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Ohio | Public Utilities Commission

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FILE

June 14, 2019

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

RE: In the Matter of the Review of the Distribution Modernization Rider of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company. Case No. 17-2474-EL-RDR.

Dear Docketing Division:

Enclosed please find Oxford Advisor's PUBLIC Mid-Term Report to be filed in Case No. 17-2474-EL-RDR.

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

Enclosure
Cc: Parties of Record

Oxford Advisors

A COMPLIANCE REVIEW OF THE DISTRIBUTION MODERNIZATION RIDER OF OHIO EDISON COMPANY, THE CLEVELAND ELECTRIC ILLUMINATING COMPANY, AND THE TOLEDO EDISON COMPANY

MID-TERM REPORT

Submitted to the:

Ohio | Public Utilities Commission

Public Utilities Commission of Ohio

180 East Broad Street, 3rd Floor, Columbus, Ohio 43215-3793

June 14, 2019

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1. Introduction

Oxford Advisors ("Oxford") has been retained by the Public Utilities Commission of Ohio (PUCO" or the "Commission") as a Third-Party Monitor In the Matter of the Review of the Distribution Modernization Rider of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company (together the "Ohio Utilities), in Case No. 17-2474-EL-RDR to ensure that the use of the Rider DMR funds by the Ohio Utilities and FirstEnergy Corp ("FirstEnergy" and together with the Ohio Utilities, the "Companies") are used in a manner consistent with the Commission's Opinion and Order dated October 12, 2016. Oxford has taken a comprehensive approach to monitoring the Companies' use of the Rider DMR funds to ensure the funds were used in accordance with the Commission's decision.

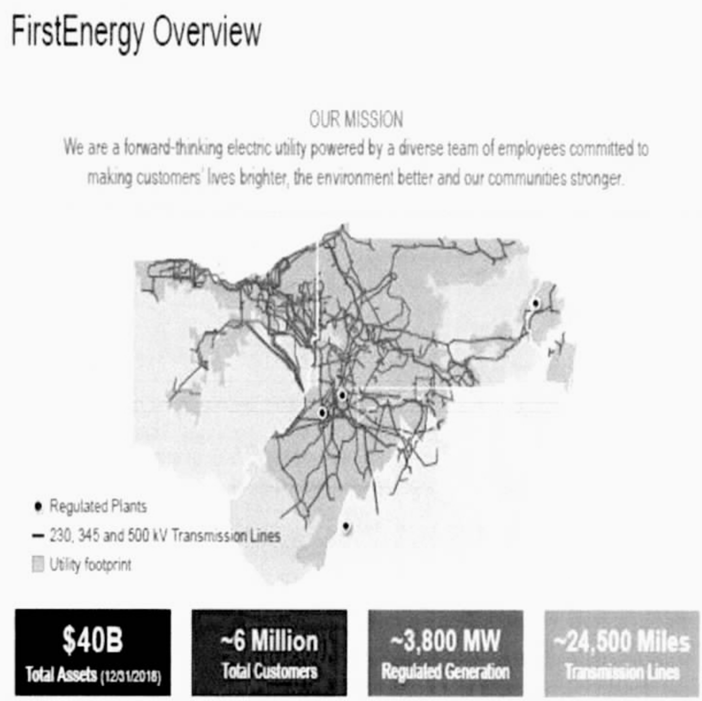
Oxford conducted a comprehensive review of FirstEnergy's use of Rider DMR funds and we analyzed the financial impacts of the Rider DMR funds on the Ohio Utilities ability to make capital expenditures on grid modernization initiatives. Oxford issued an initial set of interrogatories to FirstEnergy and attended a Management Presentation at FirstEnergy that provided an overview of the Companies and discussed the key aspects of their businesses including the financial profile of FirstEnergy. Oxford subsequently issued four additional sets of interrogatories. We analyzed numerous documents including, but not limited to, the Management Presentation, interrogatory responses, financial statements, annual reports, SEC filings, rating agency reports, equity research reports and we conducted independent financial analysis.

In this Mid-Term Report, Oxford will detail FirstEnergy's use of the Rider DMR funds, provide a financial analysis of the key metrics and financial terms impacting the credit ratings and financial strength of FirstEnergy and the Ohio Utilities.

2. Corporate Structure

FirstEnergy, headquartered in Akron, Ohio, includes one of the nation's largest investor-owned electric systems, approximately 24,500 miles of transmission lines that connect the Midwest and Mid-Atlantic regions, and a regulated generating fleet with a total capacity of approximately 3,800 megawatts.

FirstEnergy's ten regulated distribution companies form one of the nation's largest investor-owned electric systems, based on serving 6 million customers in the Midwest and Mid-Atlantic regions. Stretching from the Ohio-Indiana border to the New Jersey shore, the companies operate a vast infrastructure of more than 277,000 miles of distribution lines and are dedicated to providing customers with safe, reliable and responsive service.[1]



FirstEnergy's transmission operations include approximately 24,500 miles of lines and two regional transmission operation centers.[2] Since 2014, the company has upgraded or replaced existing power lines, incorporated new, smart technology into the grid, and upgraded dozens of substations with new equipment and enhanced security features. FirstEnergy is continuing these investments with planned spending totaling $11 to $12 billion between 2018 and 2021.[3]

FirstEnergy controls approximately 3,800 MW from regulated scrubbed coal and hydro facilities in West Virginia, New Jersey and Virginia.[4]

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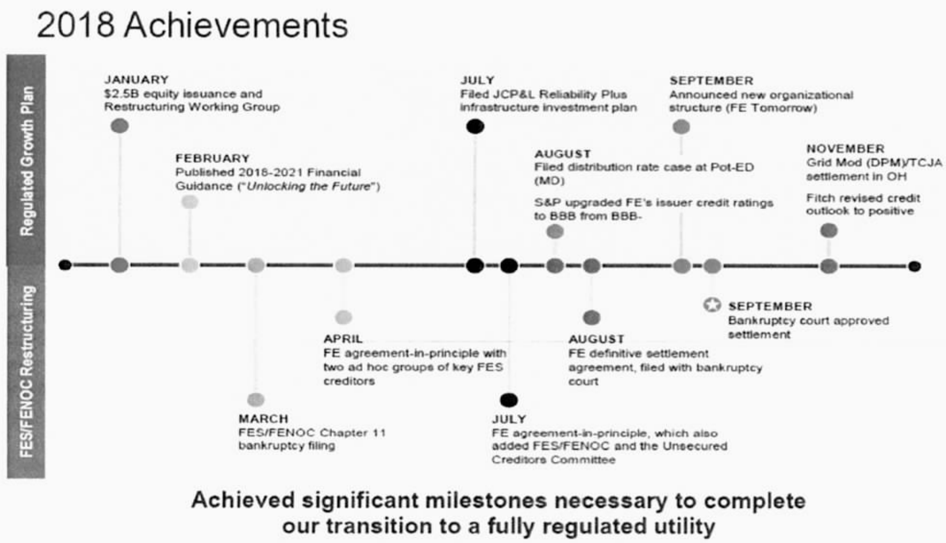
[1] FirstEnergy website at https://www.firstenergycorp.com/about html, dated June 7, 2019; FirstEnergy 2018 Annual Report at 3.
[2] FirstEnergy Factbook, dated February 19, 2019 at 5.
[3] FirstEnergy Investor Factbook, dated April 23, 2019 at 62.
[4] FirstEnergy website at https://www firstenergycorp.com/about html dated June 7, 2019; FirstEnergy Factbook, dated February 19, 2019 at 5.

Over the past year, FirstEnergy has transformed into a fully regulated utility company, focused on sustainable long-term regulated earnings growth and stable cash flows that support its dividend, while also sustaining investment grade credit ratings at FirstEnergy and its regulated subsidiaries.



[5]

In addition to a definitive settlement agreement in the FirstEnergy Solutions Corp. ("FES") Bankruptcy, FirstEnergy made progress in 2018 in its transition to a fully regulated utility:

- Reached a settlement subject to PUCO approval on the Ohio Grid Modernization plan
- Filed a JCP&L Reliability Plus infrastructure investment plan in New Jersey
- Filed a PE distribution rate case in Maryland, the first such base rate filing since 1994
- Announced and implemented a new shared services organizational structure through the FirstEnergy Tomorrow initiative
- Earned an upgrade from S&P on FirstEnergy's issuer credit rating to BBB from BBB-
- Earned a positive ratings outlook from Fitch on FirstEnergy's BBB- credit rating
- Established a Board of Directors approved dividend policy and declared an increased dividend for March 1, 2019
- Implemented rate reductions across all Utilities and at the formula-rate transmission subsidiaries to appropriately pass the benefits of tax reform to customers[6]

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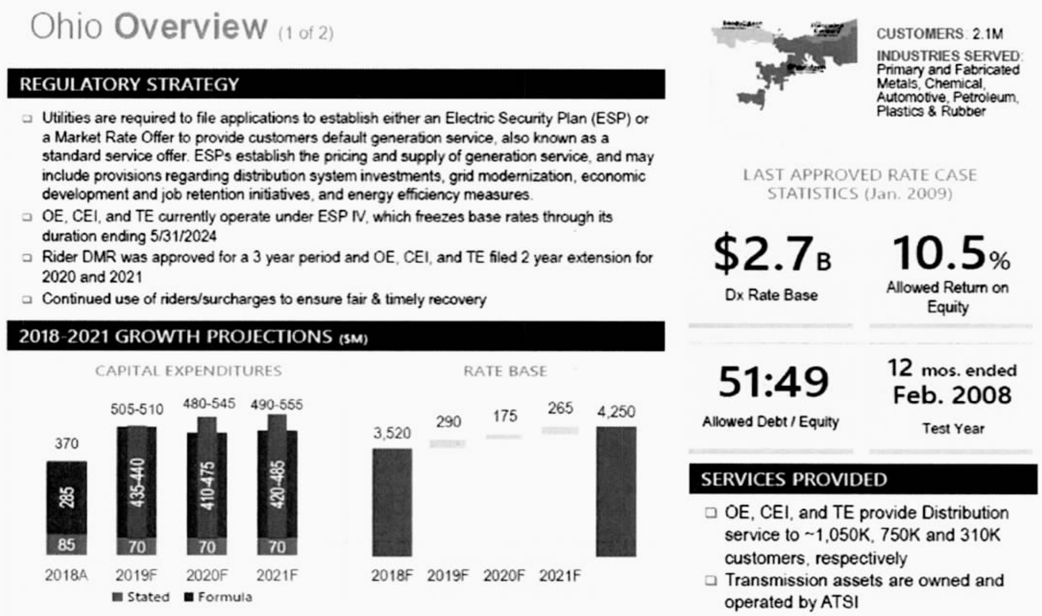
[5] FirstEnergy Investor Meetings, Chicago, IL and Minneapolis, MN, April 2019 at 2.
[6] FirstEnergy 2018 Annual Report at 9.

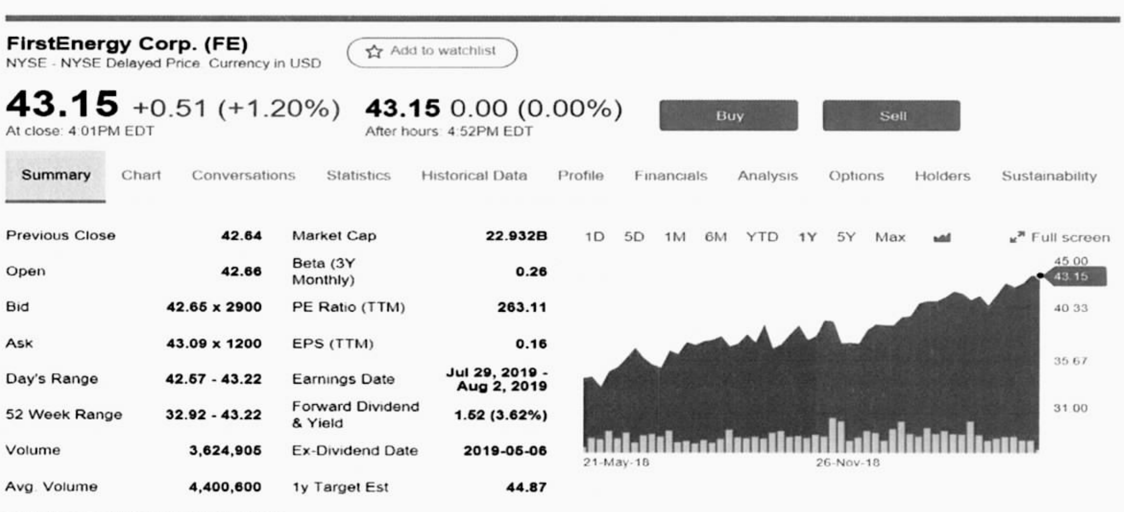
The scale and diversity of FirstEnergy's distribution and transmission operations position the company for sustained growth well into the future. Since 2015, the Regulated Distribution business has experienced significant growth through investments, which has been realized through base rates and/or various recovery riders and trackers that have improved reliability and added operating flexibility to distribution infrastructure, benefiting to the customers and communities those Utilities service. The Regulated Transmission business is the centerpiece of FirstEnergy's regulated investment strategy, where approximately 80% of its capital investments are recovered under forward-looking formula rates for its three standalone Transmission operating companies ATSI, MAIT and TrAIL.

In the Regulated Distribution segment, FirstEnergy expects to invest between $6.2 billion and $6.7 billion over 2018 to 2021, including $1.6 billion invested in 2018. Approximately 40% of capital expenditures are recoverable through various rate mechanisms, riders and trackers. Beginning in 2019, expected investments at the Ohio Utilities include the pending Ohio Grid Modernization plan which includes installation of approximately 700,000 advanced meters, distribution automation, and integrated 'volt/var' controls. Additionally, the JCP&L Reliability Plus infrastructure improvement plan approved by the NJBPU is expected to reduce outages and strengthen the system while preparing for the grid of the future in New Jersey.

Ohio Edison serves more than 1 million customers in northeast and north central Ohio, The Illuminating Company serves more than 750,000 customers in northeast Ohio and Toledo Edison serves more than 310,000 customers in northwest Ohio.[7]



FirstEnergy's stock price has risen approximately 26.5% over the past year from $34.10 to $43.15 per share and approximately 36.9% for the period of October 10, 2016 to May 23, 2019 from $31.51 to $43.15 indicating the market has a positive view of its recent performance and prospects.



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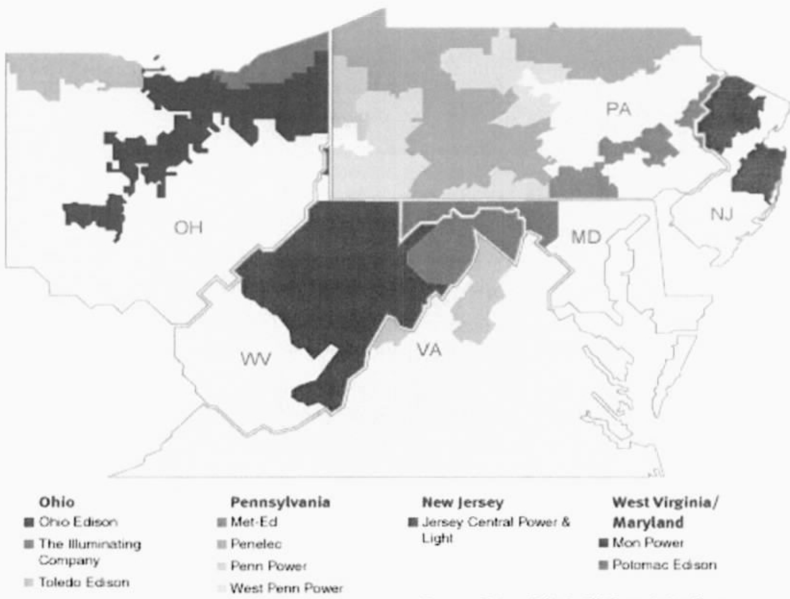
[7] *Id.*; *see also* FirstEnergy Investor Factbook, dated April 23, 2019 at 6, 28.

3. Allegheny Merger

The combination of Akron, Ohio-based FirstEnergy Corp. and Allegheny Energy Inc. of Greensburg, PA in 2011 created a large utility holding company with 10 distribution companies serving more than six million customers in Pennsylvania, Ohio, Maryland, New Jersey, New York, Virginia and West Virginia. Allegheny would also contribute significant transmission projects to the deal, including the Trans-Allegheny Interstate Line Company and the Potomac-Appalachian Transmission Highline (a joint venture with AEP that was ultimately never constructed). The acquisition was valued at $4.7 billion in stock and the assumption of $3.8 billion in debt.[8]



[9]

FirstEnergy's merger with Allegheny was a major milestone for FirstEnergy. The combined company would have nearly 20,000 miles of high-voltage transmission lines connecting the Midwest and Mid-Atlantic; approximately 24,000 MW of generating capacity from coal, nuclear, natural gas, oil and renewables; and more than 2,200 MW of renewable energy, including hydroelectric, contracted wind and pumped-storage capacity.[10]

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[8] FirstEnergy, Allegheny Joint Press Release, FirstEnergy and Allegheny Energy to Combine in $8.5 Billion Stock-For-Stock Transaction dated February 11, 2010; FirstEnergy-Allegheny Would Be Coal, Nuclear Powerhouse, NGI The Weekly Gas Market Report, February 15, 2010.
[9] FirstEnergy website at https://www.firstenergycorp.com/about.html, dated June 7, 2019.
[10] FirstEnergy, Allegheny Joint Press Release, FirstEnergy and Allegheny Energy to Combine in $8.5 Billion Stock-For-Stock Transaction dated February 11, 2010.

FirstEnergy's CEO articulated his broad vision of the merger when he said, "it would increase generation resources by 70%, more than double the amount of supercritical coal capacity, improve the overall environmental performance of the generation fleet, and increase our customer base by 35%."[11] FirstEnergy had expected the merger to result in significant synergies, efficiencies and economies of scale from the unregulated generation segment. These synergies were to result from economies in fuel purchasing, fuel blending, operations and maintenance, and improved management of the Allegheny generation units to reduce their outage rates and improve their capacity factors. However, the reaction of the financial community was mixed. In February 2010, S&P issued a report lowering FirstEnergy's and its subsidiaries' credit ratings by one notch, while maintaining its stable outlook. Moody's and Fitch affirmed the ratings and stable outlook of FirstEnergy and its subsidiaries. These rating agency actions were taken in response to the announcement of the proposed merger with Allegheny.[12]

FirstEnergy's overall debt levels increased substantially due to the merger and the market for coal generation became increasingly challenging due to environmental regulations and depressed natural gas and wholesale electricity prices. FirstEnergy's financial condition began to deteriorate after the merger, and its key financial metrics were negatively affected which led to rating agency downgrades.[13] FirstEnergy's management recognized the challenge early and began to retire and divest itself of its coal fleet consistent with broader national trends in coal-fired electricity generation beginning its transition towards a fully regulated company.

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[11] FirstEnergy, 2010 Annual Report, Message to Shareholders.

[12] *Id* at 6.

[13] Moody's changes FirstEnergy's outlook to negative, February 26, 2013, FirstEnergy's consolidated adjusted debt at year-end 2012 stood at approximately $23 billion, almost $1 billion more than expected previously and up from approximately $21.6 billion at year-end 2011. FirstEnergy's consolidated key financial metrics also weakened in 2012, with consolidated CFO pre-W/C to debt of approximately 13%, retained cash flow to debt of 9% and interest coverage of 3.7 times, compared to 17%, 13% and 4.1 times in 2010, the year prior to the merger.

4. First Energy Solutions Bankruptcy

FirstEnergy Solutions Corp., including its consolidated subsidiaries, and FirstEnergy Nuclear Operating Company ("FENOC") filed a voluntary petition for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Northern District of Ohio on March 31, 2018. On April 4, 2018 FirstEnergy filed an 8-K with unaudited pro forma consolidated financial information where FES and FENOC were deconsolidated from FirstEnergy's financial statements as of the Petition Date. The 8-K details pro forma income statements for the fiscal years ending in 2015, 2016 and 2017 and the balance sheet as of December 31 2017.

Below are the terms of FirstEnergy's Agreement-in-Principle with certain creditors from FirstEnergy investor materials[14] and Response to OA Set 2-INT-64 Attachment 1:

Agreement-in-Principle

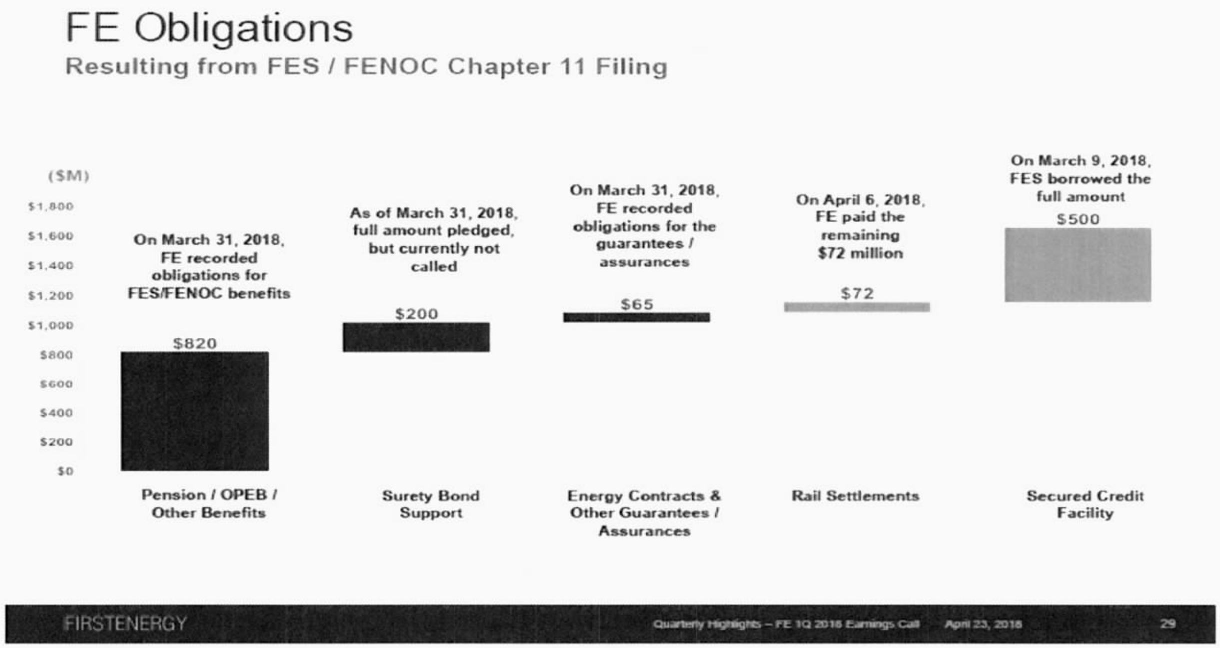
- On April 23, 2018, FE announced an agreement-in-principle with ad hoc groups of key FES creditors representing (1) a majority of all outstanding secured and unsecured funded debt at FES and its subsidiaries and (2) a majority of Bruce Mansfield certificate holders
- Agreement affirms $1.7B of previously disclosed guarantees and assurances, including:
  - Unfunded Pension / OPEB / Other Employee Benefits (non-cash)
  - Surety Bond Support (utilized)
  - Rail Settlements (paid)
  - Energy Contracts and Other Guarantees and Assurances (paid)
  - $500M Secured Credit Facility (drawn)
- In addition, other major terms effective at emergence include:
  - Full release of all claims against FE and related parties
  - $225M cash payment from FE net, including $88M reversal of the NOL prefiling purchase
  - Up to $628M tax certificate note due December 31, 2022, which represents FE's estimated value of the worthless stock deduction and designed to trade at the par value of the note when issued
  - Transfer of Pleasants Power Station to FES for the benefit of creditors (book value as of March 31, 2018 of $67M)
  - A right of FE to share in recoveries after an agreed-upon threshold is met

Agreement is a significant step toward FES ultimately emerging from bankruptcy

The agreement is subject to approval by the FE, FES and its subsidiaries, FENOC and AE Supply boards of directors, the execution of definitive agreements, the approval of the Bankruptcy Court and certain other conditions.

FIRSTENERGY Quarterly Highlights – FE 1Q 2018 Earnings Call April 23, 2018 5

[14] *See* 1Q 2018 Earnings Call, dated April 23, 2018 at 5, 29.



- On August 26, 2018, FirstEnergy, the FES Creditor Groups, the FES Debtors and the Unsecured Creditors Committee entered into a definitive Settlement Agreement materially consistent with the Amended Agreement in Principle. FirstEnergy subsequently amended the Settlement Agreement increasing its payments by approximately $200.5 million.

- FES was restructured in the bankruptcy to separate and fully remove FirstEnergy from the competitive businesses. The Settlement Agreement was approved on September 26, 2018.

- On March 4, 2019, the FES bankruptcy court judge ruled that the FES Disclosure Statement was too broad in that it released FirstEnergy from any future environmental claims.

- FirstEnergy removed the broad third-party releases from the Settlement Agreement which does not, in FirstEnergy's assessment and experience, increase liabilities or obligations to FirstEnergy. FES submitted a revised Disclosure Statement in the bankruptcy proceeding.[15]

- It is unclear at this time, what effect the removal of the broad third-party releases will have on the potential liabilities of FirstEnergy, but certain environmental risks remain.

[15] FirstEnergy Statement on Next Steps in FES Bankruptcy Filing, dated April 18, 2019.

5. Dividend Policy

Oxford reviewed FirstEnergy's dividend policy to see if the company was taking fiscally prudent measures to enhance its financial position during the term of the Rider DMR. Oxford initially issued an interrogatory asking FirstEnergy whether FirstEnergy and/or the Companies implemented any other initiatives or financial measures to improve its financial position and support the overall objectives of Rider DMR. In response, FirstEnergy cited to a reduction in annual dividends from $2.20 to $1.44 per share – a reduction equaling over $300 million annually. Response to OA Set 1-INT-011. However, this reduction was in 2014 well before the approval and implementation of Rider DMR.

Oxford issued another interrogatory asking FirstEnergy if Rider DMR affected, changed or modified FirstEnergy's and/or the Ohio Companies' dividend policy or capital structure levels. FirstEnergy's response is below:

> "Rider DMR did not affect the Companies' or FirstEnergy Corp's approach to dividends. Rider DMR has strengthened the capital structures of the Companies and FirstEnergy Corp. The Rider DMR revenue provides credit support for the Companies and FirstEnergy Corp and helps them maintain their current investment grade credit ratings." Response to OA Set 1-INT-026.

As of December 31, 2017, FirstEnergy's Board had maintained the annual dividend of $1.44 per share in 2017 resulting in dividends of $639 million in 2017.[16] This is the same level of dividends since the dividend reduction in 2014. FirstEnergy pays dividends on a quarterly basis. The Ohio Utilities pay dividends to FirstEnergy periodically during the year. Oxford requested that FirstEnergy explain if there were plans for further reductions in dividend policy to help improve its financial metrics. FirstEnergy responded to OA Set 2-INT 58 as follows:

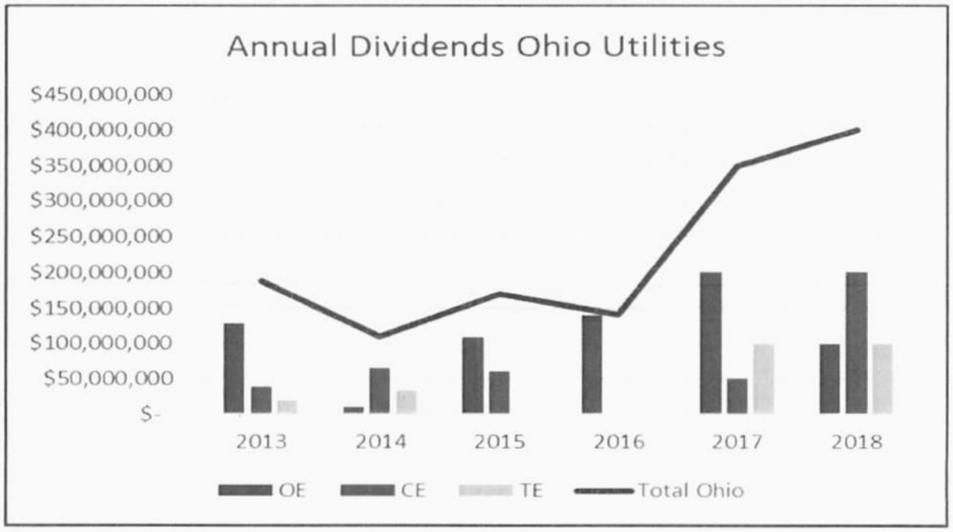
> "Many factors are considered in determining dividends. The payment of dividends is reviewed by Senior Management on an ongoing basis. Several factors are considered and reviewed prior to a dividend recommendation, consideration, and authorization by the Board of Directors of FirstEnergy, including but not limited to, current and projected

[16] FirstEnergy 2017 10-K at 82.

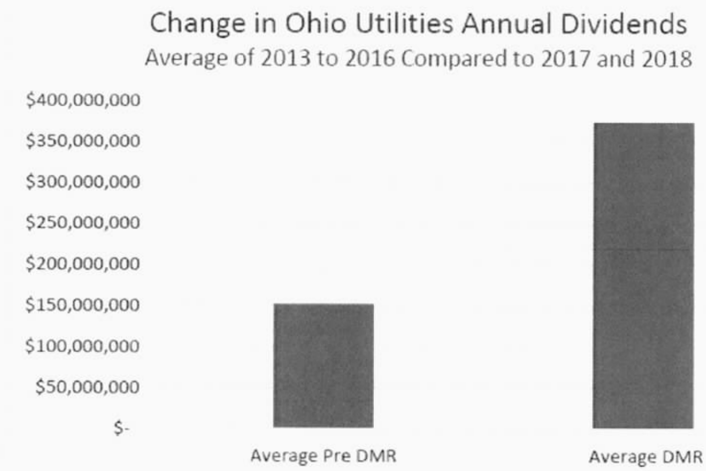
earnings, cash, and capital structures. Based on the factors, and the other actions taken, as referenced above, there has not been a subsequent reduction in the FirstEnergy dividend."

Oxford reviewed and analyzed the dividends paid to parent company FirstEnergy by the Ohio Utilities and FirstEnergy's other regulated and unregulated companies (note unregulated dividends to parent company are not all publicly available and have not been made available to Oxford). Even though FirstEnergy had not increased the amount of dividends per share since 2014, an analysis of the dividends paid by the Ohio Utilities to FirstEnergy for the years of 2013 to 2018 indicates that the amount of dividends paid by the Ohio Utilities in 2017 and 2018 during the term of the Rider DMR has increased considerably. As noted in the charts below, the total dividends paid by the Ohio Utilities in 2017 and 2018 to FirstEnergy totaled $750 million for the period.

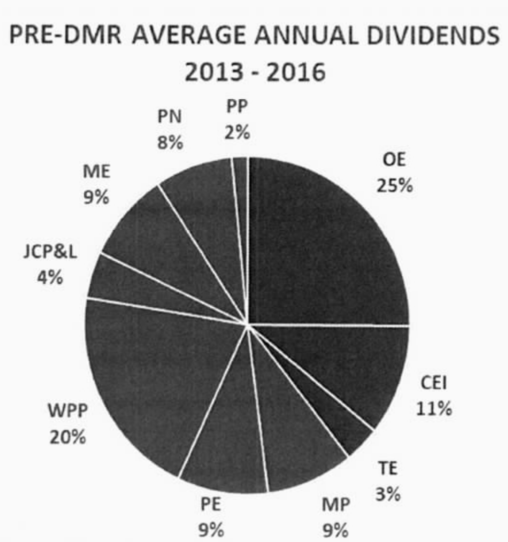
OHIO UTILITIES ANNUAL DIVIDENDS				
Year	OE	CE	TE	Total Ohio
2013	$ 129,000,000	$ 40,000,000	$ 20,000,000	$ 189,000,000
2014	$ 10,000,000	$ 65,000,000	$ 35,000,000	$ 110,000,000
2015	$ 110,000,000	$ 60,000,000	$ -	$ 170,000,000
2016	$ 141,000,000	$ -	$ -	$ 141,000,000
2017	$ 200,000,000	$ 50,000,000	$ 100,000,000	**$ 350,000,000**
2018	$ 100,000,000	$ 200,000,000	$ 100,000,000	**$ 400,000,000**
Total	$ 690,000,000	$ 415,000,000	$ 255,000,000	$ 1,360,000,000

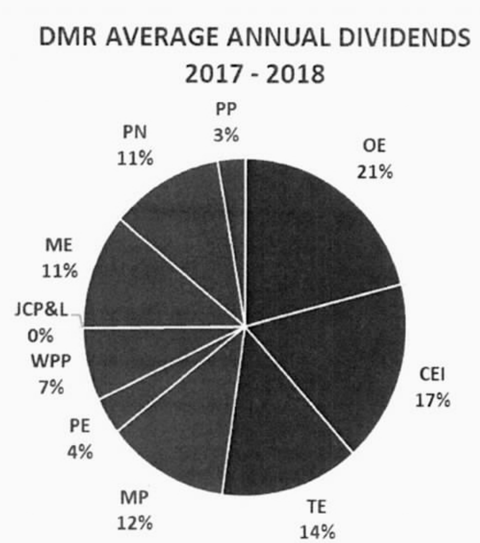


In the period before the DMR began from 2013 to 2016, annual dividends from the Ohio Utilities averaged $152.5 million, and from 2014 to 2016 (taking into account FirstEnergy's reduction in dividends beginning in 2014) annual dividends averaged $140 million. The average annual dividends paid by the Ohio Utilities to FirstEnergy during 2017 and 2018, the first two full years of Rider DMR, is $375 million.

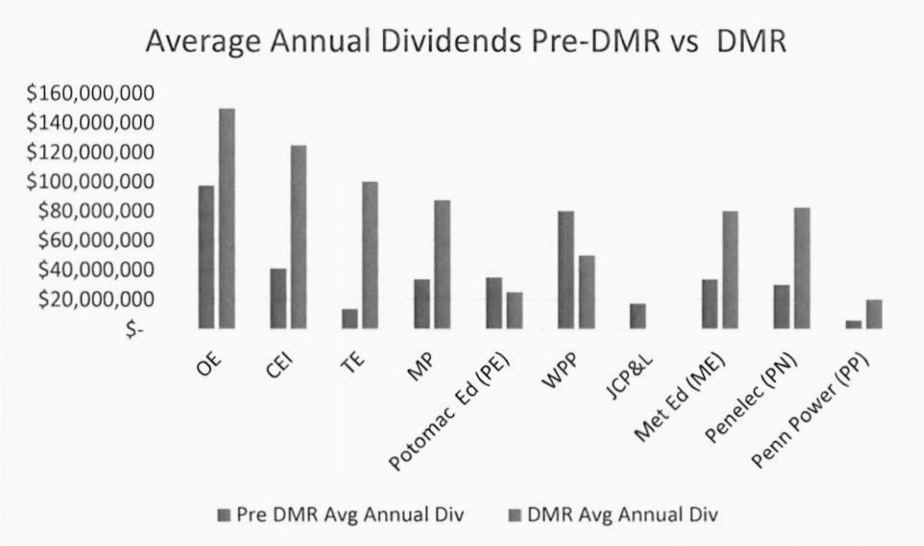


Comparing all of the FirstEnergy utilities' dividends, the Ohio Utilities - OE, CEI, and TE contributed 39% of total average dividends before DMR (2013 to 2016) and 52% of average annual dividends *after DMR began* (2017 and 2018). The pie chart below shows the change in annual average dividends Pre-DMR and during DMR. The Ohio Utilities are in blue.





Another way to visualize the change in annual dividends pre-DMR and during DMR, is in the bar chart below, which shows pre-DMR dividends in blue and DMR dividends in red.



Across all FirstEnergy utility subsidiaries, dividends increased from an average of $389 million for the period 2013-2016 to $720 million for the period 2017-2018, a difference between the average annual dividends Pre-DMR versus during DMR of $331 million. See the table below.

Company	Pre-DMR Average Annual Dividends 2013 to 2016	DMR Average Annual Dividends 2017 to 2018
OE	$ 97,500,000	$ 150,000,000
CEI	41,250,000	125,000,000
TE	13,750,000	100,000,000
MP	33,750,000	87,500,000
Potomac Ed (PE)	35,000,000	25,000,000
WPP	80,000,000	50,000,000
JCP&L	17,500,000	-0-
Met Ed (ME)	33,750,000	80,000,000
Penelec (PN)	30,000,000	80,825,000
Penn Power (PP)	6,250,000	20,000,000
Total	388,750,000	$ 720,000,000
Difference		$ 331,250,000

In addition to the dividend analysis above, Oxford issued interrogatories requesting stock price and dividend yield since 2015 from FirstEnergy's peers and additional utilities selected by Oxford for the comparison. The comparative results below demonstrate that FirstEnergy's dividend yield has consistently been above the average of its peers from 2015 to 2019.

Dividend Comparison Among FirstEnergy Peers (2015 to 2019)												
			12/31/2015		12/30/2016		12/29/2017		12/31/2018		3/31/2019	
	Company	Ticker	Stock Price	Div Yield	Stock Price	Div Yield	Stock Price	Div Yield	Stock Price	Div Yield	Stock Price	Div Yield
	FirstEnergy	FE	31.73	4.54%	30.97	4.65%	30.62	4.70%	37.55	3.83%	41.95	3.53%
Specified Peers	Duke Energy	DUK	71.39	4.54%	77.62	4.33%	84.11	4.15%	86.3	4.04%	90.41	4.03%
	AEP	AEP	58.27	3.69%	62.96	3.61%	73.57	3.25%	74.74	3.20%	84.95	3.04%
	Ameron	AEE	43.23	3.83%	52.46	3.27%	58.99	3.01%	65.23	2.73%	72.24	2.56%
	Exelon	EXC	27.77	4.47%	35.49	3.56%	39.41	3.32%	45.1	2.90%	50.29	2.77%
	The AES Corp	AES	9.57	4.28%	11.62	3.87%	10.83	4.52%	14.46	3.39%	16.9	3.91%
Additional Peers	NextEra Energy	NEE	103.89	2.96%	119.46	2.91%	156.19	2.52%	173.82	2.26%	193.27	2.37%
	Entergy	ETR	68.36	4.89%	73.47	4.65%	81.39	4.23%	86.07	4.00%	95.89	3.75%
	DTE Energy	DTE	80.19	3.65%	98.51	3.11%	109.46	3.07%	110.3	3.05%	124.01	2.95%
	Dominion	D	67.64	3.83%	76.59	3.66%	81.06	3.74%	71.46	4.25%	77.14	4.33%
	Southern	SO	46.79	4.60%	49.19	4.52%	48.09	4.78%	43.92	5.24%	52.52	4.57%
	PSEG	PEG	38.69	4.03%	43.88	3.74%	51.5	3.34%	52.05	3.30%	58.78	3.06%
	PPL	PPL	34.13	4.39%	34.05	4.46%	30.95	5.11%	28.33	5.58%	31.09	5.28%
	Xcel Energy	XEL	35.91	3.56%	40.7	3.34%	48.11	2.99%	49.27	2.92%	55.9	2.77%
Additional Requested Companies	NetSource	NI	19.51	4.25%	22.14	2.89%	25.67	2.80%	25.35	2.84%	27.4	3.56%
	OGE Energy	OGE	26.29	3.99%	33.45	3.45%	32.91	3.86%	39.19	3.24%	41.68	3.35%
	CenterPoint	CNP	18.36	5.39%	24.64	4.18%	28.36	4.75%	28.23	4.77%	30.78	3.61%
	Alliant Energy	LNT	31.23	3.52%	37.89	3.10%	42.61	2.96%	42.25	2.98%	46.78	2.86%
	NRG Energy	NRQ	11.77	4.93%	12.26	1.96%	28.48	0.42%	39.6	0.30%	40.55	0.30%
	PNM Resources	PNM	30.57	2.62%	34.3	2.57%	40.45	2.40%	41.09	2.36%	45.86	2.31%
	CMS Energy	CMS	36.08	3.22%	41.62	2.98%	47.3	2.81%	49.65	2.68%	54.98	2.65%
	PG&E	PCG	53.19	3.42%	60.77	3.18%	44.83	3.46%	23.75	6.53%	21.7	0.00%
		Avg Yield	YE2015	4.03%	YE2016	3.55%	YE2017	3.46%	YE2018	3.47%	1Q2019	3.07%

SOURCES:
Stock Price - Bloomberg
Dividend Per Share - Bloomberg TTM
Dividend Yield = Dividend Per Share / Stock Price

Dividends from the Ohio Utilities have increased measurably during the term of the Rider DMR. The average dividends per year from the Ohio Utilities have increased from an average of $140 million per year for the period of 2014 to 2016 to an average of 375 million per year in 2017 and 2018, the first two full years of the Rider DMR. In addition to the increase in dividends paid by the Ohio Utilities to FirstEnergy during the term of the Rider DMR, FirstEnergy announced an increase to its dividends at the end of 2018 for 2019.

On November 9, 2018, FirstEnergy announced that its Board approved an increase in dividends by 6% from \$0.36 to \$0.38 per common share.[17] Total dividends to be paid in 2019 are \$820 million versus \$775 million in 2018, an increase of \$45 million, or 5.81%.

Dividend Policy

- On November 9, 2018, The Board of Directors approved a dividend policy
- Effective beginning with the March 1, 2019 dividend:
  - A \$0.02 per share increase; quarterly dividend will be \$0.38 per share or \$1.52 annualized per share in 2019 [1]

Resuming dividend growth enables enhanced shareholder returns while continuing substantial regulated investments

(1) Dividend payments are subject to declaration by the Board of Directors; future dividend decisions determined by the Board based on earnings growth, cash flows, credit metrics, and other business conditions 18

FirstEnergy has increased its dividend payout and its key "dividend yield" metric is higher than many of its peers. Oxford views the increase in dividends as an indication of improved financial health.

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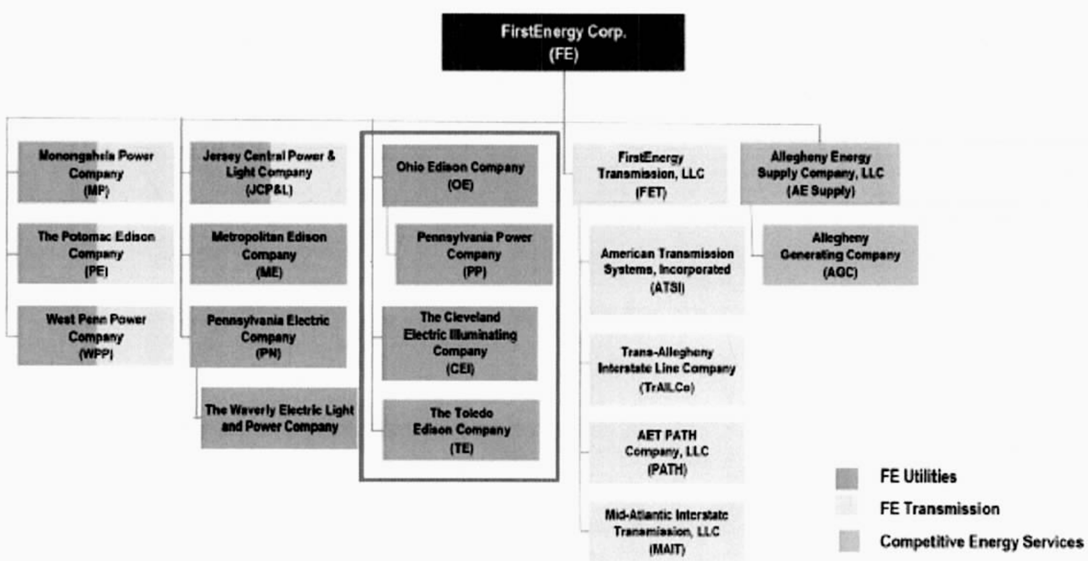
[17] FirstEnergy Press Release, dated November 9, 2018, FirstEnergy Announces Dividend Policy to Support Enhanced Shareholder Returns.
[18] FirstEnergy, Investor Presentation dated May 2019 at 7.

6. Use of Rider DMR Funds

As described in OA Set 1- INT-037 Attachment 1 – Revised Supplement, FirstEnergy describes how they are using the Rider DMR funds. The pertinent part follows:

> "The Commission decision authorizing Rider DMR explicitly declined to restrict the use of funds and did not contemplate the tracking of Rider DMR funds to specific expenditures. While the Companies track Rider DMR revenues, the funds received from these revenues lose their identity upon receipt by the Companies. All funds received by the Companies are placed into the Regulated Utility Money Pool."

FirstEnergy goes on to state that the Regulated Money Pool was created via an agreement among the Companies and other FirstEnergy Corp. regulated affiliates and allows the regulated companies to borrow from each other, and from the FirstEnergy Corp., to meet their short-term working capital needs. FirstEnergy Corp.'s unregulated subsidiaries do not participate in and do not have access to the Regulated Money Pool. There is a separate Unregulated Non-Utility Money Pool comprised of FirstEnergy Corp. and certain of its unregulated subsidiary companies.



Notes
- Not all subsidiaries of FirstEnergy Corp. are shown above

Source: FirstEnergy Management Presentation at 6.

- All of the Rider DMR funds are being placed in the Regulated Money Pool and FirstEnergy indicated that intends to continue to do so. Response to OA Set 5-INT-108.

Regulated Money Pool

- Regulated Money Pool was created via an agreement among FirstEnergy Corp. and its regulated subsidiaries, including OH Utilities
- Dollars collected by OH Utilities, including dollars collected through Rider DMR, are contributed to the Regulated Money Pool
- OH Utilities borrow from the Regulated Money Pool to fund their expenditures
- There is a separate non-utility Money Pool comprised of FirstEnergy Corp. and its unregulated subsidiaries
- FirstEnergy Corp. can lend money to the Regulated Money Pool but cannot borrow from it
- PUCO approves OH Utilities' participation and lending limits in the Regulated Money Pool annually
- OH Utilities are required to report details of their participation in the Regulated Money Pool to the PUCO on a quarterly basis

[19]

- By moving the Rider DMR funds into the Ohio Utilities Regulated Money Pool – other non-OHIO regulated companies have borrowing access to the Rider DMR funds.
- Further details on the activities undertaken during the term of Rider DMR to support, either directly or indirectly, grid modernization are provided in the response to OA Set 5-INT-108 and OA Set 1-INT-037 Attachment 1 Revised Supplemental.
- The Rider DMR funds improve the FFO metric by adding cash flow in the numerator of the calculation. The benefits of the Rider DMR may be temporary unless FirstEnergy improves its financial position (e.g. pays down debt) before the Rider term expires.

Money Pool Terms:

1. The Money pool agreement states the following:

   A. "FirstEnergy Service, as administrator of the Utility Money Pool, will provide each

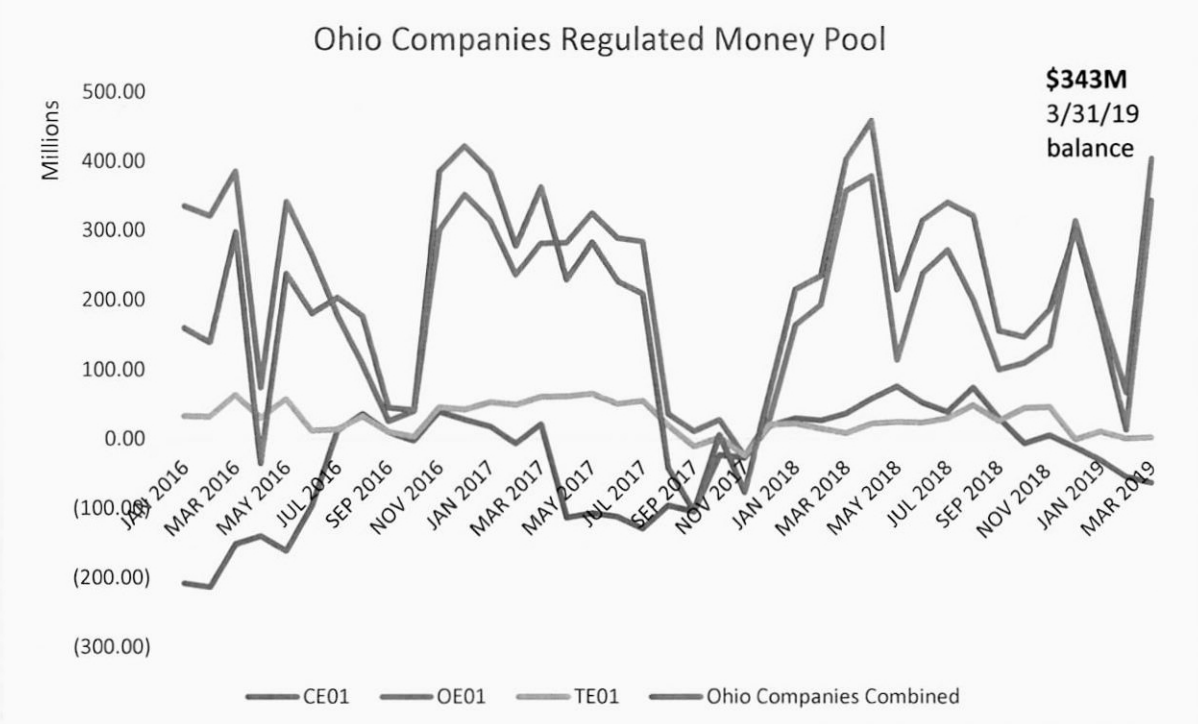
[19] FirstEnergy Management Presentation dated April 10, 2018 at 15.

party with periodic activity and cash accounting reports that include, among other things, reports of cash activity, the daily balance of loans outstanding and the calculation of interest charged."

B. "If only Internal Funds comprise the daily outstanding balance of all loans outstanding during a calendar month, the interest rate applicable to such daily balances shall be the greater of the 30-day LIBOR rate as quoted in the Wall Street Journal or the money market rate that a lending Subsidiary could have obtained if it placed its excess cash in such an investment."

The Money Pool Positions provided by FirstEnergy show the trends of the Regulated Businesses. The graphs below illustrate the monthly money pool balances in 2016, 2017, 2018 and through the first quarter of 2019.

[redacted]



- The benefits derived by enhancing cash flow from the use of Rider DMR in the Money Pool may only be temporary.

- The use of Rider DMR funds in the Regulated Money Pool appears to be benefiting non-Ohio regulated companies when looking over the trends.

- Funds in the Regulated Money Pool have been used to pay dividends to FirstEnergy. In the response to OA Set 4-INT-89d, FirstEnergy stated that "dividends paid by a subsidiary to FirstEnergy Corp. are accounted for as a disbursement and as such do flow through the Money Pool as an outgoing cash disbursement for a participant." Below are the dividends paid by the Ohio Utilities to FirstEnergy from the Regulated Money Pool from 2016 to 2018. Dividends to FirstEnergy increased by $209M from 2016 to 2017, and dividends increased by an additional $50M in 2018.

OA Set 1-INT-100 Attachment 1 Confidential

Dividends from OH Companies to FE Corp.
2016 - 2018

Date	Company	Amount ($M)
Sep-16	OE	$76.0
Oct-16	OE	$50.0
Nov-16	OE	$15.0
Jan-17	OE	$50.0
Mar-17	OE	$50.0
Sep-17	OE	$100.0
Sep-17	CEI	$50.0
Sep-17	TE	$100.0
Mar-18	CEI	$25.0
Mar-18	TE	$20.0
Jun-18	OE	$100.0
Jun-18	CEI	$25.0
Sep-18	CEI	$55.0
Sep-18	TE	$30.0
Dec-18	CEI	$95.0
Dec-18	TE	$50.0

- It is FirstEnergy's position that the Ohio Utilities' balances in the Regulated Money Pool "put the companies in a stronger financial position to make future grid modernization investments and are available to be used indirectly in support of grid modernization." OA Set 4-INT-89.

7. FFO Analysis

FirstEnergy has placed all of the Rider DMR funds into the Regulated Money Pool, which has improved the FFO metric by adding cash flow in the numerator of the calculation. FirstEnergy noted in 2018 that an increase in cash flow versus debt reduction improves the calculation by a ratio of $1 to $8 ($1 increase in cash flow has the same effect on the metric as an $8 reduction to debt from a mathematical perspective). The Rider is designed to provide FirstEnergy with $132.5 million per year after-tax for three years and may be extended for another two years.

Ohio Rider DMR

- Rider DMR was approved for a three-year period ending December 31, 2019, with a potential two-year extension
  - Funds to be used, directly or indirectly, in support of grid modernization
- A two-year extension application was filed on February 1, 2019
  - Companies requested an extension of Rider DMR for an additional two-year period, at its current annual amount of $132.5M (after-tax)

Rider DMR would continue under the same terms and conditions
Retention of corporate headquarters and nexus of operations in Akron
No change in control of Ohio utilities
Demonstration of sufficient progress in implementation and deployment of PUCO-approved grid mod programs

[20]

Using the Rider DMR funds to improve the FFO metric by adding cash flow in the numerator of the calculation may only result in a temporary improvement to FirstEnergy's metrics unless FirstEnergy is taking other measures to improve cash flow and/or reduce debt during the term of the Rider. If other measures are not implemented to improve FirstEnergy's metrics, then the positive effect of the Rider would be temporary when the Rider is no longer available.

Below are the credit metrics provided by FirstEnergy for the years of 2015 to 2018 and the most recent forecasted metrics provided by FirstEnergy on March 26, 2019 for 2019 to 2021 including and excluding Rider DMR funds.

[20] FirstEnergy Investor Factbook, dated April 23, 2019 at 52.

FirstEnergy Forecasted Credit Metrics March 2019
Including Rider DMR

		2015A	2016A	2017E	2018E (1)	2019F	2020F (2)	2021F (2)	2022F (3)
Moody's (CFO Pre-WC/Debt)	FirstEnergy Corp.	12.3%	13.1%	14.0%	12.1%	[redacted]	[redacted]	[redacted]	NA
	Ohio Edison	24.1%	28.1%	30.9%	39.5%	[redacted]	[redacted]	[redacted]	NA
	Cleveland Electric	10.2%	11.2%	15.1%	21.1%	[redacted]	[redacted]	[redacted]	NA
	Toledo Edison	13.4%	13.6%	24.3%	33.6%	[redacted]	[redacted]	[redacted]	NA
S&P FFO/Debt	FirstEnergy Corp.	12.9%	13.4%	12.5%	9.1%	[redacted]	[redacted]	[redacted]	NA
	Ohio Edison	36.9%	37.2%	45.0%	91.1%	[redacted]	[redacted]	[redacted]	NA
	Cleveland Electric	8.0%	10.3%	13.6%	21.2%	[redacted]	[redacted]	[redacted]	NA
	Toledo Edison	22.3%	21.5%	20.5%	36.7%	[redacted]	[redacted]	[redacted]	NA

FirstEnergy Forecasted Credit Metrics March 2019
Excluding Rider DMR

		2015A	2016A	2017E	2018E (1)	2019F	2020F (2)	2021F (2)	2022F (3)
Moody's (CFO Pre-WC/Debt)	FirstEnergy Corp.	12.3%	13.1%	13.4%	11.3%	[redacted]	[redacted]	[redacted]	NA
	Ohio Edison	24.1%	28.1%	25.4%	34.3%	[redacted]	[redacted]	[redacted]	NA
	Cleveland Electric	10.2%	11.2%	11.7%	17.0%	[redacted]	[redacted]	[redacted]	NA
	Toledo Edison	13.4%	13.6%	18.0%	24.6%	[redacted]	[redacted]	[redacted]	NA
S&P FFO/Debt	FirstEnergy Corp.	12.9%	13.4%	11.9%	8.2%	[redacted]	[redacted]	[redacted]	NA
	Ohio Edison	36.9%	37.2%	34.5%	70.6%	[redacted]	[redacted]	[redacted]	NA
	Cleveland Electric	8.0%	10.3%	9.7%	16.9%	[redacted]	[redacted]	[redacted]	NA
	Toledo Edison	22.3%	21.5%	13.3%	27.0%	[redacted]	[redacted]	[redacted]	NA

(1) 2018 actual credit metrics from Moody's and S&P are not available; figures shown reflect FE's estimate and may vary from actual results. Agencies will not calculate metrics excluding DMR.
(2) Companies' forecast does not include DMR revenues outside of the initial 3-yr term, ending 2019
(3) This period is outside of the current planning horizon
(4) This scenario assumes no Rider DMR in any of the years shown

[redacted] The first set of projected metrics (Including Rider DMR) include the Rider DMR funds for years 2017 to 2019, but exclude an extension of Rider DMR funds beyond 2019 (exclude DMR funds in 2020 and 2021). The second set of projected metrics (Excluding Rider DMR) assumes no Rider DMR funds in any of the years shown. See footnotes to projected metrics chart. In comparing Moody's (CFO Pre-WC / Debt) key metric for FirstEnergy of [redacted] in 2020 with the DMR to [redacted] in 2020 without the DMR only shows a [redacted] difference with and without the Rider DMR. The same is true in year 2021 where the metric is [redacted] with the DMR and [redacted] without the DMR, [redacted]. Similarly, comparing S&P's key metric of FFO / Debt of [redacted] in 2020 with the DMR to [redacted] in 2020 without the DMR, and [redacted] in 2021 with the DMR to [redacted] in 2021 without the DMR only shows a [redacted].

8. Rating Agencies

Credit Ratings

As of this report the credit ratings from S&P and Moody's for FirstEnergy and its Ohio subsidiaries is presented in the table below.

		Standard & Poors				Moody's				Fitch			
		Unsecured	Secured	ICR	Outlook	Unsecured	Secured	ICR	Outlook	Unsecured	Secured	ICR	Outlook
Ratings	FirstEnergy Corp.	BBB-	NR	BBB	Stable	Baa3	NR	Baa3	Positive	BBB-	NR	BBB-	Positive
	Ohio Edison	BBB	A-	BBB	Stable	Baa1	A2	Baa1	Positive	BBB+	A-	BBB	Positive
	Cleveland Electric	BBB	A-	BBB	Stable	Baa3	Baa1	Baa3	Positive	BBB+	A-	BBB	Positive
	Toledo Edison	NR	A-	BBB	Stable	NR	Baa1	Baa3	Positive	NR	A-	BBB	Positive

Source: updated from rating agency reports as of April 2019, FirstEnergy website as of May 2019.

From interrogatory responses providing credit ratings from January 2018 to April 2019, Oxford has provided the following highlights:

S&P

- On March 28, 2018 S&P upgraded OE's Stand Alone Credit Profile (SACP) to a+.[21]
- On August 27, 2018, S&P upgraded FirstEnergy and its subsidiaries Issuer Credit Rating to BBB from BBB-. Unsecured credit ratings were raised for CEI and OE to BBB; TE does not have an Unsecured credit rating. Additionally, the Secured credit ratings for CEI, OE and TE were changed to A- from BBB+. As noted above, TE does not have an Unsecured Rating. CEI and OE's Unsecured Ratings were changed to BBB, and CEI, OE, and TE's Secured Ratings were all changed to A-.FirstEnergy's senior unsecured rating is BBB-, lower than its issuer rating due to subordination from subsidiaries.
- On April 15, 2019 S&P reviewed the FirstEnergy credit, affirming the Issuer Credit Rating of BBB with stable outlook. S&P's actual FFO to Debt metrics for FirstEnergy noted in the report are 13.7% for 2015; 14.3% for 2016; 13.2% for 2017 and 13.8% for 2018. S&P

[21] Stand Alone Credit Profiles are presented in lower case so as not to confuse them with a credit rating presented in upper case by S&P.

could lower FirstEnergy's ratings should the FES resubmission be materially modified negatively, or if FFO/debt weakens toward 9%.

- S&P expects the DMR to be extended.

Moody's

- Moody's started 2018 with a stable outlook on FirstEnergy, and on May 30, 2018 changed the outlook of Ohio subsidiaries to positive. Moody's specifically notes that its cash flow analysis excludes DMR outlook change.
- On April 8, 2019 Moody's commented on recent developments in the FES bankruptcy, noting that the Court's rejection of the FES disclosure agreement is a credit negative, but uncertain in magnitude. Moody's actual (CFO pre-WC)/debt metrics for FirstEnergy noted in the report are 12.3% for 2015; 15% for 2016; 15.9% for 2017 and 12.4% for 2018. FirstEnergy's (CFO pre-WC)/debt downgrade threshold is 12%, which Moody's expects to be breeched in 2019 due to one time items. Moody's did not change FirstEnergy's ratings or outlook.
- Moody's updated the FirstEnergy credit on May 14, 2019 with no major changes.

Fitch

- Fitch changed its outlook to FirstEnergy and its subsidiaries to positive on November 5, 2018 after the approval of the FES settlement by the bankruptcy court.
- On April 17, 2019, Fitch affirmed FirstEnergy Issuer Default Rating (IDR) at BBB- as well as OE, CE and TE's IDRs at BBB. Additionally, the positive outlook for FirstEnergy and the Ohio subsidiaries were also affirmed.
- Fitch's projections assume PUCO rejects FirstEnergy's request for a two-year extension of Rider DMR.

9. Earnings

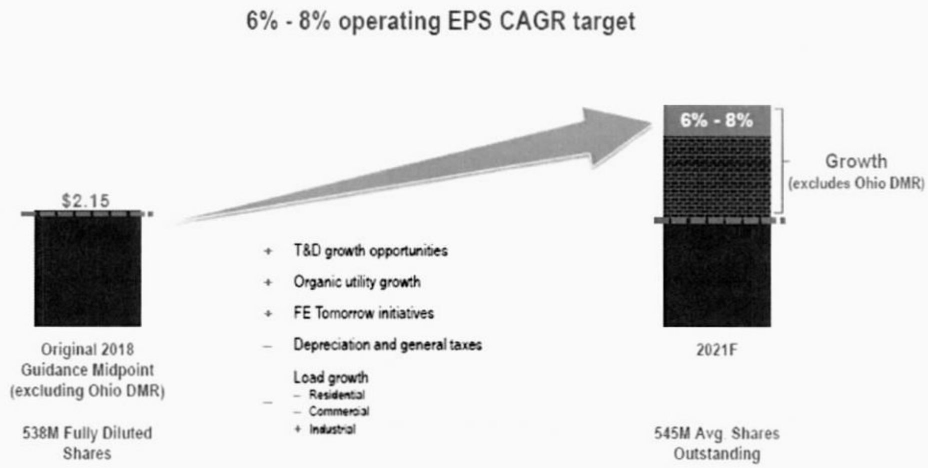
[redacted]

[redacted]

On February 20, 2018 FirstEnergy increased its Regulated Operating EPS Growth target for 2018-2021 to 6% - 8%, excluding Rider DMR funds. The earnings growth projections have been recently affirmed by FirstEnergy in May 2019. See chart below.[22]

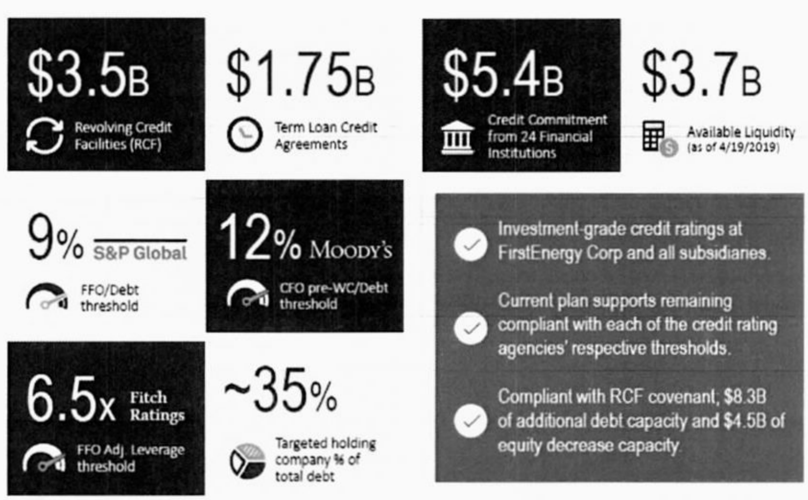
[22] FirstEnergy Investor Meetings Presentation, May 2019 at 4.

2018-2021 Operating EPS CAGR



FirstEnergy declined to respond to Oxford's request for the calculation of the expected increase in dividends to be paid by the Ohio Utilities to FirstEnergy as a result in the expected increase of CAGR due to Rider DMR. Below is the current credit profile of FirstEnergy.[23]

Credit Profile



The Rider DMR funds have provided FirstEnergy with needed cash flow and liquidity during the current three year term of the Rider as indicated by the investment grade credit ratings at FirstEnergy and all subsidiaries and its overall credit profile.

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[23] FirstEnergy Investor Factbook, published April 23, 2019 at 68.

10. Taxes – Net Operating Losses

FirstEnergy and its subsidiaries are party to an intercompany income tax allocation agreement that provides for the allocation of consolidated tax liabilities. Certain net tax benefits attributable to FirstEnergy are reallocated to the subsidiaries of FirstEnergy that have taxable income. That allocation is accounted for as a capital contribution to the company receiving the tax benefit.

Federal income taxes are being paid by the Ohio Utilities up to FirstEnergy, but FirstEnergy is able to offset federal income taxes due to Net Operating Losses ("NOLs") on its balance sheet. As a result, FirstEnergy indicated that the recent federal tax cuts from the Tax Act signed into law on December 22, 2017 have negatively affected cash flow to FirstEnergy primarily attributable to the reduction of the corporate federal income tax rate from 35% to 21%, effective in 2018.

The Ohio Utilities were taxed at a rate of 35% in 2015, 2016 and 2017, while FirstEnergy utilized the consolidated NOLs to offset income tax payments. The NOL's have been allocated to the Ohio Utilities in accordance with the tax sharing agreement. As of December 31, 2018, FirstEnergy's loss carryforwards and AMT credits consisted of $2.4 billion ($493 million, net of tax) of Federal NOL carryforwards that will begin to expire in 2031 and Federal AMT credits of $18 million that have an indefinite carryforward period. The pre-tax NOL carryforwards for state and local income tax purposes of approximately $7.6 billion ($365 million, net of tax) for FirstEnergy, of which approximately $2.1 billion ($100 million, net of tax) is expected to be utilized based on current estimates and assumptions.[24]

While the NOLs are a benefit to FirstEnergy and the Ohio Utilities, the recent tax cuts from the Tax Act effective in 2018 have negatively affected cash flow to FirstEnergy primarily attributable to the reduction of the corporate federal income tax rate from 35% to 21%. Fitch estimates FFO-adjusted leverage for FirstEnergy will approximate 6.0x in both 2020 and 2021. Fitch's projections recognize the pressure on FFO leverage metrics from the tax cuts from the Tax Act, but note that FirstEnergy's issuance of $2.5 billion of equity issued January 2018 offset the pressure on FFO from the tax cuts. In Fitch's view the equity offering underscores FirstEnergy management's commitment and willingness to defend its investment-grade credit ratings.[25]

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[24] FirstEnergy 2018 Annual Report, at 87-89.
[25] Fitch Ratings, Fitch Affirms FirstEnergy's Ratings; Outlook Positive dated April 17, 2019 at 2.

11. Capitalization and Forecasted Cash

FirstEnergy's capitalization from 2015 to the first quarter of 2019 has remained highly leveraged, though it has improved beginning in 2018. Total debt to adjusted capital increased from 61% in 2015 to 83% in 2017, then declined to 72% in 2018 before increasing to 73% at the end of the first quarter of 2019. The reduction of leverage in 2018 was the result of the recapitalization of the company in 2018 which included an equity issuance and debt deconsolidation.

FirstEnergy Capitalization

$mils	2015	2016	2017	2018	Q1 2019
STD	1,708	2,675	300	1,250	1,300
LTD, curent	1,166	1,685	1,082	503	206
LTD	19,192	18,192	21,115	17,751	18,814
Total Debt	22,066	22,552	22,497	19,504	20,320
Equity	12,422	6,241	3,925	6,814	6,932
Total Capitalization	31,614	24,433	25,040	24,656	25,746
LTD to Total Cap	61%	74%	84%	72%	73%

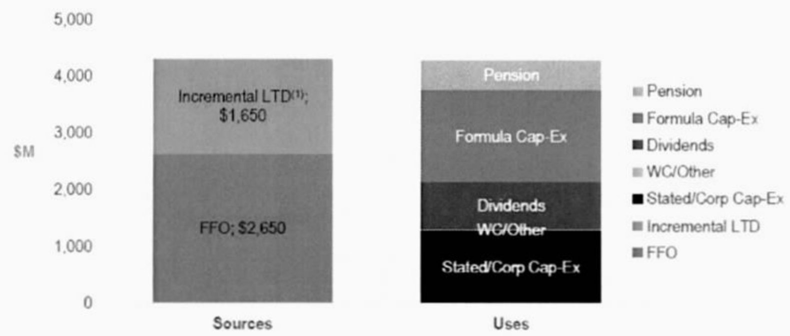
Source: 2015-2018 10-Ks; Q1 2019 10-Q

FirstEnergy's consolidated 2019 cash forecast indicates negative cashflow before the planned issuance of $1.65B of debt. FirstEnergy is expected to generate significant FFO of approximately $2.7B, but is entering a high capex phase, which essentially equals FFO, so other needs including dividends and pension contributions create negative free cash flow (before planned debt financings). See charts below.[26] Rating agencies view the liquidity profile of FirstEnergy to be adequate.

[26] FirstEnergy Investor Factbook, dated April 23, 2019 at 63-64.

2019 Cash Forecast

- Stated capital expenditures and dividends are fully funded by FFO
- Formula capital expenditures are funded by a mix of FFO and operating company debt issuances
- $500M voluntary pension contribution was funded by favorable cash position



Note: Sources and Uses amounts use the mid-points from Slide 64 (2019 FFO and FCF Forecast)
(1) See Slide 58 (2019-2021 Financing Plan)

Fitch's ratings and outlook consider FirstEnergy's high consolidated and parent-only leverage. FirstEnergy's consolidated balance sheet debt totaled $19.5 billion, including just over $7 billion of parent-only long-term and short-term debt, which represented approximately 36% of consolidated long- and short-term debt as of December 31, 2018.

2019 FFO and FCF Forecast

($M)	FE Consolidated 2019F
Cash from Operations (GAAP)	**$2,090 – $2,290**
Working Capital [1]	(25) – (55)
Pension Contributions [2]	500
Funds from Operations (FFO) (Non-GAAP)	**$2,565 – $2,735**
Capital Expenditure	(2,850) – (2,950)
Cash Before Other Items	**($285) – ($215)**
Working Capital/Other [3]	(5) – 125
Pension Contributions	(500)
Cash Before Dividends and Equity	**($790) – ($590)**
Dividends	(820)
Equity [4]	-
Free Cash Flow [5] (Non-GAAP)	**($1,610) – ($1,410)**

(1) Working Capital is included in "Changes in Current Assets and Liabilities" on the Consolidated Statements of Cash Flows
(2) Pension Contribution is included in "Pension Trust Contributions" on the Consolidated Statements of Cash Flows
(3) Includes "Working Capital", asset removal costs which is included in the Consolidated Statements of Cash Flows, and trust interest and dividend income which is included in "Purchases of Investment Securities Held in Trust" on the Consolidated Statements of Cash Flows
(4) Excludes non-cash equity issuances of ~$100M through FE's stock investment and employee benefit plans
(5) Excludes cash items related to debt financing activity

Fitch views FirstEnergy's high leverage as manageable and the focus on investment in its core, primarily pure distribution utility and regulated transmission business units while exiting the competitive energy supply business is credit supportive. Utility capex is expected to average approximate $1.6 billion per year at FirstEnergy in 2019-2021 and transmission investment $1.2 billion. FirstEnergy is targeting total capex of $2.8 billion per year during 2019-2021 and has identified $20 billion of post-2021 transmission investment opportunity.

Fitch's concerns regarding FirstEnergy's large capex program are mitigated by constructive FERC regulation from a credit perspective and improved regulation across FirstEnergy's jurisdictional service territory, as evidenced by constructive outcomes in New Jersey, Ohio, Pennsylvania and West Virginia in recent years. FirstEnergy's operations are expected to provide earnings per share growth of 6%-8% in 2018-2021.[27]

FirstEnergy maintained its dividend of $1.52 per share announced last year. FirstEnergy Transmission also issued $500M of Senior Notes during 2019.

Financial Updates

Since February 19, 2019 (4Q 2018 Earnings Release)

- **Dividend:** Board declared a quarterly dividend of $0.38 cents per share of outstanding common stock

Declaration Date	Payable	Record Date
3/19/2019	6/1/2019	5/7/2019

- **Financing Activities:**

	FET	ATSI
Date	3/28/2019	4/15/2019
Type	Senior Notes	Senior Notes
Amount Issued	$500M	$100M
Interest Rate	4.55%	4.38%
Use of proceeds	To support FET's capital structure, to repay short-term borrowings outstanding under the FE unregulated money pool, to finance capital improvements, and for other general corporate purposes	To refinance existing indebtedness, including amounts outstanding under the FE regulated money pool, to fund capital expenditures, to fund working capital needs, and for other general corporate purposes

[28]

[27] Fitch Ratings, Fitch Affirms FirstEnergy's Ratings; Outlook Positive; Takes Various Subsidiary Rating Actions, dated April 17, 2019 at 2.
[28] FirstEnergy Factbook, dated April 23, 2019 at 66.

12. Equity Investment

On January 22, 2018, FirstEnergy Corp. announced a transformational $2.5 billion equity investment from investors, including affiliates of Elliott Management Corporation (Elliott), Bluescape, GIC, and Zimmer Partners, LP (Zimmer). The $2.5 billion investment includes $1.62 billion in mandatorily convertible preferred equity with an initial conversion price of $27.42 per share and $850 million of common equity issued at $28.22 per share. Elliott, Bluescape and GIC are preferred equity investors. Zimmer is the common equity investor. Equity investment allows FirstEnergy to significantly strengthen its balance sheet and supports the company's transition to a fully regulated company.

By deleveraging the company, the equity investment will also enable FirstEnergy to enhance its investment grade credit metrics and eliminates the need to issue incremental equity through at least year-end 2021, excluding approximately $100 million annually for its stock investment and employee benefits plans. In response to Interrogatory 10, FirstEnergy stated that the proceeds from the investment were used to reduce FirstEnergy holding company debt by $1.45 billion, fund FirstEnergy's pension by $750 million, with the remainder used for general corporate purposes.

Equity Investment:

- Significantly strengthens FirstEnergy's balance sheet and enhances its credit metrics.
- Satisfied near-term equity needs.
- Full focus on core regulated utility business.
- Supports FirstEnergy's regulated growth strategy and positions FirstEnergy for additional future investments across its utility footprint, including near-term opportunities for grid modernization in Ohio.
- Enhanced Focus on Substantial Growth Opportunities Across Regulated Businesses.
- Reaffirms Regulated Operating EPS Growth Target of 5% to 7% -- 8% to 10% Including the Ohio Distribution Modernization Rider (DMR) -- through 2019.

13. Pensions

FirstEnergy has made contributions to pensions and earned a strong return of 16.6% in 2017, but had a loss of 4.2% in 2018. It appears that pensions are well funded through 2019/2020. Below is the pension information provided by FirstEnergy in support of Rider DMR.

Pension

- Since 2015, FE Corp has contributed ~ $2.3B into the Pension Plan
  - $1,250M of these contributions was funded with new Equity issued by FE Corp

Contributions to Qualified Pension Plan ($millions)

	2015	2016	2017	YTD 2018	Total
Ohio Edison	0	121	0	15	136
CEI	0	71	0	31	102
Toledo Edison	0	8	0	11	19
Ohio Total	0	200	0	57	257
All Other FE Entities	143	683	0	1,193	2,019
FirstEnergy Corp	143	883	0	1,250	2,276

- Funded Status:

Pension Benefit Obligation (PBO) Funded Status for Qualified Pension

	2015	2016	2017	2/28/2018
Ohio Edison	75%	89%	93%	95%
CEI	69%	87%	87%	95%
Toledo Edison	85%	87%	90%	96%
FirstEnergy Corp	63%	69%	69%	82%

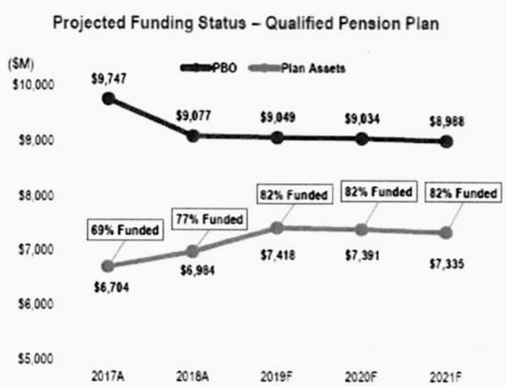
Pension is well funded, particularly for OH Utilities; however, asset performance, demographics, and interest rates could unfavorably impact the funded status [29]

2018-2021 Qualified Pension Funding

Significant improvement in funded status projected through 2021

Qualified Pension Plan

- 2018 actual investment return of -4.2%
- Pension Contributions
  - January 2018: $1,250M
  - February 2019: $500M
- No required contributions through 2021
- Key assumptions:
  - Expected Return on Assets of 7.50%
  - Discount Rate of 4.44% (full yield curve) @ 12/31/18



[30]

Pensions appear to be well funded through 2019/2020 and projected to improve in 2021.

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[29] FirstEnergy Management Presentation, dated April 10, 2018 at 17.
[30] FirstEnergy Factbook dated February 19, 2019 at 35.

14. Summary

Rider DMR

The Commission approved Rider DMR is designed to collect $132.5M in revenue after-tax each year for the three-year term of the Rider. Although PUCO did not place restrictions on the use of Rider DMR funds, the Commission directed Staff and the Third Party Monitor to periodically review how the Companies, and FirstEnergy use the Rider DMR funds to ensure that such funds "are used, directly or indirectly in support of grid modernization." Rider DMR has helped to improve the financial position of FirstEnergy.

The Commission's decision approving Rider DMR allowed FirstEnergy to seek a two-year extension of the DMR:

> "The Commission agrees with Staff's recommendation that Rider DMR be limited to three years with a possible extension of two years (Staff Ex. 13 at 7).... The Commission will determine the amount of the Rider DMR for the two-year extension period based upon the evidence presented in the separate docket, including, but not limited to evidence of the Companies' financial needs and evidence of the measures undertaken by the Companies, FirstEnergy Corp., and their stakeholders to address the financial issues discussed throughout this Fifth Entry on Rehearing.[31]

FirstEnergy filed an application on February 1, 2019 in Case No. 19-0361-EL-RDR, In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company for an Extension of Their Distribution Modernization Rider with the Commission to extend the Rider DMR for two years at its current amount of $132.5 million per year in revenue after-tax, and under the same terms and conditions.

[31] Commission Order in Case No. 14-1297-EL-SSO, et al dated October 12, 2016 at 97.

Use of Funds

FirstEnergy used the Rider DMR funds in support of grid modernization by placing all of the Rider DMR funds in the Regulated Money Pool. As described in OA Set 1- INT-037 Attachment 1, FirstEnergy describes how they are using the Rider DMR funds. The pertinent part follows:

> "The Commission decision authorizing Rider DMR explicitly declined to restrict the use of funds and did not contemplate the tracking of Rider DMR funds to specific expenditures. While the Companies track Rider DMR revenues, the funds received from these revenues lose their identity upon receipt by the Companies. All funds received by the Companies are placed into the Regulated Utility Money Pool."

FirstEnergy goes on to state that the Regulated Money Pool was created via an agreement among the Companies and other FirstEnergy Corp. regulated affiliates and allows the regulated companies to borrow from each other, and from the FirstEnergy Corp., to meet their short-term working capital needs. FirstEnergy Corp.'s unregulated subsidiaries do not participate in and do not have access to the Regulated Money Pool. There is a separate Unregulated Non-Utility Money Pool comprised of FirstEnergy Corp. and certain of its unregulated subsidiary companies.

It appears that FirstEnergy has complied with the Commission's Rider DMR decision as follows: (1) FirstEnergy has maintained its corporate headquarters and nexus of operations in Akron, Ohio; (2) there has been no change in "control" of the Companies as that term is defined in R.C 4905.402(A)(1); and (3) FirstEnergy has made sufficient progress in the implementation and deployment of grid modernization programs by entering into a Settlement to recover up to $516M of capital costs invested over three years related to grid modernization investments. FirstEnergy used the DMR funds "indirectly" in support of grid modernization by placing all of the Rider DMR funds in the Regulated Money Pool which has improved the FFO metric by adding cash flow in the numerator of the calculation, enhanced liquidity and reduced borrowing needs. Further details on the activities undertaken during the term of Rider DMR to support, either directly or indirectly, grid modernization are provided in the response to OA Set 5-INT-108 and OA Set 1-INT-037 Attachment 1 Revised Supplemental.

Money Pools

FirstEnergy has two Money Pools, Regulated and Unregulated, both were created with the intent to allow the companies in their respective pools to meet short term working capital needs with low cost lending for the borrowing companies and opportunity to earn a modest interest on cash balances for the lending companies. The use of Rider DMR funds in the Regulated Money Pool appears to be benefiting the liquidity needs of the non-Ohio regulated companies when looking over the trends. Funds in the Regulated Money Pool have been used to pay dividends to FirstEnergy.

FFO Analysis

The Rider DMR funds have improved the FFO metric by adding cash flow in the numerator of the calculation. FirstEnergy noted in 2018 that an increase in cash flow versus debt reduction improves the calculation by a ratio of $1 to $8 ($1 increase in cash flow has the same effect on the metric as an $8 reduction to debt from a mathematical perspective). The benefits of the Rider DMR may be temporary unless FirstEnergy improves its long-term financial position.

The updated March FFO projections provided by FirstEnergy demonstrate that the use of Rider DMR in the Regulated Money Pool to improve cash flow may only have a temporary benefit to the FFO metrics as there are relatively small improvements between the projected FFO metrics in 2019 with the Rider when compared to 2020 and 2021 with and without the Rider DMR funds.

Financial Condition

On March 28, 2018, S&P upgraded Ohio Edison's Stand Alone Credit Profile (SACP) to a+. On August 27, 2018, S&P upgraded FirstEnergy and its subsidiaries Issuer Credit Rating to BBB from BBB-. Unsecured credit ratings were raised for Cleveland Electric and Ohio Edison to BBB; Toledo Edison does not have an Unsecured credit rating. Additionally, the Secured credit rating for the three companies were raised to A- from BBB+. As noted above, TE does not have an Unsecured Rating. CEI and OE's Unsecured Ratings were changed to BBB, and CEI, OE, and TE's Secured Ratings were all changed to A-. FirstEnergy's senior unsecured rating is BBB-, lower than its issuer rating due to subordination from subsidiaries.

[redacted] FirstEnergy recently affirmed in May 2019 its increased Regulated Operating EPS Growth target for 2018-2021 to 6% - 8%, excluding Rider DMR funds. Additionally, FirstEnergy's current credit profile indicates investment-grade credit ratings at FirstEnergy and all subsidiaries, its current plan supports remaining compliant with each of the credit rating agencies' respective thresholds and FirstEnergy is compliant with its revolving credit facilities covenant and it has $8.3B of additional debt capacity and $4.5B of equity decrease capacity.[32]

Dividend Policy

As of December 31, 2017, FirstEnergy's board had maintained the annual dividend of $1.44 per share in 2017 resulting in dividends of $639 million in 2017. FirstEnergy pays dividends on a quarterly basis. The Ohio Utilities pay dividends to FirstEnergy periodically during the year. Oxford requested that FirstEnergy explain why there have not been further reductions in dividend policy to help improve its financial metrics. FirstEnergy responded to OA Set 2-INT 58 as follows:

"Many factors are considered in determining dividends. The payment of dividends is reviewed by Senior Management on an ongoing basis. Several factors are considered and reviewed prior to a dividend recommendation, consideration, and authorization by the Board of Directors of FirstEnergy, including but not limited to, current and projected earnings, cash, and capital structures. Based on the factors, and the other actions taken, as referenced above, there has not been a subsequent reduction in the FirstEnergy dividend."

FirstEnergy did not reduce its dividends during the term of the Rider, but rather increased the amount of dividends paid by the Ohio Utilities to FirstEnergy. The total dividends paid to FirstEnergy by the Ohio Utilities in 2017 and 2018 is $750 million compared to $311 million in 2015 and 2016, the two years prior to Rider DMR.

[32] FirstEnergy Investor Factbook, dated April 23, 2019 at 68.

In addition, on November 9, 2018, FirstEnergy announced that its Board approved an increase in dividend by 6% from $0.36 to $0.38 per common share. Total dividends to be paid in 2019 are $820 million vs. $775 million in 2018, an increase of $45 million, or 5.81%. Oxford views FirstEnergy's increase in dividends as an indication of improved financial health.

FES Bankruptcy

FirstEnergy Solutions Corp. and its subsidiaries filed a voluntary petition for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Northern District of Ohio on March 31, 2018. On April 4, 2018 FirstEnergy filed an 8-K with unaudited pro forma consolidated financial information where FES and FENOC are deconsolidated from FirstEnergy's financial statements as of the Petition Date. On August 26, 2018, FirstEnergy, the FES Creditor Groups, the FES Debtors and the Unsecured Creditors Committee entered into a definitive Settlement Agreement.

FirstEnergy provided $1.7B in guarantees and assurances by way of FirstEnergy agreeing to issue $628 million of notes that mature in 2022, with principal payments being funded by the deduction in stock value stemming from FES, as well as a $225 million cash payment. FirstEnergy subsequently amended the Settlement Agreement increasing its payments by approximately $200.5 million. FES was restructured in the bankruptcy to separate and fully remove FirstEnergy from the competitive businesses. The Settlement Agreement was approved on September 26, 2018.

On March 4, 2019, the FES bankruptcy court judge ruled that the FES Disclosure Statement was too broad in that it released FirstEnergy from any future environmental claims. FirstEnergy removed the broad third-party releases from the Settlement Agreement and FES submitted a revised Disclosure Statement in the bankruptcy proceeding.

It is unclear at this time, what effect the removal of the broad third-party releases will have on the potential liabilities of FirstEnergy, but certain environmental risks remain.

Financial Challenges at FirstEnergy

Even though FirstEnergy's financial position has improved due to the Rider DMR funds, challenges remain. The high level of FirstEnergy debt and the effect of the generation asset impairments continue to persist. Moody's does not expect the latest bankruptcy court development to result in an additional financial burden that is significant for FirstEnergy even though they cannot quantify the unknown future environmental liabilities. Even if it's possible for FirstEnergy to agree to create a reserve to address a portion of the unknown liabilities, Moody's anticipates the impact to be neither material nor immediate. However, Moody's notes that in a remote scenario of FirstEnergy making an additional payment upfront, they gauge the extra financial cushion on FirstEnergy's balance sheet as thin in 2019 since Moody's already expects the cash flow from operations before changes in working capital (CFO pre-WC) to debt to be below 12%, its downgrade threshold, in 2019 due to some one-time items.[33]

S&P expects FirstEnergy to strategically focus on its fully regulated operations and notes that FirstEnergy is completely separated from its higher-risk competitive generation business and has transitioned to pure-play, rate-regulated distribution and transmission utility. S&P views this as supportive to the credit quality as regulated operations would bring in more transparency and predictability to its cash flows. S&P notes, however, that FirstEnergy's other regulated subsidiaries continue to own regulated generation capacity with predominance of coal-fired generation that poses some environmental risk.

S&P expects funds from operations (FFO) to debt to be about 12%. However, a downside scenario could occur and they could lower the credit rating on FirstEnergy and its subsidiaries within the next year if there are any material modifications to the bankruptcy settlement as a result of FES' resubmission of the disclosure statement, which could further weaken credit metrics. S&P could also lower the credit rating within the next two years if FFO to debt weakens towards 9%. This could occur if there is a significant and persistent lag in ongoing regulatory recovery of capital spending or operating expenses. Under S&P's base-case scenario, they expect the DMR to be effective for the next two years for the Ohio Utilities.[34]

Fitch recently affirmed FirstEnergy's ratings and Positive Outlook. Fitch's FirstEnergy and its subsidiary ratings and outlooks consider FirstEnergy's strategic focus on low-risk, regulated utility and transmission operations, credit supportive state and federal price regulation, exit from its

[33] Moody's Issuer Comment, FirstEnergy Corp. A setback in FES bankruptcy court, credit negative, dated April 8, 2019 at 2.
[34] S&P Global Ratings, FirstEnergy Corp., dated April 15, 2019 at 3-5.

competitive energy supply business and resulting, meaningful improvement to the company's business risk profile. FirstEnergy's core utility and transmission operations benefit from relatively low business risk and predictable earnings and cash flows. Emergence of FES from bankruptcy with no further creditor clawbacks from FirstEnergy may result in favorable resolution of the Positive Outlooks for FirstEnergy and its subsidiaries along with estimated FFO-adjusted leverage of 6.0x in both 2020 and 2021.

Fitch notes that a key rating concern is that FES negotiations could turn more contentious, resulting in higher than expected bankruptcy-related liabilities for FirstEnergy, but believes this is a low probability scenario. Fitch also believes that FirstEnergy's leverage is manageable. Fitch's ratings and outlook consider FirstEnergy's high consolidated and parent-only leverage. FirstEnergy's consolidated balance sheet debt totaled $19.5 billion as of Dec. 31, 2018, including just over $7 billion of parent-only long-term and short-term debt. FirstEnergy parent-only debt represented approximately 36% of consolidated long- and short-term debt at the end of 2018.

Fitch estimates FFO-adjusted leverage will approximate 6.0x in both 2020 and 2021. Fitch estimates FFO-adjusted leverage will approximate 6.0x in both 2020 and 2021. Fitch's projections for FirstEnergy incorporate issuance of $2.5 billion of equity issued January 2018, which offset pressure on FFO leverage metrics from the 2017 Tax Cut and Jobs Act (TCJA). Importantly, Fitch believes the equity offering underscores management's commitment and willingness to defend its investment-grade credit ratings.

Fitch also notes that the Ohio Utilities have solid credit reflecting constructive rate design in Ohio and believes price regulation in Ohio is credit supportive, providing tariff mechanisms designed to recover certain large, uncontrollable costs outside of base rate proceedings. State initiatives supporting grid reliability and resource diversification and the positioning of distribution utilities to play a key role in execution of Ohio energy policy goals bode well for a constructive regulatory compact. Fitch's projections assume PUCO rejects the company's request for a two-year extension of Rider DMR.[35]

[35] Fitch Ratings dated April 17, 2019, Fitch Affirms FirstEnergy's Ratings; Outlook Positive; Takes Various Subsidiary Rating Actions at 1-4.