PENNSYLVANIA POWER COMPANY

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

GLOSSARY OF TERMS

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

AE Supply	Allegheny Energy Supply Company, LLC, an unregulated generation subsidiary of FE
AGC	Allegheny Generating Company, a generation subsidiary of MP
ATSI	American Transmission Systems, Incorporated, a transmission subsidiary of FET
CEI	The Cleveland Electric Illuminating Company, an Ohio electric utility subsidiary of FE
FE	FirstEnergy Corp., a public utility holding company
FENOC	Energy Harbor Nuclear Corp. (formerly known as FirstEnergy Nuclear Operating Company), a subsidiary of EH, which operates EH's nuclear generating facilities
FE PA	FirstEnergy Pennsylvania Electric Company, a Pennsylvania electric utility subsidiary of FirstEnergy Pennsylvania Holding Company LLC, a wholly owned subsidiary of FE
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 a consolidated VIE of FE and the parent company of ATSI, MAIT and TrAIL, and having a joint venture in PATH
FEV	FirstEnergy Ventures Corp., which invests in certain unregulated enterprises and business ventures
FirstEnergy	FirstEnergy Corp., together with its consolidated subsidiaries
JCP&L	Jersey Central Power & Light Company, a New Jersey electric utility subsidiary of FE
KATCo	Keystone Appalachian Transmission Company, a transmission subsidiary of FE
MAIT	Mid-Atlantic Interstate Transmission, LLC, a transmission subsidiary of FET
ME	Metropolitan Edison Company, a former Pennsylvania electric utility subsidiary of FE, which merged with and into FE PA on January 1, 2024
MP	Monongahela Power Company, a West Virginia electric utility subsidiary of FE
OE	Ohio Edison Company, an Ohio electric utility subsidiary of FE
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 subsidiary of FE
Penn	Pennsylvania Power Company, a former Pennsylvania electric utility subsidiary of OE, which merged with and into FE PA on January 1, 2024
Pennsylvania Companies	ME, PN, Penn and WP, each of which merged with and into FE PA on January 1, 2024
PN	Pennsylvania Electric Company, a former Pennsylvania electric utility subsidiary of FE, which merged with and into FE PA on January 1, 2024
TE	The Toledo Edison Company, an Ohio electric utility subsidiary of FE
TrAIL	Trans-Allegheny Interstate Line Company, a transmission subsidiary of FET
Transmission Companies	ATSI, KATCo, MAIT and TrAIL
Utilities	OE, CEI, TE, Penn, JCP&L, ME, PN, MP, PE and WP
WP	West Penn Power Company, a former Pennsylvania electric utility subsidiary of FE, which merged with and into FE PA on January 1, 2024

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
2023 Credit Facilities	Collectively, the FET Revolving Facility and KATCo Revolving Facility
A&R FET LLC Agreement	Fourth Amended and Restated Limited Liability Company Operating Agreement of FET
ACE	Affordable Clean Energy
AEP	American Electric Power Company, Inc.
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
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
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 Residual
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
CTA	Consolidated Tax Adjustments
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
EDC	Electric Distribution Company
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
ESP V	Electric Security Plan V
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 an additional 30% membership interest 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's five-year syndicated revolving credit facility, dated as of October 20, 2023
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
IRA of 2022	Inflation Reduction Act of 2022
IRS	Internal Revenue Service
KATCo Revolving Facility	KATCo's four-year syndicated revolving credit facility, dated as of October 20, 2023
kV	Kilovolt
LIBOR	London Inter-Bank Offered Rate
LOC	Letter of Credit
LTIIP	Long-Term Infrastructure Improvement Plan
MDPSC	Maryland Public Service Commission
MGP	Manufactured Gas Plants
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
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
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
OOCIC	Ohio Organized Crime Investigations Commission, which is composed of members of the Ohio law enforcement community and is chaired by the OAG
OPEB	Other Postemployment Benefits
OVEC	Ohio Valley Electric Corporation
PA Consolidation	Consolidation of the Pennsylvania Companies
PEER	FirstEnergy's Program for Enhanced Employee Retirement
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
RFC	Reliability*First* Corporation
ROE	Return on Equity
RTO	Regional Transmission Organization
S.D. Ohio	Federal District Court, Southern District of Ohio
SEC	United States Securities and Exchange Commission
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
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 Power Company

Opinion

We have audited the accompanying financial statements of Pennsylvania Power Company (the “Company”), which comprise the balance sheets as of December 31, 2023 and 2022, 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, 2023 and 2022, 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 8, 2024

PENNSYLVANIA POWER COMPANY
STATEMENTS OF INCOME

(In millions)	For the Years Ended December 31, 2023	2022
REVENUES:		
Electric sales	$ 295	$ 290
Gross receipts tax collections	18	18
Total revenues	313	308
OPERATING EXPENSES:		
Purchased power	155	150
Other operating expenses	75	71
Provision for depreciation	28	27
Deferral of regulatory assets, net	(23)	(7)
General taxes	20	20
Total operating expenses	255	261
OPERATING INCOME	58	47
OTHER INCOME (EXPENSE):		
Miscellaneous income, net	5	8
Pension and OPEB mark-to-market adjustment	5	(6)
Interest expense	(12)	(11)
Capitalized financing costs	1	—
Total other expense	(1)	(9)
INCOME BEFORE INCOME TAXES	57	38
INCOME TAXES	11	—
NET INCOME	$ 46	$ 38
COMPREHENSIVE INCOME	$ 46	$ 38

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

PENNSYLVANIA POWER COMPANY
BALANCE SHEETS

(In millions, except share amounts)	December 31, 2023	December 31, 2022
ASSETS		
CURRENT ASSETS:		
Receivables -		
Customers	$ 45	$ 51
Less — Allowance for uncollectible customer receivables	3	6
	42	45
Affiliated companies	14	7
Other	7	5
Notes receivable from affiliated companies	4	7
Prepaid taxes and other	4	4
	71	68
PROPERTY, PLANT AND EQUIPMENT:		
In service	935	905
Less — Accumulated provision for depreciation	267	256
	668	649
Construction work in progress	17	19
	685	668
INVESTMENTS AND OTHER NONCURRENT ASSETS:		
Investments in employee benefit trusts	12	11
Other	6	6
	18	17
TOTAL ASSETS	$ 774	$ 753
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable -		
Affiliated companies	$ 1	$ —
Other	23	24
Accrued taxes	3	5
Other	21	23
	48	52
NONCURRENT LIABILITIES:		
Long-term debt and other long-term obligations	248	248
Accumulated deferred income taxes, net	119	108
Retirement benefits	14	27
Regulatory liabilities	9	34
Other	47	41
	437	458
TOTAL LIABILITIES	485	510
EQUITY:		
Common stockholder's equity-		
Common stock, $30 par value, authorized 6,500,000 shares - 3,110,836 shares outstanding	93	93
Other paid-in capital	19	19
Accumulated other comprehensive loss	(1)	(1)
Retained earnings	178	132
TOTAL EQUITY	289	243
COMMITMENTS AND CONTINGENCIES (NOTE 10)		
TOTAL LIABILITIES AND EQUITY	$ 774	$ 753

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

PENNSYLVANIA POWER COMPANY
STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

	Common Stock					
(In millions, except share amounts)	Number of Shares	Carrying Value	Other Paid-in Capital	AOCI	Retained Earnings	Total Stockholder's Equity
Balance, January 1, 2022	3,110,836	$ 93	$ 2	$ (1)	$ 114	$ 208
Net income					38	38
Stock-based compensation			1			1
Consolidated tax benefit allocation			1			1
Equity contribution from parent			15			15
Common stock dividend declared					(20)	(20)
Balance, December 31, 2022	3,110,836	$ 93	$ 19	$ (1)	$ 132	$ 243
Net income					46	46
Balance, December 31, 2023	3,110,836	$ 93	$ 19	$ (1)	$ 178	$ 289

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

PENNSYLVANIA POWER COMPANY
STATEMENTS OF CASH FLOWS

(In millions)	For the Years Ended December 31, 2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 46	$ 38
Adjustments to reconcile net income to net cash from operating activities-		
Depreciation, amortization and impairments	5	21
Deferred income taxes	9	(3)
Pension and OPEB mark-to-market adjustment	(5)	6
Employee benefit costs, net	(4)	(9)
Change in current assets and liabilities-		
Receivables	(6)	(12)
Prepaid taxes and other current assets	—	(2)
Accounts payable	—	6
Accrued taxes	(2)	1
Other current liabilities	(2)	2
Employee benefit plan funding and related payments	(1)	(1)
Other	2	3
Net cash provided from operating activities	42	50
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital investments	(38)	(39)
Loans to affiliated companies, net	3	(7)
Asset removal costs	(5)	(5)
Other	(1)	1
Net cash used for investing activities	(41)	(50)
CASH FLOWS FROM FINANCING ACTIVITIES:		
New financing-		
Long-term debt	—	150
Redemptions and repayments-		
Long-term debt	—	(100)
Short-term borrowings - affiliated companies, net	—	(44)
Equity contribution from parent	—	15
Common stock dividend payments	—	(20)
Other	(1)	(1)
Net cash used for financing activities	(1)	—
Net change in cash, cash equivalents, and restricted cash	—	—
Cash, cash equivalents, and restricted cash at beginning of period	—	—
Cash, cash equivalents, and restricted cash at end of period	$ —	$ —
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the year:		
Interest (net of amounts capitalized)	$ 11	$ 10
Income taxes, net of refunds	$ 2	$ 5
Significant non-cash transactions:		
Accrued capital investments	$ 1	$ 1

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

PENNSYLVANIA POWER 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.

On January 1, 2024, FirstEnergy consolidated the Pennsylvania Companies into FE PA, including OE subsidiary, Penn, making FE PA a new, single operating entity. In addition to merging each of the Pennsylvania Companies with and into FE PA, with FE PA surviving such mergers as the successor-in-interest to all assets and liabilities of the Pennsylvania Companies, (i) WP transferred certain of its Pennsylvania-based transmission assets to KATCo, and (ii) PN and ME contributed their respective Class B equity interests of MAIT to FE. FE PA, as of January 1, 2024, is FE's only regulated distribution utility in Pennsylvania encompassing the operations previously conducted individually by the Pennsylvania Companies and serves an area with a population of approximately 4.5 million. FE PA operates under the rate districts of the former Pennsylvania Companies. FirstEnergy is also evaluating the legal, financial, operational and branding benefits of consolidating the Ohio Companies into a single Ohio utility company. Penn complied with the regulations, orders, policies and practices prescribed by FERC and the PPUC.

Penn, a former subsidiary of OE, owned property and conducted business as an electric public utility in Pennsylvania, providing distribution services to approximately 0.2 million customers in western Pennsylvania, with a rate base of $0.6 billion. Penn had 179 employees and served an area that had a population of approximately 0.4 million.

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. Penn has evaluated events and transactions for potential recognition or disclosure through March 8, 2024, the date the financial statements were issued.

Certain prior year amounts have been reclassified to conform to the current year presentation, including presenting long-term debt and other long-term obligations within "Noncurrent Liabilities" on the Balance Sheets as compared to "Total Capitalization".

Economic Conditions

Post-pandemic economic conditions have increased supply chain lead times across numerous material categories, with some as much as tripling from pre-pandemic lead times. Several key suppliers have struggled with labor shortages and raw material availability, which along with inflationary pressure that appears to be moderating, 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.

Reference Rate Reform

In March of 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): "Facilitation of the Effects of Reference Rate Reform on Financial Reporting" (issued March 2020 and subsequently updated). This ASU, which introduces Topic ASC 848 to the FASB codification, provides temporary optional expedients and exceptions that, if elected, will ease the financial reporting burdens related to the market transition from LIBOR and other interbank offered rates to alternative reference rates.

On April 27, 2023, FE, FET, the Utilities and the Transmission Companies entered into amendments to the 2021 Credit Facilities to, among other things: (i) permit the sale from FE to Brookfield of an incremental 30% equity interest in FET for a purchase price of $3.5 billion, (ii) permit the consolidation of the Pennsylvania Companies into a new, single operating entity, FE PA, which will be FE's only regulated utility in Pennsylvania encompassing the operations previously conducted individually by the Pennsylvania Companies, and (iii) transition the benchmark interest rate for borrowings under the 2021 Credit Facilities from LIBOR to SOFR. During the second quarter of 2023, FirstEnergy utilized the optional expedient within ASC 848 to account for the amendments to the credit facilities as a continuation of the existing contract without additional analysis.

ACCOUNTING FOR THE EFFECTS OF REGULATION

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

Penn 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, Penn 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, Penn will write off that regulatory asset as a charge against earnings. Penn 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 noncurrent section on Penn's Balance Sheets. See Note 9, "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, 2023 and December 31, 2022, and the changes during the year ended December 31, 2023:

Net Regulatory Assets (Liabilities) by Source	As of December 31, 2023	As of December 31, 2022	Change
		(In millions)	
Customer payables for future income taxes	$ (49)	$ (53)	$ 4
Asset removal costs	7	6	1
Deferred transmission costs	(2)	(5)	3
Deferred generation costs	(9)	(10)	1
Deferred distribution costs	3	3	—
Storm-related costs	39	23	16
Other	2	2	—
Net Regulatory Liabilities included on the Balance Sheets	$ (9)	$ (34)	$ 25

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 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.

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

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 recovery or refund of costs to provide energy and capacity services to customers who take default services.

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

Storm-related costs - Relates to the recovery of storm costs, of which approximately $29 million and $18 million are currently being recovered through rates as of December 31, 2023 and 2022, respectively.

The following table provides information about the composition of net regulatory assets that do not earn a current return as of December 31, 2023 and 2022, of which $30 million and $18 million are currently being recovered through rates, respectively:

Regulatory Assets by Source Not Earning a Current Return	December 31, 2023	December 31, 2022	Change
		(In millions)	
Storm-related costs	$ 39	$ 23	$ 16
Other	4	4	—
Regulatory Assets Not Earning a Current Return	$ 43	$ 27	$ 16

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.

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.

Penn 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 2.9% and 3.0% of average depreciable property in 2023 and 2022, respectively.

For the year ended December 31, 2023, capitalized financing costs on Penn's Statements of Income include $1 million of allowance for equity funds used during construction.

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

RECEIVABLES

Penn's principal business is providing electric service to customers in Pennsylvania. Penn'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, Penn accrues the estimated unbilled amount as revenue and reverses the related prior period estimate. Unbilled customer receivables were $20 million and $26 million, respectively, as of December 31, 2023 and 2022. 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 customer receivables should be further adjusted in accordance with the accounting guidance for credit losses. The allowance for uncollectible customer receivables is reviewed utilizing a quantitative and qualitative assessment. 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 2023, various regulatory actions, including extended installment plans, continue to impact the level of past due balances in certain states, resulting in the allowances for uncollectible customer receivables to remain elevated above 2019 pre-pandemic levels. However, normal collection activity has resumed, and arrears levels continue to decline towards pre-pandemic levels. As a result, Penn recognized a $3 million decrease to its allowance during 2023.

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

(In millions)	2023	2022
Customer Receivables:		
Beginning of year balance	$ 6	$ 6
Charged to income	—	3
Charged to other accounts[1]	1	2
Write-offs	(4)	(5)
End of year balance	$ 3	$ 6

[1] Represents recoveries and reinstatements of accounts previously written off for uncollectible accounts.

NEW ACCOUNTING PRONOUNCEMENTS

Recently Issued Pronouncements - The following new authoritative accounting guidance issued by the FASB has not yet been adopted. Unless otherwise indicated, such guidance is currently being assessed for the impact it may have on the financial statements and disclosures, as well as the potential to early adopt where applicable. New accounting standards not described below have been assessed and based upon current expectations will not significantly impact the financial statements.

ASU 2023-09, "*Income taxes (Topic 280): Improvements to Income Tax Disclosures* " (Issued in December 2023): ASU 2023-09 enhances disclosures primarily related to existing rate reconciliation and income taxes paid information to help investors better assess how a company’s operations and related tax risks and tax planning and operational opportunities affect the tax rate and prospects for future cash flows. For FirstEnergy, the guidance will be effective for fiscal years beginning after December 15, 2024, with early adoption permitted. The amendments within ASU 2023-09 are to be applied on a prospective basis, with retrospective application permitted.

2. REVENUE

Penn 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. Penn 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 Penn are not subject to the election and are included in revenue. Penn 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.

Penn's principal business is providing electric service to customers in Pennsylvania. Penn'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, Penn 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.

Distribution services revenue relates to the distribution of electricity. Penn earns revenue from state-regulated rate tariffs under which it provides distribution services to residential, commercial and industrial customers in its service territory. Penn 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 9, "Regulatory Matters," for additional information on rate recovery mechanisms. Distribution and electric revenues are recognized over time as electricity is distributed and delivered to the customer and the customers consume the electricity immediately as delivery occurs.

Retail generation sales relate to SOS requirements in Pennsylvania. Penn 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 Penn 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.

The following table represents a disaggregation of revenue from contracts with customers for the years ended December 31, 2023 and 2022, by type of service:

Revenues by Type of Service	For the Year Ended December 31, 2023	2022
	(In millions)	
Distribution services and retail generation		
Residential	$ 242	$ 223
Commercial	47	47
Industrial	15	31
Street lighting/other	1	1
Other	5	3
Total revenues from contracts with customers	$ 310	$ 305
Other revenue unrelated to contracts with customers	3	3
Total revenues	$ 313	$ 308

3. PENSION AND OTHER POSTEMPLOYMENT BENEFITS

FirstEnergy provides noncontributory qualified defined benefit pension plans that cover substantially all of its employees and non-qualified pension plans that cover certain employees, including employees of Penn. 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. Penn 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. Penn also recognizes its allocated portion of obligations to former or inactive employees after employment, but before retirement, for disability-related benefits.

On May 12, 2023, FirstEnergy made a $750 million voluntary cash contribution to the qualified pension plan. The size of the voluntary contribution made in relation to total pension assets triggered a remeasurement of the pension plan. FirstEnergy elected the practical expedient to remeasure pension plan assets and obligations as of April 30, 2023, which is the month-end closest to the date of the voluntary contribution.

FirstEnergy’s pension funding policy is based on actuarial computations using the projected unit credit method. FirstEnergy does not currently expect to have a required contribution to the pension plan until 2028, which based on various assumptions, including an expected rate of return on assets of 8.00%, is expected to be approximately $260 million. However, FirstEnergy may elect to contribute to the pension plan voluntarily.

On May 9, 2023, FirstEnergy announced a voluntary retirement program for eligible non-bargaining employees, known as the PEER. More than 65% of eligible employees, totaling approximately 450 employees, accepted the PEER, which included lump sum compensation equivalent to severance benefits, healthcare continuation costs and a temporary pension enhancement. Most PEER participating employees departed in 2023. The temporary pension enhancement and healthcare continuation costs are classified as special termination costs within net periodic benefit costs (credits).

The following is a summary of the plan status:

	Pension		OPEB	
As of December 31,	**2023**	**2022**	**2023**	**2022**
		(In millions)		
FirstEnergy benefit obligation	$ 8,363	$ 8,828	$ 441	$ 439
FirstEnergy fair value of plan assets	6,879	6,693	516	460
FirstEnergy funded status	$ (1,484)	$ (2,135)	$ 75	$ 21
FirstEnergy accumulated benefit obligation	$ 7,324	$ 8,500	$ —	$ —
FirstEnergy net periodic costs (credits)[1]	$ 128	$ (296)	$ (38)	$ (10)
Penn's share of net periodic costs (credits)[1]	$ (8)	$ (1)	$ —	$ —
Penn's share of FirstEnergy funded status[2][3]	$ (10)	$ (21)	$ (3)	$ (3)

[1] Includes pension and OPEB mark-to-market adjustment, amounts capitalized and special terminations benefits associated with PEER.
[2] Excludes $40 million and $36 million as of December 31, 2023 and 2022, respectively, of affiliated noncurrent liabilities related to pension and OPEB mark-to-market costs allocated to Penn.
[3] Includes a $4 million decrease in OPEB plan assets associated with a reallocation among certain FirstEnergy companies at December 31, 2022.

The FirstEnergy total pension and OPEB mark-to-market adjustment gain (loss), for the years ended December 31, 2023 and 2022 were $(78) million and $72 million, respectively. Penn's pension and OPEB mark-to-market adjustments, gains or (losses), for the years ended December 31, 2023 and 2022, were $5 million and $(6) million, respectively.

Pension and OPEB costs are affected by employee demographics (including age, compensation levels and employment periods), the level of contributions made to the plans and earnings on plan assets. Pension and OPEB costs may also be affected by changes in key assumptions, including anticipated rates of return on plan assets, the discount rates and health care trend rates used in determining the projected benefit obligations for pension and OPEB costs. FirstEnergy uses a December 31 measurement date for its pension and OPEB plans or whenever a plan is determined to qualify for a remeasurement. The fair value of the plan assets represents the actual market value as of the measurement date.

	Pension		OPEB	
Actuarial Assumptions	**2023**	**2022**	**2023**	**2022**
Assumptions Related to Benefit Obligations:				
Discount rate	5.05 %	5.23 %	4.97 %	5.16 %
Rate of compensation increase	4.30 %	4.30 %	N/A	N/A
Cash balance weighted average interest crediting rate	4.94 %	4.04 %	N/A	N/A
Assumptions Related to Benefit Costs:[1][2]				
Effective rate for interest on benefit obligations	5.10% / 4.80%	2.44 %	5.06 %	2.18 %
Effective rate for service costs	5.34% / 5.11%	3.28 %	5.41 %	3.41 %
Effective rate for interest on service costs	5.22% / 4.94%	2.96 %	5.33 %	3.24 %
Expected return on plan assets	8.00 %	7.50 %	7.00 %	7.50 %
Rate of compensation increase	4.30 %	4.10 %	N/A	N/A
Assumed Health Care Cost Trend Rates:				
Health care cost trend rate assumed (pre/post-Medicare)	N/A	N/A	7.00%-6.50%	6.00%-5.50%
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	2033	2029

[1] Excludes impact of pension and OPEB mark-to-market adjustment.
[2] As a result of the interim pension plan remeasurement during 2023, there were different rates in effect from January 1, 2023, through April 30, 2023 compared to May 1, 2023 through December 31, 2023.

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 - 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.

Pension and OPEB Returns	**2023**	**2022**
Actual gains or (losses) on plan assets - $ millions	$ 751	$ (1,830)
Actual gains or (losses) on plan assets - %	11.2 %	(19.1)%
Expected return on plan assets - $ millions	$ 601	$ 696
Expected return on plan assets - %	8.00% for pension 7.00% for OPEB	7.50 %

Mortality Rates - During 2023, 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, 2023, 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.

4. TAXES

Penn 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.

For federal income tax purposes, Penn files as a member of the FirstEnergy consolidated group. Penn is party to an intercompany income tax allocation agreement with FirstEnergy that provides for the allocation of consolidated tax liabilities.

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 net operating losses 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 during 2022 and 2023, FirstEnergy continues to believe that it is more likely than not it will be subject to the AMT beginning in 2023. Accordingly, FirstEnergy made a first quarter estimated payment of AMT of approximately $49 million in April 2023, of which approximately $1 million related to Penn's estimated allocable share of consolidated AMT. In June 2023, the U.S. Treasury issued additional guidance that eliminated the requirement of corporations to include AMT in quarterly estimated tax payments, pending further guidance on the application and administration of AMT. Therefore, as a result of guidance issued to date, the current forecast of AMT obligation, and the amount of AMT already paid in April 2023, FirstEnergy did not make any additional AMT payments for the 2023 tax year. Until final U.S. Treasury regulations are issued, the amount of AMT FirstEnergy pays 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 may also be subject to the regulation by FERC and/or applicable state regulatory authorities. Any adverse development in this legislation, including guidance from the U.S. Treasury and/or the IRS or unfavorable regulatory treatment, could negatively impact FirstEnergy's cash flows, results of operations and financial condition.

	For the Years Ended December 31,	
INCOME TAXES:	**2023**	**2022**
	(In millions)	
Currently payable -		
Federal	$ 2	$ 2
State	—	1
	2	3
Deferred, net -		
Federal	8	5
State	1	(8)
	9	(3)
Total income taxes	$ 11	$ —

Penn'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, 2023 and 2022:

	For the Years Ended December 31,	
(In millions)	**2023**	**2022**
Book income before income taxes	$ 57	$ 38
Federal income tax expense at statutory rate (21%)	$ 12	$ 8
Increases (reductions) in taxes resulting from -		
State income taxes, net of federal tax benefit	2	(5)
AFUDC equity and other flow-through items	(1)	(2)
Excess deferred tax amortization due to the Tax Act	(1)	(1)
Other, net	(1)	—
Total income taxes	$ 11	$ —
Effective income tax rate	19.3 %	— %

Accumulated deferred income taxes as of December 31, 2023 and 2022 are as follows:

	As of December 31,	
(In millions)	**2023**	**2022**
Property basis differences	$ 119	$ 117
Regulatory asset/liability	10	4
Pension and OPEB	(12)	(14)
Other	2	1
Accumulated deferred income tax liabilities, net	$ 119	$ 108

Penn records as deferred income tax assets the effect of NOLs and tax credits that will more likely than not be realized through future operations and through the reversal of existing temporary differences. As of December 31, 2023, Penn's deferred income tax assets attributable to tax credit carryforwards primarily consisted of AMT credits of $2 million, which have no expiration, whereas loss carryforwards were immaterial.

Penn 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. As of December 31, 2023 and 2022, Penn's total unrecognized income tax benefits were immaterial. As of December 31, 2023, Penn does not anticipate any of the unrecognized income tax benefits will be resolved during 2024.

Penn 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 federal income tax return. During 2023 and 2022, Penn did not record any interest related to uncertain tax positions, nor did Penn have cumulative net interest payable recorded on its Balance Sheets.

Penn has tax returns under review by state taxing authorities at the audit or appeals level for tax years 2020-2022.

General Taxes

Details of general taxes for the years ended December 31, 2023 and 2022 are shown below:

(In millions)	2023	2022
Gross receipts	$ 18	$ 18
Social security and unemployment	2	2
Total general taxes	$ 20	$ 20

5. LEASES

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

In addition, ATSI has a ground lease with Penn under an operating lease agreement. Land use is rented to ATSI under the terms and conditions of a ground lease. Penn 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 ATSI's ability to satisfy its service obligations. Additional uses of such land for ATSI's facilities requires prior written approval from the applicable operating company. ATSI purchases directly any new property acquired for transmission use. ATSI makes fixed quarterly lease payments for the ground lease to Penn through December 31, 2049, unless terminated prior to maturity, or extended by ATSI for up to 10 additional successive periods of 50 years each. Revenue associated with this agreement was approximately $1 million for 2023 and 2022.

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

	For the Years Ended December 31,	
(In millions)	2023	2022
Operating lease costs [(1)]	$ 2	$ 2
Finance lease costs	—	—
Total lease cost	$ 2	$ 2

[(1)] Includes $1 million of short-term lease costs for the years ended December 31, 2023 and 2022.

Supplemental balance sheet information related to leases was as follows:

		As of December 31,	
(In millions)	**Financial Statement Line Item**	**2023**	**2022**
Assets			
Operating lease assets[1]	Investments and other noncurrent assets	$ 4	$ 5
Finance lease assets[2]	Property, plant and equipment	—	—
Total leased assets		$ 4	$ 5
Liabilities			
Current:			
Operating	Other current liabilities	$ 1	$ 1
Noncurrent:			
Operating	Other noncurrent liabilities	3	4
Total leased liabilities		$ 4	$ 5

[1] Operating lease assets are recorded net of accumulated amortization of $3 million and $2 million as of December 31, 2023 and 2022, respectively.
[2] Finance lease assets are recorded net of accumulated amortization of $1 million as of December 31, 2023 and 2022.

Lease terms and discount rates were as follows:

	As of December 31, 2023	**As of December 31, 2022**
Weighted-average remaining lease terms (years)		
Operating leases	5.0	5.6
Finance leases	0.1	1.1
Weighted-average discount rate[1]		
Operating leases	3.61 %	3.29 %
Finance leases	3.91 %	3.89 %

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

Supplemental cash flow information related to leases was as follows:

	For the Years Ended December 31,	
(In millions)	**2023**	**2022**
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 1	$ 1
Operating cash flows from finance leases	—	—
Finance cash flows from finance leases	—	—
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$ 1	$ 1
Finance leases	—	—

Maturities of lease liabilities as of December 31, 2023, were as follows:

(In millions)	Operating Leases
2024	$ 1
2025	1
2026	1
2027	1
2028	1
Thereafter	—
Total lease payments	5
Less imputed interest	1
Total net present value	$ 4

As of December 31, 2023, additional operating leases agreements, primarily for vehicles, that have not yet commenced are $2 million. These leases are expected to commence in the next 18 months with lease terms of 5 to 8 years.

6. 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, Penn believes that their costs approximate their fair market value. The following table provides the approximate fair value and related carrying amounts of long-term debt, which excludes finance lease obligations and net unamortized debt issuance costs and discounts:

	December 31, 2023		December 31, 2022	
(In millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	$ 250	$ 216	$ 250	$ 212

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 Penn. Penn classified long-term debt as Level 2 in the fair value hierarchy as of December 31, 2023 and 2022.

7. CAPITALIZATION

COMMON STOCK

In addition to paying dividends from retained earnings, prior to the January 1, 2024 PA Consolidation Penn had authorization from the FERC to pay cash dividends to Ohio Edison Company from paid-in capital accounts, as long as its FERC-defined equity-to-total-capitalization ratio remained above 35%. If such dividends were paid from paid in capital, it was deemed a return of capital.

PREFERRED STOCK

Penn is authorized to issue 1,200,000 shares preferred stock, $100 par value, as of December 31, 2023. As of December 31, 2023 and 2022, there were no preferred shares outstanding.

LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS

The following table presents outstanding long-term debt and finance lease obligations for Penn as of December 31, 2023 and 2022:

	As of December 31, 2023		As of December 31,	
	Maturity Date	Interest Rate	2023	2022
			(In millions)	
FMBs	2032 - 2056	3.79% - 4.37%	$ 250	$ 250
Unamortized debt issuance costs			(2)	(2)
Total long-term debt and other long-term obligations			$ 248	$ 248

As of December 31, 2023, Penn has no scheduled debt repayments for the next five years.

FMBs

Penn has a first mortgage indenture under which it can issue FMBs secured by a direct first mortgage lien on substantially all of its property and franchises, other than specifically excepted property. The outstanding debt under the FMBs of specific FE PA predecessors (WP and Penn) were assumed by FE PA.

Debt Covenant Default Provisions

Penn 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 Penn 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 Penn's financial condition.

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

As of December 31, 2023, Penn was in compliance with all debt covenant default provisions.

8. SHORT-TERM BORROWINGS AND BANK LINES OF CREDIT

Penn had no outstanding short-term borrowings as of December 31, 2023 and 2022.

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. 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 credit facilities provide substantial liquidity to support the Regulated businesses, and each of the operating companies within the businesses.

On October 20, 2023, FE and certain of its subsidiaries entered into the amendments to each of the 2021 Credit Facilities to, among other things; (i) amend the FE Revolving Facility to release FET as a borrower and (ii) extend the maturity date of the 2021 Credit Facilities for an additional one-year period, from October 18, 2026 to October 18, 2027. Also, on October 20, 2023, each of FET and KATCo entered into the 2023 Credit Facilities. In connection with PA Consolidation, the Pennsylvania Companies' rights and obligations under their revolving credit facility were assumed by FE PA on January 1, 2024.

Under the FET Revolving Facility, $1.0 billion is available to be borrowed, repaid and reborrowed until October 20, 2028. Under the KATCo Revolving Facility, (i) $150 million is available to be borrowed, repaid and reborrowed until October 20, 2027, (ii) borrowings will mature on the earlier of 364 days from the date of borrowing or the commitment termination date, as the same may be extended; upon KATCo demonstrating to the administrative agent authorization to borrow amounts maturing more than 364 days from the date of borrowing, its borrowings will mature on the latest commitment termination date. KATCo may not draw on the KATCo Credit Facility until the satisfaction of certain conditions, including the availability of first quarter financial statements, which are expected to be completed during the second quarter of 2024.

The 2021 Credit Facilities and 2023 Credit Facilities are as follows:

- FE, $1.0 billion revolving credit facility;
- FET, $1.0 billion revolving credit facility;
- Ohio Companies, $800 million revolving credit facility;
- FE PA[(1)], $950 million revolving credit facility;
- JCP&L, $500 million revolving credit facility;
- MP and PE, $400 million revolving credit facility;
- Transmission Companies, $850 million revolving credit facility; and
- KATCo, $150 million revolving credit facility.

[(1)] Effective January 1, 2024, FE PA succeeded the Pennsylvania Companies as the borrower under the Pennsylvania Companies' revolving credit facility.

Borrowings under the 2021 Credit Facilities and 2023 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 and 2023 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 Facilities and 2023 Credit Facilities) of no more than 65%, and 75% for FET, measured at the end of each fiscal quarter.

Under its credit facility, Penn could borrow up to $100 million, all of which was available to Penn as of December 31, 2023. This short-term debt limitation is subject to the regulatory short-term debt authorization of $150 million, which also includes amounts that may be borrowed under the regulated companies' money pool.

The 2021 Credit Facilities and 2023 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 and the 2023 Credit Facilities are related to the credit ratings of the company borrowing the funds. Additionally, borrowings under each of the 2021 Credit Facilities and 2023 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, 2023, Penn had a debt-to-total-capitalization ratio of 46.1% which was in compliance with the applicable covenants under their respective 2021 Credit Facility and 2023 Credit Facility.

FirstEnergy Money Pool

FE’s utility operating subsidiary companies, including Penn and its successor-in-interest, FE PA, also have the ability to borrow from each other and FE to meet their short-term working capital requirements. FESC administers these money pools and tracks surplus funds of FE and the respective regulated and unregulated subsidiaries, as the case may be, as well as proceeds available from bank borrowings. Companies receiving a loan under the money pool agreements 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 their respective pool and is based on the average cost of funds available through the pool. Interest rates have increased significantly, which has caused the rate and interest expense on borrowings under the various FirstEnergy credit facilities to be significantly higher. The average interest rates for borrowings in 2023 and 2022 were 6.30% and 2.27% per annum, respectively.

9. REGULATORY MATTERS

STATE REGULATION

Penn's retail rates, conditions of service, issuance of securities and other matters were subject to regulation in Pennsylvania by the PPUC. As of December 31, 2023, the key terms of Penn's current rate orders for distribution customer billings, which have been effective since January 2017, include an allowed debt/equity ratio of 49.9%/50.1% (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. As discussed below, on January 1, 2024, FirstEnergy consolidated the Pennsylvania Companies into FE PA, making it a new, single operating entity, and will operate under the rate districts of the former Pennsylvania Companies, including Penn.

PENNSYLVANIA

The Pennsylvania Companies operated under rates approved by the PPUC, effective as of January 27, 2017. On January 1, 2024, each of the Pennsylvania Companies merged with and into FE PA. As a result of the PA Consolidation, FE PA will have five rate districts in Pennsylvania – four that correspond to the territories previously serviced by ME, PN, Penn, and WP and one rate district that corresponds to WP's service provided to The Pennsylvania State University. The rate districts created by the PA Consolidation will continue the current rate structure of ME, PN, Penn, and WP until the earlier of 2033 or in the fourth base rate case filed after January 1, 2025.

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. The fourth phase of FE PA's energy efficiency and peak demand reduction program, which runs for the five -year period beginning June 1, 2021 through May 31, 2026, was approved by the PPUC on June 18, 2020, providing through cost recovery of approximately $390 million to be recovered through Energy Efficiency and Conservation Phase IV Riders for each FE PA rate district.

Pennsylvania EDCs are permitted to seek PPUC approval of an LTIIP for infrastructure improvements and costs related to highway relocation projects, after which a DSIC may be approved to recover LTIIP costs. On January 16, 2020, the PPUC approved the Pennsylvania Companies' LTIIPs for the five-year period beginning January 1, 2020 and ending December 31, 2024 for a total capital investment of approximately $572 million for certain infrastructure improvement initiatives. On June 25, 2021, the Pennsylvania Office of Consumer Advocate 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 accumulated deferred income taxes and state taxes. The PPUC issued the order as directed.

On March 6, 2023, FirstEnergy filed applications with the PPUC, NYPSC and FERC seeking approval to consolidate 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 contribution of Class B equity interests of MAIT then 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 FE PA and (d) the merger of each of the Pennsylvania Companies with and into FE PA, with FE PA surviving such mergers as the successor-in-interest to all assets and liabilities of the Pennsylvania Companies. On August 30, 2023, the parties filed a settlement agreement recommending that the PPUC approve the PA Consolidation subject to the terms of the settlement, which include among other things, $650 thousand over five years in bill assistance for income-eligible customers and the Pennsylvania Companies' commitment to (i) not seek full distribution rate unification until the earlier of 10 years or in the fourth base rate case filed after January 1, 2025 and (ii) track and share with customers certain operational and administrative efficiency costs associated with the PA Consolidation. The PPUC, NYPSC and FERC approved FirstEnergy's applications on December 7, 2023, November 16, 2023, and August 14, 2023, respectively. The transaction closed on January 1, 2024 making FE PA FirstEnergy's only regulated utility in Pennsylvania.

On May 5, 2023, FirstEnergy and Brookfield submitted applications to FERC and to the PPUC to facilitate the FET Minority Equity Interest Sale. On May 12, 2023, the parties also filed an application with the VSCC, which was approved on June 20, 2023. On August 14, 2023, FERC issued an order approving the FET Minority Equity Interest Sale. On November 24, 2023, CFIUS notified FET, Brookfield and the Abu Dhabi Investment Authority that it has determined that there were no unresolved national security issues and its review of the transaction was concluded. On November 29, 2023, the parties filed a settlement agreement recommending that the PPUC approve the transaction subject to the terms of the settlement, which include among other things, a number of ring-fencing provisions and a commitment to improve transmission reliability over the next five years. The settlement has been approved without modification by the administrative law judges and is currently pending final PPUC approval.

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, Penn 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. Penn 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 Penn. 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 Penn, are located within RFC. FirstEnergy actively participates in the NERC and RFC stakeholder processes, and otherwise monitors and manages its companies, including Penn, in response to the ongoing development, implementation and enforcement of the reliability standards implemented and enforced by RFC.

FirstEnergy, including Penn, 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 Penn, 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 Penn, 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 Penn’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 Penn'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. On December 8, 2023, FERC audit staff issued a letter advising that two unresolved audit matters, primarily related to FirstEnergy’s plan to recover the reclassified operating expenses in formula transmission rates, were being referred to other offices within FERC for further review. Furthermore, Penn is in the process of addressing the outcomes of the FERC Audit with the applicable state commissions and proceedings, which includes seeking continued rate base treatment of approximately $7 million of certain corporate support costs allocated to distribution capital assets. If Penn is unable to recover these distribution costs, it could result in future charges and/or adjustments and have an adverse impact on Penn's financial condition.

10. COMMITMENTS AND CONTINGENCIES

ENVIRONMENTAL MATTERS

Various federal, state and local authorities regulate Penn with regard to air and water quality, hazardous and solid waste disposal, and other environmental matters. While Penn’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. Penn 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. In March 2023, a jury found Mr. Householder and his co-defendant, Matthew Borges, guilty and in June 2023, the two were sentenced to prison for 20 and 5 years, respectively. Messrs. Householder and Borges have appealed their sentences. Also, on July 21, 2020, and in connection with the DOJ’s 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, July 11, 2022, and May 25, 2023, 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.

On June 29, 2023, the OOCIC served FE a subpoena, seeking information relating to the conduct described in the DPA. FirstEnergy was not aware of the OOCIC's investigation prior to receiving the subpoena and understands that the OOCIC's investigation is also focused on the conduct described in the DPA. FirstEnergy is cooperating with the OOCIC in its investigation. On February 12, 2024, and in connection with the OOCIC's ongoing investigation, an indictment by a grand jury of Summit County, Ohio was unsealed against the former chairman of the PUCO, Samuel Randazzo, and two former FirstEnergy senior officers, Charles E. Jones, and Michael J. Dowling, charging each of them with several felony counts, including bribery, telecommunications fraud, money laundering and aggravated theft, related to payments described in the DPA. No contingency has been reflected in FirstEnergy's consolidated financial statements, as a loss is neither probable, nor is a loss or range of loss reasonably estimable.

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. On March 30, 2023, the court granted plaintiffs' motion for class certification. On April 14, 2023, FE filed a petition in the U.S. Court of Appeals for the Sixth Circuit seeking to appeal that order, which the Sixth Circuit granted on November 16, 2023. On November 30, 2023, FE filed a motion with the S.D. Ohio to stay all proceedings pending the circuit court appeal. All discovery is stayed during the pendency of the district court motion. 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. All discovery is stayed during the pendency of the district court motion in *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, each alleging civil violations of the Ohio Corrupt Activity Act and related claims 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 (Conservation Support Rider) 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. On August 13, 2021, new defendants were added to the complaint, including two former officers of FirstEnergy. On December 2, 2021, the cities and FE entered a stipulated dismissal with prejudice of the cities' suit. After a stay, pending final resolution of the United States v. Larry Householder, et al. criminal proceeding described above, the litigation has resumed pursuant to an order, dated March 15, 2023. Discovery is ongoing. On July 31, 2023, FE and other defendants filed motions to dismiss in part the OAG's section amended complaint, which the OAG opposed. On February 16, 2024, the OAG moved to stay the case in its entirety in light of the February 9, 2024, indictments against defendants in this action.

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, Ohio, 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 current and former 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 23, 2022.

The settlement includes a series of corporate governance enhancements and a payment to FE of $180 million, to be paid by insurance after the judgment has become final, less approximately $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 S.D. Ohio denied that motion on May 22, 2023. On June 15, 2023, the purported FE stockholder filed an appeal in the U.S. Court of Appeals for the Sixth Circuit. On February 16, 2024, the U.S. Court of Appeals for the Sixth Circuit affirmed the district court's final settlement approval. Once all appeal options are exhausted the judgement will become final. The settlement agreement is expected to resolve fully these shareholder derivative lawsuits.

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. On September 29, 2023, the N.D. Ohio issued a stay of the case pending the appeal in the U.S. Court of Appeals for the Sixth Circuit.

In letters dated January 26, and February 22, 2021, staff of FERC's Division of Investigations notified FirstEnergy that the Division was 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. FE paid the civil penalty on January 4, 2023 and it will not be recovered from customers. The first annual compliance monitoring report was submitted in December 2023.

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 Penn's normal business operations pending against Penn. The loss or range of loss in these matters is not expected to be material to Penn. The other potentially material items not otherwise discussed above are described under Note 9, "Regulatory Matters."

Penn 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 Penn 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 Penn 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 Penn's financial condition, results of operations and cash flows.

11. TRANSACTIONS WITH AFFILIATED COMPANIES

Penn's revenue, 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 Penn during the years ended December 31, 2023 and 2022 were as follows:

	For the Years Ended December 31,	
	2023	2022
	(In millions)	
Revenues[(1)]	$ 1	$ 1
Expenses:		
Support services	24	20
Miscellaneous Income	1	1
Interest expense	—	2

[(1)] Includes ground lease revenues from ATSI. See Note 5, "Leases" for additional information.

FE does not bill directly or allocate any of its costs to any subsidiary company. FESC provides corporate support and other services, including executive administration, accounting and finance, risk management, human resources, corporate affairs, communications, information technology, legal services and other similar services at cost, in accordance with its cost allocation manual, to affiliated FirstEnergy companies under FESC agreements. 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.

Penn 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. Penn 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 Penn, 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 8, "Short-Term Borrowings and Bank Lines of Credit").

Penn 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 such that FE no longer reallocates such tax benefits to the FE subsidiaries. See Note 4, "Taxes" for additional information.