THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES

AUDITED CONSOLIDATED 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 The Cleveland Electric Illuminating Company and its current and former subsidiaries and affiliated companies:

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

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
AEP	American Electric Power Company, Inc.
AFUDC	Allowance for Funds Used During Construction
AOCI	Accumulated Other Comprehensive Income (Loss)
ARO	Asset Retirement Obligation
ASC	Accounting Standard Codification
ASU	Accounting Standards Update
COVID-19	Coronavirus disease
CSR	Conservative Support Rider
DCR	Delivery Capital Recovery
DMR	Distribution Modernization 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

ESP	Electric Security Plan
ESP IV	Electric Security Plan IV
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 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
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
KWH	Kilowatt-hour
N.D. Ohio	Northern District of Ohio
NERC	North American Electric Reliability Corporation
NOL	Net Operating Loss
OAG	Ohio Attorney General
OCC	Ohio Consumers' Counsel
ODSA	Ohio Development Service Agency
Ohio Stipulation	On November 1, 2021, the Ohio Companies, together with the OCC, PUCO Staff, and several other signatories, entered into a unanimous Stipulation and Recommendation with the intent of resolving the ongoing energy efficiency rider audits, various SEET proceedings, including the Ohio Companies' 2017 SEET proceeding, and the Ohio Companies' quadrennial ESP review, each of which was pending before the PUCO
OPEB	Other Post-Employment Benefits
OVEC	Ohio Valley Electric Corporation
PJM	PJM Interconnection, L.L.C.
POLR	Provider of Last Resort
PUCO	Public Utilities Commission of Ohio
REC	Renewable Energy Credit
RFC	ReliabilityFirst Corporation
ROE	Return on Equity
SCOH	Supreme Court of Ohio
S.D. Ohio	Southern District of Ohio
SEC	United States Securities and Exchange Commission
SEET	Significantly Excessive Earnings Test
SLC	Special Litigation Committee of the FE Board
SPE	Special Purpose Entity
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 The Cleveland Electric Illuminating Company

Opinion

We have audited the accompanying consolidated financial statements of The Cleveland Electric Illuminating Company and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income, of comprehensive income, of common stockholder's equity, and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated 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 Consolidated 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 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, and for 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.

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 Consolidated 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 consolidated 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 consolidated 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

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(In millions)	For the Years Ended December 31, 2021	2020
REVENUES:		
Electric sales	$ 981	$ 972
Excise and gross receipts tax collections	63	63
Total revenues	1,044	1,035
OPERATING EXPENSES:		
Purchased power from affiliates	—	2
Purchased power from non-affiliates	105	100
Other operating expenses	413	419
Provision for depreciation	121	112
Amortization of regulatory assets, net	78	27
General taxes	202	194
Total operating expenses	919	854
OPERATING INCOME	125	181
OTHER INCOME (EXPENSE):		
Miscellaneous income, net	21	14
Pension and OPEB mark-to-market adjustment	25	(36)
Interest expense	(76)	(72)
Capitalized financing costs	6	3
Total other expense	(24)	(91)
INCOME BEFORE INCOME TAXES (BENEFITS)	101	90
INCOME TAXES (BENEFITS)	18	(5)
NET INCOME	$ 83	$ 95
STATEMENTS OF COMPREHENSIVE INCOME		
NET INCOME	$ 83	$ 95
OTHER COMPREHENSIVE LOSS:		
Pension and OPEB prior service costs	—	(1)
Other comprehensive loss	—	(1)
Income tax benefits on other comprehensive loss	—	—
Other comprehensive loss, net of tax	—	(1)
COMPREHENSIVE INCOME	$ 83	$ 94

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

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In millions, except share amounts)	December 31, 2021	December 31, 2020
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ —	$ 150
Restricted cash	6	14
Receivables-		
Customers	94	131
Less — Allowance for uncollectible customer receivables	17	18
	77	113
Affiliated companies	38	43
Other, net of allowance for uncollectible accounts of $1 in 2020	22	19
Notes receivable from affiliated companies	95	—
Prepaid taxes and other	11	2
	249	341
UTILITY PLANT:		
In service	3,664	3,503
Less — Accumulated provision for depreciation	1,494	1,426
	2,170	2,077
Construction work in progress	86	98
	2,256	2,175
DEFERRED CHARGES AND OTHER ASSETS:		
Goodwill	1,689	1,689
Property taxes	146	134
Other	44	38
	1,879	1,861
	$ 4,384	$ 4,377
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES:		
Currently payable long-term debt	$ 7	$ 21
Short-term borrowings - affiliated companies	—	45
Accounts payable-		
Affiliated companies	43	38
Other	12	15
Accrued taxes	141	135
Accrued interest	16	17
Other	57	50
	276	321
CAPITALIZATION:		
Common stockholder's equity-		
Common stock, without par value, authorized 105,000,000 shares - 67,930,743 shares outstanding	1,251	1,244
Accumulated other comprehensive loss	(4)	(4)
Retained earnings	338	348
Total common stockholder's equity	1,585	1,588
Long-term debt and other long-term obligations	1,564	1,570
	3,149	3,158
NONCURRENT LIABILITIES:		
Accumulated deferred income taxes	293	277
Retirement benefits	104	129
Regulatory liabilities	186	128
Property taxes	146	134
Other	230	230
	959	898
COMMITMENTS AND CONTINGENCIES (Note 12)		
	$ 4,384	$ 4,377

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

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

(In millions, except share amounts)	Common Stock: Number of Shares	Common Stock: Carrying Value	AOCI	Retained Earnings	Total Stockholder's Equity
Balance, January 1, 2020	67,930,743	$ 1,240	$ (3)	$ 298	$ 1,535
Net income				95	95
Comprehensive loss			(1)		(1)
Stock-based compensation		3			3
Consolidated tax benefit allocation		1			1
Common stock dividend payments				(45)	(45)
Balance, December 31, 2020	67,930,743	$ 1,244	$ (4)	$ 348	$ 1,588
Net Income				83	83
Stock-based compensation		3			3
Consolidated tax benefit allocation		4			4
Common stock dividend payments				(93)	(93)
Balance, December 31, 2021	67,930,743	$ 1,251	$ (4)	$ 338	$ 1,585

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

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

(In millions)	For the Years Ended December 31, 2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 83	$ 95
Adjustments to reconcile net income to net cash from operating activities-		
Depreciation and amortization	203	110
Deferred income taxes and investment tax credits, net	4	(26)
Retirement benefits, net of payments	(16)	(16)
Pension and OPEB mark-to-market adjustment	(25)	36
Change in current assets and liabilities-		
Receivables	40	(23)
Accounts payable	2	5
Accrued taxes	6	10
Accrued interest	(1)	4
Other current liabilities	(4)	7
Other	3	7
Net cash provided from operating activities	295	209
CASH FLOWS FROM FINANCING ACTIVITIES:		
New financing-		
Long-term debt	—	250
Redemptions and repayments-		
Long-term debt	(18)	(19)
Short-term borrowings - affiliated companies, net	(45)	(40)
Common stock dividend payments	(93)	(45)
Other	(5)	(6)
Net cash provided from (used for) financing activities	(161)	140
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(181)	(185)
Loans to affiliated companies, net	(95)	—
Asset removal costs	(16)	(18)
Other	—	5
Net cash used for investing activities	(292)	(198)
Net change in cash, cash equivalents, and restricted cash	(158)	151
Cash, cash equivalents, and restricted cash at beginning of period	164	13
Cash, cash equivalents, and restricted cash at end of period	$ 6	$ 164
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the year -		
Interest (net of amounts capitalized)	$ 74	$ 66
Income taxes, net of refunds	$ —	$ 24

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

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

1. ORGANIZATION AND BASIS OF PRESENTATION

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

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

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

ACCOUNTING FOR THE EFFECTS OF REGULATION

CEI is subject to regulation that sets the prices (rates) that CEI 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.

CEI 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, CEI 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, CEI will write off that regulatory asset as a charge against earnings. CEI considers the entire regulatory asset balance as the unit of account for the purposes of balance sheet classification rather than the next years recovery and as such net regulatory assets and liabilities are presented in the non-current section on CEI's Consolidated Balance Sheets. See Note 11, "Regulatory Matters," of the Notes to Consolidated 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 December 31, 2020, and the changes during the year ended December 31, 2021:

Net Regulatory Assets (Liabilities) by Source	As of December 31, 2021	As of December 31, 2020	Change
	(In millions)		
Customer payables for future income taxes	$ (210)	$ (221)	$ 11
Asset removal costs	(115)	(108)	(7)
Deferred transmission costs	(21)	29	(50)
Deferred generation costs	46	55	(9)
Deferred distribution costs	17	40	(23)
Storm-related costs	104	82	22
Uncollectible and COVID-19 related costs	—	8	(8)
Energy efficiency program costs	2	(3)	5
Other	(9)	(10)	1
Net Regulatory Liabilities included on the Consolidated Balance Sheets	$ (186)	$ (128)	$ (58)

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

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

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

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 fuel and purchased power regulatory assets that are amortized through 2034.

Deferred distribution costs - Primarily relates to the deferral of certain expenses resulting from distribution and reliability related expenditures, including interest (amortized through 2036) in subsequent periods as well as refunds owed to customers associated with the Ohio Stipulation and SEET settlement discussed below.

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

Uncollectible and COVID-19 related costs - Includes the deferral of uncollectible expenses arising from COVID-19 under existing riders prior to the pandemic, which were fully recovered in 2021.

Energy efficiency program costs - Relates to the recovery of costs in excess of revenues associated with energy efficiency programs including the Ohio Companies' Demand Side Management and Energy Efficiency Rider amortized through 2024.

GOODWILL

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

No impairment of goodwill was indicated as a result of testing in 2021. In 2021, CEI performed a qualitative assessment, assessing economic, industry and market considerations in addition to CEI's overall financial performance. Key factors used in the assessment included: growth rates, interest rates, expected capital investments, utility sector market performance, regulatory and legal developments, and other market considerations. It was determined that the fair value was, more likely than not, greater than its carrying value and a quantitative analysis was not necessary.

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

CEI provides for depreciation on a straight-line basis at various rates over the estimated lives of property included in plant in service. Depreciation expense was approximately 3.4% and 3.3% of average depreciable property in 2021 and 2020, respectively.

For the years ended December 31, 2021 capitalized financing costs on CEI's Consolidated Statements of Income include $5 million and $1 million, respectively, of allowance for equity funds used during construction and capitalized interest. For the years ended December 31, 2020 capitalized financing costs on CEI's Consolidated Statements of Income include $1 million and $2 million, respectively, of allowance for equity funds used during construction and capitalized interest.

CEI 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.

RECEIVABLES

CEI's principal business is providing electric service to customers in Ohio. CEI's retail customers are metered on a cycle basis. Electric revenues are recorded based on energy delivered through the end of the calendar month. An estimate of unbilled revenues is calculated to recognize electric service provided from the last meter reading through the end of the month. This estimate includes many factors, among which are historical customer usage, load profiles, estimated weather impacts, customer shopping activity and prices in effect for each class of customer. In each accounting period, CEI accrues the estimated unbilled amount as revenue and reverses the related prior period estimate. Unbilled customer receivables were $43 million and $58 million as of December 31, 2021 and 2020, respectively. 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 write-offs since the pandemic began.

During 2020, 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 at the time were suspended, and historically been utilized to ensure payment. Based on this assessment, and consideration of other qualitative factors described above, CEI recognized incremental uncollectible expense of $12 million in the year 2020, all of which was deferred for future recovery.

During 2021, arrears levels continue to be elevated above 2019 pre-pandemic levels. Various regulatory actions have impacted the growth and recovery of past due balances including extensions on moratoriums, significant restrictions regarding disconnections, and extended installment plans. FirstEnergy has experienced a reduction in the amount of receivables that are past due by greater than 30 days since the end of 2020. While total customer arrears balances continue to decrease in 2021, balances that are over 120 days past due continue to be elevated. FirstEnergy considered other factors as part of its qualitative assessment, such as certain federal stimulus and state funding being made available to assist with past due utility bills. As a result of this qualitative analysis, CEI did not recognize any incremental uncollectible expense for the twelve months ended December 30, 2021. Additionally, as a result of the pandemic-related moratoriums and certain customer installment or extended payment plans offered, the allowance for uncollectible accounts on receivables in 2021 and 2020 are elevated due to the extension of when certain write-offs would have otherwise occurred.

Activity associated with customer receivables is as follows:

(In millions)	2021	2020
Customer Receivables		
Beginning of year balance	$ 18	$ 6
Charged to income [1]	6	20
Charged to other accounts [2]	5	6
Write-offs	(12)	(14)
End of year balance	$ 17	$ 18

[1] Customer receivable amounts charged to income include approximately $3 million and $17 million deferred for future recovery for the year ended December 31, 2020, respectively.
[2] Represents recoveries and reinstatements of accounts previously written off for uncollectible 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. CE adopted the guidance as of January 1, 2021, with no material impact to the financial statements.

Recently Issued Pronouncements - CEI 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

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

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

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

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

The following table represents a disaggregation of revenue from contracts with customers for the years ended December 31, 2021 and 2020, by type of service:

Revenues by Type of Service	For the Year Ended December 31, 2021	2020
	(In millions)	
Distribution services[1]	$ 910	$ 862
Retail generation	106	108
Other	25	38
Total revenues from contracts with customers	$ 1,041	$ 1,008
ARP [2]	(13)	16
Other revenue unrelated to contracts with customers	16	11
Total revenues	$ 1,044	$ 1,035

[1]) Includes a $14 million reduction to revenue associated customer refund within the Ohio Stipulation that became effective December 2021.See Note 11, “Regulatory Matters,” for additional information.
[2] ARP for 2021 reflects amounts the Ohio Companies refunded to customers that was previously collected under decoupling mechanisms, with interest. See Note 11, “Regulatory Matters,” for further discussion on Ohio decoupling rates. ARP revenue for the year ended December 31, 2020 is primarily related to shared savings revenue.

Other revenue primarily includes $11 million and $25 million related to amounts collected from customers to repay bonds associated with the Ohio Securitization (See Note 7, "Variable Interest Entities") for the years ended December 31, 2021 and 2020, respectively.

The following table represents a disaggregation of CEI's revenue from contracts with distribution service and retail generation customers for the years ended December 31, 2021 and 2020, by class:

Revenues by Customer Class	For the Years Ended December 31, 2021	2020
	(In millions)	
Residential	$ 476	$ 447
Commercial	421	410
Industrial	102	95
Other	17	18
Total Revenues	$ 1,016	$ 970

3. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The changes in AOCI, net of tax, for the years ended December 31, 2021 and 2020 for CEI are shown in the following tables:

	Defined Benefit Pension & OPEB Plans
	(In millions)
AOCI Balance, January 1, 2020	$ (3)
Other comprehensive income before reclassifications	—
Amounts reclassified from AOCI	(1)
Other comprehensive loss	(1)
Income tax benefits on other comprehensive loss	—
Net other comprehensive loss	(1)
AOCI Balance, December 31, 2020	$ (4)
Other comprehensive income before reclassifications	—
Amounts reclassified from AOCI	—
Other comprehensive loss	—
Income tax benefits on other comprehensive loss	—
Net other comprehensive loss	—
AOCI Balance, December 31, 2021	$ (4)

The following amounts were reclassified from AOCI for CEI in the years ended December 31, 2021 and 2020:

Reclassifications out of AOCI [1]	For the Years Ended December 31, 2021	2020	Affected Line Item in the Consolidated Statements of Income
	(in millions)		
Defined Benefit Pension and OPEB Plans			
Prior-service costs	$ —	$ (1)	[2]
	—	—	Income taxes
	$ —	$ (1)	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 CEI. The plans provide defined benefits based on years of service and compensation levels. Under the cash-balance portion of the pension plan (for employees hired on or after January 1, 2014), FirstEnergy makes contributions to eligible employee retirement accounts based on a pay credit and an interest credit. In addition, FirstEnergy provides a minimum amount of noncontributory life insurance to retired employees in addition to optional contributory insurance. Health care benefits, which include certain employee contributions, deductibles and co-payments, are also available upon retirement to certain employees, their dependents and, under certain circumstances, their survivors. CEI recognizes its allocated portion of the expected cost of providing pension and OPEB to employees and their beneficiaries and covered dependents from the time employees are hired until they become eligible to receive those benefits. CEI also recognizes its allocated portion of obligations to former or inactive employees after employment, but before retirement, for disability-related benefits.

FirstEnergy’s pension and OPEB funding policy is based on actuarial computations using the projected unit credit method. On March 11, 2021, President Biden signed into law the American Rescue Plan Act of 2021, which among other things, extended shortfall amortization periods and modification of the interest rate stabilization rules for single-employer plans thereby impacting funding requirements. As a result, FirstEnergy does not currently expect to have a required contribution to the pension plan based on various assumptions including annual expected rate of returns for assets of 7.50%. However, FirstEnergy may elect to contribute to the pension plan voluntarily.

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.

Discount Rate - 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 trusts. The long-term rate of return is developed considering the portfolio’s asset allocation strategy. FirstEnergy utilizes 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.

Rate of Return - 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 2021, FirstEnergy’s qualified pension and OPEB plan assets experienced gains of $689 million or 7.9%, compared to gains of $1,225 million, or 14.7% in 2020 and assumed a 7.50% rate of return on plan assets in 2021 and 2020 which generated $688 million and $651 million of expected returns on plan assets, respectively. The expected return on pension and OPEB assets is based on input from investment consultants, including 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 is recognized as a pension and OPEB mark-to-market adjustment in the fourth quarter of each fiscal year and whenever a plan is determined to qualify for remeasurement.

Mortality Rates - During 2021, the Society of Actuaries published new mortality tables that include more current data than the RP-2014 tables as well as During 2021, 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 plan mortality data indicated the use of the Pri-2012 mortality table with projection scale MP-2021, actuarially adjusted to reflect increased mortality rates due to COVID-19 based on mortality experience reported by the Center for Disease and Control Prevention in 2020 and 2021, was most appropriate and such was utilized to determine the 2021 benefit cost and obligation as of December 31, 2021, for the FirstEnergy pension and OPEB plans. The impact of using the Pri-2012 mortality table with projection scale MP-2021 (adjusted by FirstEnergy's actuary for COVID-19 impacts) resulted in a decrease to the projected benefit obligation of approximately $32 million and $2 million for the pension and OPEB plans, respectively, and was included in the 2021 pension and OPEB mark-to-market adjustment.

Net Periodic Benefit Costs - 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. Service costs, net of capitalization, are reported within Other operating expenses. 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 Statement of Income.

The 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 (including $423 million in the first quarter of 2020), respectively. Under the approved bankruptcy settlement agreement, upon emergence, FES and FENOC employees ceased earning years of service under the FirstEnergy pension and OPEB plans. The emergence on February 27, 2020, triggered a remeasurement of the affected pension and OPEB plans and as a result, FirstEnergy recognized a pension and OPEB mark-to-market adjustment in the first quarter of 2020 in addition to the annual remeasurement in December 2020. CEI's pension and OPEB mark-to-market adjustments, (gains) or losses, for the years ended December 31, 2021 and 2020, were $(25) million and $36 million, respectively.

The following is a summary of the plan status:

	Pension		OPEB	
For the Years Ended	**2021**	**2020**	**2021**	**2020**
	(in millions)			
FirstEnergy benefit obligation	$ 11,479	$ 11,935	$ 549	$ 676
FirstEnergy fair value of plan assets	9,020	8,968	548	502
FirstEnergy funded status	$ (2,459)	$ (2,967)	$ (1)	$ (174)
FirstEnergy accumulated benefit obligation	$ 10,927	$ 11,376	$ —	$ —
FirstEnergy net periodic costs (credits) (1)	$ (481)	$ 346	$ (167)	$ (46)
CEI's share of net liability (2)	$ 78	$ 91	$ 23	$ 34
CEI's share of net periodic costs (credits) (1)	$ (13)	$ 21	$ (11)	$ (1)

(1) Includes pension and OPEB mark-to-market adjustment.
(2) Excludes $179 million and $186 million as of December 31, 2021 and 2020, respectively, of affiliated non-current liabilities related to pension and OPEB mark-to-market costs allocated to CEI.

	Pension		OPEB	
	2021	**2020**	**2021**	**2020**
Assumptions Used to Determine Benefit Obligations (as of December 31)				
Discount rate	3.02 %	2.67 %	2.84 %	2.45 %
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	5.75%-5.25%	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)	3.10 %	3.60%/3.24%	3.03 %	3.63%/3.29%
Interest cost weighted-average discount rate (3)	2.58 %	3.27%/2.90%	1.66 %	2.71%/2.30%
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.

5. TAXES

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

CEI is party to an intercompany income tax allocation agreement with 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.

	For the Years Ended December 31,	
INCOME TAXES:	**2021**	**2020**
	(In millions)	
Currently payable-		
Federal	$ 14	$ 21
State	—	—
	14	21
Deferred, net-		
Federal	(6)	(8)
State	10	(18)
	4	(26)
Total income taxes	$ 18	$ (5)

CEI's tax rates are affected by permanent items as well as discrete items that may occur in any given period, but are not consistent from period to period. The following table provides a reconciliation of federal income tax expense at the federal statutory rate to the total income taxes for the years ended December 31, 2021 and 2020:

	For the Years Ended December 31,	
(In millions)	**2021**	**2020**
Book income before income taxes	$ 101	$ 90
Federal income tax expense at statutory rate	$ 21	$ 19
Increases (reductions) in taxes resulting from -		
State income taxes, net of federal tax benefit	2	1
Excess deferral tax amortization due to the Tax Act	(9)	(10)
Valuation allowances	6	(16)
Other	(2)	1
Total income taxes	$ 18	$ (5)
Effective income tax rate	17.8 %	(5.6)%

CEI's effective tax rate on pre-tax income for 2021 and 2020 was 17.8% and (5.6)%, respectively. The increase in the effective tax rate was primarily due to a $22 million change in valuation allowances associated with the expected utilization of certain municipal NOLs.

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

	As of December 31,	
(In millions)	**2021**	**2020**
Property basis differences	$ 319	$ 303
Regulatory assets/liability	32	51
Loss and credit carryforwards	(18)	(18)
Pension and OPEB	(63)	(70)
Valuation allowances	10	4
Other	13	7
Net accumulated deferred income tax liabilities	$ 293	$ 277

CEI records as deferred income tax assets the effect of NOLs and tax credits that will more likely than not be realized through future operations and through the reversal of existing temporary differences. As of December 31, 2021, CEI's loss carryforwards consisted of approximately $894 million ($15 million, net of tax) of municipal NOL carryforwards, of which approximately $301 million ($5 million, net of tax) is expected to be utilized based on current estimates and assumptions prior to expiration, which will begin in 2025.

CEI accounts for uncertainty in income taxes recognized in its financial statements. Accounting guidance prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of tax positions taken or expected to be taken on a company's tax return. During the year ended December 31, 2021, CEI recorded an immaterial 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, CEI did not record any unrecognized tax benefits, nor did CEI have a reserve for any uncertain tax positions.

CEI recognizes interest expense or income and penalties related to uncertain tax positions in income taxes. That amount is computed by applying the applicable statutory interest rate to the difference between the tax position recognized and the amount previously taken or expected to be taken on the tax return. During 2021 and 2020, CEI did not record any interest related to uncertain tax positions, nor does CEI have a cumulative net interest payable recorded on its balance sheet.

For federal income tax purposes, CEI files as a member of the FE consolidated group. IRS review of the FE consolidated group's federal income tax returns is complete through the 2020 tax year with no pending adjustments. CEI has tax returns under review by state taxing authorities at the audit or appeals level for tax years 2018-2020.

General Taxes

Details of general taxes for the years ended December 31, 2021 and 2020 are shown below:

(In millions)	**2021**	**2020**
KWH excise	$ 60	$ 60
Gross receipts	2	3
Real and personal property	132	123
Social security and unemployment	8	8
Total general taxes	$ 202	$ 194

6. LEASES

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

In addition, ATSI has a ground lease with CEI under an operating lease agreement. Land use is rented to ATSI under the terms and conditions of a ground lease. CEI reserves the right to use (and to permit authorized others to use) the land for any purpose that does not cause a violation of electrical safety code or applicable law, or does not impair ATSI's ability to satisfy its service obligations. Additional uses of such land for ATSI's facilities requires prior written approval from the applicable operating company. ATSI purchases directly any new property acquired for transmission use. ATSI makes fixed quarterly lease payments to CEI through December 31, 2049, unless terminated prior to maturity, or extended by ATSI for up to 10 additional successive periods of 50 years each. Revenue associated with this agreement was approximately $7 million for 2021 and 2020.

CEI 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 CEI's sole discretion. Renewal options are included within the lease liability if they are reasonably certain based on various factors relative to the contract. Certain leases also include options to purchase the leased property. The depreciable life of leased assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise. CEI 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 CEI's Statement of Income such that amortization of the right-of-use asset and interest on lease liabilities equals the expense allowed for ratemaking purposes. All operating lease expenses are recognized in Other operating expense. The components of lease expense were as follows:

	For the Years Ended December 31,	
(In millions)	**2021**	**2020**
Operating lease costs [1]	$ 5	$ 4
Finance lease costs:		
Amortization of right-of-use assets	2	2
Interest on lease liabilities	2	2
Total finance lease cost	4	4
Total lease cost	$ 9	$ 8

[1] Includes $1 million of short-term lease costs for the years ended December 31, 2021 and 2020.

Supplemental balance sheet information related to leases was as follows:

		As of December 31,	
(In millions)	**Financial Statement Line Item**	**2021**	**2020**
Assets			
Operating lease assets [1]	Deferred charges and other assets	$ 25	$ 21
Finance lease assets [2]	Property, plant and equipment	10	12
Total leased assets		$ 35	$ 33
Liabilities			
Current:			
Operating	Other current liabilities	$ 4	$ 4
Finance	Currently payable long-term debt	2	3
Noncurrent:			
Operating	Other noncurrent liabilities	21	16
Finance	Long-term debt and other long-term obligations	8	10
Total leased liabilities		$ 35	$ 33

[1] Operating lease assets are recorded net of accumulated amortization of $6 million and $4 million as of December 31, 2021 and 2020, respectively.
[2] Finance lease assets are recorded net of accumulated amortization of $17 million and $16 million as of December 31, 2021 and 2020, respectively.

Lease terms and discount rates were as follows:

	As of December 31, 2021	**As of December 31, 2020**
Weighted-average remaining lease terms (years)		
Operating leases	6.30	6.56
Finance leases	5.20	5.50
Weighted-average discount rate [1]		
Operating leases	3.11 %	2.90 %
Finance leases	19.20 %	17.59 %

[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:

	For the Years Ended,	
(In millions)	12/31/2021	12/31/2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 4	$ 3
Operating cash flows from finance leases	2	2
Finance cash flows from finance leases	2	3
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$ 9	$ 8
Finance leases	—	—

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

(In millions)	Operating Leases	Finance Leases	Total
2022	$ 5	$ 4	$ 9
2023	5	2	7
2024	4	2	6
2025	4	2	6
2026	3	2	5
Thereafter	6	5	11
Total lease payments	27	17	44
Less imputed interest	2	7	9
Total net present value	$ 25	$ 10	$ 35

7. VARIABLE INTEREST ENTITIES

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

Consolidated VIEs

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

- *Ohio Securitization* - In September 2012, CEI formed CEI Funding LLC as a separate, wholly-owned limited liability SPE. The phase-in recovery bonds issued by the SPE are payable only from, and secured by, phase-in recovery property owned by the SPE (i.e. the right to impose, charge and collect irrevocable non-bypassable usage-based charges payable by retail electric customers in the service territories of CEI) and the bondholder has no recourse to the general credit of FirstEnergy or CEI. CEI, as servicer of the SPE, manages and administers the phase-in recovery property including the billing, collection and remittance of usage-based charges payable by retail electric customers. CEI is entitled to annual servicing fees of $232 thousand that are recoverable through the usage-based charges. The SPE is considered a VIE and is consolidated into the financial statements of CEI. The cash collected from CEI customers is used to service debt of the funding company. As of December 31, 2021 and 2020, $70 million and $89 million of the phase-in recovery bonds were outstanding, respectively.

Unconsolidated VIEs

- CEI does not have any unconsolidated VIEs.

8. FAIR VALUE MEASUREMENTS

INVESTMENTS

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

LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS

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

	December 31, 2021		December 31, 2020	
(In millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	$ 1,570	$ 1,771	$ 1,589	$ 1,755

The fair values of long-term debt reflect the present value of the cash outflows relating to those securities based on the current call price, the yield to maturity or the yield to call, as deemed appropriate at the end of each respective period. The yields assumed were based on securities with similar characteristics offered by corporations with credit ratings similar to those of CEI, which results in long-term debt being classified as Level 2 in the fair value hierarchy as of December 31, 2021 and 2020.

9. CAPITALIZATION

COMMON STOCK

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

PREFERRED AND PREFERENCE STOCK

CEI is authorized to issue preferred stock and preference stock as of December 31, 2021, as follows:

Preferred Stock		Preference Stock	
Shares Authorized	Par Value	Shares Authorized	Par Value
4,000,000	no par	3,000,000	no par

As of December 31, 2021, and 2020, there were no preferred or preference shares outstanding.

LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS

The following table presents outstanding long-term debt and finance lease obligations for CEI as of December 31, 2021 and 2020:

	As of December 31, 2021		As of December 31,	
(Dollar amounts in millions)	Maturity Date	Interest Rate	2021	2020
FMBs	2024	5.50%	$ 300	$ 300
Secured notes - fixed rate	2034	3.45%	70	89
Unsecured notes - fixed rate	2028 - 2040	2.77% - 5.95%	1,200	1,200
Finance lease obligations			10	13
Unamortized debt premiums/discounts			(2)	(2)
Unamortized debt issuance costs			(7)	(9)
Currently payable long-term debt			(7)	(21)
Total long-term debt and other long-term obligations			$ 1,564	$ 1,570

On January 27, 2022, CEI instructed its indenture trustee to provide notice of redemption for all remaining $150 million of CEI's 2.77% Senior Notes, Series A, due 2034, for redemption to occur on March 14, 2022.

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, 2021.

Year	CEI
	(In millions)
2022	$ 5
2023	5
2024	305
2025	5
2026	5

Phase-In Recovery Bonds

In June 2013, the SPEs formed by the Ohio Companies issued pass-through trust certificates (CEI - $232 million) supported by phase-in recovery bonds to securitize the recovery of certain all electric customer heating discounts, fuel and purchased power regulatory assets. As of December 31, 2021 and 2020, $70 million and $89 million of the phase-in recovery bonds were outstanding at CEI, respectively.

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

FMBs

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

Debt Covenant Default Provisions

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

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

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

10. SHORT-TERM BORROWINGS AND BANK LINES OF CREDIT

CEI had no outstanding short-term borrowings as of December 31, 2021 and $45 million of outstanding short-term borrowings as of December 31, 2020.

Revolving Credit Facility

On November 23, 2020, JCP&L, ME, Penn, TE and WP, borrowed $950 million in the aggregate under the former FE Revolving Facility, bringing the outstanding principal balance to $1.2 billion, with $1.3 billion of remaining availability. FE and certain of their respective subsidiaries increased their borrowings under the former Revolving Facilities as a proactive measure to increase their respective cash positions 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.

Under the 2021 Credit Facilities, CEI may borrow up to its regulatory and other short-term debt limitations of $500 million, all of which was available to CEI 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, CEI was in compliance with the applicable debt-to-total-capitalization ratio covenants under their respective 2021 Credit Facility.

FirstEnergy Money Pool

FE’s utility and transmission operating subsidiary companies, including CEI, also have the ability to borrow from each other and the holding company to meet their short-term working capital requirements. FESC administers this money pool and tracks surplus funds of FE and the respective regulated subsidiaries, as well as proceeds available from bank borrowings. Companies receiving a loan under the money pool agreement must repay the principal amount of the loan, together with accrued interest, within 364 days of borrowing the funds. The rate of interest is the same for each company receiving a loan from the regulated pool and is based on the average cost of funds available through the pool. The average interest rate for borrowings in 2021 was 1.01% per annum.

11. REGULATORY MATTERS

STATE REGULATION

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

OHIO

The Ohio Companies operate under PUCO approved base distribution rates that became effective in 2009. 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 Rider DCR, 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) a goal across FirstEnergy to reduce carbon dioxide emissions by 90% below 2005 levels by 2045; and (3) contributions, totaling $51 million ($22 million at CEI) 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 DMR revenues, but the SCOH reversed the PUCO’s decision to include DMR in ESP IV. Subsequently, the PUCO entered an order directing the Ohio Companies to cease further collection through the DMR and credit back to customers a refund of the DMR funds collected since July 2, 2019. 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 include the DMR revenues in the analysis, determine the threshold against which the earned return is measured, and make other necessary determinations. As further described below, the Ohio Stipulation resolves the Ohio Companies' 2017 SEET proceeding.

On July 23, 2019, Ohio enacted HB 6, which included provisions supporting nuclear energy, authorizing a decoupling mechanism for Ohio electric utilities and ending current energy efficiency program mandates. Under HB 6, the energy efficiency program mandates, as well as Ohio electric utilities' energy efficiency and peak demand reduction cost recovery riders, ended on December 31, 2020, subject to final reconciliation. Third-parties have challenged the Ohio Companies' authorization to recover all lost distribution revenue under energy efficiency and peak demand reduction cost recovery riders. The Ohio Stipulation resolves the issues related to lost distribution revenue with no financial impact to the Ohio Companies.

On March 31, 2021, the Ohio Governor signed HB 128, which, among other things, repealed parts of HB 6. HB 128 was effective June 30, 2021. As FirstEnergy would not have financially benefited from the mechanism to provide support to nuclear energy in Ohio, there is no expected additional impact to FirstEnergy due to the repeal of that provision in HB 6.

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 elected to forego recovery of lost distribution revenue. FirstEnergy also committed to pursuing an open dialogue with stakeholders in an appropriate manner with respect to the numerous regulatory proceedings then underway as further discussed herein. As a result of the partial settlement, and the decision to not seek lost distribution revenue, FirstEnergy recognized a $108 million pre-tax charge, $40 million at CEI ($84 million after-tax, $31 million after-tax at CEI) in the fourth quarter of 2020, and $77 million (pre-tax), $27 million (pre-tax) at CEI, of which is associated with forgoing collection of lost distribution revenue. The Ohio Stipulation affirms the Ohio Companies' commitment to not seek recovery of lost distribution revenue through the end of its ESP IV in May 2024.

On March 31, 2021, FirstEnergy announced that the Ohio Companies would refund to customers amounts previously collected under decoupling, with interest, totaling approximately $27 million, $14 million at CEI. On July 7, 2021, the PUCO issued an order approving the Ohio Companies' modified application to refund such amounts to customers and directed that all funds collected through CSR be refunded to customers over a single billing cycle beginning August 1, 2021.

In connection with the audit of the Ohio Companies' Rider DCR for 2017, the PUCO issued an order on June 16, 2021, directing the Ohio Companies to prospectively discontinue capitalizing certain vegetation management costs and reduce the 2017 Rider DCR revenue requirement by $3.7 million associated with these costs.

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. 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 customers through the DMR were only used for the purposes established in ESP IV. On June 2, 2021, the PUCO selected an auditor. The auditor filed the final audit report on January 14, 2022, which made findings and recommendations. The report found that spending of DMR revenues was not required to be tracked, and that DMR revenues, like all rider revenues, are placed into the regulated money pool as a matter of routine, where the funds lose their identify. Therefore, the report could not suggest that DMR funds were used definitively for direct or indirect support for grid modernization. The report also concluded that there was no documented evidence that ties revenues from the DMR to lobbying for the passage of HB 6, but also could not rule out with certainty uses of DMR funds to support the passage of HB 6. The report further recommended that the regulated companies' money pool be audited more frequently and the Ohio Companies adopt formal dividend policies.

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, and 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 customers. The Ohio Companies initially filed a response stating 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 customers, but on August 6, 2021, filed a supplemental response explaining that, in light of the facts set forth in the DPA and the findings of the Rider DCR audit report, further discussed below, political or charitable spending in support of HB 6, or the subsequent referendum effort, affected pole attachment rates paid by approximately $15 thousand. On October 26, 2021, the OCC filed a motion requesting the PUCO to order an independent external audit to investigate FE's political and charitable spending related to HB 6, and to appoint an independent review panel to retain and oversee the auditor. In November and December 2021, parties filed comments and reply comments regarding the Ohio Companies' original and supplemental responses to the PUCO's September 15, 2020, show cause directive.

In connection with an ongoing 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. The final audit report was filed on September 13, 2021. The audit report makes no findings of major non-compliance with Ohio corporate separation requirements, minor non-compliance with eight requirements, and findings of compliance with 23 requirements. Parties filed comments and reply comments on the audit report, and a PUCO attorney examiner has issued a procedural schedule setting an evidentiary hearing on May 9, 2022.

In the fourth quarter of 2020, motions were filed with the PUCO requesting that the PUCO amend the Ohio Companies' riders for collecting the OVEC related 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 such provisions of HB 6 are repealed. The Ohio Companies contested the motions, which are pending before the PUCO.

On December 7, 2020, the Citizens' Utility Board of Ohio filed a complaint with the PUCO against the Ohio Companies. The complaint alleges that the Ohio Companies' new charges resulting from HB 6, and any increased rates resulting from proceedings over which the former PUCO Chairman presided, are unjust and unreasonable, and that the Ohio Companies violated Ohio corporate separation laws by failing to operate separately from unregulated affiliates. The complaint requests, among other things, that any rates authorized by HB 6 or authorized by the PUCO in a proceeding over which the former Chairman presided be made refundable; that the Ohio Companies be required to file a new distribution rate case at the earliest possible date; and that the Ohio Companies' corporate separation plans be modified to introduce institutional controls. The Ohio Companies contested the complaint. On December 21, 2021, the Citizens' Utility Board of Ohio filed a notice of voluntary dismissal of its complaint without prejudice. The PUCO dismissed the complaint without prejudice on January 12, 2022.

On November 1, 2021, the Ohio Companies, together with the OCC, PUCO Staff, and several other signatories, entered into an Ohio Stipulation with the intent of resolving the ongoing energy efficiency rider audits, various SEET, proceedings, including the Ohio Companies' 2017 SEET proceeding, and the Ohio Companies' quadrennial ESP review, each of which was pending before the PUCO. Specifically, the Ohio Stipulation provides that the Ohio Companies' current ESP IV passes the required statutory test for their prospective SEET review as part of the Quadrennial Review of ESP IV, and except for limited circumstances, the signatory parties have agreed not to challenge the Ohio Companies' SEET return on equity calculation methodology for their 2021-2024 SEET proceedings. The Ohio Stipulation additionally affirms that: (i) the Ohio Companies' ESP IV shall continue through its previously authorized term of May 31, 2024; and (ii) the Ohio Companies will file their next base rate case in May 2024, and further, no signatory party will seek to adjust the Ohio Companies' base distribution rates before that time, except in limited circumstances. The Ohio Companies further agreed to refund $96 million to customers in connection with the 2017-2019 SEET cases, and to provide $210 million in future rate reductions for all customers, including $80 million in 2022, $60 million in 2023, $45 million in 2024, and $25 million in 2025. The PUCO approved the 2017-2019 SEET refunds and 2022 rate reductions December 1, 2021, and refunds began in January 2022. As a result of the PUCO approval, FirstEnergy recognized a $96 million pre-tax charge in the fourth quarter of 2021, $34 million at CEI, within Amortization (deferral) of Regulatory Assets, net, on the Consolidated Statements of Income associated with the refund. The future rate reductions will be recognized as a reduction to regulated distribution segment's revenue in the Consolidated Statements of Income as they are provided to the Ohio Companies' customers.

In connection with an ongoing annual audit of the Ohio Companies' Rider DCR for 2020, and as a result of disclosures in FirstEnergy's Form 10-K for the year ended December 31, 2020 (filed on February 18, 2021), the PUCO expanded the scope of the audit on March 10, 2021, to include a review of certain transactions that were either improperly classified, misallocated, or lacked supporting documentation, and to determine whether funds collected from customers were used to pay the vendors, and if so, whether or not the funds associated with those payments should be returned to customers through Rider DCR or through an alternative proceeding. On August 3, 2021, the auditor filed its final report on this phase of the audit, and the parties submitted comments and reply comments on this audit report in October 2021. Additionally, on September 29, 2021, the PUCO expanded the scope of the audit in this proceeding to determine if the costs of the naming rights for FirstEnergy Stadium have been recovered from the Ohio Companies' customers. On November 19, 2021, the auditor filed its final report, in which the auditor concluded that the FirstEnergy Stadium naming rights expenses were not recovered from Ohio customers. On December 15, 2021, the PUCO further expanded the scope of the audit to include an investigation into an apparent nondisclosure of a side agreement in the Ohio Companies' ESP IV settlement proceedings, but stayed its expansion of the audit until otherwise ordered by the PUCO.

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

FERC REGULATORY MATTERS

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

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

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

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 30, 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.

12. COMMITMENTS AND CONTINGENCIES

ENVIRONMENTAL MATTERS

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

OTHER LEGAL PROCEEDINGS

United States v. Larry Householder, et al.

On July 21, 2020, a complaint and supporting affidavit containing federal criminal allegations were unsealed against the now former Ohio House Speaker Larry Householder and other individuals and entities allegedly affiliated with Mr. Householder. Also, on July 21, 2020, and in connection with the investigation, FirstEnergy received subpoenas for records from the U.S. Attorney’s Office for the S.D. Ohio. FirstEnergy was not aware of the criminal allegations, affidavit or subpoenas before July 21, 2020.

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 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 CEI 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 CEI 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:

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

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

13. TRANSACTIONS WITH AFFILIATED COMPANIES

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

The primary affiliated company transactions for CEI during the years ended December 31, 2021 and 2020 are as follows:

	For The Years Ended December 31,	
	2021	**2020**
	(In millions)	
Revenues[1]	$ 9	$ 9
Expenses:		
Purchased power from affiliates[2]	—	2
Support services	74	71
Miscellaneous Income	4	3
Interest expense to affiliates	—	1

[1] Includes ground lease revenues from ATSI. See Note 6, "Leases", for additional information.
[2] Primarily related to purchases from FES prior to emergence.

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 CEI, 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 10, "Short-Term Borrowings and Bank Lines of Credit").

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

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