post-gazette.com
Pittsburgh Post-Gazette

FirstEnergy's Bruce Mansfield and Beaver Valley likely headed for bankruptcy next month

February 21, 2018 5:14 PM

By Anya Litvak / Pittsburgh Post-Gazette

It’s not his decision to make, but the CEO of FirstEnergy Corp. said on Wednesday that he would be “shocked” if the company’s generation subsidiary didn’t file for bankruptcy protection by the end of March.

Chuck Jones, who spoke to analysts about the Akron, Ohio, company’s earnings, predicted the board of FirstEnergy Solutions — a subsidiary that operates coal and nuclear plants including Bruce Mansfield and Beaver Valley power stations in Beaver County — will opt for some kind of restructuring in the next month.

FirstEnergy, the parent company, expects to wash its hands of the troubled generation subsidiary around that time, Mr. Jones said.

It has already written down more than $11 billion of the value of those power plants, including $2 billion recorded late last year on the nuclear division, given the likelihood that they’ll be retired earlier than expected. That effectively says the Beaver Valley plant, which employs about 800 workers, is now worth nothing.

FirstEnergy reported a loss of $1.7 billion, or $3.88 per share, in 2017, compared with a loss of $6.2 billion, or $14.49 per share in 2016.

During both years, it was the value of impairments that constituted the bulk of the loss. FirstEnergy’s other divisions, such as utility companies including West Penn Power and its transmission affiliates, are on sound financial ground, the company said, and will continue to grow.

FirstEnergy has been trying to sell its unregulated power plants for more than a year but has found it difficult to get interest.

It’s not just because the market for power is weak and power prices are low, or that coal and nuclear plants are no longer as competitive as natural gas. It’s also that FirstEnergy Solutions is in such a troubled financial state.

FirstEnergy Solutions has $515 million in debt maturing this year. A payment of $100 million is due April 2.

It's "unlikely to be refinanced," the company said in a public filing, and threatens to topple FirstEnergy Solutions.

The division's strategic options now are limited to shuttering plants, restructuring debt with creditors and/or filing for bankruptcy, FirstEnergy said in its annual report, filed on Tuesday.

Mr. Jones said he was "personally disappointed" that recent efforts to subsidize coal and nuclear generation at the federal and state levels haven't panned out. Ideas floated included invoking a federal emergency mechanism or rewarding plants with on-site fuel supply, which was ultimately rejected by the Federal Energy Regulatory Commission.

Half of FirstEnergy's unregulated power generation comes from coal and 33 percent comes from nuclear.

FirstEnergy was dealt another blow last month by the Federal Energy Regulatory Commission, which blocked its proposed sale of a West Virginia coal plant — the Pleasants Power Station — to its West Virginia utility. Last week, FirstEnergy said it would close the plant within a year if it couldn't sell it. That decision — to prematurely exit the plant — came with a $120 million impairment charge.

The company's annual report disclosed that FirstEnergy has reached a settlement with an Oklahoma-based coal company, Tunnel Ridge LLC, which sued the company alleging fraud stemming from a contract dispute. The settlement, reached just days ago, includes $93 million payment to Tunnel Ridge and guarantees that some of its coal will be used at the Pleasants Power Station while it's still operated by FirstEnergy.

Two days before the settlement was reached, FirstEnergy announced it would close or sell Pleasants by January 2019 after the Federal Energy Regulatory Commission blocked it from selling the power plant to one of its regulated utilities.

But another contract dispute may be even more costly.

Settlement talks have broken down in FirstEnergy's two-year-long legal wrangling with two railroads who claim FirstEnergy wrongly terminated its coal transportation contracts and blamed environmental regulations for the move.

FirstEnergy recorded a $116 million charge last year based on what it expected would be its liability under a settlement. But if the matter moves on to arbitration, as it's scheduled to do in June, the cost could be much higher, FirstEnergy said, and may force the generation subsidiary into bankruptcy.

Anya Litvak: alitvak@post-gazette.com or 412-263-1455.