



Public Utilities Commission

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July 27, 2023

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

RE: *In the Matter of the Application of Ohio Edison Company for Authority to Issue, Sell or Enter into Debt Transactions, Case No. 23-0439-EL-AIS*

Dear Docketing Division:

Enclosed please find Staff's Review and Recommendation in regard to the application of Ohio Edison Company for authority to issue long-term debt, Case No. 23-0439-EL-AIS.

A handwritten signature in black ink, appearing to read 'Tamara S. Turkenton', written over a horizontal line.

Tamara Turkenton
Director
Rates and Analysis Department
Public Utilities Commission of Ohio

Enclosure

Cc: Parties of Record

In the Matter of the Application of Ohio Edison Company for Authority to Issue, Sell, or Enter into Debt Transactions)
) Case No. 23-439-EL-AIS
)

APPLICATION DESCRIPTION

The purpose of the requested New Debt is to a) refinance existing indebtedness, including amounts outstanding under the FirstEnergy Regulated Utility Money Pool (“Money Pool”) and under its revolving credit agreement; b) fund capital expenditures; c) fund general corporate purposes; or d) fund any combination of the above.

One purpose of the New Debt is to refinance borrowings from the Money Pool. Utility operating companies in the Money Pool have the ability to borrow from each other and FirstEnergy

Corporation, Ohio Edison's ultimate parent, to meet short-term working capital requirements. Companies receiving a loan from the Money Pool must repay the principal amount of the loan, together with accrued interest, within 364 days of borrowing the funds. Paying down short-term borrowings with long-term debt improves Ohio Edison's available liquidity going forward. Ohio Edison's participation in the Money Pool has been previously authorized by the Commission.¹

As of March 31, 2023, Ohio Edison had a net deficit in working capital (current assets less current liabilities) of \$8 million. During 2023, Ohio Edison has exclusively used the Money Pool as a source of short-term financing and had an outstanding balance of approximately \$35.6 million borrowed from the Money Pool at the end of the first quarter of 2023.² Ohio Edison uses short-term debt for working capital purposes and to fund unexpected expenditures such as restoration services after storms. According to Ohio Edison, the \$125 million in New Debt requested is appropriate in order to maintain a targeted capital structure and provide access to sufficient liquidity.

Ohio Edison also intends to use the proceeds from the New Debt to support its capital construction program. In 2022, Ohio Edison's construction expenditures were \$244 million. It is anticipated that construction expenditures will be approximately \$208 million and \$191 million in 2023 and 2024, respectively. Ohio Edison funds its capital expenditures with long-term debt and equity consistent with its targeted capital structure of 51 percent debt and 49 percent equity, which is in line with the capital structure from its most recent rate case.³

The New Debt is to be comprised of negotiated private placements. Ohio Edison is not a registered company with the Securities and Exchange Commission. Therefore, it would be costly and time consuming to issue debt as a public company. In addition, the smaller size of the proposed issuance limits its appeal in public markets. As such, it is anticipated that the New Debt will be placed as a Rule 144A offering in the private market.

Ohio Edison has included a financing parameter to assure that the New Debt is offered with a reasonable yield to maturity. The Application specifies that the maximum yield of the New Debt is to be 350 basis points above US Treasuries of comparable maturity at the time of pricing or issuance ("Credit Spread"). Ohio Edison has not obtained indicative pricing for its New Debt, but a recent estimate of Credit Spreads for an Ohio Edison debt issuance was comfortably within the maximum parameter requested. Therefore, if current market conditions were to persist until the

¹ See *In the Matter of the Application of Ohio Edison 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. 22-0936-EL-AIS, Finding and Order (December 14, 2022) (2022 AIS Case).

² 2022 AIS Case, 1Q23 Intercompany Loan Report (July 18, 2023).

³ See *In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company for Authority to Increase Rates for Distribution Service, Modify Certain Accounting Practices and for Tariff Approval*, Case No. 07-0551-EL-AIR, et. al, Opinion and Order at 20 (January 21, 2009).

time Ohio Edison exercises the authority sought in this case, then Staff anticipates Ohio Edison will be able to price its debt within the financing parameter described in the Application.

The credit ratings of Ohio Edison influence the cost of its debt. The table below provides information concerning Ohio Edison's credit ratings for its senior unsecured debt as of April 24, 2023.

	Rating	Outlook
Moody's Investors Service, Inc.	A3	Stable
Standard & Poor's Financial Services, LLC	BBB	Positive
Fitch Ratings, Inc.	BBB+	Stable

Ohio Edison manages its financial profile to be in line with its targeted capital structure while maintaining or improving an investment grade credit rating. The following table summarizes Ohio Edison's capitalization as of March 31, 2023 and reflects the pro forma impact of the New Debt.

	Actual 03/31/2023 (in 000s)	%	Pro Forma (in 000s)	%
Long-Term Debt	\$1,259,000	50%	\$ 1,384,000	53%
Common Equity*	\$ 1,253,000	50%	\$ 1,248,000	47%
Total Capitalization	\$ 2,512,000	100%	\$ 2,632,000	100%

** Reflects the impact of \$125M of New Debt and a use of proceeds to repay \$125M of short-term borrowings*

RECOMMENDATION

Upon review of the Application and its supporting documents, Staff believes that Ohio Edison's request to issue the New Debt appears reasonable and recommends approval of the Application with the following conditions:

1. The authorization to consummate the financing transaction(s) to issue the New Debt within the parameters set forth in the Application in no way relieves Ohio Edison of its responsibility to negotiate and obtain the best competitive market terms available at issuance.
2. Ohio Edison shall file a summary report, in this docket, within 30 days of issuing any New Debt under the authority granted in this case. The report should summarize the principal amount, interest rate, type of securities issued, issuance costs, premiums or discounts, redemption provisions, other pertinent terms and the use of proceeds from the New Debt in broad categories.

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

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Case No(s). 23-0439-EL-AIS

Summary: Staff Review and Recommendation regarding the application of Ohio Edison Company for authority to issue long-term debt electronically filed by Zee Molter on behalf of PUCO Staff.