JERSEY CENTRAL POWER & LIGHT 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 Jersey Central Power & Light 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 affiliated 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
GPUN	GPU Nuclear, Inc., a subsidiary of FE, which operates TMI-2
JCP&L	Jersey Central Power & Light Company, a New Jersey electric utility operating 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
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:

ADIT	Accumulated Deferred Income Taxes
AEP	American Electric Power Company, Inc.
AFS	Available-for-sale
AFUDC	Allowance for Funds Used During Construction
AMI	Advance Metering Infrastructure
AMT	Alternative Minimum Tax
ANI	American Nuclear Insurers
AOCI	Accumulated Other Comprehensive Income (Loss)
ARO	Asset Retirement Obligation
ASU	Accounting Standards Update
BGS	Basic Generation Service
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act of 1980
COVID-19	Coronavirus disease 2019

CSR	Conservative Support Rider
CTA	Consolidated Tax Adjustments
D.C. Circuit	United States Court of Appeals for the District of Columbia Circuit
EDC	Electric Distribution Company
EEI	Edison Electric Institute
EGS	Electric Generation Supplier
EPA	United States Environmental Protection Agency
ERO	Electric Reliability Organization
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Fitch	Fitch Ratings Service
FPA	Federal Power Act
GAAP	Accounting Principles Generally Accepted in the United States of America
HB 6	Ohio House Bill 6
ICE	IntercontinentalExchange, Inc.
IIP	Infrastructure Investment Program
IRS	Internal Revenue Service
kV	Kilovolt
KWH	Kilowatt-hour
LIBOR	London Interbank Offered Rate
LOC	Letter of Credit
MISO	Midcontinent Independent System Operator, Inc.
MLP	Master Limited Partnership
MW	Megawatt
MWH	Megawatt-hour
N.D. Ohio	Northern District of Ohio
NDT	Nuclear Decommissioning Trust
NEIL	Nuclear Electric Insurance Limited
NERC	North American Electric Reliability Corporation
NJBPU	New Jersey Board of Public Utilities
NOL	Net Operating Loss
NOV	Notice of Violation
NRC	Nuclear Regulatory Commission
NSR	New Source Review
NUG	Non-Utility Generation
OAG	Ohio Attorney General
OPEB	Other Post-Employment Benefits
OTTI	Other Than Temporary Impairments
PA DEP	Pennsylvania Department of Environmental Protection
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
PPUC	Pennsylvania Public Utility Commission
PUCO	Public Utilities Commission of Ohio
PURPA	Public Utility Regulatory Policies Act of 1978

RFC	Reliability*First* Corporation
ROE	Return on Equity
RTEP	Regional Transmission Expansion Plan
S&P	Standard & Poor's Ratings Service
SBC	Societal Benefits Charge
S.D. Ohio	Southern District of Ohio
SEC	United States Securities and Exchange Commission
SRC	Storm Recovery Charge
SSA	Social Security Administration
Tax Act	Tax Cuts and Jobs Act adopted December 22, 2017
TMI-2	Three Mile Island Unit 2
TO	Transmission Owner
VIE	Variable Interest Entity
ZEC	Zero Emissions Certificate

Report of Independent Auditors

To Management and the Board of Directors
of Jersey Central Power & Light Company

We have audited the accompanying consolidated financial statements of Jersey Central Power & Light 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 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 Jersey Central Power & Light 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

JERSEY CENTRAL POWER & LIGHT COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(In millions)	For the Years Ended December 31, 2020	2019
REVENUES	$ 1,782	$ 1,837
OPERATING EXPENSES:		
Purchased power	892	856
Other operating expenses	611	463
Provision for depreciation	167	159
Deferral (amortization) of regulatory liabilities, net	(175)	62
General taxes	19	18
Total operating expenses	1,514	1,558
OPERATING INCOME	268	279
OTHER INCOME (EXPENSE):		
Miscellaneous income, net	54	36
Pension and OPEB mark-to-market adjustment	(79)	(70)
Interest expense	(94)	(95)
Capitalized financing costs	7	12
Total other expense	(112)	(117)
INCOME BEFORE INCOME TAXES	156	162
INCOME TAXES	19	28
NET INCOME	$ 137	$ 134

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

JERSEY CENTRAL POWER & LIGHT COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In millions, except share amounts)	December 31, 2020	December 31, 2019
ASSETS		
CURRENT ASSETS:		
Restricted cash	$ 6	$ 8
Receivables-		
Customers	242	198
Less — Allowance for uncollectible customer receivables	20	4
	222	194
Affiliated companies	33	79
Other	35	35
Notes receivable from associated companies	38	—
Prepaid taxes and other	26	27
	360	343
UTILITY PLANT:		
In service	7,393	7,094
Less — Accumulated provision for depreciation	2,148	2,149
	5,245	4,945
Construction work in progress	237	244
	5,482	5,189
UTILITY PLANT - HELD FOR SALE (Note 11)	45	—
OTHER PROPERTY AND INVESTMENTS:		
Nuclear fuel disposal trust	284	270
Other	2	2
Investments - held for sale (Note 12)	—	256
	286	528
DEFERRED CHARGES AND OTHER ASSETS:		
Goodwill	1,811	1,811
Other	96	93
	1,907	1,904
	$ 8,080	$ 7,964
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES:		
Currently payable long-term debt	$ 9	$ 17
Short-term borrowings -		
Affiliated companies	—	114
Other	450	—
Accounts payable		
Affiliated companies	2	23
Other	161	161
Accrued compensation and benefits	53	44
Customer deposits	43	49
Accrued taxes	9	3
Accrued interest	23	22
Other	27	25
	777	458
CAPITALIZATION:		
Common stockholder's equity-		
Common stock, $10 par value, authorized 16,000,000 shares - 13,628,447 shares outstanding	136	136
Other paid-in capital	2,722	2,716
Accumulated other comprehensive loss	(5)	(5)
Retained earnings	854	717
Total common stockholder's equity	3,707	3,564
Long-term debt and other long-term obligations	1,653	1,661
	5,360	5,225
NONCURRENT LIABILITIES:		
Accumulated deferred income taxes	796	731
Nuclear fuel disposal costs	209	208
Retirement benefits	276	249
Regulatory liabilities	125	394
Asset retirement obligation (Note 12)	6	6
Other	531	518
Noncurrent liabilities - held for sale (Note 12)	—	175
	1,943	2,281
COMMITMENTS AND CONTINGENCIES (Note 12)		
	$ 8,080	$ 7,964

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

JERSEY CENTRAL POWER & LIGHT COMPANY
CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

(In millions, except share amounts)	Common Stock: Number of Shares	Common Stock: Carrying Value	Other Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholder's Equity
Balance, January 1, 2019	13,628,447	$ 136	$ 2,711	$ (5)	$ 673	$ 3,515
Net income					134	134
Stock-based compensation			5			5
Cash dividends declared on common stock					(90)	(90)
Balance, December 31, 2019	13,628,447	$ 136	$ 2,716	$ (5)	$ 717	$ 3,564
Net income					137	137
Stock-based compensation			5			5
Consolidated tax benefit allocation			1			1
Balance, December 31, 2020	13,628,447	$ 136	$ 2,722	$ (5)	$ 854	$ 3,707

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

JERSEY CENTRAL POWER & LIGHT COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,	
(In millions)	**2020**	**2019**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 137	$ 134
Adjustments to reconcile net income to net cash from operating activities-		
Depreciation and amortization	(15)	222
Asset removal costs charged to income	36	28
Deferred income taxes and investment tax credits, net	31	15
Nuclear decommissioning trust income	2	8
Spent nuclear fuel disposal trust income	15	10
Loss/(gain) of assets sale	2	(6)
Retirement benefits, net of payments	(44)	(24)
Pension and OPEB mark-to-market adjustment	79	70
Changes in current assets and liabilities-		
Receivables	18	14
Prepaid taxes and other current assets	1	—
Accounts payable	(21)	—
Accrued taxes	6	—
Accrued interest	1	(2)
Accrued compensation and benefits	9	(2)
Customer deposits	(6)	2
Other current liabilities	1	(8)
Other	(6)	2
Net cash provided from operating activities	246	463
CASH FLOWS FROM FINANCING ACTIVITIES:		
New financing-		
Long-term debt	—	400
Short-term borrowings - Other, net	450	—
Redemptions and repayments-		
Long-term debt	(16)	(316)
Short-term borrowings - affiliated companies, net	(114)	(29)
Common stock dividend payments	—	(90)
Other	(2)	2
Net cash provided from (used for) financing activities	318	(33)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(466)	(387)
Proceeds from asset sales	—	12
Loans to affiliated companies, net	(38)	—
Sales of investment securities held in trusts	80	610
Purchases of investment securities held in trusts	(97)	(628)
Asset removal costs	(45)	(37)
Net cash used for investing activities	(566)	(430)
Net change in cash, cash equivalents, and restricted cash	(2)	—
Cash, cash equivalents, and restricted cash at beginning of period	8	8
Cash, cash equivalents, and restricted cash at end of period	$ 6	$ 8
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid (received) during the year-		
Interest (net of amounts capitalized)	$ 86	$ 90
Income taxes, net of refunds	$ (21)	$ 4

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

JERSEY CENTRAL POWER & LIGHT COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

JCP&L is a wholly owned, electric utility subsidiary of FE. JCP&L conducts business in New Jersey by providing regulated electric transmission and distribution services in northern, western and east central New Jersey. JCP&L procures electric supply to serve its BGS customers through a statewide auction process approved by the NJBPU. JCP&L is subject to regulation by the NJBPU and FERC.

JCP&L follows GAAP and complies with the regulations, orders, policies and practices prescribed by the NJBPU and FERC. 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. JCP&L has evaluated events and transactions for potential recognition or disclosure through March 18, 2021 the date these 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. JCP&L is continuously evaluating the global pandemic and taking steps to mitigate known risks. The full impact on JCP&L’s business from the pandemic, including the governmental and regulatory responses, is unknown at this time and difficult to predict. JCP&L provides a critical and essential service to its customers and the health and safety of its employees and customers is its first priority. JCP&L 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, JCP&L 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 JCP&L that are presently unknown or unanticipated may occur. Furthermore, the likelihood of an impact to JCP&L, and the severity of any impact that does occur, could increase the longer the global pandemic persists.

RECEIVABLES

JCP&L's principal business is providing electric service to customers in New Jersey. JCP&L'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, JCP&L accrues the estimated unbilled amount as revenue and reverses the related prior period estimate. Billed (net of uncollectibles) and unbilled customer receivables were $131 million and $91 million, respectively, as of December 31, 2020, and were $114 million and $80 million, respectively, as of December 31, 2019. Receivables from customers include distribution and retail electric sales to residential, commercial and industrial customers.

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, JCP&L recognized incremental uncollectible expense of $16 million in the year 2020, all of which was deferred for future recovery. JCP&L 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.

Activity associated with customer receivables is as follows:

(In millions)	2020	2019
Customer Receivables		
Beginning of year balance	$ 4	$ 4
Charged to income [1]	22	7
Charged to other accounts [2]	4	4
Write-offs	(10)	(11)
End of year balance	$ 20	$ 4

[1] Customer receivable amounts charged to income include approximately $22 million (including $16 million incremental uncollectibles discussed above) deferred for future recovery for the year ended December 31, 2020 and $7 million for the year ended December 31, 2019.
[2] Represents recoveries and reinstatements of accounts previously written off for uncollectible accounts.

Other receivables include PJM receivables resulting from transmission sales. JCP&L's credit risk on PJM receivables is reduced due to the nature of PJM's settlement process whereby members of PJM legally agree to share the cost of defaults and as a result there is no allowance for doubtful 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. JCP&L nets its regulatory assets and liabilities based on federal and state jurisdictions. JCP&L 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 JCP&L 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 JCP&L and information on comparable companies within similar jurisdictions, as well as assessing progress of communications between JCP&L 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:

Net Regulatory Assets (Liabilities) by Source	December 31, 2020	December 31, 2019	Change
		(In millions)	
Asset removal costs	$ (132)	$ (133)	$ 1
Customer payables for future income taxes	(493)	(528)	35
Nuclear decommissioning and spent fuel disposal costs	(101)	(89)	(12)
Storm-related costs	460	307	153
Uncollectible and COVID-19 related costs	25	—	25
Other	116	49	67
Net Regulatory Liabilities included on the Consolidated Balance Sheets	$ (125)	$ (394)	$ 269

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

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.

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.

Nuclear decommissioning and spent fuel disposal costs - Reflects a regulatory liability representing amounts collected from customers and placed in external trusts including income, losses and changes in fair value thereon (as well as accretion of the related ARO) primarily for the future decommissioning of TMI-2 and spent nuclear fuel disposal costs. As further discussed below, TMI-2, along with the NDT and related decommissioning liabilities, was transferred to TMI-2 Solutions, LLC, a subsidiary of Energy*Solutions*, LLC, on December 18, 2020, and therefore the related regulatory liabilities were written off. The remaining balance as of December 31, 2020, reflects liabilities for spent nuclear fuel disposal costs from former nuclear generating facilities, Oyster Creek and TMI-2.

Storm-related costs - Relates to the recovery of storm costs, of which $51 million and $65 million are currently being recovered through rates as of December 31, 2020 and 2019, respectively.

Uncollectible and COVID-19 related costs - Includes the deferral of prudently incurred incremental costs arising from COVID-19, including uncollectible expenses under new and existing riders prior to the pandemic.

The following table provides information about the composition of net regulatory assets that do not earn a current return as of December 31, 2020 and 2019, of which approximately $55 million and $69 million, respectively, are currently being recovered through rates over varying periods, through 2068, depending on the nature of the deferral and the jurisdiction:

Regulatory Assets by Source Not Earning a Current Return	December 31, 2020	December 31, 2019	Change
	(In millions)		
Storm-related costs [1]	$ 456	$ 290	$ 166
Deferred transmission costs	18	14	4
Uncollectible and COVID-19 related costs	12	—	12
Other	27	22	5
Regulatory Assets Not Earning a Current Return	$ 513	$ 326	$ 187

[1] Includes $157 million related to Tropical Storm Isaias for the year ended December 31, 2020.

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. JCP&L recognizes liabilities for planned major maintenance projects as they are incurred.

JCP&L 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 2.2% and 2.1% of average depreciable property in 2020 and 2019, respectively.

For the years ended December 31, 2020 and 2019, capitalized financing costs on JCP&L's Consolidated Statements of Income include $1 million and $7 million, respectively, of allowance for equity funds used during construction and $6 million and $5 million, respectively, of capitalized interest.

JCP&L evaluates long-lived assets classified as held and used for impairment when events or changes in circumstances indicate the carrying value of the long-lived 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 value of the assets acquired and liabilities assumed is recognized as goodwill. JCP&L tests goodwill for impairment annually as of July 31 and considers more frequent testing if indicators of potential impairment arise. In evaluating goodwill for impairment, JCP&L assesses qualitative factors to determine whether it is more likely than not (that is, likelihood of more than 50 percent) that its fair value is less than its carrying value (including goodwill). If JCP&L concludes that it is not more likely than not that its fair value is less than its carrying value, then no further testing is required. However, if JCP&L concludes that it is more likely than not that its fair value is less than its carrying value or bypasses the qualitative assessment, then the two-step 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, JCP&L performed a qualitative assessment, assessing economic, industry and market considerations 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 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, JCP&L 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. JCP&L 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 JCP&L'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

JCP&L 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. JCP&L 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 JCP&L are not subject to the election and are included in revenue. JCP&L has elected the optional invoice practical expedient for most of its revenues and utilizes the optional short-term contract exemption for transmission revenues due to the annual establishment of revenue requirements, which eliminates the need to provide certain revenue disclosures regarding unsatisfied performance obligations.

JCP&L's principal business is providing electric service to customers in New Jersey. JCP&L'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, JCP&L 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 New Jersey that are regulated by the NJBPU.

JCP&L earns revenue from state-regulated rate tariffs under which it provides distribution services to residential, commercial and industrial customers in its service territory. JCP&L 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 SSO in New Jersey. 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 JCP&L 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.

Wholesale sales primarily consist of generation and capacity sales into the PJM market. JCP&L may also purchase power from PJM to supply power to their customers. Generally, these power sales from generation and purchases to serve load are netted hourly and reported gross as either revenues or purchased power on the statements of income based on whether the entity was a net seller or buyer each hour. Capacity revenues are recognized ratably over the PJM planning year at prices cleared in the annual BRA and incremental auctions. Capacity purchases and sales through PJM capacity auctions are reported within revenues on the Income Statement. Certain capacity income (bonuses) and charges (penalties) related to the availability of units that have cleared in the auctions are unknown and not recorded in revenue until, and unless, they occur.

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:

	For the Year Ended December 31,	
Revenues by Type of Service	**2020**	**2019**
	(In millions)	
Distribution services	$ 750	$ 775
Retail generation	800	839
Wholesale sales	23	28
Transmission	178	160
Other	28	33
Total revenues from contracts with customers [1]	$ 1,779	$ 1,835
Other non-customer revenue	3	2
Total revenues	$ 1,782	$ 1,837

[1] Includes $1 million in reductions to revenue related to amounts subject to refund resulting from the Tax Act for the year ended December 31, 2019.

Other revenue is primarily related to securitization revenues of $15 million and $18 million, and pole attachments of $10 million and $9 million for the years ended December 31, 2020 and 2019, respectively.

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

	For the Years Ended December 31,	
Customer Class	**2020**	**2019**
	(In millions)	
Residential	$ 1,040	$ 1,041
Commercial	436	489
Industrial	57	68
Other	17	16
Total Revenues	$ 1,550	$ 1,614

JCP&L provides transmission infrastructure owned and operated by JCP&L to transmit electricity from generation sources to distribution facilities. JCP&L had stated rates in 2019, but moved to forward-looking formula rates, subject to a refund, effective January 1, 2020, as further discussed in Note 11, “Regulatory Matters.” For the year ended December 31, 2020 and 2019, revenues include transmission revenue from contracts with customers of $178 million and $160 million, respectively.

3. 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 JCP&L. The plans provide defined benefits based on years of service and compensation levels. 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. JCP&L recognizes its allocated portion of the expected cost of providing pensions and OPEB to employees and their beneficiaries and covered dependents from the time employees are hired until they become eligible to receive those benefits. JCP&L 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 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 ($61 million at JCP&L) 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. JCP&L's pension and OPEB mark-to-market adjustments for the years ended December 31, 2020 and 2019, were $79 million and $70 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 (none at JCP&L) 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.

The following is a summary of the plan status:

	Pension		OPEB	
As of December 31,	**2020**	**2019**	**2020**	**2019**
	(In millions)			
FirstEnergy benefit obligation	$ 11,935	$ 11,050	$ 676	$ 654
FirstEnergy fair value of plan assets	8,968	8,395	502	458
FirstEnergy funded status	$ (2,967)	$ (2,655)	$ (174)	$ (196)
FirstEnergy accumulated benefit obligation	$ 11,376	$ 10,439	$ —	$ —
FirstEnergy net periodic costs (credits) [1]	$ 346	$ 703	$ (46)	$ (20)
JCP&L's share of net periodic costs [1]	$ 20	$ 27	$ 15	$ 5
JCP&L's share of net liability [2]	$ 125	$ 104	$ 148	$ 144

[1] Includes pension and OPEB mark-to-market adjustment.
[2] Excludes $274 million and $250 million as of December 31, 2020 and 2019 of affiliated non-current liabilities related to pension and OPEB mark-to-market costs allocated to JCP&L, respectively.

	Pension		OPEB	
	2020	**2019**	**2020**	**2019**
Assumptions Used to Determine Benefit Obligations (as of December 31)				
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
Assumed Health Care Cost Trend Rates (as of December 31)				
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 [1]				
Service cost weighted-average discount rate [2]	3.60%/3.24%	4.66 %	3.63%/3.29%	4.67 %
Interest cost weighted-average discount rate [3]	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

[1] Excludes impact of pension and OPEB mark-to-market adjustment.

[2] 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.

[3] 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.

4. TAXES

JCP&L 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 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.

JCP&L 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. JCP&L 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. JCP&L 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 JCP&L.

	For the Years Ended December 31,	
INCOME TAXES:	**2020**	**2019**
	(In millions)	
Currently payable (receivable)-		
Federal	$ (11)	$ 12
State	(1)	1
	(12)	13
Deferred, net-		
Federal	19	1
State	12	14
	31	15
Total income taxes	$ 19	$ 28

JCP&L's tax rates are affected by permanent items, such as AFUDC equity and other flow-through 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:

	For the Years Ended December 31,	
(In millions)	2020	2019
Book income before income taxes	$ 156	$ 162
Federal income tax expense at statutory rate	33	34
Increases (reductions) in taxes resulting from-		
State income taxes, net of federal tax benefit	11	12
Excess deferred tax amortization due to the Tax Act	(16)	(17)
TMI-2 reversal of tax regulatory liability	(9)	—
Other, net	—	(1)
Total income taxes	$ 19	$ 28
Effective income tax rate	12.2 %	17.3 %

JCP&L's effective tax rate on pre-tax income in 2020 and 2019 was 12.2% and 17.3%, respectively. The change in the effective tax rate was primarily due to a one-time $9 million benefit related to reversals of tax regulatory liabilities resulting from the transfer of TMI-2.

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

	As of December 31,	
(In millions)	2020	2019
Property basis differences	$ 969	$ 892
Regulatory asset/liability	208	208
Asset retirement obligations	—	(49)
Pension and OPEB	(154)	(139)
Nuclear decommissioning activities	(17)	(17)
Loss carryforwards and AMT credits	(162)	(115)
Deferred compensation	(48)	(45)
Other	—	(4)
Net deferred income tax liabilities	$ 796	$ 731

JCP&L has recorded 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, JCP&L's loss carryforwards consisted primarily of approximately $505 million ($106 million, net of tax) of federal NOL loss carryforwards that begin to expire in 2032 and approximately $777 million ($55 million, net of tax) of state NOL carryforwards that begin to expire in 2032.

JCP&L accounts for uncertainty in income taxes recognized in its financial statements. A recognition threshold and measurement attribute are utilized for financial statement recognition and measurement of tax positions taken or expected to be taken on a company's tax return. As of December 31, 2020 and 2019, JCP&L's total unrecognized income tax benefits were approximately $24 million, all of which would impact the effective tax rate if ultimately recognized in future years. As of December 31, 2020, it is reasonably possible that all of JCP&L's unrecognized tax benefits may be resolved during 2021.

JCP&L 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 positions recognized and the amount previously taken or expected to be taken on the tax return. JCP&L's recognition of net interest associated with unrecognized tax benefits in 2020 and 2019 was approximately $1 million in each year. For the years ended December 31, 2020 and 2019, the cumulative net interest payable recorded by JCP&L was $7 million and $6 million, respectively.

For federal income tax purposes, JCP&L files as a member of the FE consolidated group. Tax years 2018 and 2019 are currently under review by the IRS. JCP&L also has tax returns under review by state taxing authorities at the audit or appeals level for the tax years 2009-2019.

General Taxes

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

(In millions)	**2020**	**2019**
Real and personal property	$ 5	$ 6
Social security and unemployment	14	12
Total general taxes	$ 19	$ 18

5. LEASES

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

JCP&L 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, JCP&L 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. JCP&L did not evaluate land easements under the new guidance as they were not previously accounted for as leases. JCP&L 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 JCP&L'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 $5 million.

Finance leases for assets used in regulated operations are recognized in JCP&L'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:

(In millions)	**December 31, 2020**	**December 31, 2019**
Operating lease costs [(1)]	$ 13	$ 11
Finance lease costs:		
Amortization of right-of-use assets	1	1
Interest on lease liabilities	1	1
Total finance lease cost	2	2
Total lease cost	$ 15	$ 13

[(1)] Includes $3 million and $2 million of short-term lease costs as of December 31, 2020 and 2019, respectively.

Supplemental balance sheet information related to leases was as follows:

(In millions)	Financial Statement Line Item	As of December 31, 2020	2019
Assets			
Operating lease assets [1]	Deferred charges and other assets	$ 55	$ 55
Finance lease assets [2]	Property, plant and equipment	10	10
Total leased assets		$ 65	$ 65
Liabilities			
Current:			
Operating	Other current liabilities	$ 12	$ 8
Finance	Currently payable long-term debt	1	1
Noncurrent:			
Operating	Other noncurrent liabilities	61	64
Finance	Long-term debt and other long-term obligations	8	9
Total leased liabilities		$ 82	$ 82

[1] Operating lease assets are recorded net of accumulated amortization of $14 million and $7 million as of December 31, 2020 and 2019, respectively.
[2] Finance lease assets are recorded net of accumulated amortization of $1 million and an immaterial amount 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
Weighted-average remaining lease terms (years)		
Operating leases	8.06	8.75
Finance leases	11.64	8.18
Weighted-average discount rate [1]		
Operating leases	5.37 %	5.44 %
Finance leases	16.26 %	16.29 %

[1] 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.

Supplemental cash flow information related to leases was as follows:

(In millions)	For the Years Ended, 12/31/2020	12/31/2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 9	$ 8
Operating cash flows from finance leases	1	1
Finance cash flows from finance leases	1	1
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$ 8	$ 8
Finance leases	—	1

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

(In millions)	Operating Leases	Finance Leases	Total
2021	$ 13	$ 2	$ 15
2022	14	2	16
2023	12	2	14
2024	9	2	11
2025	8	2	10
Thereafter	34	5	39
Total lease payments [(1)]	90	15	105
Less imputed interest	(17)	(6)	(23)
Total net present value	$ 73	$ 9	$ 82

[(1)] Operating lease payments are offset by sublease receipts related to a reservoir of $9 million over 12 years.

As of December 31, 2020, additional operating leases agreements, primarily for vehicles, that have not yet commenced are $2 million. These leases are expected to commence within the next 18 months with lease terms of 5 to 10 years.

6. VARIABLE INTEREST ENTITIES

JCP&L performs qualitative analyses based on control and economics to determine whether a variable interest classifies JCP&L 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. JCP&L consolidates a VIE when it is determined that it is the primary beneficiary.

Consolidated VIEs

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

- *JCP&L Securitization -* In August 2006, JCP&L Transition Funding II sold transition bonds to securitize the recovery of deferred costs associated with JCP&L's supply of BGS. JCP&L did not purchase and does not own any of the transition bonds, which are included as long- term debt on JCP&L's Consolidated Balance Sheets. The transition bonds are the sole obligations of JCP&L Transition Funding II and are collateralized by its equity and assets, which consist primarily of bondable transition property. The cash collected from JCP&L customers is used to service debt of the funding company. As of December 31, 2020 and December 31, 2019, $9 million and $25 million of the transition bonds were outstanding, respectively.

Unconsolidated VIEs

- JCP&L does not have any unconsolidated VIEs.

7. FAIR VALUE MEASUREMENTS

RECURRING AND NONRECURRING FAIR VALUE MEASUREMENTS

Authoritative accounting guidance establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy gives the highest priority to Level 1 measurements and the lowest priority to Level 3 measurements. The three levels of the fair value hierarchy and a description of the valuation techniques are as follows:

Level 1 - Quoted prices for identical instruments in active market

Level 2 - Quoted prices for similar instruments in active market
- Quoted prices for identical or similar instruments in markets that are not active
- Model-derived valuations for which all significant inputs are observable market data

Models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors and current market and contractual prices for the underlying instruments, as well as other relevant economic measures.

Level 3 - Valuation inputs are unobservable and significant to the fair value measurement

FirstEnergy produces a long-term power and capacity price forecast annually with periodic updates as market conditions change. When underlying prices are not observable, prices from the long-term price forecast, which has been reviewed and approved by FirstEnergy's Risk Policy Committee, are used to measure fair value.

JCP&L primarily applies the market approach for recurring fair value measurements using the best information available. Accordingly, JCP&L maximizes the use of observable inputs and minimizes the use of unobservable inputs. There were no changes in valuation methodologies used as of December 31, 2020 from those used as of December 31, 2019. The determination of the fair value measures takes into consideration various factors, including but not limited to, nonperformance risk, counterparty credit risk and the impact of credit enhancements (such as cash deposits, LOCs and priority interests). The impact of these forms of risk was not significant to the fair value measurements.

Transfers between levels are recognized at the end of the reporting period. There were no transfers between levels during the years ended December 31, 2020 and 2019. The following tables set forth the recurring assets and liabilities that are accounted for at fair value by level within the fair value hierarchy.

Recurring Fair Value Measurements	**December 31, 2020**				**December 31, 2019**			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets	*(In millions)*							
Corporate debt securities	$ —	$ —	$ —	$ —	$ —	$ 36	$ —	$ 36
U.S. state debt securities	—	276	—	276	—	271	—	271
Other[1]	—	7	—	7	—	223	—	223
Total assets	—	283	—	283	—	530	—	530
Net assets[2]	$ —	$ 283	$ —	$ 283	$ —	$ 530	$ —	$ 530

(1) Primarily consists of short-term cash investments.
(2) Excludes $1 million and $(4) million as of December 31, 2020 and December 31, 2019, respectively, of receivables, payables, taxes and accrued income associated with the financial instruments reflected within the fair value table.

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. Investments other than cash and cash equivalents include AFS debt securities and other investments. JCP&L has no debt securities held for trading purposes.

Generally, unrealized gains and losses on equity securities are recognized in income whereas unrealized gains and losses on AFS debt securities are recognized in AOCI. However, the NDTs of JCP&L are subject to regulatory accounting with all gains and losses on equity and AFS debt securities offset against regulatory assets. On October 15, 2019, JCP&L, ME, PN and GPUN executed an asset purchase and sale agreement with TMI-2 Solutions, LLC, a subsidiary of EnergySolutions, LLC, concerning the transfer and dismantlement of TMI-2. With the receipt of all required regulatory approvals, the transaction was consummated, including the transfer of external trusts for the decommissioning and environmental remediation of TMI-2, on December 18, 2020. Please see Note 12, "Commitments, Guarantees and Contingencies," for further information.

Nuclear Decommissioning and Nuclear Fuel Disposal Trusts

JCP&L holds debt securities within the nuclear fuel disposal trust, which are classified as AFS securities, recognized at fair market value.

The following table summarizes the amortized cost basis, unrealized gains, unrealized losses and fair values of investments held in NDT and nuclear fuel disposal trusts as of December 31, 2020 and December 31, 2019.

	December 31, 2020				**December 31, 2019**[1]			
	Cost Basis	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**	**Cost Basis**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**[2]
	(In millions)							
Debt securities	$ 275	$ 7	$ (6)	$ 276	$ 305	$ 5	$ (8)	$ 302

(1) Excludes short-term cash investments of $224 million, of which $221 million is classified as held for sale.
(2) Includes $35 million classified as held for sale.

Proceeds from the sale of investments in AFS securities, realized gains and losses on those sales and interest and dividend income for the years ended December 31, 2020 and 2019 were as follows:

	Sale Proceeds	Realized Gains	Realized Losses	Interest and Dividend Income
		(In millions)		
2020	$ 80	$ 4	$ (5)	$ 17
2019	$ 610	$ 30	$ (12)	$ 18

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, JCP&L 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 and net unamortized debt issuance costs:

	December 31, 2020		December 31, 2019	
(In millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	$ 1,659	$ 1,931	$ 1,675	$ 1,916

The fair values of long-term debt and other long-term obligations 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 JCP&L. JCP&L classified short-term borrowings, long-term debt and other long-term obligations as Level 2 in the fair value hierarchy as of December 31, 2020 and December 31, 2019.

8. CAPITALIZATION

COMMON STOCK

In addition to paying dividends from retained earnings, JCP&L 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 STOCK

JCP&L is authorized to issue 15,600,000 shares of preferred stock, no par value, as of December 31, 2020. As of December 31, 2020, and 2019, there were no preferred shares outstanding.

LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS

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

	As of December 31, 2020		As of December 31,	
(Dollar amounts in millions)	Maturity Date	Interest Rate	2020	2019
Secured notes - fixed rate	2021	5.610%	$ 9	$ 25
Unsecured notes - fixed rate	2024 - 2037	4.300% - 6.400%	1,650	1,650
Finance lease obligations			9	10
Unamortized debt issuance costs			(6)	(7)
Currently payable long-term debt			(9)	(17)
Total long-term debt and other long-term obligations			$ 1,653	$ 1,661

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.

Year	JCP&L
	(In millions)
2021	$ 9
2022	—
2023	—
2024	500
2025	—

Transition Bonds

In August 2006, JCP&L Transition Funding II sold transition bonds to securitize the recovery of deferred costs associated with JCP&L's supply of BGS. JCP&L did not purchase and does not own any of the transition bonds, which are included as long-term debt on JCP&L's Consolidated Balance Sheets. The transition bonds are the sole obligations of JCP&L Transition Funding II and are collateralized by its equity and assets, which consist primarily of bondable transition property. As of December 31, 2020 and 2019, $9 million and $25 million of the transition bonds were outstanding, respectively.

See Note 6, "Variable Interest Entities" for additional information on securitized bonds.

Debt Covenant Default Provisions

JCP&L 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 JCP&L 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 JCP&L's financial condition.

Additionally, there are cross-default provisions in certain financing arrangements of FE and its subsidiaries, including JCP&L. 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 JCP&L would generally cross-default FE financing arrangements containing these provisions, defaults by FE would generally not cross-default applicable JCP&L financing arrangements.

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

9. SHORT-TERM BORROWINGS AND BANK LINES OF CREDIT

JCP&L had $450 million and $114 million of outstanding short-term borrowings as of December 31, 2020 and 2019, respectively.

Revolving Credit Facility

FE and the Utilities, including JCP&L, 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.

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, $350 million at JCP&L. The outstanding principal balance under the FE Revolving Facility is $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, JCP&L may borrow, subject to regulatory limits, up to its sub-limit of $500 million, of which $50 million was available to JCP&L as of December 31, 2020. JCP&L 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 JCP&L, 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.

10. ASSET RETIREMENT OBLIGATIONS

JCP&L has recognized retirement obligations, primarily conditional retirement obligations for asbestos remediation. JCP&L uses an expected cash flow approach to measure the fair value of its AROs.

Conditional retirement obligations associated with tangible long-lived assets are recognized at fair value in the period in which they are incurred if a reasonable estimate can be made, even though there may be uncertainty about timing or method of settlement. When settlement is conditional on a future event occurring, it is reflected in the measurement of the liability, not in the recognition of the liability.

The following table summarizes the changes to JCP&L's ARO balances during 2020 and 2019:

ARO Reconciliation	***(In millions)***
Balance, January 1, 2019	$ 173
Accretion	9
Settlements	(1)
Balance, December 31, 2019 [(1)]	181
Accretion	9
Settlements [(2)]	(184)
Balance, December 31, 2020	$ 6

(1) Includes $175 million related to TMI-2 classified as held for sale for the year ended December 31, 2019.
(2) Includes $184 million related to the closing of the asset purchase and sale agreement with TMI-2 Solutions, LLC, a subsidiary of Energy*Solutions*, LLC, concerning the transfer and dismantlement of TMI-2. See Note 12, "Commitments, Guarantees and Contingencies," for further information.

11. REGULATORY MATTERS

STATE REGULATION

JCP&L's retail rates, conditions of service, issuance of securities and other matters are subject to regulation in New Jersey by the NJBPU. The key terms of JCP&L's current distribution rate orders in effect since January 2017, include an allowed debt/equity ratio of 55%/45% and an allowed ROE of 9.6%. On October 28, 2020, the NJBPU approved JCP&L's distribution case settlement with an allowed ROE of 9.6% and a 48.56% debt / 51.44% equity capital structure. Rates are effective for customers on November 1, 2021, but beginning January 1, 2021, JCP&L will offset the impact to customers' bills by amortizing an $86 million regulatory liability.

NEW JERSEY

JCP&L operates under NJBPU approved rates that were effective as of January 1, 2017. JCP&L provides BGS for retail customers who do not choose a third-party EGS and for customers of third-party EGSs that fail to provide the contracted service. All New Jersey EDCs participate in this competitive BGS procurement process and recover BGS costs directly from customers as a charge separate from base rates.

On April 18, 2019, pursuant to the May 2018 New Jersey enacted legislation establishing a ZEC program to provide ratepayer funded subsidies of New Jersey nuclear energy supply, the NJBPU approved the implementation of a non-bypassable, irrevocable ZEC charge for all New Jersey electric utility customers, including JCP&L’s customers. Once collected from customers by JCP&L, these funds will be remitted to eligible nuclear energy generators.

In December 2017, the NJBPU issued proposed rules to modify its current CTA policy in base rate cases to: (i) calculate savings using a five-year look back from the beginning of the test year; (ii) allocate savings with 75% retained by the company and 25% allocated to ratepayers; and (iii) exclude transmission assets of electric distribution companies in the savings calculation, which were published in the NJ Register in the first quarter of 2018. JCP&L filed comments supporting the proposed rulemaking. On January 17, 2019, the NJBPU approved the proposed CTA rules with no changes. On May 17, 2019, the Rate Counsel filed an appeal with the Appellate Division of the Superior Court of New Jersey. Oral Argument was held on March 10, 2021. JCP&L is contesting this appeal but is unable to predict the outcome of this matter.

Also, in December 2017, the NJBPU approved its IIP rulemaking. The IIP creates a financial incentive for utilities to accelerate the level of investment needed to promote the timely rehabilitation and replacement of certain non-revenue producing components that enhance reliability, resiliency, and/or safety. On May 8, 2019, the NJBPU approved a stipulation of settlement submitted by JCP&L, Rate Counsel, NJBPU staff and New Jersey Large Energy Users Coalition to implement JCP&L's infrastructure plan, JCP&L Reliability Plus. The plan provides that JCP&L will invest up to approximately $97 million in capital investments beginning on June 1, 2019 through December 31, 2020, to enhance the reliability and resiliency of JCP&L's distribution system and reduce the frequency and duration of power outages. JCP&L shall seek recovery of the capital investment through an accelerated cost recovery mechanism, provided for in the rules, that includes a revenue adjustment calculation and a process for two rate adjustments. The NJBPU approved adjusted rates that took effect on March 1, 2020. As further discussed below, JCP&L will recover the IIP capital investments, which totaled $97 million, as part of its distribution base rate case.

On February 18, 2020, JCP&L submitted a filing with the NJBPU requesting a distribution base rate increase of $186.9 million on an annual basis, which represents an overall average increase in JCP&L rates of 7.8%. The filing seeks to recover certain costs associated with providing safe and reliable electric service to JCP&L customers, along with recovery of previously incurred storm costs. JCP&L proposed a rate effective date of March 19, 2020. The NJBPU issued orders suspending JCP&L's proposed rates until November 19, 2020. JCP&L filed updates to the requested distribution base rate in both June and July 2020, resulting in JCP&L seeking a total annual distribution base rate increase of approximately $185 million. On October 16, 2020, the parties submitted a stipulation of settlement to the administrative law judge, providing for, among other things, a $94 million annual base distribution revenues increase for JCP&L based on an ROE of 9.6%, which will become effective for customers on November 1, 2021. Until the rates become effective, and starting on January 1, 2021, JCP&L is permitted to amortize an existing regulatory liability totaling approximately $86 million to offset the base rate increase that otherwise would have occurred in this period. The parties also agreed that the actual net gain from the sale of JCP&L's interest in the Yards Creek pumped-storage hydro generation facility in New Jersey (210 MWs), as further discussed below, shall be applied to reduce JCP&L's existing regulatory asset for previously deferred storm costs. Lastly, the parties agreed that $95.1 million of Reliability Plus capital investment for projects through December 31, 2020 is included in rate base effective December 31, 2020, with a final prudence review of only those capital investment projects from July 1, 2020 through December 31, 2020 to occur in January 2021. On October 22, 2020, the administrative law judge entered an initial decision adopting the settlement. On October 28, 2020, the NJBPU approved the settlement and directed an upcoming management audit for JCP&L. On January 4, 2021, JCP&L submitted its review of storm costs as required under the stipulation of settlement. On January 15, 2021, JCP&L filed a written report for its Reliability Plus projects placed in service from July 1, 2020 through December 31, 2020, also as required under the stipulation of settlement.

On April 6, 2020, JCP&L signed an asset purchase agreement with Yards Creek Energy, LLC, a subsidiary of LS Power to sell its 50% interest in the Yards Creek pumped-storage hydro generation facility. Subject to terms and conditions of the agreement, the base purchase price is $155 million. Assets held for sale on JCP&L's Consolidated Balance Sheets associated with the transaction consist of property, plant and equipment of $45 million. On July 31, 2020, FERC approved the transfer of JCP&L's interest in the hydroelectric operating license. On October 8, 2020, FERC issued an order authorizing the transfer of JCP&L's ownership interest in the hydroelectric facilities. On October 28, 2020, the NJBPU approved the sale of Yards Creek. With the receipt of all required regulatory approvals, the transaction was consummated on March 5, 2021.

On August 27, 2020, JCP&L filed an AMI Program with the NJBPU, which proposes the deployment of approximately 1.2 million advanced meters over a three-year period beginning on January 1, 2023, at a total cost of approximately $418 million, including the pre-deployment phase. The 3-year deployment is part of the 20 year AMI Program that is expected to cost a total of approximately $732 million and proposes a cost recovery mechanism through a separate AMI tariff rider. On January 13, 2021, a procedural schedule was established, which includes evidentiary hearings the week of May 24, 2021. On February 26, 2021, JCP&L filed a letter requesting a temporary suspension of the procedural schedule to work towards a possible settlement in the matter, which was granted on March 5, 2021.

On June 10, 2020, the NJBPU issued an order establishing a framework for the filing of utility-run energy efficiency and peak demand reduction programs in accordance with the New Jersey Clean Energy Act. Under the established framework, JCP&L will recover its program investments over a ten year amortization period and its operations and maintenance expenses on an annual basis, be eligible to receive lost revenues on energy savings that resulted from its programs and be eligible for incentives or subject to penalties based on its annual program performance, beginning in the fifth year of its program offerings. On September 25, 2020, JCP&L filed its energy efficiency and peak demand reduction program. JCP&L's program consists of 11 energy efficiency and peak demand reduction programs and subprograms to be run from July 1, 2021 through June 30, 2024. The program also seeks approval of cost recovery totaling approximately $230 million as well as lost revenues associated with the energy savings resulting from the programs. While a procedural order has been established in this matter, on January 10, 2021, JCP&L filed a letter requesting a suspension of the procedural schedule to allow for settlement discussions. The Clean Energy Act contemplates a final order from the NJBPU by May 2, 2021.

On July 2, 2020, the NJBPU issued an order allowing New Jersey utilities to track and create a regulatory asset for future recovery of all prudently incurred incremental costs arising from the COVID-19 pandemic beginning March 9, 2020 through September 30, 2021, or until the Governor issues an order stating that the COVID-19 pandemic is no longer in effect. New Jersey utilities can request recovery of such regulatory asset in a stand-alone COVID-19 regulatory asset filing or future base rate case. On August 21, 2020, the Governor of New Jersey issued a press release announcing that the New Jersey utilities agreed to extend their voluntary moratorium preventing shutoffs to both residential and commercial customers during the COVID-19 pandemic until October 15, 2020. On October 15, 2020, the Governor issued an Executive Order prohibiting utilities from terminating service to any residential gas, electric, public and private water customer, through March 15, 2021, requiring the reconnection of certain customers, and disallowing the charging of late payment charges or reconnection fees during the public health emergency. On October 28, 2020, the NJBPU issued an order expanding the scope of the proceeding to examine all pandemic issues, including recovery of the COVID-19 regulatory assets, by way of a generic proceeding. On November 30, 2020, JCP&L submitted comments. On February 1, 2021, the NJBPU issued a procedural schedule, which included public hearings on February 25, 2021 and additional written comments due on March 1, 2021. On March 1, 2021, JCP&L filed additional written comments.

The recent credit rating actions taken on October 28, 2020, by S&P and Fitch triggered a requirement from various NJBPU orders that JCP&L file a mitigation plan, which was filed on November 5, 2020, to demonstrate that JCP&L has sufficient liquidity to meet its BGS obligations. On December 11, 2020, the NJBPU held a public hearing on the mitigation plan. Written comments on JCP&L's mitigation plan were submitted on January 8, 2021.

On September 23, 2020, the NJBPU issued an Order requiring all New Jersey electric distribution companies to file electric vehicle programs by February 28, 2021. Because the filing date landed on a Sunday, JCP&L filed an Electric Vehicle Program with the NJBPU on the next business day, which was March 1, 2021. The Electric Vehicle Program consists of six sub-programs, including a consumer education and outreach initiative and will begin on January 1, 2022 and continue over a four-year period, ending December 31, 2025. The total proposed budget for the Electric Vehicle Program is $49.9 million, of which $16.2 million is capital expenditures and $33.7 million is for operations and maintenance expenses. JCP&L is proposing to recover the Electric Vehicle Program costs via a non-bypassable rate clause applicable to all distribution customer rate classes, which will become effective on and after January1, 2022.

FERC REGULATORY MATTERS

Under the FPA, FERC regulates rates for interstate wholesale sales, transmission of electric power, accounting and other matters, including construction and operation of hydroelectric projects. With respect to its wholesale services and rates, JCP&L is subject to regulation by FERC. FERC regulations require JCP&L to provide open access transmission service at FERC-approved rates, terms and conditions. JCP&L's transmission facilities are subject to functional control by PJM and transmission service using their transmission facilities is provided by PJM under the PJM Tariff. As filed in docket ER20-227, effective on January 1, 2020, which has been accepted by FERC, subject to refund, pending further hearing and settlement procedures, the key terms of JCP&L's rate orders in effect for transmission customer billings include an actual (13 month average) capital structure and an allowed 10.8% ROE. The settlement agreement that was filed on February 2, 2021, seeking approval by FERC sets JCP&L's Allowed ROE at 10.2%.

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. JCP&L has been authorized by FERC to sell wholesale power in interstate commerce at market-based rates and have a market-based rate tariff on file with FERC, although major wholesale purchases remain subject to review and regulation by the NJBPU.

Federally-enforceable mandatory reliability standards apply to the bulk electric system and impose certain operating, record-keeping and reporting requirements on JCP&L. NERC is the Electric Reliability Organization 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 six regional entities, including RFC. All of the facilities that FirstEnergy operates, including those of JCP&L, are located within the RFC region. FirstEnergy actively participates in the NERC and RFC stakeholder processes, and otherwise monitors and manages its companies, including JCP&L, in response to the ongoing development, implementation and enforcement of the reliability standards implemented and enforced by RFC.

FirstEnergy, including JCP&L, 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 JCP&L, 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 JCP&L, 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 JCP&L's, part to comply with the reliability standards for its bulk electric system could result in the imposition of financial penalties, and obligations to upgrade or build electric facilities, that could have a material adverse effect on JCP&L's financial condition, results of operations and cash flows.

FERC Actions on Tax Act

On March 15, 2018, FERC initiated proceedings on the question of how to address possible changes to ADIT and bonus depreciation as a result of the Tax Act. Such possible changes could impact FERC-jurisdictional rates, including transmission rates. On November 21, 2019, FERC issued a final rule (Order No. 864). Order No. 864 requires utilities with transmission formula rates to update their formula rate templates to include mechanisms to (i) deduct any excess ADIT from or add any deficient ADIT to their rate base; (ii) raise or lower their income tax allowances by any amortized excess or deficient ADIT; and (iii) incorporate a new permanent worksheet into their rates that will annually track information related to excess or deficient ADIT. JCP&L is addressing these requirements as part of its pending transmission formula rate case.

Transmission ROE Methodology

FERC’s methodology for calculating electric transmission utility ROE has been in transition as a result of an April 14, 2017 ruling by the D.C. Circuit that vacated FERC’s then-effective methodology. On May 21, 2020, FERC issued Opinion No. 569-A that changed FERC’s ROE methodology. Under this methodology FERC established an ROE that is based on three financial models – discounted cash flow, capital-asset pricing, and risk premium – to calculate a composite zone of reasonableness. FERC noted that utilities could, in utility-specific proceedings, ask to have the expected earnings methodology included in calculating the utility’s authorized ROE. FERC also noted that, going forward, it will divide that zone into three equal parts, to be used for high risk, normal risk, and low risk utilities. A given utility will be assigned to one of these three parts of the zone of reasonableness, and its ROE will be set at the median or midpoint of the other utilities that are in the applicable third of the zone. FirstEnergy filed a request for rehearing, which FERC denied on July 22, 2020. On November 19, 2020, FERC issued Opinion No. 569-B, which affirmed the Opinion No. 569-A rulings. FirstEnergy initiated, but subsequently withdrew, appeals of these orders. Appeals of Opinion Nos. 569, 569-A and 569-B are pending before the D.C. Circuit. Any changes to FERC’s transmission rate ROE and incentive policies would be applied on a prospective basis.

On March 20, 2020, FERC initiated a rulemaking proceeding on the transmission rate incentives provisions of Section 219 of the 2005 Energy Policy Act. Initial comments were submitted July 1, 2020, and reply comments were filed on July 16, 2020. FirstEnergy participated through EEI and through a consortium of PJM Transmission Owners. This proceeding is pending before FERC.

JCP&L Transmission Formula Rate

On October 30, 2019, JCP&L filed tariff amendments with FERC to convert JCP&L’s existing stated transmission rate to a forward-looking formula transmission rate. JCP&L requested that the tariff amendments become effective January 1, 2020. On December 19, 2019, FERC issued its initial order in the case, allowing JCP&L to transition to a forward-looking formula rate as of January 1, 2020 as requested, subject to refund, pending further hearing and settlement proceedings. JCP&L and the parties to the FERC proceeding subsequently were able to reach settlement, and on February 2, 2021, a settlement agreement was filed for approval by FERC.

12. COMMITMENTS AND CONTINGENCIES

ENVIRONMENTAL MATTERS

Various federal, state and local authorities regulate JCP&L with regard to air and water quality, hazardous and solid waste disposal, and other environmental matters. While JCP&L'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. JCP&L 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.

Clean Air Act

In January 2009, the EPA issued an NOV to GenOn Energy, Inc. alleging NSR violations at the Keystone, Portland and Shawville coal-fired plants based on “modifications” dating back to the mid-1980's. JCP&L, as the former owner of 16.67% of the Keystone Station is unable to predict the outcome of this matter or estimate the possible loss or range of loss.

Regulation of Waste Disposal

FirstEnergy and certain of its subsidiaries, including JCP&L, have been named as potentially responsible parties at waste disposal sites, which may require cleanup under the CERCLA. Allegations of disposal of hazardous substances at historical sites and the liability involved are often unsubstantiated and subject to dispute; however, federal law provides that all potentially responsible parties for a particular site may be liable on a joint and several basis. Environmental liabilities that are considered probable have been recognized on the Balance Sheets as of December 31, 2020, based on estimates of the total costs of cleanup, FirstEnergy's proportionate responsibility for such costs and the financial ability of other unaffiliated entities to pay. Total liabilities of approximately $107 million have been accrued through December 31, 2020. Included in the total are accrued liabilities of approximately $67 million for environmental remediation of former MGP and gas holder facilities in New Jersey, which are being recovered by JCP&L through a non-bypassable SBC. FE or its subsidiaries could be found potentially responsible for additional amounts or additional sites, but the loss or range of losses cannot be determined or reasonably estimated at this time.

OTHER LEGAL PROCEEDINGS

Nuclear Plant Matters

On October 15, 2019, JCP&L, ME, PN and GPUN executed an asset purchase and sale agreement with TMI-2 Solutions, LLC, a subsidiary of Energy*Solutions*, LLC, concerning the transfer and dismantlement of TMI-2. This transfer of TMI-2 to TMI-2 Solutions, LLC will include the transfer of: (i) the ownership and operating NRC licenses for TMI-2; (ii) the external trusts for the decommissioning and environmental remediation of TMI-2; and (iii) related liabilities. On August 10, 2020, JCP&L, ME, PN, GPUN, TMI-2 Solutions, LLC, and the PA DEP reached a settlement agreement regarding the decommissioning of TMI-2. On December 2, 2020, the NJBPU issued an order approving the transfer and sale under the conditions requested by Rate Counsel and agreed to by JCP&L. Also, on December 2, 2020, the NRC issued its order approving the license transfer as requested. With the receipt of all required regulatory approvals, the transaction was consummated on December 18, 2020. Assets and liabilities held for sale on JCP&L's Consolidated Balance Sheet as of December 31, 2019, associated with the transaction consist of asset retirement obligations of $175 million, NDTs of $256 million as well as property, plant and equipment with a net book value of zero.

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 *Frand 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, 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.

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 JCP&L. 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 JCP&L's normal business operations pending against JCP&L and its subsidiaries. The loss or range of loss in these matters is not expected to be material to JCP&L or its subsidiaries. The other potentially material items not otherwise discussed above are described under Note 11, "Regulatory Matters."

JCP&L 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 JCP&L 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 JCP&L 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 JCP&L's or its subsidiaries' financial condition, results of operations and cash flows.

13. TRANSACTIONS WITH AFFILIATED COMPANIES

JCP&L’s operating expenses, miscellaneous income and interest expenses include transactions with affiliated companies. These affiliated company transactions include support service billings, interest on affiliated company notes including the money pool and other transactions.

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

	For the Years Ended December 31,	
	2020	**2019**
	(In millions)	
Revenues	$ 1	$ —
Expenses:		
Support services	135	138
Miscellaneous Income	3	1
Interest expense to affiliates	1	2

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 9, "Short-Term Borrowings and Bank Lines of Credit").

JCP&L 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 4, "Taxes").