



June 18, 2024

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, Sell, or Enter into Debt Transactions, Case No. 23-0438-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 long-term debt, Case No. 23-0438-EL-AIS.

Tamara Turkenton
Director
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 The Cleveland)
Electric Illuminating Company for Authority to) Case No. 23-0438-EL-AIS
Issue, Sell, or Enter into Debt Transactions)

Supplemental Staff Review and Recommendation

APPLICATION DESCRIPTION

On August 9, 2023, the Public Utilities Commission of Ohio (“Commission”) issued its Finding and Order in this case docket granting The Cleveland Electric Illuminating Company (“CEI”) authority to issue long-term debt in an amount not to exceed \$125 million within certain parameters (“Current Authority”).¹ On April 26, 2024, CEI filed an application with exhibits (“Supplemental Application”) seeking authorization to issue new bonds, notes, and other evidence of indebtedness on a secured or unsecured basis and maturing more than twelve months after their date of issuance in an aggregate principal amount not to exceed \$300 million (“New Debt”). The New Debt is intended to supersede and replace the Current Authority. The New Debt may be issued in one or more issuances, and each issuance is expected to be issued in one or more series of CEI’s first mortgage bonds, unsecured notes, or debentures. The New Debt will be issued within twelve months of Commission approval.

CEI proposes to issue the New Debt through negotiated private placements under the following parameters: a) an interest rate that does not exceed the yield to maturity on United States Treasury Bonds (“US Treasuries”) of comparable maturity at time of pricing or issuance by more than 350 basis points; b) a maturity greater than 12 months but less than 41 years from the date of issuance; c) any underwriting or sales commission or placement fee will not exceed 1.65 percent of the aggregate principal amount issued; d) CEI will receive proceeds equal to the offering price which shall not be less than 96 percent of the aggregate principal of the New Debt issued inclusive of any fees or commissions; and e) any New Debt shall be redeemable as a whole or in part at CEI’s discretion subject to a make-whole premium.

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 Credit Agreement; b) fund capital expenditures; c) fund general corporate purposes; or d) fund any combination of the above.

¹ See *In the Matter of the Application of The Cleveland Electric Illuminating Company for Authority to Issue, Sell, or Enter into Debt Transactions*, Case No. 23-0438-EL-AIS, Finding and Order (August 9, 2023)

REVIEW AND ANALYSIS

Section 4905.40 of the Ohio Revised Code (“R.C.”) requires public utilities to seek Commission authorization to issue stocks, bonds, notes, and other evidences of indebtedness, payable at periods of more than twelve months after their date of issuance. One of the allowable purposes for issuing long-term securities pursuant to R.C. 4905.40 is for the discharge or lawful refunding of the utility’s obligations.

CEI’s First Mortgage Bonds 5.5% Series in the principal amount of \$300 million will mature on August 15, 2024. CEI intends to refund the existing debt by using the proceeds from the New Debt to redeem the existing debt that is maturing.²

The New Debt is to be comprised of negotiated private placements. CEI 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. It is anticipated that the New Debt will be placed as a Rule 144A offering in the private market.

CEI has included a financing parameter to assure that the New Debt is offered with a reasonable yield to maturity. The Supplemental 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. CEI has not obtained indicative pricing for its New Debt, but a recent estimate for a 10-year offering placed its coupon in the range of 5.6 to 5.7 percent. If current market conditions were to persist until the time CEI exercises the authority sought in this case, then Staff anticipates CEI will be able to price its debt within the financing parameter described in the Supplemental Application.

The credit ratings of CEI influence the cost of its debt. The table below provides information concerning CEI’s credit ratings for its senior unsecured debt as of April 23, 2024.

	Rating	Outlook
Moody’s Investors Service, Inc.	Baa3	Stable
Standard & Poor’s Financial Services, LLC	BBB	Positive
Fitch Ratings, Inc.	BBB+	Stable

CEI 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 CEI’s capitalization as of March 31, 2024, and reflects the pro forma impact of the New Debt.

² Company response to Staff DR-05-007

	Actual 03/31/2024 (\$000)	%	Pro Forma (\$000)	%
Long-Term Debt*	\$1,405,962	45%	\$ 1,405,962	45%
Common Equity	\$ 1,688,335	55%	\$ 1,688,335	55%
Total Capitalization	\$ 3,094,297	100%	\$ 3,094,297	100%

* Reflects the impact of \$300M of New Debt and a use of proceeds to refund \$300M of long-term borrowings maturing August 2024

RECOMMENDATION

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

1. The authorization to consummate the financing transaction(s) to issue the New Debt supersedes and replaces the Current Authority.
2. The authorization to consummate the financing transaction(s) to issue the New Debt within the parameters set forth in the Supplemental Application in no way relieves CEI of its responsibility to negotiate and obtain the best competitive market terms available at issuance.
3. CEI 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.

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in

Case No(s). 23-0438-EL-AIS

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