THE BOND BUYER

Ratepayer bailout boosts secured bonds of bankrupt FirstEnergy

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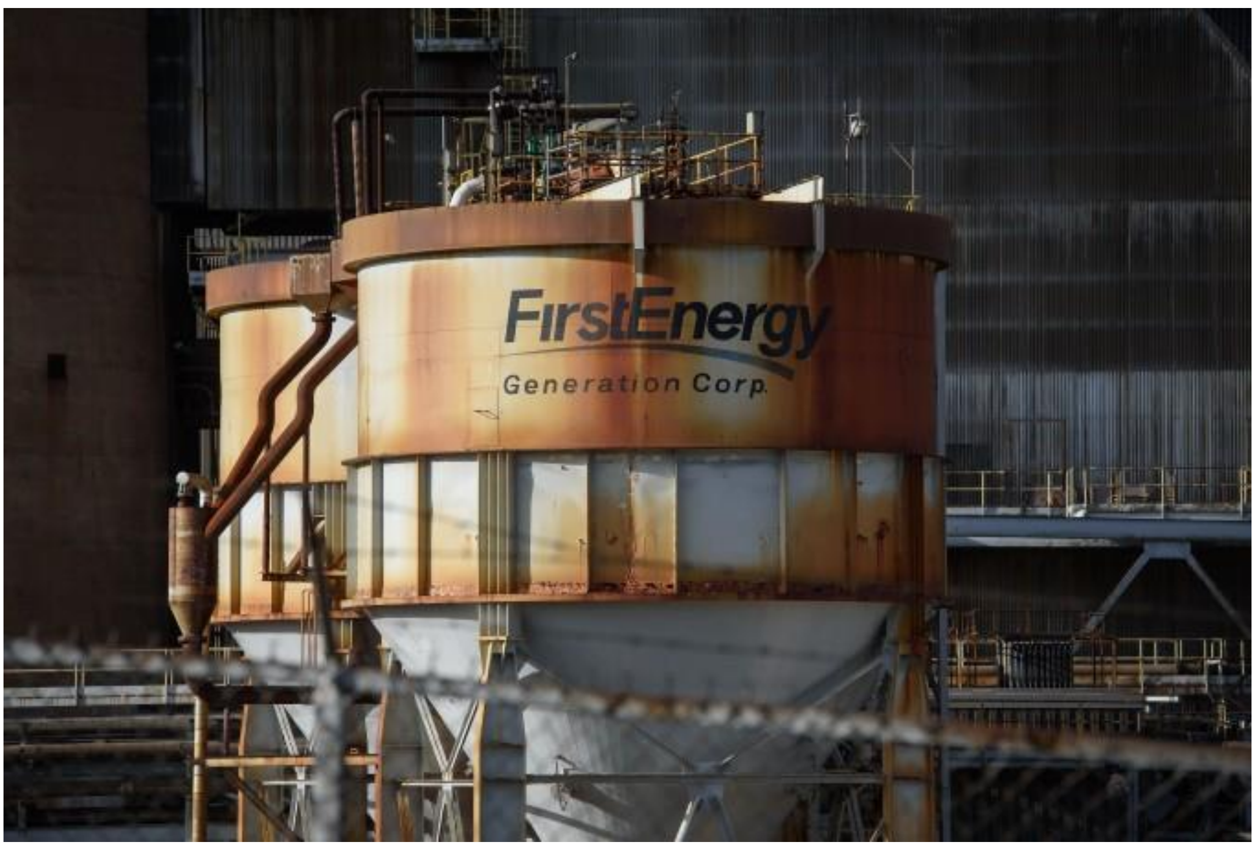
Ohio legislation that will replace a ratepayer surcharge for renewable power with one that subsidizes two nuclear generation facilities operated by bankrupt FirstEnergy Solutions bolstered the company's bonds.

Tozar Gandhi at IHS Markit said FES bonds traded stronger on the news of the legislation being passed last week.



FirstEnergy Solutions bonds traded stronger on news that Ohio lawmakers will bail out two nuclear plants it operates in the state. **Bloomberg News**

“The anticipated $150 million to be given every year to First Energy Solutions to subsidize its nuclear power plants from the surcharge to be collected from 2021-2027 has been taken as a positive by bondholders,” Ghandi said.

Prior to the legislation's passage, First Energy secured bonds were evaluated by IHS Markit at a price of 90 cents on the dollar. Ghandi said prices were revised upwards to the 92-92.5 cent range on July 19, and further improvement seen in the 94-94.5 cent range on July 23 and 24 based on observable trade/quote data.

Ohio Gov. Mike DeWine signed the legislation into law on July 23. It imposes a fee of 85 cents a month on residential ratepayers from 2021 through 2027, generating about $170 million a year.

Of that, $150 million a year will shore up FES’ Davis-Besse and Perry nuclear plants, which generate about 15% of Ohio’s electricity. Without that aid, FirstEnergy Solutions, the former power generation arm of Akron-based FirstEnergy that is working through a restructuring in federal bankruptcy court, has said that it would close the plants.

The legislation creates an upside for holders of roughly $2 billion of tax-exempt pollution control notes issued by FirstEnergy because it enhances and assures what can be recovered under the company's Chapter 11 reorganization, said James Spiotto, a managing director at Chapman Strategic Advisors LLC in Chicago.

FirstEnergy Solutions’ reorganization plan provided for shutting down the two Ohio nuclear reactors. With the legislation in place, operation of the plants will continue beyond the decommission dates and provide a subsidy for power generated and provided by those plants, all of which will enhance feasibility and monies available for plan purposes, according to Spiotto.

The most recent version of the company's plan of adjustment would pay bondholders a mix of cash, stock, and other assets for a projected recovery of 66.6%, according to Municipal Markets Analytics. MMA said that the legislation could improve that recovery.

FirstEnergy Solutions drafted and filed the amended plan that was approved by US bankruptcy judge Alan Koschik on May 29. Bondholders have until Aug. 2 to file objections and a hearing of confirmation of the plan has been scheduled for Aug. 20.

The company has roughly $1.5 billion of unsecured municipal bond debt and roughly $690 million in secured muni debt issued through Pennsylvania’s Beaver

County Industrial Development Authority, the Ohio State Air Quality Development Authority and the Ohio Water Development Authority. The private power plant operator sold the tax-exempt debt to fund air and water pollution control facilities and sewage and solid waste facilities at its power generation plants.

The company’s impaired creditors may vote on the plan. Creditors with unsecured claims will have a choice between receiving cash or newly issued stock in the reorganized company.