

**Ohio**

**Public Utilities  
Commission**

Asim Z. Haque, Chairman

Commissioners

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FILE

December 13, 2017

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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, renew or assume liability on Notes and other evidences of indebtedness.*

Dear Docketing Division:

Enclosed please find Staff's Review and Recommendation in regard to the application of The Cleveland Electric Illuminating Company for authority to issue, renew or assume liability on Notes and other evidences of indebtedness as described above in Case No. 17-2138-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 Authority to Issue,            ) Case No. 17-2138-EL-AIS  
Renew or Assume Liability on Notes        )  
And Other Evidences of Indebtedness      )  
Pursuant to O.R.C. § 4905.401            )

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**Staff Review and Recommendation**

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**APPLICATION DESCRIPTION**

On October 20, 2017, The Cleveland Electric Illuminating Company (“CEI”) filed an application with attachments (“Application”), with the Public Utilities Commission of Ohio (“Commission”), pursuant to 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, 2018. Through its Application, CEI seeks a renewal of its existing \$500 million of authority that was granted on December 21, 2016, in Case No. 16-2052-EL-AIS.<sup>1</sup>

R.C. 4905.401 provides a statutory exemption permitting Ohio electric utilities to borrow up to 5 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 June 30, 2017, the Statutory Exemption allows CEI to borrow up to \$121,542,941 without the Commission’s approval. CEI anticipates the need for short-term funding over the course of 2018 in excess of the amount allowed under the Statutory Exemption.

FirstEnergy Corp., CEI’s ultimate parent company, and its subsidiaries have a utility money pool and a non-utility money pool. The utility money pool is by and among FirstEnergy Corp.,

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<sup>1</sup> See *In the Matter of the Application of the Ohio Edison for Authority to Issue Short-term Notes and Other Evidences of Indebtedness*, Case No. 16-2052-EL-AIS, Finding and Order (Dec. 21, 2016).

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

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

As described in the Application, the Federal Energy Regulatory Commission ("FERC") and the Pennsylvania Public Utility Commission authorized CEI's affiliate, Mid-Atlantic Interstate Transmission, LLC ("MAIT") to own and operate all FERC jurisdictional transmission assets of ME and PN. CEI requests that MAIT begin participating in the money pool after all state and federal regulatory approvals are obtained, which is expected by the end of 2017.

Participating Companies can lend short-term funds to the utility money pool and receive interest income or borrow short-term funds from the utility money pool 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 utility and non-utility money pools cannot be co-mingled.

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

CEI proposes that the proceeds from the Notes, including loans from the 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 October 31, 2017, CEI had approximately \$24.1 million in borrowings from the money pool.

CEI has investment grade ratings of Baa3 (Moody's), BBB- (Standard and Poor's) and BBB (Fitch).

### **STAFF RECOMMENDATION**

Staff has reviewed the Application and recommends its approval in light of CEI's financial condition and anticipated financing needs. However, in order to provide safeguards to insulate CEI from the financial risks associated with other non-Ohio Participating Companies, Staff proposes the Commission impose the following conditions on CEI's participation in the utility money pool:

- (a) In accordance with its Application, funds provided by CEI to the utility money pool or borrowed by CEI from the utility money pool cannot exceed \$500 million. In aggregate, non-Ohio Participating Companies shall not borrow more than \$1 billion from funds loaned by the Ohio Participating Companies to the utility money pool, at any one time through December 31, 2018. 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 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 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 within 10 days of such event; and
- (d) CEI shall provide information relating to its participation in the utility money pool on a quarterly basis and shall file those quarterly reports in this case docket.