

FIRSTENERGY TRANSMISSION, LLC AND SUBSIDIARIES
AUDITED CONSOLIDATED 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 FirstEnergy Transmission, LLC and its current and former subsidiaries and affiliated companies:

AE Supply	Allegheny Energy Supply Company, LLC, an unregulated affiliated company
ATSI	American Transmission Systems, Incorporated, formerly a direct subsidiary of FE that became a subsidiary of FET in April 2012, which owns and operates transmission facilities
CEI	The Cleveland Electric Illuminating Company, an Ohio electric utility operating affiliated company
FE	FirstEnergy Corp., a public utility holding company
FENOC	FirstEnergy Nuclear Operating Company, a subsidiary of FE, which operates nuclear generating facilities
FES	FirstEnergy Solutions Corp., together with its consolidated subsidiaries, which provides energy-related products and services
FESC	FirstEnergy Service Company, which provides legal, financial and other corporate support services
FET	FirstEnergy Transmission, LLC, formerly known as Allegheny Energy Transmission, LLC, which is the parent of ATSI, MAIT and TrAIL and has 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
GPU	GPU, Inc., former parent of JCP&L, ME and PN, that merged with FE on November 7, 2001
JCP&L	Jersey Central Power & Light Company, a New Jersey electric utility operating affiliated company
MAIT	Mid-Atlantic Interstate Transmission, LLC, a subsidiary of FET, which owns and operates transmission facilities
ME	Metropolitan Edison Company, a Pennsylvania electric utility operating affiliated company
MP	Monongahela Power Company, a West Virginia electric utility operating affiliated company
OE	Ohio Edison Company, an Ohio electric utility operating affiliated company
Ohio Companies	CEI, OE and TE
PATH	Potomac-Appalachian Transmission Highline, LLC, a joint venture between FE and a subsidiary of AEP
PATH-Allegheny	PATH Allegheny Transmission Company, LLC
PATH-WV	PATH West Virginia Transmission Company, LLC
PE	The Potomac Edison Company, a Maryland and West Virginia electric utility operating affiliated company
Penn	Pennsylvania Power Company, a Pennsylvania electric utility operating subsidiary of OE
PN	Pennsylvania Electric Company, a Pennsylvania electric utility operating affiliated company
TE	The Toledo Edison Company, an Ohio electric utility operating affiliated company
TrAIL	Trans-Allegheny Interstate Line Company, a subsidiary of FET, which owns and operates transmission facilities
Utilities	OE, CEI, TE, Penn, JCP&L, ME, PN, MP, PE and WP
WP	West Penn Power Company, a Pennsylvania electric utility operating affiliated company

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

ADIT	Accumulated Deferred Income Taxes
AEP	American Electric Power Company, Inc.
AFUDC	Allowance for Funds Used During Construction
ASC	Accounting Standard Codification
ASU	Accounting Standards Update
D.C. Circuit	United States Court of Appeals for the District of Columbia Circuit
ERO	Electric Reliability Organization
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FPA	Federal Power Act
GAAP	Accounting Principles Generally Accepted in the United States of America
IRS	Internal Revenue Service
MISO	Midcontinent Independent System Operator, Inc.
NERC	North American Electric Reliability Corporation
NOL	Net Operating Loss
OPEB	Other Post-Employment Benefits
PJM	PJM Interconnection, L.L.C.
PJM Region	The aggregate of the zones within PJM
PJM Tariff	PJM Open Access Transmission Tariff
RFC	ReliabilityFirst Corporation
ROE	Return on Equity
RTO	Regional Transmission Organization
Tax Act	Tax Cuts and Jobs Act adopted December 22, 2017

Report of Independent Auditors

To Management and the Board of Directors
Of FirstEnergy Transmission, LLC

We have audited the accompanying consolidated financial statements of FirstEnergy Transmission, LLC and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of income, of equity, and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of FirstEnergy Transmission, LLC and its subsidiaries as of December 31, 2019 and 2018, and the results of their operations and their 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

FIRSTENERGY TRANSMISSION, LLC
CONSOLIDATED STATEMENTS OF INCOME

<i>(In millions)</i>	For the Years Ended December 31,	
	2019	2018
REVENUES	\$ 1,234	\$ 1,065
OPERATING EXPENSES:		
Other operating expenses	195	174
Provision for depreciation	216	190
Amortization/deferral of regulatory assets/liabilities, net	13	14
General taxes	199	183
Total operating expenses	623	561
OPERATING INCOME	611	504
OTHER INCOME (EXPENSE):		
Miscellaneous income, net	13	6
Pension and OPEB mark-to-market adjustment	(48)	(8)
Interest expense	(177)	(148)
Capitalized financing costs	28	36
Total other expense	(184)	(114)
INCOME BEFORE INCOME TAXES	427	390
INCOME TAXES	79	77
NET INCOME	348	313
Income attributable to noncontrolling interest	59	51
EARNINGS AVAILABLE TO PARENT	<u>\$ 289</u>	<u>\$ 262</u>

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

FIRSTENERGY TRANSMISSION, LLC
CONSOLIDATED BALANCE SHEETS

<i>(In millions)</i>	December 31, 2019	December 31, 2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 71	\$ 85
Receivables-		
Affiliated companies	63	2
Other, net of allowance for uncollectible accounts of \$4 in 2019 and less than \$1 in 2018	53	63
Notes receivable from affiliated companies	516	120
Prepaid taxes and other	20	20
	<u>723</u>	<u>290</u>
PROPERTY, PLANT AND EQUIPMENT:		
In service	9,114	8,272
Less — Accumulated provision for depreciation	1,722	1,590
	<u>7,392</u>	<u>6,682</u>
Construction work in progress	404	433
	<u>7,796</u>	<u>7,115</u>
OTHER PROPERTY AND INVESTMENTS:		
Investment in non-affiliated companies	18	17
Other	6	6
	<u>24</u>	<u>23</u>
DEFERRED CHARGES AND OTHER ASSETS:		
Goodwill	224	224
Regulatory assets	2	3
Property taxes	227	202
Operating lease right-of-use asset	414	—
Other	8	9
	<u>875</u>	<u>438</u>
	<u>\$ 9,418</u>	<u>\$ 7,866</u>
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES:		
Short-term borrowings - affiliated companies	\$ 325	\$ 24
Accounts payable-		
Affiliated companies	61	23
Other	—	1
Accrued taxes	204	190
Accrued interest	54	48
Other	7	—
	<u>651</u>	<u>286</u>
CAPITALIZATION:		
Member's equity	1,055	1,052
Retained earnings	1,057	918
Total member's equity	<u>2,112</u>	<u>1,970</u>
Noncontrolling interest	751	754
Total equity	<u>2,863</u>	<u>2,724</u>
Long-term debt and other long-term obligations	3,846	3,250
	<u>6,709</u>	<u>5,974</u>
NONCURRENT LIABILITIES:		
Accumulated deferred income taxes	983	851
Property taxes	227	201
Regulatory liabilities	400	503
Noncurrent operating lease obligation	408	—
Other	40	51
	<u>2,058</u>	<u>1,606</u>
COMMITMENTS AND CONTINGENCIES (NOTE 9)		
	<u>\$ 9,418</u>	<u>\$ 7,866</u>

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

FIRSTENERGY TRANSMISSION, LLC
CONSOLIDATED STATEMENTS OF EQUITY

<i>(In millions)</i>	Member's Equity	Retained Earnings	Noncontrolling Interest	Total Equity
Balance, January 1, 2018	\$ 1,050	\$ 956	\$ 750	\$ 2,756
Net income		262	51	313
Consolidated tax benefit allocation	2			2
Cash dividends paid to common stockholders		(300)	—	(300)
Cash dividends paid to noncontrolling interest			(47)	(47)
Balance, December 31, 2018	\$ 1,052	\$ 918	\$ 754	\$ 2,724
Net income		289	59	348
Consolidated tax benefit allocation	3			3
Cash dividends paid to common stockholders		(150)		(150)
Cash dividends paid to noncontrolling interest			(62)	(62)
Balance, December 31, 2019	<u>\$ 1,055</u>	<u>\$ 1,057</u>	<u>\$ 751</u>	<u>\$ 2,863</u>

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

FIRSTENERGY TRANSMISSION, LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(In millions)</i>	For the Years Ended December 31,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 348	\$ 313
Adjustments to reconcile net income to net cash from operating activities-		
Depreciation and amortization/deferral of regulatory assets/liabilities, net	247	218
Pension and OPEB mark-to-market adjustment	48	8
Retirement benefits, net of payments	(3)	(3)
Deferred income taxes and investment tax credits, net	108	110
Allowance for equity funds used during construction	(22)	(31)
Transmission revenue collections, net	(59)	26
Changes in current assets and liabilities-		
Receivables	(37)	70
Prepaid taxes and other current assets	—	(3)
Accounts payable	(35)	(16)
Accrued taxes	14	17
Accrued interest	6	3
Other	(14)	(19)
Net cash provided from operating activities	601	693
CASH FLOWS FROM FINANCING ACTIVITIES:		
New financing-		
Long-term debt	600	550
Short-term borrowings - affiliated companies, net	313	11
Redemptions and repayments-		
Short-term borrowings - affiliated companies, net	(12)	(345)
Cash dividends paid to noncontrolling shareholder	(62)	(47)
Common stock dividend payments	(150)	(300)
Other	(6)	(6)
Net cash provided from (used for) financing activities	683	(137)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(830)	(818)
Loans to affiliated companies, net	(396)	314
Asset removal costs	(65)	(51)
Other	(7)	1
Net cash used for investing activities	(1,298)	(554)
Net change in cash, cash equivalents, and restricted cash	(14)	2
Cash, cash equivalents, and restricted cash at beginning of period	85	83
Cash, cash equivalents, and restricted cash at end of period	\$ 71	\$ 85
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid (received) during the year-		
Interest (net of amounts capitalized)	\$ 160	\$ 138
Income taxes, net of refunds	\$ 30	\$ (85)

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

FIRSTENERGY TRANSMISSION, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

<u>Note Number</u>		<u>Page Number</u>
1	Organization and Basis of Presentation	6
2	Revenue	8
3	Taxes	9
4	Leases	11
5	Fair Value Measurements	13
6	Capitalization	13
7	Short-Term Borrowings and Bank Lines of Credit	14
8	Regulatory Matters	14
9	Commitments and Contingencies	16
10	Transactions with Affiliated Companies	16
Exhibit	Schedule A - Consolidating Statements (Unaudited)	18

FIRSTENERGY TRANSMISSION, LLC
NOTES TO FINANCIAL STATEMENTS (Continued)

1. ORGANIZATION AND BASIS OF PRESENTATION

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

FET, a subsidiary of FE, is the parent of ATSI, MAIT, PATH and TrAIL. Through its subsidiaries, FET owns and operates high-voltage transmission facilities in the PJM Region. FET's subsidiaries are subject to regulation by FERC and applicable state regulatory authorities.

FET follows GAAP and complies with the regulations, orders, policies and practices prescribed by FERC and applicable state regulatory authorities. The preparation of consolidated 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. FET has evaluated events and transactions for potential recognition or disclosure through March 4, 2020, the date the financial statements were issued.

A consolidated subsidiary of FET, MAIT issued membership interests on January 31, 2017, in exchange for cash and asset contributions from FET, PN and ME.

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

CUSTOMER RECEIVABLES

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

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. FET nets its regulatory assets and liabilities by company. FET 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 FET 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. Certain of these regulatory assets, totaling approximately \$120 million as of December 31, 2019, are recorded based on prior precedent or anticipated recovery based on rate making premises without a specific order.

FIRSTENERGY TRANSMISSION, LLC
NOTES TO FINANCIAL STATEMENTS (Continued)

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

Net Regulatory Assets (Liabilities) by Source	December 31,		Change
	2019	2018	
	<i>(In millions)</i>		
Customer payables for future income taxes	\$ (565)	\$ (570)	\$ 5
Asset removal costs	(62)	(99)	37
Deferred transmission costs	152	96	56
MISO exit fee deferral	74	70	4
Other	3	3	—
Net Regulatory Liabilities included on the Consolidated Balance Sheets	<u>\$ (398)</u>	<u>\$ (500)</u>	<u>\$ 102</u>

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 3, "Taxes" for further discussion on the Tax Act.

Asset removal costs - Primarily represents the rates charged to customers that include a provision for the cost of future activities to remove assets, including obligations for which an asset retirement obligation has been recognized, that are expected to be incurred at the time of retirement.

Deferred transmission costs - Primarily represents differences between revenues earned based on actual costs and the amounts billed. Amounts are recorded as a regulatory asset or liability, and recovered or refunded, respectively, in subsequent periods.

MISO Exit Fee deferral - Comprised of MISO exit fees, which are not earning a return. Recovery is subject to a regulatory proceeding (see Note 8, "Regulatory Matters").

PENSION AND OTHER POSTEMPLOYMENT BENEFITS

FirstEnergy recognizes 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. The remaining components of pension and OPEB expense, primarily service costs, interest on obligations, assumed return on assets and prior service costs, are recorded on a monthly basis. In 2019, the pension and OPEB mark-to-market adjustment primarily reflects a 110 bps decrease in the discount rate used to measure benefit obligations and higher than expected asset returns. During 2019 and 2018, FET's allocated amount of the pension and OPEB mark-to-market adjustments was \$48 million and \$8 million, respectively.

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 interest costs incurred to place the assets in service. The costs of normal maintenance, repairs and minor replacements are expensed as incurred. FET recognizes liabilities for planned major maintenance projects as they are incurred.

FET provides for depreciation on a straight-line basis at various rates over the estimated lives of property included in plant in service. The annual composite rates for FET's subsidiaries' electric plant was 2.5% and 2.4% in 2019 and 2018, respectively.

For the years ended December 31, 2019 and 2018, capitalized financing costs on FET's Consolidated Statements of Income include \$22 million and \$31 million, respectively, of allowance for equity funds used during construction and \$6 million and \$5 million, respectively, of capitalized interest.

FET 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.

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.

FIRSTENERGY TRANSMISSION, LLC
NOTES TO FINANCIAL STATEMENTS (Continued)

PATH, a proposed transmission line from West Virginia through Virginia into Maryland which PJM cancelled in 2012, is a series limited liability company that is comprised of multiple series, each of which has separate rights, powers and duties regarding specified property and the series profits and losses associated with such property. FET owns 100% of the Allegheny Series (PATH-Allegheny) and 50% of the West Virginia Series (PATH-WV), which is a joint venture with a subsidiary of AEP. FET is not the primary beneficiary of PATH-WV, as it does not have control over the significant activities affecting the economics of PATH-WV. FET's ownership interest in PATH-WV is subject to the equity method of accounting. As of December 31, 2019, the carrying value of the equity method investment was \$18 million.

GOODWILL

In a business combination, the excess of the purchase price over the estimated fair values of the assets acquired and liabilities assumed is recognized as goodwill. MAIT (FET's subsidiary) evaluates goodwill for impairment annually on July 31 and more frequently if indicators of impairment arise. In evaluating goodwill for impairment, MAIT assesses qualitative factors to determine whether it is more likely than not (that is, likelihood of more than 50%) that the fair value of a reporting unit is less than its carrying value (including goodwill). If MAIT concludes that it is not more likely than not that the fair value of a reporting unit is less than its carrying value, then no further testing is required. However, if MAIT concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying value or bypasses the qualitative assessment, then the quantitative goodwill impairment test is performed to identify a potential goodwill impairment and measure the amount of impairment to be recognized, if any.

No impairment of goodwill was indicated as a result of testing in 2019 or 2018. In 2019, MAIT performed a qualitative assessment, assessing economic, industry and market considerations in addition to MAIT's overall financial performance. It was determined that the fair value was, more likely than not, greater than its carrying value and a quantitative analysis was not necessary.

NEW ACCOUNTING PRONOUNCEMENTS

Recently Adopted Pronouncements

ASU 2016-02, "*Leases (Topic 842)*" (Issued February 2016 and subsequently updated to address implementation questions): The new guidance requires organizations that lease assets with lease terms of more than 12 months to recognize assets and liabilities for the rights and obligations created by those leases on their balance sheets as well as new qualitative and quantitative disclosures. FET implemented a third-party software tool that assisted with the initial adoption and will assist with ongoing compliance. FET chose to apply the requirements of the standard in the period of adoption (January 1, 2019) with no restatement of prior periods. Upon adoption, on January 1, 2019, FET increased assets and liabilities by approximately \$410 million primarily related to the ATSI intercompany ground lease with the Ohio Companies, with no impact to results of operations or cash flows. See Note 4, "Leases," for additional information on FET's leases.

Recently Issued Pronouncements - The following new authoritative accounting guidance issued by the FASB has not yet been adopted. Unless otherwise indicated, FET 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. FET 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 FET'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. FET 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

FET 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. FET 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 FET are not subject to the election and are included

FIRSTENERGY TRANSMISSION, LLC
NOTES TO FINANCIAL STATEMENTS (Continued)

in revenue. FET 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.

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

The following table represents a disaggregation of revenue from contracts with regulated transmission customers for the years ended December 31, 2019 and 2018, by transmission owner:

Revenues from Contracts with Customers by Transmission Asset Owner	For the Year Ended December 31,	
	2019	2018
	<i>(In millions)</i>	
ATSI	\$ 754	\$ 664
TrAIL	242	237
MAIT	224	150
PATH	1	(1)
Total Revenue from Contracts with Customers ⁽¹⁾	1,221	1,050
Other Non-Customer Revenue	13	15
Total revenues	\$ 1,234	\$ 1,065

⁽¹⁾ Includes \$17 million and \$14 million in reductions to revenue related to amounts subject to refund resulting from the Tax Act for the year ended December 31, 2019 and 2018, respectively.

3. TAXES

FET 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.

FET 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:	For the Years Ended December 31,	
	2019	2018
	<i>(In millions)</i>	
Currently payable (receivable)-		
Federal	\$ (32)	\$ (37)
State	3	4
	<u>(29)</u>	<u>(33)</u>
Deferred, net-		
Federal	87	86
State	22	25
	<u>109</u>	<u>111</u>
Investment tax credit amortization	<u>(1)</u>	<u>(1)</u>
Total income taxes	\$ 79	\$ 77

FIRSTENERGY TRANSMISSION, LLC
NOTES TO FINANCIAL STATEMENTS (Continued)

FET'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:

<i>(In millions)</i>	For the Years Ended December 31,	
	2019	2018
Book income before income taxes	\$ 427	\$ 390
Federal income tax expense at statutory rate	\$ 90	\$ 82
Increases (reductions) in taxes resulting from-		
State income taxes, net of federal income tax benefit	18	16
State and Municipal Valuation Allowances	1	8
AFUDC equity and other flow-through	(5)	(6)
Equity in earnings of subsidiaries	(12)	(11)
Excess deferred amortization due to the Tax Act	(13)	(11)
Remeasurement of deferred taxes	—	(1)
Total income taxes	<u>\$ 79</u>	<u>\$ 77</u>
Effective income tax rate	18.5%	19.7%

FET's effective tax rate on pre-tax income for 2019 and 2018 was 18.5% and 19.7%, respectively. The decrease in the effective tax rate resulted primarily from the absence of \$7 million of valuation allowances recorded against municipal NOLs carryforwards in 2018 that management believes, more likely than not, will not be realized.

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

<i>(In millions)</i>	As of December 31,	
	2019	2018
Property basis differences	\$ 1,062	\$ 970
Regulatory asset/liability	80	61
NOLs	(189)	(206)
Valuation allowances on NOL carryforward	33	32
Other	(3)	(6)
Net accumulated deferred income tax liability	<u>\$ 983</u>	<u>\$ 851</u>

FET 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, FET's loss carryforwards consisted of approximately \$689 million (\$145 million, net of tax) of federal NOL carryforwards which begin to expire in 2031 and approximately \$1.3 billion (\$43 million, net of tax) of state and local NOL carryforwards, which have been partially reserved and will begin to expire in 2020.

FET 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. In 2018, FET reversed all previously recorded unrecognized tax benefits of approximately \$2 million, none of which impacted FET's effective tax rate, and did not record any new reserves in 2019. For the years ended December 31, 2019 and 2018, FET does not have a reserve for any uncertain tax positions.

FET recognizes interest expense or income and penalties related to uncertain tax positions in income taxes. That amount is computed by applying the applicable statutory interest rate to the difference between the tax position recognized and the amount previously taken or expected to be taken on the tax return. During 2019, FET did not record any interest related to uncertain tax positions, and in 2018 FET's recognition of net interest associated with unrecognized tax benefits was not material. For the years ended December 31, 2019 and 2018, FET does not have any cumulative net interest payable on its balance sheet.

For federal income tax purposes, FET 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 FET's taxable income. Tax year 2018 is currently under review by the IRS. FET has tax returns under review by state taxing authorities at the audit or appeals level for tax years 2016-2018.

FIRSTENERGY TRANSMISSION, LLC
NOTES TO FINANCIAL STATEMENTS (Continued)

General Taxes

General taxes associated with Real and personal property taxes for the years ended December 31, 2019 and 2018 were \$199 million and \$183 million, respectively.

4. LEASES

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

FET adopted ASU 2016-02, "*Leases (Topic 842)*" on January 1, 2019, and elected a number of transitional practical expedients provided within the standard. These included a "package of three" expedients that must be taken together and allowed entities to (1) not reassess whether existing contracts contain leases, (2) carryforward the existing lease classification, and (3) not reassess initial direct costs associated with existing leases. In addition, FET elected the option to apply the requirements of the standard in the period of adoption (January 1, 2019) with no restatement of prior periods. Adoption of the standard on January 1, 2019, did not result in a material cumulative effect adjustment upon adoption. FET did not evaluate land easements under the new guidance as they were not previously accounted for as leases. FET also elected not to separate lease components from non-lease components as non-lease components were not material.

FET's subsidiary, ATSI, has a ground lease with OE, Penn, CEI and TE under an operating lease agreement. Land use is rented to ATSI under the terms and conditions of a ground lease approved by FERC. ATSI, OE, Penn, CEI, and TE reserve 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 companies. ATSI makes fixed quarterly lease payments of approximately \$5 million through December 31, 2049, unless terminated prior to maturity, or extended by ATSI for up to 10 additional successive periods of 50 years each.

FET's subsidiary, MAIT has a ground lease with ME and PN under an operating lease agreement. ME and PN reserve the right to use (and to permit authorized others to use) the land for any purpose that does not cause a violation of electrical safety code or applicable law, or does not impair MAIT's ability to satisfy its service obligations. Additional uses of such land for MAIT's facilities requires prior written approval from the applicable operating company. MAIT purchases directly any new property acquired for transmission use. MAIT makes variable quarterly lease payments through January 1, 2043, unless terminated prior to maturity, or extended by MAIT for up to two additional successive periods of 25 years each and one successive term of 24 years. MAIT's lease payment was approximately \$4 million in 2019 and 2018.

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 and certain leases include options to terminate. The exercise of lease renewal options is at FET'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.

Finance leases for assets used in regulated operations are recognized in FET's Statement of Income such that amortization of the right-of-use asset and interest on lease liabilities equals the expense allowed for ratemaking purposes. Finance leases for non-regulated assets are accounted for as if the assets were owned and financed, with associated expense recognized in Interest expense and Provision for depreciation. All operating lease expenses are recognized in Other operating expense.

The components of lease expense for the year ended December 31, 2019 were as follows:

<i>(In millions)</i>	
Operating lease costs	\$ 28
Finance lease costs:	
Amortization of right-of-use assets	1
Interest on lease liabilities	—
Total finance lease cost	1
Total lease cost	\$ 29

⁽¹⁾ Includes \$5 million of short-term lease costs.

FIRSTENERGY TRANSMISSION, LLC
NOTES TO FINANCIAL STATEMENTS (Continued)

Supplemental balance sheet information related to leases was as follows:

<i>(In millions)</i>	Financial Statement Line Item	As of December 31, 2019
Assets		
Operating lease assets, net of accumulated amortization of \$1 million	Deferred charges and other assets	\$ 414
Finance lease assets, net of accumulated amortization of \$4 million	Property, plant and equipment	12
Total leased assets		<u>\$ 426</u>
Liabilities		
<i>Current:</i>		
Operating	Other current liabilities	\$ 6
<i>Noncurrent:</i>		
Operating	Other noncurrent liabilities	408
Total leased liabilities		<u>\$ 414</u>

Supplemental cash flow information related to leases was as follows:

<i>(In millions)</i>	For the Year Ended December 31, 2019
<i>Cash paid for amounts included in the measurement of lease liabilities</i>	
Operating cash flows from operating leases	\$ 21
Operating cash flows from finance leases	—
Finance cash flows from finance leases	—
<i>Right-of-use assets obtained in exchange for lease obligations:</i>	
Operating leases	\$ —
Finance leases	—

Lease terms and discount rates were as follows:

	As of December 31, 2019
<i>Weighted-average remaining lease terms (years)</i>	
Operating leases	79.73
Finance leases	18.18
<i>Weighted-average discount rate ⁽¹⁾</i>	
Operating leases	5.00%

⁽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.

FIRSTENERGY TRANSMISSION, LLC
NOTES TO FINANCIAL STATEMENTS (Continued)

Maturities of lease liabilities as of December 31, 2019, were as follows:

<i>(In millions)</i>	Operating Leases
2020	\$ 21
2021	21
2022	21
2023	21
2024	21
Thereafter	1,563
<i>Total lease payments</i>	1,668
Less imputed interest	(1,254)
<i>Total net present value</i>	<u>\$ 414</u>

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 Consolidated Balance Sheets at cost. Since these borrowings are short-term in nature, FET believes that their costs 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, which excludes net unamortized debt issuance costs and discounts:

<i>(In millions)</i>	December 31, 2019		December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt and other long-term obligations	\$ 3,875	\$ 4,355	\$ 3,275	\$ 3,361

The fair value of long-term debt and other long-term obligations 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 FET. FET 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

LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS

The following table presents outstanding long-term debt and other long-term obligations for FET as of December 31, 2019 and 2018:

<i>(Dollar amounts in millions)</i>	As of December 31, 2019		As of December 31,	
	Maturity Date	Interest Rate	2019	2018
Unsecured notes - fixed rate	2022 - 2049	3.66% - 5.45%	\$ 3,875	\$ 3,275
Unamortized debt discounts			(6)	(5)
Unamortized debt issuance costs			(23)	(20)
Total long-term debt and other long-term obligations			<u>\$ 3,846</u>	<u>\$ 3,250</u>

On March 28, 2019, FET issued \$500 million of 4.55% senior notes due 2049. Proceeds from the issuance of the senior notes were used primarily to support FET's capital structure, to repay short-term borrowings outstanding under the FE unregulated money pool, to finance capital improvements, and for other general corporate purposes, including funding working capital needs and day-to-day operations.

On April 15, 2019, ATSI issued \$100 million of 4.38% senior notes due 2031. Proceeds from the issuance of the senior notes were used primarily to repay short-term borrowings, to fund capital expenditures and working capital needs, and for other general corporate purposes.

As of December 31, 2019, FET has a \$400 million scheduled debt repayment in 2022.

FIRSTENERGY TRANSMISSION, LLC
NOTES TO FINANCIAL STATEMENTS (Continued)

Debt Covenant Default Provisions

FET 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 FET or its subsidiaries 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 FET's and its subsidiaries' financial condition.

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

As of December 31, 2019, FET was in compliance with all debt covenant default provisions.

7. SHORT-TERM BORROWINGS AND BANK LINES OF CREDIT

FET had \$325 million and \$24 million of outstanding short-term borrowings as of December 31, 2019 and 2018, respectively.

Revolving Credit Facility

FET and its subsidiaries participate in a five-year syndicated revolving credit facility, which was amended on October 19, 2018, providing for aggregate commitments of \$1.0 billion (Facility), which are available through December 6, 2022. Under the amended Facility, FET and its subsidiaries may use borrowings for working capital and other general corporate purposes, including intercompany loans and advances by a borrower to any of its subsidiaries. Generally, borrowings under the Facility 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. The Facility contains financial covenants requiring each borrower to maintain a consolidated debt-to-total-capitalization ratio (as defined under the Facility) of no more than 65% for ATSI, MAIT and TrAIL, and 75% for FET, measured at the end of each fiscal quarter.

Under the Facility, ATSI's, MAIT's and TrAIL's individual borrower sub-limits are \$500 million, \$400 million and \$400 million, respectively, all of which was available to them as of December 31, 2019. ATSI, MAIT and TrAIL have regulatory and other short-term debt limitations of \$500 million, \$400 million and \$400 million, respectively, which includes amounts that may be borrowed under the regulated companies' money pool.

The Facility does 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 Facility is related to the credit ratings of the company borrowing the funds. Additionally, borrowings under the Facility 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.

FirstEnergy Money Pools

FE's utility and transmission operating subsidiary companies, including FET's subsidiaries, also have the ability to borrow from each other and the holding company to meet their short-term working capital requirements. A similar but separate arrangement exists among FirstEnergy's unregulated companies with AE Supply, FE, FET, FEV and certain other unregulated subsidiaries of FE, but excluding FES and FENOC. FESC administers these money pools and tracks surplus funds of FE and the respective regulated and unregulated subsidiaries, 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, on demand but in any event 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. The average interest rate for borrowings in 2019 was 2.27% per annum for the regulated companies' money pool and 2.74% per annum for the unregulated companies' money pool.

8. REGULATORY MATTERS

FERC REGULATORY MATTERS

Under the FPA, FERC regulates rates for transmission of electric power, accounting and other matters. With respect to their transmission services and rates, ATSI, MAIT, PATH and TrAIL are subject to regulation by FERC. FERC regulations require ATSI, MAIT and TrAIL to provide open access transmission service at FERC-approved rates, terms and conditions. Transmission facilities of ATSI, MAIT and TrAIL are subject to functional control by PJM, and transmission service using ATSI's, MAIT's and TrAIL's transmission facilities is provided by PJM under the PJM Tariff.

FIRSTENERGY TRANSMISSION, LLC
NOTES TO FINANCIAL STATEMENTS (Continued)

The following table summarizes the key terms of rate orders in effect for transmission customer billings for each one of FET's transmission owner entities as of December 31, 2019:

Company	Rates Effective	Cap Structure	Allowed ROE
ATSI	January 1, 2015	Actual (13 month average)	10.38%
MAIT	July 1, 2017	Lower of Actual (13 month average) or 60%	10.3%
TrAIL	July 1, 2008	Actual (year-end)	12.7% (TrAIL the Line & Black Oak SVC) 11.7% (All other projects)
PATH	January 19, 2017	50% / 50% (hypothetical)	8.11%

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

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

RTO Realignment

On June 1, 2011, ATSI and the ATSI zone transferred from MISO to PJM. While many of the matters involved with the move have been resolved, FERC denied recovery under ATSI's transmission rate for certain charges that collectively can be described as "exit fees" and certain other transmission cost allocation charges totaling approximately \$78.8 million until such time as ATSI submits a cost/benefit analysis demonstrating net benefits to customers from the transfer to PJM. Subsequently, FERC rejected a proposed settlement agreement to resolve the exit fee and transmission cost allocation issues, stating that its action is without prejudice to ATSI submitting a cost/benefit analysis demonstrating that the benefits of the RTO realignment decisions outweigh the exit fee and transmission cost allocation charges. In a subsequent order, FERC affirmed its prior ruling that ATSI must submit the cost/benefit analysis. ATSI is evaluating the cost/benefit approach.

FERC Actions on Tax Act

On March 15, 2018, FERC initiated proceedings on the question of how to address possible changes to ADIT and bonus depreciation as a result of the Tax Act. Such possible changes could impact FERC-jurisdictional rates, including transmission rates. On November 21, 2019, FERC issued a final rule (Order 864). Order 864 requires utilities with transmission formula rates to update their formula rate templates to include mechanisms to (i) deduct any excess ADIT from or add any deficient ADIT to their rate base; (ii) raise or lower their income tax allowances by any amortized excess or deficient ADIT; and (iii) incorporate a new permanent worksheet into their rates that will annually track information related to excess or deficient ADIT. Alternatively, formula rate utilities can demonstrate to FERC that their formula rate template already achieves these outcomes. Utilities with transmission stated rates are required to address these new requirements as part of their next transmission rate case. To assist with implementation of the proposed rule, FERC also issued on November 15, 2018, a policy statement providing accounting and ratemaking guidance for treatment of ADIT for all FERC-jurisdictional public utilities. The policy statement also addresses the accounting and ratemaking treatment of ADIT following the sale or retirement of an asset after December 31, 2017. FirstEnergy's formula rate transmission utilities, including ATSI, MAIT and TrAIL, will make the required filings on or before the deadlines established in FERC's order.

Transmission ROE Methodology

FERC's methodology for calculating electric transmission utility ROE has been in transition as a result of an April 14, 2017 ruling by the D.C. Circuit that vacated FERC's then-effective methodology. On October 16, 2018, FERC issued an order in which it proposed a revised ROE methodology. FERC proposed that, for complaint proceedings alleging that an existing ROE is not just and reasonable, FERC will rely on three financial models - discounted cash flow, capital-asset pricing, and expected earnings - to establish a composite zone of reasonableness to identify a range of just and reasonable ROEs. FERC then will utilize the transmission utility's risk relative

FIRSTENERGY TRANSMISSION, LLC
NOTES TO FINANCIAL STATEMENTS (Continued)

to other utilities within that zone of reasonableness to assign the transmission utility to one of three quartiles within the zone. FERC would take no further action (i.e., dismiss the complaint) if the existing ROE falls within the identified quartile. However, if the replacement ROE falls outside the quartile, FERC would deem the existing ROE presumptively unjust and unreasonable and would determine the replacement ROE. FERC would add a fourth financial model risk premium to the analysis to calculate a ROE based on the average point of central tendency for each of the four financial models. On March 21, 2019, FERC established NOIs to collect industry and stakeholder comments on the revised ROE methodology that is described in the October 16, 2018 decision, and also whether to make changes to FERC's existing policies and practices for awarding transmission rates incentives. On November 21, 2019, FERC announced in a complaint proceeding involving MISO utilities that FERC would rely on the discounted cash flow and capital-asset pricing models as the basis for establishing ROE. It is not clear at this time whether FERC's November ruling will be applied more broadly. Any changes to FERC's transmission rate ROE and incentive policies would be applied on a prospective basis. FirstEnergy currently is participating through various trade groups in the FERC dockets where the ROE methodology is being reviewed.

9. COMMITMENTS AND CONTINGENCIES

ENVIRONMENTAL MATTERS

Various federal, state and local authorities regulate FET with regard to air and water quality and other environmental matters. While FET'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. FET 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 FET's normal business operations pending against FET or its subsidiaries. The loss or range of loss in these matters is not expected to be material to FET or its subsidiaries. The other potentially material items not otherwise discussed above are described under Note 8, "Regulatory Matters."

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

10. TRANSACTIONS WITH AFFILIATED COMPANIES

In addition to the intercompany income tax allocation and short-term borrowing arrangement, FET has other operating expense and interest expense transactions with affiliated companies, primarily the Ohio Companies, Penn, MP, PE, WP and FESC. The primary affiliated-company transactions, including the effects of the transmission arrangements with the Ohio Companies and Penn, during the years ended December 31, 2019 and 2018, are as follows:

	For the Years Ended December 31,	
	2019	2018
	<i>(In millions)</i>	
Revenues	\$ 14	\$ 15
Expenses:		
Ground lease expense ⁽¹⁾	25	25
Support services	157	150
Interest income	13	10
Interest expense to affiliates	3	4

⁽¹⁾ See Note 4, "Leases".

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

FIRSTENERGY TRANSMISSION, LLC
NOTES TO FINANCIAL STATEMENTS (Continued)

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").

As of December 31, 2019 and 2018, FET has \$32 million and \$43 million, respectively, of affiliated non-current liabilities related to pension and OPEB mark-to-market costs allocated to ATSI and TrAIL.

FET 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 3, "Taxes").

FIRSTENERGY TRANSMISSION, LLC
CONSOLIDATING STATEMENTS OF INCOME
(Unaudited)

For the Year Ended December 31, 2019	FET	ATSI	TrAIL	MAIT	PATH	Eliminations	Consolidated
	<i>(In millions)</i>						
REVENUES	\$ —	\$ 758	\$ 251	\$ 227	\$ 1	\$ (3)	\$ 1,234
OPERATING EXPENSES:							
Other operating expenses	—	112	16	70	—	(3)	195
Provision for depreciation	—	129	50	37	—	—	216
Amortization/deferral of regulatory assets/ liabilities, net	—	7	—	6	—	—	13
General taxes	(1)	186	14	—	—	—	199
Total operating expenses	(1)	434	80	113	—	(3)	623
OPERATING INCOME	1	324	171	114	1	—	611
OTHER INCOME (EXPENSE):							
Miscellaneous income, including net income from equity investees	328	2	2	—	1	(320)	13
Pension and OPEB mark-to-market adjustment	—	(30)	(9)	(9)	—	—	(48)
Interest expense	(66)	(63)	(26)	(22)	—	—	(177)
Capitalized financing costs	—	12	1	15	—	—	28
Total other income (expense)	262	(79)	(32)	(16)	1	(320)	(184)
INCOME BEFORE INCOME TAXES (BENEFITS)	263	245	139	98	2	(320)	427
INCOME TAXES (BENEFITS)	(26)	48	31	25	1	—	79
NET INCOME	289	197	108	73	1	(320)	348
Income attributable to noncontrolling interest	—	—	—	—	—	59	59
EARNINGS AVAILABLE TO PARENT	<u>\$ 289</u>	<u>\$ 197</u>	<u>\$ 108</u>	<u>\$ 73</u>	<u>\$ 1</u>	<u>\$ (379)</u>	<u>\$ 289</u>

FIRSTENERGY TRANSMISSION, LLC
CONSOLIDATING STATEMENTS OF INCOME
(Unaudited)

For the Year Ended December 31, 2018	FET	ATSI	TrAIL	MAIT	PATH	Eliminations	Consolidated
<i>(In millions)</i>							
REVENUES	\$ —	\$ 668	\$ 246	\$ 154	\$ (1)	\$ (2)	\$ 1,065
OPERATING EXPENSES:							
Other operating expenses	—	104	19	53	—	(2)	174
Provision for depreciation	—	114	48	28	—	—	190
Amortization of regulatory assets/liabilities, net	—	7	—	7	—	—	14
General taxes	(1)	171	13	—	—	—	183
Total operating expenses	(1)	396	80	88	—	(2)	561
OPERATING INCOME (LOSS)	1	272	166	66	(1)	—	504
OTHER INCOME (EXPENSE):							
Miscellaneous income (expense), net, including net income from equity investees	289	1	—	(1)	1	(284)	6
Pension and OPEB mark-to-market adjustment	—	(8)	—	—	—	—	(8)
Interest expense	(49)	(58)	(26)	(15)	—	—	(148)
Capitalized financing costs	—	15	2	19	—	—	36
Total other income (expense)	240	(50)	(24)	3	1	(284)	(114)
INCOME BEFORE INCOME TAXES (BENEFITS)	241	222	142	69	—	(284)	390
INCOME TAXES (BENEFITS)	(21)	51	33	15	(1)	—	77
NET INCOME	262	171	109	54	1	(284)	313
Income attributable to noncontrolling interest	—	—	—	—	—	51	51
EARNINGS AVAILABLE TO PARENT	<u>\$ 262</u>	<u>\$ 171</u>	<u>\$ 109</u>	<u>\$ 54</u>	<u>\$ 1</u>	<u>\$ (335)</u>	<u>\$ 262</u>

FIRSTENERGY TRANSMISSION, LLC
CONSOLIDATING BALANCE SHEETS
(Unaudited)

As of December 31, 2019	FET	ATSI	TRAIL	MAIT	PATH	Eliminations	Consolidated
<i>(In millions)</i>							
ASSETS							
CURRENT ASSETS:							
Cash and cash equivalents	\$ —	\$ —	\$ —	\$ —	\$ 71	\$ —	\$ 71
Receivables-							
Affiliated companies	24	3	19	16	2	(1)	63
Other	—	24	21	8	—	—	53
Notes receivable from affiliated companies	423	93	—	—	—	—	516
Prepaid taxes and other	—	3	13	4	—	—	20
	<u>447</u>	<u>123</u>	<u>53</u>	<u>28</u>	<u>73</u>	<u>(1)</u>	<u>723</u>
PROPERTY, PLANT AND EQUIPMENT:							
In service	—	5,075	2,189	1,850	—	—	9,114
Less — Accumulated provision for depreciation	—	1,113	249	360	—	—	1,722
	—	3,962	1,940	1,490	—	—	7,392
Construction work in progress	—	185	19	200	—	—	404
	—	4,147	1,959	1,690	—	—	7,796
OTHER PROPERTY AND INVESTMENTS:							
Investment in affiliated companies	3,172	—	—	—	—	(3,172)	—
Investment in non-affiliated companies	—	—	—	—	18	—	18
Other	1	—	5	—	—	—	6
	<u>3,173</u>	<u>—</u>	<u>5</u>	<u>—</u>	<u>18</u>	<u>(3,172)</u>	<u>24</u>
DEFERRED CHARGES AND OTHER ASSETS:							
Goodwill	—	—	—	224	—	—	224
Accumulated deferred income tax benefits	7	—	—	—	—	(7)	—
Regulatory assets	—	—	—	—	2	—	2
Property taxes	—	221	6	—	—	—	227
Operating lease right-of-use asset	—	414	—	—	—	—	414
Other	—	6	1	1	—	—	8
	<u>7</u>	<u>641</u>	<u>7</u>	<u>225</u>	<u>2</u>	<u>(7)</u>	<u>875</u>
	<u>\$ 3,627</u>	<u>\$ 4,911</u>	<u>\$ 2,024</u>	<u>\$ 1,943</u>	<u>\$ 93</u>	<u>\$ (3,180)</u>	<u>\$ 9,418</u>
LIABILITIES AND CAPITALIZATION							
CURRENT LIABILITIES:							
Short-term borrowings - affiliated companies	\$ —	\$ —	\$ 39	\$ 285	\$ 1	\$ —	\$ 325
Accounts payable-							
Affiliated companies	—	41	10	11	—	(1)	61
Accrued taxes	—	188	16	—	—	—	204
Accrued interest	28	22	2	2	—	—	54
Other	—	7	—	—	—	—	7
	<u>28</u>	<u>258</u>	<u>67</u>	<u>298</u>	<u>1</u>	<u>(1)</u>	<u>651</u>
CAPITALIZATION:							
Member's equity	1,055	1,267	926	918	89	(3,200)	1,055
Retained earnings	1,057	706	9	7	1	(723)	1,057
Total member's equity	2,112	1,973	935	925	90	(3,923)	2,112
Noncontrolling interest	—	—	—	—	—	751	751
Total equity	2,112	1,973	935	925	90	(3,172)	2,863
Long-term debt and other long-term obligations	1,487	1,290	622	447	—	—	3,846
	<u>3,599</u>	<u>3,263</u>	<u>1,557</u>	<u>1,372</u>	<u>90</u>	<u>(3,172)</u>	<u>6,709</u>
NONCURRENT LIABILITIES:							
Accumulated deferred income taxes	—	500	268	221	1	(7)	983
Property taxes	—	221	6	—	—	—	227
Regulatory liabilities	—	228	121	50	1	—	400
Noncurrent operating lease obligation	—	408	—	—	—	—	408
Other	—	33	5	2	—	—	40
	<u>—</u>	<u>1,390</u>	<u>400</u>	<u>273</u>	<u>2</u>	<u>(7)</u>	<u>2,058</u>
	<u>\$ 3,627</u>	<u>\$ 4,911</u>	<u>\$ 2,024</u>	<u>\$ 1,943</u>	<u>\$ 93</u>	<u>\$ (3,180)</u>	<u>\$ 9,418</u>

FIRSTENERGY TRANSMISSION, LLC
CONSOLIDATING BALANCE SHEETS
(Unaudited)

As of December 31, 2018	FET	ATSI	TrAIL	MAIT	PATH	Eliminations	Consolidated
<i>(In millions)</i>							
ASSETS							
CURRENT ASSETS:							
Cash and cash equivalents	\$ —	\$ —	\$ —	\$ —	\$ 85	\$ —	\$ 85
Receivables-							
Affiliated companies	10	11	—	17	1	(37)	2
Other	—	36	19	8	—	—	63
Notes receivable from affiliated companies	—	34	—	86	—	—	120
Prepaid taxes and other	—	3	13	3	1	—	20
	<u>10</u>	<u>84</u>	<u>32</u>	<u>114</u>	<u>87</u>	<u>(37)</u>	<u>290</u>
PROPERTY, PLANT AND EQUIPMENT:							
In service	—	4,640	2,154	1,478	—	—	8,272
Less — Accumulated provision for depreciation	—	1,022	212	356	—	—	1,590
	<u>—</u>	<u>3,618</u>	<u>1,942</u>	<u>1,122</u>	<u>—</u>	<u>—</u>	<u>6,682</u>
Construction work in progress	—	218	18	197	—	—	433
	<u>—</u>	<u>3,836</u>	<u>1,960</u>	<u>1,319</u>	<u>—</u>	<u>—</u>	<u>7,115</u>
OTHER PROPERTY AND INVESTMENTS:							
Investment in affiliated companies	2,977	—	—	—	—	(2,977)	—
Investment in non-affiliated companies	—	—	—	—	17	—	17
Other	—	—	6	—	—	—	6
	<u>2,977</u>	<u>—</u>	<u>6</u>	<u>—</u>	<u>17</u>	<u>(2,977)</u>	<u>23</u>
DEFERRED CHARGES AND OTHER ASSETS:							
Goodwill	—	—	—	224	—	—	224
Accumulated deferred income tax benefits	8	—	—	—	2	(10)	—
Regulatory assets	—	—	—	—	3	—	3
Property taxes	—	196	6	—	—	—	202
Other	—	7	1	1	—	—	9
	<u>8</u>	<u>203</u>	<u>7</u>	<u>225</u>	<u>5</u>	<u>(10)</u>	<u>438</u>
	<u>\$ 2,995</u>	<u>\$ 4,123</u>	<u>\$ 2,005</u>	<u>\$ 1,658</u>	<u>\$ 109</u>	<u>\$ (3,024)</u>	<u>\$ 7,866</u>
LIABILITIES AND CAPITALIZATION							
CURRENT LIABILITIES:							
Short-term borrowings - affiliated companies	\$ 11	\$ —	\$ 11	\$ —	\$ 2	\$ —	\$ 24
Accounts payable-							
Affiliated companies	—	3	1	3	16	—	23
Other	—	—	—	—	1	—	1
Accrued taxes	—	172	55	—	—	(37)	190
Accrued interest	22	21	2	3	—	—	48
	<u>33</u>	<u>196</u>	<u>69</u>	<u>6</u>	<u>19</u>	<u>(37)</u>	<u>286</u>
CAPITALIZATION:							
Member's equity	1,052	1,266	923	918	90	(3,197)	1,052
Retained earnings	918	509	14	11	—	(534)	918
Total member's equity	<u>1,970</u>	<u>1,775</u>	<u>937</u>	<u>929</u>	<u>90</u>	<u>(3,731)</u>	<u>1,970</u>
Noncontrolling interest	—	—	—	—	—	754	754
Total equity	<u>1,970</u>	<u>1,775</u>	<u>937</u>	<u>929</u>	<u>90</u>	<u>(2,977)</u>	<u>2,724</u>
Long-term debt and other long-term obligations	992	1,190	622	446	—	—	3,250
	<u>2,962</u>	<u>2,965</u>	<u>1,559</u>	<u>1,375</u>	<u>90</u>	<u>(2,977)</u>	<u>5,974</u>
NONCURRENT LIABILITIES:							
Accumulated deferred income taxes	—	441	250	170	—	(10)	851
Property taxes	—	196	5	—	—	—	201
Regulatory liabilities	—	282	117	104	—	—	503
Other	—	43	5	3	—	—	51
	<u>—</u>	<u>962</u>	<u>377</u>	<u>277</u>	<u>—</u>	<u>(10)</u>	<u>1,606</u>
	<u>\$ 2,995</u>	<u>\$ 4,123</u>	<u>\$ 2,005</u>	<u>\$ 1,658</u>	<u>\$ 109</u>	<u>\$ (3,024)</u>	<u>\$ 7,866</u>

FIRSTENERGY TRANSMISSION, LLC
CONSOLIDATING STATEMENTS OF CASH FLOWS
(Unaudited)

For the Year Ended December 31, 2019	FET	ATSI	TrAIL	MAIT	PATH	Eliminations	Consolidated
(In millions)							
CASH FLOWS FROM OPERATING ACTIVITIES:							
Net income	\$ 289	\$ 197	\$ 108	\$ 73	\$ 1	\$ (320)	\$ 348
Adjustments to reconcile net income to net cash from operating activities-							
Depreciation and amortization/deferral of regulatory assets/liabilities, net	—	146	57	44	—	—	247
Pension and OPEB mark-to-market adjustment	—	30	9	9	—	—	48
Retirement benefits, net of payments	—	—	—	(3)	—	—	(3)
Deferred income taxes and investment tax credits, net	1	45	13	46	3	—	108
Allowance for funds used during construction - equity	—	(9)	(1)	(12)	—	—	(22)
Transmission revenue collections, net	—	(20)	(7)	(31)	(1)	—	(59)
Equity earnings of subsidiaries	(320)	—	—	—	—	320	—
Dividends received from equity investees	128	—	—	—	—	(128)	—
Changes in current assets and liabilities-							
Receivables	(14)	31	(18)	1	(1)	(36)	(37)
Prepaid taxes and other current assets	—	—	—	(1)	1	—	—
Accounts payable	—	(8)	(1)	(8)	(17)	(1)	(35)
Accrued taxes	—	16	(39)	—	—	37	14
Accrued interest	5	1	—	—	—	—	6
Other	1	(12)	2	(6)	1	—	(14)
Net cash provided from (used for) operating activities	90	417	123	112	(13)	(128)	601
CASH FLOWS FROM FINANCING ACTIVITIES:							
New financing-							
Long-term debt	500	100	—	—	—	—	600
Short-term borrowings - affiliated companies, net	—	—	28	285	—	—	313
Redemptions and repayments-							
Short-term borrowings - affiliated companies, net	(11)	—	—	—	(1)	—	(12)
Cash dividends paid to noncontrolling shareholder	—	—	—	(62)	—	—	(62)
Common stock dividend payments	(150)	—	(113)	(15)	—	128	(150)
Other	(6)	—	—	—	—	—	(6)
Net cash provided from (used for) financing activities	333	100	(85)	208	(1)	128	683
CASH FLOWS FROM INVESTING ACTIVITIES:							
Property additions	—	(424)	(38)	(368)	—	—	(830)
Loans to affiliated companies, net	(423)	(59)	—	86	—	—	(396)
Asset removal costs	—	(34)	—	(31)	—	—	(65)
Other	—	—	—	(7)	—	—	(7)
Net cash used for investing activities	(423)	(517)	(38)	(320)	—	—	(1,298)
Net change in cash, cash equivalents, and restricted cash	—	—	—	—	(14)	—	(14)
Cash, cash equivalents, and restricted cash at beginning of period	—	—	—	—	85	—	85
Cash, cash equivalents, and restricted cash at end of period	\$ —	\$ —	\$ —	\$ —	\$ 71	\$ —	\$ 71
SUPPLEMENTAL CASH FLOW INFORMATION:							
Cash paid (received) during the year-							
Interest (net of amounts capitalized)	\$ 59	\$ 58	\$ 25	\$ 18	\$ —	\$ —	\$ 160
Income taxes, net of refunds	\$ (13)	\$ (5)	\$ 71	\$ (20)	\$ (3)	\$ —	\$ 30

FIRSTENERGY TRANSMISSION, LLC
CONSOLIDATING STATEMENTS OF CASH FLOWS
(Unaudited)

For the Year Ended December 31, 2018	FET	ATSI	TrAIL	MAIT	PATH	Eliminations	Consolidated
	(In millions)						
CASH FLOWS FROM OPERATING ACTIVITIES:							
Net income	\$ 262	\$ 171	\$ 109	\$ 54	\$ 1	\$ (284)	\$ 313
Adjustments to reconcile net income to net cash from operating activities-							
Depreciation and amortization/deferral of regulatory assets/liabilities, net	—	127	55	35	1	—	218
Pensions and OPEB mark-to-market adjustments	—	8	—	—	—	—	8
Retirement benefits, net of payments	—	—	—	(3)	—	—	(3)
Deferred income taxes and investment tax credits, net	(1)	80	(10)	37	4	—	110
Allowance for funds used during construction - equity	—	(11)	(2)	(18)	—	—	(31)
Transmission revenue collections, net	—	20	3	9	(6)	—	26
Equity earnings of subsidiaries	(284)	—	—	—	—	284	—
Dividends received from equity investees	133	—	—	—	—	(133)	—
Changes in current assets and liabilities-							
Receivables	(1)	20	36	(15)	—	30	70
Prepaid taxes and other current assets	3	—	(2)	(3)	(1)	—	(3)
Accounts payable	—	(21)	—	—	5	—	(16)
Accrued taxes	—	17	38	(8)	—	(30)	17
Accrued interest	—	1	—	2	—	—	3
Other	(2)	(10)	2	(7)	(2)	—	(19)
Net cash provided from (used for) operating activities	110	402	229	83	2	(133)	693
CASH FLOWS FROM FINANCING ACTIVITIES:							
New financing-							
Long-term debt	—	100	—	450	—	—	550
Short-term borrowings - affiliated companies	11	—	—	—	—	—	11
Redemptions and repayments-							
Short-term borrowings - affiliated companies	—	(113)	(95)	(137)	—	—	(345)
Parent company equity contribution	—	100	20	135	—	(255)	—
Cash dividends paid to noncontrolling shareholder	—	—	—	(47)	—	—	(47)
Common stock dividend payments	(300)	(10)	(120)	(3)	—	133	(300)
Other	—	(2)	—	(4)	—	—	(6)
Net cash provided from (used for) financing activities	(289)	75	(195)	394	—	(122)	(137)
CASH FLOWS FROM INVESTING ACTIVITIES:							
Property additions	—	(423)	(33)	(362)	—	—	(818)
Investment in subsidiary	(255)	—	—	—	—	255	—
Loans to affiliated companies, net	434	(34)	—	(86)	—	—	314
Asset removal costs	—	(21)	(1)	(29)	—	—	(51)
Other	—	1	—	—	—	—	1
Net cash provided from (used for) investing activities	179	(477)	(34)	(477)	—	255	(554)
Net change in cash, cash equivalents and restricted cash							
	—	—	—	—	2	—	2
Cash, cash equivalents, and restricted cash at beginning of period							
	—	—	—	—	83	—	83
Cash, cash equivalents, and restricted cash at end of period							
	\$ —	\$ —	\$ —	\$ —	\$ 85	\$ —	\$ 85
SUPPLEMENTAL CASH FLOW INFORMATION:							
Cash paid (received) during the year-							
Interest (net of amounts capitalized)	\$ 49	\$ 52	\$ 25	\$ 12	\$ —	\$ —	\$ 138
Income taxes, net of refunds	\$ (20)	\$ (42)	\$ (25)	\$ 5	\$ (3)	\$ —	\$ (85)