

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of)	
The Cleveland Electric Illuminating)	
Company for Authority)	
to Issue, Sell, or Enter into)	No. 17-1376-EL-AIS
Debt Transactions)	

Applicant, The Cleveland Electric Illuminating Company (the "Company") hereby submits this Application, pursuant to O.R.C. §4905.40, and respectfully represents:

1. The Company, an Ohio corporation, is a "public utility" as defined in O.R.C. §4905.02 and is subject to the jurisdiction of the Public Utilities Commission of Ohio (the "Commission"). The Company is primarily engaged in the distribution of electric energy for sale to consumers within the State of Ohio.
2. The Company has authorized capital stock as set forth in Exhibit A filed herewith, incorporated herein and made a part hereof, the number of shares of which are outstanding as of recent date is also set forth in Exhibit A.
3. The Company has issued and there is outstanding as of a recent date evidence of indebtedness maturing more than twelve months after its date of issuance in the aggregate principal amount set forth in Exhibit A, duly authorized by order of the Commission.
4. The Company proposes, subject to the authorization of the Commission, to issue new bonds, notes and other evidence of indebtedness on a secured or unsecured basis and maturing more than twelve months after their date of issuance in an amount not to exceed \$350 million in the aggregate (the "New Debt"). The New Debt may be issued in one or more issuances, and each issuance is expected to be issued in one

or more series of the Company's first mortgage bonds, unsecured notes or debentures. The New Debt will be issued within twelve months of Commission approval. The purpose of the New Debt as requested in this Application is to enable the Company to (i) refinance existing indebtedness, including (1) its \$300 million 7.88% First Mortgage Bonds due November 1, 2017 and (2) amounts outstanding under the Money Pool and Credit Agreement (ii) fund capital expenditures, (iii) fund general corporate purposes, or (iv) fund any combination of the above.

5. On December 21, 2016, the Commission authorized the Company to issue, renew or assume liability on notes and other evidences of indebtedness maturing not more than twelve months after the date of such issuance, renewal or assumption of liability (collectively, "Short-Term Notes") for regulated utility purposes including: current maturities of existing obligations, retirement of securities through open market purchases, redemption of securities through applicable redemption provisions, loans to the FirstEnergy utility money pool, working capital and for general corporate purposes, in aggregate principal amounts at any one time outstanding not to exceed \$500 million during the 2017 Fiscal Year (the, "December 2016 Order").¹ The authorization to issue the New Debt requested in this Application is in addition to the Company's existing authorization to issue Short-Term Notes pursuant to the December 2016 Order.

¹ Case No. 16-2052-EL-AIS.

6. The New Debt is proposed to be offered through negotiated private placements. Each series of such New Debt will mature in not less than one or more than 41 years from the date of issuance. The Company proposes that the Commission authorize the issuance of the New Debt based on the financial parameters (including financial terms and underwriting fees, discounts and commissions) set forth in Exhibit E so as to assure that the terms of the New Debt are within reasonable limits. The Company proposes to consummate the sale of the New Debt, in one or more issuances, as market conditions appear to be appropriate, or as the need arises, after the Commission's approval thereof but not later than twelve months after Commission approval.
7. The New Debt will be issued pursuant to one or more note purchase agreements. In addition, the New Debt will be issued under either (i) that certain Mortgage and Deed of Trust Indenture dated as of July 1, 1940, from the Company to The Bank of New York Mellon Trust Company N.A., as successor trustee, (ii) that certain Indenture dated as of December 1, 2003, from the Company to The Bank of New York Mellon Trust Company N.A., as successor trustee, or (iii) one or more indentures between the Company and a trustee selected by the Company. The financing terms and underwriting, placement or arrangement fees and commissions of the New Debt will be within the parameters described in Exhibit E. The New Debt may also contain provisions limiting or restricting the incurrence of secured debt by the Company or may contain provisions subordinating the rights of holders of such New Debt to payment thereunder to outstanding senior indebtedness of the Company (including, but not limited to, in connection with offerings of preferred securities by subsidiary trusts or other entities supported by subordinated notes).

Any series of New Debt may be issued with the benefit of letters of credit, bond insurance or other similar forms of credit enhancement issued by banks, bond insurance firms or other appropriate financial institutions. Additionally, to the extent it appears desirable, the Company may issue New Debt with new first mortgage bonds as security for the repayment of the New Debt; in such case, payments under the New Debt would be credited against amounts due on the applicable first mortgage bonds and vice versa. If any New Debt is secured by first mortgage bonds, such bonds shall be considered authorized for issuance under any order granted pursuant to this Application but will not be counted in determining the aggregate principal amount of New Debt that the Company has authority to issue under such order, provided that the related New Debt secured thereby is authorized and so counted under such order.

8. The Company hereby undertakes, upon the granting of the authority herein requested, to keep the Commission advised of each issuance of New Debt by providing the Staff with such documents and other information as the Commission Staff may request, and will submit a report following each such issuance showing that the financial terms of such issuance do not exceed the parameters with respect thereto that were approved by the Commission.

9. The Company incorporates herein by reference the following exhibits:

Exhibit A Balance sheets of the Company at December 31, 2016 actual and pro forma.

Exhibit B Statement of income of the Company for the twelve months ended December 31, 2016, actual and pro forma.

Exhibit C Statement of capitalization of the Company at December 31, 2016.

Exhibit D Cash requirements of the Company for 2016 (actual), 2017 (estimated) and 2018 (estimated).

Exhibit E Financing parameters for the New Debt.

WHEREFORE, the Company prays, consistent with the Application and Exhibits filed herein, that an order be issued by the Commission without hearing as follows:

- 1) That the Commission approves the Company's Application to issue and sell or otherwise incur, from time to time by means of negotiated private placements or otherwise, up to \$350 million principal amount of New Debt (exclusive of any other debt permitted to be issued without authorization by the Commission) consistent with the provisions set forth in this Application at the best terms reasonably obtainable by the Company, provided that in all cases such terms are within the parameters described in Exhibit E;
- 2) That the Commission finds that the amount of New Debt (or any proceeds thereof) is just and reasonable and provided further that such amount is exclusive of any short-term financing the Company may incur during said period with the Commission's approval;
- 3) That the Commission finds that the purpose to which at least a portion of the New Debt (or any proceeds thereof) shall be applied is reasonably required by

the Company to meet its present and prospective public utility obligations;

4) That the Commission grants such other relief as it may deem proper; and

5) That due to the time sensitive nature of this request, that the Commission issue such order approving this Application on or before August 31, 2017.

By: Steven R. Staub


Steven R. Staub
Vice President and Treasurer

By: Ermal Fatusha

Ermal Fatusha
Assistant Treasurer

STATE OF OHIO)
) ss.:
SUMMIT COUNTY)

Steven R. Staub and Ermal Fatusha, depose and say that they are Vice President and Treasurer and Assistant Treasurer, respectively, of The Cleveland Electric Illuminating Company, Applicant in the above matter, and that they have read and are fully acquainted and familiar with the contents of the foregoing Application and that the statements therein are true as they verily believe.



Steven R. Staub



Ermal Fatusha

Subscribed and sworn to before
me this 31st day of May 2017



MICHELE A. BUCHEL
NOTARY PUBLIC
STATE OF OHIO
Recorded in
Summit County
My Comm. Exp. 8/28/2021



Michele A. Buchtel
Notary



James A. Arcuri
Attorney for Applicant

The Cleveland Electric Illuminating Company
(Unaudited)
Corporate Balance Sheet
As of December 31, 2016
(In millions)

<u>ASSETS</u>	<u>Actual</u>	<u>Effect of Proposed Transactions Current Filing</u>	<u>Pro Forma</u>
UTILITY PLANT:			
In service	\$ 3,064	\$ -	\$ 3,064
Less - Accumulated provision for depreciation	1,188	-	1,188
	<u>1,876</u>	<u>-</u>	<u>1,876</u>
Construction work in progress	41	-	41
	<u>1,917</u>	<u>-</u>	<u>1,917</u>
OTHER PROPERTY AND INVESTMENTS	10		10
CURRENT ASSETS:			
Cash and cash equivalents	-	327	327
Receivables-			
Customer, net of allowance for uncollectible accounts	110	-	110
Affiliated companies	56	-	56
Other	11	-	11
Notes receivable from associated companies	28	-	28
Prepayments and other current assets	15	-	15
	<u>220</u>	<u>327</u>	<u>547</u>
DEFERRED CHARGES AND OTHER ASSETS			
Goodwill	1,689	-	1,689
Regulatory assets	89	-	89
Other	117	-	117
	<u>1,895</u>	<u>-</u>	<u>1,895</u>
	<u>\$ 4,042</u>	<u>\$ 327</u>	<u>\$ 4,369</u>

The Cleveland Electric Illuminating Company
(Unaudited)
Corporate Balance Sheet
As of December 31, 2016
(In millions)

<u>CAPITALIZATION AND LIABILITIES</u>	<u>Actual</u>	<u>Effect of Proposed Transactions Current Filing</u>	<u>Pro Forma</u>
CAPITALIZATION:			
Common stockholder's equity-			
Common stock, without par value, authorized 105,000,000 shares		\$ -	\$ -
- 67,930,743 shares outstanding	\$ 1,125		\$ 1,125
Accumulated other comprehensive income	7		7
Retained earnings	244	(12)	232
Total common stockholder's equity	1,376	(12)	1,364
Long-term debt and other long-term obligations	1,051	346	1,397
	<u>2,427</u>	<u>334</u>	<u>2,761</u>
CURRENT LIABILITIES:			
Currently payable long-term debt	452	-	452
Short-term borrowings - affiliated companies	2		2
Accounts payable-			-
Affiliated companies	37		37
Other	10	-	10
Accrued taxes	111	(7)	104
Accrued interest	18	-	18
Other current liabilities	44	-	44
	<u>674</u>	<u>(7)</u>	<u>667</u>
NONCURRENT LIABILITIES:			
Accumulated deferred income taxes	554	-	554
Retirement benefits	104	-	104
Other	283	-	283
	<u>941</u>	<u>-</u>	<u>941</u>
	<u>\$ 4,042</u>	<u>\$ 327</u>	<u>\$ 4,369</u>

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY
Pro Forma Journal Entries
Current Filing
(In millions)

	<u>Debit</u>	<u>Credit</u>
Current Assets:		
Cash and Cash Equivalents	\$ 346	
Capitalization:		
Long-Term Debt		\$ 350
Unamortized Debt Expense	\$ 4	

To record the proposed issuances of \$350,000,000, principal amount of long-term debt with an interest rate of 5.5% and related debt issuance costs. To also record the redemption of associated company long-term debt and currently payable long-term debt.

Capitalization:		
Retained Earnings	\$ 12	
Current Liabilities:		
Accrued Taxes	7	
Current Assets:		
Cash and Cash Equivalents		\$ 19

To record the annual effect on retained earnings resulting from the increase in interest requirements and the amortization of debt expense associated with the above transaction.

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY
(Unaudited)
Corporate Statement of Income
For the Twelve Months Ended December 31, 2016
(In millions)

	<u>Actual</u>	<u>Effect of Proposed Transactions Current Filing</u>	<u>Pro Forma</u>
REVENUES			
Electric sales	\$ 884		\$ 884
Excise tax collections	68		68
Total revenues	<u>952</u>	<u>-</u>	<u>952</u>
OPERATING EXPENSES			
Purchased power from affiliates	40	-	40
Purchase power from non-affiliates	124		124
Other operating expenses	320		320
Pension and OPEB mark-to-market adjustment	21		21
Provision for depreciation	94		94
Amortization of regulatory assets, net	15	-	15
General taxes	177	(0)	177
Total operating expenses	<u>791</u>	<u>(0)</u>	<u>791</u>
OPERATING INCOME	<u>161</u>	<u>0</u>	<u>161</u>
OTHER INCOME/(EXPENSE):			
Miscellaneous income	3	-	3
Interest expense	(109)	(19)	(128)
Total other expense	<u>(106)</u>	<u>(19)</u>	<u>(125)</u>
INCOME BEFORE INCOME TAXES	55	(19)	36
INCOME TAXES	<u>18</u>	<u>(7)</u>	<u>11</u>
NET INCOME	<u>\$ 37</u>	<u>\$ (12)</u>	<u>\$ 25</u>

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY
Statement of Income
For the Twelve Months Ended December 31, 2016
Estimated Effect of Proposed Transactions
Current Filing
(In millions)

Interest on long-term debt:		
Annual increase in interest requirements resulting from the proposed issuance of \$350,000,000 of long-term debt with an interest rate of 5.50%.		\$ 19.250
Other interest expense:		
Annual decrease in interest requirements resulting from the redemption of long-term debt to associated companies		-
Annual increase in the amortization of debt expense		0.117
		<u>\$ 19.367</u>
Operating Income Taxes:		
Decrease in state and local income taxes at a rate of 1.4617% on an increase in interest expense.	\$ 0.283	
Decrease in Federal income tax at a rate of 34.4884% on a net decrease of income before Federal income taxes of \$19,084,000.	<u>6.582</u>	<u>6.865</u>
Decrease in earnings on common stock due to proposed debt issuance		<u><u>\$ 12.502</u></u>

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY
(Unaudited)
SCHEDULE OF PREFERRED STOCK,
PREFERENCE STOCK AND LONG-TERM DEBT

PREFERRED STOCK:

The Company had no preferred stock outstanding as of December 31, 2016.

<u>Series</u>	<u>Number of Shares</u>		<u>Redemption Price Per Share</u>	<u>Aggregate Redemption Amount</u>	<u>Outstanding</u>
	<u>Authorized</u>	<u>Outstanding</u>			
No Par Value: Undesignated	4,000,000	--		--	--

PREFERENCE STOCK:

The Company had no preference stock outstanding at December 31, 2016.

<u>Series</u>	<u>Number of Shares</u>		<u>Redemption Price Per Share</u>	<u>Aggregate Redemption Amount</u>	<u>Involuntary Liquidation Value</u>
	<u>Authorized</u>	<u>Outstanding</u>			
No Par Value: Undesignated	3,000,000	--		--	--

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY
(Unaudited)
SCHEDULE OF PREFERRED STOCK,
PREFERENCE STOCK AND LONG-TERM DEBT (Continued)

LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS:

Long-term debt outstanding at December 31, 2016 consists of the following:

	<u>(In Millions)</u>
Long term debt:	
5.700% Senior Notes Series due 2017	\$ 130
7.880% Secured Notes Series due 2017	\$ 300
8.875% First Mortgage Bonds Series due 2018	\$ 300
5.500% First Mortgage Bonds Series due 2024	\$ 300
5.950% Senior Notes Series due 2036	\$ 300
Subtotal	<u>\$ 1,330</u>
Phase-in Recovery Bonds (CEI Funding LLC):	
6.790% Phase in Recovery Bond due 2017	\$ 5
1.726% Phase in Recovery Bond due 2017	\$ 56
3.450% Phase in Recovery Bond due 2017	\$ 104
Subtotal	<u>\$ 165</u>
Capital Lease obligations	\$ 14
Unamortized debt discounts	\$ (2)
Unamortized debt issuance costs	\$ (4)
Currently payable long-term debt	<u>\$ (452)</u>
Total long-term debt and other long-term obligations	<u><u>\$ 1,051</u></u>

EXHIBIT D

THE CLEVELAND ELECTRIC ILLUMINTING COMPANY
2016 to 2018
Sources and Uses of Funds
(\$ millions)

SOURCES OF FUNDS

	<u>Actual</u> <u>2016</u>	<u>Forecast</u> <u>2017</u>	<u>Forecast</u> <u>2018</u>
Debt Obligations	\$ -	\$ 350	\$ 250
Equity from the Parent	200	-	
Retained Earnings	37	118	137
Non-cash Items			
Prov for Depr & Amort	94	98	101
Prov for Deferred Taxes & ITC	(2)	(29)	(18)
	\$ 329	\$ 537	\$ 470

DISPOSITION OF FUNDS

Construction Expenditures	\$ 117	\$ 115	\$ 120
Long-term Redemptions	19	449	319
Common Dividends			100
Short-term Debt	188		
Working Capital and Other	5	(27)	(69)
	\$ 329	\$ 537	\$ 470

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY

Financing Parameters

Principal Amount: Up to \$350,000,000

Price to the Company: The Company will receive proceeds equal to the offering price which shall not be less than 96 percent of the aggregate principal of the Notes inclusive of any Fees or Commissions indicated below.

Fees or Commissions: For each series or issue, any underwriting or sales commission or placement fee will not exceed 1.65% of the aggregate principal amount of such series.

Interest Rate: The interest rate applicable to the Notes will result in a yield to maturity of the holder thereof which does not exceed 250 basis points above the yield to maturity on United States Treasury Bonds of comparable maturity at the time of pricing or issuance, whichever is earlier.

Maturity: No more than 41 years from the date of issuance.

Redemption Price and Other Terms: For each issue, the optional redemption price will not exceed the greater of (i) 100% of the principal amount of the Notes or Bonds being redeemed and (ii) a make-whole price calculated by reference to the present value of then-remaining scheduled principal and interest payments discounted at a rate derived from the then-current yield on US Treasury securities of comparable maturity. Except to the extent specific limitations are imposed by the terms of the Notes or Bonds as negotiated with the underwriters or purchasers thereof, each series or issue will be redeemable as a whole or in part, at the option of the Company, at any time upon appropriate notice.

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5/31/2017 3:47:11 PM

in

Case No(s). 17-1376-EL-AIS

Summary: Application of The Cleveland Electric Illuminating Company for Authority to Issue, Sell, or Enter into Debt Transactions electronically filed by Mr. Joshua R. Eckert on behalf of The Cleveland Electric Illuminating Company