TRANS-ALLEGHENY INTERSTATE LINE COMPANY

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

GLOSSARY OF TERMS

The following abbreviations and acronyms may be used in these financial statements to identify Trans-Allegheny Interstate Line Company, and its current and former 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 publicly owned 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, MAIT 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 affiliated company
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
OE	Ohio Edison Company, an Ohio electric utility operating affiliated company
PATH	Potomac-Appalachian Transmission Highline, LLC, a joint venture between FE and a subsidiary of AEP
Penn	Pennsylvania Power Company, a Pennsylvania electric utility operating subsidiary of OE
Pennsylvania Companies	ME, PN, Penn and WP
PN	Pennsylvania Electric Company, a Pennsylvania electric utility operating affiliated company
WP	West Penn Power Company, a Pennsylvania electric utility operating affiliated company
TrAIL	Trans-Allegheny Interstate Line Company, a subsidiary of FET, which owns and operates transmission facilities

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
CWIP	Construction Work in Progress
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
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
PPUC	Pennsylvania Public Utility Commission
RFC	Reliability*First* Corporation
ROE	Return on Equity
Tax Act	Tax Cuts and Jobs Act adopted December 22, 2017
VSCC	Virginia State Corporation Commission
WVPSC	Public Service Commission of West Virginia

Report of Independent Auditors

To Management and the Board of Directors
Of Trans-Allegheny Interstate Line Company

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

Management's Responsibility for the Financial Statements

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

Auditors’ Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Trans-Allegheny Interstate Line Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

TRANS-ALLEGHENY INTERSTATE LINE COMPANY
STATEMENTS OF INCOME

(In millions)	For the Years Ended December 31, 2019	2018
REVENUES	$ 251	$ 246
OPERATING EXPENSES:		
Other operating expenses	16	19
Provision for depreciation	50	48
General taxes	14	13
Total operating expenses	80	80
OPERATING INCOME	171	166
OTHER INCOME (EXPENSE):		
Miscellaneous income, net	2	—
Pension and OPEB mark-to-market adjustment	(9)	—
Interest expense	(26)	(26)
Capitalized financing costs	1	2
Total other expense	(32)	(24)
INCOME BEFORE INCOME TAXES	139	142
INCOME TAXES	31	33
NET INCOME	$ 108	$ 109

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

TRANS-ALLEGHENY INTERSTATE LINE COMPANY
BALANCE SHEETS

(In millions)	December 31, 2019	December 31, 2018
ASSETS		
CURRENT ASSETS:		
Receivables-		
Affiliated companies	$ 19	$ —
Other	21	19
Prepaid taxes and other	13	13
	53	32
UTILITY PLANT:		
In service	2,189	2,154
Less — Accumulated provision for depreciation	249	212
	1,940	1,942
Construction work in progress	19	18
	1,959	1,960
OTHER PROPERTY AND INVESTMENTS	5	6
DEFERRED CHARGES AND OTHER ASSETS:		
Property taxes	6	6
Other	1	1
	7	7
	$ 2,024	$ 2,005
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES:		
Short-term borrowings - affiliated companies	$ 39	$ 11
Accounts payable - affiliated companies	10	1
Accrued taxes	16	55
Accrued interest	2	2
	67	69
CAPITALIZATION:		
Common stockholder's equity-		
Other paid-in capital	926	923
Retained earnings	9	14
Total common stockholder's equity	935	937
Long-term debt and other long-term obligations	622	622
	1,557	1,559
NONCURRENT LIABILITIES:		
Accumulated deferred income taxes	268	250
Regulatory liabilities	121	117
Property taxes	6	5
Other	5	5
	400	377
COMMITMENTS AND CONTINGENCIES (Note 8)		
	$ 2,024	$ 2,005

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

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

(In millions, except share amounts)	Common Stock Outstanding Shares	Other Paid-in Capital	Retained Earnings	Total Stockholder's Equity
Balance, January 1, 2018	1,000	$ 900	$ 25	$ 925
Net income			109	109
Equity contribution from parent		20		20
Consolidated tax benefit allocation		3		3
Cash dividends declared on common stock			(120)	(120)
Balance, December 31, 2018	1,000	$ 923	$ 14	$ 937
Net income			108	108
Consolidated tax benefit allocation		3		3
Cash dividends declared on common stock			(113)	(113)
Balance, December 31, 2019	1,000	$ 926	$ 9	$ 935

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

TRANS-ALLEGHENY INTERSTATE LINE COMPANY
STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,	
(In millions)	**2019**	**2018**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 108	$ 109
Adjustments to reconcile net income to net cash from operating activities-		
Depreciation and deferral of regulatory liabilities, net	57	55
Pension and OPEB mark-to-market adjustment	9	—
Deferred income taxes and investment tax credits, net	13	(10)
Transmission revenue collections, net	(7)	3
Allowance for funds used during construction - equity	(1)	(2)
Changes in current assets and liabilities-		
Receivables	(18)	36
Prepaid taxes and other current assets	—	(2)
Accounts payable	(1)	—
Accrued taxes	(39)	38
Other	2	2
Net cash provided from operating activities	123	229
CASH FLOWS FROM FINANCING ACTIVITIES:		
New financing-		
Short-term borrowings - affiliated companies, net	28	—
Redemptions and repayments-		
Short-term borrowings - affiliated companies, net	—	(95)
Return of capital payments	—	—
Equity contribution from parent	—	20
Common stock dividend payments	(113)	(120)
Net cash used for financing activities	(85)	(195)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(38)	(33)
Asset removal costs	—	(1)
Net cash used for investing activities	(38)	(34)
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)	$ 25	$ 25
Income taxes, net of refunds	$ 71	$ (25)

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

TRANS-ALLEGHENY INTERSTATE LINE COMPANY
NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND BASIS OF PRESENTATION

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

TrAIL is a wholly owned subsidiary of FET, a direct subsidiary of FE. TrAIL was formed to finance, construct, own, operate and maintain high voltage transmission facilities in the PJM Region and has several transmission facilities in operation, including a 500 kV transmission line extending approximately 150 miles from southwestern Pennsylvania through West Virginia to a point of interconnection with VEPCO in northern Virginia (TrAIL Line).

TrAIL is subject to regulation by FERC, the PPUC, VSCC and WVPSC.

The preparation of financial statements in conformity with GAAP requires management to make periodic estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. Actual results could differ from these estimates. The reported results of operations are not necessarily indicative of results of operations for any future period. TrAIL has evaluated events and transactions for potential recognition or disclosure through March 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, TrAIL makes annual filings in order to recover incurred costs and an allowed return. An initial rate filing is made for each calendar year using estimated costs, which is used to determine the initial billings to customers. All prudently incurred allowable operation and maintenance costs, a return earned on rate base and an income tax allowance are recovered or refunded through a subsequent true-up mechanism. As such, TrAIL recognizes revenue as it incurs recoverable costs and earns the allowed return. Any differences between revenues earned based on actual costs and the amounts billed based on estimated costs are recognized as a regulatory asset or liability and will be recovered or refunded, respectively, in subsequent periods.

ACCOUNTING FOR THE EFFECTS OF REGULATION

TrAIL 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.

TrAIL 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. TrAIL believes that it is probable that its regulatory assets and liabilities will be recovered and settled, respectively, through future rates. TrAIL considers the entire regulatory asset balance as the unit of account for the purposes of balance sheet classification rather than the next years recovery and as such net regulatory assets and liabilities are presented in the non-current section on the TrAIL 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 $12 million as of December 31, 2019, are recorded based on prior precedent or anticipated recovery based on rate making premises without a specific order.

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

Net Regulatory Assets (Liabilities) by Source	**December 31, 2019**	**December 31, 2018**	**Change**
		(In millions)	
Customer payables for future income taxes	$ (164)	$ (160)	$ (4)
Asset removal costs	(67)	(60)	(7)
Deferred transmission costs	110	103	7
Net Regulatory Liabilities included on the Balance Sheets	$ (121)	$ (117)	$ (4)

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, TrAIL'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. TrAIL recognizes liabilities for planned major maintenance projects as they are incurred.

TrAIL provides for depreciation on a straight-line basis at various rates over the estimated lives of property included in plant in service. Depreciation expense was approximately 2.3% and 2.2% of average depreciable property in 2019 and 2018, respectively. TrAIL has been granted certain incentives by FERC, including the inclusion of CWIP in rate base for most components of the TrAIL Line. As a result, AFUDC is not applicable to such components of the TrAIL Line.

For the years ended December 31, 2019 and December 31, 2018, capitalized financing costs on TrAIL's Statements of Income include $1 million and $2 million of allowance for equity funds used during construction, respectively.

TrAIL 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.

NEW ACCOUNTING PRONOUNCEMENTS

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

TrAIL accounts for revenues from contracts with customers under ASC 606, "*Revenue from Contracts with Customers*." Revenue from leases, financial instruments, other contractual rights or obligations and other revenues that are not from contracts with customers are outside the scope of the new standard and accounted for under other existing GAAP. TrAIL has elected to exclude sales taxes and other similar taxes collected on behalf of third parties from revenue as prescribed in the new standard. As a result, tax collections and remittances within the scope of this election are excluded from recognition in the income statement and instead recorded through the balance sheet. Gross receipts taxes that are assessed on TrAIL are not subject to the election and are included in revenue. TrAIL has elected the optional invoice practical expedient for most of its revenues and utilizes the optional short-term contract exemption for transmission revenues due to the annual establishment of revenue requirements, which eliminates the need to provide certain revenue disclosures regarding unsatisfied performance obligations.

TrAIL provides transmission infrastructure owned and operated by TrAIL to transmit electricity from generation sources to distribution facilities. TrAIL's transmission revenue is primarily derived from forward-looking formula transmission rates. Revenue requirements under forward-looking formula rates are updated annually based on a projected rate base and projected costs, which is subject to an annual true-up based on 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 $242 million and $237 million, respectively, and $9 million of non-customer revenue, respectively. These amounts include approximately $8 million in reductions to revenue related to amounts subject to refund resulting from the Tax Act for both the years ended December 31, 2019 and 2018.

3. TAXES

TrAIL records income taxes in accordance with the liability method of accounting. Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts recognized for tax purposes. Investment tax credits, which were deferred when utilized, are being amortized over the recovery period of the related property. Deferred income tax liabilities related to temporary tax and accounting basis differences and tax credit carryforward items are recognized at the statutory income tax rates in effect when the liabilities are expected to be paid. Deferred tax assets are recognized based on income tax rates expected to be in effect when they are settled.

TrAIL is party to an intercompany income tax allocation agreement with 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 payable-		
Federal	$ 11	$ 36
State	7	7
	18	43
Deferred, net-		
Federal	10	(14)
State	3	4
	13	(10)
Total income taxes	$ 31	$ 33

TrAIL's tax rates are affected by permanent items, such as AFUDC equity and other flow-through items, as well as discrete items that may occur in any given period, but are not consistent from period to period. The following table provides a reconciliation of federal income tax expense at the federal statutory rate to the total income taxes for the years ended December 31, 2019 and 2018:

(In millions)	For the Years Ended December 31, 2019	For the Years Ended December 31, 2018
Book income before income taxes	$ 139	$ 142
Federal income tax expense at statutory rate	$ 29	$ 30
Increases (reductions) in taxes resulting from-		
State income tax, net of federal income tax benefit	8	9
Excess deferred tax amortization due to the Tax Act	(6)	(6)
Total income taxes	$ 31	$ 33
Effective income tax rate	22.3%	23.2%

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

(In millions)	As of December 31, 2019	As of December 31, 2018
Property basis differences	$ 308	$ 305
Regulatory asset/liability	47	46
NOL carryforwards	(106)	(122)
Valuation allowances on NOL carryforwards	22	22
Other	(3)	(1)
Net deferred income tax liabilities	$ 268	$ 250

TrAIL 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, TrAIL's loss carryforwards consisted of approximately $386 million ($81 million, net of tax) of Federal NOL carryforwards which begin to expire in 2031 and $453 million ($24 million, net of tax) of State NOL carryforwards, which have been partially reserved and will begin to expire in 2031.

TrAIL accounts for uncertainty in income taxes recognized in its financial statements. A recognition threshold and measurement attribute are utilized for financial statement recognition and measurement of tax positions taken or expected to be taken on a company's tax return. In 2018, TrAIL reversed all previously recorded unrecognized tax benefits of approximately $2 million, none of which impacted TrAIL's effective tax rate, and did not record any new reserves in 2019. For the years ended December 31, 2019 and 2018, TrAIL does not have a reserve for any uncertain tax positions.

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

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

General Taxes

General taxes associated with real and personal property taxes for the years ended December 31, 2019 and 2018 were $14 million and $13 million, respectively.

4. FAIR VALUE MEASUREMENTS

All borrowings with initial maturities of less than one year are defined as short-term financial instruments under GAAP and are reported as Short-term borrowings on the Balance Sheets at cost. Since these borrowings are short-term in nature, TrAIL believes that their costs 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:

	December 31, 2019		December 31, 2018	
(In millions)	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Long-term debt	$ 625	$ 668	$ 625	$ 631

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 TrAIL. TrAIL 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. CAPITALIZATION

COMMON STOCK

TrAIL is authorized to issue 5,000 shares of common stock, $1.00 par value, as of December 31, 2019. As of December 31, 2019 and 2018, there were 1,000 common shares outstanding.

LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS

The following table presents outstanding long-term debt and other long-term obligations for TrAIL as of December 31, 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	2025	3.76% - 3.85%	$ 625	$ 625
Unamortized debt issuance costs			(3)	(3)
Total long-term debt and other long-term obligations			$ 622	$ 622

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

Debt Covenant Default Provisions

TrAIL has various debt covenants under certain financing arrangements, including its revolving credit facility. The most restrictive of the debt covenants relate to the nonpayment of interest and/or principal on such debt and the maintenance of certain financial ratios. The failure by TrAIL to comply with the covenants contained in any of its financing arrangements could result in an event of default, which may have an adverse effect on TrAIL's financial condition.

Additionally, there are cross-default provisions in certain financing arrangements of FE and its subsidiaries, including TrAIL. These provisions generally trigger a default in the applicable financing arrangement of an entity if it or any of its significant subsidiaries default under another financing arrangement in excess of a certain principal amount, typically $100 million. Although such defaults by TrAIL would generally cross-default FE financing arrangements containing these provisions, defaults by FE would generally not cross-default applicable TrAIL financing arrangements but defaults by TrAIL would generally cross-default applicable FET financing arrangements.

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

6. SHORT-TERM BORROWINGS AND BANK LINES OF CREDIT

TrAIL had $39 million and $11 million of outstanding short-term borrowings as of December 31, 2019 and 2018, respectively.

Revolving Credit Facility

FET and its subsidiaries, including TrAIL, 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, TrAIL may borrow up to its sub-limit of $400 million, all of which was available to TrAIL as of December 31, 2019. TrAIL 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 TrAIL, also have the ability to borrow from each other and the holding company to meet their short-term working capital requirements. FESC administers this money pool and tracks surplus funds of FE and the respective regulated subsidiaries, as well as proceeds available from bank borrowings. Companies receiving a loan under the money pool agreement must repay the principal amount of the loan, together with accrued interest, within 364 days of borrowing the funds. The rate of interest is the same for each company receiving a loan from the regulated pool and is based on the average cost of funds available through the pool. The average interest rate for borrowings in 2019 was 2.27% per annum.

7. REGULATORY MATTERS

FERC REGULATORY MATTERS

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

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

FirstEnergy, including TrAIL, believes that it is in material compliance with all currently-effective and enforceable reliability standards. Nevertheless, in the course of operating its extensive electric utility systems and facilities, FirstEnergy, including TrAIL, occasionally learns of isolated facts or circumstances that could be interpreted as excursions from the reliability standards. If and when such occurrences are found, FirstEnergy, including TrAIL, develops information about the occurrence and develops a remedial response to the specific circumstances, including in appropriate cases “self-reporting” an occurrence to RFC. Moreover, it is clear that NERC, RFC and FERC will continue to refine existing reliability standards as well as to develop and adopt new reliability standards. Any inability on FirstEnergy's, including TrAIL's, part to comply with the reliability standards for its bulk electric system could result in the imposition of financial penalties, or obligations to upgrade or build transmission facilities, that could have a material adverse effect on TrAIL's financial condition, results of operations and cash flows.

FERC 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. 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 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.

8. COMMITMENTS AND CONTINGENCIES

ENVIRONMENTAL MATTERS

Various federal, state and local authorities regulate TrAIL with regard to air and water quality and other environmental matters. While TrAIL's environmental policies and procedures are designed to achieve compliance with applicable environmental laws and regulations, such laws and regulations are subject to periodic review and potential revision by the implementing agencies. TrAIL cannot predict the timing or ultimate outcome of any of these reviews or how any future actions taken as a result thereof may materially impact its business, results of operations, cash flows and financial condition.

OTHER LEGAL PROCEEDINGS

Other Legal Matters

There are various lawsuits, claims and proceedings related to TrAIL's normal business operations pending against TrAIL. The loss or range of loss in these matters is not expected to be material to TrAIL. The other potentially material items not otherwise discussed above are described under Note 7, "Regulatory Matters."

TrAIL accrues legal liabilities only when it concludes that it is probable that it has an obligation for such costs and can reasonably estimate the amount of such costs. In cases where TrAIL determines that it is not probable, but reasonably possible that it has a material obligation, it discloses such obligations and the possible loss or range of loss if such estimate can be made. If it were ultimately determined that TrAIL has legal liability or is otherwise made subject to liability based on any of the matters referenced above, it could have a material adverse effect on TrAIL's financial condition, results of operations and cash flows.

9. TRANSACTIONS WITH AFFILIATED COMPANIES

In addition to the intercompany income tax allocation and short-term borrowing arrangement, TrAIL has other revenue, operating expense and interest expense transactions with affiliated companies, primarily MP, PE, WP and FESC. The primary affiliated-company transactions for TrAIL during the years ended December 31, 2019 and 2018 are as follows:

	For The Years Ended December 31,	
	2019	2018
	(In millions)	
Revenues	$ 9	$ 9
Expenses:		
Support services	21	22
Investment Income	2	1

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

As of December 31, 2019 and 2018, TrAIL had $5 million and $6 million, respectively, of affiliated non-current liabilities related to pension and OPEB mark-to-market costs allocated to TrAIL.

TrAIL 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").