

THE POTOMAC EDISON COMPANY AND SUBSIDIARIES
AUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

GLOSSARY OF TERMS

The following abbreviations and acronyms may be used in these financial statements to identify The Potomac Edison Company and its current and former subsidiaries and affiliated companies:

AE Supply	Allegheny Energy Supply Company, LLC, an unregulated generation subsidiary
AGC	Allegheny Generating Company, a generation subsidiary of MP
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
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, the parent company of ATSI, MAIT and TrAIL, and has a joint venture in PATH
FirstEnergy	FirstEnergy Corp., together with its consolidated subsidiaries
JCP&L	Jersey Central Power & Light Company, a New Jersey electric utility operating affiliated company
KATCo	Keystone Appalachian Transmission Company, a former subsidiary of FET which became a subsidiary of FE in May 2022
MAIT	Mid-Atlantic Interstate Transmission, LLC, a subsidiary of FET, which owns and operates transmission facilities
ME	Metropolitan Edison Company, a Pennsylvania electric utility operating affiliated company
MP	Monongahela Power Company, a West Virginia electric utility operating affiliated company
OE	Ohio Edison Company, an Ohio electric utility operating affiliated company
Ohio Companies	CEI, OE and TE
PATH	Potomac-Appalachian Transmission Highline, LLC, a joint venture between FE and a subsidiary of AEP
PE	The Potomac Edison Company, a Maryland and West Virginia electric utility operating affiliated company
Penn	Pennsylvania Power Company, a Pennsylvania electric utility operating subsidiary of OE
Pennsylvania Companies	ME, PN, Penn and WP
PN	Pennsylvania Electric Company, a Pennsylvania electric utility operating affiliated company
TE	The Toledo Edison Company, an Ohio electric utility operating affiliated company
TrAIL	Trans-Allegheny Interstate Line Company, a subsidiary of FET, which owns and operates transmission facilities
Transmission Companies	ATSI, MAIT and TrAIL
Utilities	OE, CEI, TE, Penn, JCP&L, ME, PN, MP, PE and WP
WP	West Penn Power Company, a Pennsylvania electric utility operating affiliated company

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

2021 Credit Facilities	Collectively, the six separate senior unsecured five-year syndicated revolving credit facilities entered into by FE, FET, the Utilities, and the Transmission Companies, on October 18, 2021
A&R FET LLC Agreement	Fourth Amended and Restated Limited Liability Company Operating Agreement of FET
ACE	Affordable Clean Energy
ADIT	Accumulated Deferred Income Taxes
AEP	American Electric Power Company, Inc.
AEPSC	American Electric Power Service Corporation
AFS	Available-for-sale
AFSI	Adjusted Financial Statement Income
AFUDC	Allowance for Funds Used During Construction
AMI	Advance Metering Infrastructure
AMT	Alternative Minimum Tax
AOCI	Accumulated Other Comprehensive Income (Loss)
ARO	Asset Retirement Obligation
ARP	Alternative Revenue Program
ASC	Accounting Standards Codification

BGS	Basic Generation Service
BRA	Base Residual Auction
Brookfield	North American Transmission Company II L.P., a controlled investment vehicle entity of Brookfield Infrastructure Partners
Brookfield Guarantors	Brookfield Super-Core Infrastructure Partners L.P., Brookfield Super-Core Infrastructure Partners (NUS) L.P., and Brookfield Super-Core Infrastructure Partners (ER) SCSp
CAA	Clean Air Act
CCR	Coal Combustion Residuals
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act of 1980
CFIUS	Committee on Foreign Investments in the United States
CFR	Code of Federal Regulations
CO ₂	Carbon Dioxide
COVID-19	Coronavirus disease
CPP	EPA's Clean Power Plan
CSAPR	Cross-State Air Pollution Rule
CSR	Conservation Support Rider
CTA	Consolidated Tax Adjustments
CWA	Clean Water Act
CWIP	Construction Work in Progress
D.C. Circuit	United States Court of Appeals for the District of Columbia Circuit
DCR	Delivery Capital Recovery
DMR	Distribution Modernization Rider
DPA	Deferred Prosecution Agreement entered into on July 21, 2021 between FE and U.S. Attorney's Office for the Southern District of Ohio
DSIC	Distribution System Improvement Charge
DSP	Default Service Plan
EDC	Electric Distribution Company
EDCP	FE Amended and Restated Executive Deferred Compensation Plan
EEI	Edison Electric Institute
EGS	Electric Generation Supplier
EGU	Electric Generation Units
EH	Energy Harbor Corp
ELG	Effluent Limitation Guidelines
EmPOWER Maryland	EmPOWER Maryland Energy Efficiency Act
ENEC	Expanded Net Energy Cost
EPA	United States Environmental Protection Agency
ERO	Electric Reliability Organization
ESP IV	Electric Security Plan IV
Exchange Act	Securities and Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FE Board	The Board of Directors of FirstEnergy Corp.
FE Revolving Facility	FE and the Utilities' former five-year syndicated revolving credit facility, as amended, and replaced by the 2021 Credit Facilities on October 18, 2021
FERC	Federal Energy Regulatory Commission
FET Board	The Board of Directors of FET
FET LLC Agreement	Third Amended and Restated Limited Liability Company Operating Agreement of FET
FET Minority Equity Interest Sale	Sale of membership interests of FET, such that Brookfield will own 49.9% of FET
FET P&SA I	Purchase and Sale Agreement entered into on November 6, 2021, by and between FE, FET, Brookfield, and Brookfield Guarantors
FET P&SA II	Purchase and Sale Agreement entered into on February 2, 2023, by and between FE, FET, Brookfield, and the Brookfield Guarantors

FET Revolving Facility	FET and certain of its subsidiaries' former five-year syndicated revolving credit facility, as amended, and replaced by the 2021 Credit Facilities on October 18, 2021
Fitch	Fitch Ratings Service
FMB	First Mortgage Bond
FPA	Federal Power Act
FTR	Financial Transmission Right
GAAP	Accounting Principles Generally Accepted in the United States of America
GHG	Greenhouse Gases
HB 6	House Bill 6, as passed by Ohio's 133rd General Assembly
IBA	ICE Benchmark Administration Limited
IRA of 2022	Inflation Reduction Act of 2022
IRS	Internal Revenue Service
kV	Kilovolt
kWh	Kilowatt-hour
LIBOR	London Inter-Bank Offered Rate
LOC	Letter of Credit
LTIPs	Long-Term Infrastructure Improvement Plans
MDPSC	Maryland Public Service Commission
MGP	Manufactured Gas Plants
MISO	Midcontinent Independent System Operator, Inc.
Moody's	Moody's Investors Service, Inc.
MW	Megawatt
MWH	Megawatt-hour
N.D. Ohio	Federal District Court, Northern District of Ohio
NERC	North American Electric Reliability Corporation
NJ Rate Counsel	New Jersey Division of Rate Counsel
NJBPU	New Jersey Board of Public Utilities
NOL	Net Operating Loss
NOx	Nitrogen Oxide
NUG	Non-Utility Generation
NYPSC	New York State Public Service Commission
OAG	Ohio Attorney General
OCA	Office of Consumer Advocate
OCC	Ohio Consumers' Counsel
ODSA	Ohio Development Service Agency
Ohio Stipulation	Stipulation and Recommendation, dated November 1, 2021, entered into by and among the Ohio Companies, the OCC, PUCO Staff, and several other signatories
OPEB	Other Post-Employment Benefits
OVEC	Ohio Valley Electric Corporation
PA Consolidation	Consolidation of the Pennsylvania Companies
PA NewCo	In connection with the PA Consolidation, a new Pennsylvania corporation as a wholly-owned, indirect subsidiary of FE
PJM	PJM Interconnection, LLC
PJM Tariff	PJM Open Access Transmission Tariff
POLR	Provider of Last Resort
PPA	Purchase Power Agreement
PPUC	Pennsylvania Public Utility Commission
PUCO	Public Utilities Commission of Ohio
Recoupment Policy	FirstEnergy Executive Compensation Recoupment Policy
RFC	ReliabilityFirst Corporation

RFP	Request for Proposal
RGGI	Regional Greenhouse Gas Initiative
ROE	Return on Equity
RTO	Regional Transmission Organization
SBC	Societal Benefits Charge
S.D. Ohio	Federal District Court, Southern District of Ohio
SEC	United States Securities and Exchange Commission
SEET	Significantly Excessive Earnings Test
SIP	State Implementation Plan(s) under the Clean Air Act
SLC	Special Litigation Committee of the FE Board
SO ₂	Sulfur Dioxide
SOFR	Secured Overnight Financing Rate
SOS	Standard Offer Service
SPE	Special Purpose Entity
SREC	Solar Renewable Energy Credit
SVC	Static Var Compensator
S&P	Standard & Poor's Ratings Service
Tax Act	Tax Cuts and Jobs Act adopted December 22, 2017
TMI-1	Three Mile Island Unit 1
VEPCO	Virginia Electric and Power Company
VIE	Variable Interest Entity
VSCC	Virginia State Corporation Commission
WVPSC	Public Service Commission of West Virginia

Report of Independent Auditors

To Management and the Board of Directors
of The Potomac Edison Company

Opinion

We have audited the accompanying consolidated financial statements of The Potomac Edison Company and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, 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, 2022 and 2021, 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 10, 2023

THE POTOMAC EDISON COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

<i>(In millions)</i>	For the Years Ended December 31,	
	2022	2021
REVENUES:		
Electric sales	\$ 945	\$ 890
Excise and gross receipts tax collections	17	18
Total revenues	962	908
OPERATING EXPENSES:		
Purchased power from non-affiliates	352	309
Purchased power from affiliates	241	214
Other operating expenses	174	129
Provision for depreciation	61	66
Amortization (deferral) of regulatory assets, net	(11)	42
General taxes	50	51
Total operating expenses	867	811
OPERATING INCOME	95	97
OTHER INCOME (EXPENSE):		
Miscellaneous income, net	18	13
Pension and OPEB mark-to-market adjustment	(8)	10
Interest expense	(32)	(32)
Capitalized financing costs	6	4
Total other expense	(16)	(5)
INCOME BEFORE INCOME TAXES	79	92
INCOME TAXES	22	17
NET INCOME	<u>\$ 57</u>	<u>\$ 75</u>
<u>STATEMENTS OF COMPREHENSIVE INCOME</u>		
NET INCOME	<u>\$ 57</u>	<u>\$ 75</u>
OTHER COMPREHENSIVE LOSS:		
Pension and OPEB prior service costs	(1)	(1)
Other comprehensive loss	(1)	(1)
Income tax benefits on other comprehensive loss	—	—
Other comprehensive loss, net of tax	(1)	(1)
COMPREHENSIVE INCOME	<u>\$ 56</u>	<u>\$ 74</u>

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

THE POTOMAC EDISON COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

<i>(In millions)</i>	December 31, 2022	December 31, 2021
ASSETS		
CURRENT ASSETS:		
Restricted cash	\$ 7	\$ 7
Receivables-		
Customers	118	102
Less — Allowance for uncollectible customer receivables	8	8
	110	94
Affiliated companies	64	41
Other	11	11
Notes receivable from affiliates	—	65
Prepaid taxes and other	33	25
	225	243
PROPERTY, PLANT AND EQUIPMENT:		
In service	2,262	2,159
Less — Accumulated provision for depreciation	397	370
	1,865	1,789
Construction work in progress	121	86
	1,986	1,875
DEFERRED CHARGES AND OTHER ASSETS:		
Prepaid purchased power	51	56
Prepaid pension and OPEB costs	44	26
Other	34	32
	129	114
	\$ 2,340	\$ 2,232
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES:		
Currently payable long-term debt	\$ 7	\$ 7
Short-term borrowings - affiliated companies	15	—
Accounts payable-		
Affiliated companies	51	44
Other	42	30
Accrued taxes	18	15
Accrued interest	7	7
Customer deposits	20	19
Other	19	22
	179	144
CAPITALIZATION:		
Common stockholder's equity-		
Other paid-in capital	364	360
Accumulated other comprehensive income	—	1
Retained earnings	409	352
Total common stockholder's equity	773	713
Long-term debt and other long-term obligations	726	734
	1,499	1,447
NONCURRENT LIABILITIES:		
Accumulated deferred income taxes, net	299	282
Regulatory liabilities	243	267
Retirement benefits	4	13
Adverse power purchase contracts	24	27
Other	92	52
	662	641
COMMITMENTS AND CONTINGENCIES (Note 12)		
	\$ 2,340	\$ 2,232

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

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

<i>(In millions, except share amounts)</i>	Outstanding	Other Paid-In Capital	AOCI	Retained Earnings	Total Stockholder's Equity
Balance, January 1, 2021	22,385,000	\$ 358	\$ 2	\$ 277	\$ 637
Net income				75	75
Other comprehensive loss, net of tax			(1)		(1)
Stock-based compensation		2			2
Balance, December 31, 2021	22,385,000	\$ 360	\$ 1	\$ 352	\$ 713
Net income				57	57
Other comprehensive loss, net of tax			(1)		(1)
Stock-based compensation		2			2
Consolidated tax benefit allocation		2			2
Balance, December 31, 2022	<u>22,385,000</u>	<u>\$ 364</u>	<u>\$ —</u>	<u>\$ 409</u>	<u>\$ 773</u>

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

THE POTOMAC EDISON COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(In millions)</i>	For the Years Ended December 31,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 57	\$ 75
Adjustments to reconcile net income to net cash from operating activities-		
Depreciation, amortization and impairments	62	107
Transmission revenue collections, net	12	4
Deferred income taxes, net	20	10
Retirement benefits, net of payments	(16)	(18)
Pension and OPEB mark-to-market adjustment	8	(10)
Contributions in aid of construction	16	5
Changes in current assets and liabilities-		
Receivables	(38)	(7)
Prepaid taxes and other current assets	(8)	1
Accounts payable	19	17
Accrued taxes	3	(1)
Accrued interest	—	—
Customer deposits	1	(1)
Other current liabilities	(2)	—
Collateral, net	(1)	(4)
Other	3	8
Net cash provided from operating activities	136	186
CASH FLOWS FROM FINANCING ACTIVITIES:		
New financing -		
Short-term borrowings - affiliated companies, net	15	—
Redemptions and repayments-		
Long-term debt	(7)	(6)
Short-term borrowings - affiliated companies, net	—	(34)
Other	—	(1)
Net cash provided from (used for) financing activities	8	(41)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(156)	(137)
Loans to affiliated companies, net	65	(65)
Asset removal costs	(13)	(12)
Capital-like investments	(38)	(30)
Other	(2)	—
Net cash used for investing activities	(144)	(244)
Net change in cash, cash equivalents, and restricted cash	—	(99)
Cash, cash equivalents, and restricted cash at beginning of period	7	106
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 7</u>	<u>\$ 7</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the year-		
Interest (net of amounts capitalized)	\$ 31	\$ 30
Income taxes, net of refunds	\$ 11	\$ 6

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

THE POTOMAC EDISON COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. ORGANIZATION AND BASIS OF PRESENTATION

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

PE is a wholly owned subsidiary of FE, incorporated in Maryland and Virginia. PE owns transmission assets in Maryland, West Virginia and Virginia and provides distribution services to customers in Maryland and West Virginia. PE is subject to regulation by the MDPSC, the WVPSC, the VSCC and FERC.

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. PE has evaluated events and transactions for potential recognition or disclosure through March 10, 2023, the date the financial statements were issued.

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

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

Economic Conditions

Economic conditions following the global pandemic, have increased lead times across numerous material categories, with some as much as doubling from pre-pandemic lead times. Some key suppliers have struggled with labor shortages and raw material availability, which along with increasing inflationary pressure, have increased costs and decreased the availability of certain materials, equipment and contractors. FirstEnergy has taken steps to mitigate these risks and does not currently expect service disruptions or any material impact on its capital spending plan. However, the situation remains fluid and a prolonged continuation or further increase in supply chain disruptions could have an adverse effect on FirstEnergy's results of operations, cash flow and financial condition.

ACCOUNTING FOR THE EFFECTS OF REGULATION

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

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

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

The following table provides information about the composition of net regulatory assets and liabilities as of December 31, 2022 and 2021, and the changes during the year ended December 31, 2022:

Net Regulatory Assets (Liabilities) by Source	As of December 31,		Change
	2022	2021	
	<i>(In millions)</i>		
Asset removal costs	\$ (251)	\$ (248)	\$ (3)
Customer payables for future income taxes	(147)	(143)	(4)
Energy contract fair value	6	7	(1)
Deferred transmission costs	(13)	—	(13)
Deferred generation costs	55	24	31
Storm-related costs	6	3	3
Pandemic-related costs	6	5	1
Vegetation management costs	6	3	3
Energy efficiency program costs	92	82	10
Other	(3)	—	(3)
Net Regulatory Liabilities included on the Consolidated Balance Sheets	<u>\$ (243)</u>	<u>\$ (267)</u>	<u>\$ 24</u>

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

Asset removal costs - Reflects amounts to be recovered or refunded through future rates to pay for the cost of activities to remove assets, including obligations for which an ARO has been recognized, that are expected to be incurred at the time of retirement.

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

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

Deferred transmission costs - Reflects differences between revenues earned based on actual costs for PE's formula transmission rate and the amounts billed, including amounts expected to be refunded to, or recoverable from, wholesale transmission customers resulting from the FERC Audit, as further described below, which amounts are recorded as a regulatory asset or liability and recovered or refunded, respectively, in subsequent periods.

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

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

Pandemic-related costs - Includes the deferral of incremental costs arising from the pandemic.

Vegetation management costs - Relates to regulatory assets associated with the recovery of certain distribution vegetation management costs in West Virginia as well as certain transmission vegetation management costs at PE (amortized through 2036).

Energy efficiency program costs - Relates to the recovery of costs in excess of revenues associated with energy efficiency programs including PE's EmPOWER Maryland Surcharge.

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

The following table provides information about the composition of net regulatory assets that do not earn a current return as of December 31, 2022 and 2021, of which approximately \$79 million and \$32 million, respectively, are currently being recovered through rates over varying periods depending on the nature of the deferral and the jurisdiction:

Regulatory Assets by Source Not Earning a Current Return	December 31, 2022	December 31, 2021	Change
	<i>(In millions)</i>		
Storm-related costs	\$ 8	\$ 3	\$ 5
Deferred transmission costs	3	4	(1)
Deferred generation costs	70	24	46
Pandemic-related costs	9	8	1
Vegetation management costs	6	3	3
Other	2	1	1
Regulatory Assets Not Earning a Current Return	<u>\$ 98</u>	<u>\$ 43</u>	<u>\$ 55</u>

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.

PREPAID PURCHASE POWER

In April 2007 and December 2009, MP Environmental Funding LLC, an indirect subsidiary of MP, and PE Environmental Funding LLC, an indirect subsidiary of PE, issued environmental control bonds. These bonds securitize the right to collect an environmental control surcharge that MP and PE impose on their retail customers in West Virginia. PE contributed its net bond proceeds from its issuances of these bonds to MP as a prepayment for power, with MP recording the receipt of the proceeds as unearned revenue. The carrying amount of this power prepayment is designated as "Prepaid purchased power" on PE's Consolidated Balance Sheets. This power expense is recognized to the same extent that PE depreciates the portion of the scrubber fixed assets financed by PE's bonds.

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. Liabilities for planned major maintenance projects are recognized as they are incurred.

PE 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 2.2% and 2.5% of average depreciable property in 2022 and 2021, respectively.

For the year ended December 31, 2022, capitalized financing costs on PE's Consolidated Statements of Income include \$4 million of allowance for equity funds used during construction and \$2 million of capitalized interest. For the year ended December 31, 2021, capitalized financing costs on PE's Consolidated Statements of Income include \$3 million of allowance for equity funds used during construction and \$1 million of capitalized interest.

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

RECEIVABLES

PE's principal business is providing electric service to customers in Maryland and West Virginia. PE'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, PE accrues the estimated unbilled amount as revenue and reverses the related prior period estimate. Unbilled customer receivables were \$78 million and \$67 million as of December 31, 2022 and 2021, respectively. Receivables from customers include distribution and retail electric sales to residential, commercial and industrial customers. Other receivables include PJM receivables resulting

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

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

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. This analysis includes consideration of the outbreak of the pandemic and the impact on customer receivable balances outstanding and write-offs since the pandemic began and subsequent economic slowdown.

During 2021, arrears levels continued to be elevated above 2019 pre-pandemic levels. Various regulatory actions impacted the growth and recovery of past due balances including extensions on moratoriums, significant restrictions regarding disconnections, and extended installment plans. FirstEnergy 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 continued to decrease in 2021, balances over 120 days past due continued to be elevated. Other factors were considered 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, no incremental uncollectible expense was recognized during 2021.

During 2022, various regulatory actions including extensions on moratoriums, certain restrictions on disconnections and extended installment plan offerings continue to impact the level of past due balances in certain states. However, certain states have resumed normal collections activity and arrears levels have declined towards pre-pandemic levels. As a result, FirstEnergy recognized a \$25 million decrease (\$2 million at PE) in its allowance for uncollectible customer receivables during the first quarter of 2022, of which \$15 million (\$2 million at PE) was applied to existing deferred regulatory assets. As a result of certain customer installment or extended payment plans, inflationary pressures on customers and the economic slowdown, there were no material changes to the allowance for uncollectible customer receivables during the remainder of 2022.

Activity associated with the allowance for uncollectible customer receivables is as follows:

<i>(In millions)</i>	2022	2021
Customer Receivables		
Beginning of year balance	\$ 8	\$ 10
Charged to income ⁽¹⁾	2	—
Charged to other accounts ⁽²⁾	4	2
Write-offs	(6)	(4)
End of year balance	<u>\$ 8</u>	<u>\$ 8</u>

⁽¹⁾ Customer receivable amounts charged to income include approximately \$2 million deferred for future refund for the year ended December 31, 2022.

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

NEW ACCOUNTING PRONOUNCEMENTS

Recently Issued Pronouncements - PE 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

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

PE's principal business is providing electric service to customers in West Virginia and Maryland. PE'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, PE accrues

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the estimated unbilled amount as revenue and reverses the related prior period estimate. Customer payments are generally due within 30 days. Retail generation sales relate to generation sales in West Virginia and Maryland that are regulated by the WVPSC and MDPSC, respectively.

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

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

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

PE provides transmission infrastructure owned and operated by PE to transmit electricity from generation sources to distribution facilities. PE's revenues are derived from forward-looking formula rates. Revenue requirements under forward-looking formula rates are updated annually based on a projected rate base and projected costs, which is subject to an annual true-up based on rate base and actual costs. Revenues and cash receipts for the stand-ready obligation of providing transmission service are recognized ratably over time.

The following table represents a disaggregation of revenue from contracts with customers for the years ended December 31, 2022 and 2021, by type of service:

Revenues by Type of Service	For the Years Ended December 31,	
	2022	2021
	<i>(In millions)</i>	
Distribution services and retail generation		
Residential	529	520
Commercial	193	182
Industrial	91	92
Other	6	6
Wholesale sales	88	59
Transmission	47	41
Other	6	6
Total revenues from contracts with customers ⁽¹⁾	\$ 960	\$ 906
Other revenue unrelated to contracts with customers	2	2
Total revenues	<u>\$ 962</u>	<u>\$ 908</u>

⁽¹⁾ Includes \$2 million and \$1 million in reductions to revenue related to amounts subject to refund resulting from the Tax Act for the year ended December 31, 2022 and 2021, respectively.

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

3. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The changes in AOCI, net of tax, for the years ended December 31, 2022 and 2021 for PE are shown in the following tables:

	Defined Benefit Pension & OPEB Plans
	(In millions)
AOCI Balance, January 1, 2021	\$ 2
Amounts reclassified from AOCI	(1)
Other comprehensive loss	(1)
Income tax benefits on other comprehensive loss	—
Other comprehensive loss, net of tax	(1)
AOCI Balance, December 31, 2021	<u>\$ 1</u>
Amounts reclassified from AOCI	(1)
Other comprehensive loss	(1)
Income tax benefits on other comprehensive loss	—
Other comprehensive loss, net of tax	(1)
AOCI Balance, December 31, 2022	<u>\$ —</u>

The following amounts were reclassified from AOCI for PE in the years ended December 31, 2022 and 2021:

	For the Years Ended December 31,		Affected Line Item in the Consolidated Statements of Income
Reclassifications out of AOCI ⁽¹⁾	2022	2021	
	(in millions)		
Defined Benefit Pension and OPEB Plans			
Prior-service costs	\$ (1)	\$ (1) ⁽²⁾	
	—	—	Income taxes
	<u>\$ (1)</u>	<u>\$ (1)</u>	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 PE. 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. PE 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. PE 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 until 2025, which, based on various assumptions, including annual expected rate of return on assets of 8.00% in 2023, is expected to be approximately \$250 million. However, FirstEnergy may elect to contribute to the pension plan voluntarily.

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

The following is a summary of the plan status:

For the years ended	Pension		OPEB	
	2022	2021	2022	2021
	<i>(in millions)</i>			
FirstEnergy benefit obligation	\$ 8,828	\$ 11,479	\$ 439	\$ 549
FirstEnergy fair value of plan assets	6,693	9,020	460	548
FirstEnergy funded status	<u>\$ (2,135)</u>	<u>\$ (2,459)</u>	<u>\$ 21</u>	<u>\$ (1)</u>
FirstEnergy accumulated benefit obligation	\$ 8,500	\$ 10,927	\$ —	\$ —
FirstEnergy net periodic costs (credits) ⁽¹⁾	\$ (296)	\$ (481)	\$ (10)	\$ (167)
PE's share of FirstEnergy status ⁽²⁾⁽³⁾	\$ 26	\$ 24	\$ 16	\$ (9)
PE's share of net periodic costs (credits) ⁽¹⁾	\$ (5)	\$ (14)	\$ (3)	\$ (1)

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

⁽²⁾ Excludes \$11 million and \$7 million as of December 31, 2022 and 2021, respectively, of affiliated non-current liabilities related to pension and OPEB mark-to-market costs allocated to PE.

⁽³⁾ Includes a \$23 million increase in OPEB plan assets associated with a reallocation among certain FirstEnergy companies at December 31, 2022.

The FirstEnergy annual pension and OPEB mark-to-market adjustment gains, for the years ended December 31, 2022 and 2021 were \$72 million and \$382 million, respectively. PE's pension and OPEB mark-to-market adjustments, gains or (losses), for the years ended December 31, 2022 and 2021, were \$(8) million and \$10 million, respectively.

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.

Actuarial Assumptions	Pension		OPEB	
	2022	2021	2022	2021
<i>Assumptions Related to Benefit Obligations:</i>				
Discount rate	5.23 %	3.02 %	5.16 %	2.84 %
Rate of compensation increase	4.30 %	4.10 %	N/A	N/A
Cash balance weighted average interest crediting rate	4.04 %	2.57 %	N/A	N/A
<i>Assumptions Related to Benefit Costs:</i> ⁽¹⁾				
Effective rate for interest on benefit obligations	2.44 %	1.94 %	2.18 %	1.66 %
Effective rate for service costs	3.28 %	3.10 %	3.41 %	3.03 %
Effective rate for interest on service costs	2.96 %	2.58 %	3.24 %	2.83 %
Expected return on plan assets	7.50 %	7.50 %	7.50 %	7.50 %
Rate of compensation increase	4.10 %	4.10 %	N/A	N/A
<i>Assumed Health Care Cost Trend Rates:</i>				
Health care cost trend rate assumed (pre/post-Medicare)	N/A	N/A	6.00%-5.50%	5.75%-5.25%
Rate to which the cost trend rate is assumed to decline (ultimate trend rate)	N/A	N/A	4.50 %	4.50 %
Year that the rate reaches the ultimate trend rate	N/A	N/A	2029	2028

⁽¹⁾ Excludes impact of pension and OPEB mark-to-market adjustment.

Net Periodic Benefit Costs (Credits) - 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).

THE POTOMAC EDISON COMPANY AND SUBSIDIARIES
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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.

Expected Return on Plan Assets - 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 2022, FirstEnergy's qualified pension and OPEB plan assets experienced losses of \$1,830 million or (19.1)%, compared to gains of \$689 million, or 7.9% in 2021 and assumed a 7.50% rate of return on plan assets in 2022 and 2021 which generated \$696 million and \$688 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, the historical performance of risk-based and fixed income securities and other factors. 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 2022, the Society of Actuaries elected not to release a new mortality improvement scale due to data available being severely impacted by COVID-19. It was determined that the Pri-2012 mortality table with projection scale MP-2021, actuarially adjusted to reflect increased mortality due to the ongoing impact of COVID-19 was most appropriate and such was utilized to determine the obligation as of December 31, 2022, for the FirstEnergy pension and OPEB plans. This adjustment acknowledges COVID-19 cannot be eradicated and assumes reductions in other causes will not offset future COVID-19 deaths enough to produce a normal level of improvements. 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 \$23 million for the pension plans and was included in the FirstEnergy 2022 pension and OPEB mark-to-market adjustment.

5. TAXES

PE 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.

PE is party to an intercompany income tax allocation agreement with FirstEnergy that provides for the allocation of consolidated tax liabilities. Prior to tax returns for years before 2022, net tax benefits attributable to FE, excluding any tax benefits derived from certain interest expense, were generally reallocated to the subsidiaries of FE that have taxable income. Effective January 1, 2022, the intercompany income tax allocation agreement was amended and revised whereas FE no longer reallocates such tax benefits to the FE subsidiaries.

On August 16, 2022, President Biden signed into law the IRA of 2022, which, among other things, imposes a new 15% corporate AMT based on AFSI applicable to corporations with a three-year average AFSI over \$1 billion. The AMT is effective for the 2023 tax year and, if applicable, corporations must pay the greater of the regular corporate income tax or the AMT. Although NOL carryforwards created through the regular corporate income tax system cannot be used to reduce the AMT, financial statement NOLs can be used to reduce AFSI and the amount of AMT owed. The IRA of 2022 as enacted requires the U.S. Treasury to provide regulations and other guidance necessary to administer the AMT, including further defining allowable adjustments to determine AFSI, which directly impacts the amount of AMT to be paid. Based on interim guidance issued by the U.S. Treasury in late December 2022, FirstEnergy continues to believe that it is more likely than not it will be subject to the AMT beginning 2023. Until final U.S. Treasury guidance is issued, the amount of AMT FirstEnergy would pay could be significantly different than current estimates or it may not be a payer at all. The regulatory treatment of the impacts of this legislation will also be subject to the discretion of the FERC and state public utility commissions. Any adverse development in this legislation, including guidance from the U.S. Treasury and/or the IRS or unfavorable regulatory treatment, could reduce future cash flows and impact financial condition. For federal income tax purposes, PE files as a member of the FirstEnergy consolidated group.

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

INCOME TAXES:	For the Years Ended December 31,	
	2022	2021
	<i>(In millions)</i>	
Currently payable		
Federal	\$ 2	\$ 6
State	—	1
	2	7
Deferred, net-		
Federal	13	4
State	7	6
	20	10
Total income taxes	\$ 22	\$ 17

PE'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, 2022 and 2021:

<i>(In millions)</i>	For the Years Ended December 31,	
	2022	2021
Book income before income taxes	\$ 79	\$ 92
Federal income tax expense at statutory rate	\$ 17	\$ 19
Increases (reductions) in taxes resulting from-		
State income tax, net of federal income tax benefit	5	6
Excess deferred tax amortization due to the Tax Act	(2)	(4)
Property timing difference adjustments	—	(4)
Other	2	—
Total income taxes	\$ 22	\$ 17
Effective income tax rate	27.8 %	18.5 %

Accumulated deferred income taxes as of December 31, 2022 and 2021 were as follows:

<i>(In millions)</i>	As of December 31,	
	2022	2021
Property basis differences	\$ 266	\$ 258
Regulatory asset/liability	38	31
Purchase accounting adjustments	(6)	(7)
Pension and OPEB	2	2
Loss and credit carryforwards	(8)	(7)
Valuation allowances on NOL carryforwards	1	1
Other	6	4
Accumulated deferred income tax liabilities, net	\$ 299	\$ 282

PE records as deferred income tax assets the effect of NOLs and tax credits that will more likely than not be realized through future operations and through the reversal of existing temporary differences. As of December 31, 2022, PE's loss carryforwards consisted of \$16 million (\$3 million, net of tax) of federal NOL carryforwards that will begin to expire in 2031 and approximately \$65 million (\$4 million, net of tax) of state NOL carryforwards, of which approximately \$54 million (\$3 million, net of tax) is expected to be utilized based on current estimates and assumptions prior to expiration, which will begin in 2029.

PE accounts for uncertainty in income taxes recognized in its financial statements. Accounting guidance prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of tax positions taken or expected to be taken on a company's tax return. During the years ended December 31, 2022 and 2021, PE recorded an immaterial reserve

THE POTOMAC EDISON COMPANY AND SUBSIDIARIES
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for an uncertain tax position related to certain federal tax credits claimed on the PE consolidated income tax return. As of December 31, 2022, PE does not anticipate any of the unrecognized income tax benefits will be resolved during 2023.

PE 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 2022 and 2021, PE did not record any interest related to uncertain tax positions, nor does PE have a cumulative net interest payable recorded on its balance sheet.

For federal income tax purposes, PE files as a member of the FirstEnergy consolidated group. IRS review of the FirstEnergy consolidated group's federal income tax returns is complete through the 2020 tax year with no pending adjustments. PE has tax returns under review by state taxing authorities at the audit or appeals level of tax years 2019-2021.

General Taxes

Details of general taxes for the years ended 2022 and 2021 are shown below:

<i>(In millions)</i>	2022	2021
Kilowatt-hour excise	\$ 15	\$ 15
Gross receipts	6	8
Real and personal property	21	20
Business and occupation	4	4
Social security and unemployment	4	4
Total general taxes	<u>\$ 50</u>	<u>\$ 51</u>

6. LEASES

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

PE 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 PE'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. PE has elected a policy to not separate lease components from non-lease components for all asset classes.

PE also has an affiliated full requirements agreement with MP in which MP provides power to PE for its default service requirements. Expense is based upon cost and, as such, is variable in nature. Since the lease is variable, no asset or liability was recognized upon adoption of ASC 842 on January 1, 2019. Expense related to this agreement was \$234 million and \$207 million for the years ended December 31, 2022 and 2021, respectively.

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

<i>(In millions)</i>	For the Years Ended December 31,	
	2022	2021
Operating lease costs ⁽¹⁾	\$ 4	\$ 4
Finance lease costs:		
Amortization of right-of-use assets	—	—
Total finance lease cost	—	—
Total lease cost	<u>\$ 4</u>	<u>\$ 4</u>

⁽¹⁾ Includes \$1 million of short-term lease costs for the years December 31, 2022 and 2021.

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

Supplemental balance sheet information related to leases was as follows:

(In millions)	Financial Statement Line Item	As of December 31,	
		2022	2021
Assets			
Operating lease assets ⁽¹⁾	Deferred charges and other assets	\$ 17	\$ 17
Finance lease assets ⁽²⁾	Property, plant and equipment	3	—
Total leased assets		\$ 20	\$ 17
Liabilities			
Current:			
Operating	Other current liabilities	\$ 3	\$ 3
Noncurrent:			
Operating	Other noncurrent liabilities	13	14
Total leased liabilities		\$ 16	17

⁽¹⁾ Operating lease assets are recorded net of accumulated amortization of \$8 million and \$5 million as of December 31, 2022 and 2021, respectively.

⁽²⁾ Finance lease assets are recorded net of accumulated amortization of \$1 million and \$2 million as of December 31, 2022 and 2021, respectively.

Lease terms and discount rates were as follows:

	As of December 31, 2022	As of December 31, 2021
<i>Weighted-average remaining lease terms (years)</i>		
Operating leases	5.7	6.2
Finance leases	19.4	1.2
<i>Weighted-average discount rate ⁽¹⁾</i>		
Operating leases	3.39 %	3.28 %
Finance leases	12.76 %	9.41 %

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

Supplemental cash flow information related to leases was as follows:

<i>(In millions)</i>	For the Years Ended,	
	12/31/2022	12/31/2021
<i>Cash paid for amounts included in the measurement of lease liabilities</i>		
Operating cash flows from operating leases	\$ 4	\$ 3
Operating cash flows from finance leases	—	—
Finance cash flows from finance leases	—	—
<i>Right-of-use assets obtained in exchange for lease obligations:</i>		
Operating leases	\$ 3	\$ 4
Finance leases	—	—

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Maturities of lease liabilities as of December 31, 2022, were as follows:

<i>(In millions)</i>	Operating Leases
2023	\$ 4
2024	3
2025	3
2026	3
2027	2
Thereafter	3
<i>Total lease payments</i>	18
Less imputed interest	2
<i>Total net present value</i>	\$ 16

7. VARIABLE INTEREST ENTITY

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

Consolidated VIEs

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

- *PE Environmental Funding Companies* - The consolidated financial statements of PE include environmental control bonds issued by a bankruptcy remote, special purpose limited liability company that is an indirect subsidiary of PE. Proceeds from the bonds were used to construct environmental control facilities. The special purpose limited liability company owns the irrevocable right to collect non-bypassable environmental control charges from all customers who receive electric delivery service in PE's West Virginia service territory. Principal and interest owed on the environmental control bonds is secured by, and payable solely from, the proceeds of the environmental control charges. Creditors of PE, other than the special purpose limited liability company, have no recourse to any assets or revenues of the special purpose limited liability company. The cash collected from PE customers is used to service debt of the funding company. As of December 31, 2022 and 2021, \$62 million and \$69 million of environmental control bonds were outstanding, respectively.

Unconsolidated VIEs

PE is not the primary beneficiary of the following VIEs

- *Power Purchase Agreements* - As part of this process, PE evaluated its power purchase agreements and determined that its contract with a NUG entity may be a VIE as the NUG entity owns a plant that sells substantially all of its output to PE and the contract price for power may be correlated with the plant's variable costs of production. The agreement was entered into pursuant to the Public Utility Regulatory Policies Act of 1978. PE was not involved in the creation of this entity. PE has applied the scope exception that exempts enterprises unable to obtain the necessary information to evaluate entities. Because PE has no equity or debt interests in the NUG entity, its maximum exposure to loss relates primarily to the above-market costs incurred for power. PE expects any above-market costs incurred to be recovered from customers. Purchased power costs related to the contract were \$119 million and \$111 million during the years ended December 31, 2022 and 2021, respectively.

8. FAIR VALUE MEASUREMENTS

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

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<i>(In millions)</i>	December 31, 2022		December 31, 2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	\$ 737	\$ 599	\$ 744	\$ 839

The fair values of long-term debt reflect the present value of the cash outflows relating to those securities based on the current call price, the yield to maturity or the yield to call, as deemed appropriate at the end of each respective period. The yields assumed were based on securities with similar characteristics offered by corporations with credit ratings similar to those of PE. PE classified short-term borrowings, long-term debt as Level 2 in the fair value hierarchy as of December 31, 2022 and 2021.

9. CAPITALIZATION

COMMON STOCK

PE is authorized to issue 26,000,000 shares of common stock, \$0.01 par value, as of December 31, 2022. As of December 31, 2022 and 2021, there were 22,385,000 common shares outstanding.

PREFERRED STOCK

PE is authorized to issue 10,000,000 shares of preferred stock, \$0.01 par value, as of December 31, 2022. As of December 31, 2022 and 2021, 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 PE as of December 31, 2022 and 2021:

<i>(Dollar amounts in millions)</i>	As of December 31, 2022		As of December 31,	
	Maturity Date	Interest Rate	2022	2021
FMBs	2032 - 2051	2.670% - 4.470%	\$ 675	\$ 675
Secured notes - fixed rate	2026 - 2031	5.127% - 5.523%	62	69
Unamortized fair value adjustments			1	2
Unamortized debt issuance costs			(5)	(5)
Currently payable long-term debt			(7)	(7)
Total long-term debt and other long-term obligations			\$ 726	\$ 734

The following table presents scheduled debt repayments for outstanding long-term debt, excluding finance leases, fair value purchase accounting adjustments and unamortized debt discounts and premiums, for the next five years as of December 31, 2022.

<i>(In millions)</i>	2023	2024	2025	2026	2027
Scheduled debt repayments	\$7	\$8	\$8	\$8	\$9

Environmental Control Bonds

The consolidated financial statements of PE include environmental control bonds issued by a bankruptcy remote, special purpose limited liability company that is an indirect subsidiary of PE. Proceeds from the bonds were used to construct environmental control facilities. Principal and interest owed on the environmental control bonds is secured by, and payable solely from, the proceeds of the environmental control charges. As of December 31, 2022 and 2021, \$62 million and \$69 million of environmental control bonds were outstanding, respectively.

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

FMBs

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

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Debt Covenant Default Provisions

PE 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 PE 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 PE's financial condition.

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

As of December 31, 2022, PE was in compliance with all debt covenant default provisions.

10. SHORT-TERM BORROWINGS AND BANK LINES OF CREDIT

PE had \$15 million of outstanding short-term borrowings as of December 31, 2022, compared to no outstanding short-term borrowings as of December 31, 2021.

Revolving Credit Facilities

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 substantial 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, PE may borrow up to its regulatory and other short-term debt limitations of \$150 million, all of which was available to PE as of December 31, 2022. 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, 2022, PE was in compliance with the applicable debt-to-total-capitalization ratio covenants under their respective 2021 Credit Facility.

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FirstEnergy Money Pool

FE's utility and transmission operating subsidiary companies, including PE, 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. During 2022, interest rates have increased significantly, which has caused the rate and interest on borrowings and lending under the money pools to be significantly higher. The average interest rates for borrowings in 2022 and 2021 were 2.27% and 1.01% per annum, respectively.

11. REGULATORY MATTERS

STATE REGULATION

PE's retail rates, conditions of service, issuance of securities and other matters are subject to regulation in Maryland by the MDPSC and in West Virginia by the WVPSC. The transmission operations of PE in Virginia are subject to certain regulations of the VSCC. The key terms of PE's current rate orders for distribution customer billings, which have been effective since February 2015 and March 2019 for West Virginia and Maryland, respectively, include allowed debt/equity ratios of 54%/46% and 47%/53%, respectively, and an allowed ROE of 9.65% for Maryland. The WVPSC-approved settlement agreement for its West Virginia rates did not disclose ROE.

MARYLAND

PE operates under MDPSC approved base rates that were effective as of March 23, 2019. PE also provides SOS pursuant to a combination of settlement agreements, MDPSC orders and regulations, and statutory provisions. SOS supply is competitively procured in the form of rolling contracts of varying lengths through periodic auctions that are overseen by the MDPSC and a third-party monitor. Although settlements with respect to SOS supply for PE customers have expired, service continues in the same manner until changed by order of the MDPSC. PE recovers its costs plus a return for providing SOS.

The EmPOWER Maryland program requires each electric utility to file a plan to reduce electric consumption and demand 0.2% per year, up to the ultimate goal of 2% annual savings, for the duration of the 2021-2023 EmPOWER Maryland program cycles to the extent the MDPSC determines that cost-effective programs and services are available. PE's approved 2021-2023 EmPOWER Maryland plan continues and expands upon prior years' programs for a projected total investment of approximately \$148 million over the three-year period. PE recovers program investments with a return through an annually reconciled surcharge, with most costs subject to recovery over a five-year period with a return on the unamortized balance. On August 16, 2022, the MDPSC ordered each utility to file, by October 28, 2022, a set of plans for paying down all amortization balances by the scheduled expiration of the EmPOWER program on December 31, 2029. PE submitted its required plan on October 28, 2022, and, at the direction of the MDPSC, filed a revised plan on January 11, 2023. Maryland law only allows for the utility to recover lost distribution revenue attributable to energy efficiency or demand reduction programs through a base rate case proceeding, and to date, such recovery has not been sought or obtained by PE.

WEST VIRGINIA

MP and PE provide electric service to all customers through traditional cost-based, regulated utility ratemaking and operate under WVPSC-approved rates that became effective in February 2015. MP and PE recover net power supply costs, including fuel costs, purchased power costs and related expenses, net of related market sales revenue through the ENEC. MP's and PE's ENEC rate is updated annually.

On December 29, 2021, the WVPSC issued an order granting MP and PE's requested \$19.6 million increase in ENEC rates, requiring, among other things, that MP and PE refund to its large industrial customers their respective portion of the \$7.7 million rate reduction discussed above and also requires MP and PE to negotiate a PPA for its capacity shortfall and a reasonable reserve margin if certain conditions are met. By order dated March 2, 2022, the WVPSC reopened the case to determine whether rates should be increased to recover growing ENEC under-recoveries. On May 17, 2022, the WVPSC issued an order approving an interim rate increase of \$94 million, effective for customer rates on May 18, 2022, subject to a prudence review during MP and PE's 2022 ENEC case.

On August 25, 2022, MP and PE filed with the WVPSC their annual ENEC case requesting an increase in ENEC rates of \$183.8 million beginning January 1, 2023, which represents a 12.2% increase to the rates then in effect. The increase was driven by an underrecovery during the review period (July 1, 2021 to June 30, 2022) of \$144.9 million due to higher coal, reagent, and allowance expenses. This filing additionally addresses, among other things, the WVPSC's May 2022 request for a prudence review of current rates. At a hearing on December 8, 2022, the parties in the case presented a unanimous settlement to increase rates by approximately \$92 million, effective January 1, 2023, and carry over to MP and PE's 2023 ENEC case, approximately \$92 million at a carrying charge of 4%. In an order dated December 30, 2022, the WVPSC approved the settlement with respect to the proposed rate increase, but MP and PE rates remain subject to a prudence review in their 2023 ENEC case. The order

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also instructs MP to evaluate the feasibility of purchasing the Pleasants Power Station and file a summary of the evaluation by March 31, 2023.

On December 27, 2021, the WVPSC approved a settlement granting MP and PE a \$16 million increase in rates effective January 1, 2022, and permitting the continuation of the vegetation management program and surcharge for another two years. WVPSC additionally ordered MP and PE to perform equipment inspections within a reasonable time after vegetation management occurs on a circuit.

On November 22, 2021, MP and PE filed with the WVPSC their plan to construct 50 MWs of solar generation at five sites in West Virginia. The plan includes a tariff to offer solar power to West Virginia customers and cost recovery for MP and PE from other customers through a surcharge for any solar investment not fully subscribed by their customers. A hearing was held in mid-March 2022 and on April 21, 2022, the WVPSC issued an order approving, effective May 1, 2022, the requested tariff and requiring MP and PE to subscribe at least 85% of the planned 50 MWs before seeking final tariff approval. MP and PE must seek separate approval from the WVPSC to recover any solar generation costs in excess of the approved tariff. The first solar generation site is expected to be in-service by the end of 2023 and all construction completed at the other sites no later than the end of 2025 at a total investment cost of approximately \$110 million.

On December 17, 2021, MP and PE filed with the WVPSC for approval of environmental compliance projects at the Ft. Martin and Harrison Power Stations to comply with the EPA's ELG and operate these plants beyond 2028. The request includes a surcharge to recover the expected \$142 million capital investment and \$3 million in annual operation and maintenance expense. MP and PE reached a settlement agreement with WVPSC staff and all intervenors, recommending: (i) approval of the ELG compliance plan submitted by MP and PE and (ii) recovery of costs through a surcharge. A ruling approving the settlement without modification was issued by the WVPSC on September 12, 2022, and construction is expected to be completed by the end of 2025.

On January 13, 2023, MP and PE filed a request with the WVPSC seeking approval of new depreciation rates for existing and future capital assets. Specifically, MP and PE are seeking to increase depreciation expense of \$75.5 million per year, primarily for regulated generation-related assets. Any depreciation rates approved by the WVPSC would not become effective until new base rates were established.

On March 2, 2023, the WVPSC ordered MP and PE to conduct a focused audit of (i) the lobbying and image building expenses, including those related to HB 6, incurred by MP and PE from 2018 to 2022 and (2) the accounting for charges included in the ENEC cost recovery accounts of MP and PE during the same time period. The WVPSC's order also requires MP and PE to review and report on the findings, including those specific to MP and PE, set forth in the FERC Audit described below, as well as a review and report of the responses by MP and PE thereto.

FERC REGULATORY MATTERS

Under the FPA, FERC regulates rates for interstate wholesale sales, transmission of electric power, accounting and other matters. With respect to its wholesale services and rates, PE is subject to regulation by FERC. FERC regulations require PE to provide open access transmission service at FERC-approved rates, terms and conditions. Transmission facilities of PE are subject to functional control by PJM and transmission service using PE's transmission facilities is provided by PJM under the PJM Tariff. The key terms of PE's rate orders in effect for transmission customer billings, which have been effective since January 1, 2021, include an actual (13 month average) capital structure and an allowed 11.35% ROE, which was accepted by FERC, subject to refund, pending further hearing and settlement procedures.

FERC regulates the sale of power for resale in interstate commerce in part by granting authority to public utilities to sell wholesale power at market-based rates upon showing that the seller cannot exert market power in generation or transmission or erect barriers to entry into markets. PE 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 relevant state commissions.

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

FirstEnergy, including PE, 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 PE, 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 PE, 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,

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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 PE's, part to comply with the reliability standards for its bulk electric system could result in the imposition of financial penalties, or obligations to upgrade or build transmission facilities, that could have a material adverse effect on PE'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 that FirstEnergy has accepted. The audit report included a finding and related recommendation on FirstEnergy's methodology for allocation of certain corporate support costs to regulatory capital accounts under certain FERC regulations and reporting. Effective in the first quarter of 2022 and in response to the finding, FirstEnergy had implemented a new methodology for the allocation of these corporate support costs to regulatory capital accounts for its regulated distribution and transmission companies on a prospective basis. With the assistance of an independent outside firm, FirstEnergy completed an analysis during the third quarter of 2022 of these costs and how it impacted certain FERC-jurisdictional wholesale transmission customer rates for the audit period of 2015 through 2021. As a result of this analysis, FirstEnergy recorded in the third quarter of 2022 approximately \$45 million (\$34 million after-tax) (less than \$1 million pre-tax at PE) in expected customer refunds, plus interest, due to its wholesale transmission customers and reclassified approximately \$195 million (\$5 million at PE) of certain transmission capital assets to operating expenses for the audit period, of which \$90 million (\$67 million after-tax) (\$5 million pre-tax at PE) are not expected to be recoverable and impacted FirstEnergy's earnings since they relate to costs capitalized during stated transmission rate time periods. These reclassifications also resulted in a reduction to FirstEnergy's rate base by approximately \$160 million (\$6 million at PE), which is not expected to materially impact FirstEnergy or PE's future earnings. The expected wholesale transmission customer refunds were recognized as a reduction to revenue, and the amount of reclassified transmission capital assets that are not expected to be recoverable were recognized within "Other operating expenses" on FirstEnergy's and PE's Consolidated Statements of Income.

FERC Actions on Tax Act

On March 15, 2018, FERC initiated proceedings on the question of how to address possible changes to ADIT and bonus depreciation as a result of the Tax Act. Such possible changes could impact FERC-jurisdictional rates, including transmission rates. On November 21, 2019, FERC issued a final rule (Order No. 864). Order No. 864 requires utilities with transmission formula rates to update their formula rate templates to include mechanisms to: (i) deduct any excess ADIT from or add any deficient ADIT to their rate base; to maintain rate base neutrality (ii) raise or lower their income tax allowances by any amortized excess or deficient ADIT; and (iii) incorporate a new permanent worksheet into their rates that will annually track information related to excess or deficient ADIT. MP, WP and PE - as holders of a "stated" transmission rate when Order No. 864 issued - addressed these requirements as part of the transmission rates amendments that were filed with FERC on October 29, 2020. An uncontested settlement of all issues in that case was filed for FERC approval on January 18, 2023.

Transmission ROE Incentive

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

Allegheny Power Zone Transmission Formula Rate Filings

On October 29, 2020, MP, PE and WP filed tariff amendments with FERC to implement a forward-looking formula transmission rate, to be effective January 1, 2021. In addition, on October 30, 2020, KATCo filed a proposed new tariff to establish a forward-looking formula rate and requested that the new rate become effective January 1, 2021. In its filing, KATCo explained that while it currently owns no transmission assets, it may build new transmission facilities in the Allegheny zone, and that it may seek required state and federal authorizations to acquire transmission assets from PE and WP by January 1, 2022. These transmission rate filings were accepted for filing by FERC on December 31, 2020, effective January 1, 2021, subject to refund, pending further hearing and settlement procedures and were consolidated into a single proceeding. MP, PE and WP, and KATCo filed uncontested settlement agreements with FERC on January 18, 2023. There is no timetable for FERC to rule on the settlement agreements. Also on January 18, 2023, MP, PE, and WP filed a motion for interim rates to implement certain aspects of the settled rate. If granted, the interim rates would take effect retroactive to January 1, 2023. As a result of the filed settlement,

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FirstEnergy recognized a \$25 million pre-tax charge (\$8 million at PE) during the fourth quarter of 2022, which reflects the difference between amounts originally recorded as assets and amounts which will ultimately be recovered from customers as a result of the pending settlement.

12. COMMITMENTS AND CONTINGENCIES

ENVIRONMENTAL MATTERS

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

Regulation of Waste Disposal

FE or its subsidiaries, including PE, have been named as potentially responsible parties at waste disposal sites, which may require cleanup under the CERCLA. Allegations of disposal of hazardous substances at historical sites and the liability involved are often unsubstantiated and subject to dispute; however, federal law provides that all potentially responsible parties for a particular site may be liable on a joint and several basis. Environmental liabilities that are considered probable have been recognized on the Consolidated Balance Sheets as of December 31, 2022, based on estimates of the total costs of cleanup, FirstEnergy's proportionate responsibility for such costs and the financial ability of other unaffiliated entities to pay. Total liabilities of approximately \$4 million have been accrued by PE through December 31, 2022. FirstEnergy or its subsidiaries, including PE, could be found potentially responsible for additional amounts or additional sites, but the loss or range of losses cannot be determined or reasonably estimated at this time.

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 Southern District 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, and July 11, 2022, the SEC issued additional subpoenas to FE, with which FE has complied. 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

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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* (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. The class certification hearing is scheduled to take place on March 17, 2023. 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. and Brighthouse Funds II – MFS Value Portfolio, et al. v. FirstEnergy Corp., et al.* (S.D. Ohio) on December 17, 2021 and February 21, 2022, purported stockholders of FE filed complaints against FE, certain current and former officers, and certain current and former officers of EH. The complaints allege 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 seek the same relief as the *In re FirstEnergy Corp. Securities Litigation* described above. FE believes that it is probable that it will incur losses in connection with the resolution of these lawsuits. 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.* (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. FE agreed to a class settlement to resolve these claims on April 11, 2022. In the fourth quarter of 2021, FirstEnergy recognized a pre-tax reserve of \$37.5 million in the aggregate with respect to these lawsuits and the *Emmons* lawsuit below. On June 22, 2022, the court preliminarily approved the class settlement and the final fairness hearing was held on November 9, 2022. On December 5, 2022, the court issued an order memorializing its final approval of the class settlement. The settlement amount was satisfied on December 7, 2022.
- *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. FE agreed to a class settlement to resolve these claims on April 11, 2022. In the fourth quarter of 2021, FirstEnergy recognized 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. On June 22, 2022, the court preliminarily approved the class settlement and the final fairness hearing was held on November 9, 2022. The S.D. Ohio issued a final written order approving the settlement on December 5, 2022. The settlement amount was satisfied on December 7, 2022.

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

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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.* (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.* (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.

On March 11, 2022, the parties executed a stipulation and agreement of settlement, and filed a motion the same day requesting preliminary settlement approval in the S.D. Ohio, which the S.D. Ohio granted on May 9, 2022. Subsequently, following a hearing on August 4, 2022, the S.D. Ohio granted final approval of the settlement on August 24, 2022. The settlement agreement is expected to resolve fully these shareholder derivative lawsuits and includes a series of corporate governance enhancements, that have resulted in the following:

- Six then-members of the FE Board did 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 was formed to initiate a review process of the then current senior executive team. The review of the senior executive team by the special FE Board committee and the FE Board was completed in September 2022;
- The FE Board will oversee FE's lobbying and political activities, including periodically reviewing and approving political and lobbying action plans prepared by management;
- An FE Board committee of recently appointed independent directors will 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 FE of \$180 million, to be paid by insurance after the judgment has become final, less \$36 million in court-ordered attorney's fees awarded to plaintiffs. On September 20, 2022, a purported FE stockholder filed a motion for reconsideration of the S.D. Ohio's final settlement approval. The parties filed oppositions to that motion on October 11, 2022 and the motion is under consideration by the S.D. Ohio. The N.D. Ohio matter remains pending. On June 2, 2022, the N.D. Ohio entered an order to show cause why the court should not appoint new plaintiffs' counsel, and thereafter, on June 10, 2022, the parties filed a joint motion to dismiss the matter without prejudice, which the N.D. Ohio denied on July 5, 2022. On August 15, 2022, the N.D. Ohio issued an order stating its intention to appoint one group of applicants as new plaintiffs' counsel, and on August 22, 2022, the N.D. Ohio ordered that any objections to the appointment be submitted by August 26, 2022. The parties filed their objections by that deadline, and on September 2, 2022, the applicants responded to those objections. In the meantime, on August 25, 2022, a purported FE stockholder represented by the applicants filed a motion to intervene, attaching a proposed complaint-in-intervention purporting to assert claims that the FE Board and officers breached their fiduciary duties and committed violations of Section 14(a) of the Exchange Act as well as a claim against a third party for professional negligence and malpractice. The parties filed oppositions to that motion to intervene on September 8, 2022, and the proposed intervenor's reply in support of his motion to intervene was filed on September 22, 2022.

On August 24, 2022, the parties filed a joint motion to dismiss the action pending in the N.D. Ohio based upon and in light of the approval of the settlement by the S.D. Ohio. On August 30, 2022, the parties filed a joint motion to dismiss the state court action, which the court granted on September 2, 2022.

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. On December 30, 2022, FERC approved a Stipulation and Consent Agreement that resolves the investigation. The agreement includes a FirstEnergy admission of violating FERC's "duty of candor" rule and related laws, and obligates FirstEnergy to pay a civil penalty of \$3.86 million, and to submit two annual compliance monitoring reports to FERC's Office of Enforcement regarding improvements to FirstEnergy's compliance programs. FirstEnergy paid the civil penalty on January 4, 2023.

FE terminated Charles E. Jones as its chief executive officer effective October 29, 2020. As a result of Mr. Jones' termination, and due to the determination of a committee of independent members of the FE Board that Mr. Jones violated certain FirstEnergy policies and its code of conduct, all grants, awards and compensation under FirstEnergy's short-term incentive compensation program and long-term incentive compensation program with respect to Mr. Jones that were outstanding on the date of termination were forfeited. In November 2021, after a determination by the Compensation Committee of the FE Board

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that a demand for recoupment was warranted pursuant to the Recoupment Policy, FE made a recoupment demand to Mr. Jones of compensation previously paid to him totaling approximately \$56 million, the maximum amount permissible under the Recoupment Policy. As such, any amounts payable to Mr. Jones under the EDCP will be set off against FE's recoupment demand. There can be no assurance that the efforts to seek recoupment from Mr. Jones will be successful.

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

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

13. TRANSACTIONS WITH AFFILIATED COMPANIES

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

The primary affiliated company transactions for PE during the years ended December 31, 2022 and 2021 are as follows:

	For the Years Ended December 31,	
	2022	2021
	<i>(In millions)</i>	
Revenues	\$ 1	\$ 1
Expenses:		
Purchased power from affiliates ⁽¹⁾	241	214
Support services	62	50
Miscellaneous Income	3	2

⁽¹⁾ PE purchases power from MP to meet a portion of its POLR and default service requirements as well as provide power to certain facilities. See Note 6, "Leases," for additional information on the agreement with MP.

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.

PE 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. PE also recognizes its allocated portion of obligations to former or inactive employees after employment, but before retirement, for disability-related benefits.

Under the FirstEnergy money pool, FE's utility and transmission operating subsidiary companies, including PE, have the ability to borrow from each other and the holding company to meet their short-term working capital requirements. Affiliated company notes receivables and payables related to the money pool are reported as Notes receivable from affiliated companies or Short term borrowings - affiliated companies on the Consolidated Balance Sheets. Affiliate accounts receivable and accounts payable balances relate to intercompany transactions that have not yet settled through the FirstEnergy money pool (see Note 10, "Short-Term Borrowings and Bank Lines of Credit").

PE is party to an intercompany income tax allocation agreement with FirstEnergy that provides for the allocation of consolidated tax liabilities. Prior to tax returns for years before 2022, net tax benefits attributable to FE, excluding any tax benefits derived from certain interest expense, were generally reallocated to the subsidiaries of FE that have taxable income. Effective January 1, 2022, the intercompany income tax allocation agreement was amended and revised whereas FE no longer reallocates such tax

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benefits to the FE subsidiaries. See Note 5, "Taxes" for additional information.