

AMERICAN TRANSMISSION SYSTEMS, INCORPORATED
AUDITED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

GLOSSARY OF TERMS

The following abbreviations and acronyms may be used in these financial statements to identify American Transmission Systems, Incorporated and its current and former affiliated companies:

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

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

2021 Credit Facilities	Collectively, the six separate senior unsecured five-year syndicated revolving credit facilities entered into by FE, FET, the Utilities, and the Transmission Companies, on October 18, 2021
ADIT	Accumulated Deferred Income Taxes
AEP	American Electric Power Company, Inc.
AFUDC	Allowance for Funds Used During Construction
ASC	Accounting Standard Codification
ASU	Accounting Standards Update
Brookfield	North American Transmission Company II LLC, a controlled investment vehicle entity of Brookfield Infrastructure Partners
Brookfield Guarantors	Brookfield Super-Core Infrastructure Partners L.P., Brookfield Super-Core Infrastructure Partners (NUS) L.P., and Brookfield Super-Core Infrastructure Partners (ER) SCSp
CFIUS	Committee on Foreign Investments in the United States
COVID-19	Coronavirus disease
CSR	Conservation Support Rider
DPA	Deferred Prosecution Agreement entered into on July 21, 2021 between FE and S.D. Ohio
EH	Energy Harbor Corp.
ERO	Electric Reliability Organization

Exchange Act	Securities and Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FE Board	The Board of Directors of FirstEnergy Corp.
FE Revolving Facility	FE and the Utilities' former five-year syndicated revolving credit facility, as amended, and replaced by the 2021 Credit Facilities on October 18, 2021
FERC	Federal Energy Regulatory Commission
FET Board	The Board of Directors of FET
FET LLC Agreement	Third Amended and Restated Limited Liability Company Operating Agreement of FET
FET P&SA	Purchase and Sale Agreement entered into on November 6, 2021, by and between FE, FET, Brookfield and Brookfield Guarantors
FET Revolving Facility	FET and certain of its subsidiaries' former five-year syndicated revolving credit facility, as amended, and replaced by the 2021 Credit Facilities on October 18, 2021
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
MISO	Midcontinent Independent System Operator, Inc.
N.D. Ohio	Northern District of Ohio
NERC	North American Electric Reliability Corporation
NOL	Net Operating Loss
OAG	Ohio Attorney General
ODSA	Ohio Development Service Agency
OPEB	Other Post-Employment Benefits
PJM	PJM Interconnection, L.L.C.
PJM Region	The aggregate of the zones within PJM
PJM Tariff	PJM Open Access Transmission Tariff
PPUC	Pennsylvania Public Utility Commission
PUCO	Public Utilities Commission of Ohio
RFC	ReliabilityFirst Corporation
ROE	Return on Equity
RTO	Regional Transmission Organization
S.D. Ohio	Southern District of Ohio
SEC	United States Securities and Exchange Commission
SLC	Special Litigation Committee of the FE Board
Tax Act	Tax Cuts and Jobs Act adopted December 22, 2017

Report of Independent Auditors

To Management and the Board of Directors
Of American Transmission Systems, Incorporated

Opinion

We have audited the accompanying financial statements of American Transmission Systems, Incorporated (the “Company”), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of income, of common stockholder’s equity, and of cash flows for the years then ended, including the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors’ Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

/s/ PricewaterhouseCoopers LLP
Cleveland, Ohio
March 11, 2022

AMERICAN TRANSMISSION SYSTEMS, INCORPORATED
STATEMENTS OF INCOME

<i>(In millions)</i>	For the Years Ended December 31,	
	2021	2020
REVENUES	\$ 820	\$ 809
OPERATING EXPENSES:		
Other operating expenses	167	118
Provision for depreciation	150	143
Amortization of regulatory assets, net	11	7
General taxes	223	208
Total operating expenses	551	476
OPERATING INCOME	269	333
OTHER INCOME (EXPENSE):		
Miscellaneous income, net	1	3
Pension and OPEB mark-to-market adjustment	10	(19)
Interest expense	(71)	(65)
Capitalized financing costs	7	12
Total other expense	(53)	(69)
INCOME BEFORE INCOME TAXES	216	264
INCOME TAXES	46	53
NET INCOME	\$ 170	\$ 211

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

AMERICAN TRANSMISSION SYSTEMS, INCORPORATED
BALANCE SHEETS

<i>(In millions)</i>	December 31, 2021	December 31, 2020
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ —	\$ 150
Receivables-		
Affiliated companies	8	22
Other, net of allowance for uncollectible accounts of \$3 in 2020	40	33
Prepaid taxes and other	3	3
	51	208
UTILITY PLANT:		
In service	5,659	5,382
Less — Accumulated provision for depreciation	1,308	1,226
	4,351	4,156
Construction work in progress	213	222
	4,564	4,378
DEFERRED CHARGES AND OTHER ASSETS:		
Property taxes	236	225
Operating lease right-of-use asset	413	413
Other	6	8
	655	646
	\$ 5,270	\$ 5,232
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES:		
Accounts payable - affiliated companies	\$ 2	\$ 6
Short-term borrowings -		
Affiliated companies	81	287
Other	—	150
Accrued taxes	244	209
Accrued interest	13	22
Other current liabilities	6	6
	346	680
CAPITALIZATION:		
Common stockholder's equity-		
Common stock, no par value, 850 shares authorized - 1 share outstanding	1,343	1,267
Retained earnings	602	612
Total common stockholder's equity	1,945	1,879
Long-term debt and other long-term obligations	1,485	1,291
	3,430	3,170
NONCURRENT LIABILITIES:		
Accumulated deferred income taxes	556	548
Property taxes	236	225
Regulatory liabilities	289	167
Noncurrent operating lease obligation	407	407
Other	6	35
	1,494	1,382
COMMITMENTS AND CONTINGENCIES (NOTE 9)		
	\$ 5,270	\$ 5,232

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

AMERICAN TRANSMISSION SYSTEMS, INCORPORATED
STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

<i>(In millions, except share amounts)</i>	Common Stock		Retained Earnings	Total Stockholder's Equity
	Number of Shares	Carrying Value		
Balance, January 1, 2020	1	\$ 1,267	\$ 706	\$ 1,973
Net income			211	211
Common stock dividend payments			(305)	(305)
Balance, December 31, 2020	1	\$ 1,267	\$ 612	\$ 1,879
Net income			170	170
Consolidated tax benefit allocation		1		1
Equity contribution from parent		75		75
Common stock dividend payments			(180)	(180)
Balance, December 31, 2021	1	\$ 1,343	\$ 602	\$ 1,945

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

AMERICAN TRANSMISSION SYSTEMS, INCORPORATED
STATEMENTS OF CASH FLOWS

<i>(In millions)</i>	For the Years Ended December 31,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 170	\$ 211
Adjustments to reconcile net income to net cash from operating activities-		
Depreciation and amortization	139	155
Pension and OPEB mark-to-market adjustment	(10)	19
Regulatory charges	48	—
Deferred income taxes and investment tax credits, net	21	42
Transmission revenue collections, net	94	(38)
Allowance for funds used during construction - equity	(2)	(9)
Changes in current assets and liabilities-		
Receivables	9	(27)
Accounts payable	(31)	(62)
Accrued taxes	35	21
Accrued interest	(9)	—
Other current liabilities	(1)	1
Other	(6)	(9)
Net cash provided from operating activities	457	304
CASH FLOWS FROM FINANCING ACTIVITIES:		
New financing-		
Long-term debt	600	—
Short-term borrowings		
Affiliated companies, net	—	287
Other, net	—	150
Redemptions and repayments-		
Long-term debt	(400)	—
Short-term borrowings-		
Affiliated companies, net	(206)	—
Other, net	(150)	—
Equity contribution from parent	75	—
Common stock dividend payments	(180)	(305)
Other	(9)	(2)
Net cash provided from (used for) financing activities	(270)	130
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(305)	(354)
Loans to affiliated companies, net	—	93
Asset removal costs	(35)	(25)
Other	3	2
Net cash used for investing activities	(337)	(284)
Net change in cash and cash equivalents	(150)	150
Cash and cash equivalents at beginning of period	150	—
Cash and cash equivalents at end of period	\$ —	\$ 150
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid (received) during the year -		
Interest (net of amounts capitalized)	\$ 74	\$ 61
Income taxes, net of refunds	\$ (4)	\$ 17

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

AMERICAN TRANSMISSION SYSTEMS, INCORPORATED
NOTES TO FINANCIAL STATEMENTS

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AMERICAN TRANSMISSION SYSTEMS, INCORPORATED
NOTES TO 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.

ATSI is a wholly owned subsidiary of FET, a direct subsidiary of FE. ATSI owns high-voltage transmission facilities consisting of approximately 7,900 circuit miles of transmission lines with nominal voltages of 345 kV, 138 kV and 69 kV in the PJM region. On June 1, 2011, ATSI successfully integrated into PJM. ATSI plans, operates, and maintains its transmission system in accordance with NERC reliability standards, and other applicable regulatory requirements. In addition, ATSI follows GAAP and complies with the regulations, orders, policies and practices prescribed by FERC and applicable state regulatory authorities, including the PPUC 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 the 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. ATSI has evaluated events and transactions for potential recognition or disclosure through March 11, 2022, the date the financial statements were issued.

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

COVID-19

FirstEnergy is continuously evaluating the COVID-19 global pandemic and taking steps to mitigate known risks. FirstEnergy is actively monitoring the continued impact COVID-19 is having on its customers' receivable balances, which include increasing arrears balances since the pandemic began. FirstEnergy has incurred, and it is expected to incur for the foreseeable future, COVID-19 pandemic related expenses. COVID-19 related expenses consist of additional costs that FirstEnergy is incurring to protect its employees, contractors and customers, and to support social distancing requirements. These costs include, but are not limited to, new or added benefits provided to employees, the purchase of additional personal protection equipment and disinfecting supplies, additional facility cleaning services, COVID-19 test kits, initiated programs and communications to customers on utility response, and increased technology expenses to support remote working, where possible. The full impact on FirstEnergy's business from the pandemic, including the governmental and regulatory responses, is unknown at this time and difficult to predict. FirstEnergy provides a critical and essential service to its customers and the health and safety of its employees and customers is its first priority. FirstEnergy 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 investment spending plan.

Currently, FirstEnergy 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 FirstEnergy that are presently unknown or unanticipated may occur. Furthermore, the likelihood of an impact to FirstEnergy, and the severity of any impact that does occur, could increase the longer the global pandemic persists.

Sale of Minority Interest in FirstEnergy Transmission, LLC

On November 6, 2021, FirstEnergy, along with FET, entered into the FET P&SA, with Brookfield and Brookfield Guarantors, pursuant to which FET agreed to issue and sell to Brookfield at the closing, and Brookfield agreed to purchase from FET, certain newly issued membership interests of FET, such that Brookfield will own 19.9% of the issued and outstanding membership interests of FET, for a purchase price of \$2.375 billion. The transaction is subject to customary closing conditions, including approval from the FERC and review by the CFIUS. On January 5, 2022, the parties to this transaction submitted to FERC an application requesting approval of the transaction no later than April 30, 2022, and on February 10, 2022, the parties filed answers in the FERC docket to certain protests that were filed on January 26, 2022.

Pursuant to the terms of the FET P&SA, in connection with the closing, Brookfield, FET and FirstEnergy Corp will enter into the FET LLC Agreement. The FET LLC Agreement, among other things, provides for the governance, exit, capital and distribution, and other arrangements for FET from and following the closing. Under the FET LLC Agreement, Brookfield will be entitled to appoint a number of directors to the FET Board, in approximate proportion to Brookfield's ownership percentage in FET (rounded to the next whole number). Upon the closing, the FET Board will consist of five directors, one appointed by Brookfield and four appointed by FE. The FET LLC Agreement contains certain investor protections, including, among other things, requiring Brookfield's approval for FET and its subsidiaries to take certain major actions. Under the terms of the FET LLC Agreement, for so long as Brookfield holds a 9.9% interest in FET, Brookfield's consent is required for FET or any of its subsidiaries to incur indebtedness (other than the refinancing of existing indebtedness on commercially reasonable terms reflecting then-current credit market conditions) that would reasonably be expected to result in the FET's consolidated Debt-to-Capital Ratio (as defined in the FET LLC Agreement) equaling or exceeding (i) prior to the fifth anniversary of the effective date, 65%, and (ii) thereafter, 70%.

AMERICAN TRANSMISSION SYSTEMS, INCORPORATED
NOTES TO FINANCIAL STATEMENTS, (Continued)

ACCOUNTING FOR THE EFFECTS OF REGULATION

ATSI is subject to regulation that sets the prices (rates) that ATSI is permitted to charge customers based on costs that the regulatory agencies determine are permitted to be recovered. At times, regulatory agencies permit the future recovery of costs that would be currently charged to expense by an unregulated company. The ratemaking process results in the recording of regulatory assets and liabilities based on anticipated future cash inflows and outflows.

ATSI reviews the probability of recovery of regulatory assets, and settlement of regulatory liabilities, at each balance sheet date and whenever new events occur. Factors that may affect probability include changes in the regulatory environment, issuance of a regulatory commission order, or passage of new legislation. Upon material changes to these factors, where applicable, ATSI will record new regulatory assets or liabilities and will assess whether it is probable that currently recorded regulatory assets and liabilities will be recovered or settled in future rates. If recovery of a regulatory asset is no longer probable, ATSI will write off that regulatory asset as a charge against earnings. ATSI 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 ATSI's Balance Sheets. See Note 8, "Regulatory Matters," of the Notes to Financial Statements for additional information.

The following table provides information about the composition of net regulatory assets and liabilities as of December 31, 2021 and 2020, and the changes during the year ended December 31, 2021:

Net Regulatory Assets (Liabilities) by Source	As of December 31,		Change
	2021	2020	
	<i>(In millions)</i>		
Customer payables for future income taxes	\$ (315)	\$ (325)	\$ 10
MISO exit fee deferral	38	78	(40)
Asset removal costs	11	7	4
Deferred transmission costs	(23)	73	(96)
Net Regulatory Liabilities included on the Balance Sheets	<u>\$ (289)</u>	<u>\$ (167)</u>	<u>\$ (122)</u>

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

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

MISO Exit Fee deferral - Comprised of MISO exit fees, which are not earning a return. Recovery is subject to a current regulatory proceeding (see Note 8, "Regulatory Matters").

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 transmission costs - Primarily represents differences between revenues earned based on actual costs and the amounts billed. Amounts are recorded as a regulatory asset or liability, and recovered or refunded, respectively, in subsequent periods.

INVESTMENTS

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

PENSION AND OTHER POSTEMPLOYMENT BENEFITS

In addition to service costs, interest on obligations, expected return on plan assets, and prior service costs, FirstEnergy recognizes in net periodic benefit costs 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 FirstEnergy annual pension and OPEB mark-to-market adjustments, (gains) or losses, for the years ended December 31, 2021 and 2020 were \$(382) million and \$477 million. The 2021 pension and OPEB mark-to-market adjustment primarily reflects a 35 bps increase in the discount rate used to measure pension benefit obligations. During 2021

AMERICAN TRANSMISSION SYSTEMS, INCORPORATED
NOTES TO FINANCIAL STATEMENTS, (Continued)

and 2020 ATSI's allocated amount of the pension and OPEB mark-to-market adjustments, (gains) or losses, were \$(10) million and \$19 million, respectively. These amounts are expected to be refunded or recovered through formula transmission rates.

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 financing costs incurred to place the assets in service. The costs of normal maintenance, repairs and minor replacements are expensed as incurred. ATSI recognizes liabilities for planned major maintenance projects as they are incurred.

ATSI provides for depreciation on a straight-line basis at various rates over the estimated lives of property included in plant in service. The annual composite rates for ATSI's transmission facilities were 2.7% in both 2021 and 2020.

For the years ended December 31, 2021 and 2020, capitalized financing costs on ATSI's Statements of Income include \$2 million and \$9 million, respectively, of allowance for equity funds used during construction and \$5 million and \$3 million, respectively, of capitalized interest.

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

REVENUES AND RECEIVABLES

Under a formula rate mechanism approved by FERC, ATSI makes annual filings in order to recover incurred costs and an allowed return. An initial rate filing is made for each calendar year using estimated costs, which is used to determine the initial billings to customers. All prudently incurred allowable operation and maintenance costs, a return earned on rate base and income taxes are recovered or refunded through a subsequent true-up mechanism. As such, ATSI recognizes revenue as it incurs recoverable costs and earns the allowed return. Any differences between revenues earned based on actual costs and the amounts billed based on estimated costs are recognized as a regulatory asset or liability, and will be recovered or refunded, respectively, in subsequent periods.

Other receivables include PJM receivables resulting from transmission sales. ATSI's uncollectible risk on PJM receivables is minimal due to the nature of PJM's settlement process whereby members of PJM legally agree to share the cost of defaults and as a result there is no allowance for doubtful accounts.

NEW ACCOUNTING PRONOUNCEMENTS

Recently Adopted Pronouncements

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 intra-period 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. ATSI adopted the guidance as of January 1, 2021, with no material impact to the financial statements.

Recently Issued Pronouncements - ATSI has assessed new authoritative accounting guidance issued by the FASB that has not yet been adopted and none are currently expected to have a material impact to the financial statements.

2. REVENUE

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

ATSI provides transmission infrastructure owned and operated by ATSI to transmit electricity from generation sources to distribution facilities. ATSI's transmission revenue is primarily derived from forward-looking formula transmission rates. Revenue

AMERICAN TRANSMISSION SYSTEMS, INCORPORATED
NOTES TO FINANCIAL STATEMENTS, (Continued)

requirements under forward-looking formula rates are updated annually based on a projected rate base and projected costs, which is subject to an annual true-up based on actual costs. Revenues and cash receipts for the stand-ready obligation of providing transmission service are recognized ratably over time.

For the years ended December 31, 2021 and 2020, revenues include transmission revenue from contracts with customers of \$806 million and \$804 million, respectively, and \$14 million and \$5 million, respectively, of other non-customer revenue. These amounts include approximately \$5 million for the year ended December 31, 2020, in reductions to revenue related to amounts subject to refund resulting from the Tax Act.

3. TAXES

ATSI records income taxes in accordance with the liability method of accounting. Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts recognized for tax purposes. Investment tax credits, which were deferred when utilized, are being amortized over the recovery period of the related property. Deferred income tax liabilities related to temporary tax and accounting basis differences and tax credit carryforward items are recognized at the statutory income tax rates in effect when the liabilities are expected to be paid. Deferred tax assets are recognized based on income tax rates expected to be in effect when they are settled.

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

On April 9, 2021, West Virginia enacted legislation changing the state's corporate income tax apportionment rules, including adopting a single sales factor formula and market-based sourcing for sales of services and intangibles, effective for taxable years beginning on or after January 1, 2022. Enactment of this law triggered a remeasurement of state deferred income taxes for ATSI, resulting in an immaterial impact to tax expense in 2021.

INCOME TAXES:	For the years ended December 31,	
	2021	2020
	<i>(In millions)</i>	
Currently receivable-		
Federal	\$ 25	\$ 10
State	—	1
	<u>25</u>	<u>11</u>
Deferred, net-		
Federal	13	39
State	8	3
	<u>21</u>	<u>42</u>
Total income taxes	<u>\$ 46</u>	<u>\$ 53</u>

AMERICAN TRANSMISSION SYSTEMS, INCORPORATED
NOTES TO FINANCIAL STATEMENTS, (Continued)

ATSI's tax rates are affected by permanent items, such as AFUDC equity, 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, 2021 and 2020:

<i>(In millions)</i>	For the Years ended December 31,	
	2021	2020
Book income before income taxes	<u>\$ 216</u>	<u>\$ 264</u>
Federal income tax expense at statutory rate (21%)	\$ 45	\$ 55
Increases (reductions) in taxes resulting from-		
State income taxes, net of federal income tax benefit	6	4
AFUDC equity earnings flow-through	—	(1)
Excess deferred tax amortization due to the Tax Act	(5)	(4)
Valuation allowance on municipal NOLs	(1)	(1)
Federal tax credits claimed	(3)	—
Uncertain tax positions	2	—
Other, net	2	—
Total income taxes	<u>\$ 46</u>	<u>\$ 53</u>
Effective income tax rate	21.3 %	20.1 %

ATSI's effective tax rate on pre-tax income for 2021 and 2020 was 21.3% and 20.1%, respectively. The increase in the effective tax rate was primarily due to \$2 million of certain municipal net operating losses expiring during 2021.

Accumulated deferred income taxes as of December 31, 2021 and 2020, are as follows:

<i>(In millions)</i>	As of December 31,	
	2021	2020
Property basis differences	\$ 601	\$ 577
Regulatory asset/liability	11	38
Pension and OPEB	—	(7)
Loss and credit carryforwards	(60)	(64)
Valuation allowances on NOL carryforwards	2	3
Other	2	1
Net accumulated deferred income tax liabilities	<u>\$ 556</u>	<u>\$ 548</u>

ATSI has recorded as deferred income tax assets the effect of NOLs and tax credits that will more likely than not be realized through future operations and through the reversal of existing temporary differences. As of December 31, 2021, ATSI's loss carryforwards consisted of approximately \$247 million (\$52 million, net of tax) of Federal NOL carryforwards that begin to expire in 2031 and approximately \$213 million (\$4 million, net of tax) of state and local NOL carryforwards, of which approximately \$110 million (\$3 million, net of tax) is expected to be utilized based on current estimates and assumptions prior to expiration, which will begin in 2022.

ATSI accounts for uncertainty in income taxes recognized in its financial statements. A recognition threshold and measurement attribute are utilized for financial statement recognition and measurement of tax positions taken or expected to be taken on a company's tax return. During the year ended December 31, 2021, ATSI recorded a \$2 million reserve for an uncertain tax position related to certain federal tax credits claimed on the FE consolidated federal income tax return. For the year ended December 31, 2020, ATSI did not record any unrecognized tax benefits, nor did ATSI have a reserve for any uncertain tax positions.

ATSI 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 federal income tax return. During 2021 and 2020, ATSI did not record any interest related to uncertain tax positions, nor did ATSI have cumulative net interest payable recorded on its balance sheets.

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NOTES TO FINANCIAL STATEMENTS, (Continued)

For federal income tax purposes, ATSI files as a member of the FE consolidated group. IRS review of the FE consolidated group's federal income tax returns is complete through the 2020 tax year with no pending adjustments. ATSI has tax returns under review by state taxing authorities at the audit or appeals level for tax years 2013-2019.

General Taxes

General taxes associated with real and personal property for the years ended December 31, 2021 and 2020 were \$223 million and \$208 million respectively.

4. LEASES

ATSI primarily leases fiber optics, land and other property and equipment under cancelable and noncancelable leases. ATSI has a ground lease with OE, Penn, CEI and TE under an operating lease agreement. Land use is rented to ATSI under the terms and conditions of a ground lease. ATSI, OE, Penn, CEI, and TE 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 of approximately \$5 million through December 31, 2049, unless terminated prior to maturity, or extended by ATSI for up to 10 additional successive periods of 50 years each.

ATSI accounts for leases under, "Leases (Topic 842)". 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, with renewal terms that can extend the lease term from 1 to 40 years, and certain leases include options to terminate. The exercise of lease renewal options is at ATSI'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. ATSI has elected a policy to not separate lease components from non-lease components for all asset classes.

Finance leases for assets used in regulated operations are recognized in ATSI'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>	For the Years Ended December 31,	
	2021	2020
Operating lease costs ⁽¹⁾	\$ 25	\$ 24
Finance lease costs:		
Amortization of right-of-use assets	1	1
Total finance lease cost	1	1
Total lease cost	<u>\$ 26</u>	<u>\$ 25</u>

⁽¹⁾ Includes \$4 million and \$3 million of short-term lease costs for the years ended December 31, 2021 and 2020, respectively.

AMERICAN TRANSMISSION SYSTEMS, INCORPORATED
NOTES TO FINANCIAL STATEMENTS, (Continued)

Supplemental balance sheet information related to leases was as follows:

<u>(In millions)</u>	<u>Financial Statement Line Item</u>	<u>As of December 31, 2021</u>	<u>As of December 31, 2020</u>
Assets			
Operating lease assets ⁽¹⁾	Operating lease right-of-use asset	\$ 413	\$ 413
Finance lease assets ⁽²⁾	Property, plant and equipment	4	5
Total leased assets		<u>\$ 417</u>	<u>\$ 418</u>
Liabilities			
<i>Current:</i>			
Operating	Other current liabilities	\$ 6	\$ 6
<i>Noncurrent:</i>			
Operating	Noncurrent operating lease obligation	407	407
Total leased liabilities		<u>\$ 413</u>	<u>\$ 413</u>

⁽¹⁾ Operating lease assets are recorded net of accumulated amortization of \$1 million and an immaterial amount as of December 31, 2021 and 2020, respectively.

⁽²⁾ Finance lease assets are recorded net of accumulated amortization of \$1 million and \$4 million as of December 31, 2021 and 2020, respectively.

Lease terms and discount rates were as follows:

<u></u>	<u>As of December 31, 2021</u>	<u>As of December 31, 2020</u>
<i>Weighted-average remaining lease terms (years)</i>		
Operating leases	77.80	79.83
Finance leases	14.92	15.52
<i>Weighted-average discount rate ⁽¹⁾</i>		
Operating leases	5.00 %	5.00 %

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

Supplemental cash flow information related to leases was as follows:

<u>(In millions)</u>	<u>For the Year Ended December 31, 2021</u>	<u>For the Year Ended December 31, 2020</u>
<i>Cash paid for amounts included in the measurement of lease liabilities</i>		
Operating cash flows from operating leases	\$ 21	\$ 21

Maturities of lease liabilities as of December 31, 2021, were as follows:

<u>(In millions)</u>	<u>Operating Leases</u>
2022	\$ 21
2023	21
2024	21
2025	21
2026	21
Thereafter	1,521
Total lease payments	1,626
Less imputed interest	1,213
Total net present value	<u>\$ 413</u>

AMERICAN TRANSMISSION SYSTEMS, INCORPORATED
NOTES TO FINANCIAL STATEMENTS, (Continued)

5. FAIR VALUE MEASUREMENTS

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 Balance Sheets at cost. Since these borrowings are short-term in nature, ATSI believes that their costs should approximate their fair market value. The following table provides the approximate fair value and related carrying value of long-term debt, which excludes net unamortized debt issuance costs and discounts:

(In millions)	December 31, 2021		December 31, 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	\$ 1,500	\$ 1,685	\$ 1,300	\$ 1,458

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 ATSI. ATSI classified short-term borrowings, long-term debt as Level 2 in the fair value hierarchy as of December 31, 2021 and December 31, 2020.

6. CAPITALIZATION

COMMON STOCK

In addition to paying dividends from retained earnings, ATSI 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%.

LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS

The following table presents outstanding long-term debt for ATSI as of December 31, 2021 and 2020:

(Dollar amounts in millions)	As of December 31, 2021		As of December 31,	
	Maturity Date	Interest Rate	2021	2020
Unsecured notes - fixed rate	2026 - 2045	2.65% - 5.23%	\$ 1,500	\$ 1,300
Unamortized debt premiums/discounts			(5)	(3)
Unamortized debt issuance costs			(10)	(6)
Total long-term debt and other long-term obligations			<u>\$ 1,485</u>	<u>\$ 1,291</u>

For the year ended December 31, 2021, the following long-term debt was issued:

Company	Issuance Date	Interest Rate	Maturity	Amount	Issuance Type	Use of Proceeds
ATSI	12/1/2021	2.65%	2032	\$600 million	Unsecured Notes	Repay outstanding notes and short-term borrowings, to fund ATSI's ongoing capital expenditures, working capital, and for other general corporate purposes.

AMERICAN TRANSMISSION SYSTEMS, INCORPORATED
NOTES TO FINANCIAL STATEMENTS, (Continued)

The following table presents scheduled debt repayments for outstanding long-term debt, excluding unamortized debt discounts and premiums, for the next five years as of December 31, 2021.

Year	ATSI
	(In millions)
2022	\$ —
2023	—
2024	—
2025	—
2026	75

Debt Covenant Default Provisions

ATSI 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 ATSI 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 ATSI's financial condition.

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

As of December 31, 2021, ATSI was in compliance with all debt covenant provisions.

7. SHORT-TERM BORROWINGS AND BANK LINES OF CREDIT

ATSI had \$81 million and \$437 million of outstanding short-term borrowings as of December 31, 2021, and, 2020, respectively.

Revolving Credit Facility

On November 23, 2020, FET and its regulated transmission subsidiary, ATSI, borrowed \$1 billion in the aggregate under the former FET Revolving Facility, bringing the outstanding principal balance under the former FET Revolving Facility to \$1 billion, with no remaining availability under the former FET Revolving Facility. Borrowings were increased under the former Revolving Facility as a proactive measure to increase the respective cash position and preserve financial flexibility. These borrowings were repaid in full during 2021.

On October 18, 2021, FE, FET, the Utilities, and the Transmission Companies entered into the 2021 Credit Facilities, which were six separate senior unsecured five-year syndicated revolving credit facilities with JPMorgan Chase Bank, N.A., Mizuho Bank, Ltd. and PNC Bank, National Association that replaced the FE Revolving Facility and the FET Revolving Facility, and provide for aggregate commitments of \$4.5 billion. The 2021 Credit Facilities are available until October 18, 2026, as follows:

- FE and FET, \$1.0 billion revolving credit facility;
- Ohio Companies, \$800 million revolving credit facility;
- Pennsylvania Companies, \$950 million revolving credit facility;
- JCP&L, \$500 million revolving credit facility;
- MP and PE, \$400 million revolving credit facility; and
- Transmission Companies, \$850 million revolving credit facility.

Under the 2021 Credit Facilities, an aggregate amount of \$4.5 billion is available to be borrowed, repaid and reborrowed, subject to each borrower's respective sublimit under the respective facilities. These new credit facilities provide substantially liquidity to support the Regulated Distribution and Regulated Transmission businesses, and each of the operating companies within the businesses.

Borrowings under the 2021 Credit Facilities may be used for working capital and other general corporate purposes. Generally, borrowings under each of the credit facilities 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. Each of the 2021 Credit Facilities contain financial covenants requiring each borrower, with the exception of FE, to maintain a consolidated debt-to-total-capitalization ratio (as defined under each of the 2021 Credit Facility) of no more than 65%, measured at the end of each fiscal quarter.

AMERICAN TRANSMISSION SYSTEMS, INCORPORATED
NOTES TO FINANCIAL STATEMENTS, (Continued)

Under the 2021 Credit Facilities, ATSI may borrow up to its regulatory and other short-term debt limitations of \$500 million, all of which was available to ATSI as of December 31, 2021. This limitation includes amounts that may be borrowed under the regulated companies' money pool.

The 2021 Credit Facilities do 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 2021 Credit Facilities are related to the credit ratings of the company borrowing the funds. Additionally, borrowings under each of the 2021 Credit Facilities 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.

As of December 31, 2021, ATSI was in compliance with the applicable debt-to-total-capitalization ratio covenants under their respective 2021 Credit Facility.

FirstEnergy Money Pools

FE's utility and transmission operating subsidiary companies, including ATSI, 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 2021 was 1.01% per annum.

8. REGULATORY MATTERS

FERC REGULATORY MATTERS

Under the FPA, FERC regulates rates for transmission of electric power, accounting and other matters. With respect to its transmission services and rates, ATSI is subject to regulation by FERC. FERC regulations require ATSI to provide open access transmission service at FERC-approved rates, terms and conditions. ATSI's transmission facilities are subject to functional control by PJM and transmission service using ATSI's transmission facilities is provided by PJM under the PJM Tariff. The key terms of ATSI's rate orders in effect for transmission customer billings, which have been effective since January 1, 2015, include an actual (13 month average) capital structure and an allowed 10.38% ROE.

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

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

FERC Audit

FERC's Division of Audits and Accounting initiated a nonpublic audit of FESC in February 2019. Among other matters, the audit is evaluating FirstEnergy's compliance with certain accounting and reporting requirements under various FERC regulations. On February 4, 2022, FERC filed the final audit report for the period of January 1, 2015 through September 31, 2021, which included several findings and recommendations. One of the audit report findings and related recommendations state that FirstEnergy may have used an inappropriate methodology for allocation of certain costs to regulatory capital accounts under certain FERC regulations and reporting. Based on the finding and related recommendations, FirstEnergy is currently performing an analysis of these costs and how it impacted certain wholesale transmission customer rates. FirstEnergy is unable to predict or estimate the final outcome of this analysis and audit, however, it could result in refunds, with interest, to certain wholesale transmission customers and/or write-offs of previously capitalized costs if they are determined to be nonrecoverable.

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ATSI Transmission Formula Rate

On May 1, 2020, ATSI filed amendments to its formula rate to recover regulatory assets for certain costs that ATSI incurred as a result of its 2011 move from MISO to PJM, certain costs allocated to ATSI by FERC for transmission projects that were constructed by other MISO transmission owners, and certain costs for transmission-related vegetation management programs. A portion of these costs would have been charged to the Ohio Companies. Additionally, ATSI proposed certain income tax-related adjustments and certain tariff changes addressing the revenue credit components of the formula rate template. On June 30, 2020, FERC issued an initial order accepting the tariff amendments subject to refund and setting the matter for hearing and settlement proceedings. ATSI and the parties to the FERC proceeding subsequently were able to reach settlement, and on October 14, 2021, filed the settlement with FERC. As a result of the filed settlement, ATSI recognized a \$48 million pre-tax charge during the third quarter of 2021, which was recognized in Other Operating Expenses on the ATSI Statements of Income. This \$48 million charge reflects the difference between amounts originally recorded as regulatory assets and amounts which will ultimately be recovered as a result of the pending settlement. In addition, the settlement provides for partial recovery of future incurred costs allocated to ATSI by MISO for the above-referenced transmission projects that were constructed by other MISO transmission owners, which is not expected to have a material impact on ATSI. The uncontested settlement is pending before FERC for approval.

FERC Actions on Tax Act

On March 15, 2018, FERC initiated proceedings on the question of how to address possible changes to ADIT and bonus depreciation as a result of the Tax Act. Such possible changes could impact FERC-jurisdictional rates, including transmission rates. On November 21, 2019, FERC issued a final rule (Order No. 864). Order No. 864 requires utilities with transmission formula rates to update their formula rate templates to include mechanisms to: (i) deduct any excess ADIT from or add any deficient ADIT to their rate base; (ii) raise or lower their income tax allowances by any amortized excess or deficient ADIT; and (iii) incorporate a new permanent worksheet into their rates that will annually track information related to excess or deficient ADIT. Per FERC directives, ATSI submitted its compliance filing on May 1, 2020. On November 18, 2021, FERC issued an order that: (i) accepted ATSI's proposed tariff amendments to its rate base adjustment mechanism, effective January 27, 2020; (ii) directed ATSI to make a further compliance filing by January 17, 2022, and (iii) set the amount of ATSI's recorded ADIT balances as of December 31, 2017, for hearing and settlement procedures. ATSI submitted the compliance filing, and is participating in settlement negotiations.

Transmission ROE Methodology

On May 20, 2021, in a case not involving ATSI, FERC issued Opinion No. 575 in which it reiterated the nationwide ROE methodology set forth in 2020 in Opinion Nos. 569-A and 569-B. Under this methodology, FERC employs three financial models – discounted cash flow, capital-asset pricing, and risk premium – to calculate a composite zone of reasonableness. As it has done in other recent ROE cases, FERC rejected the use of the expected earnings methodology in calculating the authorized ROE. A request for clarification or, alternatively, rehearing of Opinion No. 575 was filed on June 21, 2021, and on September 9, 2021, FERC issued an order clarifying aspects of its prior opinion, but affirming the result. On July 15, 2021, FERC issued another order, addressing ROE for a generation company in New England, which applied a standard consistent with Opinion Nos. 569-A and 569-B. FERC's Opinion Nos. 569-A and 569-B, upon which Opinion No. 575 is based, have been appealed to the United States Court of Appeals for the District of Columbia Circuit. ATSI is not participating in the appeal. Any changes to FERC's transmission rate ROE and incentive policies for transmission rates would be applied on a prospective basis.

On March 20, 2020, FERC initiated a rulemaking proceeding on the transmission rate incentives provisions of Section 219 of the 2005 Energy Policy Act. FirstEnergy submitted comments through Edison Electric Institute and as part of a consortium of PJM Transmission Owners. In a supplemental rulemaking proceeding that was initiated on April 15, 2021, FERC requested comments on, among other things, whether to require utilities that have been members of an RTO for three years or more and that have been collecting an "RTO membership" ROE incentive adder to file tariff updates that would terminate collection of the incentive adder. Initial comments on the proposed rule were filed on June 25, 2021, and reply comments were filed on July 26, 2021. The rulemaking remains pending before FERC. FirstEnergy is a member of PJM and its transmission subsidiaries, including ATSI, could be affected by the supplemental proposed rule. FirstEnergy participated in comments that were submitted by a group of PJM transmission owners and by various industry trade groups. If there were to be any changes to ATSI's transmission incentive ROE, such changes will be applied on a prospective basis.

ATSI ROE – Ohio Consumers Counsel v ATSI, et al.

On February 24, 2022, the OCC filed a complaint with FERC against ATSI, American Electric Power Service Corporation, and Duke Energy Ohio, LLC seeking to apply FERC's recent rulings denying – on the basis of Dayton Power & Light's ongoing required membership in PJM – Dayton Power & Light's request to receive a 50 basis-point transmission incentive rate. As a basis for ruling against Dayton Power & Light, FERC cited the Ohio law requirement that Ohio transmission owning utilities join an RTO. The OCC requests that FERC declare American Electric Power Service Corporation, ATSI and Duke Energy Ohio, LLC ineligible for an RTO adder and direct all three companies to modify their transmission formula rates to eliminate the adder, with

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an effective refund date of February 24, 2022. The OCC alleges that, consistent with FERC's prior rulings, the RTO incentive adder is unnecessary because Ohio law requires membership in an RTO. ATSI is evaluating the complaint and plans to file its answer by March 31, 2022.

9. COMMITMENTS AND CONTINGENCIES

ENVIRONMENTAL MATTERS

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

On July 21, 2021, FE entered into a three-year DPA with the U.S. Attorney's Office that, subject to court proceedings, resolves this matter. Under the DPA, FE has agreed to the filing of a criminal information charging FE with one count of conspiracy to commit honest services wire fraud. The DPA requires that FirstEnergy, among other obligations: (i) continue to cooperate with the U.S. Attorney's Office in all matters relating to the conduct described in the DPA and other conduct under investigation by the U.S. government; (ii) pay a criminal monetary penalty totaling \$230 million within sixty days, which shall consist of (x) \$115 million paid by FE to the United States Treasury and (y) \$115 million paid by FE to the ODSA to fund certain assistance programs, as determined by the ODSA, for the benefit of low-income Ohio electric utility customers; (iii) publish a list of all payments made in 2021 to either 501(c)(4) entities or to entities known by FirstEnergy to be operating for the benefit of a public official, either directly or indirectly, and update the same on a quarterly basis during the term of the DPA; (iv) issue a public statement, as dictated in the DPA, regarding FE's use of 501(c)(4) entities; and (v) continue to implement and review its compliance and ethics program, internal controls, policies and procedures designed, implemented and enforced to prevent and detect violations of the U.S. laws throughout its operations, and to take certain related remedial measures. The \$230 million payment will neither be recovered in rates or charged to FirstEnergy customers nor will FirstEnergy seek any tax deduction related to such payment. The entire amount of the monetary penalty was recognized as expense in the second quarter of 2021, and paid in the third quarter of 2021. Under the terms of the DPA, the criminal information will be dismissed after FirstEnergy fully complies with its obligations under the DPA.

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

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. On April 28, 2021, the SEC issued an additional subpoena to FE. While no contingency has been reflected in its consolidated financial statements, FE believes that it is probable that it will incur a loss in connection with the resolution of the SEC investigation. Given the ongoing nature and complexity of the review, inquiries and investigations, FE cannot yet reasonably estimate a loss or range of loss that may arise from the resolution of the SEC investigation.

In addition to the subpoenas referenced above under "—United States v. Larry Householder, et. al." and the SEC investigation, 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. The plaintiffs in each of the below cases seek, among other things, to recover an unspecified amount of damages (unless otherwise noted). Unless otherwise indicated, no contingency has been reflected in FirstEnergy's consolidated financial statements with respect to these lawsuits as a loss is neither probable, nor is a loss or range of a loss reasonably estimable.

- *In re FirstEnergy Corp. Securities Litigation* (Federal District Court, S.D. Ohio); on July 28, 2020 and August 21, 2020, purported stockholders of FE filed putative class action lawsuits alleging violations of the federal securities laws. Those actions have been consolidated and a lead plaintiff, the Los Angeles County Employees Retirement Association, has been appointed by the court. A consolidated complaint was filed on February 26, 2021. The consolidated complaint alleges, on behalf of a proposed class of persons who purchased FE securities between February 21, 2017 and July 21, 2020, that FE and certain current or former FE officers violated Sections 10(b) and 20(a) of the Exchange Act by issuing misrepresentations or omissions concerning FE's business and results of operations. The consolidated complaint also

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alleges that FE, certain current or former FE officers and directors, and a group of underwriters violated Sections 11, 12(a)(2) and 15 of the Securities Act of 1933 as a result of alleged misrepresentations or omissions in connection with offerings of senior notes by FE in February and June 2020. FE believes that it is probable that it will incur a loss in connection with the resolution of this lawsuit. Given the ongoing nature and complexity of such litigation, FE cannot yet reasonably estimate a loss or range of loss.

- *MFS Series Trust I, et al. v. FirstEnergy Corp., et al.* (Federal District Court, S.D. Ohio) on December 17, 2021, purported stockholders of FE filed a complaint against FE, certain current and former officers, and certain current and former officers of EH. The complaint alleges that the defendants violated Sections 10(b) and 20(a) of the Exchange Act by issuing alleged misrepresentations or omissions regarding FE's business and its results of operations, and seeks the same relief as the *In re FirstEnergy Corp. Securities Litigation* described above. FE believes that it is probable that it will incur a loss in connection with the resolution of this lawsuit. Given the ongoing nature and complexity of such litigation, FE cannot yet reasonably estimate a loss or range of loss.
- *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, all actions have been consolidated); 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 (the OAG also named FES as a defendant), each alleging civil violations of the Ohio Corrupt Activity Act in connection with the passage of HB 6. 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 cases are stayed pending final resolution of the *United States v. Larry Householder, et al.* criminal proceeding described above, although on August 13, 2021, new defendants were added to the complaint, including two former officers of FirstEnergy. On November 9, 2021, the OAG filed a motion to lift the agreed-upon stay, which FE opposed on November 19, 2021; the motion remains pending. On December 2, 2021, the cities and FE entered a stipulated dismissal with prejudice of the cities' suit.
- *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, all actions have been consolidated); on July 27, 2020, July 31, 2020, and August 5, 2020, respectively, purported customers of FE filed putative class action lawsuits against FE and FESC, as well as certain current and former FE officers, alleging civil Racketeer Influenced and Corrupt Organizations Act violations and related state law claims. The court denied FE's motions to dismiss and stay discovery on February 10 and 11, 2021, respectively, and the defendants submitted answers to the complaint on March 10, 2021. The plaintiffs moved to certify the case as a class action on June 28, 2021, and moved for leave to amend the complaint to add FES as a defendant on September 27, 2021. The court granted the motion to amend on November 10, 2021. On November 9, 2021, the court issued an order granting Plaintiffs' motion for class certification, but vacated that order on November 19, 2021, to allow defendants to take the named plaintiffs' depositions and to file an opposition to the motion, which they filed on December 14, 2021. On November 19, 2021, FE and FESC moved for judgment on the pleadings. One of the individual defendants moved to dismiss the amended complaint on November 24, 2021. On December 28, 2021, the parties jointly moved the court to stay consideration of the pending motions for class certification, to dismiss, and for judgment on the pleadings for 45 days. The court granted the motion on December 29, 2021, and the cases are currently stayed. FE is engaged with the parties in settlement discussions, and believes that it is probable that it will incur a loss in connection with the resolution of these lawsuits. As a result, FirstEnergy recognized in the fourth quarter of 2021 a pre-tax reserve of \$37.5 million in the aggregate with respect to these lawsuits and the *Emmons* lawsuit below; no impact to ATSI is anticipated.
- *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, the Ohio Companies, 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. On May 4, 2021, the court granted the defendants' motion to dismiss plaintiffs' breach of contract claims and denied the remainder of the motions to dismiss. The defendants submitted answers to the complaint on June 1, 2021. Discovery is proceeding. On December 30, 2021, the plaintiff filed a Second Amended Complaint removing one of the named plaintiffs and updating the class definition. FE is engaged with the parties in settlement discussions, and believes that it is probable that it will incur a loss in connection with the resolution of these lawsuits. As a result, FirstEnergy recognized in the fourth quarter of 2021 a pre-tax reserve of \$37.5 million in the aggregate with respect to this lawsuit and the lawsuits above consolidated with *Smith* in the S.D. Ohio alleging, among other things, civil violations of the Racketeer Influenced and Corrupt Organizations Act; no impact to ATSI is anticipated.

On February 9, 2022, FE, acting through the SLC, agreed to a settlement term sheet to resolve the following shareholder derivative lawsuits relating to HB 6 and the now former Ohio House Speaker Larry Householder and other individuals and entities allegedly affiliated with Mr. Householder that were filed in the S.D. Ohio, the N.D. Ohio, and the Ohio Court of Common Pleas, Summit County:

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- *Gendrich v. Anderson, et al. and Sloan v. Anderson, et al.* (Common Pleas Court, Summit County, OH, all actions have been consolidated); 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.
- *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.* (Federal 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 FE Board and officers breached their fiduciary duties and committed violations of Section 14(a) of the Exchange Act.

The proposed settlement, which is subject to court approval, will fully resolve the shareholder derivative lawsuits above and stipulates a series of corporate governance enhancements, that is expected to result in the following:

- Six members of the FE Board, Messrs. Michael J. Anderson, Donald T. Misheff, Thomas N. Mitchell, Christopher D. Pappas and Luis A. Reyes, and Ms. Julia L. Johnson will not stand for re-election at FE's 2022 annual shareholder meeting;
- A special FE Board committee of at least three recently appointed independent directors will be formed to initiate a review process of the current senior executive team, to begin within 30 days of the 2022 annual shareholder meeting;
- The FE Board will oversee FE's lobbying and political activities, including periodically reviewing and approving political and lobbying action plans prepared by management;
- The FE Board will form another committee of recently appointed independent directors to oversee the implementation and third-party audits of the FE Board-approved action plans with respect to political and lobbying activities;
- FE will implement enhanced disclosure to shareholders of political and lobbying activities, including enhanced disclosure in its annual proxy statement; and
- FE will further align financial incentives of senior executives to proactive compliance with legal and ethical obligations.

The settlement also includes a payment to FirstEnergy of \$180 million, to be paid by insurance after court approval, less any court-ordered attorney's fees awarded to plaintiffs.

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 non-public audit being conducted by FERC's Division of Audits and Accounting. While no contingency has been reflected in the consolidated financial statements, FirstEnergy believes that it is probable that it will incur a loss in connection with the resolution of the FERC investigation. Given the ongoing nature and complexity of the review, inquiries and investigations, FirstEnergy cannot yet reasonably estimate a loss or range of loss that may arise from the resolution of the FERC investigation.

The outcome of any of these lawsuits, governmental investigations and audit is uncertain and could have a material adverse effect on FE's or ATSI's reputation, business, financial condition, results of operations, liquidity, and cash flows.

Other Legal Matters

There are various lawsuits, claims (including claims for asbestos exposure) and proceedings related to ATSI's normal business operations pending against ATSI. The loss or range of loss in these matters is not expected to be material to ATSI. The other potentially material items not otherwise discussed above are described under Note 8, "Regulatory Matters."

ATSI 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 ATSI 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 ATSI has legal liability or is otherwise made subject to liability based on any of the matters referenced above, it could have a material adverse effect on ATSI's financial condition, results of operations and cash flows.

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NOTES TO FINANCIAL STATEMENTS, (Continued)

10. TRANSACTIONS WITH AFFILIATED COMPANIES

In addition to the intercompany income tax allocation and short-term borrowing arrangement, ATSI has other operating expense, miscellaneous income and interest expense transactions with affiliated companies, primarily OE, CEI, TE, Penn and FESC. The primary affiliated-company transactions, including the effects of the transmission arrangements with OE, CEI, TE and Penn, during the years ended December 31, 2021 and 2020, are as follows:

	For the Years Ended December 31,	
	2021	2020
	<i>(in millions)</i>	
Revenues	\$ 14	\$ 5
Operating Costs:		
Ground lease expense ⁽¹⁾	21	21
Support services	98	96
Miscellaneous income	4	3
Interest expense to affiliates	3	1
⁽¹⁾ See Note 4, Leases		

FE does not bill directly or allocate any of its costs to any subsidiary company. Costs are charged to FE's subsidiaries for services received from FESC either through direct billing or through an allocation process. Allocated 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. Intercompany transactions are generally settled under commercial terms within thirty days.

Under the FirstEnergy money pool, FE's utility and transmission operating subsidiary companies, including ATSI, have the ability to borrow from each other and the holding company to meet their short-term working capital requirements. Affiliated company notes receivables and payables related to the money pool are reported as Notes receivable from affiliated companies or Short term borrowings - affiliated companies on the Consolidated Balance Sheets. Affiliate accounts receivable and accounts payable balances relate to intercompany transactions that have not yet settled through the FirstEnergy money pool (see Note 7, "Short-Term Borrowings and Bank Lines of Credit").

ATSI 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 3, "Taxes").