ALLEGHENY GENERATING COMPANY

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

GLOSSARY OF TERMS

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

AE Supply	Allegheny Energy Supply Company, LLC, an unregulated affiliated company
AGC	Allegheny Generating Company, a generation subsidiary of MP
FE	FirstEnergy Corp., a publicly owned holding company
FESC	FirstEnergy Service Company, which provides legal, financial and other corporate support services
FirstEnergy	FirstEnergy Corp., together with its consolidated subsidiaries
MP	Monongahela Power Company, a West Virginia electric utility operating affiliated company

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

Bath Power Station	Bath County Pumped Storage Hydro-Power Station
AFUDC	Allowance for Funds Used During Construction
ASC	Accounting Standard Codification
ASU	Accounting Standards Update
FASB	Financial Accounting Standards Board
EPA	United States Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
GAAP	Accounting Principles Generally Accepted in the United States of America
IRS	Internal Revenue Service
kV	Kilovolt
LS Power	LS Power Equity Partners, LP
MW	megawatts
NOL	Net Operating Loss
SEC	United States Securities and Exchange Commission
Tax Act	Tax Cuts and Jobs Act adopted December 22, 2017
VEPCO	Virginia Electric and Power Company
VSCC	Virginia State Corporation Commission

Report of Independent Auditors

To Management and the Board of Directors
Of Allegheny Generating Company

We have audited the accompanying financial statements of Allegheny Generating Company (the “Company”), which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of income, of common stockholder’s equity, and of cash flows for the years then ended.

Management's Responsibility 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; this includes 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.

Auditors’ Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Allegheny Generating Company as of December 31, 2019 and 2018, 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.

/s/ PricewaterhouseCoopers LLP
Cleveland, Ohio
March 4, 2020

ALLEGHENY GENERATING COMPANY
STATEMENTS OF INCOME

(In thousands)	For the Years Ended December 31, 2019	2018
REVENUES	$ 22,884	$ 24,917
OPERATING EXPENSES:		
Other operating expenses	3,813	3,691
Provision for depreciation	5,770	5,692
General taxes	1,269	1,262
Total operating expenses	10,852	10,645
OPERATING INCOME	12,032	14,272
OTHER INCOME (EXPENSE):		
Miscellaneous income, net	87	280
Interest expense	(1,826)	(7,968)
Total other expense	(1,739)	(7,688)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES (BENEFITS)	10,293	6,584
INCOME TAXES (BENEFITS)	2,101	(290)
INCOME FROM CONTINUING OPERATIONS	8,192	6,874
Discontinued operations (net of income tax benefit of $3,511 in 2018)	—	120,992
NET INCOME	$ 8,192	$ 127,866

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

ALLEGHENY GENERATING COMPANY
BALANCE SHEETS

(In thousands, except share amounts)	December 31, 2019	December 31, 2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 25,000	$ —
Receivables - affiliated companies	3,601	4,892
Materials and supplies, at average cost	1,291	1,317
Prepaid taxes and other	925	4,174
	30,817	10,383
UTILITY PLANT:		
In service	201,026	225,006
Less — Accumulated provision for depreciation	42,260	43,788
	158,766	181,218
Construction work in progress	2,331	6,369
	161,097	187,587
	$ 191,914	$ 197,970
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES:		
Accounts payable-		
Affiliated companies	$ 2,155	$ 2,786
Other	677	556
Short-term borrowings - affiliated companies	2,160	39,513
Accrued taxes	860	1,170
Accrued interest	99	—
Other	70	106
	6,021	44,131
CAPITALIZATION:		
Common stockholders' equity-		
Common stock, $1 par value, 5,000 shares authorized - 451 shares outstanding	1	1
Other paid-in capital	57,947	53,301
Retained earnings	5,225	21,033
Total common stockholders' equity	63,173	74,335
Long-term debt and other long-term obligations	49,645	—
	112,818	74,335
NONCURRENT LIABILITIES:		
Accumulated deferred income taxes	18,411	23,157
Accumulated deferred investment tax credits	18,793	20,113
Regulatory liabilities	35,862	36,227
Other	9	7
	73,075	79,504
COMMITMENTS AND CONTINGENCIES (NOTE 9)		
	$ 191,914	$ 197,970

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

ALLEGHENY GENERATING COMPANY
STATEMENTS OF COMMON STOCKHOLDERS' EQUITY

(In thousands, except share amounts)	Common Stock Number of Shares	Common Stock Carrying Value	Other Paid-in Capital	Retained Earnings	Total Stockholders' Equity
Balance, January 1, 2018	1,109	$ 1	$ 128,404	$ 23,377	$ 151,782
Net income				127,866	127,866
Consolidated tax benefit allocation			431		431
Reacquisition of common stock	(658)		(75,534)		(75,534)
Cash dividends declared on common stock				(130,210)	(130,210)
Balance, December 31, 2018	451	$ 1	$ 53,301	$ 21,033	$ 74,335
Net income				8,192	8,192
Consolidated tax benefit allocation			4,646		4,646
Cash dividends declared on common stock				(24,000)	(24,000)
Balance, December 31, 2019	451	$ 1	$ 57,947	$ 5,225	$ 63,173

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

ALLEGHENY GENERATING COMPANY
STATEMENTS OF CASH FLOWS

(In thousands)	For the Years Ended December 31, 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 8,192	$ 127,866
Adjustments to reconcile net income to net cash from operating activities-		
Depreciation, amortization, and deferred debt-related costs	6,899	13,555
Deferred income taxes and investment tax credits, net	(7,559)	(8,207)
Discontinued operations	—	(120,992)
Changes in current assets and liabilities-		
Receivables	5,938	5,364
Materials and supplies	26	(97)
Prepaid taxes and other current assets	3,249	(3,245)
Accounts payable	(510)	2,305
Accrued taxes	(310)	(72,395)
Accrued interest	99	(2,333)
Other	(16)	(865)
Net cash provided from (used for) operating activities	16,008	(59,044)
CASH FLOWS FROM FINANCING ACTIVITIES:		
New financing-		
Long-term debt	50,000	—
Short-term borrowings - affiliated companies, net	—	39,513
Redemptions and repayments-		
Long-term debt	—	(100,000)
Short-term borrowings - affiliated companies, net	(37,353)	(32,232)
Common stock dividend payments	(24,000)	(130,210)
Reacquisition of common stock	—	(75,534)
Tender premiums paid on debt redemptions	—	(5,744)
Other	(376)	—
Net cash used for financing activities	(11,729)	(304,207)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(1,500)	(6,749)
Proceeds from asset sale	22,221	370,000
Net cash provided from investing activities	20,721	363,251
Net change in cash, cash equivalents, and restricted cash	25,000	—
Cash, cash equivalents, and restricted cash at beginning of period	—	—
Cash, cash equivalents, and restricted cash at end of period	$ 25,000	$ —
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the year-		
Interest (net of amounts capitalized)	$ 1,705	$ 3,617
Income taxes, net of refunds	$ 1,996	$ 82,884

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

ALLEGHENY GENERATING 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.

AGC is incorporated in Virginia. Prior to May 3, 2018, AGC was 59% owned by AE Supply and 41% owned by MP. AE Supply and MP are wholly owned subsidiaries of FE. On May 3, 2018, following the closing of the sale of approximately 59% of AGC's interest in Bath Power Station, AE Supply's interest in AGC was repurchased and AGC became a wholly owned subsidiary of MP. As of May 3, 2018, AGC held an undivided 16.25% interest (487 MWs) in the output of Bath Power Station and an undivided 40% interest in its connecting transmission facilities; prior to May 3, 2018, AGC held an undivided 40% interest (1,200 MWs) in both the hydroelectric station and the connecting transmission facilities. This station is operated by the majority owner, Virginia Electric and Power Company, a non-affiliated utility. Prior to May 3, 2018, AGC provided the generation capacity from this station to AE Supply and MP; as of May 3, 2018, AGC provides the generation capacity from this station to MP. On November 15, 2019, AGC's undivided 40% interest in its connecting transmission facilities was sold to VEPCO.

AGC is subject to regulation by the VSCC and FERC.

The preparation of financial statements in conformity with GAAP requires management to make periodic estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. Actual results could differ from these estimates. The reported results of operations are not necessarily indicative of results of operations for any future period. AGC has evaluated events and transactions for potential recognition or disclosure through March 4, 2020, the date the financial statements were issued.

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

CUSTOMER RECEIVABLES

Revenues of AGC are determined under a "cost-of-service" wholesale rate schedule approved by FERC. Under this arrangement, AGC recovers in revenues from its owner, MP, its operation and maintenance expenses, depreciation, taxes other than income taxes, income tax expense at the statutory rate and a component for debt and equity return on its investment. In return, MP receives AGC's share of the power generated by the station.

ACCOUNTING FOR THE EFFECTS OF REGULATION

Regulatory assets represent incurred costs that have been deferred because of their probable future recovery from customers through regulated rates. Regulatory liabilities represent amounts that are expected to be credited to customers through future regulated rates or amounts collected from customers for costs not yet incurred. AGC nets its regulatory assets and liabilities based on federal and state jurisdictions. AGC considers the entire regulatory asset balance as the unit of account for the purposes of balance sheet classification rather than the next years recovery and as such net regulatory assets and liabilities are presented in the non-current section on the AGC Balance Sheets.

Management assesses the probability of recovery of regulatory assets at each balance sheet date and whenever new events occur. Similarly, Management records regulatory liabilities when a determination is made that a refund is probable or when ordered by a commission. Factors that may affect probability include changes in the regulatory environment, issuance of a regulatory commission order or passage of new legislation. If recovery of a regulatory asset is no longer probable, that regulatory asset is written off as a charge against earnings. Management applies judgment in evaluating the evidence available to assess the probability of recovery of regulatory assets from customers, including, but not limited to evaluating evidence related to precedent for similar items at the Company and information on comparable companies within similar jurisdictions, as well as assessing progress of communications between the Company and regulators.

The following table provides information about the composition of net regulatory assets and liabilities as of December 31, 2019 and December 31, 2018, and the changes during the year ended December 31, 2019:

Net Regulatory Liabilities by Source	December 31, 2019	December 31, 2018	Change
		(In millions)	
Customer payables for future income taxes	$ (36)	$ (36)	$ —
Net Regulatory Liabilities included on the Balance Sheets	$ (36)	$ (36)	$ —

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 tax rate changes such as the Tax Act. These amounts are being amortized over the period in which the related deferred tax asset reverse, which is generally over the expected life of the underlying asset. See Note 4, "Taxes" for further discussion on the Tax Act.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment reflects original cost, including payroll and related costs such as taxes, employee benefits, administrative and general costs, and interest costs incurred to place the assets in service. The costs of normal maintenance, repairs and minor replacements are expensed as incurred. AGC recognizes liabilities for planned major maintenance projects as they are incurred.

AGC evaluates long-lived assets classified as held and used for impairment when events or changes in circumstances indicate the carrying value of the long-lived assets may not be recoverable. First, the 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.

Jointly-Owned Plants

As noted above, AGC, owns an undivided 16.25% interest (487 MWs) in a 3,003 MW pumped storage, hydroelectric station in Bath County, Virginia, operated by the 60% owner, VEPCO, a non-affiliated utility. Net Property, plant and equipment includes $161 million, representing AGC's share in this facility as of December 31, 2019. AGC is obligated to pay its share of the costs of this jointly-owned facility in the same proportion as its ownership interest using its own financing. AGC provides the generation capacity from this facility to is owner, MP.

In January 2017, AE Supply and AGC entered into an asset purchase agreement with a subsidiary of LS Power to sell approximately 59% of AGC's interest in Bath Power Station's generation (713 MWs), which closed in May 2018, as discussed in Note 3, "Discontinued Operations."

Prior to November 2019, AGC owned an undivided 40% interest in in the Bath County Pumped Storage Station connecting transmission facilities. As discussed in Note 8, "Regulatory Matters," AGC transferred its interest in the transmission facilities to VEPCO in November 2019.

INVESTMENTS

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

NEW ACCOUNTING PRONOUNCEMENTS

Recently Issued Pronouncements - The following new authoritative accounting guidance issued by the FASB has not yet been adopted. Unless otherwise indicated, AGC is currently assessing the impact such guidance may have on its financial statements and disclosures, as well as the potential to early adopt where applicable. AGC has assessed other FASB issuances of new standards not described below and has not included these standards based upon the current expectation that such new standards will not significantly impact AGC's financing reporting.

ASU 2018-15, "*Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*" (Issued August 2018): ASU 2018-15 requires implementation costs incurred by customers in cloud computing arrangements to be deferred and recognized over the term of the arrangement, if those costs would be capitalized by the customers in a software licensing arrangement. The guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. AGC does not expect a material impact to its financial statements upon adoption in 2020.

ASU 2019-12, *"Simplifying the Accounting for Income Taxes"* (Issued in December 2019): ASU 2019-12 enhances and simplifies various aspects of the income tax accounting guidance including the elimination of certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The new guidance also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted.

2. REVENUE

AGC 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 new standard and accounted for under other existing GAAP. AGC 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 AGC are not subject to the election and are included in revenue. AGC has elected the optional invoice practical expedient for most of its revenues, which eliminates the need to provide certain revenue disclosures regarding unsatisfied performance obligations.

Wholesale sales consist of generation and capacity sales to MP under a "cost of service" rate schedule approved by FERC. Capacity revenues are recognized ratably over the PJM planning year at prices cleared in the annual BRA and incremental auctions. Capacity purchases and sales through PJM capacity auctions are reported within revenues on the Income Statement. Certain capacity income (bonuses) and charges (penalties) related to the availability of units that have cleared in the auctions are unknown and not recorded in revenue until, and unless, they occur.

Wholesale revenues for the year ended December 31, 2019 and 2018 were approximately $23 million and $25 million, respectively. These amounts include approximately $1 million for both the years ended December 31, 2019 and 2018, in reductions to revenue related to amounts subject to refund resulting from the Tax Act.

3. DISCONTINUED OPERATIONS

As discussed in Note 8, "Regulatory Matters," in January 2017, AE Supply and AGC entered into an asset purchase agreement with a subsidiary of LS Power, as amended and restated in August 2017, to sell four natural gas generating plants, AE Supply's interest in the Buchanan Generating facility and approximately 59% of AGC's interest in Bath Power Station (1,615 MWs of combined capacity), which sale was completed on May 3, 2018.

Summarized results of discontinued operations for the year ended December 31, 2018 are as follows:

	For the Years Ended December 31, 2018
	(In thousands)
Revenues:	
Electric sales to non-affiliates	$ 8,143
Total revenues	8,143
Operating Expenses:	
Operating and maintenance expenses	1,346
General taxes	620
Total operating expenses	1,966
Other income (expense)	
Gain on asset sale	112,388
Interest expense	(1,084)
Total other income	111,304
Income from discontinued operations before income tax benefits	117,481
Income tax benefit(1)	3,511
Income from discontinued operations, net of tax	$ 120,992

(1) In conjunction with the sale of an interest in Bath County, AGC wrote off and recognized as a benefit in discontinued operations in the second quarter of 2018 its excess deferred tax liabilities of $32 million, created from the Tax Act, since they are not required to be refunded to rate payers.

4. TAXES

AGC 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.

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

INCOME TAXES (BENEFITS): [(1)]	For the Years Ended December 31, 2019	2018
	(In thousands)	
Currently payable-		
Federal	$ 3,302	$ 7,553
State	6,358	364
	9,660	7,917
Deferred, net-		
Federal	(6,124)	(6,719)
State	(115)	(168)
	(6,239)	(6,887)
Investment tax credit amortization	(1,320)	(1,320)
Total income taxes (benefits)	$ 2,101	$ (290)

[(1)] Provision for income taxes (benefits) on continuing operations. Currently payable in 2018 excludes $69 million and $5 million of federal and state taxes, respectively, associated with discontinued operations. Deferred, net in 2018, excludes ($75) million and ($2) million of federal and state tax benefits, respectively, associated with discontinued operations.

AGC'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, 2019 and 2018:

(In thousands)	For the Years Ended December 31, 2019	2018
Book income from continuing operations before income taxes	$ 10,293	$ 6,584
Federal income tax expense at statutory rate	$ 2,162	$ 1,383
Increases (reductions) in taxes resulting from-		
State income tax, net of federal income tax benefit	5,304	141
Amortization of deferred investment tax credits	(1,320)	(1,320)
Excess deferred tax amortization due to the Tax Act	(869)	(511)
Federal RTA adjustment resulting from sale of Bath Hydro	(3,122)	—
Other	(54)	17
Total income taxes (benefits)	$ 2,101	$ (290)
Effective income tax rate	20.4%	(4.4)%

AGC's effective tax rate on pre-tax income for 2019 and 2018 was 20.4% and (4.4)%, respectively. The increase in the effective tax rate was primarily due to true-ups associated with the sale of the Bath Hydro plant, including state tax expense of $4,718 thousand, partially offset with a federal tax benefit of $3,122 thousand.

Accumulated deferred income taxes as of December 31, 2019 and 2018, were as follows:

(In thousands)	As of December 31, 2019	As of December 31, 2018
Property basis differences	$ 24,922	$ 29,369
Unamortized investment tax credits	(5,629)	(6,024)
Disallowed interest carryforward	(1,448)	(1,526)
Valuation allowance on disallowed interest carryforward	1,448	1,526
Other	(882)	(188)
Net deferred income tax liabilities	$ 18,411	$ 23,157

AGC has recorded as deferred income tax assets the effect of NOLs and tax credits that will more likely than not be realized through future operations and through the reversal of existing temporary differences. As of December 31, 2019, AGC's deferred income tax assets attributable to loss carryforwards and tax credits were immaterial.

AGC 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. For the years ended December 31, 2019 and 2018, AGC did not record any unrecognized tax benefits, nor does AGC have a reserve for any uncertain tax positions.

AGC 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 2019 and 2018, AGC did not record any interest related to uncertain tax positions, nor did AGC have cumulative net interest payable recorded on its balance sheets.

For federal income tax purposes, AGC files as a member of the FE consolidated group. In June 2019, the IRS completed its examination of FirstEnergy's 2017 federal income tax return and issued a Full Acceptance Letter with no changes or adjustments to AGC's taxable income. Tax year 2018 is currently under review by the IRS. AGC has tax returns under review by state taxing authorities at the audit or appeals level for tax years 2016-2018.

General Taxes

General taxes associated with real and personal property taxes were $1.3 million for the years ended December 31, 2019 and 2018.

5. 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, AGC believes that their costs should approximate their fair market value. The following table provides the approximate fair value and related carrying value of long-term debt and other long-term obligations:

	December 31, 2019		December 31, 2018	
(In millions)	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Long-term debt	$ 50	$ 55	$ —	$ —

The fair values of long-term debt and other long-term obligations reflect the present value of the cash outflows relating to those securities based on the current call price, the yield to maturity or the yield to call, as deemed appropriate at the end of each respective period. The yields assumed were based on securities with similar characteristics offered by corporations with credit ratings similar to those of AGC. AGC classified short-term borrowings, long-term debt and other long-term obligations as Level 2 in the fair value hierarchy as of December 31, 2019 and December 31, 2018.

6. CAPITALIZATION

COMMON STOCK

In addition to paying dividends from retained earnings, AGC has authorization from the FERC to pay cash dividends to AE Supply and MP from paid-in capital accounts, as long as its FERC-defined equity-to-total-capitalization ratio remains above 45%.

Treasury Stock

On May 3, 2018, following the closing of the sale of approximately 59% of AGC's interest in Bath County, AE Supply’s interest in AGC (658 shares) was repurchased for approximately $76 million and AGC became a wholly owned subsidiary of MP.

LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS

On June 5, 2019, AGC issued $50 million of 4.47% senior unsecured notes due 2029. Proceeds from the issuance of the senior notes were used to improve liquidity, re-establish the debt component within its capital structure following the recent redemption of all of its existing long-term debt, and satisfy working capital requirements and other general corporate purposes.

7. SHORT-TERM BORROWINGS AND BANK LINES OF CREDIT

AGC had $2 million and $40 million of outstanding short-term borrowings as of December 31, 2019 and 2018, respectively.

FirstEnergy Money Pool

AGC has the ability to borrow from FE's unregulated companies and FE to meet its short-term working capital requirements but AGC is not permitted to lend to either FE's unregulated companies or FE. FESC administers this money pool and tracks surplus funds of FE and applicable subsidiaries, as well as proceeds available from bank borrowings. Companies receiving a loan under the money pool agreement must repay the principal amount of the loan, together with accrued interest, within 364 days of borrowing the funds. The rate of interest is the same for each company receiving a loan from the pool and is based on the average cost of funds available through the pool. The average interest rate for borrowings in 2019 was 2.74% per annum.

8. REGULATORY MATTERS

FERC REGULATORY MATTERS

Competitive Generation Asset Sale

FirstEnergy announced in January 2017 that AE Supply and AGC had entered into an asset purchase agreement with a subsidiary of LS Power, as amended and restated in August 2017, to sell, among other assets, approximately 59% of AGC's interest in Bath Power Station (1,615 MWs of combined capacity) which was completed on May 3, 2018. In connection with its obligations under the asset purchase agreement, proceeds from the sales were used to redeem $100 million aggregate principal amount of outstanding AGC senior notes, which required payment of approximately $6 million in make-whole premiums. Also on May 3, 2018, following closing of the sale by AGC of a portion of its ownership interest in Bath Power Station, AGC completed the redemption of AE Supply's shares in AGC and AGC became a wholly owned subsidiary of MP.

BATH County Transmission Asset Sale

On August 30, 2019, AGC and VEPCO submitted a joint application for FERC authorization for AGC to sell its 40 percent undivided ownership interest in the transmission assets associated with the Bath County Pumped Storage Station (“Bath Transmission Facilities”) to VEPCO, a subsidiary of Dominion Energy, Inc., for approximately $22.5 million, in an all-cash transaction. The Bath Transmission Facilities include: the 500 kilovolt Bath-Valley transmission line in Rockingham County, Virginia; the 500 kV transmission line from the Lexington Substation in Rockbridge County; and certain protective relaying, control and communications equipment located in the Bath County Facility Substation. The VSCC issued an order approving the sale for the Bath Transmission Facilities on July 19, 2019. FERC approved the application on November 7, 2019, and the parties closed the transaction on November 15, 2019. The transfer occurred at the net book value of the transferred ownership interest.

On August 30, 2019, VEPCO submitted an application to amend its transmission formula rate to recover the costs associated with the Bath Transmission Facilities upon consummation of the transaction. Furthermore, VEPCO submitted an application on August 30, 2019 to amend the interconnection agreement associated with the Bath Transmission Facilities to reflect the change in ownership from AGC to VEPCO. VEPCO’s applications were approved by FERC on October 28, 2019.

9. COMMITMENTS AND CONTINGENCIES

ENVIRONMENTAL MATTERS

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

Other Legal Matters

There are various lawsuits, claims and proceedings related to AGC's normal business operations pending against AGC. The loss or range of loss in these matters is not expected to be material to AGC.

AGC 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 AGC 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 AGC has legal liability or is otherwise made subject to liability, it could have a material adverse effect on AGC's financial condition, results of operations and cash flows.

10. TRANSACTIONS WITH AFFILIATED COMPANIES

See the Revenues and Receivables section of Note 1 for a description of costs recovered from AE Supply and MP. In 2019 and 2018, there were additional affiliated company transactions with FESC, a subsidiary of FE, (including capital) for services performed at cost and payments made on behalf of AGC. The primary affiliated company transactions for AGC during the years ended December 31, 2019 and 2018 are as follows:

	For The Years Ended December 31,	
	2019	**2018**
	(In thousands)	
Revenues	$ 24,013	$ 24,917
Expenses:		
Support services	301	289
Miscellaneous income	86	279
Interest expense to affiliates	526	612

FirstEnergy does not bill directly or allocate any of its costs to any subsidiary company. Costs are allocated from FESC. The majority of costs are directly billed or assigned at no more than cost. The remaining 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. The current allocation or assignment formulas used and their bases include multiple factor formulas: each company's proportionate amount of FirstEnergy's aggregate direct payroll, number of employees, asset balances, revenues, number of customers, other factors and specific departmental charge ratios. Intercompany transactions with FirstEnergy and its other subsidiaries are generally settled under commercial terms within thirty days.

Affiliate accounts receivable and accounts payable balances relate to intercompany transactions that have not yet settled through the FirstEnergy money pool (see Note 7, "Short-Term Borrowings and Bank Lines of Credit").

AGC and FirstEnergy's other subsidiaries, including FES and FENOC, are parties to an intercompany income tax allocation agreement with FE and its other subsidiaries that provides for the allocation of consolidated tax liabilities. Net tax benefits attributable to FE are generally reallocated to the subsidiaries of FirstEnergy that have taxable income. That allocation is accounted for as a capital contribution to the company receiving the tax benefit (see Note 4, "Taxes").