

FirstEnergy - Governing the Grid Investment Plan

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Topic: Capital Allocation, Corporate Strategy, Customer Strategy

Industry: Electric Utilities

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Decision date and information cutoff: 26 February 2025, 4:19 p.m. Eastern Time

Decision scope: Oversight and sequencing of FirstEnergy's 2024-2028 transmission and distribution investment plan

Case convention: This is an author-created management decision exercise. The assignment and proposed alternatives are hypothetical; company disclosures and regulatory actions are historical. No private deliberations are represented. Use only information available before the cutoff. The company's Q4/FY2024 earnings release was published at 4:20 p.m. ET that day, and its analyst call was scheduled for the next morning; neither is part of the case.

The decision

FirstEnergy's leadership had presented Energize365 as a five-year plan for approximately \$26 billion of transmission and distribution investment from 2024 through 2028. The company said the program would improve reliability and resilience, modernize the grid, support changing energy needs and provide customer value. It had also described a target of 9% average annual rate-base growth and 6-8% long-term annual Operating EPS growth. These were management's plan attributes and targets, not realized results. [S1], MD&A, "Capital Investment Forecasts"; [S3], slides 5 and 8.

On December 18, 2024, the Public Utilities Commission of Ohio (PUCO) approved the Ohio utilities' withdrawal from ESP V and approved a modified return to ESP IV. Those tariffs took effect on February 1, 2025. On January 31, the utilities asked PUCO to approve ESP VI alongside a pending Ohio base-rate case. The proposal included investment and maintenance riders, customer programs and company-estimated bill impacts. It had not been approved by the cutoff. [S4]-[S5].

Leadership responsibility had also changed: CEO Brian Tierney had become Board Chair on January 1, while John Somerhalder remained a director and Lisa Winston Hicks continued as Lead Independent Director. [S6].

Assignment: Prepare a confidential recommendation for the CEO and Board's next capital-plan review. Should FirstEnergy continue managing Energize365 primarily to its announced investment trajectory, or should it keep that planning envelope while strengthening project-level gates for reliability, affordability, execution readiness and customer benefit? Specify the decision rights, measures and conditions that should lead the company to accelerate, resequence or defer discretionary work.

This assignment does not imply that management had publicly reopened the plan or that any project was unnecessary. The available disclosures do not provide a project-level portfolio from which to select individual projects. Your recommendation should respect urgent safety and

reliability work and make clear where the evidence is insufficient.

The company and its system

FirstEnergy's electric distribution companies served more than six million customers in Ohio, Pennsylvania, New Jersey, West Virginia, Maryland and New York. The company reported approximately \$27.3 billion of utility rate base in its 2023 Form 10-K. Its reportable businesses included distribution, integrated electric operations and stand-alone transmission. The businesses operate under state and federal regulatory frameworks that differ by subsidiary and asset. [S1], Item 1, utility profiles and Item 7, segment information.

FirstEnergy described Energize365 as its systemwide investment program, spanning transmission and distribution. The stated objectives included grid reliability and resilience, modernization, demand growth, customer experience and energy transition needs. Those are company-stated purposes; the disclosures do not provide project-by-project benefit estimates or independent measurement of results. [S2], "Outlook-Capital Expenditures"; [S3], slides 5 and 8.

Exhibit 1. Investment plan as management described it

USD billions; planned investment, not actual cash spend.

Disclosure date	Period / measure	Amount	Status and scope
Feb. 2024 Form 10-K	Segment forecasts, 2024-2028	\$26.4	Earlier forecast table; includes capital expenditures and some capital-like investments earning a return in Integrated
October 2024 investor presentation	Energize365, 2024-2028	~\$26.0	Company-defined systemwide transmission and distribution planning envelope
October 2024 investor presentation	2024 investment plan	\$4.6	Updated plan estimate, versus \$4.3 earlier in the year; presentation compares it with \$3.7 reported for 2023
October 2024 investor presentation	Rate-base growth	9% average annually	Management target for 2024-2028
October 2024 investor presentation	Formula-rate programs	75% of planned investment	Company-described share of plan; not a statement that every project has approved recovery

Sources: [S1], Item 7, capital investment forecasts; [S3], slides 5 and 8. The \$26.4 billion table predates the later \$26 billion Energize365 description. Do not add the two figures together.

Subtracting the \$4.6 billion 2024 plan estimate from the approximately \$26 billion five-year envelope implies about \$21.4 billion for 2025-2028. This is a case-author calculation, not a separately disclosed company forecast. Both inputs are rounded, and it assumes the 2024 estimate is included in the five-year envelope. The case does not allocate the implied balance by year, state or project.

The 2023 Form 10-K's earlier forecast table showed the annual investment plan rising from \$4.3 billion in 2024 to \$6.2 billion in 2028. The October 2024 presentation later raised the 2024 plan estimate to \$4.6 billion while keeping the overall \$26 billion program. The sources do not disclose whether every segment's timing or project mix changed in the same way. [S1]; [S3].

The capital-allocation context

FirstEnergy's latest financial snapshot before the decision came from its third-quarter filing. For the nine months ended September 30, 2024, it reported \$1.847 billion of net cash from operating activities and \$2.736 billion of capital investments. Net cash from financing was \$1.400 billion. Operating cash flow had been \$429 million over the same 2023 period; the company attributed the difference to multiple items, including timing and settlements, pension-contribution comparisons, cash collateral and transmission collections. These nine-month figures are not a forecast of full-year cash flow. [S2], consolidated cash-flow statement and MD&A, "Cash Flows From Operating Activities."

The company said it expected no incremental equity issuance to fund the \$26 billion plan beyond employee-benefit programs. The same investor presentation cited a target of 14-15% FFO/debt over the planning horizon and an investment-grade credit profile. These are management's financing expectations and targets. They do not eliminate exposure to borrowing costs, capital-market access, ratings or plan changes. [S3], slide 8; [S2], "Liquidity and Capital Resources."

The Form 10-K warned that projects might exceed budgets, schedules or scope, or be canceled. Risks included inflation, labor and material prices or shortages, contractor performance, permitting, weather and environmental matters. The filing describes risks, not overruns on a specific Energize365 project. [S1], Item 1A, "Capital investments and construction projects."

Ohio regulation and customer affordability

The Ohio regulatory record puts investment recovery and customer bills into the decision. FirstEnergy's Ohio subsidiaries-Ohio Edison, The Cleveland Electric Illuminating Company and Toledo Edison-operate under PUCO oversight. In 2024, PUCO modified and approved ESP V, which began June 1. The utilities later withdrew ESP V and sought a return to their prior plan, ESP IV. PUCO approved the withdrawal and a modified ESP IV on December 18, 2024; the modified ESP IV tariffs became effective February 1, 2025. [S2], "Outlook-State Regulation-Ohio"; [S4].

On January 31, 2025, the Ohio companies filed a proposed sixth Electric Security Plan (ESP VI), Case No. 25-0092-EL-SSO. They proposed a term beginning when new base distribution rates from their pending rate case take effect, through May 31, 2028. The application proposed capital and maintenance riders, including an annual Delivery Capital Recovery rider cap tied to proposed base distribution revenue and reliability performance. It also proposed energy-efficiency programs and a commitment of \$6.5 million annually, without recovery from customers, for low-income and senior-citizen assistance and other customer-experience initiatives. These were proposed terms, subject to PUCO review. [S5], pp. 1-3, 6-10, 11-12.

The ESP VI filing estimated an initial bill increase of 2.7% and an average annual increase of 1.7% over the proposed term for a standard residential non-shopping customer using 750 kWh per month. It stated that individual impacts would vary and that PUCO could change the proposal. These are company estimates for a defined reference customer, not actual or approved bill impacts. [S5], attached legal notice, pp. 18-19.

In the pending base-rate case, the Ohio companies initially requested a net annual distribution-revenue increase of approximately \$94 million, later updating the request to approximately \$190 million after the ESP V order. A request is not an approved rate. New base rates remained a key dependency for the proposed ESP VI start date. [S2], “Outlook-State Regulation-Ohio”; [S5], pp. 1-2.

Exhibit 2. Ohio regulatory status at the cutoff

Matter	Status by 26 Feb. 2025	What students should distinguish
ESP V	Withdrawn with PUCO approval, Dec. 18, 2024	The withdrawal was approved
Modified ESP IV	PUCO-approved; effective Feb. 1, 2025	The order allowed a modified return to the prior plan; it did not decide future ESP VI terms
Ohio base-rate case	Pending; company requested about \$190 million net annual revenue increase in an updated filing	Company request, not approved increase
Proposed ESP VI, Case 25-0092-EL-SSO	Filed Jan. 31, 2025; pending	Proposed recovery mechanisms and bill estimates, not approved outcomes
ESP VI reference-customer estimate	2.7% initial increase; 1.7% average annual impact for a non-shopping customer at 750 kWh/month	Company projection; individual bills vary and PUCO may modify it

Sources: [S2], [S4], [S5]. The ESP VI projections should not be attributed to Energize365 alone; they arise from a proposed Ohio service plan and bill structure.

Oversight and trust

FirstEnergy's filings describe regulatory audits and proceedings related to Ohio House Bill 6 (HB 6). A 2022 audit report summarized in the 2023 Form 10-K said that regulated money-pool procedures meant customer-related revenues lost their identity, so the auditor could not definitively trace the specific use of DMR proceeds. The auditor found no documented evidence tying DMR revenue to lobbying for HB 6, but could not rule out with certainty the use of those funds to support HB 6. The proceedings and allegations concern past conduct; they are not evidence that Energize365 spending was misused. [S1], Item 8, Ohio regulatory proceedings.

The December 18, 2024 PUCO order returning the Ohio utilities to modified ESP IV recounted objections from customer advocates and other parties. Those parties argued that ESP IV involved an HB 6-related “side agreement” and contended that customers would lose certain ESP V benefits. The order's recitation of those objections is not itself a Commission finding that the disputed allegations were established or that current capital projects were improper. [S4], ¶¶ 7-14.

On December 18, FirstEnergy announced that CEO Brian Tierney would also become Board Chair effective January 1, 2025. John Somerhalder remained a director, and Lisa Winston Hicks remained Lead Independent Director. The company said the combined role would support Energize365 execution. Decide what oversight and independent challenge the Board should provide; do not infer effectiveness from the role change or the company's stated rationale. [S6].

Two approaches for discussion

The Board has asked for a recommendation on how to govern the remaining portfolio, not a project-by-project budget that has not been disclosed.

Maintain the current execution model. Continue to manage Energize365 against the announced investment trajectory and existing state or federal review processes. Use the existing capital-planning and approval controls, while monitoring reliability, customer affordability, project execution and financing.

Add explicit portfolio gates. Keep the approximate planning envelope but require additional evidence before accelerating or proceeding with discretionary projects. Potential criteria include documented reliability or load need, alternatives such as maintenance or non-wires solutions, cost and schedule confidence, regulatory pathway, affordability impacts and a post-completion measure of customer benefit. Define how the gates interact with urgent safety and reliability work and with existing regulatory approvals.

The criteria above are issues to evaluate, not a prescribed solution. Any additional alternative should address a documented operating need and explain its financial, customer and regulatory implications.

Questions for the decision memo

1. What strategic outcomes is Energize365 supposed to deliver, and what evidence would show whether it is delivering them?
2. Should FirstEnergy keep managing the program primarily to its announced pace, or add portfolio gates? What are the strongest arguments against your choice?
3. How would you treat urgent reliability work differently from discretionary modernization or long-lead projects?
4. What information should be required for a project to pass a gate? Who should approve it, and who should challenge the analysis?
5. How should the company assess affordability and bill incidence without confusing distribution charges, generation supply, riders and total customer bills?
6. What can the academic evidence on utility regulation explain here, and what does it not establish about FirstEnergy?
7. What evidence or events would cause you to change your recommendation?

Source notes

[S1] FirstEnergy 2023 Form 10-K, filed Feb. 13, 2024: Item 1, utility profiles; Item 1A, capital-investment risks; Item 7, investment forecast and cash/financing discussion; Item 8, Ohio proceedings. [SEC filing](#).

[S2] FirstEnergy Q3 2024 Form 10-Q, filed Oct. 29, 2024: MD&A, “Outlook-Capital Expenditures,” “Outlook-State Regulation-Ohio,” cash-flow statement and cash-flow discussion. [SEC filing](#).

[S3] FirstEnergy 3Q 2024 Strategic & Financial Highlights, published Oct. 29, 2024: slides 5, 8, 10-12 and 15-17. [Company presentation](#).

[S4] PUCO, Dec. 18, 2024 ESP V withdrawal and ESP IV tariff orders: ESP V order, Summary and ¶¶ 1-4; ESP IV order, ¶¶ 4-14, 26-32 and 60-64. [ESP V withdrawal order](#); [ESP IV order](#).

[S5] Ohio Edison, The Cleveland Electric Illuminating Company and Toledo Edison, Application for ESP VI, filed Jan. 31, 2025, Case 25-0092-EL-SSO, pp. 1-3, 6-10, 18-19. [Application](#).

[S6] FirstEnergy Form 8-K, Dec. 18, 2024, Exhibit 99.1, announcement of Brian Tierney's appointment as Board Chair effective Jan. 1, 2025. [SEC exhibit](#).

Academic sources used for the case's regulatory context are in the research dossier: Joskow, 2024, and Averch & Johnson, 1962. The Yozwiak utility-return article is provisional and not needed to answer the student assignment.