TRANS-ALLEGHENY INTERSTATE LINE COMPANY

AUDITED 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 Trans-Allegheny Interstate Line Company, and its current and former 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
LTIIPs	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	Reliability*First* 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
SO2	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 Trans-Allegheny Interstate Line Company

Opinion

We have audited the accompanying financial statements of Trans-Allegheny Interstate Line Company (the "Company"), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of income, of common stockholder's equity, and of cash flows for the years then ended, including the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying 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 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 Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

TRANS-ALLEGHENY INTERSTATE LINE COMPANY
STATEMENTS OF INCOME

	For the Years Ended December 31,	
(In millions)	**2022**	**2021**
REVENUES	$ 279	$ 240
OPERATING EXPENSES:		
Other operating expenses	49	18
Provision for depreciation	53	52
General taxes	14	15
Total operating expenses	116	85
OPERATING INCOME	163	155
OTHER INCOME (EXPENSE):		
Miscellaneous income, net	3	—
Pension and OPEB mark-to-market adjustment	(2)	2
Interest expense	(25)	(26)
Capitalized financing costs	1	9
Total other expense	(23)	(15)
INCOME BEFORE INCOME TAXES	140	140
INCOME TAXES	39	35
NET INCOME	$ 101	$ 105

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

TRANS-ALLEGHENY INTERSTATE LINE COMPANY
BALANCE SHEETS

(In millions)	December 31, 2022	December 31, 2021
ASSETS		
CURRENT ASSETS:		
Receivables-		
Affiliated companies	$ —	$ 25
Other	19	20
Notes receivable from affiliated companies	40	—
Prepaid taxes and other	14	13
	73	58
PROPERTY, PLANT AND EQUIPMENT:		
In service	2,350	2,353
Less — Accumulated provision for depreciation	371	334
	1,979	2,019
Construction work in progress	19	8
	1,998	2,027
DEFERRED CHARGES AND OTHER ASSETS:		
Property taxes	7	6
Other	8	7
	15	13
	$ 2,086	$ 2,098
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES:		
Short-term borrowings - affiliated companies	$ —	$ 8
Accounts payable - affiliated companies	1	21
Accrued taxes	48	17
Accrued interest	2	2
	51	48
CAPITALIZATION:		
Common stockholder's equity-		
Common stock and other paid-in capital, $1 par value, authorized 5,000 share - 1,000 shares outstanding	943	932
Retained earnings	13	10
Total common stockholder's equity	956	942
Long-term debt and other long-term obligations	623	623
	1,579	1,565
NONCURRENT LIABILITIES:		
Accumulated deferred income taxes, net	306	322
Regulatory liabilities	142	156
Property taxes	7	6
Other	1	1
	456	485
COMMITMENTS AND CONTINGENCIES (Note 8)		
	$ 2,086	$ 2,098

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

TRANS-ALLEGHENY INTERSTATE LINE COMPANY
STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

(In millions, except share amounts)	Common Stock: Outstanding Shares	Common Stock: Other Paid-in Capital	Retained Earnings	Total Stockholder's Equity
Balance, January 1, 2021	1,000	$ 928	$ 10	$ 938
Net income			105	105
Consolidated tax benefit allocation		4		4
Common stock dividend payments			(105)	(105)
Balance, December 31, 2021	1,000	$ 932	$ 10	$ 942
Net income			101	101
Consolidated tax benefit allocation		11		11
Common stock dividend payments			(98)	(98)
Balance, December 31, 2022	1,000	$ 943	$ 13	$ 956

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

TRANS-ALLEGHENY INTERSTATE LINE COMPANY
STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,	
(In millions)	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 101	$ 105
Adjustments to reconcile net income to net cash from operating activities-		
Depreciation, amortization and impairments	52	55
Deferred income taxes and investment tax credits, net	1	53
Transmission revenue collections, net	(12)	15
Pension and OPEB mark-to-market adjustment	2	(2)
Allowance for funds used during construction - equity	(1)	(7)
Changes in current assets and liabilities-		
Receivables	35	(17)
Prepaid taxes and other current assets	(1)	—
Accounts payable - affiliated companies	(23)	16
Accrued taxes	31	—
Other	1	4
Net cash provided from operating activities	186	222
CASH FLOWS FROM FINANCING ACTIVITIES:		
Redemptions and repayments-		
Short-term borrowings - affiliated companies, net	(8)	(52)
Common stock dividend payments	(98)	(105)
Other	—	(2)
Net cash used for financing activities	(106)	(159)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(40)	(63)
Loans to affiliated companies, net	(40)	—
Net cash used for investing activities	(80)	(63)
Net change in cash and cash equivalents	—	—
Cash and cash equivalents at beginning of period	—	—
Cash and cash equivalents at end of period	$ —	$ —
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid (received) during the year -		
Interest (net of amounts capitalized)	$ 25	$ 24
Income taxes, net of refunds	$ (28)	$ 2

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

TRANS-ALLEGHENY INTERSTATE LINE COMPANY
NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND BASIS OF PRESENTATION

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

TrAIL is a wholly owned subsidiary of FET, a majority-owned subsidiary of FE. TrAIL was formed to finance, construct own, operate and maintain high voltage transmission facilities in the PJM Region and has several transmission facilities in operation, including a 500 kV transmission line extending approximately 150 miles from southwestern Pennsylvania through West Virginia to a point of interconnection with VEPCO in northern Virginia (TrAIL Line). TrAIL follows GAAP and complies with the regulations, orders, policies and practices prescribed by FERC, the PPUC, VSCC and WVPSC.

On November 6, 2021, FirstEnergy, along with FET, entered into the FET P&SA I, with Brookfield and the Brookfield Guarantors, pursuant to which FET agreed to issue and sell to Brookfield at the closing, and Brookfield agreed to purchase from FET, certain newly issued membership interests of FET, such that Brookfield would own 19.9% of the issued and outstanding membership interests of FET, for a purchase price of $2.375 billion. The transaction closed on May 31, 2022. KATCo, which was a subsidiary of FET, became a wholly owned subsidiary of FE prior to the closing of the transaction.

Pursuant to the terms of the FET P&SA I, on May 31, 2022, Brookfield, FET and FE entered into the FET LLC Agreement. The FET LLC Agreement, among other things, provides for the governance, exit, capital and distribution, and other arrangements for FET from and following the closing. Under the FET LLC Agreement, Brookfield is entitled to appoint a number of directors to the FET Board, in approximate proportion to Brookfield’s ownership percentage in FET (rounded to the next whole number). The FET Board now consists of five directors, one appointed by Brookfield and four appointed by FE. The FET LLC Agreement contains certain investor protections, including, among other things, requiring Brookfield's approval for FET and its subsidiaries to take certain major actions. Under the terms of the FET LLC Agreement, for so long as Brookfield holds a 9.9% interest in FET, Brookfield’s consent is required for FET or any of its subsidiaries to incur indebtedness (other than the refinancing of existing indebtedness on commercially reasonable terms reflecting then-current credit market conditions) that would reasonably be expected to result in FET’s consolidated Debt-to-Capital Ratio (as defined in the FET LLC Agreement) equaling or exceeding (i) prior to the fifth anniversary of the effective date, 65%, and (ii) thereafter, 70%. As discussed below, pursuant to the terms of the FET P&SA II and in connection with the closing thereof, Brookfield, FET and FE will enter into the A&R FET LLC Agreement, which will amend and restate in its entirety the FET LLC Agreement.

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. TrAIL 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.

Sale of Minority Equity Interest in FirstEnergy Transmission, LLC

On February 2, 2023, FE, along with FET, entered into the FET P&SA II with Brookfield and the Brookfield Guarantors, pursuant to which FE agreed to sell to Brookfield at the closing, and Brookfield agreed to purchase from FE, an incremental 30% equity interest in FET for a purchase price of $3.5 billion. The purchase price will be payable in part by the issuance of a promissory note expected to be in the principal amount of $1.75 billion. The remaining $1.75 billion of the purchase price will be payable in cash at the closing. As a result of the consummation of the transaction, Brookfield’s interest in FET will increase from 19.9% to 49.9%, while FE will retain the remaining 50.1% ownership interests of FET. The transaction is subject to customary closing conditions, including approval from the FERC and certain state utility commissions, and completion of review by the CFIUS. In addition, pursuant to the FET P&SA II, FirstEnergy has agreed to make the necessary filings with the applicable regulatory authorities for the PA Consolidation. The FET Minority Equity Interest Sale is expected to close by early 2024. Upon closing, FET will continue to be consolidated in FirstEnergy’s GAAP financial statements.

Pursuant to the terms of the FET P&SA II, in connection with the closing, Brookfield, FET and FE will enter into the A&R FET LLC Agreement, which will amend and restate in its entirety the current limited liability company agreement of FET. The A&R FET LLC Agreement, among other things, provides for the governance, exit, capital and distribution, and other arrangements for FET from and following the closing. Under the A&R FET LLC Agreement, at the closing, the FET Board will consist of five directors, two appointed by Brookfield and three appointed by FE. Each of Brookfield's and FE's respective appointment rights are subject to such party maintaining certain minimum ownership percentages. The A&R FET LLC Agreement contains certain investor protections, including, among other things, requiring Brookfield's approval for FET and its subsidiaries to take certain major actions. Under the terms of the A&R FET LLC Agreement, for so long as Brookfield holds at least a 30.0% interest in FET, Brookfield's consent is required for FET or any of its subsidiaries to, among other things, undertake certain acquisitions or dispositions in excess of certain dollar thresholds, establish or amend the annual budget, incur cost overruns on certain capital expenditures projects during any fiscal year in excess of a certain percentage overage of the budgeted amounts or incur cost overruns on the aggregate capital expenditure budget of FET's subsidiaries during any fiscal year in excess of a certain percentage overage of the aggregated budgeted amount, make material decisions relating to litigation where either the potential liability exposure is in excess of a certain threshold dollar amount or such proceeding would reasonably be expected to have an adverse effect on Brookfield or FET, make certain material regulatory filings, incur or refinance indebtedness by FET or its subsidiaries, which, in the case of its subsidiaries, would reasonably be expected to cause such subsidiary to deviate from its targeted capital structure, enter into joint ventures, appoint or replace any member of its transmission leadership team, amend the accounting policies of FET or its subsidiaries (but only if FirstEnergy Corp is no longer the majority owner of FET), take any action that would reasonably be expected to cause a default or breach of any material contract of FET or any of its subsidiaries, create certain material liens (excluding certain permitted liens), or cause any reorganization of FET or any of its subsidiaries. The A&R FET LLC Agreement also includes provisions relating to the resolution of disputes and to address deadlocks.

Consolidation of Pennsylvania Companies

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.

ACCOUNTING FOR THE EFFECTS OF REGULATION

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

TrAIL 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, TrAIL 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, TrAIL will write off that regulatory asset as a charge against earnings. TrAIL 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 TrAIL's Balance Sheets. See Note 7, "Regulatory Matters," of the Notes to Financial Statements for additional information.

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

	As of December 31,		
Net Regulatory Assets (Liabilities) by Source	**2022**	**2021**	**Change**
		(In millions)	
Customer payables for future income taxes	$ (172)	$ (156)	$ (16)
Asset removal costs	(94)	(85)	(9)
Deferred transmission costs	125	85	40
Other	(1)	—	(1)
Net Regulatory Liabilities included on the Balance Sheets	$ (142)	$ (156)	$ 14

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

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

Asset removal costs - Reflects amounts to be recovered or refunded through future rates to pay for the cost of activities to remove assets that are expected to be incurred at the time of retirement.

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

INVESTMENTS

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

PENSION AND OTHER POSTEMPLOYMENT BENEFITS

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. TrAIL is allocated a portion of net periodic benefit costs from affiliates. These amounts are expected to be refunded or recovered through formula transmission rates.

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. During 2022 and 2021 TrAIL's allocated amount of the pension and OPEB mark-to-market adjustments from affiliates, gains or (losses), was $(2) million and $2 million, respectively. Additionally, other pension and OPEB net periodic credits allocated to TrAIL from affiliates were approximately $2 million in 2022 and 2021.

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.

TrAIL provides for depreciation on a straight-line basis at various rates over the estimated lives of property included in plant in service. Depreciation expense was approximately 2.2% and 2.3% of average depreciable property in 2022 and 2021, respectively. TrAIL has been granted certain incentives by FERC, including the inclusion of CWIP in rate base for most components of the TrAIL Line. As a result, AFUDC is not applicable to such components of the TrAIL Line.

For the year ended December 31, 2022, capitalized financing costs on TrAIL's Statements of Income include $1 million of allowance for equity funds used during construction. For the year ended December 31, 2021, capitalized financing costs on TrAIL's Statements of Income include $7 million and $2 million of allowance for equity funds used during construction and capitalized interest, respectively.

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.

REVENUES AND RECEIVABLES

Under a formula rate mechanism approved by the FERC, TrAIL makes annual filings in order to recover incurred costs and an allowed return. An initial rate filing is made for each calendar year using estimated costs, which is used to determine the initial billings to customers. All prudently incurred allowable operation and maintenance costs, a return earned on rate base and income taxes are recovered or refunded through a subsequent true-up mechanism. As such, TrAIL recognizes revenue as it incurs recoverable costs and earns the allowed return. Any differences between revenues earned based on actual costs and the amounts billed based on estimated costs are recognized as a regulatory asset or liability and will be recovered or refunded, respectively, in subsequent periods.

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

NEW ACCOUNTING PRONOUNCEMENTS

Recently Issued Pronouncements - TrAIL 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

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

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

For the years ended December 31, 2022 and 2021, revenues include transmission revenue from contracts with customers of $275 million and $233 million, respectively, and $4 million and $7 million of non-customer revenue, respectively. These amounts include approximately $(3) million $(1) million for the years ended December 31, 2022 and 2021, respectively, in reductions to revenue related to amounts subject to refund resulting from the Tax Act.

3. TAXES

TrAIL 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.

TrAIL 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, TrAIL recorded a $12 million net decrease to ADIT liabilities, with a corresponding increase in regulatory liabilities of $11 million, which are expected to be settled through future customer rates, and a $1 million decrease in income tax expense. The decrease in the Pennsylvania income tax rate is not expected to have a material impact to TrAIL'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, TrAIL files as a member of the FirstEnergy consolidated group.

	For the Years Ended December 31,	
INCOME TAXES:	**2022**	**2021**
	(In millions)	
Currently payable (receivable) -		
Federal	$ 31	$ (26)
State	7	8
	38	(18)
Deferred, net-		
Federal	(2)	53
State	3	—
	1	53
Total income taxes	$ 39	$ 35

TrAIL's tax rates are affected by permanent items, such as AFUDC equity, 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:

	For the Years Ended December 31,	
(In millions)	**2022**	**2021**
Book income before income taxes	$ 140	$ 140
Federal income tax expense at statutory rate (21%)	$ 29	$ 29
Increases (reductions) in taxes resulting from-		
State income tax, net of federal income tax benefit	7	8
Excess deferred tax amortization due to the Tax Act	2	1
Property timing difference adjustments	—	(2)
Other	1	(1)
Total income taxes	$ 39	$ 35
Effective income tax rate	27.9 %	25.0 %

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

	As of December 31,	
(In millions)	**2022**	**2021**
Property basis differences	$ 303	$ 321
Regulatory asset/liability	47	39
Loss carryforwards	(65)	(57)
Valuation allowances on NOL carryforwards	22	22
Other	(1)	(3)
Accumulated deferred income tax liabilities, net	$ 306	$ 322

TrAIL has recorded as deferred income tax assets the effect of NOLs that will more likely than not be realized through future operations and through the reversal of existing temporary differences. As of December 31, 2022, TrAIL's loss carryforwards consisted of approximately $207 million ($43 million, net of tax) of federal NOL carryforwards which begin to expire in 2031, and $420 million ($22 million, net of tax) of state NOL carryforwards, none of which are expected to be utilized based on current estimates and assumptions prior to expiration, which will begin in 2029.

TrAIL 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, TrAIL 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, TrAIL does not anticipate any of the unrecognized income tax benefits will be resolved during 2023.

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

For federal income tax purposes, TrAIL files as a member of the FirstEnergy consolidated group. IRS review of the FirstEnergy consolidated group's federal income tax returns is complete through the 2020 tax year with no pending adjustments. TrAIL has tax returns under review by state taxing authorities at the audit or appeals level for tax years 2016-2021.

General Taxes

General taxes associated with real and personal property taxes for the years ended December 31, 2022 and 2021 were $14 million and $15 million, respectively.

4. FAIR VALUE MEASUREMENTS

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

	December 31, 2022		December 31, 2021	
(In millions)	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Long-term debt	$ 625	$ 604	$ 625	$ 662

The fair value of long-term debt reflects 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 TrAIL. TrAIL classified short-term borrowings, long-term debt as Level 2 in the fair value hierarchy as of December 31, 2022 and 2021.

5. CAPITALIZATION

COMMON STOCK

TrAIL is authorized to issue 5,000 shares of common stock, $1.00 par value, as of December 31, 2022. As of December 31, 2022 and 2021, there were 1,000 common shares outstanding.

LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS

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

	As of December 31, 2022		As of December 31,	
(Dollar amounts in millions)	**Maturity Date**	**Interest Rate**	**2022**	**2021**
Unsecured notes - fixed rate	2025	3.76% - 3.85%	$ 625	$ 625
Unamortized debt issuance costs			(2)	(2)
Total long-term debt and other long-term obligations			$ 623	$ 623

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.

(In millions)	**2023**	**2024**	**2025**	**2026**	**2027**
Scheduled debt repayments	$—	$—	$625	$—	$—

Debt Covenant Default Provisions

TrAIL 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 TrAIL 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 TrAIL's financial condition.

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

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

6. SHORT-TERM BORROWINGS AND BANK LINES OF CREDIT

TrAIL had no outstanding short-term borrowings as of December 31, 2022, compared to $8 million of outstanding short-term borrowings as of December 31, 2021.

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 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, TrAIL may borrow up to $150 million, all of which was available to TrAIL as of December 31, 2022. This short-term debt limitation is subject to the regulatory short-term debt authorization of $400 million, which also 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, TrAIL 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 TrAIL, 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.

7. REGULATORY MATTERS

FERC REGULATORY MATTERS

Under the FPA, FERC regulates rates for transmission of electric power, accounting and other matters. With respect to its transmission services and rates, TrAIL is subject to regulation by FERC. Under the FPA, FERC regulates rates for transmission of electric power, accounting and other matters. FERC regulations require TrAIL to provide open access transmission service at FERC-approved rates, terms and conditions. TrAIL's transmission facilities are subject to functional control by PJM and transmission service using TrAIL's transmission facilities is provided by PJM under the PJM Tariff. The key terms of TrAIL's current rate order in effect for transmission customer billings, which have been effective since July 1, 2008, include an actual (year-end) capital structure and allowed ROEs of 12.7% for TrAIL the Line & Black Oak SVC and 11.7% for all other projects.

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

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

FERC Audit

FERC’s Division of Audits and Accounting initiated a nonpublic audit of FESC in February 2019. Among other matters, the audit is evaluating FirstEnergy’s compliance with certain accounting and reporting requirements under various FERC regulations. On February 4, 2022, FERC filed the final audit report for the period of January 1, 2015 through September 30, 2021, which included several findings and recommendations that FirstEnergy has accepted. The audit report included a finding and related recommendation on FirstEnergy’s methodology for allocation of certain corporate support costs to regulatory capital accounts under certain FERC regulations and reporting. Effective in the first quarter of 2022 and in response to the finding, FirstEnergy had implemented a new methodology for the allocation of these corporate support costs to regulatory capital accounts for its regulated distribution and transmission companies on a prospective basis. With the assistance of an independent outside firm, FirstEnergy completed an analysis during the third quarter of 2022 of these costs and how it impacted certain FERC-jurisdictional wholesale transmission customer rates for the audit period of 2015 through 2021. As a result of this analysis, FirstEnergy recorded in the third quarter of 2022 approximately $45 million ($34 million after-tax) ($6 million pre-tax at TrAIL) in expected customer refunds, plus interest, due to its wholesale transmission customers and reclassified approximately $195 million ($22 million at TrAIL) of certain transmission capital assets to operating expenses for the audit period, of which $90 million ($67 million after-tax) ($1 million pre-tax at TrAIL) are not expected to be recoverable and impacted TrAIL's earnings since they relate to capitalized interest costs that are nonrecoverable. These reclassifications also resulted in a reduction to FirstEnergy's rate base by approximately $160 million ($17 million at TrAIL), which is not expected to materially impact FirstEnergy or TrAIL's future earnings. The expected wholesale transmission customer refunds were recognized as a reduction to revenue, and the amount of reclassified transmission capital assets that are not expected to be recoverable were recognized within “Other operating expenses” on FirstEnergy’s and TrAIL's Statements of Income.

FERC Actions on Tax Act

On March 15, 2018, FERC initiated proceedings on the question of how to address possible changes to ADIT and bonus depreciation as a result of the Tax Act. Such possible changes could impact FERC-jurisdictional rates, including transmission rates. On November 21, 2019, FERC issued a final rule (Order No. 864). Order No. 864 requires utilities with transmission formula rates to update their formula rate templates to include mechanisms to: (i) deduct any excess ADIT from or add any deficient ADIT to their rate base; to maintain rate base neutrality (ii) raise or lower their income tax allowances by any amortized excess or deficient ADIT; and (iii) incorporate a new permanent worksheet into their rates that will annually track information related to excess or deficient ADIT. On May 15, 2020, TrAIL submitted its compliance filing. On July 12, 2021, FERC staff requested additional information about TrAIL's proposed rate base adjustment mechanism. TrAIL filed its response on August 6, 2021. On March 31, 2022, FERC issued an order, ruling that TrAIL's compliance filing partially complied with the requirements of Order No. 864 and directing TrAIL to submit a further compliance filing to address certain additional items that according to FERC will further enhance transparency. TrAIL submitted the compliance filing on May 31, 2022, and FERC accepted the compliance filing by letter order dated August 30, 2022.

Transmission ROE Incentive

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

8. COMMITMENTS AND CONTINGENCIES

ENVIRONMENTAL MATTERS

Various federal, state and local authorities regulate TrAIL with regard to air and water quality and other environmental matters. While TrAIL'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. TrAIL cannot predict the timing or ultimate outcome of any of these reviews or how any future actions taken as a result thereof may materially impact its business, results of operations, cash flows and financial condition.

OTHER LEGAL PROCEEDINGS

United States v. Larry Householder, et al.

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

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

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

On August 10, 2020, the SEC, through its Division of Enforcement, issued an order directing an investigation of possible securities laws violations by FE, and on September 1, 2020, issued subpoenas to FE and certain FE officers. On April 28, 2021, and July 11, 2022, the SEC issued additional subpoenas to FE, with which FE has complied. While no contingency has been reflected in its consolidated financial statements, FE believes that it is probable that it will incur a loss in connection with the resolution of the SEC investigation. Given the ongoing nature and complexity of the review, inquiries and investigations, FE cannot yet reasonably estimate a loss or range of loss that may arise from the resolution of the SEC investigation.

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

- *In re FirstEnergy Corp. Securities Litigation* (S.D. Ohio); on July 28, 2020 and August 21, 2020, purported stockholders of FE filed putative class action lawsuits alleging violations of the federal securities laws. Those actions have been consolidated and a lead plaintiff, the Los Angeles County Employees Retirement Association, has been appointed by the court. A consolidated complaint was filed on February 26, 2021. The consolidated complaint alleges, on behalf of a proposed class of persons who purchased FE securities between February 21, 2017 and July 21, 2020, that FE and certain current or former FE officers violated Sections 10(b) and 20(a) of the Exchange Act by issuing misrepresentations or omissions concerning FE's business and results of operations. The consolidated complaint also alleges that FE, certain current or former FE officers and directors, and a group of underwriters violated Sections 11, 12(a)(2) and 15 of the Securities Act of 1933 as a result of alleged misrepresentations or omissions in connection with offerings of senior notes by FE in February and June 2020. The class certification hearing is scheduled to take place on March 17, 2023. FE believes that it is probable that it will incur a loss in connection with the resolution of this lawsuit. Given the ongoing nature and complexity of such litigation, FE cannot yet reasonably estimate a loss or range of loss.
- *MFS Series Trust I, et al. v. FirstEnergy Corp., et al. and Brighthouse Funds II – MFS Value Portfolio, et al. v. FirstEnergy Corp., et al.* (S.D. Ohio) on December 17, 2021 and February 21, 2022, purported stockholders of FE filed complaints against FE, certain current and former officers, and certain current and former officers of EH. The complaints allege that the defendants violated Sections 10(b) and 20(a) of the Exchange Act by issuing alleged misrepresentations or omissions regarding FE's business and its results of operations, and seek the same relief as the *In re FirstEnergy Corp. Securities Litigation* described above. FE believes that it is probable that it will incur losses in connection with the resolution of these lawsuits. Given the ongoing nature and complexity of such litigation, FE cannot yet reasonably estimate a loss or range of loss.
- *State of Ohio ex rel. Dave Yost, Ohio Attorney General v. FirstEnergy Corp., et al. and City of Cincinnati and City of Columbus v. FirstEnergy Corp.* (Common Pleas Court, Franklin County, OH, all actions have been consolidated); on September 23, 2020 and October 27, 2020, the OAG and the cities of Cincinnati and Columbus, respectively, filed complaints against several parties including FE (the OAG also named FES as a defendant), each alleging civil violations of the Ohio Corrupt Activity Act in connection with the passage of HB 6. On January 13, 2021, the OAG filed a motion for a temporary restraining order and preliminary injunction against FirstEnergy seeking to enjoin FirstEnergy from collecting the Ohio Companies' decoupling rider. On January 31, 2021, FE reached a partial settlement with the OAG and the cities of Cincinnati and Columbus with respect to the temporary restraining order and preliminary injunction request and related issues. In connection with the partial settlement, the Ohio Companies filed an application on February 1, 2021, with the PUCO to set their respective decoupling riders (CSR) to zero. On February 2, 2021, the PUCO approved the application of the Ohio Companies setting the rider to zero and no additional customer bills will include new decoupling rider charges after February 8, 2021. The cases are stayed pending final resolution of the United States v. Larry Householder, et al. criminal proceeding described above, although on August 13, 2021, new defendants were added to the complaint, including two former officers of FirstEnergy. On November 9, 2021, the OAG filed a motion to lift the agreed-upon stay, which FE opposed on November 19, 2021; the motion remains pending. On December 2, 2021, the cities and FE entered a stipulated dismissal with prejudice of the cities' suit.
- *Smith v. FirstEnergy Corp. et al., Buldas v. FirstEnergy Corp. et al., and Hudock and Cameo Countertops, Inc. v. FirstEnergy Corp. et al.* (S.D. Ohio, all actions have been consolidated); on July 27, 2020, July 31, 2020, and August 5, 2020, respectively, purported customers of FE filed putative class action lawsuits against FE and FESC, as well as certain current and former FE officers, alleging civil Racketeer Influenced and Corrupt Organizations Act violations and related state law claims. FE agreed to a class settlement to resolve these claims on April 11, 2022. In the fourth quarter of 2021, FirstEnergy recognized a pre-tax reserve of $37.5 million in the aggregate with respect to these lawsuits and the *Emmons* lawsuit below. On June 22, 2022, the court preliminarily approved the class settlement and the final fairness hearing was held on November 9, 2022. On December 5, 2022, the court issued an order memorializing its final approval of the class settlement. The settlement amount was satisfied on December 7, 2022.
- *Emmons v. FirstEnergy Corp. et al.* (Common Pleas Court, Cuyahoga County, OH); on August 4, 2020, a purported customer of FirstEnergy filed a putative class action lawsuit against FE, FESC, the Ohio Companies, along with FES, alleging several causes of action, including negligence and/or gross negligence, breach of contract, unjust enrichment, and unfair or deceptive consumer acts or practices. FE agreed to a class settlement to resolve these claims on April 11, 2022. In the fourth quarter of 2021, FirstEnergy recognized a pre-tax reserve of $37.5 million in the aggregate with respect to this lawsuit and the lawsuits above consolidated with *Smith* in the S.D. Ohio alleging, among other things, civil violations of the Racketeer Influenced and Corrupt Organizations Act. On June 22, 2022, the court preliminarily approved the class settlement and the final fairness hearing was held on November 9, 2022. The S.D. Ohio issued a final written order approving the settlement on December 5, 2022. The settlement amount was satisfied on December 7, 2022.

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

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

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

- Six then-members of the FE Board did not stand for re-election at FE’s 2022 annual shareholder meeting;
- A special FE Board committee of at least three recently appointed independent directors was formed to initiate a review process of the then current senior executive team. The review of the senior executive team by the special FE Board committee and the FE Board was completed in September 2022;
- The FE Board will oversee FE’s lobbying and political activities, including periodically reviewing and approving political and lobbying action plans prepared by management;
- An FE Board committee of recently appointed independent directors will oversee the implementation and third-party audits of the FE Board-approved action plans with respect to political and lobbying activities;
- FE will implement enhanced disclosure to shareholders of political and lobbying activities, including enhanced disclosure in its annual proxy statement; and
- FE will further align financial incentives of senior executives to proactive compliance with legal and ethical obligations.

The settlement also includes a payment to FE of $180 million, to be paid by insurance after the judgment has become final, less $36 million in court-ordered attorney’s fees awarded to plaintiffs. On September 20, 2022, a purported FE stockholder filed a motion for reconsideration of the S.D. Ohio’s final settlement approval. The parties filed oppositions to that motion on October 11, 2022 and the motion is under consideration by the S.D. Ohio. The N.D. Ohio matter remains pending. On June 2, 2022, the N.D. Ohio entered an order to show cause why the court should not appoint new plaintiffs’ counsel, and thereafter, on June 10, 2022, the parties filed a joint motion to dismiss the matter without prejudice, which the N.D. Ohio denied on July 5, 2022. On August 15, 2022, the N.D. Ohio issued an order stating its intention to appoint one group of applicants as new plaintiffs’ counsel, and on August 22, 2022, the N.D. Ohio ordered that any objections to the appointment be submitted by August 26, 2022. The parties filed their objections by that deadline, and on September 2, 2022, the applicants responded to those objections. In the meantime, on August 25, 2022, a purported FE stockholder represented by the applicants filed a motion to intervene, attaching a proposed complaint-in-intervention purporting to assert claims that the FE Board and officers breached their fiduciary duties and committed violations of Section 14(a) of the Exchange Act as well as a claim against a third party for professional negligence and malpractice. The parties filed oppositions to that motion to intervene on September 8, 2022, and the proposed intervenor's reply in support of his motion to intervene was filed on September 22, 2022.

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

In letters dated January 26, and February 22, 2021, staff of FERC's Division of Investigations notified FirstEnergy that the Division is conducting an investigation of FirstEnergy’s lobbying and governmental affairs activities concerning HB 6, and staff directed FirstEnergy to preserve and maintain all documents and information related to the same as such have been developed as part of an ongoing non-public audit being conducted by FERC's Division of Audits and Accounting. On December 30, 2022, FERC approved a Stipulation and Consent Agreement that resolves the investigation. The agreement includes a FirstEnergy admission of violating FERC’s “duty of candor” rule and related laws, and obligates FirstEnergy to pay a civil penalty of $3.86 million, and to submit two annual compliance monitoring reports to FERC’s Office of Enforcement regarding improvements to FirstEnergy’s compliance programs. FirstEnergy paid the civil penalty on January 4, 2023.

FE terminated Charles E. Jones as its chief executive officer effective October 29, 2020. As a result of Mr. Jones’ termination, and due to the determination of a committee of independent members of the FE Board that Mr. Jones violated certain

FirstEnergy policies and its code of conduct, all grants, awards and compensation under FirstEnergy's short-term incentive compensation program and long-term incentive compensation program with respect to Mr. Jones that were outstanding on the date of termination were forfeited. In November 2021, after a determination by the Compensation Committee of the FE Board 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 and proceedings related to TrAIL's normal business operations pending against TrAIL. The loss or range of loss in these matters is not expected to be material to TrAIL. The other potentially material items not otherwise discussed above are described under Note 7, "Regulatory Matters."

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

9. TRANSACTIONS WITH AFFILIATED COMPANIES

In addition to the intercompany income tax allocation and the short-term borrowing arrangement, TrAIL has revenue, operating expense and interest expense transactions with affiliated companies, primarily MP, PE, WP and FESC. The primary affiliated-company transactions for TrAIL during the years ended December 31, 2022 and 2021 are as follows:

	For the Years Ended December 31,	
	2022	**2021**
	(In millions)	
Revenues	$ 4	$ 7
Expenses:		
Support services	24	21
Miscellaneous income	3	1

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

Under the FirstEnergy money pool, FE's utility and transmission operating subsidiary companies, including TrAIL, 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 6, "Short-Term Borrowings and Bank Lines of Credit").

TrAIL 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. See Note 3, "Taxes" for additional information.