JCP&L Creditworthiness Public Hearing

December 11, 2020

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Presiding Officer:

Joseph Fiordaliso

President, New Jersey BPU

Background

- On November 5, 2020, JCP&L notified the Board that on October 30, 2020, S&P Global Ratings ("S&P") downgraded the issuer credit rating of FirstEnergy (FE) and its subsidiaries, including JCP&L, to BB+ from BBB. Fitch's also initiated a downgrade of FE and JCP&L. As required by prior Board Order, JCP&L also submitted a credit rating mitigation plan.

- At its Agenda meeting on November 18, the Board voted to open a public comment period and hold a public hearing in this matter.

- Between November 20-24, all three major ratings agencies (Moody's, Fitch and S&P) took action to further downgrade FE and some or all of its subsidiary companies, including JCP&L. In light of these actions and other changes at FE, JCP&L submitted a revised mitigation plan on November 25.

- The Board did receive comments during the initial comment period, but in light of the company's submission of a revised mitigation plan, the Board intends to open an additional comment period to run through January 8, 2021.

In the Matter of
the Provision of Basic Generation Service
Pursuant to the
Electric Discount and Energy Competition Act
Determination on Creditworthiness Requirements
for
Jersey Central Power & Light Company
BPU Docket No. EF20110702

Jersey Central Power & Light

December 11, 2020

Requirement for a Mitigation Plan

- Based on a December 4, 2002 Order (Dkt #EX01119754)

  If S&P, Moody's or Fitch issues a report indicating prospect of downgrading a NJ EDC [JCP&L] or its parent [FE Corp.] to below investment grade, the EDC must within 3 business days file a plan to mitigate or remove the threat of such downgrade (must include assessment of present and future liquidity necessary to cover BGS obligations).

- Purpose of the Mitigation Plan at this hearing is to ensure that JCP&L can continue to meet its Basic Generation Service ("BGS") obligations and that JCP&L can continue to pay BGS suppliers for such service when due.

Overview

- These events had no immediate impact on JCP&L with respect to cash flow, liquidity, or continuing day-to-day utility operations.
- Ratings actions were not a result of a change in the current or forecasted financial metrics, nor due to operational disruptions, but were primarily related to:
  - Corporate management and governance
  - Higher political, legal, and liquidity risks
  - Appearance of potential challenges in accessing the capital markets
- JCP&L remains fully committed to and capable of continuing to provide safe, adequate and proper electric service, including BGS service, to its customers in New Jersey.
- As the Mitigation Plan demonstrates, JCP&L's access to the capital markets has not been impaired by these events, appropriate ring-fencing measures are in place and JCP&L continues to have sufficient resources and liquidity to meet its BGS obligations.

10Q Filed November 19, 2020

- $3.5 billion credit facility to provide flexibility and liquidity for the corporation
  - $2.5B for FE Corp and Subsidiaries
  - $1.0B for FET
- 10Q disclosures
  - Action by former senior executive violated certain covenants in the company's credit facility
  - Company evaluated its controls framework and identified a material weakness, specifically finding certain former members of senior management failed to set an appropriate "tone at the top"
- Waivers to these provisions were negotiated to maintain access to the credit facility.
  - $3.5B revolving lines of credit
  - Borrowing sub-limits for the utilities, including JCP&L are unchanged.
  - FE Corp's borrowing sub-limit reduced to $1.5 billion.

8K Filed November 24, 2020

- Waivers are limited to the violation of terms under the credit facility described in the waiver document
- Company withdrew $1.95 billion from the credit facility, with $950 million of cash placed on the balance sheets of the utilities.
- Maintaining financial flexibility and liquidity at the utilities is a primary objective.
- S&P in its credit report said “the company's decision to significantly increase its borrowings under its revolving credit facility demonstrates prudent risk management”

Summary of Recent Credit Actions

- S&P – October 30, 2020
- Fitch – October 30, 2020
- Fitch – November 20, 2020
- Moody's – November 24, 2020
- S&P – November 24, 2020

	Corporate Credit Rating			Senior Secured			Senior Unsecured			Outlook/Watch		
	S&P	Moody's	Fitch	S&P	Moody's	Fitch	S&P	Moody's	Fitch	S&P	Moody's	Fitch
FirstEnergy Corp.(*)	BB	Ba1	BB+				BB	Ba1	BB+	CW-N	N	N
Jersey Central Power & Light	BB	A3	BBB-				BB+	A3	BBB	CW-N	S	N

(*) = holding company

S = Stable
P = Positive
N = Negative
CW-N = CreditWatch Negative

Ratings are not recommendations to buy, sell, or hold securities. Ratings are subject to change or withdrawal at any time by the credit rating agencies.

Existing Sources of Liquidity

Borrower (s)[2]	Facility	Commitment	Available Liquidity
		(in millions)	(in millions)
FirstEnergy Corp. and the utilities	Revolving	$2,500	$1,300
FirstEnergy Transmission, LLC/ American Transmission Systems, Incorporated/ Mid-Atlantic Interstate Transmission, LLC/Trans-Allegheny Interstate Line Company	Revolving	$1,000	$0
Cash Investments			$2,095
Available Liquidity			**$3,395**

Contingency Plans for JCP&L

- JCP&L's FERC approved short-term debt authority is $500 million.
- JCP&L money pool borrowings totaled $420.9 million (9/30/20)
- JCP&L borrowed $450 million from the revolving credit facility to repay the $420.9 million money pool borrowing.
- JCP&L expected proceeds from the Yards Creek sale of approximately $155 million to reduce short-term borrowings; closing is expected in the 1Q of 2021.
- Contingency plans for additional liquidity at JCP&L may include:
  - Expedited request(s) to temporarily increase short-term borrowing limits
  - Expedited request to issue additional long-term debt to refinance short-term borrowing and/or money pool borrowings

General Categories of Ring-Fencing Measures

- Oversight and Authority: Attributes that provide regulators the ability and authority to review, approve, monitor and report ring-fencing measures.
- Financial: Attributes related to financial restrictions, limitations or requirements that are typically imposed at the utility or affiliated company transaction level.
- Structural: Attributes related to the manner in which utility companies and affiliates are typically organized through legal or functional entity structures and other management requirements to generally address interdependence and corporate separation.
- Other: Attributes that are “hybrid” in nature and are a mixture of oversight, financial or structural definitions.

Ring-Fencing Measures

JCP&L Ring-Fencing Study (December 2015)

	Categories & Measures	NJ	OH	PA	MD	WV	NY	VA	KY	IN	OK	AR	LA	TX	IL	MS	TN
	Oversight and Authority																
1	Established Penalties for Non-compliance																
2	Utility Asset Sale Approval and Prohibitions																
3	Approve Affiliated Loans or Guarantees																
4	Approve Money Pool Participation and Structure																
5	Authority to Approve Power Supply Contracts																
6	Ability to Restrict Type and Use of Financing																
7	Periodic Assessment or Reporting of Ring Fence Compliance																
8	Access to Books and Records																
9	Periodic Reporting of Affiliate Transactions																
10	Monitor and Manage Credit Ratings and Downgrades																
11	Access to Tax Returns																
	Financial																
12	Capital Structure Requirements																
13	Intercompany Loan Restrictions																
14	Utility Asset Collateral Requirements																
15	Money Pool Restrictions																
16	Dividend Limitations																
17	Affiliate Transaction Costing / Allocation Rules																
18	Depreciation Fund																
	Structural																
19	Corporate Subsidiary in Holding Company Structure																
20	Special Purpose Entity (SPE)																
21	Dedicated Utility Management / Officer Structures																
22	Independent Board Members																
23	Separate Books and Records																
24	Autonomous Credit and Debit Facilities / Ratings																
	Other																
25	Written "Codes of Conduct"																
26	Established Service Level Agreements ("SLA's") and Cost Allocation Methodologies																
27	Other Contract Guidelines																
28	Parent Bankruptcy Provisions and Non-consolidation Opinion																
29	Unregulated Investment Restrictions																
30	Local Office or Headquarters Presence																
	Total Categories & Measures	**28**	**19**	**16**	**14**	**13**	**9**	**12**	**19**	**10**	**6**	**11**	**7**	**13**	**21**	**5**	**3**

Remarks:

David Wand

Division of Rate Counsel

Public Comments

- Please try and limit your comments to the specific matter at hand.
- Please remain respectful of all other speakers.

Written Comments

- The Board will be accepting written comments on this matter until 5pm E.S.T. on January 8, 2020.
- Please submit your written comments in PDF or Word format to board.secretary@bpu.nj.gov or see meeting notice for e-filing instructions.
- Please reference "JCP&L BGS Creditworthiness” in the subject line of your comments.

Thank You!