

OHIO EDISON 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 Ohio Edison Company and its current and former subsidiaries and affiliated companies:

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

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

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

| | |
|------------|--|
| DPM | Distribution Platform Modernization |
| DR | Demand Response |
| DSIC | Distribution System Improvement Charge |
| DSP | Default Service Plan |
| EDC | Electric Distribution Company |
| EE&C | Energy Efficiency and Conservation |
| EGS | Electric Generation Supplier |
| ELPC | Environmental Law & Policy Center |
| ERO | Electric Reliability Organization |
| ESP | Electric Security Plan |
| ESP IV | Electric Security Plan IV |
| ESP IV PPA | Unit Power Agreement entered into on April 1, 2016 by and between the Ohio Companies and FES |
| FASB | Financial Accounting Standards Board |
| FERC | Federal Energy Regulatory Commission |
| FMB | First Mortgage Bond |
| FPA | Federal Power Act |
| GAAP | Accounting Principles Generally Accepted in the United States of America |
| HB 6 | Ohio House Bill 6 |
| IRS | Internal Revenue Service |
| kV | Kilovolt |
| KWH | Kilowatt-hour |
| LIBOR | London Interbank Offered Rate |
| LOC | Letter of Credit |
| LTIP | Long-Term Infrastructure Improvement Plan |
| MW | Megawatt |
| MWH | Megawatt-hour |
| N.D. Ohio | Northern District of Ohio |
| NDT | Nuclear Decommissioning Trust |
| NERC | North American Electric Reliability Corporation |
| NOL | Net Operating Loss |
| NRC | Nuclear Regulatory Commission |
| OAG | Ohio Attorney General |
| OCC | Ohio Consumers' Counsel |
| OPEB | Other Post-Employment Benefits |
| OTTI | Other Than Temporary Impairments |
| PJM | PJM Interconnection, L.L.C. |
| PJM Region | The aggregate of the zones within PJM |
| PJM Tariff | PJM Open Access Transmission Tariff |
| POLR | Provider of Last Resort |
| PPA | Purchase Power Agreement |
| PUCO | Public Utilities Commission of Ohio |
| R&D | Research and Development |
| REC | Renewable Energy Credit |
| RFC | ReliabilityFirst Corporation |
| RFP | Request for Proposal |
| ROE | Return on Equity |

| | |
|-----------|--|
| RRS | Retail Rate Stability |
| SB221 | Amended Substitute Senate Bill No. 221 |
| SB310 | Substitute Senate Bill No. 310 |
| SCOH | Supreme Court of Ohio |
| S.D. Ohio | Southern District of Ohio |
| SEC | United States Securities and Exchange Commission |
| SEET | Significantly Excessive Earnings Test |
| SPE | Special Purpose Entity |
| SSO | Standard Service Offer |
| Tax Act | Tax Cuts and Jobs Act adopted December 22, 2017 |
| VIE | Variable Interest Entity |

Report of Independent Auditors

To Management and the Board of Directors
of Ohio Edison Company

We have audited the accompanying consolidated financial statements of Ohio Edison 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 Ohio Edison 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

**OHIO EDISON COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME**

| <i>(In millions)</i> | For the Years Ended December 31, | |
|--|-------------------------------------|----------|
| | 2020 | 2019 |
| REVENUES: | | |
| Electric sales | \$ 1,501 | \$ 1,488 |
| Excise and gross receipts tax collections | 101 | 106 |
| Total revenues | 1,602 | 1,594 |
| OPERATING EXPENSES: | | |
| Purchased power from affiliates | 3 | 37 |
| Purchased power non-affiliates | 289 | 274 |
| Other operating expenses | 604 | 556 |
| Provision for depreciation | 134 | 129 |
| Deferral (amortization) of regulatory liabilities, net | 16 | (69) |
| General taxes | 214 | 212 |
| Total operating expenses | 1,260 | 1,139 |
| OPERATING INCOME | 342 | 455 |
| OTHER INCOME (EXPENSE): | | |
| Miscellaneous income, net | 38 | 39 |
| Pension and OPEB mark-to-market adjustment | (49) | (84) |
| Interest expense | (68) | (68) |
| Capitalized financing costs | 9 | 7 |
| Total other expense | (70) | (106) |
| INCOME BEFORE INCOME TAXES | 272 | 349 |
| INCOME TAXES | 25 | 74 |
| NET INCOME | \$ 247 | \$ 275 |
| STATEMENTS OF COMPREHENSIVE INCOME | | |
| NET INCOME | \$ 247 | \$ 275 |
| OTHER COMPREHENSIVE LOSS: | | |
| Pension and OPEB prior service costs | (1) | (3) |
| Other comprehensive loss | (1) | (3) |
| Income tax benefits on other comprehensive loss | — | (1) |
| Other comprehensive loss, net of tax | (1) | (2) |
| COMPREHENSIVE INCOME | \$ 246 | \$ 273 |

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

**OHIO EDISON COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS**

| <i>(In millions, except share amounts)</i> | December 31, 2020 | December 31, 2019 |
|---|----------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 500 | \$ 41 |
| Restricted cash | 5 | 5 |
| Receivables- | | |
| Customers | 196 | 158 |
| Less — Allowance for uncollectible customer receivables | 28 | 8 |
| | 168 | 150 |
| Affiliated companies | 93 | 76 |
| Other, net of allowance for uncollectible accounts of \$1 in 2020 and less than \$1 in 2019 | 35 | 32 |
| Notes receivable from affiliated companies | 10 | 183 |
| Prepaid taxes and other | 8 | 9 |
| | 819 | 496 |
| UTILITY PLANT: | | |
| In service | 4,730 | 4,523 |
| Less — Accumulated provision for depreciation | 1,748 | 1,661 |
| | 2,982 | 2,862 |
| Construction work in progress | 141 | 110 |
| | 3,123 | 2,972 |
| DEFERRED CHARGES AND OTHER ASSETS: | | |
| Property taxes | 112 | 107 |
| Other | 144 | 138 |
| | 256 | 245 |
| | <u>\$ 4,198</u> | <u>\$ 3,713</u> |
| LIABILITIES AND CAPITALIZATION | | |
| CURRENT LIABILITIES: | | |
| Currently payable long-term debt | \$ 6 | \$ 7 |
| Short-term borrowings - | | |
| Affiliated companies | 59 | 12 |
| Other | 50 | — |
| Accounts payable- | | |
| Affiliated companies | 1 | 13 |
| Other | 54 | 50 |
| Accrued taxes | 118 | 109 |
| Accrued interest | 20 | 20 |
| Other | 88 | 79 |
| | 396 | 290 |
| CAPITALIZATION: | | |
| Common stockholder's equity- | | |
| Common stock, without par value, authorized 175,000,000 shares - 60 shares outstanding | 1,198 | 943 |
| Accumulated other comprehensive loss | (4) | (3) |
| Retained earnings | 459 | 302 |
| Total common stockholder's equity | 1,653 | 1,242 |
| Long-term debt and other long-term obligations | 936 | 942 |
| | 2,589 | 2,184 |
| NONCURRENT LIABILITIES: | | |
| Accumulated deferred income taxes | 397 | 430 |
| Retirement benefits | 238 | 243 |
| Regulatory liabilities | 108 | 141 |
| Property taxes | 112 | 107 |
| Other | 358 | 318 |
| | 1,213 | 1,239 |
| COMMITMENTS AND CONTINGENCIES (NOTE 12) | | |
| | <u>\$ 4,198</u> | <u>\$ 3,713</u> |

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

OHIO EDISON COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

| <i>(In millions, except share amounts)</i> | Common Stock | | AOCI | Retained Earnings | Total Stockholder's Equity |
|--|------------------|----------------|--------|-------------------|----------------------------|
| | Number of Shares | Carrying Value | | | |
| Balance, January 1, 2019 | 60 | \$ 935 | \$ (1) | \$ 502 | \$ 1,436 |
| Net income | | | | 275 | 275 |
| Comprehensive loss | | | (2) | | (2) |
| Stock-based compensation | | 3 | | | 3 |
| Consolidated tax benefit allocation | | 5 | | | 5 |
| Cash dividends declared on common stock | | | | (475) | (475) |
| Balance, December 31, 2019 | 60 | \$ 943 | \$ (3) | \$ 302 | \$ 1,242 |
| Net income | | | | 247 | 247 |
| Comprehensive loss | | | (1) | | (1) |
| Stock-based compensation | | 3 | | | 3 |
| Consolidated tax benefit allocation | | 2 | | | 2 |
| Equity contribution from parent | | 250 | | | 250 |
| Cash dividends declared on common stock | | | | (90) | (90) |
| Balance, December 31, 2020 | 60 | \$ 1,198 | \$ (4) | \$ 459 | \$ 1,653 |

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

**OHIO EDISON COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS**

| <i>(In millions)</i> | For the Years Ended December 31, | |
|--|-------------------------------------|--------|
| | 2020 | 2019 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 247 | \$ 275 |
| Adjustments to reconcile net income to net cash from operating activities- | | |
| Depreciation and amortization | 124 | 64 |
| Deferred income taxes and investment tax credits, net | (43) | 16 |
| Pension trust contributions | — | (43) |
| Retirement benefits, net of payments | (48) | (28) |
| Pension and OPEB mark-to-market adjustment | 49 | 84 |
| Changes in current assets and liabilities- | | |
| Receivables | (37) | 26 |
| Prepaid taxes and other current assets | 1 | (2) |
| Accounts payable | (8) | 7 |
| Accrued taxes | 9 | — |
| Other current liabilities | 6 | (9) |
| Other | 17 | (5) |
| Net cash provided from operating activities | 317 | 385 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| New financing- | | |
| Short-term borrowings- | | |
| Affiliated companies, net | 47 | 12 |
| Other, net | 50 | — |
| Redemptions and repayments- | | |
| Long-term debt | (3) | (4) |
| Parent company equity contribution | 250 | — |
| Common stock dividend payments | (90) | (475) |
| Other | (4) | (4) |
| Net cash provided from (used for) financing activities | 250 | (471) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Property additions | (254) | (198) |
| Loans to affiliated companies, net | 173 | 165 |
| Asset removal costs | (27) | (21) |
| Net cash used for investing activities | (108) | (54) |
| Net change in cash, cash equivalents, and restricted cash | 459 | (140) |
| Cash, cash equivalents, and restricted cash at beginning of period | 46 | 186 |
| Cash, cash equivalents, and restricted cash at end of period | \$ 505 | \$ 46 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Cash paid during the year- | | |
| Interest (net of amounts capitalized) | \$ 62 | \$ 63 |
| Income taxes, net of refunds | \$ 75 | \$ 71 |

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

**OHIO EDISON COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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OHIO EDISON COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. ORGANIZATION AND BASIS OF PRESENTATION

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

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

OE owns all of Penn's outstanding common stock. Penn operates an electric transmission and distribution system in Pennsylvania. Penn is subject to regulation by the PPUC and FERC.

OE follows GAAP and complies with the regulations, orders, policies and practices prescribed by FERC and the PUCO. The preparation of financial statements in conformity with GAAP requires management to make periodic estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. Actual results could differ from these estimates. The reported results of operations are not necessarily indicative of results of operations for any future period. OE 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. OE is continuously evaluating the global pandemic and taking steps to mitigate known risks. The full impact on OE's business from the pandemic, including the governmental and regulatory responses, is unknown at this time and difficult to predict. OE provides a critical and essential service to its customers and the health and safety of its employees and customers is its first priority. OE 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, OE 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 OE that are presently unknown or unanticipated may occur. Furthermore, the likelihood of an impact to OE, and the severity of any impact that does occur, could increase the longer the global pandemic persists.

RECEIVABLES

OE's principal business is providing electric service to customers in Ohio. OE'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, OE accrues the estimated unbilled amount as revenue and reverses the related prior period estimate. Billed (net of uncollectibles) and unbilled customer receivables were \$75 million and \$93 million, respectively, as of December 31, 2020, and were \$70 million and \$80 million, respectively, as of December 31, 2019. Receivables from customers include distribution and retail electric sales to residential, commercial and industrial customers

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, OE recognized incremental uncollectible expense of \$21 million in the year 2020, of which approximately \$19 million is not currently being collected through rates and as a result was deferred for future recovery.

The Ohio Companies had existing regulatory mechanisms in place prior to the outbreak of COVID-19, where incremental uncollectible expenses are able to be recovered with no material impact to earnings. In Pennsylvania, the PPUC has authorized

OHIO EDISON COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the Pennsylvania Companies to track all prudently incurred incremental costs arising from COVID-19, and to create a regulatory asset for future recovery of incremental uncollectible expenses incurred as a result of COVID-19 above what is included in the Pennsylvania Companies existing rates. On October 13, 2020, the PPUC entered an order that permits the Pennsylvania Companies to create a regulatory asset for incremental expenses associated with lifting the service termination moratorium, as further discussed below.

Activity associated with customer receivables is as follows:

| <i>(In millions)</i> | 2020 | 2019 |
|--|--------------|-------------|
| Customer Receivables | | |
| Beginning of year balance | \$ 8 | \$ 8 |
| Charged to income ⁽¹⁾ | 29 | 14 |
| Charged to other accounts ⁽²⁾ | 7 | 7 |
| Write-offs | (16) | (21) |
| End of year balance | \$ 28 | \$ 8 |

⁽¹⁾ Customer receivable amounts charged to income include approximately \$20 million (including \$19 million incremental uncollectibles discussed above) deferred for future recovery for the year ended December 31, 2020 and \$5 million for the year ended December 31, 2019.

⁽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. OE nets its regulatory assets and liabilities based on federal and state jurisdictions. OE 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 OE's Consolidated 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 OE and information on comparable companies within similar jurisdictions, as well as assessing progress of communications between OE and regulators.

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

| Net Regulatory Assets (Liabilities) by Source | December 31, | | Change |
|---|----------------------|-----------------|---------------|
| | 2020 | 2019 | |
| | <i>(In millions)</i> | | |
| Customer payables for future income taxes | \$ (291) | \$ (330) | \$ 39 |
| Asset removal costs | (20) | (20) | — |
| Deferred transmission costs | 43 | 45 | (2) |
| Deferred generation costs | 110 | 120 | (10) |
| Deferred distribution costs | 67 | 69 | (2) |
| Storm-related costs | 6 | (11) | 17 |
| Uncollectible and COVID-19 related costs | 12 | 1 | 11 |
| Other | (35) | (15) | (20) |
| Net Regulatory Liabilities included on the Consolidated Balance Sheets | \$ (108) | \$ (141) | \$ 33 |

OHIO EDISON COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

Storm-related costs - Relates to the recovery of storm costs, which vary by jurisdiction. As of December 31, 2020 and 2019, approximately \$14 million and \$16 million, respectively, is currently being recovered through rates at Penn.

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.

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

OE 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 2.9% and 2.8% of average depreciable property in 2020 and 2019.

For the years ended December 31, 2020 and 2019, capitalized financing costs on OE's Consolidated Statements of Income include \$6 million and \$5 million, respectively, of allowance for equity funds used during construction and \$3 million and \$2 million, respectively, of capitalized interest.

OE evaluates long-lived assets classified as held and used for impairment when events or changes in circumstances indicate that 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.

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.

OHIO EDISON COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

OE 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. OE 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 OE are not subject to the election and are included in revenue. OE has elected the optional invoice practical expedient for most of its revenues, which eliminates the need to provide certain revenue disclosures regarding unsatisfied performance obligations.

OE's principal business is providing electric service to customers in Ohio. OE'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, OE accrues the estimated unbilled amount as revenue and reverses the related prior period estimate. Customer payments are generally due within 30 days. Retail generation sales relate to generation sales in Ohio that are regulated by the PUCO.

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

| <u>Revenues by Type of Service</u> | <u>For the Year Ended December 31,</u> | |
|---|--|-----------------|
| | <u>2020</u> | <u>2019</u> |
| | <i>(In millions)</i> | |
| Distribution services | \$ 1,228 | \$ 1,149 |
| Retail generation | 313 | 319 |
| Other | 22 | 21 |
| Total revenues from contracts with customers ⁽¹⁾ | \$ 1,563 | \$ 1,489 |
| ARP ⁽²⁾ | 20 | 84 |
| Other non-customer revenue | 19 | 21 |
| Total revenues | <u>\$ 1,602</u> | <u>\$ 1,594</u> |

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

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

Other revenue (customer and non-customer) primarily includes \$9 million and \$8 million related to amounts collected from customers to repay bonds associated with the Ohio Securitization (See Note 7, "Variable Interest Entities"), intercompany lease revenues from ATSI of \$12 million and pole attachment revenue of \$17 million and \$15 million for the years ended December 31, 2020 and 2019, respectively.

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

| <u>Revenues by Customer Class</u> | <u>For the Years Ended December 31,</u> | |
|-----------------------------------|---|-----------------|
| | <u>2020</u> | <u>2019</u> |
| | <i>(In millions)</i> | |
| Residential | \$ 965 | \$ 920 |
| Commercial | 413 | 394 |
| Industrial | 149 | 140 |
| Other | 14 | 14 |
| Total Revenues | <u>\$ 1,541</u> | <u>\$ 1,468</u> |

OHIO EDISON COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

| | Defined Benefit Pension & OPEB Plans | |
|---|---|-----|
| | <i>(In millions)</i> | |
| AOCI Balance, January 1, 2019 | \$ | (1) |
| Amounts reclassified from AOCI | | (3) |
| Other comprehensive loss | | (3) |
| Income tax benefits on other comprehensive loss | | (1) |
| Other comprehensive loss, net of tax | | (2) |
| AOCI Balance, December 31, 2019 | \$ | (3) |
| Amounts reclassified from AOCI | | (1) |
| Other comprehensive loss | | (1) |
| Income tax benefits on other comprehensive loss | | — |
| Other comprehensive loss, net of tax | | (1) |
| AOCI Balance, December 31, 2020 | \$ | (4) |

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

| Reclassifications out of AOCI⁽¹⁾ | For the Years Ended December 31, | | Affected Line Item in the Consolidated Statements of Income |
|--|---|-----------------------|--|
| | 2020 | 2019 | |
| | <i>(In millions)</i> | | |
| Defined Benefit Pension and OPEB Plans | | | |
| Prior-service costs | \$ (1) | \$ (3) ⁽²⁾ | |
| | — | 1 | Income taxes |
| | \$ (1) | \$ (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 OE. 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. OE 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. OE 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

OHIO EDISON COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 (\$44 million at OE) 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. OE's pension and OPEB mark-to-market adjustments for the years ended December 31, 2020 and 2019, were \$49 million and \$84 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 (\$43 million at OE, of which \$8 million related to Penn) 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.

OHIO EDISON COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following is a summary of the plan status:

| For The Years Ended | Pension | | OPEB | |
|--|-------------------|-------------------|-----------------|-----------------|
| | 2020 | 2019 | 2020 | 2019 |
| | (In millions) | | | |
| FirstEnergy benefit obligation | \$ 11,935 | \$ 11,050 | \$ 676 | \$ 654 |
| FirstEnergy fair value of plan assets | 8,968 | 8,395 | 502 | 458 |
| FirstEnergy funded status | <u>\$ (2,967)</u> | <u>\$ (2,655)</u> | <u>\$ (174)</u> | <u>\$ (196)</u> |
| FirstEnergy accumulated benefit obligation | \$ 11,376 | \$ 10,439 | \$ — | \$ — |
| FirstEnergy net periodic costs (credit) ⁽¹⁾ | \$ 346 | \$ 703 | \$ (46) | \$ (20) |
| OE's share of net liability ⁽²⁾ | \$ 222 | \$ 226 | \$ 3 | \$ 6 |
| OE's share of net periodic costs (credit) ⁽¹⁾ | \$ 12 | \$ 52 | \$ (2) | \$ (3) |

⁽¹⁾ Includes pension and OPEB mark-to-market adjustment.

⁽²⁾ Excludes \$270 million and \$250 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 OE.

| | 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

OE 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

OHIO EDISON COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

OE 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. OE 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. OE 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 OE.

| INCOME TAXES: | For the Years Ended December 31, | |
|----------------------|---|-------------|
| | 2020 | 2019 |
| | (In millions) | |
| Currently payable | | |
| Federal | \$ 67 | \$ 54 |
| State | 1 | 4 |
| | 68 | 58 |
| Deferred, net- | | |
| Federal | (9) | 13 |
| State | (34) | 3 |
| | (43) | 16 |
| Total income taxes | \$ 25 | \$ 74 |

OHIO EDISON COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

OE'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:

| <i>(In millions)</i> | For the Years Ended December 31, | |
|---|---|--------------|
| | 2020 | 2019 |
| Book income before income taxes | \$ 272 | \$ 349 |
| Federal income tax expense at statutory rate | \$ 57 | \$ 73 |
| Increases (reductions) in taxes resulting from- | | |
| State income taxes, net of federal tax benefit | 6 | 7 |
| AFUDC equity and other flow-through | (5) | (4) |
| Excess deferred tax amortization due to the Tax Act | (5) | (3) |
| Valuation allowances | (30) | — |
| Other, net | 2 | 1 |
| Total income taxes | <u>\$ 25</u> | <u>\$ 74</u> |
| Effective income tax rate | 9.2 % | 21.2 % |

OE's effective tax rate on pre-tax income for 2020 and 2019 was 9.2% and 21.2%, respectively. The decrease in the effective tax rate was primarily due to a \$30 million reduction in valuation allowances from the recognition of deferred gain on prior intercompany generation asset transfers triggered by the FES Debtors' emergency from bankruptcy in the first quarter of 2020.

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

| <i>(In millions)</i> | As of December 31, | |
|-------------------------------------|---------------------------|---------------|
| | 2020 | 2019 |
| Property basis differences | \$ 479 | \$ 479 |
| Regulatory asset/liability | 48 | 41 |
| Pension and OPEB | (115) | (111) |
| Loss and credit carryforwards | (32) | (13) |
| Valuation allowances | 5 | 35 |
| Other | 12 | (1) |
| Net deferred income tax liabilities | <u>\$ 397</u> | <u>\$ 430</u> |

OE records as deferred income tax assets the effect of NOLs and tax credits that will more likely than not be realized through future operations and through the reversal of existing temporary differences. As of December 31, 2020, OE's deferred income tax assets attributable to loss and credit carryforwards consisted of approximately \$5 million (\$1 million, net of tax) of federal NOL carryforwards that begin to expire in 2037, approximately \$6 million of general business tax credits that begin to expire in 2030.

In addition, OE's loss carryforwards include approximately \$1,277 million (\$21 million, net of tax) of municipal NOL carryforwards, of which approximately \$974 million (\$16 million, net of tax) is expected to be utilized based on current estimates and assumptions prior to expiration, which will begin in 2025.

OE accounts for uncertainty in income taxes recognized in its financial statements. A recognition threshold and measurement attribute is utilized 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, OE did not record any unrecognized tax benefits, nor does OE have a reserve for any uncertain tax positions.

OE 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, OE did not record any interest related to uncertain tax positions, nor does OE have a cumulative net interest payable recorded on its balance sheet.

For federal income tax purposes, OE files as a member of the FE consolidated group. Tax years 2018 and 2019 are currently under review by the IRS. OE has tax returns under review by municipal taxing authorities at the audit or appeals level for tax years 2016-2019.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

General Taxes

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

| <u>(In millions)</u> | <u>2020</u> | <u>2019</u> |
|----------------------------------|---------------|---------------|
| KWH excise | \$ 83 | \$ 89 |
| Gross receipts | 18 | 17 |
| Real and personal property | 101 | 95 |
| Social security and unemployment | 12 | 11 |
| Total general taxes | <u>\$ 214</u> | <u>\$ 212</u> |

6. LEASES

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

In addition, ATSI has a ground lease with OE and Penn under an operating lease agreement. Land use is rented to ATSI under the terms and conditions of a ground lease. OE and Penn reserve the right to use (and to permit authorized others to use) the land for any purpose that does not cause a violation of electrical safety code or applicable law, or does not impair ATSI's ability to satisfy its service obligations. Additional uses of such land for ATSI's facilities requires prior written approval from the applicable operating companies. ATSI purchases directly any new property acquired for transmission use. ATSI makes fixed quarterly lease payments to OE and Penn through December 31, 2049, unless terminated prior to maturity, or extended by ATSI for up to 10 additional successive periods of 50 years each. Revenue associated with this agreement was approximately \$12 million for 2020 and 2019.

OE 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, OE 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. OE did not evaluate land easements under the new guidance as they were not previously accounted for as leases. OE 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 OE's sole discretion. Renewal options are included within the lease liability if they are reasonably certain based on various factors relative to the contract. Certain leases also include options to purchase the leased property. The depreciable life of leased assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

| <i>(In millions)</i> | December 31, 2020 | December 31, 2019 |
|--------------------------------------|----------------------|----------------------|
| Operating lease costs ⁽¹⁾ | \$ 7 | \$ 4 |
| Finance lease costs: | | |
| Amortization of right-of-use assets | 3 | 4 |
| Total finance lease cost | 3 | 4 |
| Total lease cost | <u>\$ 10</u> | <u>\$ 8</u> |

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

Supplemental balance sheet information related to leases was as follows:

| <i>(In millions)</i> | Financial Statement Line Item | As of December 31, | |
|---------------------------------------|--|--------------------|--------------|
| | | 2020 | 2019 |
| Assets | | | |
| Operating lease assets ⁽¹⁾ | Deferred charges and other assets | \$ 31 | \$ 25 |
| Finance lease assets ⁽²⁾ | Property, plant and equipment | 6 | 10 |
| Total leased assets | | <u>\$ 37</u> | <u>\$ 35</u> |
| Liabilities | | | |
| <i>Current:</i> | | | |
| Operating | Other current liabilities | \$ 5 | \$ 3 |
| Finance | Currently payable long-term debt | 3 | 4 |
| <i>Noncurrent:</i> | | | |
| Operating | Other noncurrent liabilities | 25 | 22 |
| Finance | Long-term debt and other long-term obligations | 3 | 6 |
| Total leased liabilities | | <u>\$ 36</u> | <u>\$ 35</u> |

⁽¹⁾ Operating lease assets are recorded net of accumulated amortization of \$5 million and \$2 million as of December 31, 2020 and 2019, respectively.

⁽²⁾ Finance lease assets are recorded net of accumulated amortization of \$23 million and \$21 million as of December 31, 2020 and 2019, respectively.

Lease terms and discount rates were as follows:

| | As of December 31, 2020 | As of December 31, 2019 |
|---|-------------------------|-------------------------|
| <i>Weighted-average remaining lease terms (years)</i> | | |
| Operating leases | 6.77 | 7.50 |
| Finance leases | 2.29 | 3.14 |
| <i>Weighted-average discount rate ⁽¹⁾</i> | | |
| Operating leases | 2.78 % | 2.91 % |
| Finance leases | 3.39 % | 3.35 % |

⁽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.

OHIO EDISON COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Supplemental cash flow information related to leases was as follows:

| <i>(In millions)</i> | For the Years Ended, | |
|---|----------------------|------------|
| | 12/31/2020 | 12/31/2019 |
| <i>Cash paid for amounts included in the measurement of lease liabilities</i> | | |
| Operating cash flows from operating leases | \$ 4 | \$ 3 |
| Operating cash flows from finance leases | — | — |
| Finance cash flows from finance leases | 3 | 4 |
| <i>Right-of-use assets obtained in exchange for lease obligations:</i> | | |
| Operating leases | \$ 8 | \$ 12 |
| Finance leases | — | — |

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

| <i>(In millions)</i> | Operating Leases | Finance Leases | Total |
|--------------------------------|------------------|----------------|-------|
| 2021 | \$ 5 | \$ 3 | \$ 8 |
| 2022 | 5 | 3 | 8 |
| 2023 | 5 | 1 | 6 |
| 2024 | 5 | — | 5 |
| 2025 | 4 | — | 4 |
| Thereafter | 9 | — | 9 |
| <i>Total lease payments</i> | 33 | 7 | 40 |
| Less imputed interest | (3) | (1) | (4) |
| <i>Total net present value</i> | \$ 30 | \$ 6 | \$ 36 |

As of December 31, 2020, additional operating leases agreements, primarily for vehicles, that have not yet commenced are \$4 million. These leases are expected to commence within the next 18 months with lease terms of 5 to 10 years.

7. VARIABLE INTEREST ENTITY

OE performs qualitative analyses to determine whether a variable interest gives OE a controlling financial interest in a VIE. This analysis identifies the primary beneficiary of a VIE as the enterprise that has both the power to direct the activities of a VIE that most significantly impact the entity's economic performance and 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. OE consolidates a VIE when it is determined that it is the primary beneficiary.

Consolidated VIEs

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

- *Ohio Securitization* -. In September 2012, OE formed OE Funding LLC as a separate, wholly-owned limited liability SPE. The phase-in recovery bonds issued by the SPE are payable only from, and secured by, phase-in recovery property owned by the SPE (i.e. the right to impose, charge and collect irrevocable non-bypassable usage-based charges payable by retail electric customers in the service territories of OE) and the bondholder has no recourse to the general credit of FirstEnergy or OE. OE, as servicer of the SPE, manages and administers the phase-in recovery property including the billing, collection and remittance of usage-based charges payable by retail electric customers. OE is entitled to annual servicing fees of \$170 thousand that are recoverable through the usage-based charges. The SPE is considered a VIE and is consolidated into the financial statements of OE. The cash collected from OE customers is used to service debt of the funding company. As of December 31, 2020 and 2019, \$121 million and \$124 million of the phase-in recovery bonds were outstanding, respectively.

Unconsolidated VIEs

- OE does not have any unconsolidated VIEs.

OHIO EDISON COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. FAIR VALUE MEASUREMENTS

INVESTMENTS

All temporary cash investments purchased with an initial maturity of three months or less are reported as cash equivalents on the Consolidated Balance Sheets at cost, which approximates their fair market value. Investments other than cash and cash equivalents include held-to-maturity securities.

LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS

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

| <u>(In millions)</u> | <u>December 31, 2020</u> | | <u>December 31, 2019</u> | |
|----------------------|--------------------------|-------------------|--------------------------|-------------------|
| | <u>Carrying Value</u> | <u>Fair Value</u> | <u>Carrying Value</u> | <u>Fair Value</u> |
| Long-term debt | \$ 946 | \$ 1,247 | \$ 949 | \$ 1,264 |

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 OE. OE classified long-term debt as Level 2 in the fair value hierarchy as of December 31, 2020 and 2019.

9. CAPITALIZATION

COMMON STOCK

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

PREFERRED AND PREFERENCE STOCK

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

| <u>Preferred Stock</u> | | <u>Preference Stock</u> | |
|--------------------------|------------------|--------------------------|------------------|
| <u>Shares Authorized</u> | <u>Par Value</u> | <u>Shares Authorized</u> | <u>Par Value</u> |
| 6,000,000 | \$ 100 | 8,000,000 | no par |
| 8,000,000 | \$ 25 | | |

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

OHIO EDISON COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS

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

| <i>(Dollar amounts in millions)</i> | <u>As of December 31, 2020</u> | | <u>As of December 31,</u> | |
|--|--------------------------------|----------------------|---------------------------|---------------|
| | <u>Maturity Date</u> | <u>Interest Rate</u> | <u>2020</u> | <u>2019</u> |
| FMBs | 2022 - 2056 | 4.240% - 8.250% | \$ 475 | \$ 475 |
| Secured notes - fixed rate | 2034 | 3.450% | 121 | 124 |
| Unsecured notes - fixed rate | 2036 | 6.875% | 350 | 350 |
| Finance lease obligations | | | 6 | 10 |
| Unamortized debt discounts | | | (7) | (7) |
| Unamortized debt issuance costs | | | (3) | (3) |
| Currently payable long-term debt | | | (6) | (7) |
| Total long-term debt and other long-term obligations | | | <u>\$ 936</u> | <u>\$ 942</u> |

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

| <u>Year</u> | <u>OE</u> |
|-------------|----------------------|
| | <i>(In millions)</i> |
| 2021 | \$ 3 |
| 2022 | 108 |
| 2023 | 8 |
| 2024 | 8 |
| 2025 | 9 |

Phase-In Recovery Bonds

In June 2013, the SPEs formed by the Ohio Companies issued pass-through trust certificates supported by phase-in recovery bonds to securitize the recovery of certain all electric customer heating discounts, fuel and purchased power regulatory assets (OE - \$170 million). As of December 31, 2020 and 2019, \$121 million and \$124 million of the phase-in recovery bonds were outstanding at OE, respectively.

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

Other Long-term Debt

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

Debt Covenant Default Provisions

OE 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 OE 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 OE's financial condition.

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

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

OHIO EDISON COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. SHORT-TERM BORROWINGS AND BANK LINES OF CREDIT

OE had \$109 million and \$12 million of outstanding short-term borrowings as of December 31, 2020 and 2019, respectively.

Revolving Credit Facility

FE and the Utilities, including OE, 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, OE and Penn may each borrow up to their sub-limits of \$500 million and \$100 million, of which \$450 million and \$100 million were available to OE and Penn as of December 31, 2020, respectively. OE and Penn have regulatory and other short-term debt limitations of \$500 million and \$100 million, respectively, 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 OE, also have the ability to borrow from each other and the holding company to meet their short-term working capital requirements. FESC administers this money pool and tracks surplus funds of FE and the respective regulated subsidiaries, as well as proceeds available from bank borrowings. Companies receiving a loan under the money pool agreement must repay the principal amount of the loan, together with accrued interest, within 364 days of borrowing the funds. The rate of interest is the same for each company receiving a loan from the regulated pool and is based on the average cost of funds available through the pool. The average interest rate for borrowings in 2020 was 0.89% per annum.

11. REGULATORY MATTERS

STATE REGULATION

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

Penn's retail rates, conditions of service, issuance of securities and other matters are subject to regulation in Pennsylvania by the PPUC. The key terms of Penn's current rate orders for distribution customer billings, which have been effective since January 2017, include an allowed debt/equity ratio of 49.9%/50.1% (reflecting the filed debt/equity as final settlement/orders do not specifically include capital structure). The PPUC-approved settlement agreement did not disclose ROE rates.

OHIO

The Ohio Companies operate under base distribution rates approved by the PUCO effective in 2009. The Ohio Companies' residential and commercial base distribution revenues were decoupled, through a mechanism that took effect on February 1, 2020 and under which the Ohio Companies billed customers until February 9, 2021, to the base distribution revenue and lost distribution revenue associated with energy efficiency and peak demand reduction programs recovered as of the twelve-month

OHIO EDISON COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

period ending on December 31, 2018. The Ohio Companies currently operate under ESP IV effective June 1, 2016, and continuing through May 31, 2024, that continues the supply of power to non-shopping customers at a market-based price set through an auction process. ESP IV also continues the DCR rider, which supports continued investment related to the distribution system for the benefit of customers, with increased revenue caps of \$20 million per year from June 1, 2019 through May 31, 2022; and \$15 million per year from June 1, 2022 through May 31, 2024. In addition, ESP IV includes: (1) continuation of a base distribution rate freeze through May 31, 2024; (2) the collection of lost distribution revenue associated with energy efficiency and peak demand reduction programs, which is discussed further below; (3) a goal across FirstEnergy to reduce CO₂ emissions by 90% below 2005 levels by 2045; and (4) contributions, totaling \$51 million to: (a) fund energy conservation programs, economic development and job retention in the Ohio Companies' service territories; (b) establish a fuel-fund in each of the Ohio Companies' service territories to assist low-income customers; and (c) establish a Customer Advisory Council to ensure preservation and growth of the competitive market in Ohio.

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

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

On November 21, 2019, the Ohio Companies applied to the PUCO for approval of a decoupling mechanism, which would set residential and commercial base distribution related revenues at the levels collected in 2018. As such, those base distribution revenues would no longer be based on electric consumption, which allows continued support of energy efficiency initiatives while also providing revenue certainty to the Ohio Companies. On January 15, 2020, the PUCO approved the Ohio Companies' decoupling application, and the decoupling mechanism took effect on February 1, 2020. Legislation has been introduced in the first quarter of 2021 to, among other things, repeal parts of HB 6, the legislation that established support for nuclear energy supply in Ohio, provided for a decoupling mechanism for Ohio electric utilities, and provided for the ending of current energy efficiency program mandates. As further discussed below, in connection with a partial settlement with the OAG and other parties, the Ohio Companies filed an application with the PUCO on February 1, 2021, to set the respective decoupling riders (CSR) to zero. On February 2, 2021, the PUCO approved the application. While the partial settlement with the OAG focused specifically on decoupling, the Ohio Companies will of their own accord not seek to recover lost distribution revenue from residential and commercial customers. FirstEnergy is committed to pursuing an open dialogue with stakeholders in an appropriate manner with respect to the numerous regulatory proceedings currently underway as further discussed herein. As a result of the partial settlement, and the decision to not seek lost distribution revenue, FirstEnergy recognized a \$108 million pre-tax charge, \$50 million at OE (\$84 million after-tax, \$39 million after-tax at OE) in the fourth quarter of 2020, and \$77 million (pre-tax), \$35 million (pre-tax) at OE, of which is associated with forgoing collection of lost distribution revenue. FirstEnergy does not believe a refund for previously collected amounts under decoupling, which was approximately \$18 million, \$5 million at OE, is probable. Furthermore, as FirstEnergy would not have financially benefited from the Clean Air Fund included in HB 6, which is the mechanism to provide support to nuclear energy in Ohio, there is no expected additional impact to FirstEnergy due to any repeal of that provision in HB 6.

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

In March 2020, the PUCO issued entries directing utilities to review their service disconnection and restoration policies and suspend, for the duration of the COVID-19 pandemic, otherwise applicable requirements that may impose a service continuity

OHIO EDISON COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

hardship or service restoration hardship on customers. The Ohio Companies are utilizing their existing approved cost recovery mechanisms where applicable to address the financial impacts of these directives. On July 31, 2020, the Ohio Companies filed with the PUCO their transition plan and requests for waivers to allow for the safe resumption of normal business operations, including service disconnections for non-payment. On September 23, 2020, the PUCO approved the Ohio Companies' transition plan, including approval of the resumption of service disconnections for non-payment, which the Ohio Companies began on October 5, 2020.

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

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

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

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

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

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

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

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

In connection with an on-going annual audit of the Ohio Companies' Rider DCR for 2020, on March 10, 2021, the PUCO expanded the scope of the audit to include a review of certain transactions that were either improperly classified, misallocated, or lacked supporting documentation, which were disclosed in the 10-K filed by FirstEnergy Corp. on February 18, 2021, and determine whether funds collected from ratepayers were used to pay the vendors and if so, whether or not the funds associated with those payments should be returned to ratepayers through Rider DCR or through an alternative proceeding.

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

PENNSYLVANIA

The Pennsylvania Companies operate under rates approved by the PPUC, effective as of January 27, 2017. These rates were adjusted for the net impact of the Tax Act, effective March 15, 2018. The net impact of the Tax Act for the period January 1, 2018 through March 14, 2018 was separately tracked and its treatment will be addressed in a future rate proceeding. The Pennsylvania Companies operate under DSPs for the June 1, 2019 through May 31, 2023 delivery period, which provide for the competitive procurement of generation supply for customers who do not choose an alternative EGS or for customers of alternative EGSs that fail to provide the contracted service. Under the 2019-2023 DSPs, supply will be provided by wholesale suppliers through a mix of 3, 12 and 24-month energy contracts, as well as two RFPs for 2-year SREC contracts for ME, PN and Penn.

Pursuant to Pennsylvania Act 129 of 2008 and PPUC orders, Pennsylvania EDCs implement energy efficiency and peak demand reduction programs. The Pennsylvania Companies' Phase III EE&C plans for the June 2016 through May 2021 period, which were approved in March 2016, with expected costs up to \$390 million, are designed to achieve the targets established in the PPUC's Phase III Final Implementation Order with full recovery through the reconcilable EE&C riders. On June 18, 2020, the PPUC entered a Final Implementation Order for a Phase IV EE&C Plan, operating from June 2021 through May 2026. The Final Implementation Order set demand reduction targets, relative to 2007 to 2008 peak demands at 2.0% MW for Penn; and energy consumption reduction targets, as a percentage of the Pennsylvania Companies' historic 2009 to 2010 reference load at 2.7% MWH for Penn. The Pennsylvania Companies' Phase IV plans were filed November 30, 2020. A settlement has been reached in this matter, and a joint petition seeking approval of that settlement by the parties was filed on February 16, 2021. A PPUC decision on the settlement is expected in March 2021.

Pennsylvania EDCs may file with the PPUC for approval of an LTIIP for infrastructure improvements and costs related to highway relocation projects, after which a DSIC may be approved to recover LTIIP costs. On August 30, 2019, the Pennsylvania Companies filed Petitions for approval of new LTIIPs for the five-year period beginning January 1, 2020 and ending December 31, 2024 for a total capital investment of approximately \$572 million for certain infrastructure improvement initiatives. On January 16, 2020, the PPUC approved the LTIIPs without modification. The Pennsylvania Companies' approved DSIC riders for quarterly cost recovery went into effect July 1, 2016. On August 30, 2019, Penn filed a Petition seeking approval of a waiver of the statutory DSIC cap of 5% of distribution rate revenue and approval to increase the maximum allowable DSIC to 11.81% of distribution rate revenue for the five-year period of its proposed LTIIP. On March 12, 2020, an order was entered approving a settlement by all parties to that case which provides for a temporary increase in the recoverability cap from 5% to 7.5%, to expire on the earlier of the effective date of new base rates following Penn's next base rate case or the expiration of its LTIIP II program.

Following the Pennsylvania Companies' 2016 base rate proceedings, the PPUC ruled in a separate proceeding related to the DSIC mechanisms that the Pennsylvania Companies were not required to reflect federal and state income tax deductions related to DSIC-eligible property in DSIC rates, which decision was appealed by the Pennsylvania OCA to the Pennsylvania Commonwealth Court. The Commonwealth Court reversed the PPUC's decision and remanded the matter to require the

OHIO EDISON COMPANY AND SUBSIDIARIES
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Pennsylvania Companies to revise their tariffs and DSIC calculations to include ADIT and state income taxes. On April 7, 2020, the Pennsylvania Supreme Court issued an order granting Petitions for Allowance of Appeal by both the PPUC and the Pennsylvania Companies of the Commonwealth Court's Opinion and Order. Briefs and Reply Briefs of the parties were filed, and oral argument before the Supreme Court was held on October 21, 2020. An adverse ruling by the Pennsylvania Supreme Court is not expected to result in a material impact to Penn.

The PPUC issued an order on March 13, 2020, forbidding utilities from terminating service for non-payment for the duration of the COVID-19 pandemic. On May 13, 2020, the PPUC issued a Secretarial letter directing utilities to track all prudently incurred incremental costs arising from the COVID-19 pandemic, and to create a regulatory asset for future recovery of incremental uncollectibles incurred as a result of the COVID-19 pandemic and termination moratorium. On October 13, 2020, the PPUC entered an order lifting the service termination moratorium effective November 9, 2020 subject to certain additional notification, payment procedures and exceptions, and permits the Pennsylvania Companies to create a regulatory asset for all incremental expenses associated with their compliance with the order.

FERC REGULATORY MATTERS

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

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

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

12. COMMITMENTS AND CONTINGENCIES

ENVIRONMENTAL MATTERS

Various federal, state and local authorities regulate OE with regard to air and water quality, hazardous and solid waste disposal, and other environmental matters. While OE'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. OE cannot predict the timing or ultimate outcome of any of these reviews or how any future actions taken as a result thereof may materially impact its business, results of operations, cash flows and financial condition.

OTHER LEGAL PROCEEDINGS

United States v. Larry Householder, et al.

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

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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

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

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

13. TRANSACTIONS WITH AFFILIATED COMPANIES

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

OHIO EDISON COMPANY AND SUBSIDIARIES
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The primary affiliated company transactions for OE during the years ended December 31, 2020 and 2019 are as follows:

| | For The Years Ended December 31, | |
|--|---|-------------|
| | 2020 | 2019 |
| | <i>(In millions)</i> | |
| Revenues ⁽¹⁾ | \$ 13 | \$ 13 |
| Expenses: | | |
| Purchased power from affiliates ⁽²⁾ | 3 | 37 |
| Support services | 108 | 96 |
| Miscellaneous income | 5 | 12 |

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

⁽²⁾ Primarily related to purchases from FES prior to emergence.

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

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

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

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