



Agenda Date: 11/18/20
Agenda Item: 2F

STATE OF NEW JERSEY
Board of Public Utilities
44 South Clinton Avenue, 9th Floor
Post Office Box 350
Trenton, New Jersey 08625-0350
www.nj.gov/bpu/

ENERGY

IN THE MATTER OF THE PROVISION OF BASIC)
GENERATION SERVICE (“BGS”) PURSUANT TO THE)
ELECTRIC DISCOUNT AND ENERGY COMPETITION)
ACT - DETERMINATION ON CREDITWORTHINESS)
REQUIREMENTS FOR JERSEY CENTRAL POWER)
AND LIGHT COMPANY) DOCKET NO. EF20110702

Parties of Record:

Lauren M. Lepkoski, Esq., on behalf of Jersey Central Power and Light Company
Stefanie A. Brand, Esq., Director, New Jersey Division of Rate Counsel

BY THE BOARD:

BACKGROUND

The Electric Discount and Energy Competition Act of 1999 (“EDECA” or “Act”), N.J.S.A. 48:3-49 et seq., provides that for at least three years from the starting date of electric retail choice and until the New Jersey Board of Public Utilities (“Board”) finds it to be no longer necessary and in the public interest, electric public utilities shall provide basic generation service (“BGS”). N.J.S.A. 48:3-57(a).

When the BGS process was first established, BGS suppliers expressed concerns about utility creditworthiness. In response to the concerns, the Board established an expedited process to provide assurances to BGS suppliers that their payments from the electric distribution companies (“EDCs”) would continue in a prompt and timely manner. On December 4, 2002, the Board issued an Order that addressed the issue of reciprocal creditworthiness standards for BGS suppliers pursuant to an agreement with the EDCs (“BGS Agreement” or “Master Supplier Agreement”).¹ The BGS Agreement contains a number of clauses pertaining to the creditworthiness of the BGS suppliers and the suppliers, in turn, requested reciprocal assurances from the EDCs. After reviewing comments provided by interested parties, the Board developed a clear process for dealing with a utility default or credit impairment issues as it affects the BGS suppliers. The

¹ In re the Provision of Basic Generation Service Pursuant to the Electric Discount and Energy Competition Act, N.J.S.A. 48:3-49 et seq., BPU Docket Number EX01110754, Order dated December 4, 2002 (“2002 Order”).

process was intended to provide certain assurances to potential BGS suppliers to assist in providing for maximum supplier participation in the BGS auction.

On September 18, 2013, the Board supplemented the 2002 Order and modified the appropriate measures to be taken to protect the integrity of the Board authorized auction process for the procurement of BGS in the event of a credit rating downgrade of Jersey Central Power and Light Company (“JCP&L”) or its parent holding company, FirstEnergy Corp. (“FirstEnergy”) by Standard & Poor’s Ratings Services (“S&P”), Moody’s Investor Service (“Moody’s”), or Fitch Ratings (“Fitch”).²

PROCEDURAL HISTORY

On November 5, 2020, JCP&L notified the Board that on October 30, 2020 S&P downgraded the issuer credit rating of FirstEnergy and its subsidiaries, including JCP&L, to BB+ from BBB. S&P explained that it was taking the downgrade action as a result of “a U.S. government criminal complaint against the Speaker of the Ohio House of Representatives and four associates for participating in an approximately \$60 million racketeering scheme,” allegedly involving FirstEnergy. S&P notes that:

The two-notch downgrade reflects the termination of the company's CEO, Chuck Jones and two other executives, for violating company policies and its code of conduct. We view the severity of these violations at the highest level within the company as demonstrative of insufficient internal controls and a cultural weakness. We view these violations as significantly outside of industry norms and, in our view, represent a material deficiency in the company's governance.

S&P also downgraded JCP&L’s senior unsecured issue rating from BBB to BBB-. Also, on that same day, Fitch downgraded FirstEnergy and FirstEnergy Transmission, LLC's (“FET”) Long-Term Issuer Default Ratings (“IDR”) to BBB- from BBB. Additionally, Fitch downgraded all of FirstEnergy’s rated operating utility subsidiaries' Long- and Short-Term IDRs with the exception of Monongahela Power Company, Allegheny Generating Company and Potomac Edison Company. Fitch’s ratings for JCP&L are now BBB (IDR) and BBB+ (senior unsecured). On November 1, 2020, Moody’s maintained FirstEnergy and JCP&L on negative credit watch, but did not change any of its ratings. Along with the November 5 letter, posted with this Order, and the October 30, 2020 rating agency reports, JCP&L submitted its plan for mitigating any possible effects of this credit downgrade.

DISCUSSIONS AND FINDINGS

The credit downgrade of FirstEnergy and its subsidiaries, including JCP&L, resulting from allegations of bribery and malfeasance in Ohio, warrants a careful review by the Board. The downgrade has triggered a requirement set forth in the 2002 Order, and memorialized by rule in N.J.A.C. 14:4-4.6(d) that the affected utility must notify the Office of the Chief Economist within the Board of such downgrade within five (5) business days of the downgrade and supply a mitigation plan explaining how the company will seek to prevent the credit rating from falling below the present level and recover to a higher rating.

² In re the Provision of Basic General Service (“BGS”) Pursuant to the Electric Discount and Energy Competition Act- Determination on Creditworthiness Requirements for Jersey Central Power and Light Company, BPU Docket Number EO13080721, Order dated September 18, 2013, (“2013 Order”).

The Board recognizes that a rating downgrade of an EDC or an EDC's parent holding company is a trigger for the expedited review process as the EDC's credit status is inevitably linked to that of its parent. The downgrade of an EDC's parent company could have a negative effect on the EDC's financial stability and warrants further exploration, as the issue is significant to both the Board and the customers to which the company serves. The process of requiring a mitigation plan and soliciting comments on how best to protect New Jersey ratepayers addresses the import of the action taken by the rating agencies and initiates this review of the company's plans to remedy the situation, including addressing issues of ratepayer protection and hold-harmless commitments. The Board acknowledges BGS contracts have been amended directly to incorporate the provision of accelerated payments to BGS suppliers in the event an EDC's credit rating drops below investment grade during the term of the contract.³

The Board **FINDS** that it is appropriate to provide an opportunity for interested parties to be heard on JCP&L's mitigation plan. Attached to this Order, which will be posted on the Board's web page and distributed electronically to the BGS service list, are the ratings reports relevant to this matter and the mitigation plan submitted by JCP&L. The Board **HEREBY DIRECTS** any party, the New Jersey Division of Rate Counsel, utilities and other stakeholders to file comments by December 4, 2020.

Comments submitted should include "JCP&L BGS Creditworthiness" in the subject line. Commenters are encouraged to file their submissions electronically through the Board's External Access Portal upon obtaining a MyNewJersey Portal ID. Detailed instructions for e-Filing can be found on Board's website at <https://www.nj.gov/bpu/agenda/efiling>. Comments may also be submitted electronically to board.secretary@bpu.nj.gov in PDF or Word format with specific reference to this docket. All comments are considered "public documents" for purposes of the State's Open Public Records Act.

Following the public comment period ending December 4, 2020, a public hearing will be held on this matter on December 11, 2020 to provide an opportunity for JCP&L to present its mitigation plan and to determine the appropriateness of any additional Board action to protect New Jersey ratepayers. In the interest of public health and safety, this public hearing will be conducted via webinar. Information concerning participation in the public hearing will be posted on the Board's home page.

Finally, in compliance with the Board's Order in Docket No. EO20030254, all parties are **HEREBY DIRECTED** to serve all documents electronically until such time as the Board lifts the waiver of the filing of hard copy documents.

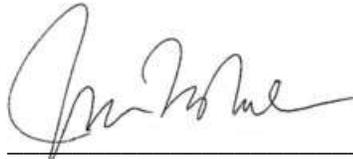
The Board **HEREBY DIRECTS** that this Order be posted on the Board's website.

³ Current BGS-Residential and Small Commercial Pricing and BGS-Commercial and Industrial Pricing Supplier Master Agreements include a provision under Article 9 Billing and Payment, section 91 (d), which substantially mirrors the twice-per month payment mechanism that the Board directed the Company to develop in 2004.

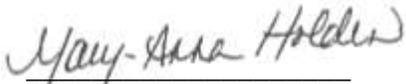
This Order shall be effective on November 28, 2020.

DATED: November 18, 2020

BOARD OF PUBLIC UTILITIES
BY:



JOSEPH L. FIORDALISO
PRESIDENT



MARY-ANNA HOLDEN
COMMISSIONER



DIANNE SOLOMON
COMMISSIONER

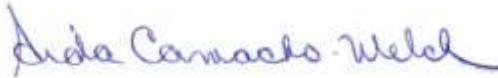


UPENDRA J. CHIVUKULA
COMMISSIONER



ROBERT M. GORDON
COMMISSIONER

ATTEST:



AIDA CAMACHO-WELCH
SECRETARY

**IN THE MATTER OF THE PROVISION OF BASIC GENERATION SERVICE (“BGS”)
PURSUANT TO THE ELECTRIC DISCOUNT AND ENERGY COMPETITION ACT -
DETERMINATION ON CREDITWORTHINESS REQUIREMENTS FOR JERSEY CENTRAL
POWER AND LIGHT COMPANY**

DOCKET NO. EF20110702

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November 5, 2020

VIA ELECTRONIC MAIL

Ms. Aida Camacho-Welch, Secretary
Board of Public Utilities
44 South Clinton Ave., 9th Floor
PO Box 350
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Re: In the Matter of the Provision of Basic Generation Service Pursuant to the Electric Discount and Energy Competition Act, N.J.S.A. 48:3-49 et seq. BPU Docket No. EX01110754 and In the Matter of the Joint Petition of FirstEnergy Corp. and Jersey Central Power & Light Company, D/B/A GPU Energy, for Approval of a Change in Ownership and Acquisition of Control of a New Jersey Public Utility and Other Relief BPU Docket No. EM00110870

Dear Secretary Camacho-Welch:

This submission is being made on behalf of Jersey Central Power & Light Company (“JCP&L”) pursuant to the Decision and Order dated December 4, 2002 (“2002 Order”), issued by the Board of Public Utilities (“Board”) in the above-referenced docket, as supplemented by the Board’s September 19, 2013 Order in Docket No. EO13080721, a Decision and Order dated October 9, 2001 (“Merger Order”), issued by the Board in the above-referenced docket, and N.J.A.C. 14:4-4.6(d).

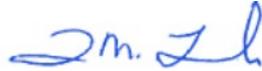
Please be advised that on October 30, 2020, Standard & Poor’s Global Ratings (“Standard & Poor’s”) downgraded the issuer credit rating of FirstEnergy Corp. (“FirstEnergy”) and its subsidiaries, including JCP&L, to BB+ from BBB. Standard and Poor’s also downgraded JCP&L’s senior unsecured issue rating from BBB to BBB-. Also, on that same day, Fitch Ratings (“Fitch”) downgraded FirstEnergy and FirstEnergy Transmission, LLC’s (“FET”) Long-Term Issuer Default Ratings (“IDR”) to BBB- from BBB. In addition, Fitch has downgraded all of FirstEnergy’s rated operating utility subsidiaries’ Long- and Short-Term IDRs with the exception of Monongahela Power Company, Allegheny Generating Company and Potomac Edison Company. Fitch’s ratings for JCP&L are now BBB (IDR) and BBB+ (senior unsecured). On November 1, 2020, Moody’s Investor Services (“Moody’s”) maintained FirstEnergy and JCP&L on negative credit watch, but did not change any of its ratings.

Pursuant to the directive on page 23 of the Merger Order, the directive on page 4 of the 2002 Order, as well as the requirements laid out in N.J.A.C. 14:4-4.6(d), please accept this transmittal letter as the notice of the credit rating actions taken by S&P and Fitch. Also enclosed

herewith is a plan to mitigate the prospect of a downgrade of JCP&L's or FirstEnergy's credit ratings as required by the 2002 Order, including an assessment of its present and future sources of liquidity, as well as a cost impact analysis. This filing demonstrates that JCP&L has ample resources available to it to assure continued payments for the basic generation service supply for its customers. Therefore, no Board action is required.

Thank you for your anticipated cooperation.

Very truly yours,



Lauren M. Lepkoski

Enclosure

c: (w/enclosure – via electronic mail)

Service List

Mitigation Plan
November 5, 2020

Jersey Central Power & Light Company (“JCP&L”) presents this Mitigation Plan (“Plan”) to the New Jersey Board of Public Utilities (“BPU”) to address the credit actions (i.e., rating downgrades) recently announced by Standard & Poor’s Global Ratings (“S&P”) and Fitch Ratings (“Fitch”). These actions were not a result of a change in the current or forecasted financial metrics, specifically Funds From Operations to Debt (FFO/Debt) ratio, but were a downgrade of credit ratings related to corporate management and governance. Therefore, there has been no immediate impact to JCP&L or its parent, FirstEnergy Corp. (“FirstEnergy”), with respect to cash flow, liquidity and continuing operation of FirstEnergy or its subsidiaries.

This Plan includes an assessment of present and future liquidity necessary to cover the basic generation service (“BGS”) supply for JCP&L’s customers. The Plan demonstrates that JCP&L has ample resources available to assure continued payments for BGS supply for its customers. The plan discusses (1) Existing Sources of Liquidity, (2) Access to Capital Markets, (3) Funds from Operations, (4) Debt Reduction and Maturities, and (5) Summary of Credit Ratings.

FirstEnergy’s strategy is customer focused investments in our regulated utilities. In alignment with this strategy, FirstEnergy remains focused on maintaining investment grade metrics at each of its utility subsidiaries, and maintaining strong liquidity for an overall stable financial position.

Existing Sources of Liquidity

FirstEnergy and certain of its utility subsidiaries, including JCP&L, participate in a \$2.5 billion multi-year syndicated revolving credit facility. Revolving credit facilities totaling \$1.0 billion are in place for certain other FirstEnergy subsidiaries. Currently, the total revolving credit facilities in place for FirstEnergy is \$3.5 billion. As of October 26, 2020, \$125 million had been drawn down and \$4.2 million in letters of credit had been issued under these facilities, leaving approximately \$3.371 billion of available credit from these facilities. Additionally, as of October 26, 2020, FirstEnergy had \$55 million in cash investments resulting in available liquidity of \$3.426 billion. The sources and amount of the available liquidity are summarized in the table below.

Borrower (s)	Facility	Commitment (in millions)	Available Liquidity (in millions)
FirstEnergy Corp. and the utilities	Revolving	\$2,500	\$2,371
FirstEnergy Transmission, LLC/ American Transmission Systems, Incorporated/ Mid-Atlantic Interstate Transmission, LLC/Trans-	Revolving	\$1,000	\$1,000

Allegheny Interstate Line Company			
Cash Investments			\$55
Available Liquidity			\$3,426

Commitments under these credit facilities expire in December 2022. JCP&L’s borrowing sublimit under the FirstEnergy and utilities credit facility is currently \$500 million.¹

In addition to these external credit facilities, FirstEnergy maintains both a regulated and an unregulated money pool. The respective FirstEnergy participants in each money pool may borrow and lend to one another. FirstEnergy may lend to both money pools, but is not permitted to borrow from the regulated money pool. These money pools utilize the credit facilities described above to provide flexibility to borrow and lend among the FirstEnergy money pool participants at cost-effective interest rates. In particular, JCP&L is a participant in, and has the ability to borrow from or lend to, the regulated money pool. As a result, cash available to FirstEnergy and the other regulated money pool participants from the FirstEnergy and utilities credit facility mentioned above are available to JCP&L either as direct borrowings by JCP&L under such credit facility or through the money pool, subject to regulatory limitations.

JCP&L also has authorization from the FERC to issue up to \$500 million of short-term debt consisting of both external borrowings and regulated money pool borrowings. As of September 30, 2020, JCP&L had \$420.9 million of short-term borrowings outstanding, which a significant portion of these borrowings were used to fund restoration costs for major storm. Based on the BPU’s October 28, 2020 order approving the sale of the Yards Creek Hydro-electric generating facility (BPU Docket No. EM20050343) and a settlement in JCP&L’s 2020 Base Rate Case (BPU Docket No. ER20020146), JCP&L expects the proceeds of approximately \$155 million from the sale of Yards Creek to be applied to the deferred storm cost balance and to reduce its borrowings from the money pool. Further, JCP&L intends to repay the remaining money pool borrowings with a new long-term debt issuance over the next 12-18 months.

FirstEnergy expects its existing sources of liquidity to remain sufficient to meet its anticipated obligations and those of its subsidiaries, including JCP&L.

Funds from Operations

FirstEnergy anticipates that it will have, on a consolidated basis, sufficient funds from operations, after payment of purchased power costs such as payments under the BGS supply contracts, in the 2020 calendar year, which includes funds from JCP&L. JCP&L’s anticipated funds from operations and its sources of liquidity described above provide ample support to assure payments to the BGS suppliers.

¹ Subject to authorized short-term debt level by the Federal Energy Regulatory Commission (FERC), discussed below.

Access to Capital Markets

Through September 30, 2020, FirstEnergy and JCP&L's affiliates have issued \$3.425 billion of new long-term debt in 2020. This amount includes two successful debt offerings at FirstEnergy totaling \$2.5 billion.

A long history of successful issuances by FirstEnergy demonstrates that FirstEnergy, and JCP&L can access the capital markets as necessary to meet FirstEnergy's and JCP&L's capital-intensive business. Neither FirstEnergy nor JCP&L anticipate any impacts on its access to the capital markets from these rating actions.

Debt Reduction and Maturities

Through September 30, 2020, certain subsidiaries of FirstEnergy redeemed \$1.1 billion of long-term debt in 2020. This includes approximately \$12 million at JCP&L.

Summary of Credit Ratings

On October 30, 2020, S&P downgraded FirstEnergy and its subsidiaries issuer credit ratings two notches to BB+ from BBB, with the exception of Allegheny Generation Company, which was lowered to BB from BBB-. Senior unsecured issue ratings at FirstEnergy and FirstEnergy Transmission, LLC were changed one notch to BB+ from BBB-. Senior unsecured issue ratings at FirstEnergy's subsidiaries, including JCP&L, were lowered one notch to BBB- from BBB. Senior secured issue ratings of FirstEnergy's subsidiaries were lowered one notch to BBB+ from A-. The ratings of FirstEnergy and its subsidiaries remain on CreditWatch with negative implications.

Also, on October 30, 2020, Fitch Ratings downgraded FirstEnergy and FirstEnergy Transmission, LLC's issuer default ratings (IDRs) and senior unsecured ratings one notch to BBB- from BBB. Fitch also downgraded all of FirstEnergy's subsidiaries IDRs to BBB, with the exception of Potomac Edison Company, Monongahela Power Company, and Allegheny Generation Company, whose ratings were affirmed at BBB. Senior unsecured issue ratings at FirstEnergy's subsidiaries, including JCP&L, were lowered one notch to BBB+ from A-. Senior secured issue ratings at FirstEnergy's subsidiaries were lowered one notch to A- from A. The ratings outlook is negative for FirstEnergy and its subsidiaries.

On November 1, 2020, Moody's Investor Services ("Moody's") affirmed the Baa3 senior unsecured and Issuer ratings of FirstEnergy and maintained a negative outlook.

The table below summarizes the ratings for both FirstEnergy and JCP&L.

As of 11/1/2020	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+	Baa3	BBB-				BB+	Baa3	BBB-	CW-N	N	N
Jersey Central Power & Light	BB+	A3	BBB				BBB-	A3	BBB+	CW-N	S	N

(*) = holding company

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

According to the press releases issued by S&P and Fitch, the key driver for their action was the termination of the company's CEO and two other executives, for violating company policies and its code of conduct. The Company's internal review is ongoing and FirstEnergy will continue to cooperate with the government investigations regarding Ohio House Bill 6 and related matters.

According to the press release issued by Moody's, the negative outlook reflects continued uncertainty around the extent and magnitude of any issues related to internal controls at FirstEnergy and what additional actions the company will take to address them. The negative outlook also reflects the possibility that the company will identify additional corporate governance issues and that its Ohio utility regulatory and political environment could be adversely affected. It was noted that thus far, FirstEnergy's large and diversified regulated utility operations have remained stable and have not been affected by the corporate governance issues at the parent.

In both the S&P and Fitch press releases, it was noted that FirstEnergy consolidated liquidity position is adequate for its operations.

JCP&L's credit ratings from S&P, Moody's and Fitch remain investment grade.

Impacts of Ratings Actions on JCP&L's Cost of Debt

As to any short-term impacts on JCP&L's cost of debt, these rating actions have no immediate impact on JCP&L's current cost of debt and JCP&L's next debt issuance, at the earliest, is planned for 2021. Further, as to any longer term impacts, JCP&L cannot predict the period of time that the rating agencies' concerns regarding management and governance may persist, which are the subject of this credit action or whether the long-term debt issuance would be delayed. Therefore, at this time, JCP&L cannot estimate the impacts, if any, that these credit actions may ultimately have on its cost of debt.

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30 Oct 2020 | Downgrade

Fitch Downgrades FirstEnergy Corp.'s IDR to 'BBB-'; Outlook Negative

Fitch Ratings-New York-30 October 2020:

Fitch Ratings has downgraded FirstEnergy Corporation's (FE) and FirstEnergy Transmission, LLC's (FET) Long-Term Issuer Default Ratings (IDR) to 'BBB-' from 'BBB'. FE's and FET's Short-Term IDRs are affirmed at 'F3'. In addition, Fitch has downgraded all of FE's rated operating utility subsidiaries' Long- and Short-Term IDRs with the exception of Monongahela Power Company (MP; IDR 'BBB'), Allegheny Generating Company (AG; IDR 'BBB') and Potomac Edison Company (PE; IDR 'BBB'). The Long-Term and Short-Term IDRs of MP and PE have been affirmed at 'BBB' and F3, respectively, and their Rating Outlooks revised to Negative from Stable. AG's Long-Term IDR has been affirmed at 'BBB' and its Rating Outlook revised to Negative from Stable. The Rating Outlook is Negative for FE and all of its rated subsidiaries.

The rating actions reflect the termination of three senior executives including former FE CEO Charles E. Jones and two other senior executives and ongoing credit concerns regarding potential illicit activity at FE in connection with an ongoing federal bribery/racketeering investigation. The investigation has resulted in criminal charges against Ohio Assembly Speaker Larry Householder, four associates and a nonprofit organization, Generation Now. Among other things, the affidavit alleges that Householder and his associates engaged in bribery and other illegal actions designed to ensure House Bill (H.B.) 6 was enacted and remained in effect (in light of a referendum effort to repeal the legislation).

While the indictment does not explicitly name FE or its affiliates, pseudonyms referred to in the affidavit are widely-believed to refer to FE, its corporate services subsidiary, FirstEnergy Service Company (FESC), and former subsidiary, Energy Harbor. FE is cooperating with the Department of Justice (DOJ) investigation. Former FE subsidiary FirstEnergy Solutions emerged from bankruptcy as a separate entity in February 2020 and was renamed Energy Harbor.

Key Rating Drivers

Criminal Investigation: While FE and its subsidiaries have not been named in the DOJ investigation, future criminal charges against FE and its corporate service subsidiary, FirstEnergy Service Company (FESC), cannot be ruled out in light of pay-to-play allegations contained in the affidavit. If

FE or FESC become targets of the criminal investigation and are ultimately convicted, FE could be subject to fines and penalties, civil litigation and resulting financial pressure, reputational risk, regulatory and political challenges, higher cost of capital and erosion of confidence in management and the effectiveness of its corporate governance and internal controls. According to media reports, the SEC has also initiated investigations of FE.

CEO Terminated: These concerns are exacerbated by the termination of former CEO Charles E. Jones and two other senior executives announced by FE on Oct. 29, 2020. The terminations were triggered by an internal review related to the government investigations. FE's internal review conducted by the Independent Review Committee of the board of directors of FE determined that the three terminated executives violated certain FE policies and code of conduct. The internal review is ongoing and FE will continue to cooperate with DOJ and SEC investigations.

Leadership Transition: With the announcement of the senior management terminations on Oct. 29, Steven Strah was appointed acting CEO. Current FE board of directors' member Christopher Pappas will assume the newly created role of executive director reporting to the nonexecutive chairman of FE's board of directors, Donald Misheff. Pappas, in his new role, will be charged with developing enhanced internal controls and governance policies and procedures. In addition, Pappas will oversee the FE management team's execution of strategic initiatives and engage with FE's external stakeholders.

Business Risk Profile: Fitch believes ongoing uncertainty regarding FE's internal controls is a key source of credit concern that, if not effectively and quickly reversed, could lead to future adverse credit rating actions. Fitch believes the lapse in internal controls meaningfully increases risk of further adverse developments at FE, weakening its business risk profile.

On the political front, H.B. 6 appears to be in play in Ohio in the wake of the DOJ investigation. If the legislation is overturned, decoupling in Ohio may be rolled back, which would negatively affect the business risk profiles of Ohio Edison, Cleveland Electric Illuminating and Toledo Edison.

Parent-Subsidiary Rating Linkage: Fitch considers FE's subsidiary utility operating companies (Opcos) to be generally stronger than their corporate parent, reflecting the utilities' relatively low business risk profile, balanced rate regulation and funds from operations (FFO)-adjusted leverage. While operational and strategic ties are robust, prescribed regulatory capital structures for FE's Opcos leads to moderate rating linkage, allowing the utilities' IDRs to be notched above FE's IDR. Fitch applies a bottom-up approach rating FE's Opcos. FE's utility subsidiary IDRs reflect their stand-alone credit profiles and moderate rating linkage with FE, while FE's IDR incorporates a consolidated approach.

FE's and First Energy Transmission, LLC's ratings are equalized in accordance with Fitch criteria, reflecting close strategic, operational and legal linkages.

Fitch typically rates FE's stronger operating subsidiary IDRs one notch above FE's IDR, reflecting centralized funding and operating strategies currently deployed at the company and relatively robust stand-alone credit metrics.

Coronavirus Pressures C&I Sales: Fitch expects the coronavirus pandemic will have an adverse effect on projected credit metrics in 2020 and 2021 that will prove manageable for FE. Fitch's conservative rating case assumes that sales fluctuations in 2020 will result in flat yoy residential revenue and a decline of 5%-6% in commercial and industrial revenue with weak, albeit improving, revenue trends extending into 2021. In this scenario, Fitch estimates FFO leverage of 6.0x in 2021 and 5.8x in 2022, well inside Fitch's 6.3x downgrade trigger for FE.

In 2Q20, FE system-wide load declined almost 4% compared to 2Q19. However, the increase in residential revenues related to stay-at-home orders in FE's service territory more than offset commercial and industrial customer class revenue declines.

Pure Utility Business Model: With the emergence of FirstEnergy Solutions from bankruptcy as Energy Harbor on Feb. 27, 2020, and divestiture of Allegheny Energy Supply Company LLC's generating capacity, virtually all of FE's consolidated earnings and cash flows will be provided by 10 electric operating utilities and its regulated transmission business. Fitch believes recent approvals of grid modernization and infrastructure improvement plans by Ohio, Pennsylvania and New Jersey regulators and authorization of revenue decoupling for FE's three Ohio operating utilities are supportive credit developments.

Manageable Leverage: Fitch's ratings and Negative Rating Outlook consider FE's high consolidated and parent-only leverage. FE's consolidated balance sheet debt totaled \$22.2 billion as of June 30, 2020 including \$7.8 billion of parent-only debt. FE's parent-only debt represented approximately 35% of consolidated debt as of June 30, 2020.

Focus on Regulated Growth: FE's strategic focus on investing significant capital in and improving returns from its core distribution utility and regulated transmission units, is credit-supportive, in Fitch's view. FE's utility distribution system capex is expected to average approximately \$1.7 billion per year in 2020-2023. Transmission investment is forecast at \$1.2 billion in 2020 and \$1.2 billion-\$1.5 billion per annum during 2021 through 2023. FE's combined utility and transmission planned capex is expected to approximate \$2.9 billion-\$3.2 billion per year 2020 through 2023. Management foresees \$20 billion of post-2023 transmission investment opportunities.

Concerns regarding FE's large capex program are mitigated by constructive Federal Energy

Regulatory Commission (FERC) regulation from a credit perspective and perceived improvement in regulation across FE's jurisdictional service territory, as evidenced by constructive outcomes in New Jersey, Ohio, Pennsylvania and West Virginia in recent years. Management is positioning the company's regulated operations to provide earnings per share growth of 6%-8% in 2018-2021 and 5%-7% through 2023.

FE has Environmental, Social and Governance (ESG) Relevance Scores (RS) of '5' for management strategy, '5' for governance structure, '5' for group structure and '5' for quality and timing of financial disclosure. The scores are linked to uncertainties associated with the ongoing federal investigations of FE discussed above and are highly relevant to the ratings and have had a negative impact on FE's credit profile resulting in the instant credit rating downgrades of FE and several of its subsidiaries.

Except for the matters discussed above, the highest level of ESG credit relevance, if present, is a score of 3 - ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

Derivation Summary

FE's 'BBB-/Outlook Negative IDR is lower than peers American Electric Power (AEP: BBB+/Stable); Exelon Corporation (EXC: BBB+/Stable) and WEC Energy Group, Inc. (WEC: BBB+/Stable) reflecting FE's relatively high parent-only and consolidated leverage. FE and peers AEP, EXC and WEC are large utility holding companies with operations spanning several states. Common FE peer characteristics include relatively low business risk profiles, generally supportive price regulation and management focus on rate base growth and maximizing operating utility returns.

FE's parent-only debt is well in excess of 30%, similar to WEC's parent-only leverage (approximately 30%) but considerably higher than AEP's and EXC's, both of which are less than 20%. With the emergence of FES from bankruptcy and divestiture of Allegheny Energy Supply (Supply - which did not file in bankruptcy), FE has recast itself as a pure utility holding company composed of regulated utility and transmission businesses. In achieving this strategic goal, Fitch believes FE has meaningfully improved its business risk profile and creditworthiness on a stand-alone basis and relative to its peers.

While EXC continues to operate a large merchant generation business, its consolidated earnings and cash flows are predominantly regulated. AEP has exited the merchant generation business and virtually all other diversified businesses to focus on its core regulated operations. WEC's

operations are predominantly integrated, combination electric and natural gas and gas local distribution utilities. FE, AEP, EXC and WEC have a legacy of expanding utility operations through M&A activity. FE's and EXC's utility operations are primarily lower risk pure T&D utilities operating in the Midwest and Mid-Atlantic regions. Compared to FE, AEP and WEC have a greater proportion of somewhat higher risk, integrated electric utilities, including coal-fired generation. FE is more highly levered than AEP, EXC or WEC. Fitch estimates FE FFO-adjusted leverage of 6.0x in 2021 and 5.8x in 2022, which compares to 5.0x or better for AEP, EXC and WEC.

Key Assumptions

Fitch estimates C&I customer-class revenue declines 6% in 2020 and gradually recovers through YE 2021;

Baseline load is flat at FE's electric distribution business excluding the effects of the coronavirus pandemic;

Distribution and transmission utility rate base growth of 4.5% and 8.5%, respectively, in 2019--2023;

Transmission capex of approximately \$1.2 billion in 2020 and \$1.2 billion-\$1.45 billion annually during 2021-2023;

Distribution utility capex approximates \$1.7 billion annually in 2020-2023;

Continuation of generally balanced rate regulation.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to a positive rating action/upgrade for FirstEnergy Corp.

--Better than expected operations resulting in FFO leverage of 6.0x or better coupled with meaningfully improved internal controls and corporate governance;

--Meaningful, secular improvement in jurisdictional rate regulation across FE's service territory;

--Continued FE strategic focus on relatively low risk utility and transmission businesses.

Factors that could, individually or collectively, lead to a negative rating action/downgrade for FirstEnergy Corp.;

- An adverse outcome in the DOJ's ongoing bribery investigation;
- Continued weak internal controls and corporate governance;
- A change in corporate strategy embracing investment in businesses with higher risk profiles;
- Significant deterioration in FE's rate regulation or unanticipated operating or other developments resulting in lower than expected earnings and cash flows and higher leverage, including greater than expected impact from the coronavirus pandemic;
- These or other factors resulting in sustained FFO leverage greater than 6.8x.

Factors that could, individually or collectively, lead to a positive rating action/upgrade for OE, PP, CE, or TE include:

- A credit rating upgrade at the utilities' corporate parent, FE;
- FFO leverage of 4.5x or better on a sustained basis;
- Continued balanced jurisdictional price regulation.

Factors that could, individually or collectively, lead to a negative rating action/downgrade for OE, PP, CE or TE include:

- An adverse credit rating action at FE;
- FFO leverage of higher than 5.5x;
- Significant deterioration in jurisdictional price regulation;
- An unexpected, catastrophic event resulting in a prolonged outage.

Factors that could, individually or collectively, lead to a positive rating action/upgrade for ME, PN, or WP include:

- A credit rating upgrade at the utilities' corporate parent, FE;
- FFO leverage of 4.5x or better on a sustained basis;
- Continued balanced jurisdictional price regulation.

Factors that could, individually or collectively, lead to a negative rating action/downgrade for ME, PN, or WP include:

- An adverse credit rating action at FE;
- FFO leverage of higher than 5.5x;
- Significant deterioration in jurisdictional price regulation;
- An unexpected, catastrophic event resulting in a prolonged outage.

Factors that could, individually or collectively, lead to a positive rating action/upgrade for JCP&L include:

- A credit rating upgrade at the utility's corporate parent;
- FFO leverage of 4.5x or better on a sustained basis;
- Continued balanced jurisdictional price regulation.

Factors that could, individually or collectively, lead to a negative rating action/downgrade for JCP&L include:

- An adverse credit rating action at FE;
- FFO leverage of higher than 5.5x;
- Deterioration in jurisdictional price regulation;
- An unexpected, catastrophic event resulting in a prolonged grid outage.

Factors that could, individually or collectively, lead to a positive rating action/upgrade for FET, ATSI, MAIT and TrAIL include:

- An upgrade at FE along with FFO leverage sustaining at 4.5x or lower;
- Continued balanced FERC rate regulation. Factors that could, individually or collectively, lead to negative rating action/downgrade for FET, ATSI, MAIT and TrAIL include:

- An adverse rating actions at FE;
- FFO leverage sustaining at 5.5x or higher due to deterioration in regulatory oversight or other factors.
- An unexpected catastrophic outage or event;

Factors that could, individually or collectively, lead to a positive rating action/upgrade for MP and

PE include:

- FFO leverage of 4.5x or better;
- Continued balanced jurisdictional price regulation.

Factors that could, individually or collectively, lead to a negative rating action/downgrade for MP and PE include:

- FFO leverage of worse than 5.5x on a sustained basis;
- Deterioration in jurisdictional price regulation;
- An unexpected, catastrophic event resulting in prolonged outages.

Factors that could, individually or collectively, lead to a positive rating action/upgrade for Allegheny Generating Co.

- An upgrade at MP along with FFO leverage of 4.5x or lower at AG.

Factors that could, individually or collectively, lead to a negative rating action/downgrade for Allegheny Generating Co.

- Deterioration in AG's FFO leverage to above 5.5x;
- Meaningful deterioration in AG's regulatory compact;
- Downgrade of corporate parent and off taker MP;
- A prolonged catastrophic outage at Bath County Project.

Best/Worst Case Rating Scenario

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

Liquidity and Debt Structure

FE's liquidity position is solid. The company renegotiated its revolving credit agreements in October 2018, reducing its consolidated borrowing capacity to \$3.5 billion from \$5.0 billion and extending its committed revolving bank facilities through December 2022. As of Aug. 10, 2020, FE had total liquidity of roughly \$3.6 billion, including undrawn FE and FET credit facilities of \$2.5 billion and \$1 billion, respectively, plus approximately \$141 million of cash and cash equivalents.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

FirstEnergy Corporation: Management Strategy: 5, Group Structure: 5, Governance Structure: 5, Financial Transparency: 5

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

Allegheny Generating Company; Long Term Issuer Default Rating; Affirmed; BBB; Rating Outlook Negative

The Toledo Edison Company; Long Term Issuer Default Rating; Downgrade; BBB; Rating Outlook Negative

; Short Term Issuer Default Rating; Downgrade; F3

---senior secured; Long Term Rating; Downgrade; A-

Pennsylvania Power Company; Long Term Issuer Default Rating; Downgrade; BBB; Rating Outlook Negative

; Short Term Issuer Default Rating; Downgrade; F3

---senior secured; Long Term Rating; Downgrade; A-

Metropolitan Edison Company; Long Term Issuer Default Rating; Downgrade; BBB; Rating Outlook Negative

; Short Term Issuer Default Rating; Downgrade; F3

---senior unsecured; Long Term Rating; Downgrade; BBB+
Ohio Edison Company; Long Term Issuer Default Rating; Downgrade; BBB; Rating Outlook Negative
; Short Term Issuer Default Rating; Downgrade; F3

---senior unsecured; Long Term Rating; Downgrade; BBB+
---senior secured; Long Term Rating; Downgrade; A-
The Potomac Edison Company; Long Term Issuer Default Rating; Affirmed; BBB; Rating Outlook
Negative
; Short Term Issuer Default Rating; Affirmed; F3

---senior secured; Long Term Rating; Affirmed; A-
Pennsylvania Electric Company; Long Term Issuer Default Rating; Downgrade; BBB; Rating Outlook
Negative
; Short Term Issuer Default Rating; Downgrade; F3

---senior unsecured; Long Term Rating; Downgrade; BBB+
West Penn Power Company; Long Term Issuer Default Rating; Downgrade; BBB; Rating Outlook
Negative
; Short Term Issuer Default Rating; Downgrade; F3

---senior secured; Long Term Rating; Downgrade; A-
Trans-Allegheny Interstate Line Company; Long Term Issuer Default Rating; Downgrade; BBB;
Rating Outlook Negative
; Short Term Issuer Default Rating; Downgrade; F3

---senior unsecured; Long Term Rating; Downgrade; BBB+
FirstEnergy Corporation; Long Term Issuer Default Rating; Downgrade; BBB-; Rating Outlook
Negative
; Short Term Issuer Default Rating; Affirmed; F3

---senior unsecured; Long Term Rating; Downgrade; BBB-
The Cleveland Electric Illuminating Company; Long Term Issuer Default Rating; Downgrade; BBB;
Rating Outlook Negative
; Short Term Issuer Default Rating; Downgrade; F3

---senior unsecured; Long Term Rating; Downgrade; BBB+
---senior secured; Long Term Rating; Downgrade; A-
FirstEnergy Transmission, LLC; Long Term Issuer Default Rating; Downgrade; BBB-; Rating Outlook
Negative
; Short Term Issuer Default Rating; Affirmed; F3

---senior unsecured; Long Term Rating; Downgrade; BBB-
Mid-Atlantic Interstate Transmission LLC; Long Term Issuer Default Rating; Downgrade; BBB;
Rating Outlook Negative
; Short Term Issuer Default Rating; Downgrade; F3

---senior unsecured; Long Term Rating; Downgrade; BBB+

Jersey Central Power & Light Company; Long Term Issuer Default Rating; Downgrade; BBB; Rating Outlook Negative

; Short Term Issuer Default Rating; Downgrade; F3

----senior unsecured; Long Term Rating; Downgrade; BBB+

Monongahela Power Company; Long Term Issuer Default Rating; Affirmed; BBB; Rating Outlook Negative

; Short Term Issuer Default Rating; Affirmed; F3

----senior secured; Long Term Rating; Affirmed; A-

American Transmission Systems, Inc.; Long Term Issuer Default Rating; Downgrade; BBB; Rating Outlook Negative

; Short Term Issuer Default Rating; Downgrade; F3

----senior unsecured; Long Term Rating; Downgrade; BBB+

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Applicable Criteria

[Corporate Hybrids Treatment and Notching Criteria \(pub. 11 Nov 2019\)](#)

[Corporate Rating Criteria \(pub. 01 May 2020\) \(including rating assumption sensitivity\)](#)

[Corporates Notching and Recovery Ratings Criteria \(pub. 14 Oct 2019\) \(including rating assumption sensitivity\)](#)

[Parent and Subsidiary Linkage Rating Criteria \(pub. 26 Aug 2020\)](#)

Applicable Model

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

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Research Update:

FirstEnergy Corp. Downgraded to 'BB+' On Termination Of CEO; Ratings Remain On CreditWatch Negative

October 30, 2020

Rating Action Overview

- FirstEnergy Corp. (FE) announced the termination of three executives including its CEO following its determination that they violated company policies and its code of conduct. The company also indicated that it is reevaluating its internal controls framework, which could include identifying one or more material weaknesses
- We are downgrading FE and its subsidiaries including its issuer credit rating to 'BB+' from 'BBB'. We also lowered our issuer credit rating on Allegheny Generating Co. to 'BB' from 'BBB-'.
- At the same time, we lowered the senior unsecured issue level rating on FE and FirstEnergy Transmission to 'BB+' from 'BBB-' and assigned our '3' recovery ratings, indicating meaningful (50% to 70%; rounded estimate: 65%) recovery in the event of a payment default. The recovery rating on this debt is capped at '3' consistent with our approach for assigning recovery ratings to unsecured debt issued by 'BB' category corporate entities because recovery prospects are highly vulnerable to impairment before default by additional debt issuance. We also lowered the senior unsecured issue ratings on American Transmission Systems Inc., Jersey Central Power & Light Co., Metropolitan Edison Co., Mid-Atlantic Interstate Transmission, Ohio Edison Co, Pennsylvania Electric Co., and Trans-Allegheny Interstate Line Co., to 'BBB-' from 'BBB' and assigned our '2' recovery ratings indicating substantial (70% to 90%; rounded estimate: 85%) recovery in the event of a payment default. The recovery rating on this debt is capped at '2' consistent with our approach for assigning recovery ratings to unsecured debt issued by 'BB' category regulated utilities because recovery prospects are somewhat vulnerable to impairment before default by additional debt issuance.
- We lowered the senior unsecured issue ratings on Cleveland Electric Illuminating Co. to 'BBB-' from 'BBB' and assigned our '2' recovery rating, indicating substantial (70% to 90%; rounded estimate: 75%) recovery in the event of a payment default.
- We lowered the senior secured issue ratings on Cleveland Electric, Ohio Edison Co., Toledo Edison Co., and Monongahela Power Co. to 'BBB+' from 'A-', reflecting a '1+' recovery rating.
- The ratings on FE and its subsidiaries remain on CreditWatch with negative implications. The

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CreditWatch placement reflects the probability that we could lower our issuer credit rating on the companies again within the next three months, subject to additional disclosures related to the ongoing investigations

Rating Action Rationale

The two-notch downgrade reflects the termination of the company's CEO, Chuck Jones and two other executives, for violating company policies and its code of conduct. We view the severity of these violations at the highest level within the company as demonstrative of insufficient internal controls and a cultural weakness. We view these violations as significantly outside of industry norms and, in our view, represent a material deficiency in the company's governance. To account for these deficiencies, we revised our assessment of the company's Management & Governance (M&G) score downward to weak from fair, which lowers the issuer credit rating by two notches.

Today's actions following the July 2020 announcement and CreditWatch listing of FE and its subsidiaries related to a U.S. government criminal complaint against the Speaker of the Ohio House of Representatives and four associates for participating in an approximately \$60 million racketeering scheme. The complaint alleges that the participants were bribed from March 2017-March 2020 in exchange for help in passing House Bill 6. House Bill 6 was enacted during 2019 and established support for nuclear energy supply in Ohio and a decoupling mechanism for Ohio electric utilities. Although FirstEnergy has not been named as a defendant in the criminal complaint, we believe the severity of the charges outlined in the complaint, and the allegation that bribery payments began as early as March 2017, prior to Energy Harbor's emergence from bankruptcy under its new ownership, could possibly implicate FirstEnergy Corp in some manner.

Environmental, social, and governance (ESG) credit factors for this credit rating change.

- Risk management and internal controls

CreditWatch

We expect to resolve the CreditWatch placement in the coming months, pending the outcomes of multiple investigations, criminal allegations, and civil lawsuits. Depending on the various outcomes, business risk could increase and financial measures could materially weaken reflecting penalties, fines, financial settlements, and a potential weakening of the company's ability to manage its regulatory risk effectively. Any of the above determinations would likely result in a downgrade of one or more notches. We could remove the ratings from CreditWatch with negative implications and affirm the ratings if the violations are limited to the three executives already identified, management takes material steps to strengthen internal controls, criminal complaints are not brought against it, and it manages the shareholder lawsuits in a manner that preserves credit quality.

Ratings Score Snapshot

Issuer credit rating: BB+/Watch Neg/--

Business risk: Excellent

- Country risk: Very low
- Industry risk: Very low
- Competitive position: Strong

Financial risk: Aggressive

- Cash flow/leverage: Aggressive

Anchor: bbb

Modifiers:

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Weak (-2 notches)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: bb+

- Group credit profile: bb+

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016

Research Update: FirstEnergy Corp. Downgraded to 'BB+' On Termination Of CEO; Ratings Remain On CreditWatch Negative

- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Downgraded

	To	From
FirstEnergy Corp.		
Monongahela Power Co.		
Trans-Allegheny Interstate Line Co.		
Toledo Edison Co.		
Pennsylvania Power Co.		
Mid-Atlantic Interstate Transmission LLC		
FirstEnergy Transmission LLC		
Cleveland Electric Illuminating Co.		
American Transmission Systems Inc.		
Jersey Central Power & Light Co.		
West Penn Power Co.		
Potomac Edison Co.		
Pennsylvania Electric Co.		
Monongahela Power Co.		
Metropolitan Edison Co.		
Issuer Credit Rating	BB+/Watch Neg/--	BBB/Watch Neg/--
Ohio Edison Co.		
Issuer Credit Rating	BB+/Watch Neg/B	BBB/Watch Neg/A-2
Allegheny Generating Co.		
Issuer Credit Rating	BB/Watch Neg/--	BBB-/Watch Neg/--
Issue-Level Ratings Lowered;		
FirstEnergy Corp.		
Preferred Stock	BB-/Watch Neg	BB+/Watch Neg

Issue-Level Ratings Lowered; Recovery Ratings Unchanged

Cleveland Electric Illuminating Co.

Senior Secured	BBB+/Watch Neg	A-/Watch Neg
Recovery Rating	1+	1+

Monongahela Power Co.

Senior Secured	BBB+/Watch Neg	A-/Watch Neg
Recovery Rating	1+	1+

Ohio Edison Co.

Senior Secured	BBB+/Watch Neg	A-/Watch Neg
Recovery Rating	1+	1+

Toledo Edison Co.

Senior Secured	BBB+/Watch Neg	A-/Watch Neg
Recovery Rating	1+	1+

Issue-Level Ratings Lowered; Recovery Ratings Assigned

FirstEnergy Corp.

Senior Unsecured	BB+/Watch Neg	BBB-/Watch Neg
Recovery Rating	3(65%)	

American Transmission Systems Inc.

Senior Unsecured	BBB-/Watch Neg	BBB/Watch Neg
Recovery Rating	2(85%)	

Cleveland Electric Illuminating Co.

Senior Unsecured	BBB-/Watch Neg	BBB/Watch Neg
Recovery Rating	2(75%)	

FirstEnergy Transmission LLC

Senior Unsecured	BB+ /Watch Neg	BBB-/Watch Neg
Recovery Rating	3(65%)	

Jersey Central Power & Light Co.

Senior Unsecured	BBB-/Watch Neg	BBB/Watch Neg
S&P Published Underlying Rating	BBB-/Watch Neg	BBB/Watch Neg
Recovery Rating	2(85%)	

Metropolitan Edison Co.

Senior Unsecured	BBB- /Watch Neg	BBB/Watch Neg
Recovery Rating	2(85%)	

Mid-Atlantic Interstate Transmission LLC

Senior Unsecured	BBB- /Watch Neg	BBB/Watch Neg
Recovery Rating	2(85%)	

Ohio Edison Co.

Senior Unsecured	BBB-/Watch Neg	BBB/Watch Neg
Recovery Rating	2(85%)	

Pennsylvania Electric Co.

Senior Unsecured	BBB- /Watch Neg	BBB/Watch Neg
Recovery Rating	2(85%)	

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Rating Action: Moody's affirms FirstEnergy's Baa3 rating; maintains negative outlook

01 Nov 2020

New York, November 01, 2020 -- Moody's Investors Service ("Moody's") affirmed the Baa3 senior unsecured and Issuer ratings of FirstEnergy Corp. and maintained a negative outlook. The rating action follows the company's announcement on 29 October that its chief executive officer (CEO) had been terminated effective immediately. The termination was a result of the company's internal investigation related to an ongoing criminal investigation underway by the Department of Justice.

..Issuer: FirstEnergy Corp.

Outlook Action:

...Outlook, Remains Negative

Affirmations:

..Issuer: FirstEnergy Corp.

.... Issuer Rating, Affirmed Baa3

.... Local-currency Senior Unsecured Bank Credit Facility, Affirmed Baa3

.... Local-currency Senior Unsecured Regular Bond/Debenture, Affirmed Baa3

.... Local-currency Senior Unsecured Shelf, Affirmed (P)Baa3

RATINGS RATIONALE

"The result of FirstEnergy's internal investigation, which led to the termination of the company's CEO, points to high corporate governance risk and a potential lack of oversight of internal controls," stated Jairo Chung, Moody's analyst. "However, FirstEnergy's board of directors took immediate action to try to address these issues with the appointment of a new CEO, albeit one from within the FirstEnergy organization" added Chung. While these steps may be successful in resolving outstanding corporate governance issues at the company, the negative outlook reflects the potential that additional developments related to the criminal investigation could affect the organization's credit quality longer term. These could include fines, penalties, or contagion risk that negatively affects the regulatory and political environment of FirstEnergy's utility subsidiaries.

On 29 October, FirstEnergy announced a leadership transition whereby the company terminated CEO Charles E. Jones and appointed Steven E. Strah as interim CEO. Mr. Strah had been the president of FirstEnergy since May 2020 and has been with the organization or its predecessors since 1984. In addition, Christopher D. Pappas, a current member of the board, was named Executive Director with Donald T. Misheff remaining as the Non-Executive Chairman of the Board.

These changes follow a 21 July criminal complaint filed by the Department of Justice in Ohio that alleged illegal activities were conducted with respect to House Bill 6, legislation that provides financial support for two nuclear power plants in the state. FirstEnergy, which previously owned these power plants under its unregulated subsidiary FirstEnergy Solutions Corp., was implicated in the illegal activity. FirstEnergy Solutions emerged from bankruptcy reorganization on 27 February 2020 and now operates as an independent organization, Energy Harbor Corp. (Baa3 negative).

The termination of the CEO and two other individuals may be a sign of that oversight of internal controls within FirstEnergy may be lacking, although it could be limited to a small part of the organization. Additional information on these and other related corporate governance issues is likely to be forthcoming over the next few months and into 2021.

Rating Outlook

The negative outlook reflects continued uncertainty around the extent and magnitude of any issues related to internal controls at FirstEnergy and what additional actions the company will take to address them. The negative outlook also reflects the possibility that the company will identify additional corporate governance issues and that its Ohio utility regulatory and political environment could be adversely affected. Thus far, FirstEnergy's large and diversified regulated utility operations have remained stable and have not been affected by the corporate governance issues at the parent.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Factors that could lead to an upgrade

Based on the ongoing internal and criminal investigations, a rating upgrade is not likely at this time. However, the rating could be upgraded once these issues are resolved if FirstEnergy's financial metrics improve such that its CFO pre-WC to debt is above 14% on a sustained basis; and if parent debt is reduced below 25% of consolidated debt.

Factors that could lead to a downgrade

The rating could be downgraded if it becomes evident that FirstEnergy's corporate governance failure is systemic, resulting in negative financial implications for it or its utility subsidiaries; or the company is found to have engaged in illegal activities, resulting in significant financial pressure. Also, a rating downgrade could be considered if FirstEnergy's financial metrics deteriorate such that its CFO pre-WC to debt falls below 11% on a sustained basis; or if parent debt increases significantly.

The principal methodology used in these ratings was Regulated Electric and Gas Utilities published in June 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1072530. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

FirstEnergy Corp. is a fully regulated utility holding company, serving approximately six million customers in five states through its utility operations. FirstEnergy's total rate base is approximately \$23 billion with about \$8 billion of FERC-regulated transmissions.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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