



Public Utilities Commission

Mike DeWine, Governor
Jenifer French, Chair

Commissioners

M. Beth Trombold
Lawrence K. Friedeman
Dennis P. Deters
Daniel R. Conway

December 8, 2021

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
Pursuant to O.R.C. §4905.401, Case No. 21-0931-EL-AIS*

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 short-term debt, Case No. 21-0931-EL-AIS.

A handwritten signature in black ink, appearing to read "D. Liphtratt", positioned above a horizontal line.

David Liphtratt
Chief, Accounting and Finance Division
Rates and Analysis Department
Public Utilities Commission of Ohio

Enclosure

Cc: Parties of Record

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Cleveland)
Electric Illuminating Company for Authority) Case No. 21-0931-EL-AIS
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 September 17, 2021, The Cleveland Electric Illuminating Company (“CEI”) filed an application with exhibits (collectively, “Application”), with the Public Utilities Commission of Ohio (“Commission”) pursuant to Ohio Revised Code (“R.C.”) Section 4905.401. Through its Application, CEI seeks authority 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”) through December 31, 2022. CEI also seeks authorization to participate in a utility money pool. The aggregate amount of Short-Term Notes and loans from the utility money pool shall not exceed \$500 million at any one time. The Application represents a renewal of CEI’s existing short-term financing authority that was granted on December 16, 2020.¹

CEI proposes that the proceeds from the Short-Term Notes would be used to provide funds for current maturities of existing obligations, retirement and redemption of securities, loans to the utility money pool, working capital, and for other corporate purposes.

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.

¹ See *In the Matter of the Application of the CEI for Authority to Issue, Renew or Assume Liability on Notes and Other Evidences of Indebtedness*, Case No. 20-1492-EL-AIS, Finding and Order (December 16, 2020) (2020 AIS Case).

REVIEW AND ANALYSIS

As of September 30, 2021, the Statutory Exemption allows CEI to borrow up to \$143,670,422 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 2022.

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

- (1) Ohio Companies: CEI, Ohio Edison Company, 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 Company), 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 to nor borrow from the FE Utility Money Pool. In a clarification of the use of proceeds from the Short-Term Notes, CEI stated that it is not seeking authorization to borrow from external sources for the sole purpose of funding the FE Utility Money Pool. Funds from Short-Term Notes enter the FE Utility Money Pool to meet the daily cash needs of the borrower. Revolver borrowings are generally made for a one-month draw period, and it is possible that during that time that the borrower may build excess cash in the FE Utility Money Pool through funds from operations prior to the maturity of the external borrowing.

As of September 30, 2021, CEI had approximately \$11 million of outstanding borrowings from the FE Utility Money Pool.²

² 2020 AIS Case, Intercompany Loan Report (November 17, 2021).

CEI has senior unsecured debt ratings of Baa2 with a Negative outlook (Moody's), BBB- on CreditWatch with Positive implications (Standard and Poor's) and BBB with a Stable outlook (Fitch), which are all considered investment grade. The BBB rating from Fitch reflects a downgrade from its BBB+ rating of one year ago.

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) CEI may borrow funds from the FE Utility Money Pool combined with any borrowings from Short-Term Notes in an aggregate amount not to exceed \$500 million at any one time. In addition, funds provided by CEI to the FE Utility Money Pool may not exceed \$500 million at any one time. Furthermore, funds loaned to the FE Utility Money Pool by the Ohio Participating Companies and borrowed therefrom by non-Ohio Participating Companies shall not exceed \$750 million in aggregate at any one time through December 31, 2022;
- (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 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 notify the Commission and file full details of such events in this case docket within 10 days of the occurrence of the 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.

**This foregoing document was electronically filed with the Public Utilities
Commission of Ohio Docketing Information System on**

12/8/2021 3:40:23 PM

in

Case No(s). 21-0931-EL-AIS

Summary: Staff Review and Recommendation in regard to the application of The
Cleveland Electric Illuminating Company for authority to issue short-term debt
electronically filed by Zee Molter on behalf of PUCO Staff