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Rating Action: Moody's downgrades American Transmission Systems, Inc and Trans-Allegheny Interstate Line Company; outlook is stable

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New York, June 10, 2013 -- Moody's Investors Service today downgraded the senior unsecured ratings for American Transmission System, Inc. (ATSI) to Baa2 from Baa1 and Trans-Allegheny Interstate Line Company (TrAILCo) to Baa1 from A3. These actions conclude the reviews for possible downgrade that were initiated on February 26th. The rating outlooks for ATSI and TrAILCo are stable.

RATINGS RATIONALE

ATSI and TrAILCo are regulated transmission utilities and direct subsidiaries of FirstEnergy Transmission, LLC (FET: not rated), an intermediate holding company of FirstEnergy Corp. (FE: Baa3 senior unsecured, negative outlook).

"The downgrades were triggered by FE's corporate decision to borrow against the future cash flows of its transmission businesses to enhance the family's liquidity position" said Moody's Vice President/Senior Analyst Scott Solomon. "This was achieved by having FET borrow \$1.0 billion under a \$1.0 billion revolving credit facility, proceeds which FET has largely loaned to its affiliates through the company's money pool" added Solomon.

The \$1.0 billion borrowed by FET exceeds the combined long-term debt issued by ATSI (\$400 million) and TrAILCo (\$450 million). As FET's primary subsidiaries and source of cash flow, TrAILCo and ATSI's credit profiles have been negatively impacted by FET's \$1.0 billion borrowing and their ratings have each been adjusted one-notch downward.

That said, ATSI and TrAILCo's business and financial fundamentals remain strong and support their respective ratings. As independent transmission companies, ATSI and TrAILCo's rates are regulated by the Federal Energy Regulatory Commission (FERC) and earn incentive rates of return that tend to be above those allowed for regulated electric utilities. ATSI collects in its rates a 12.38% return on equity and TrAILCo, a 12.7% return on equity on its TrAIL project (which accounts for approximately 90% of the company's rate base) and 11.7% on most of its other transmission projects.

The one-notch rating differential between TrAILCo and ATSI is driven by TrAILCo's stronger financial performance and a modest difference in regulatory treatment: TrAILCo files its annual revenue requirement based on forward-looking costs while ATSI's is based on historical costs.

In 2012, ATSI produced key financial metrics including CFO pre-WC to debt and interest coverage of approximately 15% and 5.1 times, respectively, while TrAILCo reported metrics of 25% and 6.4 times, respectively. ATSI's metrics include a significant balance sheet adjustment associated with long-term land leases with affiliates. ATSI's tariffs, however, include recovery of these lease payments which aggregate \$20 million annually until 2043. Excluding the debt adjustment associated with these leases, ATSI's financial metrics would be stronger.

FET's consolidated financial profile is less robust due to its more leveraged profile given the \$1.0 billion revolving credit borrowing which was the primary factor in the downgrade of ATSI and TrAILCo's assigned ratings. Specifically, FET's key consolidated financial metrics of CFO pre-WC to adjusted debt and debt capitalization stood at approximately 12% and 62% at FYE 2012, levels that we view as commensurate with a Baa3 rating. Our expectation is that FET's key financial metrics will remain at or near these levels.

ATSI and TrAILCo are well positioned at their new respective rating levels and subsequent rating action is unlikely. As such, any rating pressure at FE over the near-term, should it materialize, would not be expected to impact either ATSI or TrAILCo.

Longer-term, unexpected increase in credit metrics or a more lucrative ROE and rate structure from the FERC could be a trigger for rating upgrades. Conversely, ATSI and/or TrAILCo could experience downward rate pressure if the FERC negatively changes the rate structure or if there is a serious deterioration of credit metrics.