

FILE

Ohio

**Public Utilities
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November 27, 2019

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

PUCO

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RECEIVED-DOCKETING DIV

RE: *In the Matter of the Application of Cleveland Electric Illuminating Company for Authority to Issue, Renew or Assume Liability on Notes and Other Evidences of Indebtedness Pursuant to O.R.C. § 4905.401.*

Dear Docketing Division:

Enclosed please find Staff's Review and Recommendation on the application of Cleveland Electric Illuminating Company for Authority to Issue, Renew or Assume Liability on Notes and Other Evidences of Indebtedness in Case No. 19-1876-EL-AIS.



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

Enclosure
Cc: Parties of Record

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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of The)	
Cleveland Electric Illuminating Company for)	Case No. 19-1876-EL-AIS
Authority to Issue, Renew or Assume)	
Liability on Notes and Other Evidences of)	
Indebtedness Pursuant to O.R.C. § 4905.401)	

Staff Review and Recommendation

APPLICATION DESCRIPTION

On October 9, 2019, The Cleveland Electric Illuminating Company ("CEI") filed an application with attachments ("Application") with the Public Utilities Commission of Ohio ("Commission") pursuant to Ohio Revised Code ("R.C.") Section 4905.401, seeking authority to issue up to \$500 million of short-term notes ("Notes") and to participate in a utility money pool through December 31, 2020. Through its Application, CEI seeks a renewal of its existing \$500 million of authority that was granted on June 19, 2019.¹

R.C. 4905.401 provides a statutory exemption permitting Ohio electric utilities to borrow up to five percent of the par value of all outstanding long-term securities without the Commission's prior approval ("Statutory Exemption"). Any Ohio electric utility wishing to incur short-term obligations in excess of the exempted amount must seek Commission authorization.

REVIEW AND ANALYSIS

As of September 30, 2019, the Statutory Exemption allows CEI to borrow up to \$128,438,000 without the Commission's prior approval. CEI's request for short-term debt funding authority is in excess of the amount allowed under the Statutory Exemption in order to provide CEI financial flexibility to meet its working capital needs from time to time over the course of 2020.

FirstEnergy Corp., CEI's ultimate parent company, and its subsidiaries have a utility money pool ("FE Utility Money Pool"). The FE Utility Money Pool is by and among FirstEnergy Corp.,

¹ See *In the Matter of the Application of The Cleveland Electric Illuminating Company for Authority to Issue, Renew or Assume Liability on Notes and Other Evidences of Indebtedness*, Case No. 18-1429-EL-AIS, Finding and Order (June 19, 2019).

FirstEnergy Service Company and the following FirstEnergy utility subsidiaries (collectively, "Participating Companies"):

- (1) Ohio Companies: Ohio Edison Company, CEI, The Toledo Edison Company, and American Transmission Systems Incorporated (collectively, "Ohio Participating Companies");
- (2) Non-Ohio Companies: Jersey Central Power & Light Company, Metropolitan Edison Company, Mid-Atlantic Interstate Transmission, LLC, Monongahela Power Company, Pennsylvania Power Company (a wholly-owned subsidiary of Ohio Edison), Pennsylvania Electric Company, The Potomac Edison Company, Trans-Allegheny Interstate Line Company, Waverly Electric Power & Light Company, and West Penn Power Company (collectively, "non-Ohio Participating Companies").

Participating Companies can lend short-term funds to the FE Utility Money Pool and receive interest income or borrow short-term funds therefrom at rates that are generally more attractive than those obtained through outside financing. A separate non-utility money pool is comprised of FirstEnergy Corp. and its unregulated non-utility subsidiary companies. Funds from the FE Utility Money Pool and the non-utility money pool cannot be co-mingled.

FirstEnergy Corp. can lend money to the FE Utility Money Pool but cannot borrow from it. FirstEnergy Service Company acts as an administrative agent for the FE Utility Money Pool, and it can neither lend nor borrow from the FE Utility Money Pool.

CEI proposes that the proceeds from the Notes, including loans from the FE Utility Money Pool, would be used to provide funds for current maturities of existing obligations, retirement and redemption of securities, working capital, and for other corporate purposes.

As of September 30, 2019, CEI had approximately \$52 million of outstanding borrowings from the FE Utility Money Pool.

CEI has senior unsecured debt ratings of Baa2 (Moody's), BBB (Standard and Poor's) and BBB+ (Fitch), which are all investment grade.

STAFF RECOMMENDATION

Staff has reviewed the Application and recommends its approval. However, in order to provide safeguards to insulate CEI from the financial risks associated with other Participating Companies, Staff proposes the Commission impose the following conditions on CEI's participation in the FE Utility Money Pool:

- (a) In accordance with its Application, funds provided by CEI to the FE Utility Money Pool or borrowed by CEI from the FE Utility Money Pool cannot exceed \$500 million. In aggregate, non-Ohio Participating Companies shall not borrow more than \$750 million from funds loaned by the Ohio Participating Companies to the FE Utility

Money Pool, at any one time through December 31, 2020. No single Ohio Participating Company may contribute more than the Commission-approved limit at any one time;

- (b) If any regulatory agency having jurisdiction over one or more of the Participating Companies imposes any condition limiting the amount of short-term debt that may be loaned to any Participating Company in the FE Utility Money Pool, CEI shall report to the Commission, in this case docket, the full particulars of such condition(s) within 10 days of the imposition of those condition(s), so that the Commission may consider whether to impose similar condition(s) on CEI;
- (c) Loans to the Participating Companies made through the FE Utility Money Pool should only be made only to those Participating Companies that have, or whose direct parent company has, an investment grade credit rating from at least one nationally recognized rating agency, or in the absence of such rating, investment grade credit ratings on their corporate credit rating from at least one nationally recognized rating agency. In the event the credit rating of any Participating Company, or its parent company in the case of an unrated company, falls below investment grade, CEI shall file the full details of such condition(s) in this case docket within 10 days of such event; and
- (d) CEI shall file in this case docket information relating to its participation in the FE Utility Money Pool on a quarterly basis.