

PENNSYLVANIA ELECTRIC COMPANY AND SUBSIDIARY
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 Pennsylvania Electric 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 Pennsylvania Electric Company

Opinion

We have audited the accompanying consolidated financial statements of Pennsylvania Electric Company and its subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 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

PENNSYLVANIA ELECTRIC COMPANY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

<i>(In millions)</i>	For the Years Ended December 31,	
	2022	2021
REVENUES:		
Electric sales	\$ 908	\$ 778
Gross receipts tax collections	54	48
Total revenues	962	826
OPERATING EXPENSES:		
Purchased power	392	260
Other operating expenses	277	196
Provision for depreciation	88	83
Amortization (deferral) of regulatory assets, net	(75)	24
General taxes	63	56
Total operating expenses	745	619
OPERATING INCOME	217	207
OTHER INCOME (EXPENSE):		
Miscellaneous income, net	32	36
Equity earnings from MAIT	35	36
Pension and OPEB mark-to-market adjustment	(5)	50
Interest expense	(62)	(59)
Capitalized financing costs	2	3
Total other income	2	66
INCOME BEFORE INCOME TAXES	219	273
INCOME TAXES	57	51
NET INCOME	<u>\$ 162</u>	<u>\$ 222</u>
STATEMENTS OF COMPREHENSIVE INCOME		
NET INCOME	<u>\$ 162</u>	<u>\$ 222</u>
OTHER COMPREHENSIVE LOSS:		
Pension and OPEB prior service costs	(2)	(2)
Other comprehensive loss	(2)	(2)
Income tax benefits on other comprehensive loss	(1)	(1)
Other comprehensive loss, net of tax	(1)	(1)
COMPREHENSIVE INCOME	<u>\$ 161</u>	<u>\$ 221</u>

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

**PENNSYLVANIA ELECTRIC COMPANY AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS**

<i>(In millions, except share amounts)</i>	December 31, 2022	December 31, 2021
ASSETS		
CURRENT ASSETS:		
Receivables-		
Customers	\$ 173	\$ 145
Less — Allowance for uncollectible customer receivables	20	23
	153	122
Affiliated companies	30	26
Other, net of allowance for uncollectible accounts of \$1 in 2021	17	14
Prepaid taxes and other	8	6
	208	168
PROPERTY, PLANT AND EQUIPMENT:		
In service	3,540	3,434
Less — Accumulated provision for depreciation	1,121	1,090
	2,419	2,344
Construction work in progress	68	56
	2,487	2,400
INVESTMENTS AND OTHER NONCURRENT ASSETS		
Goodwill	637	637
Investment in affiliate	457	454
Prepaid pension and OPEB costs	47	—
Other	36	40
	1,177	1,131
	<u>\$ 3,872</u>	<u>\$ 3,699</u>
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES:		
Currently payable long-term debt	\$ 1	\$ 2
Short-term borrowings - affiliated companies	183	85
Accounts payable-		
Affiliated companies	1	3
Other	79	54
Accrued taxes	9	8
Accrued interest	11	11
Customer deposits	29	26
Other	29	27
	342	216
CAPITALIZATION:		
Common stockholder's equity-		
Common stock, \$20 par value, authorized 5,400,000 shares - 4,427,577 shares outstanding	89	89
Other paid-in capital	875	865
Accumulated other comprehensive income	—	1
Retained earnings	388	366
Total common stockholder's equity	1,352	1,321
Long-term debt and other long-term obligations	1,292	1,293
	2,644	2,614
NONCURRENT LIABILITIES:		
Accumulated deferred income taxes, net	379	386
Retirement benefits	36	113
Regulatory liabilities	146	161
Other	325	209
	886	869
COMMITMENTS AND CONTINGENCIES (NOTE 11)		
	<u>\$ 3,872</u>	<u>\$ 3,699</u>

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

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

<i>(In millions, except share amounts)</i>	Common Stock		Other Paid-In Capital	AOCI	Retained Earnings	Total Stockholder's Equity
	Number of Shares	Carrying Value				
Balance, January 1, 2021	4,427,577	\$ 89	\$ 1,052	\$ 2	\$ 214	\$ 1,357
Net income					222	222
Comprehensive loss				(1)		(1)
Consolidated tax benefit allocation			3			3
Stock-based compensation			2			2
Common stock dividend payments			(192)		(70)	(262)
Balance, December 31, 2021	4,427,577	\$ 89	\$ 865	\$ 1	\$ 366	\$ 1,321
Net income					162	162
Comprehensive loss				(1)		(1)
Consolidated tax benefit allocation			6			6
Stock-based compensation			4			4
Common stock dividend payments					(140)	(140)
Balance, December 31, 2022	<u>4,427,577</u>	<u>\$ 89</u>	<u>\$ 875</u>	<u>\$ —</u>	<u>\$ 388</u>	<u>\$ 1,352</u>

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

**PENNSYLVANIA ELECTRIC COMPANY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS**

<i>(In millions)</i>	For the Years Ended December 31,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 162	\$ 222
Adjustments to reconcile net income to net cash from operating activities-		
Depreciation, amortization and impairments	14	108
Deferred income taxes and investment tax credits, net	55	31
Retirement benefits, net of payments	(30)	(29)
Pension and OPEB mark-to-market adjustment	5	(50)
Undistributed earnings from subsidiary company	(3)	(4)
Change in current assets and liabilities-		
Receivables	(32)	19
Prepaid taxes and other current assets	(1)	5
Accounts payable	23	11
Accrued taxes	1	(7)
Customer deposits	3	1
Other current liabilities	1	—
Other	16	11
Net cash provided from operating activities	<u>214</u>	<u>318</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
New financing-		
Short-term borrowings - affiliated companies, net	98	85
Common stock dividend payments	(140)	(262)
Other	(2)	(4)
Net cash used for financing activities	<u>(44)</u>	<u>(181)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(154)	(141)
Loans to affiliated companies, net	—	23
Asset removal costs	(16)	(19)
Net cash used for investing activities	<u>(170)</u>	<u>(137)</u>
Net change in cash, cash equivalents, and restricted cash	—	—
Cash, cash equivalents, and restricted cash at beginning of period	—	—
Cash, cash equivalents, and restricted cash at end of period	<u>\$ —</u>	<u>\$ —</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the year -		
Interest (net of amounts capitalized)	\$ 59	\$ 57
Income taxes, net of refunds	\$ 1	\$ 12

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

**PENNSYLVANIA ELECTRIC COMPANY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Note Number		Page Number
1	Organization and Basis of Presentation	6
2	Revenue	10
3	Accumulated Other Comprehensive Income	11
4	Pension and Other Postemployment Benefits	12
5	Taxes	14
6	Leases	16
7	Fair Value Measurements	18
8	Capitalization	18
9	Short-Term Borrowings and Bank Lines of Credit	19
10	Regulatory Matters	20
11	Commitments and Contingencies	22
12	Transactions with Affiliated Companies	25

PENNSYLVANIA ELECTRIC COMPANY AND SUBSIDIARY
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.

PN, together with its consolidated subsidiary, is a wholly owned subsidiary of FE and is incorporated in Pennsylvania. PN, as lessee of the property of its subsidiary, the Waverly Electric Light & Power Company, serves approximately 4,000 customers in the Waverly, New York vicinity. On December 22, 2022, the Waverly Electric Light & Power Company merged with and into PN following NYPSC approval.

PN follows GAAP and complies with the regulations, orders, policies and practices prescribed by FERC, PPUC and the NYPSC. The preparation of financial statements in conformity with GAAP requires management to make periodic estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. Actual results could differ from these estimates. The reported results of operations are not necessarily indicative of results of operations for any future period.

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

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

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.

Consolidation of Pennsylvania Companies

For information regarding FirstEnergy's consolidation of the Pennsylvania Companies, see "Regulatory Matters - Pennsylvania" below.

ACCOUNTING FOR THE EFFECTS OF REGULATION

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

PN reviews the probability of recovery of regulatory assets, and settlement of regulatory liabilities, at each balance sheet date and whenever new events occur. Factors that may affect probability include changes in the regulatory environment, issuance of a regulatory commission order, or passage of new legislation. Upon material changes to these factors, where applicable, PN will record new regulatory assets or liabilities and will assess whether it is probable that currently recorded regulatory assets and liabilities will be recovered or settled in future rates. If recovery of a regulatory asset is no longer probable, PN will write off that regulatory asset as a charge against earnings. PN considers the entire regulatory asset balance as the unit of account for the purposes of balance sheet classification rather than the next years recovery and as such net regulatory assets and liabilities are presented in the non-current section on PN's Consolidated Balance Sheets. See Note 10, "Regulatory Matters," of the Notes to Consolidated Financial Statements for additional information.

PENNSYLVANIA ELECTRIC COMPANY AND SUBSIDIARY
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 December 31, 2021, and the changes during the year ended December 31, 2022:

Net Regulatory Assets (Liabilities) by Source	As of December 31,		Change
	2022	2021	
	(In millions)		
Regulatory transition costs	\$ —	\$ (18)	\$ 18
Customer payables for future income taxes	(171)	(150)	(21)
Deferred transmission costs	2	(7)	9
Deferred generation costs	(23)	(13)	(10)
Deferred distribution costs	5	(1)	6
Storm-related costs	36	28	8
Pandemic-related costs	8	8	—
Energy efficiency program costs	(8)	(12)	4
Other	5	4	1
Net Regulatory Liabilities included on the Consolidated Balance Sheets	<u>\$ (146)</u>	<u>\$ (161)</u>	<u>\$ 15</u>

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

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

Customer payables for future income taxes - Reflects amounts to be recovered or refunded through future rates to pay income taxes that become payable when rate revenue is provided to recover items such as AFUDC-equity and depreciation of property, plant and equipment for which deferred income taxes were not recognized for ratemaking purposes, including amounts attributable to federal and state tax rate changes such as the Tax Act and Pennsylvania House Bill 1342. These amounts are being amortized over the period in which the related deferred tax assets reverse, which is generally over the expected life of the underlying asset.

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

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

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

Storm-related costs - Relates to the recovery of storm costs, all of which are currently being recovered through rates.

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

Energy efficiency program costs - Relates to the recovery of costs in excess of revenues associated with the Pennsylvania Companies' Energy Efficiency and Conservation programs.

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 \$36 million and \$28 million are currently being recovered through rates, respectively:

Regulatory Assets by Source Not Earning a Current Return	December 31, 2022	December 31, 2021	Change
	(In millions)		
Storm-related costs	\$ 36	\$ 28	\$ 8
Pandemic-related costs	11	11	—
Regulatory Assets Not Earning a Current Return	<u>\$ 47</u>	<u>\$ 39</u>	<u>\$ 8</u>

GOODWILL

In a business combination, the excess of the purchase price over the estimated fair value of the assets acquired and liabilities assumed is recognized as goodwill. Goodwill is evaluated for impairment annually on July 31 and more frequently if indicators of impairment arise. In evaluating goodwill for impairment, qualitative factors are assessed to determine whether it is more likely

PENNSYLVANIA ELECTRIC COMPANY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

than not (that is, likelihood of more than 50%) that the fair value of the reporting unit is less than its carrying value (including goodwill). If it is concluded that it is not more likely than not that the fair value of the reporting unit is less than its carrying value, then no further testing is required. However, if management concludes that it is more likely than not that the fair value of the reporting unit is less than its carrying value or bypasses the qualitative assessment, then the quantitative goodwill impairment test is performed to identify a potential goodwill impairment and measure the amount of impairment to be recognized, if any.

No impairment of goodwill was indicated as a result of testing in 2022 and 2021. In 2022 and 2021, a qualitative assessment was performed, assessing economic, industry and market considerations in addition to PN's overall performance. Key factors used in the assessment included: growth rates, interest rates, expected investments, utility sector market performance, regulatory and legal developments, and other market considerations. It was determined that the fair values of the reporting unit was, more likely than not, greater than their carrying values and a quantitative analysis was not necessary.

INVESTMENT IN UNCONSOLIDATED AFFILIATE

PN consolidates a VIE when it is determined that it is the primary beneficiary. An enterprise has a controlling financial interest if it has both power and economic control, such that an entity has: (i) the power to direct the activities of a VIE that most significantly impact the entity's economic performance; and (ii) the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE.

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

PN is not the primary beneficiary of MAIT, as it does not have control over the significant activities affecting the economics of MAIT. PN's approximate 30% ownership of MAIT is subject to the equity method of accounting.

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

<i>(In millions)</i>	Year Ended December 31,	
	2022	2021
Statements of Income Information:		
Revenues	\$ 344	\$ 293
Operating expenses	173	132
Operating income	171	161
Net income	114	107
<i>(In millions)</i>	Year Ended December 31,	
	2022	2021
Balance Sheet Information:		
Assets:		
Current assets	\$ 25	\$ 219
Property, plant and equipment, net	2,563	2,218
Deferred charges and other assets	233	227
Total assets	<u>\$ 2,821</u>	<u>\$ 2,664</u>
Liabilities and capitalization:		
Current liabilities	\$ 127	\$ 32
Long-term debt	856	858
Non-current liabilities	321	306
Total equity	1,517	1,468
Total liabilities and capitalization	<u>\$ 2,821</u>	<u>\$ 2,664</u>

PENNSYLVANIA ELECTRIC COMPANY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

PN provides for depreciation on a straight-line basis at various rates over the estimated lives of property included in plant in service. Depreciation expense was approximately 2.5% of average depreciable property in both 2022 and 2021.

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

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.

Asset retirement obligations

PN has recognized retirement obligations, primarily conditional retirement obligations for asbestos remediation. PN's ARO liability as of December 31, 2022 and 2021 was \$4 million.

PN uses an expected cash flow approach to measure the fair value of its AROs. PN recognizes an ARO for its legal obligation to perform asset retirement activities associated with its long-lived assets. The ARO liability represents an estimate of the fair value of PN's current obligation such that the ARO is accreted monthly to reflect the time value of money. A fair value measurement inherently involves uncertainty in the amount and timing of settlement of the liability. PN uses an expected cash flow approach to measure the fair value of the remediation AROs, considering the expected timing of settlement of the ARO based on the expected economic useful life of associated asset and/or regulatory requirements. The fair value of an ARO is recognized in the period in which it is incurred. The associated asset retirement costs are capitalized as part of the carrying value of the long-lived asset and are depreciated over the life of the related asset.

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

RECEIVABLES

PN's principal business is providing electric service to customers in Pennsylvania. PN's retail customers are metered on a cycle basis. Electric revenues are recorded based on energy delivered through the end of the calendar month. An estimate of unbilled revenues is calculated to recognize electric service provided from the last meter reading through the end of the month. This estimate includes many factors, among which are historical customer usage, load profiles, estimated weather impacts, customer shopping activity and prices in effect for each class of customer. In each accounting period, PN accrues the estimated unbilled amount as revenue and reverses the related prior period estimate. Unbilled customer receivables were \$75 million and \$54 million as of December 31, 2022 and 2021, respectively. Receivables from customers include retail electric sales and distribution deliveries to residential, commercial and industrial customers.

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

PENNSYLVANIA ELECTRIC COMPANY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 (\$4 million at PN) in its allowance for uncollectible customer receivables during the first quarter of 2022, of which \$15 million (none at PN) 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	23	23
Charged to income	10	9
Charged to other accounts ⁽¹⁾	8	7
Write-offs	(21)	(16)
End of year balance	<u>\$ 20</u>	<u>\$ 23</u>

⁽¹⁾ Represents recoveries and reinstatements of accounts previously written off for uncollectible accounts.

NEW ACCOUNTING PRONOUNCEMENTS

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

2. REVENUE

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

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

PN earns revenue from state-regulated rate tariffs under which it provides distribution services to residential, commercial and industrial customers in its service territory. PN is obligated under the regulated construct to deliver power to customers reliably, as it is needed, which creates an implied monthly contract with the end-use customer. See Note 10, "Regulatory Matters," for additional information on rate recovery mechanisms. Distribution revenues are recognized over time as electricity is distributed and delivered to the customer and the customers consume the electricity immediately as delivery occurs.

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

Wholesale sales primarily consist of generation and capacity sales into the PJM market. PN may also purchase power from PJM to supply power to its customers. Generally, these power sales from generation and purchases to serve load are netted hourly and reported gross as either revenues or purchased power on the Consolidated Statements of Income (Loss) based on whether the entity was a net seller or buyer each hour. Capacity revenues are recognized ratably over the PJM planning year at prices cleared in the annual BRA and incremental auctions. Capacity purchases and sales through PJM capacity auctions are reported

PENNSYLVANIA ELECTRIC COMPANY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

within revenues on the Consolidated Statements of Income (Loss). Certain capacity income (bonuses) and charges (penalties) related to the availability of units that have cleared in the auctions are unknown and not recorded in revenue until, and unless, they occur.

The following table represents a disaggregation of revenue from contracts with customers for the years ended December 31, 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	\$ 640	\$ 569
Commercial	172	141
Industrial	120	93
Other	7	7
Wholesale sales	5	2
Other	9	6
Total revenues from contracts with customers	\$ 953	\$ 818
Other revenue unrelated to contracts with customers	9	8
Total revenues	<u>\$ 962</u>	<u>\$ 826</u>

Other revenue includes revenue from pole attachments of \$6 million and \$3 million for the years ended December 31, 2022 and 2021, respectively. Other revenue unrelated to contracts with customers includes \$4 million of revenue associated with late payment charges for the years December 31, 2022 and 2021, respectively.

3. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The changes in AOCI for the years ended December 31, 2022 and 2021 for PN are shown in the following table:

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

PENNSYLVANIA ELECTRIC COMPANY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Reclassifications out of AOCI ⁽¹⁾	For the Years Ended December 31,		Affected Line Item in the Statement of Net Income
	2022	2021	
	<i>(In millions)</i>		
Defined Benefit Pension and OPEB Plans			
Prior-service costs	\$ (2)	\$ (2) ⁽²⁾	
	1	1	Income taxes
	\$ (1)	\$ (1)	Net of tax

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

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

4. PENSION AND OTHER POSTEMPLOYMENT BENEFITS

FirstEnergy provides noncontributory qualified defined benefit pension plans that cover substantially all of its employees and non-qualified pension plans that cover certain employees, including employees of PN. The plans provide defined benefits based on years of service and compensation levels. Under the cash-balance portion of the pension plan (for employees hired on or after January 1, 2014), FirstEnergy makes contributions to eligible employee retirement accounts based on a pay credit and an interest credit. In addition, FirstEnergy provides a minimum amount of noncontributory life insurance to retired employees in addition to optional contributory insurance. Health care benefits, which include certain employee contributions, deductibles and co-payments, are also available upon retirement to certain employees, their dependents and, under certain circumstances, their survivors. PN recognizes its allocated portion of the expected cost of providing pension and OPEB to employees and their beneficiaries and covered dependents from the time employees are hired until they become eligible to receive those benefits. PN also recognizes its allocated portion of obligations to former or inactive employees after employment, but before retirement, for disability-related benefits.

FirstEnergy's pension and OPEB funding policy is based on actuarial computations using the projected unit credit method. On March 11, 2021, President Biden signed into law the American Rescue Plan Act of 2021, which, among other things, extended shortfall amortization periods and modification of the interest rate stabilization rules for single-employer plans thereby impacting funding requirements. As a result, FirstEnergy does not currently expect to have a required contribution to the pension plan 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 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)
PN's share of net periodic costs (credits) ⁽¹⁾	\$ (10)	\$ (40)	\$ (14)	\$ (28)
PN's share of FirstEnergy status ⁽²⁾⁽³⁾	\$ (36)	\$ (46)	\$ 47	\$ (67)

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

⁽²⁾ Excludes \$147 million and \$142 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 PN.

⁽³⁾ Includes a \$102 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. PN's pension and OPEB mark-to-market adjustments, gains or (losses), for the years ended December 31, 2022 and 2021, were \$(5) million and \$50 million, respectively.

PENNSYLVANIA ELECTRIC COMPANY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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:⁽¹⁾</i>				
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).

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.

PENNSYLVANIA ELECTRIC COMPANY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. TAXES

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

PN is party to an intercompany income tax allocation agreement with FirstEnergy that provides for the allocation of consolidated tax liabilities. 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 July 8, 2022, Pennsylvania's Governor signed into law Pennsylvania House Bill 1342, which reduces Pennsylvania's corporate net income tax rate from 9.99% to 8.99% beginning January 1, 2023, and an additional 0.5% annually through 2031, when it reaches 4.99%. As of December 31, 2022, PN recorded a \$44 million net decrease to ADIT liabilities, with a corresponding increase in regulatory liabilities of \$58 million related to PA state flow-through, and a \$14 million net increase to income tax expense. The decrease in the Pennsylvania income tax rate is not expected to have a material impact to PN's future financial statements.

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, PN files as a member of the FirstEnergy consolidated group.

INCOME TAXES:	For the Years Ended December 31,	
	2022	2021
	<i>(In millions)</i>	
Currently payable		
Federal	\$ 2	\$ 15
State	—	5
	<u>2</u>	<u>20</u>
Deferred, net-		
Federal	30	23
State	25	8
	<u>55</u>	<u>31</u>
Total income taxes	<u>\$ 57</u>	<u>\$ 51</u>

PN's tax rates are affected by permanent items, such as AFUDC equity and other flow-through items, as well as discrete items that may occur in any given period but are not consistent from period to period. The following table provides a reconciliation of federal income tax expense at the federal statutory rate to the total income taxes for the years ended December 31, 2022 and 2021:

PENNSYLVANIA ELECTRIC COMPANY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

<i>(In millions)</i>	For the Years Ended December 31,	
	2022	2021
Book income before income taxes	\$ 219	\$ 273
Federal income tax expense at statutory rate	46	57
Increases (reductions) in taxes resulting from-		
State income taxes, net of federal tax benefit	28	18
AFUDC equity and other flow-through	(6)	(8)
Equity in earnings of affiliates	(8)	(8)
Excess deferred tax amortization due to the Tax Act	(5)	(5)
Federal tax credits claimed	—	(4)
Other	2	1
Total income taxes	\$ 57	\$ 51
Effective income tax rate	26.0 %	18.7 %

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

<i>(In millions)</i>	As of December 31,	
	2022	2021
Property basis differences	\$ 459	\$ 521
Regulatory asset/liability	5	(9)
NUG costs	—	(5)
Pension and OPEB	(60)	(73)
Loss and credit carryforwards	(40)	(55)
Asset retirement obligations	(1)	(1)
Other	16	8
Accumulated deferred income tax liabilities, net	\$ 379	\$ 386

PN has recorded as deferred income tax assets the effect of NOLs and tax credits that will more likely than not be realized through future operations and through the reversal of existing temporary differences. As of December 31, 2022, PN's loss carryforwards primarily consisted of approximately \$84 million (\$18 million, net of tax) of federal NOL carryforwards that begin to expire in 2031 and \$462 million (\$19 million, net of tax) of state NOL carryforwards that are expected to be utilized based on current estimates and assumptions prior to expiration, which will begin in 2023.

PN accounts for uncertainty in income taxes recognized in its financial statements. A recognition threshold and measurement attribute are utilized for financial statement recognition and measurement of tax positions taken or expected to be taken on a company's tax return. During the years ended December 31, 2022 and 2021, PN recorded an immaterial reserve for an uncertain tax position related to certain federal tax credits claimed on the FirstEnergy consolidated federal income tax return. As of December 31, 2022, PN does not anticipate any of the unrecognized income tax benefits will be resolved during 2023.

PN recognizes interest expense or income and penalties related to uncertain tax positions in income taxes. That amount is computed by applying the applicable statutory interest rate to the difference between the tax position recognized and the amount previously taken or expected to be taken on the tax return. During 2022 and 2021, PN did not record any interest related to uncertain tax position, nor does PN have a cumulative net interest payable recorded on its balance sheet.

For federal income tax purposes, PN files as a member of the FirstEnergy consolidated group. IRS review of the FirstEnergy consolidated group's federal income tax returns are complete through the 2020 tax year with no pending adjustments. PN has tax returns under review by state taxing authorities at the audit or appeals level for tax years 2013 and 2018-2021.

PENNSYLVANIA ELECTRIC COMPANY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

General Taxes

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

<i>(In millions)</i>	2022	2021
Gross receipts	\$ 54	\$ 47
Real and personal property	3	2
Social security and unemployment	6	7
Total general taxes	<u>\$ 63</u>	<u>\$ 56</u>

6. LEASES

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

In addition, MAIT has a ground lease with PN under an operating lease agreement. PN reserves the right to use (and to permit authorized others to use) the land for any purpose that does not cause a violation of electrical safety code or applicable law, or does not impair MAIT's ability to satisfy its service obligations. Additional uses of such land for MAIT's facilities requires prior written approval from the applicable operating company. MAIT purchases directly any new property acquired for transmission use. MAIT makes variable quarterly lease payments through January 1, 2043, unless terminated prior to maturity, or extended by MAIT for up to two additional successive periods of 25 years each and one successive term of 24 years. Revenue associated with this agreement was approximately \$1 million for 2022 and 2021.

PN accounts for leases under, "*Leases (Topic 842)*". Leases with an initial term of 12 months or less are recognized as lease expense on a straight-line basis over the lease term and not recorded on the balance sheet. Most leases include one or more, options to renew, with renewal terms that can extend the lease term from 1 to 40 years, and certain leases include options to terminate. The exercise of lease renewal options is at PN's sole discretion. Renewal options are included within the lease liability if they are reasonably certain based on various factors relative to the contract. Certain leases also include options to purchase the leased property. The depreciable life of leased assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise. PN has elected a policy to not separate lease components from non-lease components for all asset classes.

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

<i>(In millions)</i>	For the Years Ended December 31,	
	2022	2021
Operating lease costs	\$ 6	\$ 6
Finance lease costs:		
Amortization of right-of-use assets	2	3
Total finance lease cost	2	3
Total lease cost	<u>\$ 8</u>	<u>\$ 9</u>

PENNSYLVANIA ELECTRIC COMPANY AND SUBSIDIARY
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⁾	Investments and other noncurrent assets	\$ 31	\$ 31
Finance lease assets ⁽²⁾	Property, plant and equipment	1	3
Total leased assets		\$ 32	\$ 34
Liabilities			
Current:			
Operating	Other current liabilities	\$ 5	\$ 5
Finance	Currently payable long-term debt	1	2
Noncurrent:			
Operating	Other noncurrent liabilities	24	26
Finance	Long-term debt and other long-term obligations	—	1
Total leased liabilities		\$ 30	\$ 34

⁽¹⁾ Operating lease assets are recorded net of accumulated amortization of \$13 million and \$9 million as of December 31, 2022 and 2021, respectively.

⁽²⁾ Finance lease assets are recorded net of accumulated amortization of \$15 million and \$18 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	6.3
Finance leases	1.0	1.7
<i>Weighted-average discount rate ⁽¹⁾</i>		
Operating leases	3.31 %	2.98 %
Finance leases	3.84 %	3.59 %

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

Supplemental cash flow information related to leases was as follows:

<i>(In millions)</i>	For the Years Ended,	
	December 31, 2022	December 31, 2021
<i>Cash paid for amounts included in the measurement of lease liabilities</i>		
Operating cash flows from operating leases	\$ 6	\$ 5
Operating cash flows from finance leases	—	—
Finance cash flows from finance leases	2	3
<i>Right-of-use assets obtained in exchange for lease obligations:</i>		
Operating leases	\$ 4	\$ 6
Finance leases	—	—

PENNSYLVANIA ELECTRIC COMPANY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

<i>(In millions)</i>	Operating Leases	Finance Leases	Total
2023	\$ 6	\$ 1	\$ 7
2024	6	—	6
2025	5	—	5
2026	5	—	5
2027	4	—	4
Thereafter	6	—	6
<i>Total lease payments</i>	32	1	33
Less imputed interest	3	—	3
<i>Total net present value</i>	<u>\$ 29</u>	<u>\$ 1</u>	<u>\$ 30</u>

7. FAIR VALUE MEASUREMENTS

INVESTMENTS

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

LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS

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

<i>(In millions)</i>	December 31, 2022		December 31, 2021	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	\$ 1,300	\$ 1,191	\$ 1,300	\$ 1,455

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

8. CAPITALIZATION

COMMON STOCK

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

PREFERRED STOCK

PN is authorized to issue 11,435,000 shares preferred stock, no par value, as of December 31, 2022. As of December 31, 2022, and 2021, there were no preferred shares outstanding.

PENNSYLVANIA ELECTRIC COMPANY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS

The following table presents outstanding long-term debt and finance lease obligations for PN as of December 31, 2022 and 2021:

<i>(Dollar amounts in millions)</i>	As of December 31, 2022		As of December 31,	
	Maturity Date	Interest Rate	2022	2021
Unsecured notes - fixed rate	2025 - 2038	3.25% - 6.15%	\$ 1,300	\$ 1,300
Finance lease obligations			1	3
Unamortized debt premiums/discounts			(1)	(1)
Unamortized debt issuance costs			(7)	(7)
Currently payable long-term debt			(1)	(2)
Total long-term debt and other long-term obligations			<u>\$ 1,292</u>	<u>\$ 1,293</u>

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

<i>(In millions)</i>	2023	2024	2025	2026	2027
Scheduled debt repayments	\$—	\$—	\$200	\$—	\$—

Debt Covenant Default Provisions

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

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

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

9. SHORT-TERM BORROWINGS AND BANK LINES OF CREDIT

PN had \$183 million and \$85 million of outstanding short-term borrowings as of December 31, 2022 and 2021, respectively.

Revolving Credit Facility

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

PENNSYLVANIA ELECTRIC COMPANY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

contain financial covenants requiring each borrower, with the exception of FE, to maintain a consolidated debt-to-total-capitalization ratio (as defined under each of the 2021 Credit Facility) of no more than 65%, measured at the end of each fiscal quarter.

Under the 2021 Credit Facilities, PN may borrow up to its regulatory and other short-term debt limitations of \$300 million, all of which was available to PN as of December 31, 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, PN was in compliance with the applicable debt-to-total-capitalization ratio covenants under their respective 2021 Credit Facility.

FirstEnergy Money Pool

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

10. REGULATORY MATTERS

STATE REGULATION

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

PENNSYLVANIA

The Pennsylvania Companies operate under rates approved by the PPUC, effective as of January 27, 2017. On November 18, 2021, the PPUC issued orders to each of the Pennsylvania Companies directing they operate under DSPs for the June 1, 2019 through May 31, 2023 delivery period, which DSPs provide for the competitive procurement of generation supply for customers who do not receive service from an alternative EGS. Under the 2019-2023 DSPs, supply will be provided by wholesale suppliers through a mix of 3, 12 and 24-month energy contracts, as well as two RFPs for 2-year SREC contracts for ME, PN and Penn. On December 14, 2021, the Pennsylvania Companies filed proposed DSPs for provision of generation for the June 1, 2023 through May 31, 2027 delivery period, to be sourced through competitive procurements for customers who do not receive service from an alternative EGS. An evidentiary hearing was held on April 13, 2022, and on April 20, 2022, the parties filed a partial settlement with the PPUC resolving certain of the issues in the proceeding and setting aside the remainder of the issues to be resolved through briefing. PPUC approved the partial settlement, without modification, on August 4, 2022. Under the 2023-2027 DSPs, supply is proposed to be provided through a mix of 12 and 24-month energy contracts, as well as long-term solar PPAs.

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

PENNSYLVANIA ELECTRIC COMPANY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the November 2021 PPUC order and methodology. The Pennsylvania Companies filed petitions to propose the timing and methodology of the refund of these amounts on February 17, 2022. The Pennsylvania Companies' petitions and the proposed refunds addressed within were approved by the PPUC on June 16, 2022, without modification, effective July 1, 2022, and which refunds were fully completed by December 31, 2022.

Pursuant to Pennsylvania Act 129 of 2008 and PPUC orders, the Pennsylvania Companies implemented energy efficiency and peak demand reduction programs with demand reduction targets, relative to 2007 to 2008 peak demands, at 2.9% MW for ME, 3.3% MW for PN, 2.0% MW for Penn, and 2.5% MW for WP; and energy consumption reduction targets, as a percentage of the Pennsylvania Companies' historic 2009 to 2010 reference load at 3.1% MWH for ME, 3.0% MWH for PN, 2.7% MWH for Penn, and 2.4% MWH for WP.

Pennsylvania EDCs are permitted to seek PPUC approval of an LTIP for infrastructure improvements and costs related to highway relocation projects, after which a DSIC may be approved to recover LTIP costs. On January 16, 2020, the PPUC approved the Pennsylvania Companies' LTIPs for the five-year period beginning January 1, 2020 and ending December 31, 2024 for a total capital investment of approximately \$572 million for certain infrastructure improvement initiatives. On June 25, 2021, the Pennsylvania OCA filed a complaint against Penn's quarterly DSIC rate, disputing the recoverability of the Companies' automated distribution management system investment under the DSIC mechanism. On January 26, 2022, the parties filed a joint petition for settlement that resolves all issues in this matter, which was approved by the PPUC without modification on April 14, 2022.

Following the Pennsylvania Companies' 2016 base rate proceedings, the PPUC ruled in a separate proceeding related to the DSIC mechanisms that the Pennsylvania Companies were not required to reflect federal and state income tax deductions related to DSIC-eligible property in DSIC rates. The decision was appealed to the Pennsylvania Supreme Court and in July 2021 the court upheld the Pennsylvania Commonwealth Court's reversal of the PPUC's decision and remanded the matter back to the PPUC for determination as to how DSIC calculations shall account for ADIT and state taxes. The PPUC issued the order as directed, which was challenged by an intervening party. All parties have briefed the issue and await a ruling from the PPUC. Neither the PPUC's determination or the underlying order are expected to result in a material impact to FirstEnergy.

FirstEnergy is proceeding with the consolidation of the Pennsylvania Companies into a new, single operating entity. The PA Consolidation includes, among other steps: (a) the transfer of certain Pennsylvania-based transmission assets owned by WP to KATCo, (b) the transfer of Class B equity interests of MAIT currently held by PN and ME to FE (and ultimately transferred to FET as part of the FET Minority Equity Interest Sale), (c) the formation of PA NewCo and (d) the merger of each of the Pennsylvania Companies with and into PA NewCo, with PA NewCo surviving such mergers as the successor-in-interest to all assets and liabilities of the Pennsylvania Companies. Following completion of the PA Consolidation, PA NewCo will be FE's only regulated utility in Pennsylvania encompassing the operations previously conducted individually by the Pennsylvania Companies. Consummation of the PA Consolidation is contingent upon numerous conditions, including the approval of NYPSC, PPUC and FERC, which applications were filed on March 6, 2023. Subject to receipt of such regulatory approvals, FirstEnergy expects that the PA Consolidation will close by early 2024.

FERC REGULATORY MATTERS

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

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

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

**PENNSYLVANIA ELECTRIC COMPANY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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.

11. COMMITMENTS AND CONTINGENCIES

ENVIRONMENTAL MATTERS

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

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

OTHER LEGAL PROCEEDINGS

United States v. Larry Householder, et al.

On July 21, 2020, a complaint and supporting affidavit containing federal criminal allegations were unsealed against the now former Ohio House Speaker Larry Householder and other individuals and entities allegedly affiliated with Mr. Householder. Also, on July 21, 2020, and in connection with the investigation, FirstEnergy received subpoenas for records from the U.S. Attorney's Office for the 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.

**PENNSYLVANIA ELECTRIC COMPANY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

- *In re FirstEnergy Corp. Securities Litigation* (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.

PENNSYLVANIA ELECTRIC COMPANY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

- *Gendrich v. Anderson, et al. and Sloan v. Anderson, et al.* (Common Pleas Court, Summit County, OH, all actions have been consolidated); on July 26, 2020 and July 31, 2020, respectively, purported stockholders of FE filed shareholder derivative action lawsuits against certain FE directors and officers, alleging, among other things, breaches of fiduciary duty.
- *Miller v. Anderson, et al.* (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

PENNSYLVANIA ELECTRIC COMPANY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 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 PN's normal business operations pending against PN and its subsidiary. The loss or range of loss in these matters is not expected to be material to PN or its subsidiary. The other potentially material items not otherwise discussed above are described under Note 10, "Regulatory Matters."

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

12. TRANSACTIONS WITH AFFILIATED COMPANIES

PN's revenues, expenses, miscellaneous income and interest expenses include transactions with affiliated companies. These affiliated company transactions include support service billings, interest on affiliated company notes including the money pool and other transactions.

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

	For the Years Ended December 31,	
	2022	2021
	<i>(In millions)</i>	
Revenues ⁽¹⁾	\$ 3	\$ 4
Expenses:		
Support services	76	58
Miscellaneous income	3	3
Interest expense	4	—

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

FE does not bill directly or allocate any of its costs to any subsidiary company. Costs are charged to FE's subsidiaries for services received from FESC either through direct billing or through an allocation process. Allocated costs are for services that are provided on behalf of more than one company, or costs that cannot be precisely identified and are allocated using formulas developed by FESC. Intercompany transactions are generally settled under commercial terms within thirty days.

PN recognizes its allocated portion of the expected cost of providing pension and OPEB to employees and their beneficiaries and covered dependents from the time employees are hired until they become eligible to receive those benefits. PN also recognizes its allocated portion of obligations to former or inactive employees after employment, but before retirement, for disability-related benefits.

Under the FirstEnergy money pool, FE's utility and transmission operating subsidiary companies, including PN, have the ability to borrow from each other and the holding company to meet their short-term working capital requirements. Affiliated company notes receivables and payables related to the money pool are reported as Notes receivable from affiliated companies or Short term borrowings - affiliated companies on the Consolidated Balance Sheets. Affiliate accounts receivable and accounts payable balances relate to intercompany transactions that have not yet settled through the FirstEnergy money pool (see Note 9, "Short-Term Borrowings and Bank Lines of Credit").

PN 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,

PENNSYLVANIA ELECTRIC COMPANY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2022, the intercompany income tax allocation agreement was amended and revised whereas FE no longer reallocates such tax benefits to the FE subsidiaries. See Note 5, "Taxes" for additional information.