MID-ATLANTIC INTERSTATE TRANSMISSION, LLC

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 FirstEnergy Transmission, LLC and its current and former subsidiaries and affiliated companies:

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
FE	FirstEnergy Corp., a public utility holding company
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 and TrAIL and has a joint venture in PATH
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 subsidiary
MAIT	Mid-Atlantic Interstate Transmission, LLC, a subsidiary of FET, formed to own and operate transmission facilities
ME	Metropolitan Edison Company, a Pennsylvania electric utility operating subsidiary
MP	Monongahela Power Company, a West Virginia electric utility operating subsidiary
PE	The Potomac Edison Company, a Maryland and West Virginia electric utility operating subsidiary
PN	Pennsylvania Electric Company, a Pennsylvania electric utility operating subsidiary
WP	West Penn Power Company, a Pennsylvania electric utility operating subsidiary

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

ADIT	Accumulated Deferred Income Taxes
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
kV	Kilovolt
NERC	North American Electric Reliability Corporation
NOL	Net Operating Loss
PJM	PJM Interconnection, L.L.C.
PJM Region	The aggregate of the zones within PJM
PJM Tariff	PJM Open Access Transmission Tariff
RFC	Reliability*First* Corporation
ROE	Return on Equity
Tax Act	Tax Cuts and Jobs Act adopted December 22, 2017

Report of Independent Auditors

To Management and the Board of Managers
Of Mid-Atlantic Interstate Transmission, LLC

We have audited the accompanying financial statements of Mid-Atlantic Interstate Transmission, LLC (the “Company”), which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of income, of member’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 Mid-Atlantic Interstate Transmission, LLC 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

MID-ATLANTIC INTERSTATE TRANSMISSION, LLC
STATEMENTS OF INCOME

(In thousands)	For the Years Ended December 31, 2019	2018
REVENUES	$ 227,306	$ 153,921
OPERATING EXPENSES:		
Other operating expenses	69,682	53,025
Provision for depreciation	37,634	27,495
Deferral of regulatory liabilities, net	5,997	7,148
General taxes	100	80
Total operating expenses	113,413	87,748
OPERATING INCOME	113,893	66,173
OTHER INCOME (EXPENSE):		
Miscellaneous expense, net	(338)	(1,342)
Pension and OPEB mark-to-market adjustment	(8,854)	272
Interest expense	(21,935)	(14,777)
Capitalized financing costs	15,589	18,762
Total other income (expense)	(15,538)	2,915
INCOME BEFORE INCOME TAXES	98,355	69,088
INCOME TAXES	24,967	14,786
NET INCOME	$ 73,388	$ 54,302

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

MID-ATLANTIC INTERSTATE TRANSMISSION, LLC
BALANCE SHEETS

(In thousands)	December 31, 2019	December 31, 2018
ASSETS		
CURRENT ASSETS:		
Receivables-		
Affiliated companies	$ 16,164	$ 16,494
Other	7,610	8,249
Notes receivable from affiliated companies	—	85,511
Prepaid taxes and other	4,492	3,591
	28,266	113,845
UTILITY PLANT:		
In service	1,849,926	1,477,602
Less — Accumulated provision for depreciation	359,996	355,570
	1,489,930	1,122,032
Construction work in progress	200,379	196,804
	1,690,309	1,318,836
DEFERRED CHARGES AND OTHER ASSETS:		
Goodwill	223,592	223,592
Other	1,226	1,179
	224,818	224,771
	$ 1,943,393	$ 1,657,452
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES:		
Short-term borrowings - affiliated companies	$ 285,188	$ —
Accounts payable-		
Affiliated companies	10,499	3,012
Other	—	10
Accrued interest	2,358	2,358
Other	117	172
	298,162	5,552
CAPITALIZATION:		
Members' equity-		
Membership Interest A	174,146	174,146
Membership Interest B	743,776	743,776
Retained earnings	7,683	11,295
Total members' equity	925,605	929,217
Long-term debt and other long-term obligations	446,566	446,156
	1,372,171	1,375,373
NONCURRENT LIABILITIES:		
Accumulated deferred income taxes	220,716	170,368
Regulatory liabilities	50,004	103,726
Other	2,340	2,433
	273,060	276,527
COMMITMENTS AND CONTINGENCIES (Note 9)		
	$ 1,943,393	$ 1,657,452

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

MID-ATLANTIC INTERSTATE TRANSMISSION, LLC
STATEMENTS OF MEMBERS' EQUITY

(In thousands)	Member's Interest A	Member's Interest B	Retained Earnings	Total Members' Equity
Balance, January 1, 2018	$ 39,146	$ 743,776	$ 6,993	$ 789,915
Net income			54,302	54,302
Cash dividends declared			(50,000)	(50,000)
Equity contribution from parent	135,000			135,000
Balance, December 31, 2018	$ 174,146	$ 743,776	$ 11,295	$ 929,217
Net income			73,388	73,388
Cash dividends declared			(77,000)	(77,000)
Balance, December 31, 2019	$ 174,146	$ 743,776	$ 7,683	$ 925,605

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

MID-ATLANTIC INTERSTATE TRANSMISSION, LLC
STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,	
(In thousands)	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 73,388	$ 54,302
Adjustments to reconcile net income to net cash from operating activities-		
Depreciation and deferral of regulatory liabilities, net	43,631	34,643
Pension and OPEB mark-to-market adjustment	8,854	(272)
Deferred income taxes and investment tax credits, net	45,500	36,879
Transmission revenue collections, net	(31,419)	9,344
Retirement benefits, net of payments	(2,844)	(3,101)
Allowance for funds used during construction - equity	(11,641)	(18,468)
Changes in current assets and liabilities-		
Receivables	969	(14,599)
Prepaid taxes and other current assets	(901)	(3,159)
Accounts payable	(7,522)	(434)
Accrued interest	—	2,358
Other	(5,750)	(14,353)
Net cash provided from operating activities	112,265	83,140
CASH FLOWS FROM FINANCING ACTIVITIES:		
New financing-		
Long-term debt	—	450,000
Short-term borrowings - affiliated companies	285,188	—
Redemptions and repayments-		
Long-term debt	—	(113)
Short-term borrowings - affiliated companies	—	(137,227)
Parent company equity contribution	—	135,000
Dividend payments	(77,000)	(50,000)
Other	(10)	(4,199)
Net cash provided from financing activities	208,178	393,461
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(367,892)	(362,391)
Loans to affiliated companies, net	85,511	(85,511)
Asset removal costs	(30,711)	(28,699)
Other	(7,351)	—
Net cash used for investing activities	(320,443)	(476,601)
Net change in cash, cash equivalents, and restricted cash	—	—
Cash, cash equivalents, and restricted cash at beginning of period	—	—
Cash, cash equivalents, and restricted cash at end of period	$ —	$ —
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid (received) during the year-		
Interest (net of amounts capitalized)	$ 17,576	$ 12,125
Income taxes, net of refunds	$ (19,850)	$ 4,753

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

MID-ATLANTIC INTERSTATE TRANSMISSION, LLC
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.

MAIT, which is organized under Delaware law, is a subsidiary of FET, a direct subsidiary of FE. Following receipt of necessary regulatory approvals, on January 31, 2017, MAIT issued membership interests to FET, PN and ME in exchange for their respective cash and transmission asset contributions. MAIT owns and operates all of the FERC-jurisdictional transmission assets previously owned by ME and PN, consisting of approximately 4,260 circuit miles of transmission lines with nominal voltages of 500 kV, 345 kV, 230 kV, 138 kV, 115 kV, 69 kV and 46 kV in the PJM Region.

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. MAIT 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

Under a formula rate mechanism approved by the FERC, MAIT makes annual filings in order to recover incurred costs and an allowed return. An initial rate filing is made for each calendar year using estimated costs, which is used to determine the initial billings to customers. All prudently incurred allowable operation and maintenance costs, a return earned on rate base and an income tax allowance are recovered or refunded through a subsequent true-up mechanism. As such, MAIT 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

MAIT accounts for the effects of regulation through the application of regulatory accounting since its rates are established by a third-party regulator with the authority to set rates that bind customers, are cost-based and can be charged to and collected from customers.

MAIT records regulatory assets and liabilities that result from the regulated rate-making process that would not be recorded under GAAP by non-regulated entities. These assets and liabilities are amortized in the Statements of Income concurrent with their recovery or refund through customer rates. MAIT believes that it is probable that its regulatory assets and liabilities will be recovered and settled, respectively, through future rates. MAIT 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 MAIT 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 liabilities as of December 31, 2019 and 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	$ (78)	$ (83)	$ 5
Asset removal costs	17	(2)	19
Deferred transmission costs	11	(19)	30
Net Regulatory Liabilities included on the Balance Sheets	$ (50)	$ (104)	$ 54

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.

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, MAIT's allocated amount of the pension and OPEB mark-to-market adjustments was $9 million. Amounts for 2018 were immaterial.

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. MAIT recognizes liabilities for planned major maintenance projects as they are incurred.

MAIT provides for depreciation on a straight-line basis at various rates over the estimated lives of property included in plant in service. Depreciation expense was approximately 2.2% and 2.1% of average depreciable property in 2019 and 2018, respectively.

For the year ended December 31, 2019 capitalized financing costs on MAIT's Statements of Income include $11 million of allowance for equity funds used during construction and $4 million of capitalized interest. For the year ended December 31, 2018, capitalized financing costs on MAIT's Statements of Income include $19 million of allowance for equity funds used during construction.

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

GOODWILL

MAIT 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. MAIT implemented a third-party software tool that assisted with the initial adoption and will assist with ongoing compliance. MAIT chose to apply the requirements of the standard in the period of adoption (January 1, 2019) with no restatement of prior periods.

MAIT elected all of these practical expedients. Since MAIT's leases at the time of adoption, on January 1, 2019, were variable, no asset or liability was recognized.

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

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

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

For the years ended December 31, 2019 and 2018, revenues include transmission revenue from contracts with customers of $224 million and $150 million, respectively, and $3 million and $4 million of other non-customer revenue, respectively.

3. TAXES

MAIT 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.

MAIT 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.

	For the Years Ended December 31,	
INCOME TAXES:	**2019**	**2018**
	(In millions)	
Currently receivable-		
Federal	$ (20)	$ (21)
State	(1)	(1)
	(21)	(22)
Deferred, net-		
Federal	36	31
State	10	6
	46	37
Total income taxes	$ 25	$ 15

MAIT'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:

	For the Years Ended December 31,	
(In millions)	**2019**	**2018**
Book income before income taxes	$ 98	$ 69
Federal income tax expense at statutory rate	$ 21	$ 14
Increases (reductions) in taxes resulting from-		
State income taxes, net of federal income tax benefit	8	5
AFUDC equity and other flow-through items	(4)	(4)
Excess deferred tax amortization due to the Tax Act	—	(1)
Other, net	—	1
Total income taxes	$ 25	$ 15
Effective income tax rate	25.5%	21.7%

MAIT's effective tax rate on pre-tax income for 2019 and 2018 was 25.5% and 21.7%, respectively. The increase in the effective income tax rate was primarily due to the impact of AFUDC equity and other flow-through items on higher pre-tax income in 2019 as compared to 2018.

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

	As of December 31,	
(In millions)	**2019**	**2018**
Property basis differences	$ 219	$ 178
Regulatory asset/liability	3	(8)
Other	(1)	—
Net accumulated deferred income tax liabilities	$ 221	$ 170

MAIT will record 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, MAIT's deferred income tax assets attributable to federal and state loss carryforwards were immaterial.

MAIT accounts for uncertainty in income taxes recognized in its financial statements. A recognition threshold and measurement attributed is 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, MAIT did not record any unrecognized tax benefits, nor does MAIT have a reserve for any uncertain tax positions.

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

For federal income tax purposes, MAIT 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 MAIT's taxable income. Tax year 2018 is currently under review by the IRS. MAIT has tax returns under review by state taxing authorities at the audit or appeals level for tax years 2017-2018.

4. FAIR VALUE MEASUREMENTS

All borrowings with initial maturities of less than one year are defined as short-term financial instruments under GAAP and are reported as Short-term borrowings on the Balance Sheets at cost. Since these borrowings are short-term in nature, MAIT 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, which excludes net unamortized debt issuance costs and discounts:

	December 31, 2019		December 31, 2018	
(In millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	$ 450	$ 495	$ 450	$ 456

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 MAIT. MAIT classified short-term borrowings, long-term debt as Level 2 in the fair value hierarchy as of December 31, 2019 and December 31, 2018.

5. LEASES

MAIT primarily leases fiber optics, land and other property and equipment under cancelable and noncancelable leases.

MAIT 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, MAIT 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. MAIT did not evaluate land easements under the new guidance as they were not previously accounted for as leases. MAIT also elected not to separate lease components from non-lease components as non-lease components were not material.

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. MAIT does not have an operating lease liability or asset associated with this agreement as the lease payments are variable.

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 ATSI'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 ATSI's Statement of Income such that amortization of the right-of-use asset and interest on lease liabilities equals the expense allowed for ratemaking purposes. All operating lease expenses are recognized in Other operating expense. Operating lease expense for the year ended December 31, 2019 was $1 million.

Supplemental balance sheet information related to leases was as follows:

(In millions)	Financial Statement Line Item	As of December 31, 2019
Assets [1]		
Operating lease assets, net of immaterial amortization	Deferred charges and other assets	$ 1
Finance lease assets, net of immaterial amortization	Property, plant and equipment	7
Total leased assets		$ 8

[1] Leases were prepaid and therefore do not have a liability associated with them.

Lease terms and discount rates were as follows:

	As of December 31, 2019
Weighted-average remaining lease terms (years)	
Operating leases	16.68
Finance leases	19.46
Weighted-average discount rate [1]	
Operating leases	3.09%

[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.

6. CAPITALIZATION

MEMBERS' INTEREST

MAIT issued membership interest on January 31, 2017, in exchange for cash and asset contributions from FET, PN and ME.

LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS

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

	As of December 31, 2019		As of December 31,	
(Dollar amounts in millions)	Maturity Date	Interest Rate	2019	2018
Unsecured notes - fixed rate	2028	4.10%	$ 450	$ 450
Unamortized debt issuance costs			(3)	(4)
Total long-term debt and other long-term obligations			$ 447	$ 446

As of December 31, 2019, MAIT has no scheduled debt repayments for the next five years.

Debt Covenant Default Provisions

MAIT 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 MAIT 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 MAIT's financial condition.

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

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

7. SHORT-TERM BORROWINGS AND BANK LINES OF CREDIT

MAIT had $285 million of outstanding short-term borrowings as of December 31, 2019 and no outstanding short-term borrowings as of December 31, 2018.

Revolving Credit Facility

FET and its subsidiaries, including MAIT, 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, MAIT may borrow up to its sub-limit of $400 million, all of which was available to MAIT as of December 31, 2019. MAIT has regulatory and other short-term debt limitations of $400 million 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 Pool

FE’s utility and transmission operating subsidiary companies, including MAIT, also have the ability to borrow from each other and the holding company to meet their short-term working capital requirements. FESC administers this money pool and tracks surplus funds of FE and the respective regulated subsidiaries, as well as proceeds available from bank borrowings. Companies receiving a loan under the money pool agreement must repay the principal amount of the loan, together with accrued interest, within 364 days of borrowing the funds. The rate of interest is the same for each company receiving a loan from the regulated pool and is based on the average cost of funds available through the pool. The average interest rate for borrowings in 2019 was 2.27% per annum.

8. REGULATORY MATTERS

FERC REGULATORY MATTERS

Under the FPA, FERC regulates rates for transmission of electric power, accounting and other matters. With respect to its transmission services and rates, MAIT is subject to regulation by FERC. FERC regulations require MAIT to provide open access transmission service at FERC-approved rates, terms and conditions. MAIT's transmission facilities are subject to functional control by PJM, and transmission service using MAIT's transmission facilities is provided by PJM under the PJM Tariff. The key terms of MAIT's current rate orders in effect for transmission customer billings, which have been effective since July 1, 2017, include a lower of actual (13 month average) or 60% capital structure and an allowed 10.3% ROE.

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

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

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

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

10. TRANSACTIONS WITH AFFILIATED COMPANIES

MAIT’s operating revenues, operating expenses, miscellaneous income and interest expenses include transactions with affiliated companies. The primary affiliated-company transactions for MAIT, including the effects of the transmission arrangements with ME, PN during the years ended December 31, 2019 and 2018 are as follows:

	For the Years Ended December 31,	
	2019	2018
	(In millions)	
Revenues	$ 4	$ 4
Operating Costs:		
Ground lease expense [1]	4	4
Support services	48	45
Investment Income	—	1
Interest expense	2	2

[1] See Note 5, "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 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").

MAIT 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").