

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

ATSI	American Transmission Systems, Incorporated, a subsidiary of FET, which owns and operates transmission facilities
AE Supply	Allegheny Energy Supply Company, LLC, an unregulated generation affiliated company
AGC	Allegheny Generating Company, formerly a generation subsidiary of AE Supply and equity method investee of MP that became a wholly owned subsidiary of MP in May 2018
CEI	The Cleveland Electric Illuminating Company, an Ohio electric utility operating affiliated company
FE	FirstEnergy Corp., a 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
JCP&L	Jersey Central Power & Light Company, a New Jersey electric utility operating affiliated company
KATCo	Keystone Appalachian Transmission Company, a subsidiary of FET
MAIT	Mid-Atlantic Interstate Transmission, LLC, a subsidiary of FET, which owns and operates transmission facilities
ME	Metropolitan Edison Company, a Pennsylvania electric utility operating affiliated company
MP	Monongahela Power Company, a West Virginia electric utility operating company
OE	Ohio Edison Company, an Ohio electric utility operating affiliated company
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	ATSI, MAIT and TrAIL
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
ACE	Affordable Clean Energy
ADIT	Accumulated Deferred Income Taxes
AEP	American Electric Power Company, Inc.
AFUDC	Allowance for Funds Used During Construction
ARO	Asset Retirement Obligation
ASC	Accounting Standard Codification
ASU	Accounting Standards Update
Bath Power Station	Bath County Pumped Storage Hydro-Power Station
CAA	Clean Air Act
CCR	Coal Combustion Residuals
CO2	Carbon Dioxide
COVID-19	Coronavirus disease 2019

CPP	EPA's Clean Power Plan
CSAPR	Cross-State Air Pollution Rule
CSR	Conservative Support Rider
CWA	Clean Water Act
D.C. Circuit	United States Court of Appeals for the District of Columbia Circuit
DPA	Deferred Prosecution Agreement entered into on July 21, 2021 between FE and S.D. Ohio
EGU	Electric Generation Unit
EH	Energy Harbor Corp.
ENEC	Expanded Net Energy Cost
EPA	United States Environmental Protection Agency
ERO	Electric Reliability Organization
Exchange Act	Securities and Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FE Board	The Board of Directors of FirstEnergy Corp.
FE Revolving Facility	FE and the Utilities' former five-year syndicated revolving credit facility, as amended, and replaced by the 2021 Credit Facilities on October 18, 2021
FERC	Federal Energy Regulatory Commission
FET Revolving Facility	FET and certain of its subsidiaries' former five-year syndicated revolving credit facility, as amended, and replaced by the 2021 Credit Facilities on October 18, 2021
FPA	Federal Power Act
FTR	Financial Transmission Right
GAAP	Accounting Principles Generally Accepted in the United States of America
GHG	Greenhouse Gases
HB 6	Ohio House Bill 6
LOC	Letter of Credit
MW	Megawatt
NAAQS	National Ambient Air Quality Standards
N.D. Ohio	Northern District of Ohio
NERC	North American Electric Reliability Corporation
NOL	Net Operating Loss
NOx	Nitrogen Oxide
NUG	Non-Utility Generation
OAG	Ohio Attorney General
ODSA	Ohio Development Service Agency
OPEB	Other Post-Employment Benefits
OVEC	Ohio Valley Electric Corporation
PJM	PJM Interconnection, L.L.C.
PJM Tariff	PJM Open Access Transmission Tariff
PPA	Purchase Power Agreement
PUCO	Public Utilities Commission of Ohio
RCRA	Resource Conservation and Recovery Act
RFC	ReliabilityFirst Corporation
RGGI	Regional Greenhouse Gas Initiative
ROE	Return on Equity
RTO	Regional Transmission Organization
S.D. Ohio	Southern District of Ohio
SEC	United States Securities and Exchange Commission
SLC	Special Litigation Committee of the FE Board
SIP	State Implementation Plan(s) Under the Clean Air Act
SO2	Sulfur Dioxide

Tax Act	Tax Cuts and Jobs Act adopted December 22, 2017
U.S. Supreme Court	United States Supreme Court
VEPCO	Virginia Electric and Power Company
VIE	Variable Interest Entity
VMS	Vegetation Management Surcharge
WVPSC	Public Service Commission of West Virginia

Report of Independent Auditors

To Management and the Board of Directors
Of Monongahela Power Company

Opinion

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

MONONGAHELA POWER COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

<i>(In millions)</i>	For the Years Ended December 31,	
	2021	2020
REVENUES:		
Electric sales	\$ 1,483	\$ 1,389
Excise and gross receipts tax collections	7	7
Total revenues	1,490	1,396
OPERATING EXPENSES:		
Fuel	480	368
Purchased power	275	188
Other operating expenses	394	378
Provision for depreciation	155	150
Amortization (deferral) of regulatory liabilities, net	(100)	29
General taxes	61	69
Total operating expenses	1,265	1,182
OPERATING INCOME	225	214
OTHER INCOME (EXPENSE):		
Miscellaneous income, net	33	22
Pension and OPEB mark-to-market adjustment	27	(38)
Interest expense	(87)	(85)
Capitalized financing costs	6	5
Total other expense	(21)	(96)
INCOME BEFORE INCOME TAXES	204	118
INCOME TAXES	48	31
NET INCOME	\$ 156	\$ 87

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

MONONGAHELA POWER COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

<i>(In millions, except share amounts)</i>	December 31, 2021	December 31, 2020
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 115	\$ 100
Restricted cash	19	20
Receivables-		
Customers	107	135
Less — Allowance for uncollectible customer receivables	12	13
	95	122
Affiliated companies	49	40
Other, net of allowance for uncollectible accounts of \$2 in 2020	12	10
Materials and supplies, at average cost	74	93
Prepaid taxes and other	42	34
	406	419
UTILITY PLANT:		
In service	5,048	4,857
Less — Accumulated provision for depreciation	815	736
	4,233	4,121
Construction work in progress	125	146
	4,358	4,267
DEFERRED CHARGES AND OTHER ASSETS:		
Intangible assets	68	73
Other	69	83
	137	156
	<u>\$ 4,901</u>	<u>\$ 4,842</u>
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES:		
Currently payable long-term debt	\$ 21	\$ 94
Short-term borrowings - affiliated companies	43	82
Accounts payable-		
Affiliated companies	18	21
Other	72	53
Accrued taxes	30	47
Accrued interest	13	13
Other	54	53
	251	363
CAPITALIZATION:		
Common stockholder's equity-		
Common stock, \$50 par value, 7,000,000 shares authorized and 5,891,000 shares outstanding	295	295
Other paid-in capital	908	897
Retained earnings	163	143
Total common stockholder's equity	1,366	1,335
Long-term debt and other long-term obligations	1,891	1,698
	3,257	3,033
NONCURRENT LIABILITIES:		
Accumulated deferred income taxes	557	501
Regulatory liabilities	549	627
Retirement benefits	17	42
Asset retirement obligations	65	57
Purchased power liability	56	62
Other	149	157
	1,393	1,446
COMMITMENTS AND CONTINGENCIES (Note 13)		
	<u>\$ 4,901</u>	<u>\$ 4,842</u>

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

MONONGAHELA POWER COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

<i>(In millions, except share amounts)</i>	Common Stock		Other Paid-in Capital	Retained Earnings	Total Stockholder's Equity
	Number of Shares	Carrying Value			
Balance, January 1, 2020	5,891,000	\$ 295	\$ 892	\$ 131	\$ 1,318
Net income				87	87
Stock-based compensation			3		3
Consolidated tax benefit allocation			2		2
Common stock dividend payments				(75)	(75)
Balance, December 31, 2020	5,891,000	\$ 295	\$ 897	\$ 143	\$ 1,335
Net income				156	156
Stock-based compensation			4		4
Consolidated tax benefit allocation			7		7
Common stock dividend payments				(136)	(136)
Balance, December 31, 2021	5,891,000	\$ 295	\$ 908	\$ 163	\$ 1,366

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

MONONGAHELA POWER COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(In millions)</i>	For the Years Ended December 31,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 156	\$ 87
Adjustments to reconcile net income to net cash from operating activities-		
Depreciation and amortization	56	179
Deferred income taxes and investment tax credits, net	60	(13)
Retirement benefits, net of payments	(18)	(13)
Pension and OPEB mark-to-market adjustment	(27)	38
Change in current assets and liabilities-		
Receivables	20	76
Materials and supplies	19	15
Prepaid taxes and other current assets	—	1
Accounts payable	16	(19)
Accrued taxes	(17)	15
Accrued interest	—	(1)
Other current liabilities	(3)	8
Other	36	(29)
Net cash provided from operating activities	<u>298</u>	<u>344</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
New financing-		
Long-term debt	200	—
Short-term borrowings - affiliated companies, net	—	44
Redemptions and repayments-		
Long-term debt	(93)	(18)
Short-term borrowings - affiliated companies, net	(39)	—
Common stock dividend payments	(136)	(75)
Premium on long-term debt	16	—
Other	(3)	(3)
Net cash used for financing activities	<u>(55)</u>	<u>(52)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(205)	(200)
Asset removal costs	(17)	(13)
Other	(7)	(1)
Net cash used for investing activities	<u>(229)</u>	<u>(214)</u>
Net change in cash, cash equivalents, and restricted cash	14	78
Cash, cash equivalents, and restricted cash at beginning of period	120	42
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 134</u>	<u>\$ 120</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid (received) during the year -		
Interest (net of amounts capitalized)	\$ 85	\$ 82
Income taxes, net of refunds	\$ (6)	\$ 9

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

MONONGAHELA POWER COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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MONONGAHELA POWER COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. ORGANIZATION AND BASIS OF PRESENTATION

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

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

AGC, a wholly owned subsidiary of MP, holds an undivided 16.25% interest (487 MWs) in the output of Bath Power Station. This station is operated by the majority owner, Virginia Electric and Power Company, a non-affiliated utility. AGC provides its generation capacity from this station to MP.

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

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

MP 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, MP 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, MP will write off that regulatory asset as a charge against earnings. MP considers the entire regulatory asset balance as the unit of account for the purposes of balance sheet classification rather than the next years recovery and as such net regulatory assets and liabilities are presented in the non-current section on MP's Consolidated Balance Sheets. See Note 12, "Regulatory Matters," of the Notes to Consolidated Financial Statements for additional information.

MONONGAHELA POWER COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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,		Change
	2021	2020	
	<i>(In millions)</i>		
Asset removal costs	\$ (219)	\$ (211)	\$ (8)
Customer payables for future income taxes	(319)	(312)	(7)
Energy contract fair value	(68)	(73)	5
Deferred transmission costs	7	6	1
Deferred generation costs	10	(86)	96
Storm-related costs	22	23	(1)
Uncollectible and COVID-19 related costs	4	14	(10)
Vegetation management	16	6	10
Other	(2)	6	(8)
Net Regulatory Liabilities included on the Consolidated Balance Sheets	<u>\$ (549)</u>	<u>\$ (627)</u>	<u>\$ 78</u>

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

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

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

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

Deferred transmission costs - Principally represents differences between revenues earned based on actual costs and the amounts billed for MP's formula transmission rate. Amounts are recorded as a regulatory asset or liability and recovered or refunded, respectively, in subsequent periods.

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

Storm-related costs - Relates to the recovery of storm costs, none of which is currently being recovered through rates as of December 31, 2021 and 2020.

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

Vegetation management - Relates to regulatory assets in West Virginia associated with the recovery of distribution vegetation management costs.

MONONGAHELA POWER COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The following table provides information about the composition of net regulatory assets that do not earn a current return as of December 31, 2021 and 2020, of which approximately \$45 million and \$12 million, respectively, are currently being recovered through rates over varying periods depending on the nature of the deferral and the jurisdiction:

Regulatory Assets by Source Not Earning a Current Return	December 31, 2021	December 31, 2020	Change
	<i>(In millions)</i>		
Storm-related costs	\$ 29	\$ 23	\$ 6
Deferred transmission costs	7	6	1
Deferred generation costs	25	—	25
Vegetation management	8	6	2
Uncollectible and COVID-19 related costs	10	16	(6)
Regulatory Assets Not Earning a Current Return	<u>\$ 79</u>	<u>\$ 51</u>	<u>\$ 28</u>

DERIVATIVES

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

MP accounts for derivative instruments on its Consolidated Balance Sheets at fair value unless they meet the normal purchases and normal sales criteria. Derivative instruments meeting the normal purchases and normal sales criteria are accounted for under the accrual method of accounting with their effects included in earnings at the time of contract performance.

INVENTORY

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

MP currently has coal contracts with various terms to purchase approximately 7.9 million tons of coal for the year 2022, which fulfills its forecasted 2022 coal requirements. This contracted coal is produced primarily from mines located in Pennsylvania, Illinois and West Virginia.

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

MP provides for depreciation on a straight-line basis at various rates over the estimated lives of property included in plant in service. Depreciation expense was approximately 2.4% of average depreciable property in both 2021 and 2020.

Capitalized financing costs on MP's Consolidated Statement of Income include \$4 million and \$3 million of allowance for equity funds used during construction and \$2 million and \$2 million of capitalized interest for the years ended December 31, 2021 and 2020, respectively.

MP 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.

MONONGAHELA POWER COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As of December 31, 2021, MP controlled approximately 3,580 MWs of generation capacity as shown in the following table:

Plant	Type	Net Demonstrated Capacity (MWs)
Harrison (Haywood, WV)	Coal	1,984
Fort Martin (Maidsville, WV)	Coal	1,098
OVEC (Cheshire, OH) (Madison, IN) ⁽¹⁾	Coal	11
Bath Power (Warm Springs, VA)	Pumped Storage Hydro	487
		<u>3,580</u>

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

JOINTLY-OWNED PLANTS

As noted above, AGC, owns an undivided 16.25% interest (487 MWs) in a 3,003 MW pumped storage, hydroelectric station in Bath County, Virginia, operated by the 60% owner, VEPCO, a non-affiliated utility. Net Property, plant and equipment includes \$153 million, representing AGC's share in this facility as of December 31, 2021. AGC is obligated to pay its share of the costs of this jointly-owned facility in the same proportion as its ownership interest using its own financing. AGC provides the generation capacity from this facility to its owner, MP.

RECEIVABLES

MP's principal business is providing electric service to customers in West Virginia. MP's retail customers are metered on a cycle basis. Electric revenues are recorded based on energy delivered through the end of the calendar month. An estimate of unbilled revenues is calculated to recognize electric service provided from the last meter reading through the end of the month. This estimate includes many factors, among which are historical customer usage, load profiles, estimated weather impacts, customer shopping activity and prices in effect for each class of customer. In each accounting period, MP accrues the estimated unbilled amount as revenue and reverses the related prior period estimate. Unbilled customer receivables were \$63 million for both the years ended December 31, 2021 and 2020. Receivables from customers include retail electric sales and distribution deliveries to residential, commercial and industrial customers.

The allowance for uncollectible customer receivables is based on historical loss information comprised of a rolling 36-month average net write-off percentage of revenues, in conjunction with a qualitative assessment of elements that impact the collectability of receivables to determine if allowances for uncollectible accounts should be further adjusted in accordance with the accounting guidance for credit losses. Management contemplates available current information such as changes in economic factors, regulatory matters, industry trends, customer credit factors, amount of receivable balances that are past-due, payment options and programs available to customers, and the methods that the Utilities are able to utilize to ensure payment. FirstEnergy reviews its allowance for uncollectible customer receivables utilizing a quantitative and qualitative assessment, which includes consideration of the outbreak of COVID-19 and the impact on customer receivable balances outstanding and 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, MP recognized incremental uncollectible expense of \$10 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, MP 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.

MONONGAHELA POWER COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Activity associated with customer receivables is as follows:

<i>(In millions)</i>	2021	2020
Customer Receivables		
Beginning of year balance	\$ 13	\$ 3
Charged to income ⁽¹⁾	3	12
Charged to other accounts ⁽²⁾	2	3
Write-offs	(6)	(5)
End of year balance	<u>\$ 12</u>	<u>\$ 13</u>

⁽¹⁾ Customer receivable amounts charged to income include approximately \$10 million deferred for future recovery for the year ended December 31, 2020.

⁽²⁾ Represents recoveries and reinstatements of accounts previously written off for uncollectible accounts.

UNEARNED REVENUE

In April 2007 and December 2009, MP Environmental Funding LLC, an indirect subsidiary of MP, and PE Environmental Funding LLC, an indirect subsidiary of PE, issued environmental control bonds. These bonds securitize the right to collect an environmental control surcharge that MP and PE impose on their retail customers in West Virginia. PE contributed its net bond proceeds from its issuances of these bonds to MP as a prepayment for power, with MP recording the receipt of the proceeds as unearned revenue. The carrying amounts of unearned revenue included in "Purchased power liability" on MP's Consolidated Balance Sheets as of December 31, 2021 and 2020, were \$56 million and \$62 million, respectively. This unearned revenue is recognized to the same extent that MP depreciates the portion of the scrubber fixed assets financed by PE's bonds.

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. MP adopted the guidance as of January 1, 2021, with no material impact to the financial statements.

Recently Issued Pronouncements - MP 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

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

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

MP earns revenue from state-regulated rate tariffs under which it provides **distribution services** to residential, commercial and industrial customers in its service territory. MP is obligated under the regulated construct to deliver power to customers reliably, as it is needed, which creates an implied monthly contract with the end-use customer. See Note 12, "Regulatory Matters," for additional information on rate recovery mechanisms. Distribution and electric revenues are recognized over time as electricity is distributed and delivered to the customer and the customers consume the electricity immediately as delivery occurs.

MONONGAHELA POWER COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Retail generation sales relate to generation sales in West Virginia that are regulated by the WVPSC. Retail generation revenues are recognized over time as electricity is delivered and consumed immediately by the customer.

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

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

Revenues by Type of Service	For the Years Ended December 31,	
	2021	2020
	<i>(In millions)</i>	
Distribution services	\$ 257	\$ 244
Retail generation	681	726
Wholesale sales	272	189
Transmission	49	43
Other	7	2
Total revenues from contracts with customers	\$ 1,266	\$ 1,204
Other revenue unrelated to contracts with customers	224	192
Total revenues	\$ 1,490	\$ 1,396

Other revenue unrelated to contracts with customers includes revenue from derivatives of \$11 million and \$14 million as well as \$207 million and \$175 million lease revenue from PE associated with an agreement to provide power required for default service requirements for the years ended December 31, 2021 and 2020, respectively.

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

Revenues by Customer Class	For the Years Ended December 31,	
	2021	2020
	<i>(In millions)</i>	
Residential	\$ 381	\$ 392
Commercial	234	234
Industrial	319	339
Other	4	5
Total Revenues	\$ 938	\$ 970

MP provides **transmission** infrastructure owned and operated by MP to transmit electricity from generation sources to distribution facilities. On October 29, 2020, MP filed tariff amendments with FERC to convert their existing stated transmission rate to a forward-looking formula transmission rate, effective January 1, 2021. Please see Note 12, "Regulatory Matters" for additional information.

Revenue requirements under forward-looking formula rates are updated annually based on a projected rate base and projected costs, which is subject to an annual true-up based on actual costs. Revenues and cash receipts for the stand-ready obligation of providing transmission service are recognized ratably over time. For the years ended December 31, 2021 and 2020, revenues include transmission revenue from contracts with customers of \$49 million and \$43 million, respectively.

3. PENSION AND OTHER POSTEMPLOYMENT BENEFITS

FirstEnergy provides noncontributory qualified defined benefit pension plans that cover substantially all of its employees and non-qualified pension plans that cover certain employees, including employees of MP. The plans provide defined benefits based on years of service and compensation levels. Under the cash-balance portion of the pension plan (for employees hired on or

MONONGAHELA POWER COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

after January 1, 2014), FirstEnergy makes contributions to eligible employee retirement accounts based on a pay credit and an interest credit. In addition, FirstEnergy provides a minimum amount of noncontributory life insurance to retired employees in addition to optional contributory insurance. Health care benefits, which include certain employee contributions, deductibles and co-payments, are also available upon retirement to certain employees, their dependents and, under certain circumstances, their survivors. MP recognizes its allocated portion of the expected cost of providing pension and OPEB to employees and their beneficiaries and covered dependents from the time employees are hired until they become eligible to receive those benefits. MP also recognizes its allocated portion of obligations to former or inactive employees after employment, but before retirement, for disability-related benefits.

FirstEnergy'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. MP's pension and OPEB mark-to-market adjustments, (gains) or losses, for the years ended December 31, 2021 and 2020, were \$(27) million and \$38 million, respectively.

MONONGAHELA POWER COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The following is a summary of the plan status:

For The Years Ended	Pension		OPEB	
	2021	2020	2021	2020
	<i>(In millions)</i>			
FirstEnergy benefit obligation	\$ 11,479	\$ 11,935	\$ 549	\$ 676
FirstEnergy fair value of plan assets	9,020	8,968	548	502
FirstEnergy funded status	<u>\$ (2,459)</u>	<u>\$ (2,967)</u>	<u>\$ (1)</u>	<u>\$ (174)</u>
FirstEnergy accumulated benefit obligation	\$ 10,927	\$ 11,376	\$ —	\$ —
FirstEnergy net periodic costs (credits) ⁽¹⁾	\$ (481)	\$ 346	\$ (167)	\$ (46)
MP's share of net liability ⁽²⁾	\$ 7	\$ 30	\$ 8	\$ 8
MP's share of net periodic costs (credits) ⁽¹⁾	\$ (22)	\$ 18	\$ (1)	\$ 1

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

⁽²⁾ Excludes \$68 million and \$81 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 MP.

	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.

4. TAXES

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

MP is party to an intercompany income tax allocation agreement with 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

MONONGAHELA POWER COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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.

INCOME TAXES:	For the Years Ended December 31,	
	2021	2020
	<i>(In millions)</i>	
Currently payable		
Federal	\$ (11)	\$ 34
State	(1)	10
	(12)	44
Deferred, net-		
Federal	48	(12)
State	13	—
	61	(12)
Investment Tax Credit Amortization	(1)	(1)
Total income taxes	<u>\$ 48</u>	<u>\$ 31</u>

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

<i>(In millions)</i>	For the Years Ended December 31,	
	2021	2020
Book income before income taxes	<u>\$ 204</u>	<u>\$ 118</u>
Federal income tax expense at statutory rate	\$ 43	\$ 25
Increases (reductions) in taxes resulting from-		
State income tax, net of federal income tax benefit	9	6
State valuation allowance	1	3
Excess deferred tax amortization due to the Tax Act	(1)	(1)
Amortization of investment tax credits	(1)	(1)
Federal tax credits claimed	(3)	—
Other, net	—	(1)
Total income taxes	<u>\$ 48</u>	<u>\$ 31</u>
Effective income tax rate	23.5 %	26.3 %

MP's effective tax rate on pre-tax income for 2021 and 2020 was 23.5% and 26.3%, respectively. The decrease in the effective tax rate was primarily due to a \$3 million benefit from federal tax credits claimed on the FE consolidated group's federal income tax return in 2021.

MONONGAHELA POWER COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

<i>(In millions)</i>	As of December 31,	
	2021	2020
Property basis differences	\$ 617	\$ 601
Regulatory asset/liability	(4)	(27)
Purchase accounting adjustments	21	22
Postretirement Benefits	(21)	(31)
Loss and credit carryforwards	(116)	(118)
Valuation Allowances	58	57
Other	2	(3)
Net deferred income tax liabilities	<u>\$ 557</u>	<u>\$ 501</u>

MP records as deferred income tax assets the effect of Federal NOLs and tax credits that will more likely than not be realized through future operations and through the reversal of existing temporary differences. As of December 31, 2021, MP's loss carryforwards primarily consisted of \$273 million (\$57 million, net of tax) of federal NOL carryforwards that will begin to expire in 2031 and \$1,097 million (\$57 million, net of tax) of state NOL carryforwards, which have been fully reserved and will begin to expire in 2029.

MP accounts for uncertainty in income taxes recognized in its financial statements. Accounting guidance prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of tax positions taken or expected to be taken on a company's tax return. During the year ended December 31, 2021, MP recorded a \$1 million reserve for an uncertain tax position related to certain federal tax credits claimed on the FE consolidated federal income tax return. For the year ended December 31, 2020, MP did not record any unrecognized tax benefits, nor did MP have a reserve for any uncertain tax positions.

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

For federal income tax purposes, MP files as a member of the FE consolidated group. IRS review of the FE consolidated group's federal income tax returns are complete through the 2020 tax year with no pending adjustments. MP 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 2021 and 2020 are shown below:

<i>(In millions)</i>	2021	2020
Gross receipts	7	8
Real and personal property	26	27
Business and occupation	18	24
Social security and unemployment	10	10
Total general taxes	<u>\$ 61</u>	<u>\$ 69</u>

5. LEASES

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

MP also has an agreement to provide power to PE for its default service requirements. Lease revenue is based upon cost and as such is variable in nature. Revenue associated with this agreement was \$207 million and \$175 million in 2021 and 2020, respectively.

MONONGAHELA POWER COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

<i>(In millions)</i>	For the Years Ended December 31,	
	2021	2020
Operating lease costs ⁽¹⁾	\$ 5	\$ 4
Finance lease costs:		
Amortization of right-of-use assets	—	—
Total finance lease cost	—	—
Total lease cost	<u>\$ 5</u>	<u>\$ 4</u>

⁽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:

(In millions)	Financial Statement Line Item	As of December 31,	
		2021	2020
Assets			
Operating lease assets ⁽¹⁾	Deferred charges and other assets	\$ 22	\$ 22
Finance lease assets ⁽²⁾	Property, plant and equipment	—	1
Total leased assets		<u>\$ 22</u>	<u>\$ 23</u>
Liabilities			
Current:			
Operating	Other current liabilities	\$ 4	\$ 4
Finance	Currently payable long-term debt	—	1
Noncurrent:			
Operating	Other noncurrent liabilities	18	18
Total leased liabilities		<u>\$ 22</u>	<u>\$ 23</u>

⁽¹⁾ Operating lease assets are recorded net of accumulated amortization of \$8 million and \$4 million as of December 31, 2021 and 2020, respectively.

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

MONONGAHELA POWER COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Lease terms and discount rates were as follows:

	As of December 31,	
	2021	2020
<i>Weighted-average remaining lease terms (years)</i>		
Operating leases	6.00	6.59
Finance leases	0.40	1.05
<i>Weighted-average discount rate ⁽¹⁾</i>		
Operating leases	3.16 %	2.98 %
Finance leases	11.30 %	13.87 %

⁽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:

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

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

<i>(In millions)</i>	Operating Leases	Finance Leases	Total
2022	\$ 5	\$ —	\$ 5
2023	5	—	5
2024	4	—	4
2025	3	—	3
2026	3	—	3
Thereafter	5	—	5
<i>Total lease payments</i>	25	—	25
Less imputed interest	3	—	3
<i>Total net present value</i>	<u>\$ 22</u>	<u>\$ —</u>	<u>\$ 22</u>

As of December 31, 2021, additional operating leases agreements, primarily for vehicles, that have not yet commenced are \$1 million. These leases are expected to commence within the next 18 months with lease terms of 2 to 10 years.

6. INTANGIBLE ASSETS

As of December 31, 2021, intangible assets classified in Other Deferred Charges on MP's Consolidated Balance Sheets, include the following:

<i>(In millions)</i>	Intangible Assets			Amortization expense						
	Gross	Accumulated Amortization	Net	Actual	Estimated					
				2021	2022	2023	2024	2025	2026	Thereafter
NUG contracts ⁽¹⁾	\$ 124	\$ 56	\$ 68	\$ 5	\$ 5	\$ 5	\$ 5	\$ 5	\$ 5	\$ 43

⁽¹⁾ NUG Contracts are subject to regulatory accounting and their amortization does not impact earnings.

MONONGAHELA POWER COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. FAIR VALUE MEASUREMENTS

CASH AND CASH EQUIVALENTS

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

RECURRING FAIR VALUE MEASUREMENTS

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

- Level 1 - Quoted prices for identical instruments in active markets

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

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

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

FirstEnergy produces a long-term power and capacity price forecast annually with periodic updates as market conditions change. When underlying prices are not observable, prices from the long-term price forecast are used to measure fair value. A more detailed description of MP's valuation process for FTRs follows:

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

MP primarily applies the market approach for recurring fair value measurements using the best information available. Accordingly, MP maximizes the use of observable inputs and minimizes the use of unobservable inputs. There were no changes in valuation methodologies used as of December 31, 2021, from those used as of December 31, 2020. The determination of the fair value measurements takes into consideration various factors, including but not limited to, nonperformance risk, counterparty credit risk and the impact of credit enhancements (such as cash deposits, LOCs and priority interests). The impact of these forms of risk was not significant to the fair value measurements.

MP records the fair value of derivative instruments on a gross basis. FTR derivative assets and liabilities as of December 31, 2021 were \$9 and \$1, respectively. FTR assets as of December 31, 2020 were \$3 million.

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There were no transfers between levels during the twelve months ended December 31, 2021. The following tables provide a reconciliation of changes in the fair value of FTRs held by MP and classified as Level 3 in the fair value hierarchy during the periods ended December 31, 2021 and December 31, 2020. MP has no level 1 or 2 assets or liabilities that are measured at fair value on the balance sheet.

<i>(In millions)</i>	Net Derivative Asset (Liability) FTRs
Balance, January 1, 2020	\$ 3
Total unrealized losses included in net regulatory liabilities	(3)
Purchases	5
Settlements	(2)
Balance, December 31, 2020	\$ 3
Total unrealized gains included in net regulatory liabilities	7
Purchases	3
Settlements	(5)
Balance, December 31, 2021	<u>\$ 8</u>

Level 3 Quantitative Information

The following table provides quantitative information for FTRs contracts that are classified as Level 3 in the fair value hierarchy for the year ended December 31, 2021:

	Fair Value, Net (In millions)	Valuation Technique	Significant Input	Range	Weighted Average	Units
FTRs	\$ 8	Model	RTO auction clearing prices	\$1.10 to \$4.60	\$1.80	Dollars/MWH

LONG-TERM DEBT

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

<i>(In millions)</i>	December 31, 2021		December 31, 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	\$ 1,905	\$ 2,184	\$ 1,799	\$ 2,112

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

8. VARIABLE INTEREST ENTITY

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

Consolidated VIEs

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

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to any assets or revenues of the special purpose limited liability company. The cash collected from MP's customers is used to service debt of the funding company. As of December 31, 2021 and December 31, 2020, \$205 million and \$225 million of environmental control bonds were outstanding, respectively.

MP does not have any unconsolidated VIEs.

9. CAPITALIZATION

PREFERRED STOCK

MP is authorized to issue 940,000 shares of preferred stock, \$100 par value, as of December 31, 2021. As of December 31, 2021 and 2020, there were no preferred shares outstanding.

LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS

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

<i>(Dollar amounts in millions)</i>	As of December 31, 2021		As of December 31,	
	Maturity Date	Interest Rate	2021	2020
FMBs	2024 - 2049	3.230% - 5.400%	\$ 1,650	\$ 1,450
Secured notes - fixed rate	2026 - 2031	5.127% - 5.523%	205	299
Unsecured note - affiliated company	2029	4.470%	50	50
Finance lease obligations			—	1
Unamortized fair value adjustments			5	5
Unamortized debt premiums/discounts			13	(1)
Unamortized debt issuance costs			(11)	(12)
Currently payable long-term debt			(21)	(94)
Total long-term debt and other long-term obligations			<u>\$ 1,891</u>	<u>\$ 1,698</u>

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

Company	Issuance Date	Interest Rate	Maturity	Amount	Issuance Type	Use of Proceeds
MP	4/9/2021	3.55% ⁽¹⁾	2027	\$200 million	FMB	Fund MP's ongoing capital expenditures, for working capital needs and for other general corporate purposes.

⁽¹⁾ New debt was issued at a premium under a previously issued bond series, resulting in an effective interest rate of 2.06%.

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

Year	MP
	<i>(In millions)</i>
2022	\$ 20
2023	22
2024	423
2025	24
2026	25

Environmental Control Bonds

The consolidated financial statements of MP include environmental control bonds issued by a bankruptcy remote, special purpose limited liability company that is an indirect subsidiary of MP. Proceeds from the bonds were used to construct environmental control facilities. Principal and interest owed on the environmental control bonds is secured by, and payable solely from, the proceeds of the environmental control charges. As of December 31, 2021 and 2020, \$205 million and \$225 million of environmental control bonds were outstanding, respectively.

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See Note 8, "Variable Interest Entity" for additional information on securitized bonds.

Debt Covenant Default Provisions

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

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

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

FMBs

MP 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.

10. SHORT-TERM BORROWINGS AND BANK LINES OF CREDIT

MP had \$43 million and \$82 million of outstanding short-term borrowings as of December 31, 2021 and 2020, respectively.

Revolving Credit Facilities

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, MP may borrow up to its regulatory and other short-term debt limitations of \$500 million, all of which was available to MP 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,

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

11. ASSET RETIREMENT OBLIGATIONS

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

MP recognizes an ARO for its legal obligation to perform asset retirement activities associated with its long-lived assets. The ARO liability represents an estimate of the fair value of MP's current obligation such that the ARO is accreted monthly to reflect the time value of money.

A fair value measurement inherently involves uncertainty in the amount and timing of settlement of the liability. MP uses an expected cash flow approach to measure the fair value of the remediation AROs, considering the expected timing of settlement of the ARO based on the expected economic useful life of associated asset and/or regulatory requirements. The fair value of an ARO is recognized in the period in which it is incurred. The associated asset retirement costs are capitalized as part of the carrying value of the long-lived asset and are depreciated over the life of the related asset.

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

The following table summarizes the changes to MP's ARO balances during 2021 and 2020:

ARO Reconciliation	(In millions)
Balance, January 1, 2020	\$ 53
Accretion	6
Settlements	(2)
Balance, December 31, 2020	<u>57</u>
Accretion	8
Balance, December 31, 2021	<u><u>\$ 65</u></u>

12. REGULATORY MATTERS

STATE REGULATION

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

WEST VIRGINIA

MP and PE recover net power supply costs, including fuel costs, purchased power costs and related expenses, net of related market sales revenue through the ENEC. MP's and PE's ENEC rate is updated annually.

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On December 30, 2020, MP and PE filed with the WVPSC a determination of the rate impact of the Tax Act with respect to ADIT. The filing proposed an annual revenue reduction of \$2.6 million, effective January 1, 2022, with reconciliation and any resulting adjustments incorporated into the annual ENEC proceedings. On August 12, 2021, a unanimous settlement was reached with all the parties agreeing to a \$7.7 million rate reduction beginning January 1, 2022, with a true-up in the ENEC proceeding each year. On November 30, 2021, the WVPSC approved the settlement on all terms, except for the proposed effective date of the rate reduction, which was held in abeyance until further notice.

On August 27, 2021, MP and PE filed with the WVPSC their annual ENEC case requesting an increase in ENEC rates of \$19.6 million beginning January 1, 2022, which represented a 1.5% increase to the rates currently in effect. WVPSC issued an order on December 29, 2021, granting the requested \$19.6 million increase in ENEC rates. Among other things, the order requires MP and PE to refund to its large industrial customers their respective portion of the \$7.7 million rate reduction discussed above and also requires MP and PE to negotiate a PPA for its capacity shortfall and a reasonable reserve margin if certain conditions are met.

On November 22, 2021, MP and PE filed with the WVPSC their plan to construct 50 MWs of solar generation at five sites in West Virginia. The plan includes a tariff to offer solar power to West Virginia customers and cost recovery for MP and PE from other customers through a surcharge for any solar investment not fully subscribed by their customers. A hearing has been set for March 16, 2022. The solar generation project is expected to begin being in-service by the end of 2023 and finalized no later than the end of 2025.

On August 27, 2021, MP and PE filed with the WVPSC a biennial review of the vegetation management surcharge seeking a \$16 million annual revenue increase. A settlement among the parties was reached on December 3, 2021 and on December 27, 2021, the WVPSC approved the settlement, which granted a \$16 million increase in rates, and continued the vegetation management program and surcharge for another two years. Additionally, the WVPSC order added a provision requiring equipment inspections be performed within a reasonable time after vegetation management occurs on a circuit.

On December 17, 2021, MP and PE filed with the WVPSC for approval of environmental compliance projects at the Ft. Martin and Harrison Power Stations to comply with the EPA's ELG. The request includes a surcharge to recover the expected \$142 million capital investment and \$3 million in annual operation and maintenance expense. A ruling from the WVPSC is expected in mid-summer 2022, and if approved, construction would be expected to be completed by the end of 2025. See Note 13, "Commitments, Guarantees and Contingencies" below for additional details.

FERC REGULATORY MATTERS

Under the FPA, FERC regulates rates for interstate wholesale sales, transmission of electric power, accounting and other matters, including construction and operation of hydroelectric projects. With respect to its wholesale services and rates, MP is subject to regulation by FERC. FERC regulations require MP to provide open access transmission service at FERC-approved rates, terms and conditions. MP's transmission facilities are subject to functional control by PJM, and transmission service using MP's transmission facilities is provided by PJM under the PJM Tariff. MP provides transmission service under a stated transmission rate pursuant to a FERC-approved settlement agreement that did not specify an allowed capital structure or ROE; although as noted below, on January 1, 2021, MP implemented a forward-looking formula rate, which has been accepted by FERC, subject to refund, pending further hearing and settlement procedures.

FERC regulates the sale of power for resale in interstate commerce in part by granting authority to public utilities to sell wholesale power at market-based rates upon showing that the seller cannot exert market power in generation or transmission or erect barriers to entry into markets. MP has been authorized by FERC to sell wholesale power in interstate commerce at market-based rates and has a market-based rate tariff on file with FERC, although major wholesale purchases remain subject to review and regulation by the WVPSC. In addition, pursuant to a full requirements power purchase agreement on file with FERC, MP provides capacity, energy and ancillary service to PE to serve PE's West Virginia load.

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

FirstEnergy, including MP, believes that it is in material compliance with all currently-effective and enforceable reliability standards. Nevertheless, in the course of operating its extensive electric utility systems and facilities, FirstEnergy, including MP, occasionally learns of isolated facts or circumstances that could be interpreted as excursions from the reliability standards. If and when such occurrences are found, FirstEnergy, including MP, develops information about the occurrence and develops a remedial response to the specific circumstances, including in appropriate cases "self-reporting" an occurrence to RFC. Moreover, it is clear that NERC, RFC and FERC will continue to refine existing reliability standards as well as to develop and adopt new reliability standards. Any inability on FirstEnergy's, including MP's, part to comply with the reliability standards for its bulk electric

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system could result in the imposition of financial penalties, or obligations to upgrade or build transmission facilities, that could have a material adverse effect on MP's financial condition, results of operations and cash flows.

FERC 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.

FERC Actions on Tax Act

On March 15, 2018, FERC initiated proceedings on the question of how to address possible changes to ADIT and bonus depreciation as a result of the Tax Act. Such possible changes could impact FERC-jurisdictional rates, including transmission rates. On November 21, 2019, FERC issued a final rule (Order No. 864). Order No. 864 requires utilities with transmission formula rates to update their formula rate templates to include mechanisms to: (i) deduct any excess ADIT from or add any deficient ADIT to their rate base; (ii) raise or lower their income tax allowances by any amortized excess or deficient ADIT; and (iii) incorporate a new permanent worksheet into their rates that will annually track information related to excess or deficient ADIT. MP (as holder of a "stated" transmission rate when Order No. 864 issued) is addressing these requirements in the transmission formula rate amendments that were filed on October 29, 2020, and which have been accepted by FERC effective January 1, 2021, subject to refund, pending further hearing and settlement procedures. MP is engaged in settlement negotiations with other parties to this proceeding.

Transmission ROE Methodology

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

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

Allegheny Power Zone Transmission Formula Rate Filings

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

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13. COMMITMENTS AND CONTINGENCIES

ENVIRONMENTAL MATTERS

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

Clean Air Act

FirstEnergy, including MP, complies with SO₂ and NO_x emission reduction requirements under the CAA and SIP(s) by burning lower-sulfur fuel, utilizing combustion controls and post-combustion controls and/or using emission allowances.

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

Also, during this time, in March 2018, the State of New York filed a CAA Section 126 petition with the EPA alleging that NO_x emissions from nine states (including West Virginia) significantly contribute to New York's inability to attain the ozone NAAQS. The petition sought suitable emission rate limits for large stationary sources that are allegedly affecting New York's air quality within the three years allowed by CAA Section 126. On September 20, 2019, the EPA denied New York's CAA Section 126 petition. On October 29, 2019, the State of New York appealed the denial of its petition to the D.C. Circuit. On July 14, 2020, the D.C. Circuit reversed and remanded the New York petition to the EPA for further consideration. On March 15, 2021, the EPA issued a revised CSAPR Update that addresses, among other things, the remands of the CSAPR Update and the New York Section 126 Petition. Depending on the outcome of any appeals and how the EPA and the states ultimately implement the revised CSAPR Update, the future cost of compliance may materially impact MP's operations, cash flows and financial condition.

In February 2019, the EPA announced its final decision to retain without changes the NAAQS for SO₂, specifically retaining the 2010 primary (health-based) 1-hour standard of 75 parts per billion. As of March 31, 2020, MP has no power plants operating in areas designated as non-attainment by the EPA.

Climate Change

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

In September 2016, the U.S. joined in adopting the agreement reached on December 12, 2015, at the United Nations Framework Convention on Climate Change meetings in Paris to reduce GHGs. The Paris Agreement's non-binding obligations to limit global warming to below two degrees Celsius became effective on November 4, 2016. On June 1, 2017, the Trump Administration announced that the U.S. would cease all participation in the Paris Agreement. On January 20, 2021, President Biden signed an executive order re-adopting the agreement on behalf of the U.S. In November 2020, FirstEnergy published its Climate Story which includes its climate position and strategy, as well as a new comprehensive and ambitious GHG emission goal. FirstEnergy pledged to achieve carbon neutrality by 2050 and set an interim goal for a 30% reduction in GHGs within FirstEnergy's direct operational control by 2030, based on 2019 levels. Future resource plans to achieve carbon reductions, including any determination of retirement dates of the regulated coal-fired generation, will be developed by working collaboratively with regulators in West Virginia. Determination of the useful life of the regulated coal-fired generation could result in changes in depreciation, and/or continued collection of net plant in rates after retirement, securitization, sale, impairment, or regulatory disallowances. If MP is unable to recover these costs, it could have a material adverse effect on FirstEnergy's and/or MP's financial condition, results of operations, and cash flow. Furthermore, FirstEnergy cannot currently estimate the financial impact of climate change policies, although potential legislative or regulatory programs restricting CO₂ emissions, or litigation alleging damages from GHG emissions, could require material capital and other expenditures or result in changes to its operations.

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In December 2009, the EPA released its final “Endangerment and Cause or Contribute Findings for GHGs under the Clean Air Act,” concluding that concentrations of several key GHGs constitute an “endangerment” and may be regulated as “air pollutants” under the CAA and mandated measurement and reporting of GHG emissions from certain sources, including electric generating plants. Subsequently, the EPA released its final CPP regulations in August 2015 to reduce CO₂ emissions from existing fossil fuel-fired EGUs and finalized separate regulations imposing CO₂ emission limits for new, modified, and reconstructed fossil fuel-fired EGUs. Numerous states and private parties filed appeals and motions to stay the CPP with the D.C. Circuit in October 2015. On February 9, 2016, the U.S. Supreme Court stayed the rule during the pendency of the challenges to the D.C. Circuit and U.S. Supreme Court. On March 28, 2017, an executive order, entitled “Promoting Energy Independence and Economic Growth,” instructed the EPA to review the CPP and related rules addressing GHG emissions and suspend, revise or rescind the rules if appropriate. On June 19, 2019, the EPA repealed the CPP and replaced it with the ACE rule that established guidelines for states to develop standards of performance to address GHG emissions from existing coal-fired generation. On January 19, 2021, the D.C. Circuit vacated and remanded the ACE rule declaring that the EPA was “arbitrary and capricious” in its rule making and, as such, the ACE rule is no longer in effect and all actions thus far taken by states to implement the federally mandated rule are now null and void. The D.C. Circuit decision was appealed by several states, including West Virginia, as well as other interested parties. On February 28, 2022, the U.S. Supreme Court heard oral arguments on the matter. Depending on the outcomes of the appeal and how any final rules are ultimately implemented, the future cost of compliance may be material.

Clean Water Act

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

On September 30, 2015, the EPA finalized new, more stringent effluent limits for the Steam Electric Power Generating category (40 Code of Federal Regulations Part 423) for arsenic, mercury, selenium and nitrogen for wastewater from wet scrubber systems and zero discharge of pollutants in ash transport water. The treatment obligations were to phase-in as permits are renewed on a five-year cycle from 2018 to 2023. However, on April 13, 2017, the EPA granted a Petition for Reconsideration and on September 18, 2017, the EPA postponed certain compliance deadlines for two years. On August 31, 2020, the EPA issued a final rule revising the effluent limits for discharges from wet scrubber systems, retaining the zero discharge standard for ash transport water, (with some limited discharge allowances), and extending the deadline for compliance to December 31, 2025 for both. In addition, the EPA allows for less stringent limits for sub-categories of generating units based on capacity utilization, flow volume from the scrubber system, and unit retirement date. The EPA is reconsidering the Effluent Limitation Guidelines issued by the EPA (ELG) rule with a publicly announced target of issuing a proposed revised rule in the Fall of 2022 and a final rule by the Spring of 2023. In the interim, the rule issued on August 31, 2020, remains in effect. Depending on the outcome of appeals and how final rules are ultimately implemented the compliance with these standards, which could include capital expenditures at the Ft. Martin and Harrison power stations, may be substantial and changes to FirstEnergy's and MP's operations at those power stations may also result.

Regulation of Waste Disposal

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

In April 2015, the EPA finalized regulations for the disposal of CCRs (non-hazardous), establishing national standards for landfill design, structural integrity design and assessment criteria for surface impoundments, groundwater monitoring and protection procedures and other operational and reporting procedures to assure the safe disposal of CCRs from electric generating plants. On September 13, 2017, the EPA announced that it would reconsider certain provisions of the final regulations. On July 29, 2020, the EPA published a final rule again revising the date that certain CCR impoundments must cease accepting waste and initiate closure to April 11, 2021. The final rule also allows for an extension of the closure deadline based on meeting proscribed site-specific criteria.

OTHER LEGAL PROCEEDINGS

United States v. Larry Householder, et al.

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

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

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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

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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 MP 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 MP 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;

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- 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 MP'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 MP's normal business operations pending against MP or its subsidiaries. The loss or range of loss in these matters is not expected to be material to MP or its subsidiaries. The other potentially material items not otherwise discussed above are described under Note 12, "Regulatory Matters."

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

14. TRANSACTIONS WITH AFFILIATED COMPANIES

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

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

	For the Years Ended December 31,	
	2021	2020
	<i>(In millions)</i>	
Revenues	\$ 217	\$ 196
Expenses:		
Support services	86	83
Miscellaneous Income	1	2

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 MP, 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").

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MP and FirstEnergy's other subsidiaries are parties to an intercompany income tax allocation agreement with FE and its other subsidiaries that provides for the allocation of consolidated tax liabilities. Net tax benefits attributable to FE are generally reallocated to the subsidiaries of FirstEnergy that have taxable income. That allocation is accounted for as a capital contribution to the company receiving the tax benefit (see Note 4, "Taxes").