Chairman Wilson, Vice Chairman McColley, Ranking Member Williams and distinguished Members of the Committee, thank you for allowing me to speak before you today. My name is Charles Moore, and I am a Managing Director within Alvarez and Marsal’s North American restructuring practice based in Detroit, Michigan. My testimony will cover the following topics: i) my role at FirstEnergy Solutions, ii) the Chapter 11 filing, iii) the decision to deactivate the nuclear units, iv) the complete separation from FirstEnergy of the reorganized Company, and v) the financial need for state support and timing.

Alvarez and Marsal is a leading global professional services firm specializing in turnaround and interim management, performance improvement and business advisory services. We have over 3,600 professionals worldwide.

My educational background includes a bachelor’s degree in accounting from Michigan State University and an MBA with a focus in professional accounting, also from Michigan State University. I have been a Certified Public Accountant since 1995, I’m licensed as a Certified Turnaround Professional and I hold a certification in Finance Forensics.

I have twenty-five years of experience providing turnaround consulting and advisory services to organizations in a variety of industries. I have substantial knowledge and experience
serving in senior management positions and as a restructuring advisor in large reorganizations and in assisting troubled companies with stabilizing their financial condition, analyzing their operations, and developing an appropriate business plan to accomplish the necessary restructuring of their operations and finances. I have been nationally recognized for my work in the automotive industry and have counseled more than 75 automotive suppliers through various phases of restructuring. I led the team that provided operational restructuring services to the City of Detroit and facilitated the creation of a $1.7 billion Reinvestment Plan, the cornerstone of the city’s Plan of Adjustment in emerging from bankruptcy.

Since the fourth quarter of 2016, I have led a team from Alvarez and Marsal engaged by FirstEnergy Solutions. As a result of FirstEnergy Solutions’ severely strained financial condition, my firm was hired to lead the review and evaluate various financial scenarios and determine a path forward for this business. After undergoing a comprehensive review of the Company’s financial situation and liquidity constraints, and having fully considered possible alternatives, FirstEnergy Solutions ultimately decided to file voluntary chapter 11 petitions with the Bankruptcy Court as the only viable alternative. Alvarez and Marsal assisted the Company in preparing for a bankruptcy filing.

FirstEnergy Solutions and its subsidiaries filed for chapter 11 protection on March 31, 2018. My appointment as Chief Restructuring Officer of the Company was effective immediately upon the filing of the Company’s chapter 11 case. The appointment was affirmed by the Bankruptcy Court. As Chief Restructuring Officer, I have fiduciary duties to the Company’s estate and its creditors. Through the chapter 11 process, I am also accountable to the Bankruptcy Court and the rules applicable in the bankruptcy process. The chapter 11 process and the role of Chief Restructuring Officer is designed to ensure credibility, transparency, and objectivity during the
restructuring. As the Chief Restructuring Officer, I have been responsible for building a consensus amongst all creditors and stakeholders about the direction of the restructuring. Every aspect of the debtors’ financial condition and future plans is scrutinized by the court and the legal and financial professionals representing the creditors in this process. As a result, the financial condition of the Company, its assets, operations and every dollar that is spent is completely transparent as part of the US Bankruptcy code, as well as applicable rules and guidelines.

Even prior to the bankruptcy filing, the economic viability of the assets of FirstEnergy Solutions had been in decline for several years. While exploring restructuring alternatives, FirstEnergy Solutions concluded, in conjunction with its outside auditors, that its generating assets would likely be deactivated and recorded a pretax impairment charge of approximately $8 billion in the fourth quarter of 2016 and another impairment of approximately $2 billion in the fourth quarter of 2017.

On March 28, 2018, a few days before the bankruptcy filing, the Company notified the Nuclear Regulatory Commission (“NRC”) of the decision to permanently cease operations and deactivate its nuclear plants. The written filings to the NRC included notice of a June 1, 2020 deactivation date for the Davis-Besse Nuclear Power Station in Oak Harbor, Ohio and a June 1, 2021 deactivation date for Perry Nuclear Power Station in Perry, Ohio. Once deactivated, the nuclear plants will remain permanently shut down.

The Company has been diligently undertaking the required steps to prepare for nuclear facility shutdown, defueling and to commence facility decommissioning. These steps include implementing a retention plan to maintain a subset of plant staffing during shutdown, preparing regulatory filings to help reduce operations and maintenance requirements, planning for optimal
use of remaining nuclear fuel, submitting necessary notices related to ending participation in power markets, and interacting with state and local officials, including unions, to notify them of shutdown timelines. The nuclear plant decommissioning process is heavily regulated by the NRC and we have been in full compliance with appropriate steps in the plant shutdown process.

Following the bankruptcy filing, FirstEnergy Solutions and the Alvarez and Marsal team worked with key creditor groups to identify, quantify, and evaluate alternative plans for emergence from bankruptcy. The alternatives included sale of the plants, continued operation of the plants, and deactivation of the plants. The analysis included detailed financial plans, consideration of the full range of operating alternatives, and an evaluation of the potential buyers for these plants. Several iterations of analysis were prepared and evaluated and reviewed with the major creditor constituencies involved in the chapter 11 process. As a result of the analysis, we made several conclusions.

First, it was likely there would be no viable buyers for the nuclear plants. There were, in fact, viable buyers for some of the other non-nuclear generating assets owned by FirstEnergy Solutions and its subsidiaries and those assets have been sold as part of the restructuring process.

Second, operating these nuclear units safely and reliably to strict regulatory standards requires substantial wages, operating, maintenance, and asset upkeep expenditures over the life cycle of the plant. The costs of safely and reliably operating these nuclear units is similar to the costs of nuclear units in other states such as New York, Illinois, New Jersey, and Connecticut where financial support was needed and awarded by the states to keep the nuclear units operating. This finding is also consistent with multiple reports issued by Monitoring Analytics, the Independent
Market Monitor for PJM, including the 2018 State of the Market Report for PJM as well as the first quarter 2019 update.

Third, the analysis demonstrated that deactivation of the nuclear units is required because total expected costs to operate the plants is higher than the total revenue received by the plants, meaning that these long-lived plants are unprofitable and lose money. This is true even after we took advantage of options afforded a debtor to reorganize in bankruptcy, such as the rejection of burdensome contracts and streamlining operations. We cannot force creditors or any other parties to take on ownership and continued operation of units that are expected to lose money in the future.

Based on all the previously described analysis, my firm has worked with FirstEnergy Solutions and its legal advisors to create and file a restructuring plan with the Bankruptcy Court. The plan contemplates the emergence of a new Company with new owners, a new board of directors, and a new name. The Company will be fully separated from its former parent, FirstEnergy Corp., and FirstEnergy Corp. will have no financial interest or any form of control over the new Company. Many of the creditors of FirstEnergy Solutions will exchange their claims for equity in the Company. We expect the new Company will emerge from bankruptcy later this year and will deactivate its existing generating assets on the previously announced deactivation dates. The resulting entity will focus on its retail electric sales business. That business will buy power from the market rather than generate megawatt hours at its own power plants. The entity will shrink from approximately 2,700 employees to approximately 100 employees, prior to giving effect to employees retained to facilitate the deactivation of the generation units.

There is, however, an alternative to this outcome. Although the analysis shows that these plants are expected to lose money, deactivation of the nuclear units is not the best for concerned
parties, including employees, the state of Ohio and local communities where the plants exist, given the impact on the jobs, tax revenue, economic and environmental benefits currently produced by these plants. The financial distress of nuclear units is not unique to the state of Ohio. Several other states, including New York, Illinois, New Jersey, and Connecticut, have provided state level support to preserve these nuclear units. The level of support provided in these other state programs range between $10 and $19/MWh, on average substantially more than the $9/MWh being proposed in Ohio. Based on discussions with stakeholders and extensive financial modeling under a variety of scenarios, the minimum level of annual support needed for Davis-Besse and Perry to remain in operation is at least $150M. State support for the nuclear plants will preserve these valuable generating assets and facilitate a substantially better outcome for employees, local communities and the State of Ohio.

In order to safely and responsibly refuel the Davis-Besse facility, a decision to move forward must be made soon. Nuclear plants refuel under strict guidelines every 18-24 months, removing and replacing their fuel during a refueling outage. Davis-Besse refuels every 24 months and the next required refueling starts in February of 2020. The fabrication of the fuel assemblies is a custom, unit specific intensive process that takes up to eight months to complete, taking us right to the February 2020 refueling date. Because the fuel is essentially custom-made for Davis Besse, once it is purchased, it cannot be resold. As a result, the Company has not purchased the nuclear fuel for Davis-Besse’s February outage.

The decision to authorize fuel fabrication is a financial obligation of $52 million. As a result of the unprofitable position of the plants, as well as the complex bankruptcy oversight process, FirstEnergy Solutions is unable to make this commitment by June 30, 2019 without legislative support. Unfortunately, while the Company has sought relief for over 18 months, the
purchase and fabrication of the fuel is now on a final stage critical time path. Without a certain outcome on the legislative front, FirstEnergy Solutions will continue moving forward with the closure of Davis-Besse.

In conclusion, based on my experience, expertise, and the extensive work the team has done throughout the restructuring process, I believe there is genuine financial need for state support as was determined in many other nearby states, if the Davis-Besse and Perry Nuclear Power Stations are to remain open and provide economic and clean energy benefits to the State of Ohio for many years into the future.

Thank you for your time and attention.