

**THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES**  
**AUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

## GLOSSARY OF TERMS

The following abbreviations and acronyms may be used in these financial statements to identify The Cleveland Electric Illuminating Company and its current and former subsidiaries and affiliated companies:

ATSI	American Transmission Systems, Incorporated, formerly a direct subsidiary of FE that became a subsidiary of FET in April 2012, which owns and operates transmission facilities
CEI	The Cleveland Electric Illuminating Company, an Ohio electric utility operating company
FE	FirstEnergy Corp., a public utility holding company
FE Board	The Board of Directors of FirstEnergy Corp.
FENOC	Energy Harbor Nuclear Corp. (formerly known as FirstEnergy Nuclear Operating Company), a subsidiary of EH, which operates NG's nuclear generating facilities
FES	Energy Harbor LLC. (formerly known as FirstEnergy Solutions Corp.), a subsidiary of EH, which provides energy-related products and services
FESC	FirstEnergy Service Company, which provides legal, financial and other corporate support services
FET	FirstEnergy Transmission, LLC, formerly known as Allegheny Energy Transmission, LLC, which is the parent of ATSI, KATCo, MAIT and TrAIL and has a joint venture in PATH
FirstEnergy	FirstEnergy Corp., together with its consolidated subsidiaries
GPU	GPU, Inc., former parent of JCP&L, ME and PN, that merged with FE on November 7, 2001
JCP&L	Jersey Central Power & Light Company, a New Jersey electric utility operating affiliated company
KATCo	Keystone Appalachian Transmission Company, a subsidiary of FET
MAIT	Mid-Atlantic Interstate Transmission, LLC, a subsidiary of FET, which owns and operates transmission facilities
ME	Metropolitan Edison Company, a Pennsylvania electric utility operating affiliated company
MP	Monongahela Power Company, a West Virginia electric utility operating affiliated company
OE	Ohio Edison Company, an Ohio electric utility operating affiliated company
Ohio Companies	CEI, OE and TE
PATH	Potomac-Appalachian Transmission Highline, LLC, a joint venture between FE and a subsidiary of AEP
PE	The Potomac Edison Company, a Maryland and West Virginia electric utility operating affiliated company
Penn	Pennsylvania Power Company, a Pennsylvania electric utility operating subsidiary of OE
PN	Pennsylvania Electric Company, a Pennsylvania electric utility operating affiliated company
TE	The Toledo Edison Company, an Ohio electric utility operating affiliated company
TrAIL	Trans-Allegheny Interstate Line Company, a subsidiary of FET, which owns and operates transmission facilities
Transmission Companies	ATSI, MAIT and TrAIL
Utilities	OE, CEI, TE, Penn, JCP&L, ME, PN, MP, PE and WP
WP	West Penn Power Company, a Pennsylvania electric utility operating affiliated company

The following abbreviations and acronyms may be used to identify frequently used terms in these financial statements:

AEP	American Electric Power Company, Inc.
AFS	Available-for-sale
AFUDC	Allowance for Funds Used During Construction
AMT	Alternative Minimum Tax
AOCI	Accumulated Other Comprehensive Income (Loss)
ARO	Asset Retirement Obligation
ASU	Accounting Standards Update
CO <sub>2</sub>	Carbon Dioxide
COVID-19	Coronavirus disease 2019
CSR	Conservative Support Rider
DCR	Delivery Capital Recovery
DMR	Distribution Modernization Rider
DR	Demand Response

EEI	Edison Electric Institute
ELPC	Environmental Law & Policy Center
ERO	Electric Reliability Organization
ESP	Electric Security Plan
ESP IV	Electric Security Plan IV
ESP IV PPA	Unit Power Agreement entered into on April 1, 2016 by and between the Ohio Companies and FES
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FMB	First Mortgage Bond
FPA	Federal Power Act
GAAP	Accounting Principles Generally Accepted in the United States of America
HB 6	Ohio House Bill 6
GWH	Gigawatt-hour
IRS	Internal Revenue Service
kV	Kilovolt
KWH	Kilowatt-hour
LIBOR	London Interbank Offered Rate
LOC	Letter of Credit
MISO	Midcontinent Independent System Operator, Inc.
MOPR	Minimum Offer Price Rule
MW	Megawatt
LIBOR	London Interbank Offered Rate
N.D. Ohio	Northern District of Ohio
NERC	North American Electric Reliability Corporation
NOAC	Northwestern Ohio Aggregation Coalition
NOL	Net Operating Loss
OAG	Ohio Attorney General
OCC	Ohio Consumers' Counsel
OPEB	Other Post-Employment Benefits
ORC	Ohio Revised Code
OVEC	Ohio Valley Electric Corporation
PJM	PJM Interconnection, L.L.C.
PJM Region	The aggregate of the zones within PJM
PJM Tariff	PJM Open Access Transmission Tariff
POLR	Provider of Last Resort
PPA	Purchase Power Agreement
PUCO	Public Utilities Commission of Ohio
R&D	Research and Development
REC	Renewable Energy Credit
RFC	ReliabilityFirst Corporation
RFP	Request for Proposal
ROE	Return on Equity
RRS	Retail Rate Stability Rider
RTEP	Regional Transmission Expansion Plan
RTO	Regional Transmission Organization
SB221	Amended Substitute Senate Bill No. 221

SB310	Substitute Senate Bill No. 310
SCOH	Supreme Court of Ohio
S.D. Ohio	Southern District of Ohio
SEC	United States Securities and Exchange Commission
Seventh Circuit	United States Court of Appeals for the Seventh Circuit
SEET	Significantly Excessive Earnings Test
SPE	Special Purpose Entity
SSA	Social Security Administration
SSO	Standard Service Offer
Tax Act	Tax Cuts and Jobs Act adopted December 22, 2017
TO	Transmission Owner
VIE	Variable Interest Entity

## **Report of Independent Auditors**

To Management and the Board of Directors  
of The Cleveland Electric Illuminating Company

We have audited the accompanying consolidated financial statements of The Cleveland Electric Illuminating Company and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, of comprehensive income, of common stockholder's equity, and of cash flows for the years then ended.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Cleveland Electric Illuminating Company and its subsidiaries as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

/s/ PricewaterhouseCoopers LLP  
Cleveland, Ohio  
March 18, 2021

**THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

<i>(In millions)</i>	For the Years Ended December 31,	
	2020	2019
<b>REVENUES:</b>		
Electric sales	\$ 972	\$ 962
Excise and gross receipts tax collections	63	64
Total revenues	1,035	1,026
<b>OPERATING EXPENSES:</b>		
Purchased power from affiliates	2	14
Purchased power from non-affiliates	100	96
Other operating expenses	419	383
Provision for depreciation	112	108
Deferral (amortization) of regulatory liabilities, net	27	(42)
General taxes	194	189
Total operating expenses	854	748
<b>OPERATING INCOME</b>	181	278
<b>OTHER INCOME (EXPENSE):</b>		
Miscellaneous income, net	14	7
Pension and OPEB mark-to-market adjustment	(36)	(55)
Interest expense	(72)	(70)
Capitalized financing costs	3	2
Total other expense	(91)	(116)
<b>INCOME BEFORE INCOME TAXES (BENEFITS)</b>	90	162
<b>INCOME TAXES (BENEFITS)</b>	(5)	25
<b>NET INCOME</b>	\$ 95	\$ 137
<b>STATEMENTS OF COMPREHENSIVE INCOME</b>		
<b>NET INCOME</b>	\$ 95	\$ 137
<b>OTHER COMPREHENSIVE LOSS:</b>		
Pension and OPEB prior service costs	(1)	—
Other comprehensive loss	(1)	—
Income tax benefits on other comprehensive loss	—	—
Other comprehensive loss, net of tax	(1)	—
<b>COMPREHENSIVE INCOME</b>	\$ 94	\$ 137

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

**THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

<i>(In millions, except share amounts)</i>	December 31, 2020	December 31, 2019
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 150	\$ —
Restricted cash	14	13
Receivables-		
Customers	131	103
Less — Allowance for uncollectible customer receivables	18	6
	113	97
Affiliated companies	43	39
Other, net of allowance for uncollectible accounts of \$1 in 2020	19	15
Prepaid taxes and other	2	2
	341	166
<b>UTILITY PLANT:</b>		
In service	3,503	3,358
Less — Accumulated provision for depreciation	1,426	1,353
	2,077	2,005
Construction work in progress	98	73
	2,175	2,078
<b>DEFERRED CHARGES AND OTHER ASSETS:</b>		
Goodwill	1,689	1,689
Property taxes	134	129
Other	38	37
	1,861	1,855
	<u>\$ 4,377</u>	<u>\$ 4,099</u>
<b>LIABILITIES AND CAPITALIZATION</b>		
<b>CURRENT LIABILITIES:</b>		
Currently payable long-term debt	\$ 21	\$ 21
Short-term borrowings - affiliated companies	45	85
Accounts payable-		
Affiliated companies	38	38
Other	15	10
Accrued taxes	135	125
Accrued interest	17	13
Other	50	42
	321	334
<b>CAPITALIZATION:</b>		
Common stockholder's equity-		
Common stock, without par value, authorized 105,000,000 shares - 67,930,743 shares outstanding	1,244	1,240
Accumulated other comprehensive loss	(4)	(3)
Retained earnings	348	298
Total common stockholder's equity	1,588	1,535
Long-term debt and other long-term obligations	1,570	1,342
	3,158	2,877
<b>NONCURRENT LIABILITIES:</b>		
Accumulated deferred income taxes	277	291
Retirement benefits	129	113
Regulatory liabilities	128	143
Property taxes	134	129
Other	230	212
	898	888
<b>COMMITMENTS AND CONTINGENCIES (Note 12)</b>		
	<u>\$ 4,377</u>	<u>\$ 4,099</u>

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

**THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY**

<i>(In millions, except share amounts)</i>	<u>Common Stock</u>		<u>Accumulated Other Comprehensive Income(Loss)</u>	<u>Retained Earnings</u>	<u>Total Stockholder's Equity</u>
	<u>Number of Shares</u>	<u>Carrying Value</u>			
<b>Balance, January 1, 2019</b>	67,930,743	\$ 1,234	\$ (3)	\$ 321	\$ 1,552
Net income				137	137
Stock-based compensation		3			3
Consolidated tax benefit allocation		3			3
Cash dividends declared on common stock				(160)	(160)
<b>Balance, December 31, 2019</b>	67,930,743	\$ 1,240	\$ (3)	\$ 298	\$ 1,535
Net Income				95	95
Comprehensive loss			(1)		(1)
Stock-based compensation		3			3
Consolidated tax benefit allocation		1			1
Cash dividends declared on common stock				(45)	(45)
<b>Balance, December 31, 2020</b>	<u>67,930,743</u>	<u>\$ 1,244</u>	<u>\$ (4)</u>	<u>\$ 348</u>	<u>\$ 1,588</u>

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.



**THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

<i>(In millions)</i>	For the Years Ended December 31,	
	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 95	\$ 137
Adjustments to reconcile net income to net cash from operating activities-		
Depreciation and amortization	110	73
Deferred income taxes and investment tax credits, net	(26)	(13)
Pension trust contributions	—	(10)
Retirement benefits, net of payments	(16)	(10)
Pension and OPEB mark-to-market adjustment	36	55
Change in current assets and liabilities-		
Receivables	(23)	17
Prepaid taxes and other current assets	—	1
Accounts payable	5	7
Accrued taxes	10	3
Accrued interest	4	(1)
Other current liabilities	7	(4)
Other	7	4
Net cash provided from operating activities	209	259
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
New financing-		
Long-term debt	250	—
Short-term borrowings - affiliated companies, net	—	73
Redemptions and repayments-		
Long-term debt	(19)	(19)
Short-term borrowings - affiliated companies, net	(40)	—
Common stock dividend payments	(45)	(160)
Other	(6)	(3)
Net cash provided from (used for) financing activities	140	(109)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Property additions	(185)	(135)
Asset removal costs	(18)	(16)
Other	5	1
Net cash used for investing activities	(198)	(150)
Net change in cash, cash equivalents, and restricted cash	151	—
Cash, cash equivalents, and restricted cash at beginning of period	13	13
Cash, cash equivalents, and restricted cash at end of period	\$ 164	\$ 13
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Cash paid during the year -		
Interest (net of amounts capitalized)	\$ 66	\$ 67
Income taxes, net of refunds	\$ 24	\$ 43

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

**THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**1. ORGANIZATION AND BASIS OF PRESENTATION**

Unless otherwise indicated, defined terms and abbreviations used herein have the meanings set forth in the accompanying Glossary of Terms.

CEI, together with its consolidated subsidiary is a wholly owned subsidiary of FE, and is incorporated in Ohio. CEI operates an electric distribution system in Ohio. CEI is subject to regulation by the PUCO and FERC.

CEI follows GAAP and complies with the regulations, orders, policies and practices prescribed by FERC and the PUCO. The preparation of financial statements in conformity with GAAP requires management to make periodic estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. Actual results could differ from these estimates. The reported results of operations are not necessarily indicative of results of operations for any future period. CEI has evaluated events and transactions for potential recognition or disclosure through March 18, 2021, the date the financial statements were issued.

Certain prior year amounts have been reclassified to conform to the current year presentation.

*COVID-19*

The outbreak of COVID-19 has become a global pandemic. CEI is continuously evaluating the global pandemic and taking steps to mitigate known risks. The full impact on CEI's business from the pandemic, including the governmental and regulatory responses, is unknown at this time and difficult to predict. CEI provides a critical and essential service to its customers and the health and safety of its employees and customers is its first priority. CEI is continuously monitoring its supply chain and is working closely with essential vendors to understand the continued impact of COVID-19 to its business and does not currently expect service disruptions or any material impact on its capital spending plan.

Currently, CEI is effectively managing operations during the pandemic in order to continue to provide critical service to customers, however, the situation remains fluid and future impacts to CEI that are presently unknown or unanticipated may occur. Furthermore, the likelihood of an impact to CEI, and the severity of any impact that does occur, could increase the longer the global pandemic persists.

**RECEIVABLES**

CEI's principal business is providing electric service to customers in Ohio. CEI's retail customers are metered on a cycle basis. Electric revenues are recorded based on energy delivered through the end of the calendar month. An estimate of unbilled revenues is calculated to recognize electric service provided from the last meter reading through the end of the month. This estimate includes many factors, among which are historical customer usage, load profiles, estimated weather impacts, customer shopping activity and prices in effect for each class of customer. In each accounting period, CEI accrues the estimated unbilled amount as revenue and reverses the related prior period estimate. Billed (net of uncollectibles) and unbilled customer receivables were \$55 million and \$58 million, respectively, as of December 31, 2020, and were \$48 million and \$49 million, respectively, as of December 31, 2019. Receivables from customers include distribution and retail electric sales to residential, commercial and industrial customers.

The allowance for uncollectible customer receivables is based on historical loss information comprised of a rolling 36-month average net write-off percentage of revenues, in conjunction with a qualitative assessment of elements that impact the collectability of receivables to determine if allowances for uncollectible accounts should be further adjusted in accordance with the accounting guidance for credit losses. Management contemplates available current information such as changes in economic factors, regulatory matters, industry trends, customer credit factors, amount of receivable balances that are past-due, payment options and programs available to customers, and the methods that the Utilities are able to utilize to ensure payment.

FirstEnergy reviews its allowance for uncollectible customer receivables utilizing a quantitative and qualitative assessment, which includes consideration of the outbreak of COVID-19 and the impact on customer receivable balances outstanding and the ability of customers to continue payment since the pandemic began. The impact of COVID-19 on customers' ability to pay for service, along with the actions FirstEnergy has taken in response to the pandemic, is expected to result in an increase in customer receivable write-offs as compared to historically incurred losses. In order to estimate the additional losses and impacts expected, FirstEnergy analyzed the likelihood of loss based on increases in customer accounts in arrears since the pandemic began in mid-March 2020 as well as what collection methods are or were suspended, and that have historically been utilized to ensure payment. Based on this assessment, and consideration of other qualitative factors described above, CEI recognized incremental uncollectible expense of \$12 million in the year 2020, all of which was deferred for future recovery. CEI had existing regulatory mechanisms in place prior to the outbreak of COVID-19, where incremental uncollectible expenses are able to be recovered with no material impact to earnings.

**THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Activity associated with customer receivables is as follows:

<i>(In millions)</i>	<u>2020</u>	<u>2019</u>
<b>Customer Receivables</b>		
<b>Beginning of year balance</b>	\$ 6	\$ 7
Charged to income <sup>(1)</sup>	20	11
Charged to other accounts <sup>(2)</sup>	6	6
Write-offs	<u>(14)</u>	<u>(18)</u>
<b>End of year balance</b>	<b>\$ 18</b>	<b>\$ 6</b>

<sup>(1)</sup> Customer receivable amounts charged to income include approximately \$17 million (including \$12 million incremental uncollectibles discussed above) deferred for future recovery \$7 million for the year ended December 31, 2019.

<sup>(2)</sup> Represents recoveries and reinstatements of accounts previously written off for uncollectible accounts.

**ACCOUNTING FOR THE EFFECTS OF REGULATION**

Regulatory assets represent incurred costs that have been deferred because of their probable future recovery from customers through regulated rates. Regulatory liabilities represent amounts that are expected to be credited to customers through future regulated rates or amounts collected from customers for costs not yet incurred. CEI nets its regulatory assets and liabilities based on federal and state jurisdictions. CEI considers the entire regulatory asset balance as the unit of account for the purposes of balance sheet classification rather than the next years recovery and as such net regulatory assets and liabilities are presented in the non-current section on the CEI Balance Sheets.

Management assesses the probability of recovery of regulatory assets at each balance sheet date and whenever new events occur. Factors that may affect probability relate to changes in the regulatory environment, issuance of a regulatory commission order or passage of new legislation. Management applies judgment in evaluating the evidence available to assess the probability of recovery of regulatory assets from customers, including, but not limited to evaluating evidence related to precedent for similar items at CEI and information on comparable companies within similar jurisdictions, as well as assessing progress of communications between CEI and regulators.

The following table provides information about the composition of net regulatory assets and liabilities as of December 31, 2020 and December 31, 2019, and the changes during the year ended December 31, 2020:

<u>Net Regulatory Assets (Liabilities) by Source</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>	<u>Change</u>
	<i>(In millions)</i>		
Customer payables for future income taxes	\$ (221)	\$ (263)	\$ 42
Asset removal costs	(108)	(100)	(8)
Deferred transmission costs	29	40	(11)
Deferred generation costs	75	95	(20)
Deferred distribution costs	42	42	—
Storm-related costs	82	64	18
Uncollectible and COVID-19 related costs	8	1	7
Other	<u>(35)</u>	<u>(22)</u>	<u>(13)</u>
Net Regulatory Liabilities included on the Consolidated Balance Sheets	<u><u>\$ (128)</u></u>	<u><u>\$ (143)</u></u>	<u><u>\$ 15</u></u>

The following is a description of the regulatory assets and liabilities described above:

**Customer payables for future income taxes** - Reflects amounts to be recovered or refunded through future rates to pay income taxes that become payable when rate revenue is provided to recover items such as AFUDC-equity and depreciation of property, plant and equipment for which deferred income taxes were not recognized for ratemaking purposes, including amounts attributable to tax rate changes such as the Tax Act. These amounts are being amortized over the period in which the related deferred tax assets reverse, which is generally over the expected life of the underlying asset.

**Deferred Transmission Costs**- Primarily relates to the recovery of non-market based costs or fees imposed on or charged to CEI by various regulatory bodies including FERC and regional transmission organizations. These costs can include PJM charges and credits for service including, but not limited to, procuring transmission services and transmission enhancement.

**THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Asset removal costs** - Primarily represents the rates charged to customers that include a provision for the cost of future activities to remove assets, including obligations for which an asset retirement obligation has been recognized, that are expected to be incurred at the time of retirement.

**Deferred generation costs** - Primarily relates to regulatory assets associated with the securitized recovery of certain electric customer heating discounts, fuel and purchased power regulatory costs that are amortized through 2034.

**Deferred distribution costs** - Primarily relates to the deferral of certain expenses resulting from distribution and reliability related expenditures, including interest, and are amortized through 2036.

**Storm-related costs** - Relates to the recovery of storm costs, none of which are currently being recovered through rates.

**Uncollectible and COVID-19 related costs** - Includes the deferral of uncollectible expenses arising from COVID-19 under existing riders prior to the pandemic.

**PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment reflects original cost (net of any impairments recognized), including payroll and related costs such as taxes, employee benefits, administrative and general costs, and interest costs incurred to place the assets in service. The costs of normal maintenance, repairs and minor replacements are expensed as incurred. CEI recognizes liabilities for planned major maintenance projects as they are incurred.

CEI provides for depreciation on a straight-line basis at various rates over the estimated lives of property included in plant in service. Depreciation expense was approximately 3.3% and 3.2% of average depreciable property in 2020 and 2019, respectively.

For the years ended December 31, 2020 capitalized financing costs on CEI's Consolidated Statements of Income include \$1 million and \$2 million, respectively, of allowance for equity funds used during construction and capitalized interest. For the years ended December 31, 2019 capitalized financing costs on CEI's Consolidated Statements of Income include \$2 million of capitalized interest.

CEI evaluates long-lived assets classified as held and used for impairment when events or changes in circumstances indicate the carrying value of such assets may not be recoverable. First, the estimated undiscounted future cash flows attributable to the assets is compared with the carrying value of the assets. If the carrying value is greater than the undiscounted future cash flows, an impairment charge is recognized equal to the amount the carrying value of the assets exceeds its estimated fair value.

**GOODWILL**

In a business combination, the excess of the purchase price over the estimated fair values of the assets acquired and liabilities assumed is recognized as goodwill. CEI evaluates goodwill for impairment annually on July 31 and more frequently if indicators of impairment arise. In evaluating goodwill for impairment, CEI assesses qualitative factors to determine whether it is more likely than not (that is, likelihood of more than 50%) that the fair value of a reporting unit is less than its carrying value (including goodwill). If CEI concludes that it is not more likely than not that the fair value of a reporting unit is less than its carrying value, then no further testing is required. However, if CEI concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying value or bypasses the qualitative assessment, then the quantitative goodwill impairment test is performed to identify a potential goodwill impairment and measure the amount of impairment to be recognized, if any.

No impairment of goodwill was indicated as a result of testing in 2020 and 2019. In 2020 and 2019, CEI performed a qualitative assessment, assessing economic, industry and market considerations in addition to CEI's overall financial performance. Key factors used in the assessment included: growth rates, interest rates, expected capital expenditures, utility sector market performance, regulatory and legal developments, and other market considerations. It was determined that the fair value was, more likely than not, greater than its carrying value and a quantitative analysis was not necessary.

**NEW ACCOUNTING PRONOUNCEMENTS**

**Recently Adopted Pronouncements**

ASU 2016-13, "*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*" (Issued June 2016 and subsequently updated): ASU 2016-13 removes all recognition thresholds and will require companies to recognize an allowance for credit losses for the difference between the amortized cost basis of a financial instrument and the amount of amortized cost that the company expects to collect over the instrument's contractual life. Prior to adoption, FirstEnergy analyzed its financial instruments within the scope of this guidance, primarily trade receivables and AFS debt securities. The adoption of this standard upon January 1, 2020 did not have a material impact to the financial statements

**THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

and required additional disclosures within. Please see above for additional information on the allowance for uncollectible receivables.

ASU 2018-15, *"Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract"* (Issued August 2018): ASU 2018-15 allows implementation costs incurred by customers in cloud computing arrangements to be deferred and recognized over the term of the arrangement, if those costs would be capitalized by the customers in a software licensing arrangement. This standard was adopted as of January 1, 2020, with no material impact to the financial statements.

ASU 2020-04, *"Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting"* (Issued March 2020): ASU 2020-04 provides temporary optional expedients and exceptions to the current guidance on contract modifications to ease the financial reporting burdens related to the expected market transition from LIBOR and other interbank offered rates to alternative reference rates. FirstEnergy's \$3.5 billion Revolving Credit Facility bears interest at fluctuating interest rates based on LIBOR and contains provisions (requiring an amendment) in the event that LIBOR can no longer be used. As of December 31, 2020, none of the expedients discussed within this ASU have been utilized.

**Recently Issued Pronouncements** - The following new authoritative accounting guidance issued by the FASB has not yet been adopted. Unless otherwise indicated, CEI is currently assessing the impact such guidance may have on its financial statements and disclosures, as well as the potential to early adopt where applicable. CEI has assessed other FASB issuances of new standards not described below and has not included these standards based upon the current expectation that such new standards will not significantly impact CEI's financing reporting.

ASU 2019-12, *"Simplifying the Accounting for Income Taxes"* (Issued in December 2019): ASU 2019-12 enhances and simplifies various aspects of the income tax accounting guidance including the elimination of certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The new guidance also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. FirstEnergy continues to evaluate the new guidance, but currently does not expect a material impact upon adopting this standard.

## **2. REVENUE**

CEI accounts for revenues from contracts with customers under ASC 606, *"Revenue from Contracts with Customers."* Revenue from leases, financial instruments, other contractual rights or obligations and other revenues that are not from contracts with customers are outside the scope of the standard and accounted for under other existing GAAP. CEI has elected to exclude sales taxes and other similar taxes collected on behalf of third parties from revenue as prescribed in the new standard. As a result, tax collections and remittances within the scope of this election are excluded from recognition in the income statement and instead recorded through the balance sheet. Gross receipts taxes that are assessed on CEI are not subject to the election and are included in revenue. CEI has elected the optional invoice practical expedient for most of its revenues, which eliminates the need to provide certain revenue disclosures regarding unsatisfied performance obligations.

CEI's principal business is providing electric service to customers in Ohio. CEI's distribution customers are metered on a cycle basis. An estimate of unbilled revenues is calculated to recognize electric service provided from the last meter reading through the end of the month. This estimate includes many factors, among which are historical customer usage, load profiles, estimated weather impacts and prices in effect for each class of customer. In each accounting period, CEI accrues the estimated unbilled amount as revenue and reverses the related prior period estimate. Customer payments are generally due within 30 days. Retail generation sales relate to generation sales in Ohio that are regulated by the PUCO.

**Distribution services** revenue relates to the distribution of electricity. CEI earns revenue from state-regulated rate tariffs under which it provides distribution services to residential, commercial and industrial customers in its service territory. CEI is obligated under the regulated construct to deliver power to customers reliably, as it is needed, which creates an implied monthly contract with the end-use customer. See Note 11, *"Regulatory Matters,"* for additional information on rate recovery mechanisms. Distribution and electric revenues are recognized over time as electricity is distributed and delivered to the customer and the customers consume the electricity immediately as delivery occurs.

**Retail generation sales** relate to default service requirements in Ohio. Certain of the Utilities have default service obligations to provide power to non-shopping customers who have elected to continue to receive service under regulated retail tariffs. The volume of these sales varies depending on the level of shopping that occurs. Supply plans vary by state and by service territory. Default service for the Ohio Companies are provided through a competitive procurement process approved by each state's respective commission. Retail generation revenues are recognized over time as electricity is delivered and consumed immediately by the customer.

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The following table represents a disaggregation of revenue from contracts with customers for the years ended December 31, 2020 and 2019, by type of service:

<u>Revenues by Type of Service</u>	<u>For the Year Ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
	<i>(In millions)</i>	
Distribution services	\$ 862	\$ 802
Retail generation	108	114
Other	38	31
Total revenues from contracts with customers <sup>(1)</sup>	<u>\$ 1,008</u>	<u>\$ 947</u>
ARP <sup>(2)</sup>	16	64
Other non-customer revenue	11	15
Total revenues	<u><u>\$ 1,035</u></u>	<u><u>\$ 1,026</u></u>

<sup>(1)</sup> Includes \$6 million in reductions to revenue related to amounts subject to refund resulting from the Tax Act for the year ended December 31, 2019.

<sup>(2)</sup> ARP revenue for the year ended December 31, 2020, is primarily related to shared savings revenue. Amounts for the year ended December 31, 2019 are primarily related to lost distribution and shared savings revenue.

Other revenue primarily includes \$25 million and \$23 million related to amounts collected from customers to repay bonds associated with the Ohio Securitization (See Note 7, "Variable Interest Entities") for the years ended December 31, 2020 and 2019, respectively.

The following table represents a disaggregation of CEI's revenue from contracts with distribution service and retail generation customers for the years ended December 31, 2020 and 2019, by class:

<u>Revenues by Customer Class</u>	<u>For the Years Ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
	<i>(In millions)</i>	
Residential	\$ 447	\$ 415
Commercial	410	391
Industrial	95	92
Other	18	18
Total Revenues	<u><u>\$ 970</u></u>	<u><u>\$ 916</u></u>

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**3. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

The changes in AOCI, net of tax, for the years ended December 31, 2020 and 2019 for CEI are shown in the following tables:

	<b>Defined Benefit Pension &amp; OPEB Plans</b>
	<i>(In millions)</i>
AOCI Balance, January 1, 2019	\$ (3)
Other comprehensive income before reclassifications	—
Amounts reclassified from AOCI	—
Other comprehensive loss	—
Income tax benefits on other comprehensive loss	—
Net other comprehensive loss	—
<b>AOCI Balance, December 31, 2019</b>	<b>\$ (3)</b>
Other comprehensive income before reclassifications	—
Amounts reclassified from AOCI	(1)
Other comprehensive loss	(1)
Income tax benefits on other comprehensive loss	—
Net other comprehensive loss	(1)
<b>AOCI Balance, December 31, 2020</b>	<b>\$ (4)</b>

The following amounts were reclassified from AOCI for CEI in the years ended December 31, 2020 and 2019:

<b>Reclassifications out of AOCI<sup>(1)</sup></b>	<b>For the Years Ended December 31,</b>		<b>Affected Line Item in the Consolidated Statements of Income</b>
	<b>2020</b>	<b>2019</b>	
	<i>(in millions)</i>		
Defined Benefit Pension and OPEB Plans			
Prior-service costs	\$ (1)	\$ — <sup>(2)</sup>	
	—	—	Income taxes
	\$ (1)	\$ —	Net of tax

<sup>(1)</sup> Amounts in parenthesis represent credits to the Consolidated Statements of Income from AOCI.

<sup>(2)</sup> These AOCI components are included in the computation of net periodic pension cost. See Note 4, "Pension and Other Postemployment Benefits," for additional details.

**4. PENSION AND OTHER POSTEMPLOYMENT BENEFITS**

FirstEnergy provides noncontributory qualified defined benefit pension plans that cover substantially all of its employees and non-qualified pension plans that cover certain employees, including employees of CEI. The plans provide defined benefits based on years of service and compensation levels. Under the cash-balance portion of the Pension Plan (for employees hired on or after January 1, 2014), FirstEnergy makes contributions to eligible employee retirement accounts based on a pay credit and an interest credit. In addition, FirstEnergy provides a minimum amount of noncontributory life insurance to retired employees in addition to optional contributory insurance. Health care benefits, which include certain employee contributions, deductibles and co-payments, are also available upon retirement to certain employees, their dependents and, under certain circumstances, their survivors. CEI recognizes its allocated portion of the expected cost of providing pension and OPEB to employees and their beneficiaries and covered dependents from the time employees are hired until they become eligible to receive those benefits. CEI also recognizes its allocated portion of obligations to former or inactive employees after employment, but before retirement, for disability-related benefits.

FirstEnergy recognizes a pension and OPEB mark-to-market adjustment for the change in the fair value of plan assets and net actuarial gains and losses annually in the fourth quarter of each fiscal year and whenever a plan is determined to qualify for a



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remeasurement. The remaining components of pension and OPEB expense, primarily service costs, interest on obligations, assumed return on assets and prior service costs, are recorded on a monthly basis.

Under the approved bankruptcy settlement agreement, upon emergence, FES and FENOC employees ceased earning years of service under the FirstEnergy pension and OPEB plans. The emergence on February 27, 2020, triggered a remeasurement of the affected pension and OPEB plans and as a result, FirstEnergy recognized a non-cash, pre-tax pension and OPEB mark-to-market adjustment of approximately \$423 million (\$19 million at CEI) in the first quarter of 2020. The first quarter 2020 pension and OPEB mark-to-market adjustment primarily reflects a 38 bps decrease in the discount rate used to measure benefit obligations from December 31, 2019, partially offset by a slightly higher than expected return on assets. CEI's pension and OPEB mark-to-market adjustments for the years ended December 31, 2020 and 2019, were \$36 million and \$55 million, respectively. The fourth quarter 2020 pension and OPEB mark-to-market adjustment primarily reflects a 29 bps decrease in the discount rate used to measure benefit obligations from February 27, 2020, partially offset by higher than expected return on assets.

FirstEnergy's pension and OPEB funding policy is based on actuarial computations using the projected unit credit method. On February 1, 2019, FirstEnergy made a \$500 million (\$10 million at CEI) voluntary cash contribution to the qualified pension plan. As a result of this contribution, FirstEnergy expects no required contributions until 2022.

Pension and OPEB costs are affected by employee demographics (including age, compensation levels and employment periods), the level of contributions made to the plans and earnings on plan assets. Pension and OPEB costs may also be affected by changes in key assumptions, including anticipated rates of return on plan assets, the discount rates and health care trend rates used in determining the projected benefit obligations for pension and OPEB costs. FirstEnergy uses a December 31 measurement date for its pension and OPEB plans. The fair value of the plan assets represents the actual market value as of the measurement date.

FirstEnergy's assumed rate of return on pension plan assets considers historical market returns and economic forecasts for the types of investments held by the pension trusts. In 2020, FirstEnergy's qualified pension and OPEB plan assets experienced gains of \$1,225 million or 14.7%, compared to gains of \$1,492 million, or 20.2% in 2019. An assumed 7.50% rate of return in 2020 and 2019 generated \$651 million and \$569 million of expected return on plan assets, respectively. The expected return on pension and OPEB assets is based on the trusts' asset allocation targets and the historical performance of risk-based and fixed income securities. The gains or losses generated as a result of the difference between expected and actual returns on plan assets will decrease or increase future net periodic pension and OPEB cost as the difference is recognized annually in the fourth quarter of each fiscal year or whenever a plan is determined to qualify for remeasurement.

During 2020, the Society of Actuaries published new mortality tables that include more current data than the RP-2014 tables as well as new improvement scales. An analysis of FirstEnergy pension and OPEB plan mortality data indicated the use of the Pri-2012 mortality table with projection scale MP-2020 was most appropriate. As such, the Pri-2012 mortality table with projection scale MP-2020 was utilized to determine the 2020 benefit cost and obligation as of December 31, 2020 for the FirstEnergy pension and OPEB plans. The impact of using the Pri-2012 mortality table with projection scale MP-2020 resulted in a decrease to the projected benefit obligation of approximately \$74 million and \$2 million for the pension and OPEB plans, respectively, and was included in the 2020 pension and OPEB mark-to-market adjustment.

Effective in 2019, FirstEnergy changed the approach utilized to estimate the service cost and interest cost components of net periodic benefit cost for pension and OPEB plans. Historically, FirstEnergy estimated these components utilizing a single, weighted average discount rate derived from the yield curve used to measure the benefit obligation. FirstEnergy has elected to use a spot rate approach in the estimation of the components of benefit cost by applying specific spot rates along the full yield curve to the relevant projected cash flows, as this provides a better estimate of service and interest costs by improving the correlation between projected benefit cash flows to the corresponding spot yield curve rates. This election was considered a change in estimate and, accordingly, accounted for prospectively, and did not have a material impact on FirstEnergy's financial statements.

Service costs, net of capitalization, are reported within Other operating expenses on the Consolidated Statements of Income. Non-service costs, other than the pension and OPEB mark-to-market adjustment, which is separately shown, are reported within Miscellaneous income, net, within Other Income (Expense) on the Consolidated Statements of Income.

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The following is a summary of the plan status:

<b>For the Years Ended</b>	<b>Pension</b>		<b>OPEB</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<i>(in millions)</i>			
FirstEnergy benefit obligation	\$ 11,935	\$ 11,050	\$ 676	\$ 654
FirstEnergy fair value of plan assets	8,968	8,395	502	458
FirstEnergy funded status	<u>\$ (2,967)</u>	<u>\$ (2,655)</u>	<u>\$ (174)</u>	<u>\$ (196)</u>
FirstEnergy accumulated benefit obligation	\$ 11,376	\$ 10,439	\$ —	\$ —
FirstEnergy net periodic costs (credits) <sup>(1)</sup>	\$ 346	\$ 703	\$ (46)	\$ (20)
CEI's share of net liability <sup>(2)</sup>	\$ 91	\$ 74	\$ 34	\$ 36
CEI's share of net periodic costs (credits) <sup>(1)</sup>	\$ 21	\$ 33	\$ (1)	\$ 3

<sup>(1)</sup> Includes pension and OPEB mark-to-market adjustment.

<sup>(2)</sup> Excludes \$186 million and \$171 million as of December 31, 2020 and 2019, respectively, of affiliated non-current liabilities related to pension and OPEB mark-to-market costs allocated to CEI.

	<b>Pension</b>		<b>OPEB</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b>Assumptions Used to Determine Benefit Obligations (as of December 31)</b>				
Discount rate	2.67 %	3.34 %	2.45 %	3.18 %
Rate of compensation increase	4.10 %	4.10 %	N/A	N/A
Cash balance weighted average interest crediting rate	2.57 %	2.57 %	N/A	N/A
<b>Assumed Health Care Cost Trend Rates (as of December 31)</b>				
Health care cost trend rate assumed (pre/post-Medicare)	N/A	N/A	6.0-5.5%	6.0-5.5%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	N/A	N/A	4.50 %	4.50 %
Year that the rate reaches the ultimate trend rate	N/A	N/A	2028	2028

**Assumptions Used to Determine Net Periodic Benefit Cost for Years Ended December 31 <sup>(1)</sup>**

Service cost weighted-average discount rate <sup>(2)</sup>	3.60%/3.24%	4.66 %	3.63%/3.29%	4.67 %
Interest cost weighted-average discount rate <sup>(3)</sup>	3.27%/2.90%	4.37 %	2.71%/2.30%	3.89 %
Expected long-term return on plan assets	7.50 %	7.50 %	7.50 %	7.50 %
Rate of compensation increase	4.10 %	4.10 %	N/A	N/A

<sup>(1)</sup> Excludes impact of pension and OPEB mark-to-market adjustment.

<sup>(2)</sup> Weighted-average discount rates in effect from January 1, 2020, through February 26, 2020, were 3.60% and 3.63% for pension and OPEB service cost, respectively. Discount rates were 3.24% and 3.29% for pension and OPEB service cost, respectively, for the period February 27, 2020 through December 31, 2020.

<sup>(3)</sup> Weighted-average discount rates in effect from January 1, 2020, through February 26, 2020, were 3.27% and 2.71% for pension and OPEB interest cost, respectively. Discount rates were 2.90% and 2.30% for pension and OPEB interest cost, respectively, for the period February 27, 2020, through December 31, 2020.

In selecting an assumed discount rate, FirstEnergy considers currently available rates of return on high-quality fixed income investments expected to be available during the period to maturity of the pension and OPEB obligations. The assumed rates of return on plan assets consider historical market returns and economic forecasts for the types of investments held by FirstEnergy's pension and OPEB trusts. The long-term rate of return is developed considering the portfolio's asset allocation strategy.

**5. TAXES**

CEI records income taxes in accordance with the liability method of accounting. Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts recognized for tax purposes. Investment tax credits, which were deferred when utilized, are being amortized over the recovery period of the related property. Deferred income tax liabilities related to temporary tax and accounting basis differences and tax

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credit carryforward items are recognized at the statutory income tax rates in effect when the liabilities are expected to be paid. Deferred tax assets are recognized based on income tax rates expected to be in effect when they are settled.

CEI is party to an intercompany income tax allocation agreement with FE that provides for the allocation of consolidated tax liabilities. Net tax benefits attributable to FirstEnergy, excluding any tax benefits derived from interest expense associated with acquisition indebtedness from the merger with GPU, are reallocated to the subsidiaries of FirstEnergy that have taxable income. That allocation is accounted for as a capital contribution to the company receiving the tax benefit.

On March 27, 2020, President Trump signed into law the CARES Act, an economic stimulus package in response to the COVID-19 pandemic containing several corporate income tax provisions, including making remaining AMT credits immediately refundable; providing a 5-year carryback of NOLs generated in tax years 2018, 2019, and 2020, and removing the 80% taxable income limitation on utilization of those NOLs if carried back to prior tax years or utilized in tax years beginning before 2021; and temporarily liberalizing the interest deductibility rules under Section 163(j) of the Tax Act, by raising the adjusted taxable income limitation from 30% to 50% for tax years 2019 and 2020 and giving taxpayers the election of using 2019 adjusted taxable income for purposes of computing 2020 interest deductibility. CEI does not currently expect the provisions of the CARES Act to have a material effect on current income tax expense or the realizability of deferred income tax assets.

On December 27, 2020, President Trump signed into law the Consolidated Appropriations Act, 2021, an additional stimulus package providing financial relief for individuals and small businesses. The Appropriations Act contains a variety of tax provisions, including full expensing of business meals in 2021 and 2022, extensions of various energy tax incentives (including the Investment Tax Credit), and expansion of the employee retention tax credit. CEI does not currently expect the Appropriations Act to have a material tax impact.

On July 28, 2020, the IRS issued final regulations implementing interest expense deduction limitation rules under section 163(j) of the Internal Revenue Code. The final regulations changed certain rules on the computation of interest expense and limitation amount, as well as rules relevant to status as a regulated utility business and the allocation of consolidated group interest expense between utility and non-utility businesses. On January 6, 2021, the IRS released an additional set of final regulations under Section 163(j) primarily addressing partnership, real estate, and certain controlled foreign corporation issues, which do not materially impact CEI.

<b><u>INCOME TAXES:</u></b>	<b>For the Years Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
	<i>(In millions)</i>	
Currently payable-		
Federal	\$ 21	\$ 35
State	—	3
	21	38
Deferred, net-		
Federal	(8)	(14)
State	(18)	1
	(26)	(13)
Total income taxes	\$ (5)	\$ 25

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CEI's tax rates are affected by permanent items as well as discrete items that may occur in any given period, but are not consistent from period to period. The following table provides a reconciliation of federal income tax expense at the federal statutory rate to the total income taxes for the years ended December 31, 2020 and 2019:

(In millions)	For the Years Ended December 31,	
	2020	2019
Book income before income taxes	\$ 90	\$ 162
Federal income tax expense at statutory rate	\$ 19	\$ 34
Increases (reductions) in taxes resulting from -		
State income taxes, net of federal tax benefit	1	2
Excess deferral tax amortization due to the Tax Act	(10)	(11)
Valuation allowances	(16)	—
Other	1	—
Total income taxes	\$ (5)	\$ 25
Effective income tax rate	(5.6)%	15.4 %

CEI's effective tax rate on pre-tax income for 2020 and 2019 was (5.6)% and 15.4%, respectively. The decrease in the effective tax rate was primarily due to a \$16 million reduction in valuation allowances from the recognition of deferred gain on prior intercompany generation asset transfers triggered by the FES Debtors' emergency from bankruptcy in the first quarter of 2020.

Accumulated deferred income taxes as of December 31, 2020 and 2019 are as follows:

(In millions)	As of December 31,	
	2020	2019
Property basis differences	\$ 303	\$ 285
Regulatory assets/liability	51	45
Loss and credit carryforwards	(18)	(4)
Pension and OPEB	(70)	(63)
Valuation allowances	4	20
Other	7	8
Net accumulated deferred income tax liabilities	\$ 277	\$ 291

CEI records as deferred income tax assets the effect of NOLs and tax credits that will more likely than not be realized through future operations and through the reversal of existing temporary differences. As of December 31, 2020, CEI's loss carryforwards consisted of approximately \$943 million (\$16 million, net of tax) of municipal NOL carryforwards, of which approximately \$718 million (\$12 million, net of tax) is expected to be utilized based on current estimates and assumptions prior to expiration, which will begin in 2025.

CEI accounts for uncertainty in income taxes recognized in its financial statements. Accounting guidance prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of tax positions taken or expected to be taken on a company's tax return. For the years ended December 31, 2020 and 2019, CEI did not record any unrecognized tax benefits, nor does CEI have a reserve for any uncertain tax positions.

CEI recognizes interest expense or income and penalties related to uncertain tax positions in income taxes. That amount is computed by applying the applicable statutory interest rate to the difference between the tax position recognized and the amount previously taken or expected to be taken on the tax return. During 2020 and 2019, CEI did not record any interest related to uncertain tax positions, nor does CEI have a cumulative net interest payable recorded on its balance sheet.

For federal income tax purposes, CEI files as a member of the FE consolidated group. Tax years 2018 and 2019 are currently under review by the IRS. CEI has tax returns under review by state taxing authorities at the audit or appeals level for tax years 2017-2019.

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*General Taxes*

Details of general taxes for the years ended December 31, 2020 and 2019 are shown below:

<u>(In millions)</u>	<u>2020</u>	<u>2019</u>
KWH excise	\$ 60	\$ 61
State gross receipts	3	3
Real and personal property	123	118
Social security and unemployment	8	7
Total general taxes	<u>\$ 194</u>	<u>\$ 189</u>

**6. LEASES**

CEI primarily leases vehicles as well as building space, office equipment, and other property and equipment under cancelable and noncancelable leases.

In addition, ATSI has a ground lease with CEI under an operating lease agreement. Land use is rented to ATSI under the terms and conditions of a ground lease. CEI reserves the right to use (and to permit authorized others to use) the land for any purpose that does not cause a violation of electrical safety code or applicable law, or does not impair ATSI's ability to satisfy its service obligations. Additional uses of such land for ATSI's facilities requires prior written approval from the applicable operating company. ATSI purchases directly any new property acquired for transmission use. ATSI makes fixed quarterly lease payments to CEI through December 31, 2049, unless terminated prior to maturity, or extended by ATSI for up to 10 additional successive periods of 50 years each. Revenue associated with this agreement was approximately \$7 million for 2020 and 2019.

CEI adopted ASU 2016-02, "Leases (Topic 842)" on January 1, 2019, and elected a number of transitional practical expedients provided within the standard. These included a "package of three" expedients that must be taken together and allowed entities to (1) not reassess whether existing contracts contain leases, (2) carryforward the existing lease classification, and (3) not reassess initial direct costs associated with existing leases. In addition, CEI elected the option to apply the requirements of the standard in the period of adoption (January 1, 2019) with no restatement of prior periods. Adoption of the standard on January 1, 2019, did not result in a material cumulative effect adjustment upon adoption. CEI did not evaluate land easements under the new guidance as they were not previously accounted for as leases. CEI also elected not to separate lease components from non-lease components as non-lease components were not material.

Leases with an initial term of 12 months or less are recognized as lease expense on a straight-line basis over the lease term and not recorded on the balance sheet. Most leases include one or more, options to renew and certain leases include options to terminate. The exercise of lease renewal options is at CEI 's sole discretion. Renewal options are included within the lease liability if they are reasonably certain based on various factors relative to the contract. Certain leases also include options to purchase the leased property. The depreciable life of leased assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

For vehicles leased under master lease agreements, the lessor is guaranteed a residual value up to a stated percentage of the equipment cost at the end of the lease term. As of December 31, 2020, the maximum potential loss for these lease agreements at the end of the lease term is approximately \$2 million.

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Finance leases for assets used in regulated operations are recognized in CEI's Statement of Income such that amortization of the right-of-use asset and interest on lease liabilities equals the expense allowed for ratemaking purposes. All operating lease expenses are recognized in Other operating expense. The components of lease expense were as follows:

<i>(In millions)</i>	December 31, 2020	December 31, 2019
Operating lease costs <sup>(1)</sup>	\$ 4	\$ 2
Finance lease costs:		
Amortization of right-of-use assets	2	2
Interest on lease liabilities	2	2
Total finance lease cost	<u>4</u>	<u>4</u>
Total lease cost	<u>\$ 8</u>	<u>\$ 6</u>

<sup>(1)</sup> Includes \$1 million of short-term lease costs as of December 31, 2020 and 2019.

Supplemental balance sheet information related to leases was as follows:

<i>(In millions)</i>	Financial Statement Line Item	As of December 31,	
		2020	2019
<b>Assets</b>			
Operating lease assets <sup>(1)</sup>	Deferred charges and other assets	\$ 21	\$ 16
Finance lease assets <sup>(2)</sup>	Property, plant and equipment	12	15
Total leased assets		<u>\$ 33</u>	<u>\$ 31</u>
<b>Liabilities</b>			
<i>Current:</i>			
Operating	Other current liabilities	\$ 4	\$ 3
Finance	Currently payable long-term debt	3	3
<i>Noncurrent:</i>			
Operating	Other noncurrent liabilities	16	12
Finance	Long-term debt and other long-term obligations	10	12
Total leased liabilities		<u>\$ 33</u>	<u>\$ 30</u>

<sup>(1)</sup> Operating lease assets are recorded net of accumulated amortization of \$4 million and \$1 million as of December 31, 2020 and 2019, respectively.

<sup>(2)</sup> Finance lease assets are recorded net of accumulated amortization of \$16 million and \$14 million as of December 31, 2020 and 2019, respectively.

Lease terms and discount rates were as follows:

	As of December 31, 2020	As of December 31, 2019
<i>Weighted-average remaining lease terms (years)</i>		
Operating leases	6.56	6.69
Finance leases	5.50	5.99
<i>Weighted-average discount rate <sup>(1)</sup></i>		
Operating leases	2.90 %	3.19 %
Finance leases	17.59 %	16.43 %

<sup>(1)</sup> When an implicit rate is not readily determinable, an incremental borrowing rate is utilized, determining the present value of lease payments. The rate is determined based on expected term and information available at the commencement date.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Supplemental cash flow information related to leases was as follows:

<i>(In millions)</i>	For the Years Ended,	
	12/31/2020	12/31/2019
<i>Cash paid for amounts included in the measurement of lease liabilities:</i>		
Operating cash flows from operating leases	\$ 3	\$ 2
Operating cash flows from finance leases	2	2
Finance cash flows from finance leases	3	2
<i>Right-of-use assets obtained in exchange for lease obligations:</i>		
Operating leases	\$ 8	\$ 5
Finance leases	—	—

Maturities of lease liabilities as of December 31, 2020, were as follows:

<i>(In millions)</i>	Operating Leases	Finance Leases	Total
2021	\$ 4	\$ 4	\$ 8
2022	3	4	7
2023	3	2	5
2024	3	2	5
2025	2	2	4
Thereafter	6	8	14
<i>Total lease payments</i>	21	22	43
Less imputed interest	(1)	(9)	(10)
<i>Total net present value</i>	<u>\$ 20</u>	<u>\$ 13</u>	<u>\$ 33</u>

As of December 31, 2020, additional operating leases agreements, primarily for vehicles, that have not yet commenced are \$3 million. These leases are expected to commence within the next 18 months with lease terms of 5 to 10 years.

**7. VARIABLE INTEREST ENTITIES**

CEI performs qualitative analyses based on control and economics to determine whether a variable interest classifies FirstEnergy as the primary beneficiary (a controlling financial interest) of a VIE. An enterprise has a controlling financial interest if it has both power and economic control, such that an entity has (i) the power to direct the activities of a VIE that most significantly impact the entity's economic performance, and (ii) the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. CEI consolidates a VIE when it is determined that it is the primary beneficiary.

**Consolidated VIEs**

VIEs in which CEI is the primary beneficiary consist of the following (included in CEI's consolidated financial statements):

- *Ohio Securitization* - In September 2012, CEI formed CEI Funding LLC as a separate, wholly-owned limited liability SPE. The phase-in recovery bonds issued by the SPE are payable only from, and secured by, phase-in recovery property owned by the SPE (i.e. the right to impose, charge and collect irrevocable non-bypassable usage-based charges payable by retail electric customers in the service territories of CEI) and the bondholder has no recourse to the general credit of FirstEnergy or CEI. CEI, as servicer of the SPE, manages and administers the phase-in recovery property including the billing, collection and remittance of usage-based charges payable by retail electric customers. CEI is entitled to annual servicing fees of \$232 thousand that are recoverable through the usage-based charges. The SPE is considered a VIE and is consolidated into the financial statements of CEI. The cash collected from CEI customers is used to service debt of the funding company. As of December 31, 2020 and 2019, \$89 million and \$108 million of the phase-in recovery bonds were outstanding, respectively.

**Unconsolidated VIEs**

- CEI does not have any unconsolidated VIEs.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**8. FAIR VALUE MEASUREMENTS**

**INVESTMENTS**

All temporary cash investments purchased with an initial maturity of three months or less are reported as cash equivalents on the Consolidated Balance Sheets at cost, which approximates their fair market value.

**LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS**

All borrowings with initial maturities of less than one year are defined as short-term financial instruments under GAAP and are reported as Short-term borrowings on the Consolidated Balance Sheets at cost. Since these borrowings are short-term in nature, CEI believes that their costs approximate their fair market value. The following table provides the approximate fair value and related carrying amounts of long-term debt, which excludes finance lease obligations, net unamortized debt issuance costs and discounts:

<i>(In millions)</i>	<u>December 31, 2020</u>		<u>December 31, 2019</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Long-term debt	\$ 1,589	\$ 1,755	\$ 1,358	\$ 1,539

The fair values of long-term debt reflect the present value of the cash outflows relating to those securities based on the current call price, the yield to maturity or the yield to call, as deemed appropriate at the end of each respective period. The yields assumed were based on securities with similar characteristics offered by corporations with credit ratings similar to those of CEI, which results in long-term debt being classified as Level 2 in the fair value hierarchy as of December 31, 2020 and 2019.

**9. CAPITALIZATION**

**COMMON STOCK**

In addition to paying dividends from retained earnings, CEI has authorization from the FERC to pay cash dividends to FirstEnergy from paid-in capital accounts, as long as its FERC-defined equity-to-total-capitalization ratio remains above 35%.

**PREFERRED AND PREFERENCE STOCK**

CEI is authorized to issue preferred stock and preference stock as of December 31, 2020, as follows:

<u>Preferred Stock</u>		<u>Preference Stock</u>	
<u>Shares Authorized</u>	<u>Par Value</u>	<u>Shares Authorized</u>	<u>Par Value</u>
4,000,000	no par	3,000,000	no par

As of December 31, 2020, and 2019, there were no preferred or preference shares outstanding.

**LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS**

The following table presents outstanding long-term debt and finance lease obligations for CEI as of December 31, 2020 and 2019:

<i>(Dollar amounts in millions)</i>	<u>As of December 31, 2020</u>		<u>As of December 31,</u>	
	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>2020</u>	<u>2019</u>
FMBs	2024	5.500%	\$ 300	\$ 300
Secured notes - fixed rate	2034	3.450%	89	108
Unsecured notes - fixed rate	2028 - 2040	2.770% - 5.950%	1,200	950
Finance lease obligations			13	15
Unamortized debt discounts			(2)	(2)
Unamortized debt issuance costs			(9)	(8)
Currently payable long-term debt			(21)	(21)
Total long-term debt and other long-term obligations			<u>\$ 1,570</u>	<u>\$ 1,342</u>



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

On July 20, 2020, CEI issued \$150 million of 2.77% senior unsecured notes due 2034 and \$100 million of 3.23% senior unsecured notes due 2040. Proceeds from the issuance of the notes were used to refinance existing short-term borrowings, to fund capital expenditures, and for general corporate purposes.

The following table presents scheduled debt repayments for outstanding long-term debt, excluding finance leases and unamortized debt discounts and premiums, for the next five years as of December 31, 2020.

<u>Year</u>	<u>CEI</u>
	<i>(In millions)</i>
2021	\$ 19
2022	5
2023	5
2024	305
2025	5

*Phase-In Recovery Bonds*

In June 2013, the SPEs formed by the Ohio Companies issued pass-through trust certificates supported by phase-in recovery bonds to securitize the recovery of certain all electric customer heating discounts, fuel and purchased power regulatory assets (CEI - \$232 million). As of December 31, 2020 and 2019, \$89 million and \$108 million of the phase-in recovery bonds were outstanding at CEI, respectively.

See Note 7, "Variable Interest Entities," for additional information on securitized bonds.

*Other Long-term Debt*

CEI has a first mortgage indenture under which it can issue FMBs secured by a direct first mortgage lien on substantially all of its property and franchises, other than specifically excepted property.

*Debt Covenant Default Provisions*

CEI has various debt covenants under certain financing arrangements, including its revolving credit facility. The most restrictive of the debt covenants relate to the nonpayment of interest and/or principal on such debt and the maintenance of certain financial ratios. The failure by CEI to comply with the covenants contained in any of its financing arrangements could result in an event of default, which may have an adverse effect on CEI's financial condition.

Additionally, there are cross-default provisions in certain financing arrangements of FE and its subsidiaries, including CEI. These provisions generally trigger a default in the applicable financing arrangement of an entity if it or any of its significant subsidiaries default under another financing arrangement in excess of a certain principal amount, typically \$100 million. Although such defaults by CEI would generally cross-default FE financing arrangements containing these provisions, defaults by FE would generally not cross-default applicable CEI financing arrangements.

As of December 31, 2020, CEI was in compliance with all debt covenant default provisions.

**10. SHORT-TERM BORROWINGS AND BANK LINES OF CREDIT**

CEI had \$45 million and \$85 million of outstanding short-term borrowings as of December 31, 2020 and 2019, respectively.

*Revolving Credit Facility*

FE and the Utilities, including CEI, participate in a five-year syndicated revolving credit facility, which was amended on October 19, 2018, providing for aggregate commitments of \$2.5 billion (Facility), which are available through December 6, 2022. Under the amended Facility, FE and the Utilities may use borrowings under their respective facility for working capital and other general corporate purposes, including intercompany loans and advances by a borrower to any of its subsidiaries. Generally, borrowings under the Facility are available to each borrower separately and mature on the earlier of 364 days from the date of borrowing or the commitment termination date, as the same may be extended. The Facility contains financial covenants requiring each borrower to maintain a consolidated debt-to-total-capitalization ratio (as defined under the Facility) of no more than 65% measured at the end of each fiscal quarter.

On November 17, 2020, FE and the Utilities entered into an amendment to the FE credit facility. The amendment provides for modifications and/or waivers of: (i) certain representations and warranties, and (ii) certain affirmative and negative covenants, contained therein, which allowed FirstEnergy to regain compliance with such provisions.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

On November 23, 2020, FE and its regulated distribution subsidiaries, JCP&L, ME, Penn, TE, and WP, borrowed \$950 million in the aggregate under the FE Revolving Facility, bringing the outstanding principal balance under the FE Revolving Facility to \$1.2 billion, with \$1.3 billion of remaining availability under the FE Revolving Facility. Borrowings were increased under the Revolving Facility as a proactive measure to increase the respective cash position and preserve financial flexibility.

Under the Facility, CEI may borrow up to its sub-limit of \$500 million, all of which was available to CEI as of December 31, 2020. CEI has regulatory and other short-term debt limitations of \$500 million which includes amounts that may be borrowed under the regulated companies' money pool.

The Facility does not contain provisions that restrict the ability to borrow or accelerate payment of outstanding advances in the event of any change in credit ratings of the borrowers. Pricing is defined in "pricing grids," whereby the cost of funds borrowed under the Facility is related to the credit ratings of the company borrowing the funds. Additionally, borrowings under the Facility are subject to the usual and customary provisions for acceleration upon the occurrence of events of default, including a cross-default for other indebtedness in excess of \$100 million.

***FirstEnergy Money Pool***

FE's utility and transmission operating subsidiary companies, including CEI, also have the ability to borrow from each other and the holding company to meet their short-term working capital requirements. FESC administers this money pool and tracks surplus funds of FE and the respective regulated subsidiaries, as well as proceeds available from bank borrowings. Companies receiving a loan under the money pool agreement must repay the principal amount of the loan, together with accrued interest, within 364 days of borrowing the funds. The rate of interest is the same for each company receiving a loan from the regulated pool and is based on the average cost of funds available through the pool. The average interest rate for borrowings in 2020 was 0.89% per annum.

**11. REGULATORY MATTERS**

**STATE REGULATION**

CEI's retail rates, conditions of service, issuance of securities and other matters are subject to regulation in Ohio by the PUCO. In addition, under Ohio law, municipalities may regulate rates of a public utility, subject to appeal to the PUCO if not acceptable to the utility. The key terms of CEI's current rate orders for distribution customer billings, which have been effective since May 2009, include an allowed debt/equity ratio of 51%/49% and an allowed ROE of 10.5%.

**OHIO**

The Ohio Companies operate under base distribution rates approved by the PUCO effective in 2009. The Ohio Companies' residential and commercial base distribution revenues were decoupled, through a mechanism that took effect on February 1, 2020 and under which the Ohio Companies billed customers until February 9, 2021, to the base distribution revenue and lost distribution revenue associated with energy efficiency and peak demand reduction programs recovered as of the twelve-month period ending on December 31, 2018. The Ohio Companies currently operate under ESP IV effective June 1, 2016, and continuing through May 31, 2024, that continues the supply of power to non-shopping customers at a market-based price set through an auction process. ESP IV also continues the DCR rider, which supports continued investment related to the distribution system for the benefit of customers, with increased revenue caps of \$20 million per year from June 1, 2019 through May 31, 2022; and \$15 million per year from June 1, 2022 through May 31, 2024. In addition, ESP IV includes: (1) continuation of a base distribution rate freeze through May 31, 2024; (2) the collection of lost distribution revenue associated with energy efficiency and peak demand reduction programs, which is discussed further below; (3) a goal across FirstEnergy to reduce CO<sub>2</sub> emissions by 90% below 2005 levels by 2045; and (4) contributions, totaling \$51 million to: (a) fund energy conservation programs, economic development and job retention in the Ohio Companies' service territories; (b) establish a fuel-fund in each of the Ohio Companies' service territories to assist low-income customers; and (c) establish a Customer Advisory Council to ensure preservation and growth of the competitive market in Ohio.

ESP IV further provided for the Ohio Companies to collect through the DMR \$132.5 million annually for three years beginning in 2017, grossed up for federal income taxes, resulting in an approved amount of approximately \$168 million annually in 2018 and 2019. On appeal, the SCOH, on June 19, 2019, reversed the PUCO's determination that the DMR is lawful, and remanded the matter to the PUCO with instructions to remove the DMR from ESP IV. The PUCO entered an order directing the Ohio Companies to cease further collection through the DMR, credit back to customers a refund of the DMR funds collected since July 2, 2019 and remove the DMR from ESP IV. On July 15, 2019, OCC filed a Notice of Appeal with the SCOH, challenging the PUCO's exclusion of the DMR revenues from the determination of the existence of significantly excessive earnings under ESP IV for calendar year 2017 for OE and claiming a \$42 million refund is due to OE customers. On December 1, 2020, the SCOH reversed the PUCO's exclusion of the DMR revenues from the determination of the existence of significantly excessive earnings under ESP IV for OE for calendar year 2017, and remanded the case to the PUCO with instructions to conduct new proceedings which includes the DMR revenues in the analysis, determines the threshold against which the earned return is measured, and makes other necessary determinations. FirstEnergy is unable to predict the outcome of these proceedings but has not deemed a liability probable as of December 31, 2020.

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On July 23, 2019, Ohio enacted HB6, which established support for nuclear energy supply in Ohio. In addition to the provisions supporting nuclear energy, HB6 included provisions implementing a decoupling mechanism for Ohio electric utilities and ending current energy efficiency program mandates on December 31, 2020, provided that statewide energy efficiency mandates are achieved as determined by the PUCO. On February 26, 2020, the PUCO ordered a wind-down of statutorily required energy efficiency programs to commence on September 30, 2020, that the programs terminate on December 31, 2020, with the Ohio Companies' existing portfolio plans extended through 2020 without changes. On February 24, 2021, the PUCO found that statewide energy efficiency mandates had been achieved, and ordered the termination of the Ohio electric utilities' energy efficiency and peak demand reduction cost recovery riders.

On November 21, 2019, the Ohio Companies applied to the PUCO for approval of a decoupling mechanism, which would set residential and commercial base distribution related revenues at the levels collected in 2018. As such, those base distribution revenues would no longer be based on electric consumption, which allows continued support of energy efficiency initiatives while also providing revenue certainty to the Ohio Companies. On January 15, 2020, the PUCO approved the Ohio Companies' decoupling application, and the decoupling mechanism took effect on February 1, 2020. Legislation has been introduced in the first quarter of 2021 to, among other things, repeal parts of HB 6, the legislation that established support for nuclear energy supply in Ohio, provided for a decoupling mechanism for Ohio electric utilities, and provided for the ending of current energy efficiency program mandates. As further discussed below, in connection with a partial settlement with the OAG and other parties, the Ohio Companies filed an application with the PUCO on February 1, 2021, to set the respective decoupling riders (CSR) to zero. On February 2, 2021, the PUCO approved the application. While the partial settlement with the OAG focused specifically on decoupling, the Ohio Companies will of their own accord not seek to recover lost distribution revenue from residential and commercial customers. FirstEnergy is committed to pursuing an open dialogue with stakeholders in an appropriate manner with respect to the numerous regulatory proceedings currently underway as further discussed herein. As a result of the partial settlement, and the decision to not seek lost distribution revenue, FirstEnergy recognized a \$108 million pre-tax charge, \$40 million at CEI (\$84 million after-tax, \$31 million after-tax at CEI) in the fourth quarter of 2020, and \$77 million (pre-tax), \$27 million (pre-tax) at CEI, of which is associated with forgoing collection of lost distribution revenue. FirstEnergy does not believe a refund for previously collected amounts under decoupling, which was approximately \$18 million, \$10 million at CEI, is probable. Furthermore, as FirstEnergy would not have financially benefited from the Clean Air Fund included in HB 6, which is the mechanism to provide support to nuclear energy in Ohio, there is no expected additional impact to FirstEnergy due to any repeal of that provision in HB 6.

On July 17, 2019, the PUCO approved, with no material modifications, a settlement agreement that provides for the implementation of the Ohio Companies' first phase of grid modernization plans, including the investment of \$516 million over three years to modernize the Ohio Companies' electric distribution system, and for all tax savings associated with the Tax Act to flow back to customers. The settlement had broad support, including PUCO staff, the OCC, representatives of industrial and commercial customers, a low-income advocate, environmental advocates, hospitals, competitive generation suppliers and other parties.

In March 2020, the PUCO issued entries directing utilities to review their service disconnection and restoration policies and suspend, for the duration of the COVID-19 pandemic, otherwise applicable requirements that may impose a service continuity hardship or service restoration hardship on customers. The Ohio Companies are utilizing their existing approved cost recovery mechanisms where applicable to address the financial impacts of these directives. On July 31, 2020, the Ohio Companies filed with the PUCO their transition plan and requests for waivers to allow for the safe resumption of normal business operations, including service disconnections for non-payment. On September 23, 2020, the PUCO approved the Ohio Companies' transition plan, including approval of the resumption of service disconnections for non-payment, which the Ohio Companies began on October 5, 2020.

On July 29, 2020, the PUCO consolidated the Ohio Companies' Applications for determination of the existence of significantly excessive earnings, or SEET, under ESP IV for calendar years 2018 and 2019, which had been previously filed on July 15, 2019, and May 15, 2020, respectively, and set a procedural schedule with evidentiary hearings scheduled for October 29, 2020. On August 3, 2020, the OCC filed an interlocutory appeal asking the PUCO to stay the SEET proceeding until the SCOH determines whether DMR should be excluded from the SEET, as further discussed above. Furthermore, on January 21, 2021, Senate Bill 10 was introduced, which would repeal legislation passed in 2019 that permitted the Ohio Companies to file their SEET results on a consolidated basis instead of on an individual company basis. On September 4, 2020, the PUCO opened its quadrennial review of ESP IV, consolidated it with the Ohio Companies' 2018 and 2019 SEET Applications, and set a procedural schedule for the consolidated matters. On October 29, 2020, the PUCO issued an entry extending the deadline for the Ohio Companies to file quadrennial review of ESP IV testimony and supplemental SEET testimony to March 1, 2021, with the evidentiary hearings to commence no sooner than May 3, 2021. On January 12, 2021, the PUCO consolidated these matters with the determination of the existence of significantly excessive earnings under ESP IV for calendar year 2017, which the SCOH had remanded to the PUCO. On March 1, 2021, the Ohio Companies filed testimony in the quadrennial review and supplemental testimony in the SEET cases for calendar years 2017 through 2019. The calculations included in the quadrennial review for 2020 through 2024 demonstrate that the prospective effect of ESP IV is not substantially likely to provide the Ohio Companies with significantly excessive earnings during the balance of ESP IV. In addition, the Ohio Companies' quadrennial review testimony demonstrates that ESP IV continues to be more favorable in the aggregate and during the remaining term of ESP IV as compared to the

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expected results of a market rate offer. Further, the revised calculations included in the Ohio Companies' supplemental SEET testimony for calendar years 2017 through 2019 demonstrate that the Ohio Companies did not have significantly excessive earnings. However, FirstEnergy and the Ohio Companies are unable to predict the PUCO's ultimate determination of the consolidated matters.

On September 8, 2020, the OCC filed motions in the Ohio Companies' corporate separation audit and DMR audit dockets, requesting the PUCO to open an investigation and management audit, hire an independent auditor, and require FirstEnergy to show it did not improperly use money collected from consumers or violate any utility regulatory laws, rules or orders in its activities regarding HB 6. The Ohio Companies' filed a response in opposition to the OCC's motions on September 23, 2020. On December 30, 2020, in response to the OCC's motion, the PUCO reopened the DMR audit docket, and directed PUCO staff to solicit a third-party auditor and conduct a full review of the DMR to ensure funds collected from ratepayers through the DMR were only used for the purposes established in ESP IV. On February 24, 2021, the PUCO set deadlines for selection of an auditor and the filing of the final audit report by April 7, 2021 and September 3, 2021, respectively.

On September 15, 2020, the PUCO opened a new proceeding to review the political and charitable spending by the Ohio Companies in support of HB 6 and the subsequent referendum effort, directing the Ohio Companies to show cause, demonstrating that the costs of any political or charitable spending in support of HB 6, or the subsequent referendum effort, were not included, directly or indirectly, in any rates or charges paid by ratepayers. The Ohio Companies filed a response on September 30, 2020, stating that any political and charitable spending in support of HB 6 or the subsequent referendum were not included in rates or charges paid for by its customers. Several parties requested that the PUCO broaden the scope of the review of political and charitable spending.

In connection with an on-going audit of the Ohio Companies' policies and procedures relating to the code of conduct rules between affiliates, on November 4, 2020, the PUCO initiated an additional corporate separation audit as a result of the FirstEnergy leadership transition announcement made on October 29, 2020, as further discussed below. The additional audit is to ensure compliance by the Ohio Companies and their affiliates with corporate separation laws and the Ohio Companies' corporate separation plan. The additional audit is for the period from November 2016 through October 2020, with a final audit report to be filed in June 2021. On January 27, 2021, the PUCO selected an auditor.

On November 24, 2020, the Environmental Law and Policy Center filed motions to vacate the PUCO's orders in proceedings related to the Ohio Companies' settlement that provides for the implementation of the first phase of grid modernization plans and for all tax savings associated with the Tax Act to flow back to customers, the Ohio Companies' energy efficiency portfolio plans for the period from 2013 through 2016, and the Ohio Companies' application for a two year extension of the DMR, on the grounds that the former Chairman of the PUCO should have recused himself in these matters. On December 30, 2020, the PUCO denied the motions, and reinstated the requirement under ESP IV that the Ohio Companies file a base distribution rate case by May 31, 2024, the end of ESP IV, which the Ohio Companies had indicated they would not oppose.

In the fourth quarter of 2020, motions were filed with the PUCO requesting that the PUCO amend the Ohio Companies' riders for collecting charges required by HB 6, which the Ohio Companies are further required to remit to other Ohio electric distribution utilities or to the State Treasurer, to provide for refunds in the event HB 6 is repealed. The Ohio Companies contested the motions, which are pending before the PUCO.

On December 7, 2020, the Citizens' Utility Board of Ohio filed a complaint with the PUCO against the Ohio Companies. The complaint alleges that the Ohio Companies' new charges resulting from HB 6, and any increased rates resulting from proceedings over which the former PUCO Chairman presided, are unjust and unreasonable, and that the Ohio Companies violated Ohio corporate separation laws by failing to operate separately from unregulated affiliates. The complaint requests, among other things, that any rates authorized by HB 6 or authorized by the PUCO in a proceeding over which the former Chairman presided be made refundable; that the Ohio Companies be required to file a new distribution rate case at the earliest possible date; and that the Ohio Companies' corporate separation plans be modified to introduce institutional controls. The Ohio Companies are contesting the complaint.

On December 9, 2020, the Ohio Manufacturers' Association Energy Group filed an appeal to the SCOH challenging the PUCO's generic order directing the form of rider all Ohio electric distribution utilities must charge to recover the costs of the HB 6 Clean Air Fund. The appeal contends that the PUCO erred in adopting the rate design for the riders, in establishing the riders during ongoing proceedings and investigations related to HB 6, and in not requiring electric distribution utilities to include refund language in the rider tariffs. On December 30, 2020, the PUCO vacated its generic order establishing the Clean Air Fund riders, as required by a preliminary injunction issued by the Court of Common Pleas of Franklin County, Ohio. On January 11, 2021, the SCOH granted a joint application of the Ohio Manufacturers' Association Energy Group and the PUCO and dismissed the appeal.

In connection with an on-going annual audit of the Ohio Companies' Rider DCR for 2020, on March 10, 2021, the PUCO expanded the scope of the audit to include a review of certain transactions that were either improperly classified, misallocated, or lacked supporting documentation, which were disclosed in the 10-K filed by FirstEnergy Corp. on February 18, 2021, and

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determine whether funds collected from ratepayers were used to pay the vendors and if so, whether or not the funds associated with those payments should be returned to ratepayers through Rider DCR or through an alternative proceeding.

See Note 12, "Commitments and Contingencies" below for additional details on the government investigation and subsequent litigation surrounding the investigation of HB 6.

**FERC REGULATORY MATTERS**

With respect to its wholesale services and rates, CEI is subject to regulation by FERC. Under the FPA, FERC regulates rates for interstate wholesale sales, accounting and other matters. FERC regulates the sale of power for resale in interstate commerce in part by granting authority to public utilities to sell wholesale power at market-based rates upon showing that the seller cannot exert market power in generation or transmission or erect barriers to entry into markets. CEI has been authorized by FERC to sell wholesale power in interstate commerce and has a market-based rate tariff on file with FERC, although major wholesale purchases remain subject to review and regulation by the PUCO.

Federally-enforceable mandatory reliability standards apply to the bulk electric system and impose certain operating, record-keeping and reporting requirements on CEI. NERC is the ERO designated by FERC to establish and enforce these reliability standards, although NERC has delegated day-to-day implementation and enforcement of these reliability standards to eight regional entities, including RFC. All of the facilities that FirstEnergy operates, including those of CEI, are located within the RFC region. FirstEnergy actively participates in the NERC and RFC stakeholder processes, and otherwise monitors and manages its companies, including CEI, in response to the ongoing development, implementation and enforcement of the reliability standards implemented and enforced by RFC.

FirstEnergy, including CEI, believes that it is in material compliance with all currently-effective and enforceable reliability standards. Nevertheless, in the course of operating its extensive electric utility systems and facilities, FirstEnergy, including CEI, occasionally learns of isolated facts or circumstances that could be interpreted as excursions from the reliability standards. If and when such occurrences are found, FirstEnergy, including CEI, develops information about the occurrence and develops a remedial response to the specific circumstances, including in appropriate cases "self-reporting" an occurrence to RFC. Moreover, it is clear that NERC, RFC and FERC will continue to refine existing reliability standards as well as to develop and adopt new reliability standards. Any inability on FirstEnergy's, including CEI's, part to comply with the reliability standards for its bulk electric system could result in the imposition of financial penalties, or obligations to upgrade or build electric facilities that could have a material adverse effect on CEI's financial condition, results of operations and cash flows.

**12. COMMITMENTS AND CONTINGENCIES**

**ENVIRONMENTAL MATTERS**

Various federal, state and local authorities regulate CEI with regard to air and water quality, hazardous and solid waste disposal, and other environmental matters. While CEI's environmental policies and procedures are designed to achieve compliance with applicable environmental laws and regulations, such laws and regulations are subject to periodic review and potential revision by the implementing agencies. CEI cannot predict the timing or ultimate outcome of any of these reviews or how any future actions taken as a result thereof may materially impact its business, results of operations, cash flows and financial condition.

**OTHER LEGAL PROCEEDINGS**

*United States v. Larry Householder, et al.*

On July 21, 2020, a complaint and supporting affidavit containing federal criminal allegations were unsealed against the now former Ohio House Speaker Larry Householder and other individuals and entities allegedly affiliated with Mr. Householder. Also, on July 21, 2020, and in connection with the investigation, FirstEnergy received subpoenas for records from the U.S. Attorney's Office for the S.D. Ohio. FirstEnergy was not aware of the criminal allegations, affidavit or subpoenas before July 21, 2020. No contingency has been reflected in FirstEnergy's consolidated financial statements as a loss is neither probable, nor is a loss or range of a loss reasonably estimable.

*Legal Proceedings Relating to United States v. Larry Householder, et al.*

In addition to the subpoenas referenced above under "—United States v. Larry Householder, et. al.", certain FE stockholders and FirstEnergy customers filed several lawsuits against FirstEnergy and certain current and former directors, officers and other employees, and the complaints in each of these suits is related to allegations in the complaint and supporting affidavit relating to HB 6 and the now former Ohio House Speaker Larry Householder and other individuals and entities allegedly affiliated with Mr. Householder.

- *Owens v. FirstEnergy Corp. et al.* and *Frاند v. FirstEnergy Corp. et al.* (Federal District Court, S.D. Ohio); on July 28, 2020 and August 21, 2020, purported stockholders of FE filed putative class action lawsuits against FE and certain FE officers, purportedly on behalf of all purchasers of FE common stock from February 21, 2017 through July 21, 2020,

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asserting claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder, alleging misrepresentations or omissions by FirstEnergy concerning its business and results of operations. These actions have been consolidated and a lead plaintiff has been appointed by the court. A Consolidated Complaint was filed on February 26, 2021.

- *Gendrich v. Anderson, et al. and Sloan v. Anderson, et al.* (Common Pleas Court, Summit County, OH); on July 26, 2020 and July 31, 2020, respectively, purported stockholders of FE filed shareholder derivative action lawsuits against certain FE directors and officers, alleging, among other things, breaches of fiduciary duty. These actions have been consolidated.
- *Miller v. Anderson, et al.* (Federal District Court, N.D. Ohio); *Bloom, et al. v. Anderson, et al.*; *Employees Retirement System of the City of St. Louis v. Jones, et al.*; *Electrical Workers Pension Fund, Local 103, I.B.E.W. v. Anderson et al.*; *Massachusetts Laborers Pension Fund v. Anderson et al.*; *The City of Philadelphia Board of Pensions and Retirement v. Anderson et al.*; *Atherton v. Dowling et al.*; *Behar v. Anderson, et al.* (U.S. District Court, S.D. Ohio, all actions have been consolidated); beginning on August 7, 2020, purported stockholders of FE filed shareholder derivative actions alleging the board and officers breached their fiduciary duties and committed violations of Section 14(a) of the Securities Exchange Act of 1934. The cases in the Southern District of Ohio have been consolidated and co-lead plaintiffs have been appointed by the court.
- *Smith v. FirstEnergy Corp. et al., Buldas v. FirstEnergy Corp. et al., and Hudock and Cameo Countertops, Inc. v. FirstEnergy Corp. et al.* (Federal District Court, S.D. Ohio); on July 27, 2020, July 31, 2020, and August 5, 2020, respectively, purported customers of FirstEnergy filed putative class action lawsuits against FE and FESC, as well as certain current and former FirstEnergy officers, alleging civil Racketeer Influenced and Corrupt Organizations Act violations and related state law claims. These actions have been consolidated.
- *State of Ohio ex rel. Dave Yost, Ohio Attorney General v. FirstEnergy Corp., et al. and City of Cincinnati and City of Columbus v. FirstEnergy Corp.* (Common Pleas Court, Franklin County, OH); on September 23, 2020 and October 27, 2020, the OAG and the cities of Cincinnati and Columbus, respectively, filed complaints against several parties including FE, each alleging civil violations of the Ohio Corrupt Activity Act in connection with the passage of HB 6. The OAG sought a preliminary injunction to prevent each of the defendants, including FE, through the end of 2020, from: (i) contributing to any groups whose purpose is to keep or modify HB 6; (ii) making any public statements for or against any repeal or modification legislation concerning HB 6; (iii) lobbying, consulting, or advising on these matters; or (iv) contributing to any Ohio legislative candidates. The court denied the OAG's request for preliminary injunctive relief on October 2, 2020. On January 13, 2021, the OAG filed a motion for a temporary restraining order and preliminary injunction against FirstEnergy seeking to enjoin FirstEnergy from collecting the Ohio Companies' decoupling rider. On January 31, 2021, FE reached a partial settlement with the OAG and the cities of Cincinnati and Columbus with respect to the temporary restraining order and preliminary injunction request and related issues. In connection with the partial settlement, the Ohio Companies filed an application on February 1, 2021, with the PUCO to set their respective decoupling riders (CSR) to zero. On February 2, 2021, the PUCO approved the application of the Ohio Companies setting the rider to zero and no additional customer bills will include new decoupling rider charges after February 8, 2021. The cities of Dayton and Toledo have also been added as plaintiffs to the action. These actions have been consolidated.
- *Emmons v. FirstEnergy Corp. et al.* (Common Pleas Court, Cuyahoga County, OH); on August 4, 2020, a purported customer of FirstEnergy filed a putative class action lawsuit against FE, FESC, OE, TE and CEI, along with FES, alleging several causes of action, including negligence and/or gross negligence, breach of contract, unjust enrichment, and unfair or deceptive consumer acts or practices. On October 1, 2020, plaintiffs filed a First Amended Complaint, adding as a plaintiff a purported customer of FirstEnergy and alleging a civil violation of the Ohio Corrupt Activity Act and civil conspiracy against FE, FESC and FES.

The plaintiffs in each of the above cases, seek, among other things, to recover an unspecified amount of damages (unless otherwise noted). In addition, on August 10, 2020, the SEC, through its Division of Enforcement, issued an order directing an investigation of possible securities laws violations by FE, and on September 1, 2020, issued subpoenas to FE and certain FE officers. Further, in letters dated January 26 and February 22, 2021, staff of FERC's Division of Investigations notified FirstEnergy that the Division is conducting an investigation of FirstEnergy's lobbying and governmental affairs activities concerning HB 6, and staff directed FirstEnergy to preserve and maintain all documents and information related to the same as such have been developed as part of an ongoing audit that is being conducted by FERC's Division of Audits and Accounting. The outcome of any of these lawsuits, investigations and audit are uncertain and could have a material adverse effect on FE's or its subsidiaries' financial condition, results of operations and cash flows. No contingency has been reflected in FirstEnergy's consolidated financial statements as a loss is neither probable, nor is a loss or range of a loss reasonably estimable.

**THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Internal Investigation Relating to United States v. Larry Householder, et al.*

As previously disclosed, a committee of independent members of the FE Board is directing an internal investigation related to ongoing government investigations. In connection with FirstEnergy's internal investigation, such committee determined on October 29, 2020, to terminate FirstEnergy's Chief Executive Officer, Charles E. Jones, together with two other executives: Dennis M. Chack, Senior Vice President of Product Development, Marketing, and Branding; and Michael J. Dowling, Senior Vice President of External Affairs. Each of these terminated executives violated certain FirstEnergy policies and its code of conduct. These executives were terminated as of October 29, 2020. Such former members of senior management did not maintain and promote a control environment with an appropriate tone of compliance in certain areas of FirstEnergy's business, nor sufficiently promote, monitor or enforce adherence to certain FirstEnergy policies and its code of conduct. Furthermore, certain former members of senior management did not reasonably ensure that relevant information was communicated within our organization and not withheld from our independent directors, our Audit Committee, and our independent auditor. Among the matters considered with respect to the determination by the committee of independent members of the FE Board that certain former members of senior management violated certain FirstEnergy policies and its code of conduct related to a payment of approximately \$4 million made in early 2019 in connection with the termination of a purported consulting agreement, as amended, which had been in place since 2013. The counterparty to such agreement was an entity associated with an individual who subsequently was appointed to a full-time role as an Ohio government official directly involved in regulating the Ohio Companies, including with respect to distribution rates. FirstEnergy believes that payments under the consulting agreement may have been for purposes other than those represented within the consulting agreement. Immediately following these terminations, the independent members of its Board appointed Mr. Steven E. Strah to the position of Acting Chief Executive Officer and Mr. Christopher D. Pappas, a current member of the Board, to the temporary position of Executive Director, each effective as of October 29, 2020. Mr. Donald T. Misheff will continue to serve as Non-Executive Chairman of the Board. Additionally, on November 8, 2020, Robert P. Reffner, Senior Vice President and Chief Legal Officer, and Ebony L. Yeboah-Amankwah, Vice President, General Counsel, and Chief Ethics Officer, were separated from FirstEnergy due to inaction and conduct that the Board determined was influenced by the improper tone at the top. The matter is a subject of the ongoing internal investigation as it relates to the government investigations. Additionally, on February 17, 2021, the FE Board appointed Mr. John Somerhalder to the positions of Vice Chairperson of the FE Board and Executive Director of FE, each effective as of March 1, 2021. Mr. Misheff will continue to serve as Non-Executive Chairman of the FE Board and Mr. Pappas will continue to serve on the FE Board as an independent director. Mr. Somerhalder will help lead efforts to enhance FirstEnergy's reputation. On March 7, 2021, the FE Board appointed Mr. Steven E. Strah to the position of Chief Executive Officer of FirstEnergy, effective as of March 8, 2021. On March 7, 2021, at the recommendation of the FirstEnergy Corporate Governance and Corporate Responsibility Committee, the FE Board also elected Mr. Strah as a Director of FirstEnergy, effective as of March 8, 2021, increasing the size of the FE Board from 11 to 12 members. Mr. Strah has been elected to the FE Board to serve for a term expiring at the FirstEnergy's 2021 Annual Meeting of Shareholders and until his successor shall have been elected. Also, in connection with the internal investigation, FirstEnergy recently identified certain transactions, which, in some instances, extended back ten years or more, including vendor services, that were either improperly classified, misallocated to certain of the Utilities and Transmission Companies, or lacked proper supporting documentation. These transactions resulted in amounts collected from customers that were immaterial to FirstEnergy and CEI. The Utilities and Transmission Companies will be working with the appropriate regulatory agencies to address these amounts.

*Other Legal Matters*

There are various lawsuits, claims (including claims for asbestos exposure) and proceedings related to CEI's normal business operations pending against CEI and its subsidiaries. The loss or range of loss in these matters is not expected to be material to CEI or its subsidiaries. The other potentially material items not otherwise discussed above are described under Note 11, "Regulatory Matters."

CEI accrues legal liabilities only when it concludes that it is probable that it has an obligation for such costs and can reasonably estimate the amount of such costs. In cases where CEI determines that it is not probable, but reasonably possible that it has a material obligation, it discloses such obligations and the possible loss or range of loss if such estimate can be made. If it were ultimately determined that CEI or its subsidiaries have legal liability or are otherwise made subject to liability based on any of the matters referenced above, it could have a material adverse effect on CEI's or its subsidiaries' financial condition, results of operations and cash flows.

**13. TRANSACTIONS WITH AFFILIATED COMPANIES**

CEI's operating revenues, operating expenses, miscellaneous income and interest expenses include transactions with affiliated companies. These affiliated company transactions include affiliated company power sales agreements between FirstEnergy's competitive and regulated companies, support service billings, interest on affiliated company notes including the money pool and other transactions.

**THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The primary affiliated company transactions for CEI during the years ended December 31, 2020 and 2019 are as follows:

	<b>For The Years Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
	<i>(In millions)</i>	
Revenues <sup>(1)</sup>	\$ 9	\$ 9
Expenses:		
Purchased power from affiliates <sup>(2)</sup>	2	14
Support services	71	63
Miscellaneous Income	3	1
Interest expense to affiliates	1	1

<sup>(1)</sup> Includes ground lease revenues from ATSI. See Note 6, "Leases", for additional information.

<sup>(2)</sup> Primarily related to purchases from FES prior to emergence.

FirstEnergy does not bill directly or allocate any of its costs to any subsidiary company. Costs are allocated from FESC, a subsidiary of FE. The majority of costs are directly billed or assigned at no more than cost. The remaining costs are for services that are provided on behalf of more than one company, or costs that cannot be precisely identified and are allocated using formulas developed by FESC. The current allocation or assignment formulas used and their bases include multiple factor formulas: each company's proportionate amount of FirstEnergy's aggregate direct payroll, number of employees, asset balances, revenues, number of customers, other factors and specific departmental charge ratios. Intercompany transactions with FirstEnergy and its other subsidiaries are generally settled under commercial terms within thirty days.

Affiliate accounts receivable and accounts payable balances relate to intercompany transactions that have not yet settled through the FirstEnergy money pool (see Note 10, "Short-Term Borrowings and Bank Lines of Credit").

CEI and FirstEnergy's other subsidiaries are parties to an intercompany income tax allocation agreement with FE and its other subsidiaries that provides for the allocation of consolidated tax liabilities. Net tax benefits attributable to FE are generally reallocated to the subsidiaries of FirstEnergy that have taxable income. That allocation is accounted for as a capital contribution to the company receiving the tax benefit (see Note 5, "Taxes").

Additionally, CEI purchases power to meet a portion of its POLR and default service requirements and provide power to certain facilities.