer: Ohio Water Development Authority

....Backed Senior Secured Revenue Bonds, Affirmed Baa2

..Issuer: Allegheny Generating Company

....Senior Unsecured Regular Bond/Debenture, Affirmed Baa3

Outlook Actions:

..Issuer: Allegheny Energy Supply Company, LLC

....Outlook, Remains Negative

..Issuer: Bruce Mansfield Unit 1

....Outlook, Remains Negative

..Issuer: FirstEnergy Solutions Corp.

....Outlook, Remains Negative

..Issuer: Allegheny Generating Company

....Outlook, Changed To Stable From Negative

Withdrawals:

..Issuer: FirstEnergy Solutions Corp.

.... Issuer Rating, Withdrawn , previously rated Baa3

RATINGS RATIONALE

Moody's historically rated FES and AES at the same level as FirstEnergy because of the importance of the merchant operations to the company's over-all corporate strategy. FirstEnergy has also provided extraordinary financial assistance to FES in the past, such as the 2013 transfer of $1.5 billion of debt from FES to FirstEnergy. In 2015, FirstEnergy's management substantially reduced the size and focus of the merchant segment and also stated that it would not infuse any more capital into the business. However, we maintained the rating link between FE and FES because FirstEnergy was still pursuing regulatory options in Ohio linked to its generation business designed to collect additional cash flow, which would have bolstered FirstEnergy's consolidated financial profile. None of these historic considerations are valid going forward.

FES' Ba2 CFR reflects weak merchant market conditions as well as the composition of FES' generation portfolio, which is roughly 50% coal, 40% nuclear and 5% each of gas and renewables. Low power prices, driven by low natural gas prices, are placing considerable strain on FES' business. This trend is especially pronounced in eastern Ohio and Pennsylvania due to its proximity to the Marcellus natural gas shale formation. The rating is benefited by the cash flow that is derived from capacity revenues procured through the Pennsylvania-Maryland-New Jersey Regional Transmission Organization (PJM), which represents about 30% of FES' total gross margins. Nevertheless, FES' EBITDA is backwardated, meaning projected capacity and energy prices are falling. In 2016 and 2017, Moody's expects FES to generate roughly $100 - $150 million in free cash flow (after accounting for maintenance capex and nuclear fuel expenses) but will be free cash flow negative in 2018.

Moody's expects FES's cash from operations pre-working capital (CFO pre-WC) coverage of debt to fall from about 24% in 2016 (owing to strong capacity pricing in PJM's ATSI zone) to 16% in 2018, and free cash flow (FCF) coverage of debt from 5% in 2016 to zero by 2018. Moody's estimates FES' generation assets are worth approximately $3.6 billion, compared to adjusted debt of roughly $4.3 billion.

AES' Ba1 CFR is higher than FES because of a significantly different portfolio composition and materially lower leverage. AES' 2,982 MW portfolio is 46% coal, 30% natural gas and 24% pumped storage hydro. AES' coal plant is also a relatively better performer than FES' coal plants, with capacity factor of 62% in 2015 and over 70% in the years before. The gas and hydro assets are well positioned in PJM and don't face the same environmental or cost pressures as coal and nuclear generation.

AES has substantially lower leverage than FES. Moody's expects AES's CFO pre-WC coverage of debt to fall from about 31.5% in 2016 to 15% in 2018. Free cash flow (FCF) coverage of debt is expected to fall from 18% in 2016 to 4% by 2018. The material decline in 2018 is partly attributable to deferred tax swings and we expect that CFO pre-WC and FCF coverage ratios in 2017 and 2019 would be 20-25% and 8-10%, respectively, in the absence of these swings. Moody's estimates a value for AES' generating assets at $1.37 billion, compared to debt of $653 Million.

The affirmation of AGC's rating and the revision of the rating outlook to stable from negative reflects the unique nature of AGC's operations. AGC is 59% owned by AES and 41% owned by Monongahela Power Company (MP; Baa2 senior unsecured, stable outlook), a regulated utility subsidiary of FirstEnergy. As such, this ownership structure provides some bankruptcy insulation from AES, as well as FES. Further, AGC is regulated by the Federal Energy Regulatory Commission (FERC) and generates revenues from both AES and MP. The FERC authorized revenue tariff includes all of AGC's operating costs, as well as an 11% return on equity.

Structural Considerations

The ratings for FES and AES' debt instruments comprise both the overall probability of default of the corporate family rating, reflected in their Ba2-PD and Ba1-PD PDRs, respectively, and an average family loss given default assessment, using Moody's Loss Given Default Methodology. The Baa2 rating assigned to the secured debt at FES' subsidiaries First Energy Generation (FEG) and FirstEnergy Nuclear Generating (FENG) reflects the presence of only about $310 million of secured debt against a total outstanding debt of about $3 billion.

The Ba2 (LGD4 59%) rating assigned to the unsecured debt at FES, FEG and FENG reflects the cross-guarantees that exist between FES and each of FEG and FENG which effectively makes unsecured debt at FES pari-passu with unsecured debt at FEG and FENG. In fact, any unsatisfied secured claims at FEG and FENG will also be pari-passu with these unsecured claims.

Liquidity

Moody's assigned an SGL-2 speculative grade liquidity rating for both FES and AES reflecting adequate liquidity and or expectation that the companies can finance all their cash needs, including maintenance capex from operating cash flow over the next twelve months. The companies had about $42 million outstanding under their shared $1.5 billion revolving credit facility which matures in March 2019. FES and AES have sub-limits of $1.5 billion and $1 billion, respectively. This revolver is mostly undrawn as its primary purpose is to provide contingent liquidity in the event of a credit or market shock. FirstEnergy disclosed that the collateral impact from a downgrade of FES/AES by all rating agencies was about $300 million, which is easily manageable with its current . Liquidity is managed centrally at FirstEnergy, which has another revolver sized at $3.5 billion where the regulated utilities are also co-borrowers. FirstEnergy had $146 million of cash on hand as of March 31, 2016

FES and AES' revolving credit facility contains only one financial covenant, applicable to both, which is a requirement to maintain a consolidated debt to total capitalization ratio of no more than 65%. Both companies were in compliance with this requirement as of Mar 31, 2016.

We expect FES and AES to generate free cash flow of $100-150 million and $50-100 million, respectively in each of 2016 and 2017. AES has no debt maturities in the next 12 months. FES needs to remarket $391 million of its variable rate revenue bonds in 2016. About $285 million of this amount has already been taken out using the FES revolver to date and an additional $106.45 million will mature in September.

Rating Outlook

The negative rating outlook on FES and AES reflects the expected decline in capacity revenues and EBITDA going forward and the fact that financial ratios are expected to fall significantly from 2018 onwards in the absence of a general recovery in merchant market conditions.

Factors that Could Lead to an Upgrade

The rating could be upgraded if merchant market conditions improve and enable the company to consistently maintain a financial profile adequate for the rating. This includes CFO pre-WC and FCF coverage of debt in the high-teens and 8-10%, respectively for FES and 20-25% and 10-15%, respectively for AES

Factors that Could Lead to a Downgrade

Financial ratios that are currently forecasted for 2016 and 2017 are adequate for the ratings at FES and AES. However, ratings may again be downgraded if expectations for 2018 and beyond don't improve from current levels and the expected CFO pre-WC and FCF coverage of debt for 2018 and beyond were to decline below levels required to stabilize the outlook mentioned above.

The principal methodology used in rating Allegheny Generating Company was Regulated Electric and Gas Utilities published in December 2013. The principal methodology used in rating FirstEnergy Solutions Corp. and Allegheny Energy Supply Company, LLC was Unregulated Utilities and Unregulated Power Companies published in October 2014. Please see the Ratings Methodologies page on www.moodys.com for a copy of these methodologies.

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