PENNSYLVANIA ELECTRIC COMPANY AND SUBSIDIARY

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 Pennsylvania Electric 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
CEI	The Cleveland Electric Illuminating Company, an Ohio electric utility operating affiliated company
FE	FirstEnergy Corp., a public utility holding company
FENOC	Energy Harbor Nuclear Corp. (formerly known as FirstEnergy Nuclear Operating Company), a subsidiary of EH, which operates NG's nuclear generating facilities
FES	Energy Harbor LLC (formerly known as FirstEnergy Solutions Corp.), a subsidiary of EH, which provides energy-related products and services
FESC	FirstEnergy Service Company, which provides legal, financial and other corporate support services
FET	FirstEnergy Transmission, LLC, formerly known as Allegheny Energy Transmission, LLC, which is the parent of ATSI, KATCo, MAIT and TrAIL and has a joint venture in PATH
FirstEnergy	FirstEnergy Corp., together with its consolidated subsidiaries
GPU	GPU, Inc., former parent of JCP&L, ME and PN, that merged with FE on November 7, 2001
GPUN	GPU Nuclear, Inc., a subsidiary of FE, which operates TMI-2
JCP&L	Jersey Central Power & Light Company, a New Jersey electric utility operating affiliated company
KATCo	Keystone Appalachian Transmission Company, a subsidiary of FET
MAIT	Mid-Atlantic Interstate Transmission, LLC, a subsidiary of FET, which owns and operates transmission facilities
ME	Metropolitan Edison Company, a Pennsylvania electric utility operating affiliated company
MP	Monongahela Power Company, a West Virginia electric utility operating affiliated company
OE	Ohio Edison Company, an Ohio electric utility operating affiliated company
Ohio Companies	CEI, OE and TE
PATH	Potomac-Appalachian Transmission Highline, LLC, a joint venture between FE and a subsidiary of AEP
PE	The Potomac Edison Company, a Maryland and West Virginia electric utility operating affiliated company
Penn	Pennsylvania Power Company, a Pennsylvania electric utility operating subsidiary of OE
Pennsylvania Companies	ME, PN, Penn and WP
PN	Pennsylvania Electric Company, a Pennsylvania electric utility operating company
TE	The Toledo Edison Company, an Ohio electric utility operating affiliated company
TrAIL	Trans-Allegheny Interstate Line Company, a subsidiary of FET, which owns and operates transmission facilities
Transmission Companies	ATSI, MAIT and TrAIL
Utilities	OE, CEI, TE, Penn, JCP&L, ME, PN, MP, PE and WP
WP	West Penn Power Company, a Pennsylvania electric utility operating affiliated company

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

2021 Credit Facilities	Collectively, the six separate senior unsecured five-year syndicated revolving credit facilities entered into by FE, FET, the Utilities, and the Transmission Companies, on October 18, 2021
AEP	American Electric Power Company, Inc.
AFS	Available-for-sale
AFUDC	Allowance for Funds Used During Construction
AOCI	Accumulated Other Comprehensive Income (Loss)
ARO	Asset Retirement Obligation
ASC	Accounting Standard Codification
ASU	Accounting Standards Update
COVID-19	Coronavirus disease
CSR	Conservative Support Rider
BRA	Base Residual Auction
DPA	Deferred Prosecution Agreement entered into on July 21, 2021 between FE and S.D. Ohio
DSIC	Distribution System Improvement Charge
DSP	Default Service Plan

EDC	Electric Distribution Company
EE&C	Energy Efficiency and Conservation
EGS	Electric Generation Supplier
EH	Energy Harbor Corp.
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
GAAP	Accounting Principles Generally Accepted in the United States of America
HB 6	Ohio House Bill 6
ICE	IntercontinentalExchange, Inc.
IRS	Internal Revenue Service
kV	Kilovolt
LTIIP	Long-Term Infrastructure Improvement Plans
MW	Megawatt
MWH	Megawatt-hour
N.D. Ohio	Northern District of Ohio
NDT	Nuclear Decommissioning Trust
NERC	North American Electric Reliability Corporation
NOL	Net Operating Loss
NUG	Non-Utility Generation
NYPSC	New York State Public Service Commission
OAG	Ohio Attorney General
OCA	Office of Consumer Advocate
ODSA	Ohio Development Service Agency
OPEB	Other Post-Employment Benefits
PJM	PJM Interconnection, L.L.C.
PJM Region	The aggregate of the zones within PJM
POLR	Provider of Last Resort
PPUC	Pennsylvania Public Utility Commission
PUCO	Public Utilities Commission of Ohio
PURPA	Public Utility Regulatory Policies Act of 1978
RFC	ReliabilityFirst Corporation
RFP	Request for Proposal
ROE	Return on Equity
S.D. Ohio	Southern District of Ohio
SEC	United States Securities and Exchange Commission
SLC	Special Litigation Committee of the FE Board
SREC	Solar Renewable Energy Credit
TMI-2	Three Mile Island Unit 2
VIE	Variable Interest Entity

Report of Independent Auditors

To Management and the Board of Directors
Of Pennsylvania Electric Company

Opinion

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

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

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

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

PENNSYLVANIA ELECTRIC COMPANY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

(In millions)	For the Years Ended December 31, 2021	2020
REVENUES:		
Electric sales	$ 778	$ 779
Gross receipts tax collections	48	47
Total revenues	826	826
OPERATING EXPENSES:		
Purchased power	260	250
Other operating expenses	196	211
Provision for depreciation	83	95
Amortization (deferral) of regulatory assets, net	24	(4)
General taxes	56	56
Total operating expenses	619	608
OPERATING INCOME	207	218
OTHER INCOME (EXPENSE):		
Miscellaneous income, net	36	41
Equity earnings from MAIT	36	37
Pension and OPEB mark-to-market adjustment	50	(37)
Interest expense	(59)	(58)
Capitalized financing costs	3	3
Total other income (expense)	66	(14)
INCOME BEFORE INCOME TAXES	273	204
INCOME TAXES	51	16
NET INCOME	$ 222	$ 188
STATEMENTS OF COMPREHENSIVE INCOME		
NET INCOME	$ 222	$ 188
OTHER COMPREHENSIVE LOSS:		
Pension and OPEB prior service costs	(2)	(2)
Other comprehensive loss	(2)	(2)
Income tax benefits on other comprehensive loss	(1)	—
Other comprehensive loss, net of tax	(1)	(2)
COMPREHENSIVE INCOME	$ 221	$ 186

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

PENNSYLVANIA ELECTRIC COMPANY AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

(In millions, except share amounts)	December 31, 2021	December 31, 2020
ASSETS		
CURRENT ASSETS:		
Receivables-		
Customers	$ 145	$ 161
Less — Allowance for uncollectible customer receivables	23	23
	122	138
Affiliated companies	26	25
Other, net of allowance for uncollectible accounts of $1 in 2021 and 2020	14	16
Notes receivable from affiliated companies	—	23
Prepaid taxes and other	6	11
	168	213
UTILITY PLANT:		
In service	3,434	3,310
Less — Accumulated provision for depreciation	1,090	1,054
	2,344	2,256
Construction work in progress	56	60
	2,400	2,316
INVESTMENTS AND OTHER NONCURRENT ASSETS		
Goodwill	637	637
Investment in affiliate	454	451
Other	40	46
	1,131	1,134
	$ 3,699	$ 3,663
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES:		
Currently payable long-term debt	$ 2	$ 2
Short-term borrowings - affiliated companies	85	—
Accounts payable-		
Affiliated companies	3	1
Other	54	45
Accrued taxes	8	15
Accrued interest	11	11
Customer deposits	26	25
Other	27	26
	216	125
CAPITALIZATION:		
Common stockholder's equity-		
Common stock, $20 par value, authorized 5,400,000 shares - 4,427,577 shares outstanding	89	89
Other paid-in capital	865	1,052
Accumulated other comprehensive income	1	2
Retained earnings	366	214
Total common stockholder's equity	1,321	1,357
Long-term debt and other long-term obligations	1,293	1,295
	2,614	2,652
NONCURRENT LIABILITIES:		
Accumulated deferred income taxes	386	337
Retirement benefits	113	177
Regulatory liabilities	161	150
Other	209	222
	869	886
COMMITMENTS AND CONTINGENCIES (NOTE 12)		
	$ 3,699	$ 3,663

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

PENNSYLVANIA ELECTRIC COMPANY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

(In millions, except share amounts)	Common Stock Number of Shares	Common Stock Carrying Value	Other Paid-In Capital	AOCI	Retained Earnings	Total Stockholder's Equity
Balance, January 1, 2020	4,427,577	$ 89	$ 1,049	$ 4	$ 176	$ 1,318
Net income					188	188
Comprehensive loss				(2)		(2)
Consolidated tax benefit allocation			1			1
Stock-based compensation			2			2
Common stock dividend payments					(150)	(150)
Balance, December 31, 2020	4,427,577	$ 89	$ 1,052	$ 2	$ 214	$ 1,357
Net income					222	222
Comprehensive loss				(1)		(1)
Consolidated tax benefit allocation			3			3
Stock-based compensation			2			2
Common stock dividend payments			(192)		(70)	(262)
Balance, December 31, 2021	4,427,577	$ 89	$ 865	$ 1	$ 366	$ 1,321

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

PENNSYLVANIA ELECTRIC COMPANY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)	For the Years Ended December 31, 2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 222	$ 188
Adjustments to reconcile net income to net cash from operating activities-		
Depreciation and amortization	108	92
Deferred income taxes and investment tax credits, net	31	(9)
Retirement benefits, net of payments	(29)	(22)
Pension and OPEB mark-to-market adjustment	(50)	37
Undistributed earnings from subsidiary company	(4)	(2)
Gain on asset sale	—	(7)
Change in current assets and liabilities-		
Receivables	19	(10)
Prepaid taxes and other current assets	5	1
Accounts payable	11	(7)
Accrued taxes	(7)	5
Accrued interest	—	(2)
Customer deposits	1	—
Other current liabilities	—	4
Other	11	(7)
Net cash provided from operating activities	318	261
CASH FLOWS FROM FINANCING ACTIVITIES:		
New financing-		
Long-term debt	—	250
Short-term borrowings - affiliated companies, net	85	—
Redemptions and repayments-		
Long-term debt	—	(250)
Common stock dividend payments	(262)	(150)
Other	(4)	(6)
Net cash used for financing activities	(181)	(156)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(141)	(153)
Loans to affiliated companies, net	23	62
Sales of investment securities held in trusts	—	28
Purchases of investment securities held in trusts	—	(30)
Asset removal costs	(19)	(16)
Other	—	4
Net cash used for investing activities	(137)	(105)
Net change in cash, cash equivalents, and restricted cash	—	—
Cash, cash equivalents, and restricted cash at beginning of period	—	—
Cash, cash equivalents, and restricted cash at end of period	$ —	$ —
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the year -		
Interest (net of amounts capitalized)	$ 57	$ 58
Income taxes, net of refunds	$ 12	$ 15

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

PENNSYLVANIA ELECTRIC COMPANY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note Number		Page Number
1	Organization and Basis of Presentation	6
2	Revenue	10
3	Accumulated Other Comprehensive Income	12
4	Pension and Other Postemployment Benefits	12
5	Taxes	14
6	Leases	16
7	Fair Value Measurements	18
8	Capitalization	20
9	Short-Term Borrowings and Bank Lines of Credit	21
10	Asset Retirement Obligations	22
11	Regulatory Matters	23
12	Commitments and Contingencies	25
13	Transactions with Affiliated Companies	28

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.

PN, together with its consolidated subsidiary is a wholly owned subsidiary of FE and is incorporated in Pennsylvania. PN operates an electric distribution system in Pennsylvania and New York. PN is subject to regulation by the PPUC, NYPSC and FERC. PN, as lessee of the property of its subsidiary, the Waverly Electric Light & Power Company, serves approximately 4,000 customers in the Waverly, New York vicinity. On February 10, 2021, PN entered into an agreement to transfer its customers and the related assets in Waverly, New York to Tri-County Rural Electric Cooperative; the completion of such transfer is subject to several closing conditions including regulatory approval.

PN follows GAAP and complies with the regulations, orders, policies and practices prescribed by FERC, PPUC and the NYPSC. 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.

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

PN 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

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

PN 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, PN 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, PN will write off that regulatory asset as a charge against earnings. PN 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 PN's Consolidated Balance Sheets. See Note 11, "Regulatory Matters," of the Notes to Consolidated Financial Statements for additional information.

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

Net Regulatory Assets (Liabilities) by Source	As of December 31, 2021	As of December 31, 2020	Change
	(In millions)		
Regulatory transition costs	$ (18)	$ (18)	$ —
Customer payables for future income taxes	(150)	(138)	(12)
Deferred transmission costs	(7)	(6)	(1)
Deferred generation costs	(13)	(13)	—
Deferred distribution costs	(1)	(4)	3
Storm-related costs	28	29	(1)
Uncollectible and COVID-19 related costs	8	9	(1)
Energy efficiency program costs	(12)	(10)	(2)
Other	4	1	3
Net Regulatory Liabilities included on the Consolidated Balance Sheets	$ (161)	$ (150)	$ (11)

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

Regulatory transition costs - Primarily relates to above market NUG costs.

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

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

Deferred generation costs - Relates to the costs to provide energy and capacity services to customers who take default services.

Deferred distribution costs - Primarily relates to the recovery of legacy meters that were replaced with smart meters.

Storm-related costs - Relates to the recovery of storm costs, of which approximately $28 million and $29 million are currently being recovered through rates as of December 31, 2021 and 2020, respectively.

Uncollectible and COVID-19 related costs - Includes the deferral of prudently incurred incremental costs arising from COVID-19, including uncollectible expenses.

Energy efficiency program costs - Relates to the recovery of costs in excess of revenues associated with energy efficiency programs including the Pennsylvania Companies' EE&C programs.

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 $28 million and $29 million are currently being recovered through rates, respectively:

Regulatory Assets by Source Not Earning a Current Return	December 31, 2021	December 31, 2020	Change
	(In millions)		
Storm-related costs	$ 28	$ 29	$ (1)
Uncollectible and COVID-19 related costs	11	9	2
Regulatory Assets Not Earning a Current Return	$ 39	$ 38	$ 1

RECEIVABLES

PN's principal business is providing electric service to customers in Pennsylvania. PN'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, PN accrues the estimated unbilled amount as revenue and reverses the related prior period estimate. Unbilled customer receivables were $54 million and $53 million as of December 31, 2021 and 2020, respectively. 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, PN recognized incremental uncollectible expense of $17 million in the year 2020, of which $7 million 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, PN did not recognize any incremental uncollectible expense for the twelve months ended December 30, 2021. Additionally, as a result of the pandemic-related moratoriums and certain customer installment or extended payment plans offered, the allowance for uncollectible accounts on receivables in 2021 and 2020 are elevated due to the extension of when certain write-offs would have otherwise occurred.

Activity associated with customer receivables is as follows:

(In millions)	2021	2020
Customer Receivables		
Beginning of year balance	23	7
Charged to income [1]	9	25
Charged to other accounts [2]	7	6
Write-offs	(16)	(15)
End of year balance	$ 23	$ 23

[1] Customer receivable amounts charged to income include approximately $7 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.

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

PN 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 2.5% and 2.6% of average depreciable property in 2021 and 2020, respectively.

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

PN 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.

INVESTMENT IN UNCONSOLIDATED AFFILIATE

PN consolidates a VIE when it is determined that it is the primary beneficiary. 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.

Following receipt of necessary regulatory approvals, on January 31, 2017, MAIT issued membership interests to FET, PN and ME in exchange for their respective cash and transmission asset contributions. MAIT, a transmission-only subsidiary of FET, owns and operates all of the FERC-jurisdictional transmission assets previously owned by ME and PN, consisting of approximately 4,300 circuit miles of transmission lines with nominal voltages of 500 kV, 345 kV, 230 kV, 138 kV, 115 kV, 69 kV and 46 kV in the PJM Region.

PN is not the primary beneficiary of MAIT, as it does not have control over the significant activities affecting the economics of MAIT. PN's 31% ownership of MAIT is subject to the equity method of accounting.

The following is a summary of financial information for MAIT as reported in its separate financial statements:

	Year Ended December 31,	
(In millions)	**2021**	**2020**
Statements of Income Information:		
Operating revenues	$ 293	$ 254
Operating expenses	132	110
Operating income	161	144
Net income	107	96

	Year Ended December 31,	
(In millions)	**2021**	**2020**
Balance Sheet Information:		
Assets:		
Current assets	$ 219	$ 20
Property, plant and equipment, net	2,218	1,997
Deferred charges and other assets	227	226
Total assets	$ 2,664	$ 2,243
Liabilities and capitalization:		
Current liabilities	$ 32	$ 68
Long-term debt	858	696
Non-current liabilities	306	287
Total equity	1,468	1,192
Total liabilities and capitalization	$ 2,664	$ 2,243

GOODWILL

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

No impairment of goodwill was indicated as a result of testing in 2021 and 2020. In 2021 and 2020, PN performed a qualitative assessment, assessing economic, industry and market considerations in addition to PN's overall financial performance. Key factors used in the assessment included: growth rates, interest rates, expected capital investments, utility sector market performance, regulatory and legal developments, and other market considerations. It was determined that the fair value was, more likely than not, greater than its carrying value and a quantitative analysis was not necessary.

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

Recently Issued Pronouncements - PN 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

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

PN's principal business is providing electric service to customers in Pennsylvania. PN'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, PN 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 Pennsylvania that are regulated by the PPUC.

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

Retail generation sales relate to SOS requirements in Pennsylvania. PN has default service obligations to provide power to non-shopping customers who have elected to continue to receive service under regulated retail tariffs. The volume of these sales varies depending on the level of shopping that occurs. Supply plans vary by state and by service territory. Default service for PN is provided through a competitive procurement process approved by the state commission. 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. PN 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 Consolidated Statements of Income (Loss) 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 BRA and incremental auctions. Capacity purchases and sales through PJM capacity auctions are reported within revenues on the Consolidated Statements of Income (Loss). 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 table represents a disaggregation of revenue from contracts with customers for the years ended December 31, 2021 and 2020, by type of service:

	For the Years Ended December 31,	
Revenues by Type of Service	**2021**	**2020**
	(In millions)	
Distribution services	$ 488	$ 524
Retail generation	322	274
Wholesale sales	2	8
Other	6	10
Total revenues from contracts with customers	$ 818	$ 816
Other revenue unrelated to contracts with customers	8	10
Total revenues	$ 826	$ 826

Other revenue includes revenue from pole attachments of $3 million and $8 million for both the years ended December 31, 2021 and 2020, respectively. Other revenue unrelated to contracts with customers includes $4 million and $5 million of revenue associated with late payment charges for the years December 31, 2021 and 2020, respectively.

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

	For the Years Ended December 31,	
Revenues by Customer Class	**2021**	**2020**
	(In millions)	
Residential	$ 569	$ 558
Commercial	141	131
Industrial	93	101
Other	7	8
Total Revenues	$ 810	$ 798

3. ACCUMULATED OTHER COMPREHENSIVE INCOME

The changes in AOCI for the years ended December 31, 2021 and 2020 for PN are shown in the following table:

	Defined Benefit Pension & OPEB Plans
	(In millions)
AOCI Balance, January 1, 2020	$ 4
Amounts reclassified from AOCI	(2)
Other comprehensive income	(2)
Income tax benefits on other comprehensive income	—
Other comprehensive loss, net of tax	(2)
AOCI Balance, December 31, 2020	$ 2
Amounts reclassified from AOCI	(2)
Other comprehensive loss	(2)
Income tax benefits on other comprehensive loss	(1)
Other comprehensive loss, net of tax	(1)
AOCI Balance, December 31, 2021	$ 1

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

Reclassifications out of AOCI [(1)]	For the Years Ended December 31, 2021	2020	Affected Line Item in the Statement of Net Income
	(In millions)		
Defined Benefit Pension and OPEB Plans			
Prior-service costs	$ (2)	$ (2)	[(2)]
	1	—	Income taxes
	$ (1)	$ (2)	Net of tax

(1) Amounts in parenthesis represent credits to the Consolidated Statements of Income from AOCI.

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

4. PENSION AND OTHER POSTEMPLOYMENT BENEFITS

FirstEnergy provides noncontributory qualified defined benefit pension plans that cover substantially all of its employees and non-qualified pension plans that cover certain employees, including employees of PN. The plans provide defined benefits based on years of service and compensation levels. Under the cash-balance portion of the pension plan (for employees hired on or after January 1, 2014), FirstEnergy makes contributions to eligible employee retirement accounts based on a pay credit and an interest credit. In addition, FirstEnergy provides a minimum amount of noncontributory life insurance to retired employees in addition to optional contributory insurance. Health care benefits, which include certain employee contributions, deductibles and co-payments, are also available upon retirement to certain employees, their dependents and, under certain circumstances, their survivors. PN 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. PN 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. PN's pension and OPEB mark-to-market adjustments, (gains) or losses, for the years ended December 31, 2021 and 2020, were $(50) million and $37 million, respectively.

The following is a summary of the plan status:

	Pension		OPEB	
For the years ended	**2021**	**2020**	**2021**	**2020**
	(In millions)			
FirstEnergy benefit obligation	$ 11,479	$ 11,935	$ 549	$ 676
FirstEnergy fair value of plan assets	9,020	8,968	548	502
FirstEnergy funded status	$ (2,459)	$ (2,967)	$ (1)	$ (174)
FirstEnergy accumulated benefit obligation	$ 10,927	$ 11,376	$ —	$ —
FirstEnergy net periodic costs (credits) (1)	$ (481)	$ 346	$ (167)	$ (46)
PN's share of net periodic costs (credits) (1)	$ (40)	$ 13	$ (28)	$ (2)
PN's share of net liability (2)	$ 46	$ 85	$ 67	$ 93

(1) Includes pension and OPEB mark-to-market adjustment.
(2) Excludes $142 million and $147 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 PN.

	Pension		OPEB	
	2021	**2020**	**2021**	**2020**
Assumptions Used to Determine Benefit Obligations (as of December 31)				
Discount rate	3.02 %	2.67 %	2.84 %	2.45 %
Rate of compensation increase	4.10 %	4.10 %	N/A	N/A
Cash balance weighted average interest crediting rate	2.57 %	2.57 %	N/A	N/A
Assumed Health Care Cost Trend Rates (as of December 31)				
Health care cost trend rate assumed (pre/post-Medicare)	N/A	N/A	5.75%-5.25%	6.0-5.5%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	N/A	N/A	4.50 %	4.50 %
Year that the rate reaches the ultimate trend rate	N/A	N/A	2028	2028
Assumptions Used to Determine Net Periodic Benefit Cost for Years Ended December 31 (1)				
Service cost weighted-average discount rate (2)	3.10 %	3.60%/3.24%	3.03 %	3.63%/3.29%
Interest cost weighted-average discount rate (3)	2.58 %	3.27%/2.90%	1.66 %	2.71%/2.30%
Expected long-term return on plan assets	7.50 %	7.50 %	7.50 %	7.50 %
Rate of compensation increase	4.10 %	4.10 %	N/A	N/A

(1) Excludes impact of pension and OPEB mark-to-market adjustment.
(2) Weighted-average discount rates in effect from January 1, 2020, through February 26, 2020, were 3.60% and 3.63% for pension and OPEB service cost, respectively. Discount rates were 3.24% and 3.29% for pension and OPEB service cost, respectively, for the period February 27, 2020, through December 31, 2020.
(3 Weighted-average discount rates in effect from January 1, 2020, through February 26, 2020, were 3.27% and 2.71% for pension and OPEB interest cost, respectively. Discount rates were 2.90% and 2.30% for pension and OPEB interest cost, respectively, for the period February 27, 2020, through December 31, 2020.

5. TAXES

PN 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.

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

INCOME TAXES:	For the Years Ended December 31, 2021	2020
	(In millions)	
Currently payable		
Federal	$ 15	$ 20
State	5	5
	20	25
Deferred, net-		
Federal	23	(4)
State	8	(5)
	31	(9)
Total income taxes	$ 51	$ 16

PN'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:

(In millions)	For the Years Ended December 31, 2021	2020
Book income before income taxes	$ 273	$ 204
Federal income tax expense at statutory rate	57	43
Increases (reductions) in taxes resulting from-		
State income taxes, net of federal tax benefit	18	13
AFUDC equity and other flow-through	(8)	(8)
Equity in earnings of affiliates	(8)	(8)
Excess deferred tax amortization due to the Tax Act	(5)	(5)
Federal tax credits claimed	(4)	—
TMI-2 reversal of tax regulatory liabilities	—	(19)
Other	1	—
Total income taxes	$ 51	$ 16
Effective income tax rate	18.7 %	7.8 %

PN's effective tax rate on pre-tax income in 2021 and 2020 was 18.7% and 7.8%, respectively. The increase in the effective tax rate was primarily due to the absence of a one-time $19 million benefit related to reversals of tax regulatory liabilities resulting from the transfer of TMI-2 in 2020.

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

	As of December 31,	
(In millions)	**2021**	**2020**
Property basis differences	$ 521	$ 495
Regulatory asset/liability	(9)	(1)
NUG costs	(5)	(5)
Pension and OPEB	(73)	(94)
Loss and credit carryforwards	(55)	(62)
Asset retirement obligations	(1)	(1)
Other	8	5
Net deferred income tax liabilities	$ 386	$ 337

PN has recorded as deferred income tax assets the effect of NOLs and tax credits that will more likely than not be realized through future operations and through the reversal of existing temporary differences. As of December 31, 2021, PN's loss carryforwards primarily consisted of approximately $79 million ($17 million, net of tax) of federal NOL carryforwards that begin to expire in 2031 and $457 million ($36 million, net of tax) of state NOL carryforwards that are expected to be utilized based on current estimates and assumptions prior to expiration, which will begin in 2022.

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

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

For federal income tax purposes, PN 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. PN has tax returns under review by state taxing authorities at the audit or appeals level for tax years 2013 and 2018-2020.

General Taxes

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

(In millions)	**2021**	**2020**
Gross receipts	$ 47	$ 47
Real and personal property	2	2
Social security and unemployment	7	7
Total general taxes	$ 56	$ 56

6. LEASES

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

In addition, MAIT has a ground lease with PN under an operating lease agreement. PN reserves the right to use (and to permit authorized others to use) the land for any purpose that does not cause a violation of electrical safety code or applicable law, or does not impair MAIT's ability to satisfy its service obligations. Additional uses of such land for MAIT's facilities requires prior written approval from the applicable operating company. MAIT purchases directly any new property acquired for transmission use. MAIT makes variable quarterly lease payments through January 1, 2043, unless terminated prior to maturity, or extended by MAIT for up to two additional successive periods of 25 years each and one successive term of 24 years. Revenue associated with this agreement was approximately $1 million for 2021 and 2020.

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

	For the Years Ended December 31,	
(In millions)	2021	2020
Operating lease costs [1]	$ 6	$ 5
Finance lease costs:		
Amortization of right-of-use assets	3	3
Total finance lease cost	3	3
Total lease cost	$ 9	$ 8

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

Supplemental balance sheet information related to leases was as follows:

		As of December 31,	
(In millions)	Financial Statement Line Item	2021	2020
Assets			
Operating lease assets [1]	Deferred charges and other assets	$ 31	$ 31
Finance lease assets [2]	Property, plant and equipment	3	6
Total leased assets		$ 34	$ 37
Liabilities			
Current:			
Operating	Other current liabilities	$ 5	$ 4
Finance	Currently payable long-term debt	2	2
Noncurrent:			
Operating	Other noncurrent liabilities	26	26
Finance	Long-term debt and other long-term obligations	1	4
Total leased liabilities		$ 34	$ 36

[1] Operating lease assets are recorded net of accumulated amortization of $9 million and $5 million as of December 31, 2021 and 2020, respectively.
[2] Finance lease assets are recorded net of accumulated amortization of $18 million and $20 million as of December 31, 2021 and 2020, respectively.

Lease terms and discount rates were as follows:

	As of December 31, 2021	As of December 31, 2020
Weighted-average remaining lease terms (years)		
Operating leases	6.30	6.92
Finance leases	1.70	2.57
Weighted-average discount rate [(1)]		
Operating leases	2.98 %	2.91 %
Finance leases	3.59 %	3.53 %

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

Supplemental cash flow information related to leases was as follows:

	For the Years Ended,	
(In millions)	**December 31, 2021**	**December 31, 2020**
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 5	$ 4
Operating cash flows from finance leases	—	—
Finance cash flows from finance leases	3	3
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$ 6	$ 13
Finance leases	—	—

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

(In millions)	**Operating Leases**	**Finance Leases**	**Total**
2022	$ 6	$ 3	$ 9
2023	6	1	7
2024	6	—	6
2025	5	—	5
2026	4	—	4
Thereafter	7	—	7
Total lease payments	34	4	38
Less imputed interest	3	1	4
Total net present value	$ 31	$ 3	$ 34

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.

7. FAIR VALUE MEASUREMENTS

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 PN's valuation process for NUG contracts follows:

NUG contracts represent purchased power agreements with third-party non-utility generators that are transacted to satisfy certain obligations under PURPA. NUG contract carrying values are recorded at fair value and adjusted periodically using a mark-to-model methodology, which approximates market. The primary unobservable inputs into the model are regional power prices and generation MWH. Pricing for the NUG contracts is a combination of market prices for the current year and next two years based on observable data and internal models using historical trends and market data for the remaining years under contract. The internal models use forecasted energy purchase prices as an input when prices are not defined by the contract. Forecasted market prices are based on ICE quotes and management assumptions. Generation MWH reflects data provided by contractual arrangements and historical trends. The model calculates the fair value by multiplying the prices by the generation MWH. Significant increases or decreases in inputs in isolation may have resulted in a higher or lower fair value measurement.

PN primarily applies the market approach for recurring fair value measurements using the best information available. Accordingly, PN 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, letters of credit and priority interests). The impact of these forms of risk was not significant to the fair value measurements.

As of December 31, 2021 and 2020 all NUG contracts held by PN are insignificant and, as discussed below, PN no longer holds debt securities within the NDT trusts. Previously, these trust investments were considered AFS securities and recognized at fair market value.

The following table provides a reconciliation of changes in the fair value of NUGs held by PN and classified as Level 3 in the fair value hierarchy for the periods ended December 31, 2021 and December 31, 2020:

(In millions)	Net Derivative Liability NUG Contracts[1]
Balance, January 1, 2020	$ (16)
Unrealized loss	(3)
Settlements	19
Balance, December 31, 2020	—
Unrealized loss	—
Settlements	—
Balance, December 31, 2021	$ —

(1) NUG contracts are subject to regulatory accounting treatment and changes in market value do not impact earnings.

NUG contracts are reflected on the Balance Sheets at fair value on a gross basis. None of the derivative instruments have been designated in a hedging relationship and none of the counterparties to these contracts require collateral to mitigate credit exposure. The portfolio of derivative instruments does not allow for the offsetting of derivative assets and derivative liabilities.

INVESTMENTS

All temporary cash investments purchased with an initial maturity of three months or less are reported as cash equivalents on the Consolidated Balance Sheets at cost, which approximates their fair market value. Investments other than cash and cash equivalents include AFS debt securities and other investments. PN has no debt securities held for trading purposes.

Generally, unrealized gains and losses on equity securities are recognized in income whereas unrealized gains and losses on AFS debt securities are recognized in AOCI. However, the NDTs of PN are subject to regulatory accounting with all gains and losses on equity and AFS debt securities offset against regulatory assets. On October 15, 2019, JCP&L, ME, PN and GPUN executed an asset purchase and sale agreement with TMI-2 Solutions, LLC, a subsidiary of EnergySolutions, LLC, concerning the transfer and dismantlement of TMI-2. With the receipt of all required regulatory approvals, the transaction was consummated, including the transfer of external trusts for the decommissioning and environmental remediation of TMI-2, on December 18, 2020. As a result, during the fourth quarter of 2020 PN recognized an after tax-gain of approximately $22 million, primarily associated with the write-off of a tax related regulatory liability.

AFS Securities

PN no longer holds debt securities within the NDT trusts. Previously, these trust investments were considered AFS securities and recognized at fair market value.

Proceeds from the sale of investments in AFS securities, realized gains and losses on those sales and interest and dividend income for the year ended December 31, 2020 was as follows.

	Sale Proceeds	Realized Gains	Realized Losses	Interest and Dividend Income
		(In millions)		
2020	$ 28	$ 3	$ (1)	$ 2

LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS

All borrowings with initial maturities of less than one year are defined as short-term financial instruments under GAAP and are reported as Short-term borrowings on the Consolidated Balance Sheets at cost. Since these borrowings are short-term in nature, PN 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 and net unamortized debt issuance costs and discounts:

	December 31, 2021		December 31, 2020	
(In millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	$ 1,300	$ 1,455	$ 1,300	$ 1,435

The fair values of long-term debt and other long-term obligations 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 PN. PN classified short-term borrowings, long-term debt and other long-term obligations as Level 2 in the fair value hierarchy as of December 31, 2021 and December 31, 2020.

8. CAPITALIZATION

COMMON STOCK

In addition to paying dividends from retained earnings, PN has authorization from the FERC to pay cash dividends to FirstEnergy from paid-in capital accounts, as long as its FERC-defined equity-to-total-capitalization ratio remains above 35%. If such dividends are paid from paid in capital, it is deemed a return of capital.

PREFERRED STOCK

PN is authorized to issue 11,435,000 shares preferred stock, no 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 PN as of December 31, 2021 and 2020:

	As of December 31, 2021		As of December 31,	
(Dollar amounts in millions)	**Maturity Date**	**Interest Rate**	**2021**	**2020**
Unsecured notes - fixed rate	2025 - 2038	3.25% - 6.15%	$ 1,300	$ 1,300
Finance lease obligations			3	6
Unamortized debt premiums/discounts			(1)	(1)
Unamortized debt issuance costs			(7)	(8)
Currently payable long-term debt			(2)	(2)
Total long-term debt and other long-term obligations			$ 1,293	$ 1,295

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

Year	PN
	(In millions)
2022	$ —
2023	—
2024	—
2025	200
2026	—

Debt Covenant Default Provisions

PN 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 PN 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 PN's financial condition.

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

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

9. SHORT-TERM BORROWINGS AND BANK LINES OF CREDIT

PN had $85 million of outstanding short-term borrowings as of December 31, 2021 and no outstanding short-term borrowings as of December 31, 2020.

Revolving Credit Facility

On November 23, 2020, JCP&L, ME, Penn, TE and WP, borrowed $950 million in the aggregate under the former FE Revolving Facility, bringing the outstanding principal balance to $1.2 billion, with $1.3 billion of remaining availability. FE and certain of their respective subsidiaries increased their borrowings under the former Revolving Facilities as a proactive measure to increase their respective cash positions and preserve financial flexibility. These borrowings were repaid in full during 2021.

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

- FE and FET, $1.0 billion revolving credit facility;

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

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

Borrowings under the 2021 Credit Facilities may be used for working capital and other general corporate purposes. Generally, borrowings under each of the credit facilities are available to each borrower separately and mature on the earlier of 364 days from the date of borrowing or the commitment termination date, as the same may be extended. Each of the 2021 Credit Facilities contain financial covenants requiring each borrower, with the exception of FE, to maintain a consolidated debt-to-total-capitalization ratio (as defined under each of the 2021 Credit Facility) of no more than 65%, measured at the end of each fiscal quarter.

Under the 2021 Credit Facilities, PN may borrow up to its regulatory and other short-term debt limitations of $300 million, all of which was available to PN as of December 31, 2021. This limitation includes amounts that may be borrowed under the regulated companies' money pool.

The 2021 Credit Facilities do not contain provisions that restrict the ability to borrow or accelerate payment of outstanding advances in the event of any change in credit ratings of the borrowers. Pricing is defined in “pricing grids,” whereby the cost of funds borrowed under the 2021 Credit Facilities are related to the credit ratings of the company borrowing the funds. Additionally, borrowings under each of the 2021 Credit Facilities are subject to the usual and customary provisions for acceleration upon the occurrence of events of default, including a cross-default for other indebtedness in excess of $100 million.

As of December 31, 2021, PN 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 PN, 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.

10. ASSET RETIREMENT OBLIGATIONS

PN has recognized retirement obligations, primarily conditional retirement obligations for asbestos remediation. PN uses an expected cash flow approach to measure the fair value of its AROs.

PN 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 PN'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. PN 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 PN's ARO balances during 2021 and 2020:

ARO Reconciliation		*(In millions)*
Balance, January 1, 2020	$	176
Accretion		9
Settlement [1]		(181)
Balance, December 31, 2020		4
Accretion		—
Balance, December 31, 2021	$	4

[1] Includes $181 million related to the closing of the asset purchase and sale agreement with TMI-2 Solutions, LLC, a subsidiary of Energy*Solutions*, LLC, concerning the transfer and dismantlement of TMI-2.

11. REGULATORY MATTERS

STATE REGULATION

PN's retail rates, conditions of service, issuance of securities and other matters are subject to regulation in Pennsylvania by the PPUC and in New York by the NYPSC. The key terms of PN's current rate orders for distribution customer billings, which have been effective since January 2017, include an allowed debt/equity ratio of 47.4%/52.6% (reflecting the filed debt/equity as final settlement/orders do not specifically include capital structure). The PPUC-approved settlement agreement for such rates did not disclose ROE.

PENNSYLVANIA

The Pennsylvania Companies operate under rates approved by the PPUC, effective as of January 27, 2017. On November 18, 2021, the PPUC issued orders to each of the Pennsylvania Companies directing they operate under DSPs for the June 1, 2019 through May 31, 2023 delivery period, which DSPs provide for the competitive procurement of generation supply for customers who do not receive service from an alternative EGS. Under the 2019-2023 DSPs, supply will be provided by wholesale suppliers through a mix of 3, 12 and 24-month energy contracts, as well as two RFPs for 2-year SREC contracts for ME, PN and Penn. On December 14, 2021, the Pennsylvania Companies filed proposed DSPs for provision of generation for the June 1, 2023 through May 31, 2027 delivery period, to be sourced through competitive procurements for customers who do not receive service from an alternative EGS. Under the 2023-2027 DSPs, supply is proposed to be provided through a mix of 12 and 24-month energy contracts, as well as long-term solar PPAs.

In March 2018, the PPUC approved adjusted customer rates of the Pennsylvania Companies to reflect the net impact of the Tax Act. As a result, the Pennsylvania Companies established riders that, beginning July 1, 2018, refunded to customers tax savings attributable to the Tax Act as compared to the amounts established in their most recent base rate proceedings on a current and going forward basis. The amounts recorded as savings for the total period of January 1 through June 30, 2018, were tracked and were to be addressed for treatment in a future proceeding. On May 17, 2021, the Pennsylvania Companies filed petitions with the PPUC proposing to refund the net savings for the January through June 2018 period to customers beginning January 1, 2022. On November 18, 2021, the PPUC approved the Pennsylvania Companies' proposed refunds, but also revised a previous methodology for calculating the net tax savings, which resulted in additional tax savings attributable to the Tax Act to be refunded to customers and directed the Pennsylvania Companies to file new petitions to propose the timing and methodology to provide these additional refunds to customers. The Pennsylvania Companies recalculated the net impact for 2018 through 2021 under the revised PPUC methodology in comparison to amounts already refunded to customers under the existing riders, which resulted in an additional $61 million in savings, with interest, to be provided to customers. As a result, FirstEnergy recognized a pre-tax charge of $61 million in the fourth quarter of 2021, $26 million at PN, within Amortization (deferral) of Regulatory Assets, net, on the Consolidated Statement of Income associated with the additional refund associated with the November 2021 PPUC order and methodology. The Pennsylvania Companies filed petitions to propose the timing and methodology of the refund of these amounts on February 17, 2022.

Pursuant to Pennsylvania Act 129 of 2008 and PPUC orders, Pennsylvania EDCs implement energy efficiency and peak demand reduction programs. The Pennsylvania Companies' Phase III EE&C plans for the June 2016 through May 2021 period, which were approved in March 2016, with expected costs up to $390 million, are designed to achieve the targets established in the PPUC's Phase III Final Implementation Order with full recovery through the reconcilable EE&C riders. On June 18, 2020, the PPUC entered a Final Implementation Order for a Phase IV EE&C Plan, operating from June 2021 through May 2026. The Final Implementation Order set demand reduction targets, relative to 2007 to 2008 peak demands at 3.3% megawatt for PN; and energy consumption reduction targets, as a percentage of the Pennsylvania Companies’ historic 2009 to 2010 reference load at 3.0% megawatt-hour for PN. The Pennsylvania Companies' Phase IV plans were filed November 30, 2020 and subsequently approved by PPUC without modification on March 25, 2021.

Pennsylvania EDCs are permitted to seek PPUC approval of an LTIIP for infrastructure improvements and costs related to highway relocation projects, after which a DSIC may be approved to recover LTIIP costs. On January 16, 2020, the PPUC approved the Pennsylvania Companies' LTIIPs for the five-year period beginning January 1, 2020 and ending December 31, 2024 for a total capital investment of approximately $572 million for certain infrastructure improvement initiatives. On June 25, 2021, the Pennsylvania OCA filed a complaint against Penn's quarterly DSIC rate, disputing the recoverability of the Companies' automated distribution management system investment under the DSIC mechanism. On January 26, 2022, the parties filed a joint petition for settlement that resolves all issues in this matter pending PPUC approval.

Following the Pennsylvania Companies' 2016 base rate proceedings, the PPUC ruled in a separate proceeding related to the DSIC mechanisms that the Pennsylvania Companies were not required to reflect federal and state income tax deductions related to DSIC-eligible property in DSIC rates. The decision was appealed to the Pennsylvania Supreme Court and in July 2021 the court upheld the Pennsylvania Commonwealth Court's reversal of the PPUC's decision and remanded the matter back to the PPUC for determination as to how DSIC calculations shall account for accumulated deferred income taxes and state taxes. The matter awaits further action by the PPUC. The adverse ruling by the Pennsylvania Supreme Court is not expected to result in a material impact to PN.

The PPUC issued an order on March 13, 2020, forbidding utilities from terminating service for non-payment for the duration of the COVID-19 pandemic. On May 13, 2020, the PPUC issued a Secretarial letter directing utilities to track all prudently incurred incremental costs arising from the COVID-19 pandemic, and to create a regulatory asset for future recovery of incremental uncollectibles incurred as a result of the COVID-19 pandemic and termination moratorium. On October 13, 2020, the PPUC entered an order lifting the service termination moratorium effective November 9, 2020, subject to certain additional notification, payment procedures and exceptions, and permits the Pennsylvania Companies to create a regulatory asset for all incremental expenses associated with their compliance with the order. On March 19, 2021, the PPUC entered an order lifting the moratorium in total effective March 31, 2021, subject to certain additional guidelines regarding the duration of payment arrangements and reporting obligations.

FERC REGULATORY MATTERS

Under the FPA, FERC regulates rates for interstate wholesale sales, accounting and other matters. With respect to its wholesale services and rates, PN is subject to regulation by FERC. 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. PN has been authorized by FERC to sell wholesale power in interstate commerce at market-based rates and have a market-based rate tariff on file with FERC, although major wholesale purchases remain subject to review and regulation by the PPUC.

Federally-enforceable mandatory reliability standards apply to the bulk electric system and impose certain operating, record-keeping and reporting requirements on PN. NERC is the Electric Reliability Organization 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 PN, are located within RFC. FirstEnergy actively participates in the NERC and RFC stakeholder processes, and otherwise monitors and manages its companies, including PN, in response to the ongoing development, implementation and enforcement of the reliability standards implemented and enforced by RFC.

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

FERC Audit

FERC's Division of Audits and Accounting initiated a nonpublic audit of FESC in February 2019. Among other matters, the audit is evaluating FirstEnergy's compliance with certain accounting and reporting requirements under various FERC regulations. On February 4, 2022, FERC filed the final audit report for the period of January 1, 2015 through September 30, 2021, which included several findings and recommendations. One of the audit report findings and related recommendations state that FirstEnergy may have used an inappropriate methodology for allocation of certain costs to regulatory capital accounts under certain FERC regulations and reporting. Based on the finding and related recommendations, FirstEnergy is currently performing an analysis of these costs and how it impacted certain wholesale transmission customer rates. FirstEnergy is unable to predict or estimate the final outcome of this analysis and audit, however, it could result in refunds, with interest, to certain wholesale transmission customers and/or write-offs of previously capitalized costs if they are determined to be nonrecoverable.

12. COMMITMENTS AND CONTINGENCIES

ENVIRONMENTAL MATTERS

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

Prior to November 1999, PN owned and operated electric generation facilities in Pennsylvania. In response to federal and state deregulation initiatives, it separated its electric generation business from its transmission and distribution businesses by transferring all of its generation assets to an affiliate. However, PN retained responsibility for certain liabilities and obligations arising under environmental laws up to the date of transfer. As more fully discussed below, as an historic owner and operator of generation facilities, PN has been subject to claims alleging violations of environmental law and could have exposure for fines and penalties.

OTHER LEGAL PROCEEDINGS

United States v. Larry Householder, et al.

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

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

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

On August 10, 2020, the SEC, through its Division of Enforcement, issued an order directing an investigation of possible securities laws violations by FE, and on September 1, 2020, issued subpoenas to FE and certain FE officers. On April 28, 2021, the SEC issued an additional subpoena to FE. While no contingency has been reflected in its consolidated financial statements, FE believes that it is probable that it will incur a loss in connection with the resolution of the SEC investigation. Given the ongoing nature and complexity of the review, inquiries and investigations, FE cannot yet reasonably estimate a loss or range of loss that may arise from the resolution of the SEC investigation.

In addition to the subpoenas referenced above under "—United States v. Larry Householder, et. al." and the SEC investigation, certain FE stockholders and FirstEnergy customers filed several lawsuits against FirstEnergy and certain current and former directors, officers and other employees, and the complaints in each of these suits is related to allegations in the complaint and supporting affidavit relating to HB 6 and the now former Ohio House Speaker Larry Householder and other individuals and entities allegedly affiliated with Mr. Householder. The plaintiffs in each of the below cases seek, among other things, to recover an unspecified amount of damages (unless otherwise noted). Unless otherwise indicated, no contingency has been reflected in FirstEnergy's consolidated financial statements with respect to these lawsuits as a loss is neither probable, nor is a loss or range of a loss reasonably estimable.

- *In re FirstEnergy Corp. Securities Litigation* (Federal District Court, S.D. Ohio); on July 28, 2020 and August 21, 2020, purported stockholders of FE filed putative class action lawsuits alleging violations of the federal securities laws. Those actions have been consolidated and a lead plaintiff, the Los Angeles County Employees Retirement Association, has been appointed by the court. A consolidated complaint was filed on February 26, 2021. The consolidated complaint alleges, on behalf of a proposed class of persons who purchased FE securities between February 21, 2017 and July 21, 2020, that FE and certain current or former FE officers violated Sections 10(b) and 20(a) of the Exchange Act by issuing misrepresentations or omissions concerning FE’s business and results of operations. The consolidated complaint also alleges that FE, certain current or former FE officers and directors, and a group of underwriters violated Sections 11, 12(a)(2) and 15 of the Securities Act of 1933 as a result of alleged misrepresentations or omissions in connection with offerings of senior notes by FE in February and June 2020. FE believes that it is probable that it will incur a loss in connection with the resolution of this lawsuit. Given the ongoing nature and complexity of such litigation, FE cannot yet reasonably estimate a loss or range of loss.

- *MFS Series Trust I, et al. v. FirstEnergy Corp., et al.* (Federal District Court, S.D. Ohio) on December 17, 2021, purported stockholders of FE filed a complaint against FE, certain current and former officers, and certain current and former officers of EH. The complaint alleges that the defendants violated Sections 10(b) and 20(a) of the Exchange Act by issuing alleged misrepresentations or omissions regarding FE’s business and its results of operations, and seeks the same relief as the *In re FirstEnergy Corp. Securities Litigation* described above. FE believes that it is probable that it will incur a loss in connection with the resolution of this lawsuit. Given the ongoing nature and complexity of such litigation, FE cannot yet reasonably estimate a loss or range of loss.
- *State of Ohio ex rel. Dave Yost, Ohio Attorney General v. FirstEnergy Corp., et al. and City of Cincinnati and City of Columbus v. FirstEnergy Corp.* (Common Pleas Court, Franklin County, OH, all actions have been consolidated); on September 23, 2020 and October 27, 2020, the OAG and the cities of Cincinnati and Columbus, respectively, filed complaints against several parties including FE (the OAG also named FES as a defendant), each alleging civil violations of the Ohio Corrupt Activity Act in connection with the passage of HB 6. On January 13, 2021, the OAG filed a motion for a temporary restraining order and preliminary injunction against FirstEnergy seeking to enjoin FirstEnergy from collecting the Ohio Companies' decoupling rider. On January 31, 2021, FE reached a partial settlement with the OAG and the cities of Cincinnati and Columbus with respect to the temporary restraining order and preliminary injunction request and related issues. In connection with the partial settlement, the Ohio Companies filed an application on February 1, 2021, with the PUCO to set their respective decoupling riders (CSR) to zero. On February 2, 2021, the PUCO approved the application of the Ohio Companies setting the rider to zero and no additional customer bills will include new decoupling rider charges after February 8, 2021. The cases are stayed pending final resolution of the United States v. Larry Householder, et al. criminal proceeding described above, although on August 13, 2021, new defendants were added to the complaint, including two former officers of FirstEnergy. On November 9, 2021, the OAG filed a motion to lift the agreed-upon stay, which FE opposed on November 19, 2021; the motion remains pending. On December 2, 2021, the cities and FE entered a stipulated dismissal with prejudice of the cities’ suit.
- *Smith v. FirstEnergy Corp. et al., Buldas v. FirstEnergy Corp. et al., and Hudock and Cameo Countertops, Inc. v. FirstEnergy Corp. et al.* (Federal District Court, S.D. Ohio, all actions have been consolidated); on July 27, 2020, July 31, 2020, and August 5, 2020, respectively, purported customers of FE filed putative class action lawsuits against FE and FESC, as well as certain current and former FE officers, alleging civil Racketeer Influenced and Corrupt Organizations Act violations and related state law claims. The court denied FE’s motions to dismiss and stay discovery on February 10 and 11, 2021, respectively, and the defendants submitted answers to the complaint on March 10, 2021. The plaintiffs moved to certify the case as a class action on June 28, 2021, and moved for leave to amend the complaint to add FES as a defendant on September 27, 2021. The court granted the motion to amend on November 10, 2021. On November 9, 2021, the court issued an order granting Plaintiffs' motion for class certification, but vacated that order on November 19, 2021, to allow defendants to take the named plaintiffs’ depositions and to file an opposition to the motion, which they filed on December 14, 2021. On November 19, 2021, FE and FESC moved for judgment on the pleadings. One of the individual defendants moved to dismiss the amended complaint on November 24, 2021. On December 28, 2021, the parties jointly moved the court to stay consideration of the pending motions for class certification, to dismiss, and for judgment on the pleadings for 45 days. The court granted the motion on December 29, 2021, and the cases are currently stayed. FE is engaged with the parties in settlement discussions, and believes that it is probable that it will incur a loss in connection with the resolution of these lawsuits. As a result, FirstEnergy recognized in the fourth quarter of 2021 a pre-tax reserve of $37.5 million in the aggregate with respect to these lawsuits and the *Emmons* lawsuit below; no impact to PN 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 PN is anticipated.

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

- *Gendrich v. Anderson, et al. and Sloan v. Anderson, et al.* (Common Pleas Court, Summit County, OH, all actions have been consolidated); on July 26, 2020 and July 31, 2020, respectively, purported stockholders of FE filed shareholder derivative action lawsuits against certain FE directors and officers, alleging, among other things, breaches of fiduciary duty.
- *Miller v. Anderson, et al.* (Federal District Court, N.D. Ohio); *Bloom, et al. v. Anderson, et al.; Employees Retirement System of the City of St. Louis v. Jones, et al.; Electrical Workers Pension Fund, Local 103, I.B.E.W. v. Anderson et al.; Massachusetts Laborers Pension Fund v. Anderson et al.; The City of Philadelphia Board of Pensions and Retirement v. Anderson et al.; Atherton v. Dowling et al.; Behar v. Anderson, et al.* (Federal District Court, S.D. Ohio, all actions have been consolidated); beginning on August 7, 2020, purported stockholders of FE filed shareholder derivative actions alleging the FE Board and officers breached their fiduciary duties and committed violations of Section 14(a) of the Exchange Act.

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

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

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

In letters dated January 26, and February 22, 2021, staff of FERC's Division of Investigations notified FirstEnergy that the Division is conducting an investigation of FirstEnergy’s lobbying and governmental affairs activities concerning HB 6, and staff directed FirstEnergy to preserve and maintain all documents and information related to the same as such have been developed as part of an ongoing non-public audit being conducted by FERC's Division of Audits and Accounting. While no contingency has been reflected in the consolidated financial statements, FirstEnergy believes that it is probable that it will incur a loss in connection with the resolution of the FERC investigation. Given the ongoing nature and complexity of the review, inquiries and investigations, FirstEnergy cannot yet reasonably estimate a loss or range of loss that may arise from the resolution of the FERC investigation.

The outcome of any of these lawsuits, governmental investigations and audit is uncertain and could have a material adverse effect on FE’s or PN’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 PN's normal business operations pending against PN and its subsidiary. The loss or range of loss in these matters is not expected to be material to PN or its subsidiary. The other potentially material items not otherwise discussed above are described under Note 11, "Regulatory Matters."

PN 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 PN 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 PN or its subsidiary has 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 PN's or its subsidiary's financial condition, results of operations and cash flows.

13. TRANSACTIONS WITH AFFILIATED COMPANIES

PN’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, support service billings, interest on affiliated company notes including the money pool and other transactions.

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

	For the Years Ended December 31,	
	2021	2020
	(In millions)	
Revenues[1]	$ 4	$ 4
Expenses:		
Support services	58	61
Miscellaneous Income	3	2

[1] Includes ground lease revenues from MAIT. See Note 6, "Leases", for additional information.

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 PN, 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 9, "Short-Term Borrowings and Bank Lines of Credit").

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