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Commission**

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May 16, 2018

Docketing Division
Public Utilities Commission of Ohio
180 East Broad Street
Columbus OH 43215

RE: *In the Matter of the Application of The Cleveland Electric Illuminating Company for
Authority to Issue, Sell or Enter into Debt Transactions, Case No. 18-0306-EL-AIS*

Dear Docketing Division:

Enclosed please find the Staff's Review and Recommendations in regard to the
Application of The Cleveland Electric Illuminating Company for authority to issue, sell
or enter into debt transactions, Case No. 18-0306-EL-AIS.

Doris McCarter

Chief, Capital Recovery and Financial Analysis Division
Public Utilities Commission of Ohio

Enclosure

Cc: Parties of Record

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In the Matter of the Application of The Cleveland)
Electric Illuminating Company for Authority to) Case No. 18-0306-EL-AIS
Issue, Sell, or Enter into Debt Transactions)
)

APPLICATION DESCRIPTION

CEI proposes to use the proceeds from the New Debt to (i) refinance existing indebtedness which includes its \$300 million, 8.875 percent First Mortgage Bonds due November 15, 2018, and amounts outstanding under the FirstEnergy Utility Money Pool and Credit Agreement, or (ii) fund any combination of the above.

On September 13, 2017, the Commission authorized CEI to issue debt of up to \$350 million for a 12-month period.¹ On October 5, 2017, CEI exercised that authority by issuing 10-year Senior Notes at an interest rate of 3.5 percent for an aggregate principal amount of \$350 million,² the proceeds of which were primarily used to extinguish CEI's existing long-term debt carrying an

² CEI 2017 AIS, Correspondence Letter (Dec. 12, 2017).

interest rate of 7.88 percent that was maturing on November 1, 2017. CEI has no other existing long-term debt authority at this time.

CEI proposes to issue the New Debt with a maturity of up to 41 years with an interest rate which will not exceed 2.5 percent above the yield to maturity of the United States Treasury Bonds ("Treasury Bonds") of comparable maturity at the time of pricing or issuance. Based upon current market conditions, 30-year Treasury Bonds are yielding approximately 2.95 percent. If the New Debt were to be issued at a time with similar market conditions, then CEI may be able to obtain the New Debt priced at much lower rates than the maturing debt, which will result in a lower weighted average cost of debt for CEI. CEI has requested a 12-month authorization period to issue the New Debt.

The proposed issuance of the New Debt will not cause any change in CEI's capitalization ratios. The following table summarizes CEI's capitalization structure as of March 31, 2018, and as adjusted for the proposed issuance of up to \$300 million of the securities:

	<u>Actual</u> <u>03/31/2018</u> (\$ millions)	<u>(%)</u>	<u>Proposed</u> <u>Changes</u> (\$ millions)	<u>2018</u> <u>Pro forma*</u> (\$ millions)	<u>(%)</u>
Long Term Debt	\$ 1,393	47.3%	\$ 0	\$ 1,393	47.5%
Common Equity	<u>\$ 1,555</u>	<u>52.7%</u>	\$ 6	<u>\$ 1,561</u>	<u>52.5%</u>
Total Capitalization	<u>\$ 2,948</u>	<u>100.0%</u>		<u>\$ 2,954</u>	<u>100.0%</u>

**No change in long-term debt due to refinancing. Increase in Common Equity due to decreased interest expenses offset by increased taxes.*

CEI does not anticipate using credit enhancements when issuing the New Debt. In the event of unforeseen volatile market conditions, CEI may need to maintain the ability to use credit enhancements. The cost of a letter of credit is estimated to be in the range of 0.75 percent to 0.95 percent.

CEI is a wholly-owned subsidiary of the FirstEnergy Corp. ("FE"). CEI's current unsecured credit ratings by Standard and Poor's is BBB- (stable), and by Moody's is Baa3 (stable). On March 31, 2018, FirstEnergy Solutions ("FES"), FE's non-regulated subsidiary, filed for bankruptcy. The bankruptcy filing may have some credit rating impact on FE, which may impact the credit ratings of its subsidiaries including CEI.

STAFF RECOMMENDATION

Upon review of the Application, Staff believes that it appears to be reasonable and recommends its approval with the following conditions:

1. In the event that the credit rating of FE falls below investment grade due to the FES bankruptcy, or for any other reason(s), CEI shall file a notice in this docket within 10 days of such change and apprise the Commission of CEI's projected course of action to insulate CEI from any negative financial consequences of such downgrade. Based on the filing of CEI, the Commission will then determine whether any additional Commission action is warranted.
2. The authorization to consummate the financing transaction(s) to issue the New Debt within the parameters set forth in the Application in no way relieves CEI of its responsibility to negotiate and obtain the best competitive market terms available.
3. CEI shall file a summary report, in this case docket, within 30 days of issuing any New Debt under the authority granted in this case. The report shall summarize the principal amount, interest rate and type of security issued; the other terms and full particulars of the New Debt including a description of any collateral required, issuance expenses, any discounts or premiums, any credit enhancements, and any other pertinent repayment terms; and the use of proceeds from the New Debt in broad categories.