MONONGAHELA POWER 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 Monongahela Power Company and its current and former subsidiaries and affiliated companies:

ATSI	American Transmission Systems, Incorporated, a subsidiary of FET, which owns and operates transmission facilities
AE Supply	Allegheny Energy Supply Company, LLC, an unregulated generation affiliated company
AGC	Allegheny Generating Company, formerly a generation subsidiary of AE Supply and equity method investee of MP that became a wholly owned subsidiary of MP in May 2018
CEI	The Cleveland Electric Illuminating Company, an Ohio electric utility operating affiliated company
FE	FirstEnergy Corp., a publicly owned 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
JCP&L	Jersey Central Power & Light Company, a New Jersey electric utility operating affiliated company
KATCo	Keystone Appalachian Transmission Company, a subsidiary of FET
MAIT	Mid-Atlantic Interstate Transmission, LLC, a subsidiary of FET, which owns and operates transmission facilities
ME	Metropolitan Edison Company, a Pennsylvania electric utility operating affiliated company
MP	Monongahela Power Company, a West Virginia electric utility operating 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:

ACE	Affordable Clean Energy
ADIT	Accumulated Deferred Income Taxes
AEP	American Electric Power Company, Inc.
AFUDC	Allowance for Funds Used During Construction
AMT	Alternative Minimum Tax
AOCI	Accumulated Other Comprehensive Income (Loss)
ARO	Asset Retirement Obligation
ASU	Accounting Standards Update
Bath Power Station	Bath County Pumped Storage Hydro-Power Station
CAA	Clean Air Act
CARES Act	Coronavirus Aid, Relief and Economic Security Act of 2020
CCR	Coal Combustion Residuals
CFR	Code of Federal Regulations
CO_2	Carbon Dioxide
COVID-19	Coronavirus disease 2019
CPP	EPA's Clean Power Plan
CSAPR	Cross-State Air Pollution Rule
CSR	Conservative Support Rider
CWA	Clean Water Act

D.C. Circuit	United States Court of Appeals for the District of Columbia Circuit
EGU	Electric Generation Unit
ENEC	Expanded Net Energy Cost
EPA	United States Environmental Protection Agency
ERO	Electric Reliability Organization
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FPA	Federal Power Act
FTR	Financial Transmission Right
GAAP	Accounting Principles Generally Accepted in the United States of America
GHG	Greenhouse Gases
HB 6	Ohio House Bill 6
LIBOR	London Inter-Bank Offered Rate
LOC	Letter of Credit
MISO	Midcontinent Independent System Operator, Inc.
mmBTU	One Million British Thermal Units
MW	Megawatt
NAAQS	National Ambient Air Quality Standards
N.D. Ohio	Northern District of Ohio
NERC	North American Electric Reliability Corporation
NOI	Notice of Inquiry
NOL	Net Operating Loss
NOx	Nitrogen Oxide
NPDES	National Pollutant Discharge Elimination System
NUG	Non-Utility Generation
OAG	Ohio Attorney General
OPEB	Other Post-Employment Benefits
PJM	PJM Interconnection, L.L.C.
PJM Tariff	PJM Open Access Transmission Tariff
PPA	Purchase Power Agreement
PPB	Parts per Billion
PUCO	Public Utilities Commission of Ohio
RCRA	Resource Conservation and Recovery Act
RFC	Reliability*First* Corporation
RGGI	Regional Greenhouse Gas Initiative
ROE	Return on Equity
RTO	Regional Transmission Organization
S.D. Ohio	Southern District of Ohio
SEC	United States Securities and Exchange Commission
SIP	State Implementation Plan(s) Under the Clean Air Act
SO_2	Sulfur Dioxide
Tax Act	Tax Cuts and Jobs Act adopted December 22, 2017
TDS	Total Dissolved Solid
TO	Transmission Owner
U.S. Supreme Court	United States Supreme Court
VEPCO	Virginia Electric and Power Company
VIE	Variable Interest Entity
VMS	Vegetation Management Surcharge
WVDEP	West Virginia Department of Environmental Protection
WVPSC	Public Service Commission of West Virginia

Report of Independent Auditors

To Management and the Board of Directors
of Monongahela Power Company

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Monongahela Power 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

MONONGAHELA POWER COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(In millions)	For the Years Ended December 31, 2020	2019
REVENUES:		
Electric sales	$ 1,389	$ 1,546
Excise and gross receipts tax collections	7	8
Total revenues	1,396	1,554
OPERATING EXPENSES:		
Fuel	368	497
Purchased power from non-affiliates	188	293
Other operating expenses	378	332
Provision for depreciation	150	149
Deferral (amortization) of regulatory liabilities, net	29	(14)
General taxes	69	67
Total operating expenses	1,182	1,324
OPERATING INCOME	214	230
OTHER INCOME (EXPENSE):		
Miscellaneous income, net	22	14
Pension and OPEB mark-to-market adjustment	(38)	(11)
Interest expense	(85)	(81)
Capitalized financing costs	5	4
Total other expense	(96)	(74)
INCOME BEFORE INCOME TAXES	118	156
INCOME TAXES	31	37
NET INCOME	$ 87	$ 119
STATEMENTS OF COMPREHENSIVE INCOME		
NET INCOME	$ 87	$ 119
OTHER COMPREHENSIVE LOSS:		
Pension and OPEB prior service costs	—	(3)
Other comprehensive loss	—	(3)
Income tax benefits on other comprehensive loss	—	(1)
Other comprehensive loss, net of tax	—	(2)
COMPREHENSIVE INCOME	$ 87	$ 117

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

MONONGAHELA POWER COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In millions, except share amounts)	December 31, 2020	December 31, 2019
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 100	$ 25
Restricted cash	20	17
Receivables-		
Customers	135	112
Less — Allowance for uncollectible customer receivables	13	3
	122	109
Affiliated companies	40	129
Other, net of allowance for uncollectible accounts of $2 in 2020 and less than $1 in 2019	10	9
Materials and supplies, at average cost	93	108
Prepaid taxes and other	34	33
	419	430
UTILITY PLANT:		
In service	4,857	4,701
Less — Accumulated provision for depreciation	736	654
	4,121	4,047
Construction work in progress	146	136
	4,267	4,183
DEFERRED CHARGES AND OTHER ASSETS:		
Intangible assets	73	80
Other	83	55
	156	135
	$ 4,842	$ 4,748
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES:		
Currently payable long-term debt	$ 94	$ 19
Short-term borrowings - affiliated companies	82	38
Accounts payable-		
Affiliated companies	21	27
Other	53	66
Accrued taxes	47	32
Accrued interest	13	14
Other	53	42
	363	238
CAPITALIZATION:		
Common stockholder's equity-		
Common stock, $50 par value, 7,000,000 shares authorized and 5,891,000 shares outstanding	295	295
Other paid-in capital	897	892
Retained earnings	143	131
Total common stockholder's equity	1,335	1,318
Long-term debt and other long-term obligations	1,698	1,791
	3,033	3,109
NONCURRENT LIABILITIES:		
Accumulated deferred income taxes	501	513
Regulatory liabilities	627	593
Retirement benefits	42	22
Asset retirement obligations	57	53
Purchased power liability	62	67
Other	157	153
	1,446	1,401
COMMITMENTS AND CONTINGENCIES (Note 14)		
	$ 4,842	$ 4,748

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

MONONGAHELA POWER COMPANY AND SUBSIDIARIES
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	AOCI	Retained Earnings	Total Stockholder's Equity
Balance, January 1, 2019	5,891,000	$ 295	$ 881	$ 2	$ 88	$ 1,266
Net income					119	119
Other comprehensive loss, net of tax				(2)		(2)
Stock-based compensation			3			3
Consolidated tax benefit allocation			8			8
Cash dividends declared on common stock					(76)	(76)
Balance, December 31, 2019	5,891,000	$ 295	$ 892	$ —	$ 131	$ 1,318
Net income					87	87
Stock-based compensation			3			3
Consolidated tax benefit allocation			2			2
Cash dividends declared on common stock					(75)	(75)
Balance, December 31, 2020	5,891,000	$ 295	$ 897	$ —	$ 143	$ 1,335

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

MONONGAHELA POWER COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)	For the Years Ended December 31, 2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 87	$ 119
Adjustments to reconcile net income to net cash from operating activities-		
Depreciation and amortization	179	128
Deferred income taxes and investment tax credits, net	(13)	25
Retirement benefits, net of payments	(13)	(9)
Pension and OPEB mark-to-market adjustment	38	11
Change in current assets and liabilities-		
Receivables	76	(67)
Materials and supplies	15	(14)
Prepaid taxes and other current assets	1	3
Accounts payable	(19)	(21)
Accrued taxes	15	(6)
Accrued interest	(1)	1
Other current liabilities	8	—
Other	(29)	41
Net cash provided from operating activities	344	211
CASH FLOWS FROM FINANCING ACTIVITIES:		
New financing-		
Long-term debt	—	250
Short-term borrowings - affiliated companies, net	44	—
Redemptions and repayments-		
Long-term debt	(18)	(19)
Short-term borrowings - affiliated companies, net	—	(123)
Common stock dividend payments	(75)	(76)
Other	(3)	—
Net cash provided from (used for) financing activities	(52)	32
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(200)	(227)
Proceeds from assets sales	—	23
Asset removal costs	(13)	(15)
Other	(1)	—
Net cash used for investing activities	(214)	(219)
Net change in cash, cash equivalents, and restricted cash	78	24
Cash, cash equivalents, and restricted cash at beginning of period	42	18
Cash, cash equivalents, and restricted cash at end of period	$ 120	$ 42
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the year -		
Interest (net of amounts capitalized)	$ 82	$ 77
Income taxes, net of refunds	$ 9	$ 42

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

MONONGAHELA POWER COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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.

MP, together with its consolidated subsidiaries is a wholly owned subsidiary of FE and is incorporated in Ohio. MP operates an electric transmission and distribution system in West Virginia and also generates power for its West Virginia customers. MP is subject to regulation by the WVPSC and FERC.

AGC, a wholly owned subsidiary of MP, holds an undivided 16.25% interest (487 MWs) in the output of Bath Power Station. This station is operated by the majority owner, Virginia Electric and Power Company, a non-affiliated utility. AGC provides its generation capacity from this station to MP. Prior to November 15, 2019, AGC also held an undivided 40% interest in its connecting transmission facilities. AGC sold their interest in these transmission facilities to VEPCO on November 15, 2019.

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. MP has evaluated events and transactions for potential recognition or disclosure through March 18, 2021, the date the financial statements were issued.

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

COVID-19

The outbreak of COVID-19 has become a global pandemic. MP is continuously evaluating the global pandemic and taking steps to mitigate known risks. The full impact on MP’s business from the pandemic, including the governmental and regulatory responses, is unknown at this time and difficult to predict. MP provides a critical and essential service to its customers and the health and safety of its employees and customers is its first priority. MP 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, MP 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 MP that are presently unknown or unanticipated may occur. Furthermore, the likelihood of an impact to MP, and the severity of any impact that does occur, could increase the longer the global pandemic persists.

RECEIVABLES

MP's principal business is providing electric service to customers in West Virginia. MP'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, MP accrues the estimated unbilled amount as revenue and reverses the related prior period estimate. Billed (net of uncollectibles) and unbilled customer receivables were $59 million and $63 million, respectively, as of December 31, 2020 and $48 million and $61 million, respectively, as of December 31, 2019. Receivables from customers include retail electric sales and distribution deliveries to residential, commercial and industrial customers.

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

FirstEnergy reviews its allowance for uncollectible customer receivables utilizing a quantitative and qualitative assessment, which includes consideration of the outbreak of COVID-19 and the impact on customer receivable balances outstanding and the ability of customers to continue payment since the pandemic began. The impact of COVID-19 on customers’ ability to pay for service, along with the actions FirstEnergy has taken in response to the pandemic, is expected to result in an increase in customer receivable write-offs as compared to historically incurred losses. In order to estimate the additional losses and impacts expected, FirstEnergy analyzed the likelihood of loss based on increases in customer accounts in arrears since the pandemic began in mid-March 2020 as well as what collection methods are or were suspended, and that have historically been utilized to ensure payment. Based on this assessment, and consideration of other qualitative factors described above, MP recognized incremental uncollectible expense of $10 million in the year 2020, all of which was deferred for future recovery.

In response to the COVID-19 pandemic, the WVPSC issued an order allowing MP to track and create a regulatory asset for future recovery of incremental costs, including uncollectible expenses, incurred as a result of the pandemic

Activity associated with customer receivables is as follows:

(In millions)	2020	2019
Customer Receivables		
Beginning of year balance	$ 3	$ 3
Charged to income [1]	12	7
Charged to other accounts [2]	3	3
Write-offs	(5)	(10)
End of year balance	$ 13	$ 3

[1] Customer receivable amounts charged to income include approximately $10 million associated with incremental uncollectible expense, discussed above, which was deferred for future recovery for the year ended December 31, 2020.
[2] Represents recoveries and reinstatements of accounts previously written off for uncollectible accounts.

ACCOUNTING FOR THE EFFECTS OF REGULATION

Regulatory assets represent incurred costs that have been deferred because of their probable future recovery from customers through regulated rates. Regulatory liabilities represent amounts that are expected to be credited to customers through future regulated rates or amounts collected from customers for costs not yet incurred. MP nets its regulatory assets and liabilities based on jurisdiction. MP 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 MP 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 MP and information on comparable companies within similar jurisdictions, as well as assessing progress of communications between MP and regulators. Certain of these regulatory assets, totaling approximately $23 million as of December 31, 2020 and December 31, 2019 are recorded based on prior precedent or anticipated recovery based on rate making premises without a specific order.

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	$ (211)	$ (212)	$ 1
Customer payables for future income taxes	(312)	(313)	1
Energy contract fair value	(73)	(78)	5
Deferred generation costs	(78)	(27)	(51)
Storm-related costs	23	24	(1)
Uncollectible and COVID-19 related costs	14	—	14
Other	10	13	(3)
Net Regulatory Liabilities included on the Consolidated Balance Sheets	$ (627)	$ (593)	$ (34)

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.

Energy contract fair value - Reflects the purchase accounting adjustment for certain contracts recorded during the merger of FirstEnergy and Allegheny Energy which is amortized over the life of the respective contract.

Deferred generation costs - Relates to the ENEC at MP. MP recovers net power supply costs, including fuel costs, purchased power costs and related expenses, net of related market sales revenue through the ENEC. The ENEC rate is updated annually.

Storm-related costs - Relates to the recovery of storm costs, none of which is currently being recovered through rates as of December 31, 2020, and approximately $1 million was being recovered through rates as of December 31, 2019.

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 $12 million and $13 million, respectively, are currently being recovered through rates over varying periods 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	$ 23	$ 24	$ (1)
Vegetation management	6	5	1
Deferred transmission costs	6	7	(1)
Uncollectible and COVID-19 related costs	16	—	16
Regulatory Assets Not Earning a Current Return	$ 51	$ 36	$ 15

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. MP recognizes liabilities for planned major maintenance projects as they are incurred.

MP 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 2.4% of average depreciable property in both 2020 and 2019.

Capitalized financing costs on MP's Consolidated Statement of Income include $3 million and $2 million of allowance for equity funds used during construction and $2 million of capitalized interest for the years ended December 31, 2020 and 2019, respectively.

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

As of December 31, 2020, MP controlled approximately 3,580 MWs of generation capacity as shown in the following table:

Plant	Type	Net Demonstrated Capacity (MWs)
Harrison	Coal	1,984
Fort Martin	Coal	1,098
OVEC[(1)]	Coal	11
Bath Power	Hydro	487
		3,580

[(1)] Represents MP's 0.49% entitlement based on its participation in OVEC.

UNEARNED REVENUE

In April 2007 and December 2009, MP Environmental Funding LLC, an indirect subsidiary of MP, and PE Environmental Funding LLC, an indirect subsidiary of PE, issued environmental control bonds. These bonds securitize the right to collect an environmental control surcharge that MP and PE impose on their retail customers in West Virginia. PE contributed its net bond proceeds from its issuances of these bonds to MP as a prepayment for power, with MP recording the receipt of the proceeds as unearned revenue. The carrying amounts of unearned revenue included in “Purchased power liability" on MP's Consolidated Balance Sheets as of December 31, 2020 and 2019, were $62 million and $67 million, respectively. This unearned revenue is recognized to the same extent that MP depreciates the portion of the scrubber fixed assets financed by PE's bonds.

DERIVATIVES

MP is exposed to financial risks resulting from fluctuating interest rates and commodity prices, including prices for electricity, coal and energy transmission. To manage the volatility related to these exposures, FirstEnergy’s Risk Policy Committee, comprised of senior management, provides general management oversight for risk management activities throughout FirstEnergy, including MP. The Risk Policy Committee is responsible for promoting the effective design and implementation of sound risk management programs and oversees compliance with corporate risk management policies and established risk management practice.

INVENTORY

Materials and supplies inventory includes fuel inventory and the distribution, transmission and generation plant materials, net of reserve for excess and obsolete inventory. Materials are generally charged to inventory at weighted average cost when purchased and expensed or capitalized, as appropriate, when used or installed. Fuel inventory is accounted for at weighted average cost when purchased, and recorded to fuel expense when consumed.

MP currently has coal contracts with various terms to acquire approximately 5.5 million tons of coal for the year 2021, which is approximately 90% of its forecasted 2021 coal requirements. This contracted coal is produced primarily from mines located in Pennsylvania and West Virginia. The contracts expire at various times through 2025.

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, MP 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. MP has assessed other FASB issuances of new standards not described below based upon the current expectation that such new standards will not significantly impact MP'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

MP 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. MP 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 MP are not subject to the election and are included in revenue. MP 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.

MP's principal business is providing electric service to customers in West Virginia. MP'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, MP 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 West Virginia that are regulated by the WVPSC.

MP earns revenue from state-regulated rate tariffs under which it provides **distribution services** to residential, commercial and industrial customers in its service territory. MP 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 12, "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 generation sales in West Virginia that are regulated by the WVPSC. 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. MP 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 PJM Reliability Pricing Model Base Residual Auction 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 tables represents a disaggregation of revenue from contracts with customers for the years ended March 31, 2020 and 2019, by type of service:

	For the Years Ended December 31,	
Revenues by Type of Service	**2020**	**2019**
	(In millions)	
Distribution services	$ 244	$ 241
Retail generation	726	734
Wholesale sales	189	316
Transmission	43	41
Other	2	7
Total revenues from contracts with customers	$ 1,204	$ 1,339
Other non-customer revenue	192	215
Total revenues	$ 1,396	$ 1,554

Other non-customer revenue includes revenue from derivatives of $14 million and $7 million as well as $175 million and $201 million lease revenue from PE associated with an agreement to provide power required for default service requirements for the years ended December 31, 2020 and 2019, respectively.

The following table represents a disaggregation of MP'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,	
Revenues by Customer Class	**2020**	**2019**
	(In millions)	
Residential	$ 392	$ 387
Commercial	234	248
Industrial	339	335
Other	5	5
Total Revenues	$ 970	$ 975

MP provides transmission infrastructure owned and operated by MP to transmit electricity from generation sources to distribution facilities. MP's transmission revenue is primarily derived from stated transmission rates. Revenue requirements under stated rates are calculated annually by multiplying the highest one-hour peak load in each respective transmission zone by the approved, stated rate in that zone. Revenues and cash receipts for the stand-ready obligation of providing transmission service are recognized ratably over time. On October 29, 2020, MP filed tariff amendments with FERC to convert their existing stated transmission rate to a forward-looking formula transmission rate, effective January 1, 2021. Please see Note 13, "Regulatory Matters" for additional information.

For the years ended December 31, 2020 and 2019, revenues include transmission revenue from contracts with customers of $43 million and $41 million, respectively.

3. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	Defined Benefit Pension & OPEB Plans
	(In millions)
AOCI Balance, January 1, 2019	$ 2
Amounts reclassified from AOCI	(3)
Income tax benefits on other comprehensive loss	(1)
Net other comprehensive loss	(2)
AOCI Balance, December 31, 2019	$ —
Amounts reclassified from AOCI	—
Income tax benefits on other comprehensive loss	—
Net other comprehensive loss	—
AOCI Balance, December 31, 2020	$ —

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

Reclassifications out of AOCI [1]	For the Years Ended December 31, 2020	2019	Affected Line Item in the Consolidated Statements of Income
	(In millions)		
Defined Benefit Pension and OPEB Plans			
Prior-service costs	$ —	$ (3)	[2]
	—	1	Income taxes
	$ —	$ (2)	Net of tax

[1] Amounts in parenthesis represent credits to the Consolidated Statements of Income from AOCI.

[2] These AOCI components are included in the computation of net periodic pension cost. See Note 4, "Pension and Other Postemployment Benefits," for additional details.

4. PENSION AND OTHER POSTEMPLOYMENT BENEFITS

FirstEnergy provides noncontributory qualified defined benefit pension plans that cover substantially all of its employees and non-qualified pension plans that cover certain employees, including employees of MP. The plans provide defined benefits based on years of service and compensation levels. Under the cash-balance portion of the Pension Plan (for employees hired on or after January 1, 2014), FirstEnergy makes contributions to eligible employee retirement accounts based on a pay credit and an interest credit. In addition, FirstEnergy provides a minimum amount of noncontributory life insurance to retired employees in addition to optional contributory insurance. Health care benefits, which include certain employee contributions, deductibles and co-payments, are also available upon retirement to certain employees, their dependents and, under certain circumstances, their survivors. MP recognizes its allocated portion of the expected cost of providing pension and OPEB to employees and their beneficiaries and covered dependents from the time employees are hired until they become eligible to receive those benefits. MP 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 ($28 million at MP) 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. MP's pension and OPEB mark-to-market adjustments for the years ended December 31, 2020 and 2019, were $38 million and $11 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 MP) 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	
For The Years Ended	**2020**	**2019**	**2020**	**2019**
	(In millions)			
FirstEnergy benefit obligation	$ 11,935	$ 11,050	$ 676	$ 1
FirstEnergy fair value of plan assets	8,968	8,395	502	—
FirstEnergy funded status	$ (2,967)	$ (2,655)	$ (174)	$ —
FirstEnergy accumulated benefit obligation	$ 11,376	$ 10,439	$ —	$ —
FirstEnergy net periodic costs (credits) [(1)]	$ 346	$ 703	$ (46)	$ (20)
MP's share of net liability [(2)]	$ 30	$ 12	$ 8	$ 7
MP's share of net periodic costs (credits) [(1)]	$ 18	$ (26)	$ 1	$ 1

(1) Includes pension and OPEB mark-to-market adjustment.
(2) Excludes $81 million and $66 million as of December 31, 2020 and 2019, respectively, of affiliated non-current liabilities related to pension and OPEB mark-to-market costs allocated to MP.

	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.

5. TAXES

MP 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.

MP 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. MP 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. MP 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 MP.

	For the Years Ended December 31,	
INCOME TAXES:	**2020**	**2019**
	(In millions)	
Currently payable		
Federal	$ 34	$ 3
State	10	9
	44	12
Deferred, net-		
Federal	(12)	20
State	—	6
	(12)	26
Investment Tax Credit Amortization	(1)	(1)
Total income taxes	$ 31	$ 37

MP'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	$ 118	$ 156
Federal income tax expense at statutory rate	$ 25	$ 33
Increases (reductions) in taxes resulting from-		
State income tax, net of federal income tax benefit	6	13
State valuation allowance	3	—
Excess deferred tax amortization due to the Tax Act	(1)	(4)
Amortization of investment tax credits	(1)	(1)
Federal RTA Adjustment resulting from sale of Bath Hydro	—	(3)
Other, net	(1)	(1)
Total income taxes	$ 31	$ 37
Effective income tax rate	26.3 %	23.7 %

MP's effective tax rate on pre-tax income for 2020 and 2019 was 26.3% and 23.7%, respectively. The change in the effective tax rate was primarily due to the absence of a $3 million benefit recorded in 2019 related to federal and state tax true-ups associated with the sale of the Bath Power Station on MP’s 2018 tax returns.

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

	As of December 31,	
(In millions	2020	2019
Property basis differences	$ 601	$ 585
Regulatory asset/liability	(27)	(17)
Purchase accounting adjustments	22	25
Postretirement Benefits	(31)	(22)
Loss Carryforwards	(118)	(107)
Valuation Allowances	57	54
Other	(3)	(5)
Net deferred income tax liabilities	$ 501	$ 513

MP records as deferred income tax assets the effect of Federal 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, MP's loss carryforwards consisted of $299 million ($63 million, net of tax) of federal NOL carryforwards that will begin to expire in 2031 and $1,077 million ($56 million, net of tax) of state NOL carryforwards, which have been fully reserved and will begin to expire in 2029.

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

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

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

General Taxes

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

(In millions)	2020	2019
State gross receipts	8	8
Real and personal property	27	26
Business and occupation	24	24
Social security and unemployment	10	9
Total general taxes	$ 69	$ 67

6. LEASES

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

MP also has an agreement to provide power to PE for its default service requirements. Lease revenue is based upon cost and as such is variable in nature. Revenue associated with this agreement was $175 million and $201 million in 2020 and 2019, respectively.

MP 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, MP 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. MP did not evaluate land easements under the new guidance as they were not previously accounted for as leases. MP 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 MP '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 $1 million.

Finance leases for assets used in regulated operations are recognized in MP'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]	$ 4	$ 3
Finance lease costs:		
Amortization of right-of-use assets	—	1
Total finance lease cost	—	1
Total lease cost	$ 4	$ 4

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

Supplemental balance sheet information related to leases was as follows:

(In millions)	Financial Statement Line Item	As of December 31, 2020	As of December 31, 2019
Assets			
Operating lease assets [1]	Deferred charges and other assets	$ 22	$ 17
Finance lease assets [2]	Property, plant and equipment	1	1
Total leased assets		$ 23	$ 18
Liabilities			
Current:			
Operating	Other current liabilities	$ 4	$ 2
Finance	Currently payable long-term debt	1	—
Noncurrent:			
Operating	Other noncurrent liabilities	18	15
Finance	Long-term debt and other long-term obligations	—	1
Total leased liabilities		$ 23	$ 18

[1] Operating lease assets are recorded net of accumulated amortization of $4 million and $2 million as of December 31, 2020 and 2019, respectively.
[2] Finance lease assets are recorded net of accumulated amortization of $1 million as of December 31, 2020 and 2019.

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	6.59	6.60
Finance leases	1.05	1.79
Weighted-average discount rate [1]		
Operating leases	2.98 %	3.18 %
Finance leases	13.87 %	13.32 %

[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, December 31, 2020	For the Years Ended, December 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 4	$ 3
Operating cash flows from finance leases	—	—
Finance cash flows from finance leases	—	1
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$ 8	$ 6
Finance leases	—	—

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

(In millions)	Operating Leases	Finance Leases	Total
2021	$ 4	$ 1	$ 5
2022	4	—	4
2023	4	—	4
2024	4	—	4
2025	2	—	2
Thereafter	6	—	6
Total lease payments	24	1	25
Less imputed interest	(2)	—	(2)
Total net present value	$ 22	$ 1	$ 23

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.

7. INTANGIBLE ASSETS

As of December 31, 2020, intangible assets classified in Other Deferred Charges on MP's Consolidated Balance Sheets, include the following:

	Intangible Assets			Amortization expense						
				Actual	Estimated					
(In millions)	Gross	Accumulated Amortization	Net	2020	2021	2022	2023	2024	2025	Thereafter
NUG contracts[1]	$ 124	$ 51	$ 73	$ 5	$ 5	$ 5	$ 5	$ 5	$ 5	$ 48
Coal contracts[2]	102	102	—	2	—	—	—	—	—	—
	$ 226	$ 153	$ 73	$ 7	$ 5	$ 5	$ 5	$ 5	$ 5	$ 48

(1) NUG Contracts are subject to regulatory accounting and their amortization does not impact earnings.
(2) The coal contracts were recorded with a regulatory offset and their amortization does not impact earnings.

8. FAIR VALUE MEASUREMENTS

CASH AND CASH EQUIVALENTS

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.

RECURRING 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 markets

Level 2 - Quoted prices for similar instruments in active markets
- 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 are used to measure fair value. A more detailed description of MP's valuation process for FTRs follows:

FTRs are financial instruments that entitle the holder to a stream of revenues (or charges) based on the hourly day-ahead congestion price differences across transmission paths. FTRs are acquired by MP in the annual, monthly and long-term RTO auctions and are initially recorded using the auction clearing price less cost. After initial recognition, FTRs' carrying values are periodically adjusted to fair value using a mark-to-model methodology, which approximates market. The primary inputs into the model, which are generally less observable than objective sources, are the most recent RTO auction clearing prices and the FTRs' remaining hours. The model calculates the fair value by multiplying the most recent auction clearing price by the remaining FTR hours less the prorated FTR cost. Significant increases or decreases in inputs in isolation may have resulted in a higher or lower fair value measurement.

MP primarily applies the market approach for recurring fair value measurements using the best information available. Accordingly, MP 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.

There were no transfers between levels during the twelve months ended December 31, 2020. The following tables provide a reconciliation of changes in the fair value of FTRs held by MP and classified as Level 3 in the fair value hierarchy during the periods ended December 31, 2020 and December 31, 2019. MP has no level 1 or 2 assets or liabilities that are measured at fair value on the balance sheet.

(In millions)	Net Derivative Asset (Liability) FTRs
Balance, January 1, 2019	$ 9
Total unrealized losses included in net regulatory liabilities	(1)
Purchases	2
Settlements	(7)
Balance, December 31, 2019	$ 3
Total unrealized losses included in net regulatory liabilities	(3)
Purchases	5
Settlements	(2)
Balance, December 31, 2020	$ 3

LONG-TERM DEBT

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, MP believes that their costs approximate their fair market value. The following table provides the approximate fair value and related carrying amounts of long-term debt, which excludes finance lease obligations, net unamortized debt issuance costs, unamortized fair value adjustments and discounts:

	December 31, 2020		December 31, 2019	
(In millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	$ 1,799	$ 2,112	$ 1,817	$ 2,075

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

9. VARIABLE INTEREST ENTITY

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

Consolidated VIEs

VIEs in which MP is the primary beneficiary included in MP's consolidated financial statements consist of MP Environmental Funding Company. The consolidated financial statements of MP include environmental control bonds issued by a bankruptcy remote, special purpose limited liability company that is an indirect subsidiary of MP. Proceeds from the bonds were used to construct environmental control facilities. The special purpose limited liability company owns the irrevocable right to collect non-bypassable environmental control charges from all customers who receive electric delivery service in MP's West Virginia service territories. Principal and interest owed on the environmental control bonds is secured by, and payable solely from, the proceeds of the environmental control charges. Creditors of MP, other than the special purpose limited liability company, have no recourse to any assets or revenues of the special purpose limited liability company. The cash collected from MP's customers is used to service debt of the funding company. As of December 31, 2020 and December 31, 2019, $225 million and $250 million of environmental control bonds were outstanding, respectively.

MP does not have any unconsolidated VIEs.

10. CAPITALIZATION

PREFERRED STOCK

MP is authorized to issue 940,000 shares of preferred stock, $100 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 MP 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**
FMBs	2024 - 2049	3.230% - 5.400%	$ 1,450	$ 1,450
Secured notes - fixed rate	2026 - 2037	3.000% - 5.523%	299	317
Unsecured note - affiliated company	2029	4.470%	50	50
Finance lease obligations			1	1
Unamortized fair value adjustments			5	6
Unamortized debt discounts			(1)	(1)
Unamortized debt issuance costs			(12)	(13)
Currently payable long-term debt			(94)	(19)
Total long-term debt and other long-term obligations			$ 1,698	$ 1,791

The following table presents scheduled debt repayments for outstanding long-term debt, excluding finance leases, fair value purchase accounting adjustments and unamortized debt discounts and premiums, for the next five years as of December 31, 2020. PCRBs that are scheduled to be tendered for mandatory purchase prior to maturity are reflected in the applicable year in which such PCRBs are scheduled to be tendered.

Year	MP
	(In millions)
2021	$ 93
2022	20
2023	22
2024	423
2025	24

Certain PCRBs allow bondholders to tender their PCRBs for mandatory purchase prior to maturity. As of December 31, 2020, MP has a $74 million PCRB classified as current portion of long-term debt, which the debt holders may exercise their right to tender in 2021.

Environmental Control Bonds

The consolidated financial statements of MP include environmental control bonds issued by a bankruptcy remote, special purpose limited liability company that is an indirect subsidiary of MP. Proceeds from the bonds were used to construct environmental control facilities. Principal and interest owed on the environmental control bonds is secured by, and payable solely from, the proceeds of the environmental control charges. As of December 31, 2020 and 2019, $225 million and $250 million of environmental control bonds were outstanding, respectively.

See Note 9, "Variable Interest Entity" for additional information on securitized bonds.

Debt Covenant Default Provisions

MP 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 MP 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 MP's financial condition.

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

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

11. SHORT-TERM BORROWINGS AND BANK LINES OF CREDIT

MP had $82 million and $38 million of outstanding short-term borrowings as of December 31, 2020 and 2019, respectively.

Revolving Credit Facilities

FE and the Utilities, including MP, 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, bringing the outstanding principal balance under the FE Revolving Facility to $1.2 billion, with $1.3 billion of remaining availability under the FE Revolving Facility. Borrowings were increased under the Revolving Facility as a proactive measure to increase the respective cash position and preserve financial flexibility.

Under the Facility, MP may borrow up to its sub-limit of $500 million, all of which was available to MP as of December 31, 2020. MP 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 MP, 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.

12. ASSET RETIREMENT OBLIGATIONS

MP has recognized applicable legal obligations for AROs and the associated cost primarily for reclamation of sludge disposal ponds and closure of coal ash disposal sites. In addition, MP has recognized conditional AROs, primarily for asbestos remediation.

Accounting standards for conditional retirement obligations associated with tangible long-lived assets require recognition of the fair value of a liability for an ARO in the period in which it is incurred if a reasonable estimate can 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 MP's ARO balances during 2020 and 2019:

ARO Reconciliation	***(In millions)***
Balance, January 1, 2019	$ 47
Accretion	6
Balance, December 31, 2019	53
Accretion	6
Settlements	(2)
Balance, December 31, 2020	$ 57

13. REGULATORY MATTERS

STATE REGULATION

MP's retail rates, conditions of service, issuance of securities and other matters are subject to regulation in West Virginia by the WVPSC. The key terms of MP's current rate orders for distribution customer billings, which have been effective since February 2015, include an allowed debt/equity ratio of 54%/46% (The WVPSC-approved settlement agreement for such rates did not disclose ROE).

WEST VIRGINIA

MP provides electric service to all customers through traditional cost-based, regulated utility ratemaking and operates under rates approved by the WVPSC effective February 2015. MP recovers net power supply costs, including fuel costs, purchased power costs and related expenses, net of related market sales revenue through the ENEC. MP's ENEC rate is updated annually.

On March 13, 2020, the WVPSC urged all utilities to suspend utility service terminations except where necessary as a matter of safety or where requested by the customer. On May 15, 2020, the WVPSC issued an order to authorize MP and PE to record a deferral of additional, extraordinary costs directly related to complying with the various COVID-19 government shut-down orders and operational precautions, including impacts on uncollectible expense and cash flow related to temporary discontinuance of service terminations for non-payment and any credits to minimum demand charges associated with business customers adversely impacted by shut-downs or temporary closures related to the pandemic. MP and PE resumed disconnection activity for commercial and industrial customers on September 15, 2020, and for residential customers on November 4, 2020.

On August 28, 2020, MP and PE filed with the WVPSC their annual ENEC case requesting a decrease in ENEC rates of $55 million beginning January 1, 2021, representing a 4% decrease in rates compared to those in effect on August 28, 2020. The decrease in the ENEC rates is net of recovering approximately $10.5 million in previously deferred, incremental uncollectible and other related costs resulting from the COVID-19 pandemic. The WVPSC approved a unanimous settlement by the parties on December 16, 2020 with rates effective January 1, 2021.

Also, on August 28, 2020, MP and PE filed with the WVPSC for recovery of costs associated with modernization and improvement program for their coal-fired boilers. The proposed annual revenue increase for these environmental compliance projects is $5 million beginning January 1, 2021. The WVPSC approved a unanimous settlement by the parties on December 16, 2020 approving the recovery of those costs.

On December 30, 2020, MP and PE filed an integrated resource plan with the WVPSC. The plan projects a small capacity deficit but an energy surplus in MP’s and PE’s supply resources when compared with current WV load demand and projects the capacity deficit growing over the next 15 years. The plan does not recommend additional supply-side resources with a possible exception for small utility-scale solar resources and recommends that the capacity deficit be met through the PJM capacity market. MP currently expects to seek approval in 2021 to construct solar generation sources of up to 50 MWs.

On December 30, 2020, MP and PE filed with the WVPSC a determination of the rate impact of the Tax Act with respect to ADIT. The filing proposes an annual revenue reduction of $2.6 million annually, effective January 1, 2022, with reconciliation and any resulting adjustments incorporated into the annual ENEC proceedings.

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, MP is subject to regulation by FERC. FERC regulations require MP to provide open access transmission service at FERC-approved rates, terms and conditions. MP's transmission facilities are subject to functional control by PJM, and transmission service using MP's transmission facilities is provided by PJM under the PJM Tariff. MP provides transmission service under a stated transmission rate pursuant to a FERC-approved settlement agreement that did not specify an allowed capital structure or ROE;

although as noted below, on January 1, 2021, MP implemented a forward-looking formula rate, which has been accepted by FERC, subject to refund, pending further hearing and settlement procedures.

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. MP has been authorized by FERC to sell wholesale power in interstate commerce at market-based rates and has a market-based rate tariff on file with FERC, although major wholesale purchases remain subject to review and regulation by the WVPSC. In addition, pursuant to a full requirements power purchase agreement on file with FERC, MP provides capacity, energy and ancillary service to PE to serve PE's West Virginia load.

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

FirstEnergy, including MP, 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 MP, 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 MP, 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 MP's, part to comply with the reliability standards for its bulk electric system could result in the imposition of financial penalties, or obligations to upgrade or build transmission facilities, that could have a material adverse effect on MP'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. PE (as holder of a “stated” transmission rate) is addressing these requirements in the transmission formula rates amendments that were filed on October 29, 2020.

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.

Allegheny Power Zone Transmission Formula Rate Filings

On October 29, 2020, MP, PE and WP filed tariff amendments with FERC to convert their existing stated transmission rate to a forward-looking formula transmission rate, effective January 1, 2021. In addition, on October 30, 2020, KATCo filed a proposed new tariff to establish a forward-looking formula rate, and requested that the new rate become effective January 1, 2021. In its filing, KATCo explained that while it currently owns no transmission assets, it may build new transmission facilities in the Allegheny zone, and that it may seek required state and federal authorizations to acquire transmission assets from PE and WP by January 1, 2022. These transmission rate filings were approved by FERC on December 31, 2020, subject to refund, pending further hearing and settlement proceedings. MP, PE and WP, and KATCo are engaged in settlement negotiations with the other parties to the formula rate proceedings.

14. COMMITMENTS AND CONTINGENCIES

ENVIRONMENTAL MATTERS

Various federal, state and local authorities regulate MP with regard to air and water quality, hazardous and solid waste disposal, and other environmental matters. While MP’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. MP 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

FirstEnergy, including MP, complies with SO_2 and NOx emission reduction requirements under the CAA and SIP(s) by burning lower-sulfur fuel, utilizing combustion controls and post-combustion controls and/or using emission allowances.

CSAPR requires reductions of NOx and SO2 emissions in two phases (2015 and 2017), ultimately capping SO2 emissions in affected states to 2.4 million tons annually and NOx emissions to 1.2 million tons annually. CSAPR allows trading of NOx and SO2 emission allowances between power plants located in the same state and interstate trading of NOx and SO2 emission allowances with some restrictions. The D.C. Circuit ordered the EPA on July 28, 2015, to reconsider the CSAPR caps on NOx and SO2 emissions from power plants in 13 states, including West Virginia. This follows the 2014 U.S. Supreme Court ruling generally upholding the EPA’s regulatory approach under CSAPR, but questioning whether the EPA required upwind states to reduce emissions by more than their contribution to air pollution in downwind states. The EPA issued a CSAPR update rule on September 7, 2016, reducing summertime NOx emissions from power plants in 22 states in the eastern U.S., including West Virginia, beginning in 2017. Various states and other stakeholders appealed the CSAPR update rule to the D.C. Circuit in November and December 2016. On September 13, 2019, the D.C. Circuit remanded the CSAPR update rule to the EPA citing that the rule did not eliminate upwind states’ significant contributions to downwind states’ air quality attainment requirements within applicable attainment deadlines. Depending on the outcome of the appeals, the EPA’s reconsideration of the CSAPR update rule and how the EPA and the states ultimately implement CSAPR, the future cost of compliance may materially impact FirstEnergy's operations, cash flows and financial condition.

In February 2019, the EPA announced its final decision to retain without changes the NAAQS for SO_2, specifically retaining the 2010 primary (health-based) 1-hour standard of 75 PPB. As of December 31, 2020, MP has no power plants operating in areas designated as non-attainment by the EPA.

In August 2016, the State of Delaware filed a CAA Section 126 petition with the EPA alleging that the Harrison generating facility's NOx emissions significantly contribute to Delaware's inability to attain the ozone NAAQS. The petition sought a short-term NOx emission rate limit of 0.125 lb/mmBTU over an averaging period of no more than 24 hours. In November 2016, the State of Maryland filed a CAA Section 126 petition with the EPA alleging that NOx emissions from 36 EGUs, including Harrison Units 1, 2 and 3, significantly contribute to Maryland's inability to attain the ozone NAAQS. The petition sought NOx emission rate limits for the 36 EGUs by May 1, 2017. On September 14, 2018, the EPA denied both the States of Delaware and Maryland’s petitions under CAA Section 126. In October 2018, Delaware and Maryland appealed the denials of their petitions to the D.C. Circuit. In March 2018, the State of New York filed a CAA Section 126 petition with the EPA alleging that NOx emissions from nine states (including West Virginia) significantly contribute to New York’s inability to attain the ozone NAAQS. The petition seeks suitable emission rate limits for large stationary sources that are affecting New York’s air quality within the three years allowed by CAA Section 126. On September 20, 2019, the EPA denied New York’s CAA Section 126 petition. On October 29, 2019, the State of New York appealed the denial of its petition to the D.C. Circuit. On July 14, 2020, the D.C. Circuit reversed and remanded the New York petition to the EPA for further consideration. MP is unable to predict the outcome of these matters or estimate the loss or range of loss.

Climate Change

There are a number of initiatives to reduce GHG emissions at the state, federal and international level. Certain northeastern states are participating in the RGGI and western states led by California, have implemented programs, primarily cap and trade mechanisms, to control emissions of certain GHGs. Additional policies reducing GHG emissions, such as demand reduction programs, renewable portfolio standards and renewable subsidies have been implemented across the nation.

At the international level, the United Nations Framework Convention on Climate Change resulted in the Kyoto Protocol requiring participating countries, which does not include the U.S., to reduce GHGs commencing in 2008 and has been extended through 2020. The Obama Administration submitted in March 2015, a formal pledge for the U.S. to reduce its economy-wide GHG emissions by 26 to 28 percent below 2005 levels by 2025. In 2015, FirstEnergy set a goal of reducing company-wide CO2 emissions by at least 90 percent below 2005 levels by 2045. As of December 31, 2018, FirstEnergy has reduced its CO2 emissions by approximately 62 percent. In September 2016, the U.S. joined in adopting the agreement reached on December 12, 2015, at the United Nations Framework Convention on Climate Change meetings in Paris. The Paris Agreement's non-binding obligations to limit global warming to below two degrees Celsius became effective on November 4, 2016. On June 1, 2017, the Trump Administration announced that the U.S. would cease all participation in the Paris Agreement. On January, 20, 2021, President Biden signed an executive orders re-adopting the agreement on behalf of the U.S. FirstEnergy cannot currently estimate the financial impact of climate change policies, although potential legislative or regulatory programs restricting CO2 emissions, or litigation alleging damages from GHG emissions, could require material capital and other expenditures or result in changes to its operations.

In December 2009, the EPA released its final "Endangerment and Cause or Contribute Findings for Greenhouse Gases under the Clean Air Act" concluding that concentrations of several key GHGs constitutes an "endangerment" and may be regulated as "air pollutants" under the CAA and mandated measurement and reporting of GHG emissions from certain sources, including electric generating plants. The EPA released its final CPP regulations in August 2015 to reduce CO2 emissions from existing fossil fuel-fired EGUs and finalized separate regulations imposing CO2 emission limits for new, modified, and reconstructed fossil fuel-fired EGUs. Numerous states and private parties filed appeals and motions to stay the CPP with the D.C. Circuit in October 2015. On February 9, 2016, the U.S. Supreme Court stayed the rule during the pendency of the challenges to the D.C. Circuit and U.S. Supreme Court. On March 28, 2017, an executive order, entitled "Promoting Energy Independence and Economic Growth," instructed the EPA to review the CPP and related rules addressing GHG emissions and suspend, revise or rescind the rules if appropriate. On October 16, 2017, the EPA issued a proposed rule to repeal the CPP. On June 19, 2019, the EPA repealed the CPP and replaced it with the ACE rule that establishes guidelines for states to develop standards of performance to address GHG emissions from existing coal-fired power plants. On January 19, 2021, the D.C. Circuit remanded the ACE rule declaring that the EPA was "arbitrary and capricious" in its rule making, as such, the ACE rule is no longer in effect and all actions thus far taken by States to implement the federally mandated rule are now null and void. The D.C. Circuit decision is subject to legal challenge. Depending on the outcomes of further appeals and how any final rules are ultimately implemented, the future cost of compliance may be material.

Clean Water Act

Various water quality regulations, the majority of which are the result of the federal CWA and its amendments, apply to MP's facilities. In addition, the states in which MP operates have water quality standards applicable to MP's operations.

The EPA finalized CWA Section 316(b) regulations in May 2014, requiring cooling water intake structures with an intake velocity greater than 0.5 feet per second to reduce fish impingement when aquatic organisms are pinned against screens or other parts of a cooling water intake system to a 12% annual average and requiring cooling water intake structures exceeding 125 million gallons per day to conduct studies to determine site-specific controls, if any, to reduce entrainment, which occurs when aquatic life is drawn into a facility's cooling water system. Depending on any final action taken by the states with respect to impingement and entrainment, the future capital costs of compliance with these standards may be material.

On September 30, 2015, the EPA finalized new, more stringent effluent limits for the Steam Electric Power Generating category (40 CFR Part 423) for arsenic, mercury, selenium and nitrogen for wastewater from wet scrubber systems and zero discharge of pollutants in ash transport water. The treatment obligations were to phase-in as permits are renewed on a five-year cycle from 2018 to 2023. However, on April 13, 2017, the EPA granted a Petition for Reconsideration and on September 18, 2017, the EPA postponed certain compliance deadlines for two years. On August 31, 2020, the EPA issued a final rule revising the effluent limits for discharges from wet scrubber systems, retaining the zero discharge standard for ash transport water (with some limited discharge allowances), and extending the deadline for compliance to December 31, 2025 for both. In addition, the EPA allows for less stringent limits for sub-categories of generating units based on capacity utilization, flow volume from the scrubber system, and unit retirement date. Depending on the outcome of appeals, how final rules are ultimately implemented and the compliance options MP elects to take with the new rules, the compliance with these standards, which could include capital expenditures at the Fort Martin and Harrison power stations, may be substantial and changes to FirstEnergy's and MP's operations at those power stations may also result.

In October 2009, the WVDEP issued an NPDES water discharge permit for the Fort Martin plant, which imposed TDS, sulfate concentrations and other effluent limitations for heavy metals, as well as temperature limitations. Concurrent with the issuance of the Fort Martin NPDES permit, WVDEP also issued an administrative order setting deadlines for MP to meet certain of the effluent limits that were effective immediately under the terms of the NPDES permit. MP appealed, and a stay of certain conditions of the NPDES permit and order have been granted pending a final decision on the appeal and subject to WVDEP moving to dissolve the stay. The Fort Martin NPDES permit could require an initial capital investment ranging from $150 million to $300 million in order to install technology to meet the TDS and sulfate limits, which technology may also meet certain of the other effluent limits. In March 2018, the WVDEP issued a draft NPDES Permit Renewal that, if finalized as proposed, would moot the appeal and reduce the estimated capital investment requirements. MP intends to vigorously pursue these issues but cannot predict the outcome of the appeal or estimate the possible loss or range of loss.

MP intends to vigorously defend against the CWA matters described above but, except as indicated above, cannot predict their outcomes or estimate the loss or range of loss.

Regulation of Waste Disposal

Federal and state hazardous waste regulations have been promulgated as a result of the RCRA, as amended, and the Toxic Substances Control Act. Certain CCRs, such as coal ash, were exempted from hazardous waste disposal requirements pending the EPA's evaluation of the need for future regulation.

In April 2015, the EPA finalized regulations for the disposal of CCRs (non-hazardous), establishing national standards for landfill design, structural integrity design and assessment criteria for surface impoundments, groundwater monitoring and protection procedures and other operational and reporting procedures to assure the safe disposal of CCRs from electric generating plants. On September 13, 2017, the EPA announced that it would reconsider certain provisions of the final regulations. On July 17, 2018, the EPA Administrator signed a final rule extending the deadline for certain CCR facilities to cease disposal and commence closure activities, as well as, establishing less stringent groundwater monitoring and protection requirements. On August 21, 2018, the D.C. Circuit remanded sections of the CCR Rule to the EPA to provide additional safeguards for unlined CCR impoundments that are more protective of human health and the environment. On December 2, 2019, the EPA published a proposed rule accelerating the date that certain CCR impoundments must cease accepting waste and initiate closure to August 31, 2020. The proposed rule allows for an extension of the closure deadline based on meeting proscribed site-specific criteria. On July 29, 2020, the EPA published a final rule revising the date that certain CCR impoundments must cease accepting waste and initiate closure to April 11, 2021. The final rule allows for an extension of the closure deadline based on meeting proscribed site-specific criteria.

OTHER LEGAL PROCEEDINGS

United States v. Larry Householder, et al.

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

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

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

- *Owens v. FirstEnergy Corp. et al.* and *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 MP. 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 MP's normal business operations pending against MP or its subsidiaries. The loss or range of loss in these matters is not expected to be material to MP or its subsidiaries. The other potentially material items not otherwise discussed above are described under Note 13, "Regulatory Matters."

MP 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 MP 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 MP 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 MP's or its subsidiaries' financial condition, results of operations and cash flows.

15. TRANSACTIONS WITH AFFILIATED COMPANIES

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

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

	For the Years Ended December 31,	
	2020	2019
	(In millions)	
Revenues	$ 196	$ 222
Expenses:		
Support services	83	77
Miscellaneous Income	2	2
Interest expense to affiliates	—	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 11, "Short-Term Borrowings and Bank Lines of Credit")

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