FIRSTENERGY CORP
Form 10-Q
August 06, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2013

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ___________________ to ___________________

Commission File Number	Registrant; State of Incorporation; Address; and Telephone Number	I.R.S. Employer Identification No.
333-21011	FIRSTENERGY CORP. (An Ohio Corporation) 76 South Main Street Akron, OH 44308 Telephone (800)736-3402	34-1843785
000-53742	FIRSTENERGY SOLUTIONS CORP. (An Ohio Corporation) c/o FirstEnergy Corp. 76 South Main Street Akron, OH 44308 Telephone (800)736-3402	31-1560186

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No o FirstEnergy Corp. and FirstEnergy Solutions Corp.
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No o FirstEnergy Corp. and FirstEnergy Solutions Corp.
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
Large Accelerated Filer þ FirstEnergy Corp.

Accelerated Filer o	N/A
Non-accelerated Filer (Do not check if a smaller reporting company) þ	FirstEnergy Solutions Corp.
Smaller Reporting Company o	N/A

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes o No þ FirstEnergy Corp. and FirstEnergy Solutions Corp.
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

CLASS	OUTSTANDING AS OF AUGUST 5, 2013
FirstEnergy Corp., $0.10 par value	418,216,437
FirstEnergy Solutions Corp., no par value	7

FirstEnergy Corp. is the sole holder of FirstEnergy Solutions Corp. common stock.
This combined Form 10-Q is separately filed by FirstEnergy Corp. and FirstEnergy Solutions Corp. Information contained herein relating to any individual registrant is filed by such registrant on its own behalf. No registrant makes any representation as to information relating to the other registrant, except that information relating to FirstEnergy Solutions Corp. is also attributed to FirstEnergy Corp.
FirstEnergy Web Site and Other Social Media Sites and Applications
Each of the registrants' Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed with or furnished to the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are also made available free of charge on or through the "Investors" page of FirstEnergy's Internet web site at www.firstenergycorp.com.
These SEC filings are posted on the web site as soon as reasonably practicable after they are electronically filed with the SEC. Additionally, the registrants routinely post additional important information including press releases, investor presentations and notices of upcoming events, under the "Investors" section of FirstEnergy's Internet web site and recognize FirstEnergy's Internet web site as a channel of distribution to reach public investors and as a means of disclosing material non-public information for complying with disclosure obligations under SEC Regulation FD. Investors may be notified of postings to the web site by signing up for email alerts and RSS feeds on the "Investors" page of FirstEnergy's Internet web site or through push alerts from FirstEnergy Investor Relations apps for Apple Inc.'s iPad and iPhone devices, which can be installed for free at the Apple online store. FirstEnergy also uses Twitter and Facebook as an additional channel of distribution to reach public investors and as a supplemental means of disclosing material non-public information for complying with its disclosure obligations under SEC Regulation FD. Information contained on FirstEnergy's Internet web site or its Twitter or Facebook site, and any corresponding applications of those sites, shall not be deemed incorporated into, or to be part of, this report.
OMISSION OF CERTAIN INFORMATION
FirstEnergy Solutions Corp. meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this Form 10-Q with the reduced disclosure format specified in General Instruction H(2) to Form 10-Q.

Forward-Looking Statements: This Form 10-Q includes forward-looking statements based on information currently available to management. Such statements are subject to certain risks and uncertainties. These statements include declarations regarding management's intents, beliefs and current expectations. These statements typically contain, but are not limited to, the terms “anticipate,” “potential,” “expect,” “believe,” “estimate” and similar words. Forward-looking statements involve estimates, assumptions, known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Actual results may differ materially due to:

- The speed and nature of increased competition in the electric utility industry, in general, and the retail sales market in particular.
- The impact of the regulatory process on the pending matters before FERC and in the various states in which we do business including, but not limited to, matters related to rates and pending rate cases.
- The uncertainties of various cost recovery and cost allocation issues resulting from ATSI's realignment into PJM.
- Economic or weather conditions affecting future sales and margins.
- Regulatory outcomes associated with storms, including but not limited to Hurricane Sandy, Hurricane Irene and the October snowstorm of 2011.
- Changing energy, capacity and commodity market prices including, but not limited to, coal, natural gas and oil, and availability and their impact on retail margins.
- The continued ability of our regulated utilities to recover their costs.
- Costs being higher than anticipated and the success of our policies to control costs and to mitigate low energy, capacity and market prices.
- Other legislative and regulatory changes, and revised environmental requirements, including possible GHG emission, water discharge, water intake and coal combustion residual regulations, the potential impacts of CSAPR, CAIR, and/or any laws, rules or regulations that ultimately replace CAIR, and the effects of the EPA's MATS rules including our estimated costs of compliance.
- The uncertainty of the timing and amounts of the capital expenditures that may arise in connection with any litigation, including NSR litigation or potential regulatory initiatives or rulemakings (including that such expenditures could result in our decision to deactivate or idle certain generating units).
- The uncertainties associated with the deactivation of certain older regulated and competitive fossil units including the decision to deactivate the Hatfield's Ferry and Mitchell Power Stations, the impact on vendor commitments, and the timing thereof as they relate to, among other things, RMR arrangements and the reliability of the transmission grid.
- Adverse regulatory or legal decisions and outcomes with respect to our nuclear operations (including, but not limited to the revocation or non-renewal of necessary licenses, approvals or operating permits by the NRC or as a result of the incident at Japan's Fukushima Daiichi Nuclear Plant).
- Adverse legal decisions and outcomes related to ME's and PN's ability to recover certain transmission costs through their TSC riders.
- The impact of future changes to the operational status or availability of our generating units.
- The risks and uncertainties associated with litigation, arbitration, mediation and like proceedings, including, but not limited to, any such proceedings related to vendor commitments.
- Replacement power costs being higher than anticipated or inadequately hedged.
- The ability to comply with applicable state and federal reliability standards and energy efficiency and peak demand reduction mandates.
- Changes in customers' demand for power, including but not limited to, changes resulting from the implementation of state and federal energy efficiency and peak demand reduction mandates.
- The ability to accomplish or realize anticipated benefits from strategic and financial goals including, but not limited to, the ability to reduce costs and to successfully complete our announced financial plans designed to improve our credit metrics and strengthen our balance sheet, including but not limited to, proposed capital raising and debt reduction initiatives, the proposed West Virginia asset transfer and potential sale of non-core hydro assets.

- Our ability to improve electric commodity margins and the impact of, among other factors, the increased cost of fuel and fuel transportation on such margins.
- The ability to experience growth in the Regulated Distribution segment and to continue to successfully implement our direct retail sales strategy in the Competitive Energy Services segment.
- Changing market conditions that could affect the measurement of liabilities and the value of assets held in our NDTs, pension trusts and other trust funds, and cause us and our subsidiaries to make additional contributions sooner, or in amounts that are larger than currently anticipated.
- The impact of changes to material accounting policies.
- The ability to access the public securities and other capital and credit markets in accordance with our announced financial plan, the cost of such capital and overall condition of the capital and credit markets affecting us and our subsidiaries.
- Actions that may be taken by credit rating agencies that could negatively affect us and our subsidiaries' access to financing, increase the costs thereof, and increase requirements to post additional collateral to support outstanding commodity positions, LOCs and other financial guarantees.
- Changes in national and regional economic conditions affecting us, our subsidiaries and our major industrial and commercial customers, and other counterparties including fuel suppliers, with which we do business.
- Issues concerning the stability of domestic and foreign financial institutions and counterparties with which we do business.

- The risks and other factors discussed from time to time in our SEC filings, and other similar factors.

Dividends declared from time to time on FE's common stock during any period may in the aggregate vary from prior periods due to circumstances considered by FE's Board of Directors at the time of the actual declarations. A security rating is not a recommendation to buy or hold securities and is subject to revision or withdrawal at any time by the assigning rating agency. Each rating should be evaluated independently of any other rating.
The foregoing review of factors should not be construed as exhaustive. New factors emerge from time to time, and it is not possible for management to predict all such factors, nor assess the impact of any such factor on FirstEnergy's business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statements. The registrants expressly disclaim any current intention to update, except as required by law, any forward-looking statements contained herein as a result of new information, future events or otherwise.

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GLOSSARY OF TERMS

The following abbreviations and acronyms are used in this report to identify FirstEnergy Corp. and its current and former subsidiaries:

AE	Allegheny Energy, Inc., a Maryland utility holding company that merged with a subsidiary of FirstEnergy on February 25, 2011
AE Supply	Allegheny Energy Supply Company, LLC, an unregulated generation subsidiary of AE
AGC	Allegheny Generating Company, a generation subsidiary of AE Supply
Allegheny	Allegheny Energy, Inc., together with its consolidated subsidiaries
Allegheny Utilities	MP, PE and WP
ATSI	American Transmission Systems, Incorporated, formerly a direct subsidiary of FE that became a subsidiary of FET in April 2012, which owns and operates transmission facilities.
CEI	The Cleveland Electric Illuminating Company, an Ohio electric utility operating subsidiary
FE	FirstEnergy Corp., a public utility holding company
FENOC	FirstEnergy Nuclear Operating Company, which operates nuclear generating facilities
FES	FirstEnergy Solutions Corp., which provides energy-related products and services
FESC	FirstEnergy Service Company, which provides legal, financial and other corporate support services
FET	FirstEnergy Transmission, LLC, formerly known as Allegheny Energy Transmission, LLC, a subsidiary of AE, which is the parent of ATSI and TrAIL and has a joint venture in PATH.
FEV	FirstEnergy Ventures Corp., which invests in certain unregulated enterprises and business ventures
FG	FirstEnergy Generation, LLC, a subsidiary of FES, which owns and operates non-nuclear generating facilities
FirstEnergy	FirstEnergy Corp., together with its consolidated subsidiaries
Global Holding	Global Mining Holding Company, LLC, a joint venture between FEV, WMB Marketing Ventures, LLC and Pinesdale LLC
Global Rail	A subsidiary of Global Holding that owns coal transportation operations near Roundup, Montana
JCP&L	Jersey Central Power & Light Company, a New Jersey electric utility operating subsidiary
ME	Metropolitan Edison Company, a Pennsylvania electric utility operating subsidiary
MP	Monongahela Power Company, a West Virginia electric utility operating subsidiary of AE
NG	FirstEnergy Nuclear Generation, LLC, a subsidiary of FES, which owns nuclear generating facilities
OE	Ohio Edison Company, an Ohio electric utility operating subsidiary
Ohio Companies	CEI, OE and TE
PATH	Potomac-Appalachian Transmission Highline, LLC, a joint venture between Allegheny and a subsidiary of AEP
PATH-Allegheny	PATH Allegheny Transmission Company, LLC
PATH-WV	PATH West Virginia Transmission Company, LLC
PE	The Potomac Edison Company, a Maryland electric utility operating subsidiary of AE
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 subsidiary
PNBV	PNBV Capital Trust, a special purpose entity created by OE in 1996
Shippingport	Shippingport Capital Trust, a special purpose entity created by CEI and TE in 1997
Signal Peak	An indirect subsidiary of Global Holding that owns mining operations near Roundup, Montana
TE	The Toledo Edison Company, an Ohio electric utility operating subsidiary

TrAIL	Trans-Allegheny Interstate Line Company, a subsidiary of FET, which owns and operates transmission facilities
Utilities	OE, CEI, TE, Penn, JCP&L, ME, PN, MP, PE and WP
WP	West Penn Power Company, a Pennsylvania electric utility operating subsidiary of AE

The following abbreviations and acronyms are used to identify frequently used terms in this report:

AEP	American Electric Power Company, Inc.
AFS	Available-for-sale
ALJ	Administrative Law Judge
Anker WV	Anker West Virginia Mining Company, Inc.
Anker Coal	Anker Coal Group, Inc.
AOCI	Accumulated Other Comprehensive Income
ARO	Asset Retirement Obligation
ARR	Auction Revenue Right

GLOSSARY OF TERMS, Continued

ASLB	Atomic Safety and Licensing Board
BGS	Basic Generation Service
BTU	British Thermal Units
CAA	Clean Air Act
CAIR	Clean Air Interstate Rule
CBP	Competitive Bid Process
CCB	Coal Combustion By-products
CCR	Coal Combustion Residuals
CDWR	California Department of Water Resources
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act of 1980
CFR	Code of Federal Regulations
CO_2	Carbon Dioxide
CSAPR	Cross-State Air Pollution Rule
CWA	Clean Water Act
DCR	Delivery Capital Recovery
DOE	United States Department of Energy
DOJ	United States Department of Justice
DSP	Default Service Plan
EDC	Electric Distribution Company
EE&C	Energy Efficiency and Conservation
EGS	Electric Generation Supplier
EIS	Environmental Impact Statement
ELPC	Environmental Law & Policy Center
ENEC	Expanded Net Energy Cost
EPA	United States Environmental Protection Agency
ERO	Electric Reliability Organization
ESP	Electric Security Plan
FERC	Federal Energy Regulatory Commission
Fitch	Fitch Ratings
FMB	First Mortgage Bond
FPA	Federal Power Act
FTR	Financial Transmission Right
GAAP	Accounting Principles Generally Accepted in the United States of America
GHG	Greenhouse Gases
GWH	Gigawatt-hour
HCL	Hydrochloric Acid
ICC	Illinois Commerce Commission
ICE	IntercontinentalExchange, Inc.
ICG	International Coal Group Inc.
ILP	Integrated License Application Process
kV	Kilovolt
KWH	Kilowatt-hour
LAR	License Amendment Request
LBR	Little Blue Run
LCAPP	Long-Term Capacity Agreement Pilot Program
LITE	Local Infrastructure and Transmission Enhancement
LOC	Letter of Credit

LSE	Load Serving Entity
MATS	Mercury and Air Toxics Standards
MDPSC	Maryland Public Service Commission
MISO	Midcontinent Independent System Operator, Inc.

GLOSSARY OF TERMS, Continued

mmBTU	One Million British Thermal Units
Moody’s	Moody’s Investors Service, Inc.
MOPR	Minimum Offer Price Rule
MTEP	MISO Regional Transmission Expansion Plan
MVP	Multi-value Project
MW	Megawatt
MWH	Megawatt-hour
NDT	Nuclear Decommissioning Trust
NERC	North American Electric Reliability Corporation
NJBPU	New Jersey Board of Public Utilities
NMB	Non-Market Based
NNSR	Non-Attainment New Source Review
NOL	Net Operating Loss
NOV	Notice of Violation
NOx	Nitrogen Oxide
NPDES	National Pollutant Discharge Elimination System
NRC	Nuclear Regulatory Commission
NSR	New Source Review
NUG	Non-Utility Generation
NYPSC	New York State Public Service Commission
NYSEG	New York State Electric and Gas
OCC	Ohio Consumers' Counsel
OPEB	Other Post-Employment Benefits
OTTI	Other Than Temporary Impairments
OVEC	Ohio Valley Electric Corporation
PA DEP	Pennsylvania Department of Environmental Protection
PCB	Polychlorinated Biphenyl
PCRB	Pollution Control Revenue Bond
PJM	PJM Interconnection LLC
PI	Performance Indicator
PM	Particulate Matter
POLR	Provider of Last Resort
PPUC	Pennsylvania Public Utility Commission
PSA	Power Supply Agreement
PSD	Prevention of Significant Deterioration
PUCO	Public Utilities Commission of Ohio
PURPA	Public Utility Regulatory Policies Act of 1978
RCRA	Resource Conservation and Recovery Act
REC	Renewable Energy Credit
REIT	Real Estate Investment Trust
RFC	ReliabilityFirst Corporation
RFP	Request for Proposal
RGGI	Regional Greenhouse Gas Initiative
RMR	Reliability Must-Run
RPM	Reliability Pricing Model
RTEP	Regional Transmission Expansion Plan
RTO	Regional Transmission Organization

S&P	Standard & Poor’s Ratings Service
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
SAMA	Severe Accident Mitigation Alternatives

GLOSSARY OF TERMS, Continued

SB221	Amended Substitute Senate Bill 221
SBC	Societal Benefits Charge
SEC	United States Securities and Exchange Commission
SIP	State Implementation Plan(s) Under the Clean Air Act
SMIP	Smart Meter Implementation Plan
SO_2	Sulfur Dioxide
SOS	Standard Offer Service
SPE	Special Purpose Entity
SREC	Solar Renewable Energy Credit
SSO	Standard Service Offer
TDS	Total Dissolved Solid
TMI-2	Three Mile Island Unit 2
TSC	Transmission Service Charge
UWUA	Utility Workers Union of America
VIE	Variable Interest Entity
VSCC	Virginia State Corporation Commission
WVDEP	West Virginia Department of Environmental Protection
WVPSC	Public Service Commission of West Virginia

PART I. FINANCIAL INFORMATION

ITEM I. Financial Statements

FIRSTENERGY CORP.
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
(In millions, except per share amounts)	2013	2012	2013	2012
REVENUES:				
Electric utilities	$2,221	$2,323	$4,609	$4,863
Unregulated businesses	1,298	1,432	2,639	2,882
Total revenues*	3,519	3,755	7,248	7,745
OPERATING EXPENSES:				
Fuel	628	656	1,258	1,197
Purchased power	862	1,042	1,805	2,301
Other operating expenses	887	921	1,771	1,739
Provision for depreciation	302	285	596	564
Amortization of regulatory assets, net	72	62	131	137
General taxes	241	232	506	504
Impairment of long-lived assets	473	—	473	—
Total operating expenses	3,465	3,198	6,540	6,442
OPERATING INCOME	54	557	708	1,303
OTHER INCOME (EXPENSE):				
Loss on debt redemptions	(24)	—	(141)	—
Investment income (loss)	(15)	13	3	24
Interest expense	(256)	(274)	(514)	(520)
Capitalized interest	19	19	34	36
Total other expense	(276)	(242)	(618)	(460)
INCOME (LOSS) BEFORE INCOME TAXES	(222)	315	90	843
INCOME TAXES (BENEFITS)	(58)	127	58	349
NET INCOME (LOSS)	(164)	188	32	494
Income attributable to noncontrolling interest	—	1	—	1
EARNINGS (LOSSES) AVAILABLE TO FIRSTENERGY CORP.	$(164)	$187	$32	$493
EARNINGS (LOSSES) PER SHARE OF COMMON STOCK:				
Basic	$(0.39)	$0.45	$0.08	$1.18

Diluted	$(0.39)	$0.45	$0.08	$1.18
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:				
Basic	418	417	418	418
Diluted	418	419	419	419
DIVIDENDS DECLARED PER SHARE OF COMMON STOCK	$—	$—	$0.55	$0.55

* Includes excise tax collections of $107 million in each of the three month periods ended June 30, 2013 and 2012 and $229 million and $228 million in the six months ended June 30, 2013 and 2012, respectively.

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

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FIRSTENERGY CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
(In millions)	2013	2012	2013	2012
NET INCOME (LOSS)	$(164)	$188	$32	$494
OTHER COMPREHENSIVE INCOME (LOSS):				
Pensions and OPEB prior service costs	(55)	(48)	(101)	(101)
Amortized losses on derivative hedges	1	3	2	1
Change in unrealized gain on available-for-sale securities	(8)	2	(3)	12
Other comprehensive loss	(62)	(43)	(102)	(88)
Income tax benefits on other comprehensive loss	(24)	(27)	(40)	(51)
Other comprehensive loss, net of tax	(38)	(16)	(62)	(37)
COMPREHENSIVE INCOME (LOSS)	(202)	172	(30)	457
Comprehensive income attributable to noncontrolling interest	—	1	—	1
COMPREHENSIVE INCOME (LOSS) AVAILABLE TO FIRSTENERGY CORP.	$(202)	$171	$(30)	$456

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

FIRSTENERGY CORP.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions, except share amounts)	June 30, 2013	December 31, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$71	$172
Receivables-		
Customers, net of allowance for uncollectible accounts of $40 in 2013 and 2012	1,646	1,614
Other, net of allowance for uncollectible accounts of $3 in 2013 and $4 in 2012	277	315
Materials and supplies, at average cost	806	861
Prepaid taxes	288	119
Derivatives	173	160
Accumulated deferred income taxes	51	319
Other	248	208
	3,560	3,768
PROPERTY, PLANT AND EQUIPMENT:		
In service	43,888	43,210
Less — Accumulated provision for depreciation	13,027	12,600
	30,861	30,610
Construction work in progress	2,230	2,293
	33,091	32,903
INVESTMENTS:		
Nuclear plant decommissioning trusts	2,178	2,204
Investments in lease obligation bonds	46	54
Other	876	936
	3,100	3,194
DEFERRED CHARGES AND OTHER ASSETS:		
Goodwill	6,447	6,447
Regulatory assets	2,321	2,375
Other	1,638	1,719
	10,406	10,541
	$50,157	$50,406
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES:		
Currently payable long-term debt	$1,952	$1,999
Short-term borrowings	3,254	1,969
Accounts payable	950	1,599
Accrued taxes	338	543
Accrued compensation and benefits	298	331
Derivatives	142	126
Other	599	1,038
	7,533	7,605
CAPITALIZATION:		
Common stockholders' equity-		
Common stock, $0.10 par value, authorized 490,000,000 shares - 418,216,437 shares outstanding	42	42

Other paid-in capital	9,744	9,769
Accumulated other comprehensive income	323	385
Retained earnings	2,690	2,888
Total common stockholders’ equity	12,799	13,084
Noncontrolling interest	4	9
Total equity	12,803	13,093
Long-term debt and other long-term obligations	15,449	15,179
	28,252	28,272
NONCURRENT LIABILITIES:		
Accumulated deferred income taxes	6,427	6,616
Retirement benefits	3,088	3,080
Asset retirement obligations	1,795	1,599
Deferred gain on sale and leaseback transaction	875	892
Adverse power contract liability	484	506
Other	1,703	1,836
	14,372	14,529
COMMITMENTS, GUARANTEES AND CONTINGENCIES (Note 12)		
	$50,157	$50,406

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

FIRSTENERGY CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30	
(In millions)	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$32	$494
Adjustments to reconcile net income to net cash from operating activities-		
Provision for depreciation	596	564
Amortization of regulatory assets, net	131	137
Nuclear fuel amortization	98	106
Deferred purchased power and other costs	(39)	(149)
Deferred income taxes and investment tax credits, net	119	423
Impairments of long-lived assets	473	—
Investment impairments	53	7
Deferred rents and lease market valuation liability	(59)	(106)
Stock based compensation	(22)	(18)
Retirement benefits	(104)	(64)
Commodity derivative transactions, net (Note 9)	21	(86)
Pension trust contributions	—	(600)
Cash collateral, net	(42)	22
Loss on debt redemptions	141	—
Make-whole premiums paid on debt redemptions	(61)	—
Decrease (increase) in operating assets-		
Receivables	(125)	(105)
Materials and supplies	42	(109)
Prepayments and other current assets	(185)	(117)
Increase (decrease) in operating liabilities-		
Accounts payable	(329)	(122)
Accrued taxes	(199)	(192)
Accrued interest	2	(5)
Accrued compensation and benefits	(34)	(96)
Other	(16)	78
Net cash provided from operating activities	493	62
CASH FLOWS FROM FINANCING ACTIVITIES:		
New Financing-		
Long-term debt	2,245	182
Short-term borrowings, net	1,285	1,890
Redemptions and Repayments-		
Long-term debt	(1,968)	(746)
Tender premiums paid on debt redemptions	(110)	—
Common stock dividend payments	(460)	(460)
Other	(16)	(35)
Net cash provided from financing activities	976	831
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(1,412)	(911)

Nuclear fuel	(50)	(90)
Sales of investment securities held in trusts	1,177	382
Purchases of investment securities held in trusts	(1,173)	(420)
Cash investments	(3)	87
Asset removal costs	(111)	(36)
Other	2	(13)
Net cash used for investing activities	(1,570)	(1,001)
Net change in cash and cash equivalents	(101)	(108)
Cash and cash equivalents at beginning of period	172	202
Cash and cash equivalents at end of period	$71	$94

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

FIRSTENERGY SOLUTIONS CORP.
CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
(Unaudited)

(In millions)	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
STATEMENTS OF INCOME (LOSS)				
REVENUES:				
Electric sales to non-affiliates	$1,284	$1,322	$2,624	$2,688
Electric sales to affiliates	140	107	296	230
Other	35	27	69	54
Total revenues	1,459	1,456	2,989	2,972
OPERATING EXPENSES:				
Fuel	332	380	632	675
Purchased power from affiliates	137	133	269	250
Purchased power from non-affiliates	524	434	1,029	921
Other operating expenses	388	393	768	688
Provision for depreciation	78	69	154	132
General taxes	34	32	71	69
Total operating expenses	1,493	1,441	2,923	2,735
OPERATING INCOME (LOSS)	(34)	15	66	237
OTHER INCOME (EXPENSE):				
Loss on debt redemptions	(32)	—	(103)	—
Investment income (loss)	(18)	6	(1)	12
Miscellaneous income	6	20	8	24
Interest expense — affiliates	(5)	(2)	(6)	(4)
Interest expense — other	(39)	(48)	(91)	(89)
Capitalized interest	10	9	19	18
Total other expense	(78)	(15)	(174)	(39)
INCOME (LOSS) BEFORE INCOME TAXES	(112)	—	(108)	198
INCOME TAXES (BENEFITS)	(41)	1	(39)	77
NET INCOME (LOSS)	$(71)	$(1)	$(69)	$121
STATEMENTS OF COMPREHENSIVE INCOME (LOSS)				
NET INCOME (LOSS)	$(71)	$(1)	$(69)	$121
OTHER COMPREHENSIVE INCOME (LOSS):				
Pensions and OPEB prior service costs	(5)	8	(11)	3
Amortized loss (gain) on derivative hedges	(1)	1	(2)	(4)
Change in unrealized gain on available-for-sale securities	(8)	3	(3)	13

Other comprehensive income (loss)	(14	) 12	(16	) 12
Income taxes (benefits) on other comprehensive income (loss)	(5	) 2	(6	) 4
Other comprehensive income (loss), net of tax	(9	) 10	(10	) 8
COMPREHENSIVE INCOME (LOSS)	$(80	) $9	$(79	) $129

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

FIRSTENERGY SOLUTIONS CORP.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions, except share amounts)	June 30, 2013	December 31, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$2	$3
Receivables-		
Customers, net of allowance for uncollectible accounts of $15 in 2013 and $16 in 2012	541	483
Affiliated companies	435	379
Other, net of allowance for uncollectible accounts of $3 in 2013 and $2 in 2012	122	91
Notes receivable from affiliated companies	120	276
Materials and supplies	454	505
Derivatives	170	158
Prepayments and other	129	87
	1,973	1,982
PROPERTY, PLANT AND EQUIPMENT:		
In service	12,563	11,997
Less — Accumulated provision for depreciation	4,610	4,408
	7,953	7,589
Construction work in progress	1,016	1,141
	8,969	8,730
INVESTMENTS:		
Nuclear plant decommissioning trusts	1,270	1,283
Other	12	12
	1,282	1,295
DEFERRED CHARGES AND OTHER ASSETS:		
Customer intangibles	103	110
Goodwill	24	24
Property taxes	36	36
Unamortized sale and leaseback costs	164	119
Derivatives	87	99
Other	239	253
	653	641
	$12,877	$12,648
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES:		
Currently payable long-term debt	$859	$1,102
Short-term borrowings	4	4
Accounts payable-		
Affiliated companies	514	726
Other	256	159
Accrued taxes	40	171
Derivatives	140	124
Other	179	280
	1,992	2,566
CAPITALIZATION:		

Common stockholder's equity-		
Common stock, without par value, authorized 750 shares- 7 shares outstanding	3,082	1,573
Accumulated other comprehensive income	62	72
Retained earnings	2,049	2,118
Total common stockholder's equity	5,193	3,763
Long-term debt and other long-term obligations	2,180	3,118
	7,373	6,881
NONCURRENT LIABILITIES:		
Deferred gain on sale and leaseback transaction	875	892
Accumulated deferred income taxes	647	515
Asset retirement obligations	1,138	965
Retirement benefits	250	241
Derivatives	35	37
Other	567	551
	3,512	3,201
COMMITMENTS, GUARANTEES AND CONTINGENCIES (Note 12)		
	$12,877	$12,648

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

6

FIRSTENERGY SOLUTIONS CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30	
(In millions)	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (Loss)	$(69)	$121
Adjustments to reconcile net income to net cash from operating activities-		
Provision for depreciation	154	132
Nuclear fuel amortization	98	103
Deferred rents and lease market valuation liability	(56)	(103)
Deferred income taxes and investment tax credits, net	141	162
Investment impairments	45	6
Retirement benefits	(3)	1
Pension trust contribution	—	(209)
Commodity derivative transactions, net (note 9)	22	(53)
Cash collateral, net	(3)	17
Loss on debt redemptions	103	—
Make-whole premiums paid on debt redemptions	(31)	—
Decrease (increase) in operating assets-		
Receivables	(156)	—
Materials and supplies	52	(56)
Prepayments and other current assets	(40)	19
Increase (decrease) in operating liabilities-		
Accounts payable	(104)	243
Accrued taxes	(131)	(167)
Accrued compensation and benefits	3	13
Other	(25)	(10)
Net cash provided from operating activities	—	219
CASH FLOWS FROM FINANCING ACTIVITIES:		
New financing-		
Long-term debt	—	82
Equity contribution from parent	1,500	—
Redemptions and repayments-		
Long-term debt	(1,179)	(140)
Tender premiums paid on debt redemptions	(67)	—
Other	(5)	(6)
Net cash provided from (used for) financing activities	249	(64)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(350)	(213)
Nuclear fuel	(50)	(90)
Proceeds from asset sales	19	17
Sales of investment securities held in trusts	487	109
Purchases of investment securities held in trusts	(515)	(127)
Loans to affiliated companies, net	156	155

Other	3	(6)
Net cash used for investing activities	(250)	(155)
Net change in cash and cash equivalents	(1)	—
Cash and cash equivalents at beginning of period	3	7
Cash and cash equivalents at end of period	$2	$7

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

FIRSTENERGY CORP. AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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.

FE is a diversified energy holding company that holds, directly or indirectly, all of the outstanding common stock of its principal subsidiaries: OE, CEI, TE, Penn (a wholly owned subsidiary of OE), JCP&L, ME, PN, FENOC, AE and its principal subsidiaries (AE Supply, AGC, MP, PE, WP and FET), FES and its principal subsidiaries (FG and NG) and FESC. During the second quarter of 2013, FE completed a $1.5 billion equity contribution to FES.

These interim financial statements have been prepared pursuant to the rules and regulations of the SEC for Quarterly Reports on Form 10-Q. Certain information and disclosures normally included in financial statements and notes prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. These interim financial statements should be read in conjunction with the financial statements and notes included in the combined Annual Report on Form 10-K for the year ended December 31, 2012.

FirstEnergy follows GAAP and complies with the related regulations, orders, policies and practices prescribed by the SEC, FERC, and, as applicable, the PUCO, the PPUC, the MDPSC, the NYPSC, the WVPSC, the VSCC and the NJBPU. The accompanying interim financial statements are unaudited, but reflect all adjustments, consisting of normal recurring adjustments, that, in the opinion of management, are necessary for a fair presentation of the financial statements. 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 indicative of results of operations for any future period. FE and its subsidiaries have evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued.

FE and its subsidiaries consolidate all majority-owned subsidiaries over which they exercise control and, when applicable, entities for which they have a controlling financial interest. Intercompany transactions and balances are eliminated in consolidation. FE and its subsidiaries consolidate a VIE when it is determined that it is the primary beneficiary (see Note 7, Variable Interest Entities). Investments in affiliates over which FE and its subsidiaries have the ability to exercise significant influence, but with respect to which they are not the primary beneficiary and do not exercise control, follow the equity method of accounting. Under the equity method, the interest in the entity is reported as an investment in the Consolidated Balance Sheets and the percentage share of the entity's earnings is reported in the Consolidated Statements of Income and Comprehensive Income. These Notes to the Consolidated Financial Statements are combined for FirstEnergy and FES.

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

New Accounting Pronouncements

New accounting pronouncements not yet effective are not expected to have a material effect on the financial statements of FE or its subsidiaries.

2. IMPAIRMENT OF LONG-LIVED ASSETS

FirstEnergy reviews long-lived assets, including regulatory assets, for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The recoverability of a long-lived asset is measured by comparing its carrying value to the sum of undiscounted future cash flows expected to result from the use and eventual disposition of the asset. If the carrying value is greater than the undiscounted cash

flows, an impairment exists and a loss is recognized for the amount by which the carrying value of the long-lived asset exceeds its estimated fair value. FirstEnergy utilizes the income approach, based upon discounted cash flows to estimate fair value.

Generating Plant Retirements - 2013

On July 8, 2013, officers of FirstEnergy and AE Supply committed to deactivating the following generating units by October 9, 2013:

Generating Units	MW Capacity	Location
Hatfield's Ferry, Units 1-3	1,710	Masontown, Pennsylvania
Mitchell, Units 2-3	370	Courtney, Pennsylvania

As a result of this decision, in the second quarter of 2013, FirstEnergy recorded a pre-tax impairment of approximately $473 million to continuing operations, which also includes pre-tax impairments of $13 million related to excessive inventory at these facilities. The impairment charge is included within the results of the Competitive Energy Services Segment.

Approximately 380 plant employees and generation related positions are expected to be affected by these plant deactivations. Eligible employees will receive severance benefits in 2013 that are currently estimated to be approximately $15 million (pre-tax) and were recognized in Other operating expenses in the Consolidated Statements of Income (Loss) in the second quarter of 2013.

Upon termination of operations at Hatfield's Ferry Units 1-3, AE Supply will have the right to redeem $235 million of its outstanding PCRBs at par.

AE Supply has obligations, such as fuel supply, that could be affected by the plant closings and management is currently unable to reasonably estimate potential costs, or a range thereof, that could be incurred.

Generating Plant Retirements - 2012

As of September 1, 2012, Albright, Armstrong, Bay Shore Units 2-4, Eastlake Units 4-5, R. Paul Smith, Rivesville and Willow Island have been deactivated. On April 25, 2012, PJM concluded its initial analysis of the reliability impacts from the previously announced plant deactivations and requested RMR arrangements for Eastlake Units 1-3, Ashtabula Unit 5 and Lake Shore Unit 18 through the spring of 2015. During the three months and six months ended June 30, 2012, FirstEnergy recognized pre-tax severance expense of approximately $10 million ($6 million by FES) and $17 million ($10 million by FES), respectively, as a result of the deactivations. These costs are included in Other operating expenses in the Consolidated Statements of Income (Loss).

Cost Savings Initiatives

In addition to deactivating Hatfield's Ferry and Mitchell, FirstEnergy has identified and intends to implement additional cost control opportunities across the organization. These actions include reductions to medical and other employee benefits and other organizational changes, including a reduction in staffing of an additional 250 positions. FirstEnergy did not recognize any costs in the second quarter of 2013 associated with these actions as final plans were not completed. FirstEnergy expects to incur approximately $3 million (pre-tax) of severance related expenses in the third quarter of 2013.

3. EARNINGS PER SHARE OF COMMON STOCK

Basic earnings per share of common stock are computed using the weighted average number of common shares outstanding during the relevant period as the denominator. The denominator for diluted earnings per share of common stock reflects the weighted average of common shares outstanding plus the potential additional common shares that could result if dilutive securities and other agreements to issue common stock were exercised.

The following table reconciles basic and diluted earnings per share of common stock:

Reconciliation of Basic and Diluted Earnings per Share of Common Stock	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
	(In millions, except per share amounts)			
Weighted average number of basic shares outstanding	418	417	418	418
Assumed exercise of dilutive stock options and awards[1]	—	2	1	1
Weighted average number of diluted shares outstanding	418	419	419	419
Earnings (Losses) Available to FirstEnergy Corp.	$(164)	$187	$32	$493

Basic earnings (losses) per share of common stock	$(0.39)	$0.45	$0.08	$1.18
Diluted earnings (losses) per share of common stock	$(0.39)	$0.45	$0.08	$1.18

(1) For the three months ended June 30, 2013, 1 million shares were excluded from the calculation of diluted shares outstanding, as a net loss was incurred and the inclusion of any other potential shares outstanding would be antidilutive. The number of potentially dilutive securities not included in the calculation of diluted shares outstanding due to their antidilutive effect were not significant for the three months ended June 30, 2012 and six months ended June 30, 2013 and 2012.

4. PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The components of the consolidated net periodic cost for pensions and OPEB (including amounts capitalized) were as follows:

Components of Net Periodic Benefit Costs (Credits)	Pensions		OPEB	
For the Three Months Ended June 30,	2013	2012	2013	2012
	(In millions)			
Service costs	$49	$40	$3	$3
Interest costs	93	97	9	12
Expected return on plan assets	(125)	(121)	(8)	(9)
Amortization of prior service costs (credits)	3	3	(58)	(51)
Net periodic costs (credits)	$20	$19	$(54)	$(45)

Components of Net Periodic Benefit Costs (Credits)	Pensions		OPEB	
For the Six Months Ended June 30,	2013	2012	2013	2012
	(In millions)			
Service costs	$98	$80	$6	$6
Interest costs	186	194	18	24
Expected return on plan assets	(250)	(242)	(16)	(18)
Amortization of prior service costs (credits)	6	6	(107)	(102)
Net periodic costs (credits)	$40	$38	$(99)	$(90)

Pension and OPEB obligations are allocated to FE's subsidiaries employing the plan participants. The net periodic pension and OPEB costs (net of amounts capitalized) recognized in earnings by FE and FES were as follows:

Net Periodic Benefit Expense (Credit)	Pensions		OPEB	
For the Three Months Ended June 30,	2013	2012	2013	2012
	(In millions)			
FirstEnergy	$14	$14	$(34)	$(32)
FES	5	5	(5)	(4)

Net Periodic Benefit Expense (Credit)	Pensions		OPEB	
For the Six Months Ended June 30,	2013	2012	2013	2012
	(In millions)			
FirstEnergy	$25	$27	$(64)	$(62)
FES	8	8	(8)	(8)

5. ACCUMULATED OTHER COMPREHENSIVE INCOME

The changes in AOCI, net of tax, in the three and six months ended June 30, 2013 and 2012, for FirstEnergy and FES are shown in the following tables:

FirstEnergy

	Gains & Losses on Cash Flow Hedges	Unrealized Gains on AFS Securities	Defined Benefit Pension & OPEB Plans	Total
	(In millions)			
AOCI Balance as of April 1, 2013	$(37)	$18	$380	$361
Other comprehensive loss before reclassifications	—	(1)	—	(1)
Amounts reclassified from AOCI	—	(4)	(33)	(37)
Net other comprehensive loss	—	(5)	(33)	(38)
AOCI Balance as of June 30, 2013	$(37)	$13	$347	$323
AOCI Balance as of April 1, 2012	$(42)	$25	$422	$405
Other comprehensive income before reclassifications	1	4	—	5
Amounts reclassified from AOCI	2	(2)	(21)	(21)
Net other comprehensive income (loss)	3	2	(21)	(16)
AOCI Balance as of June 30, 2012	$(39)	$27	$401	$389

FES

	Gains & Losses on Cash Flow Hedges	Unrealized Gains on AFS Securities	Defined Benefit Pension & OPEB Plans	Total
	(In millions)			
AOCI Balance as of April 1, 2013	$2	$17	$52	$71
Other comprehensive loss before reclassifications	—	(1)	—	(1)
Amounts reclassified from AOCI	(1)	(4)	(3)	(8)
Net other comprehensive loss	(1)	(5)	(3)	(9)
AOCI Balance as of June 30, 2013	$1	$12	$49	$62
AOCI Balance as of April 1, 2012	$4	$22	$48	$74
Other comprehensive income before reclassifications	1	4	8	13
Amounts reclassified from AOCI	1	(1)	(3)	(3)
Net other comprehensive income	2	3	5	10
AOCI Balance as of June 30, 2012	$6	$25	$53	$84

FirstEnergy

	Gains & Losses on Cash Flow Hedges	Unrealized Gains on AFS Securities	Defined Benefit Pension & OPEB Plans	Total
	(In millions)			
AOCI Balance as of January 1, 2013	$(38)	$15	$408	$385
Other comprehensive income before reclassifications	—	14	—	14
Amounts reclassified from AOCI	1	(16)	(61)	(76)
Net other comprehensive income (loss)	1	(2)	(61)	(62)
AOCI Balance as of June 30, 2013	$(37)	$13	$347	$323
AOCI Balance as of January 1, 2012	$(39)	$19	$446	$426
Other comprehensive income before reclassifications	1	13	5	19
Amounts reclassified from AOCI	(1)	(5)	(50)	(56)
Net other comprehensive income (loss)	—	8	(45)	(37)
AOCI Balance as of June 30, 2012	$(39)	$27	$401	$389

FES

	Gains & Losses on Cash Flow Hedges	Unrealized Gains on AFS Securities	Defined Benefit Pension & OPEB Plans	Total
	(In millions)			
AOCI Balance as of January 1, 2013	$3	$13	$56	$72
Other comprehensive income before reclassifications	—	13	—	13
Amounts reclassified from AOCI	(2)	(14)	(7)	(23)
Net other comprehensive loss	(2)	(1)	(7)	(10)
AOCI Balance as of June 30, 2013	$1	$12	$49	$62
AOCI Balance as of January 1, 2012	$8	$16	$52	$76
Other comprehensive income before reclassifications	1	13	8	22
Amounts reclassified from AOCI	(3)	(4)	(7)	(14)
Net other comprehensive income (loss)	(2)	9	1	8
AOCI Balance as of June 30, 2012	$6	$25	$53	$84

The following amounts were reclassified from AOCI in the three months ended June 30, 2013 and 2012:

FE Reclassifications from AOCI (b)	Three Months Ended June 30 2013	2012	Affected Line Item in Consolidated Statements of Income
	(In millions)		
Gains & losses on cash flow hedges			
Commodity contracts	$(1)	$1	Other operating expenses
Long-term debt	2	2	Interest expense
	1	3	Total before taxes
	1	1	Income taxes (benefits)
	$—	$2	Net of tax
Unrealized gains on AFS securities			
Realized gains on sales of securities	$(6)	$(3)	Investment income
	(2)	(1)	Income taxes (benefits)
	$(4)	$(2)	Net of tax
Defined benefit pension and OPEB plans			
Prior-service costs	$(55)	$(48)	(a)
	(22)	(27)	Income taxes (benefits)
	$(33)	$(21)	Net of tax

(a) These AOCI components are included in the computation of net periodic pension cost. See Note 4, Pensions and Other Postemployment Benefits for additional details.
(b) Parenthesis represent credits from AOCI

FES Reclassifications from AOCI (b)	Three Months Ended June 30 2013	2012	Affected Line Item in Consolidated Statements of Income
	(In millions)		
Gains & losses on cash flow hedges			
Commodity contracts	$(1)	$1	Other operating expenses
	—	—	Income taxes (benefits)
	$(1)	$1	Net of tax
Unrealized gains on AFS securities			
Realized gains on sales of securities	$(6)	$(2)	Investment income
	(2)	(1)	Income taxes (benefits)
	$(4)	$(1)	Net of tax
Defined benefit pension and OPEB plans			
Prior-service costs	$(5)	$(5)	(a)
	(2)	(2)	Income taxes (benefits)
	$(3)	$(3)	Net of tax

(a) These AOCI components are included in the computation of net periodic pension cost. See Note 4, Pensions and Other Postemployment Benefits for additional details.
(b) Parenthesis represent credits from AOCI

The following amounts were reclassified from AOCI in the six months ended June 30, 2013 and 2012:

FE Reclassifications from AOCI (b)	Six Months Ended June 30 2013	 2012	Affected Line Item in Consolidated Statements of Income
	(In millions)		
Gains & losses on cash flow hedges			
Commodity contracts	$(4)	$(5)	Other operating expenses
Long-term debt	6	4	Interest expense
	2	(1)	Total before taxes
	1	—	Income taxes (benefits)
	$1	$(1)	Net of tax
Unrealized gains on AFS securities			
Realized gains on sales of securities	$(25)	$(8)	Investment income
	(9)	(3)	Income taxes (benefits)
	$(16)	$(5)	Net of tax
Defined benefit pension and OPEB plans			
Prior-service costs	$(101)	$(96)	(a)
	(40)	(46)	Income taxes (benefits)
	$(61)	$(50)	Net of tax

(a) These AOCI components are included in the computation of net periodic pension cost. See Note 4, Pensions and Other Postemployment Benefits for additional details.
(b) Parenthesis represent credits from AOCI

FES Reclassifications from AOCI (b)	Six Months Ended June 30 2013	 2012	Affected Line Item in Consolidated Statements of Income
	(In millions)		
Gains & losses on cash flow hedges			
Commodity contracts	$(4)	$(4)	Other operating expenses
Long-term debt	2	—	Interest expense
	(2)	(4)	Total before taxes
	—	(1)	Income taxes (benefits)
	$(2)	$(3)	Net of tax
Unrealized gains on AFS securities			
Realized gains on sales of securities	$(22)	$(6)	Investment income
	(8)	(2)	Income taxes (benefits)
	$(14)	$(4)	Net of tax
Defined benefit pension and OPEB plans			
Prior-service costs	$(11)	$(10)	(a)
	(4)	(3)	Income taxes (benefits)
	$(7)	$(7)	Net of tax

(a) These AOCI components are included in the computation of net periodic pension cost. See Note 4, Pensions and Other Postemployment Benefits for additional details.

(b) Parenthesis represent credits from AOCI

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6. INCOME TAXES

FirstEnergy accounts for uncertainty in income taxes recognized in its financial statements. Significant judgment is required in determining FirstEnergy's income taxes and in evaluating tax positions taken or expected to be taken on its tax returns. There were no material changes to FirstEnergy's unrecognized income tax benefits during the first six months of 2013 or 2012.

As of June 30, 2013, it is reasonably possible that approximately $4 million of unrecognized income tax benefits may be resolved within the next twelve months, all of which, if recognized, would affect FirstEnergy's effective tax rate.

FirstEnergy recognizes interest expense or income related to uncertain tax positions. 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. FirstEnergy includes net interest and penalties in the provision for income taxes. During the first six months of 2013 and 2012, there were no material changes to the amount of accrued interest. The net amount of interest accrued as of June 30, 2013 and December 31, 2012 was approximately $9 million.

As of December 31, 2012, the deferred income taxes consisted of $319 million of current federal, $466 million of long-term federal and $389 million of state and local net operating loss carryforwards. The American Taxpayer Relief Act of 2012 (Act) was enacted in January 2013 and provides 50% accelerated (bonus) depreciation for qualifying expenditures made in 2013. As a result of the availability of 50% bonus depreciation for 2013, approximately $268 million of the current federal deferred tax asset as of December 31, 2012, will not be realized in 2013, but will be available for future years and therefore has been reclassified to a long-term federal deferred tax asset as of June 30, 2013. It is not anticipated that FES will realize any of the current federal deferred tax asset in 2013.

As discussed in Note 2, Impairment of Long-Lived Assets, on July 8, 2013, officers of FirstEnergy and AE Supply committed to deactivating two coal-fired generating plants. As a result of the decision, FirstEnergy determined that it is more likely than not that certain state and local net operating loss carryforwards will not be realized through future operations or through the reversal of existing temporary differences. As a result, FirstEnergy recorded a valuation reserve of approximately $20 million against net operating loss carryforwards in the second quarter of 2013.

On July 9, 2013, Pennsylvania House Bill 465 (HB 465) was enacted, adopting new market-based sourcing rules for certain items of income as well as increasing the Pennsylvania net operating loss deduction credit for tax years beginning after December 31, 2013 and 2014 to 25% and 30% of taxable income or $4 million and $5 million, respectively. FirstEnergy is evaluating the impact of HB 465, however it currently estimates that net operating loss carryforward valuation reserves will be reduced by approximately $11 million in the third quarter of 2013, as a result of HB 465.

FirstEnergy's three and six months ended June 30, 2013 effective tax rate of 26.1% and 64.4%, respectively, is primarily due to the recognition of valuation reserves of approximately $22 million against net operating loss carryforwards recorded in the second quarter of 2013.

7. VARIABLE INTEREST ENTITIES

FirstEnergy performs qualitative analyses to determine whether a variable interest gives FirstEnergy a controlling financial interest in a VIE. This analysis identifies the primary beneficiary of a VIE as the enterprise that has both the power to direct the activities of a VIE that most significantly impact the entity’s economic performance and the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. FirstEnergy consolidates a VIE when it is determined that it is the primary beneficiary.

VIEs included in FirstEnergy's consolidated financial statements are: the PNBV capital trust that was created to refinance debt originally issued in connection with sale and leaseback transactions; wholly owned limited liability companies of the Ohio Companies (as described below); wholly owned limited liability companies of JCP&L created to sell transition bonds to securitize the recovery of JCP&L's bondable stranded costs and special purpose limited liability companies created to issue environmental control bonds that were used to construct environmental control facilities.

In September 2012, the Ohio Companies formed CEI Funding LLC, OE Funding LLC and TE Funding LLC, respectively, as separate, wholly-owned limited liability SPEs. Each SPE is a bankruptcy-remote, special purpose limited liability company that is restricted to activities necessary to issue phase-in recovery bonds and perform other functions in connection with the bond issuance. Creditors of FirstEnergy and the Ohio Companies have no recourse to any assets or revenues of the SPEs. The phase-in recovery bonds issued by these SPEs are payable only from, and secured by, phase-in recovery property held by the SPEs (i.e. the right to impose, charge and collect irrevocable non-bypassable usage-based charges payable by retail electric customers in the service territories of the Ohio Companies) and the bondholder has no recourse to the general credit of FirstEnergy or any of the Ohio Companies. The SPEs are considered VIEs and each one is consolidated into its applicable utility. In June 2013, the SPEs formed by the Ohio Companies issued $445 million of phase-in recovery bonds with a weighted average coupon of 2.48% to securitize the recovery of certain all electric customer heating discounts, fuel and purchased power regulatory assets. The phase-in recovery bonds were sold to a trust that concurrently sold a like aggregate amount of its pass through trust certificates to public investors. The proceeds were primarily used to redeem $410 million in existing taxable bonds of the Ohio Companies with a weighted average coupon of

5.71% and pay $30 million of make-whole premiums associated with such redemptions which will also be recovered. The $410 million redemption consisted of original maturities of $225 million due 2013, $150 million due 2015 and $35 million due 2020. The make-whole premiums paid are included in cash flows from operating activities in the Consolidated Statement of Cash Flows.

The caption noncontrolling interest within the consolidated financial statements is used to reflect the portion of a VIE that FirstEnergy consolidates, but does not own. The change in noncontrolling interest within the Consolidated Balance Sheets during the six months ended June 30, 2013, was primarily due to $5 million of distributions to owners.

In order to evaluate contracts for consolidation treatment and entities for which FirstEnergy has an interest, FirstEnergy aggregates variable interests into the following categories based on similar risk characteristics and significance.

Mining Operations

FEV holds a 33-1/3% equity ownership in Global Holding, the holding company for a joint venture in the Signal Peak mining and coal transportation operations. FEV is not the primary beneficiary of the joint venture, as it does not have control over the significant activities affecting the joint venture's economic performance. FEV's ownership interest is subject to the equity method of accounting.

Trusts

FirstEnergy's consolidated financial statements include PNBV. FirstEnergy used debt and available funds to purchase the notes issued by PNBV for the purchase of lease obligation bonds. Ownership of PNBV includes a 3% equity interest by an unaffiliated third party and a 3% equity interest held by OES Ventures, a wholly owned subsidiary of OE.

PATH-WV

PATH is a series limited liability company that is comprised of multiple series, each of which has separate rights, powers and duties regarding specified property and the series profits and losses associated with such property. A subsidiary of AE owns 100% of the Allegheny Series (PATH-Allegheny) and 50% of the West Virginia Series (PATH-WV), which is a joint venture with a subsidiary of AEP. FirstEnergy is not the primary beneficiary of PATH-WV, as it does not have control over the significant activities affecting the economics of the portion of the PATH project that was to be constructed by PATH-WV.

On August 24, 2012, PJM removed the PATH project from its long-range expansion plans. See Note 11, Regulatory Matters, for additional information on the abandonment of PATH.

Power Purchase Agreements

FirstEnergy evaluated its power purchase agreements and determined that certain NUG entities may be VIEs to the extent that they own a plant that sells substantially all of its output to the applicable utilities and the contract price for power is correlated with the plant’s variable costs of production. FirstEnergy maintains 18 long-term power purchase agreements with NUG entities that were entered into pursuant to PURPA. FirstEnergy was not involved in the creation of, and has no equity or debt invested in, any of these entities.

FirstEnergy has determined that for all but two of these NUG entities, it does not have variable interests in the entities or the entities do not meet the criteria to be considered a VIE. FirstEnergy may hold variable interests in the remaining

two entities; however, it applied the scope exception that exempts enterprises unable to obtain the necessary information to evaluate entities.

Because FirstEnergy has no equity or debt interests in the NUG entities, its maximum exposure to loss relates primarily to the above-market costs incurred for power. FirstEnergy expects any above-market costs incurred to be recovered from customers. Purchased power costs related to the contracts that may contain a variable interest were $41 million and $58 million during the three months ended June 30, 2013 and 2012, respectively and $90 million and $118 million during the six months ended June 30, 2013 and 2012, respectively.

Sale and Leaseback

FirstEnergy has variable interests in certain sale and leaseback transactions. FirstEnergy is not the primary beneficiary of these interests as it does not have control over the significant activities affecting the economics of the arrangement.

During 2012, NG repurchased lessor equity interests in OE's existing sale and leaseback of Beaver Valley Unit 2 for $129 million. In 2012, FG acquired certain equity and other lessor interests in connection with the 1987 Bruce Mansfield Plant sale and leaseback transactions for approximately $262 million and in March of 2013, FG acquired the remaining interests for approximately $221 million.

FES, and other FE subsidiaries are exposed to losses under their applicable sale and leaseback agreements upon the occurrence of certain contingent events. The maximum exposure under these provisions represents the net amount of casualty value payments due upon the occurrence of specified casualty events. Net discounted lease payments would not be payable if the casualty loss

payments were made. The following table discloses each company's net exposure to loss based upon the casualty value provisions as of June 30, 2013:

	Maximum Exposure	Discounted Lease Payments, net[1]	Net Exposure
	(In millions)		
FES	$1,268	$1,060	$208
Other FE subsidiaries	828	322	506

[1] The net present value of FirstEnergy's consolidated sale and leaseback operating lease commitments is $1.2 billion.

8. FAIR VALUE MEASUREMENTS

RECURRING AND NONRECURRING FAIR VALUE MEASUREMENTS

Authoritative accounting guidance establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy gives the highest priority to Level 1 measurements and the lowest priority to Level 3 measurements. The three levels of the fair value hierarchy and a description of the valuation techniques are as follows:

Level 1 - Quoted prices for identical instruments in active market

Level 2
- Quoted prices for similar instruments in active market
- Quoted prices for identical or similar instruments in markets that are not active
- Model-derived valuations for which all significant inputs are observable market data

Models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors and current market and contractual prices for the underlying instruments, as well as other relevant economic measures.

Level 3 - Valuation inputs are unobservable and significant to the fair value measurement

FirstEnergy produces a long-term power and capacity price forecast annually with periodic updates as market conditions change. When underlying prices are not observable, prices from the long-term price forecast, which has been reviewed and approved by FirstEnergy's Risk Policy Committee, are used to measure fair value. A more detailed description of FirstEnergy's valuation process for FTRs, NUGs and LCAPPs are as follows:

FTRs are financial instruments that entitle the holder to a stream of revenues (or charges) based on the hourly day-ahead congestion price differences across transmission paths. FTRs are acquired by FirstEnergy in the annual, monthly and long-term RTO auctions and are initially recorded using the auction clearing price less cost. After initial recognition, FTRs' carrying values are periodically adjusted to fair value using a mark-to-model methodology, which approximates market. The primary inputs into the model, which are generally less observable than objective sources, are the most recent RTO auction clearing prices and the FTRs' remaining hours. The model calculates the fair value by multiplying the most recent auction clearing price by the remaining FTR hours less the prorated FTR cost. Generally, significant increases or decreases in inputs in isolation could result in a higher or lower fair value measurement. See Note 9, Derivative Instruments, for additional information regarding FirstEnergy's FTRs.

NUG contracts represent purchase power agreements with third-party non-utility generators that are transacted to satisfy certain obligations under PURPA. NUG contract carrying values are recorded at fair value and adjusted periodically using a mark-to-model methodology, which approximates market. The primary unobservable inputs into the model are regional power prices and generation MWH. Pricing for the NUG contracts is a combination of market

prices for the current year and next three years based on observable data and internal models using historical trends and market data for the remaining years under contract. The internal models use forecasted energy purchase prices as an input when prices are not defined by the contract. Forecasted market prices are based on ICE quotes and management assumptions. Generation MWH reflects data provided by contractual arrangements and historical trends. The model calculates the fair value by multiplying the prices by the generation MWH. Generally, significant increases or decreases in inputs in isolation could result in a higher or lower fair value measurement.

LCAPP contracts are financially settled agreements that allow eligible generators to receive payments from, or make payments to, JCP&L pursuant to an annually calculated load-ratio share of the capacity produced by the

generator based upon the annual forecasted peak demand as determined by PJM. LCAPP contracts are recorded at fair value and adjusted periodically using a mark-to-model methodology, which approximates market. The primary unobservable input into the model is forecasted regional capacity prices. Pricing for the LCAPP contracts is a combination of PJM RPM capacity auction prices and internal models using historical trends and market data for the remaining years under contract. Capacity prices beyond the 2016/2017 delivery year are developed through a simulation of future PJM RPM auctions. The capacity price forecast assumes a continuation of the current PJM RPM market design and is reflective of the regional peak demand growth and generation fleet additions and retirements that underlie FirstEnergy's long-term energy price forecast. Generally, significant increases or decreases in inputs in isolation could result in a higher or lower fair value measurement.

FirstEnergy primarily applies the market approach for recurring fair value measurements using the best information available. Accordingly, FirstEnergy maximizes the use of observable inputs and minimizes the use of unobservable inputs. There were no changes in valuation methodologies used as of June 30, 2013, from those used as of December 31, 2012. The determination of the fair value measures takes into consideration various factors, including but not limited to, nonperformance risk, counterparty credit risk and the impact of credit enhancements (such as cash deposits, LOCs and priority interests). The impact of these forms of risk was not significant to the fair value measurements.

Transfers between levels are recognized at the end of the reporting period. There were no transfers between levels during the six months ended June 30, 2013. The following tables set forth the recurring assets and liabilities that are accounted for at fair value by level within the fair value hierarchy:

FirstEnergy

Recurring Fair Value Measurements	June 30, 2013				December 31, 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets	(In millions)							
Corporate debt securities	$—	$1,296	$—	$1,296	$—	$1,259	$—	$1,259
Derivative assets - commodity contracts	1	252	—	253	—	252	—	252
Derivative assets - FTRs	—	—	7	7	—	—	8	8
Derivative assets - NUG contracts[1]	—	—	24	24	—	—	36	36
Equity securities[2]	457	—	—	457	310	—	—	310
Foreign government debt securities	—	108	—	108	—	126	—	126
U.S. government debt securities	—	156	—	156	—	179	—	179
U.S. state debt securities	—	235	—	235	—	299	—	299
Other[3]	91	171	—	262	126	227	—	353
Total assets	$549	$2,218	$31	$2,798	$436	$2,342	$44	$2,822
Liabilities								
Derivative liabilities - commodity contracts	$(9)	$(159)	$—	$(168)	$(3)	$(151)	$—	$(154)
Derivative liabilities - FTRs	—	—	(9)	(9)	—	—	(9)	(9)
Derivative liabilities - NUG contracts[1]	—	—	(256)	(256)	—	—	(290)	(290)
Derivative liabilities - LCAPP contracts[1]	—	—	(158)	(158)	—	—	(144)	(144)
Total liabilities	$(9)	$(159)	$(423)	$(591)	$(3)	$(151)	$(443)	$(597)
Net assets (liabilities)[4]	$540	$2,059	$(392)	$2,207	$433	$2,191	$(399)	$2,225

(1) NUG and LCAPP contracts are generally subject to regulatory accounting treatment and do not impact earnings.

(2) NDT funds hold equity portfolios whose performance is benchmarked against the Alerian MLP Index or the Wells Fargo Hybrid and Preferred Securities REIT index.

(3) Primarily consists of short-term cash investments.

(4) Excludes $4 million and $110 million as of June 30, 2013 and December 31, 2012, respectively, of receivables, payables, taxes and accrued income associated with financial instruments reflected within the fair value table.

Rollforward of Level 3 Measurements

The following table provides a reconciliation of changes in the fair value of NUG and LCAPP contracts and FTRs that are classified as Level 3 in the fair value hierarchy for the periods ended June 30, 2013 and December 31, 2012:

	NUG Contracts[1]			LCAPP Contracts[1]			FTRs		
	Derivative Assets	Derivative Liabilities	Net	Derivative Assets	Derivative Liabilities	Net	Derivative Assets	Derivative Liabilities	Net
	(In millions)								
January 1, 2012 Balance	$57	$(349)	$(292)	$—	$—	$—	$1	$(23)	$(22)
Unrealized gain (loss)	(20)	(180)	(200)	—	1	1	6	(6)	—
Purchases	—	—	—	—	(145)	(145)	13	(10)	3
Settlements	(1)	239	238	—	—	—	(12)	30	18
December 31, 2012 Balance	$36	$(290)	$(254)	$—	$(144)	$(144)	$8	$(9)	$(1)
Unrealized gain (loss)	(8)	(12)	(20)	—	(14)	(14)	1	7	8
Purchases	—	—	—	—	—	—	6	(13)	(7)
Settlements	(4)	46	42	—	—	—	(8)	6	(2)
June 30, 2013 Balance	$24	$(256)	$(232)	$—	$(158)	$(158)	$7	$(9)	$(2)

(1) Changes in the fair value of NUG and LCAPP contracts are generally subject to regulatory accounting treatment and do not impact earnings.

Level 3 Quantitative Information

The following table provides quantitative information for FTRs, NUG contracts and LCAPP contracts that are classified as Level 3 in the fair value hierarchy for the period ended June 30, 2013:

	Fair Value, Net (In millions)	Valuation Technique	Significant Input	Range	Weighted Average	Units
FTRs	$(2)	Model	RTO auction clearing prices	($4.10) to $6.40	$0.80	Dollars/MWH
NUG Contracts	$(232)	Model	Generation Electricity regional prices	700 to 6,087,000 $48.80 to $57.30	1,522,000 $52.30	MWH Dollars/MWH
LCAPP Contracts	$(158)	Model	Regional capacity prices	$158.60 to $187.60	$171.20	Dollars/MW-Day

FES

Recurring Fair Value Measurements	June 30, 2013				December 31, 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets	(In millions)							
Corporate debt securities	$—	$757	$—	$757	$—	$703	$—	$703
Derivative assets - commodity contracts	1	252	—	253	—	252	—	252

Derivative assets - FTRs	—	—	5	5	—	—	6	6
Equity securities[1]	333	—	—	333	294	—	—	294
Foreign government debt securities	—	54	—	54	—	61	—	61
U.S. government debt securities	—	19	—	19	—	27	—	27
Other[2]	—	105	—	105	—	104	—	104
Total assets	$334	$1,187	$5	$1,526	$294	$1,147	$6	$1,447
Liabilities								
Derivative liabilities - commodity contracts	$(9)	$(158)	$—	$(167)	$(3)	$(151)	$—	$(154)
Derivative liabilities - FTRs	—	—	(8)	(8)	—	—	(6)	(6)
Total liabilities	$(9)	$(158)	$(8)	$(175)	$(3)	$(151)	$(6)	$(160)
Net assets (liabilities)[3]	$325	$1,029	$(3)	$1,351	$291	$996	$—	$1,287

(1) NDT funds hold equity portfolios whose performance is benchmarked against the Alerian MLP Index or the Wells Fargo Hybrid and Preferred Securities REIT index.
(2) Primarily consists of short-term cash investments.
(3) Excludes $2 million and $94 million as of June 30, 2013 and December 31, 2012, respectively, of receivables, payables, taxes and accrued income associated with the financial instruments reflected within the fair value table.

Rollforward of Level 3 Measurements

The following table provides a reconciliation of changes in the fair value of FTRs held by FES and classified as Level 3 in the fair value hierarchy for the periods ended June 30, 2013 and December 31, 2012:

	Derivative Asset FTRs	Derivative Liability FTRs	Net FTRs
	(In millions)		
January 1, 2012 Balance	$1	$(7)	$(6)
Unrealized gain (loss)	4	(4)	—
Purchases	9	(7)	2
Settlements	(8)	12	4
December 31, 2012 Balance	$6	$(6)	$—
Unrealized gain	—	4	4
Purchases	5	(10)	(5)
Settlements	(6)	4	(2)
June 30, 2013 Balance	$5	$(8)	$(3)

Level 3 Quantitative Information

The following table provides quantitative information for FTRs held by FES that are classified as Level 3 in the fair value hierarchy for the period ended June 30, 2013:

	Fair Value, Net (In millions)	Valuation Technique	Significant Input	Range	Weighted Average	Units
FTRs	$(3)	Model	RTO auction clearing prices	($4.10) to $5.70	$0.60	Dollars/MWH

INVESTMENTS

All temporary cash investments purchased with an initial maturity of three months or less are reported as cash equivalents on the Consolidated Balance Sheets at cost, which approximates their fair market value. Investments other than cash and cash equivalents include held-to-maturity securities, AFS securities and notes receivable.

At the end of each reporting period, FirstEnergy evaluates its investments for OTTI. Investments classified as AFS securities are evaluated to determine whether a decline in fair value below the cost basis is other than temporary. FirstEnergy first considers its intent and ability to hold an equity security until recovery and then considers, among other factors, the duration and the extent to which the security's fair value has been less than its cost and the near-term financial prospects of the security issuer when evaluating an investment for impairment. For debt securities, FirstEnergy considers its intent to hold the securities, the likelihood that it will be required to sell the securities before recovery of its cost basis and the likelihood of recovery of the securities' entire amortized cost basis. If the decline in fair value is determined to be other than temporary, the cost basis of the securities is written down to fair value.

Unrealized gains and losses on AFS securities are recognized in AOCI. However, unrealized losses held in the NDTs of FES are recognized in earnings since the trust arrangements, as they are currently defined, do not meet the required ability and intent to hold criteria in consideration of OTTI.

The investment policy for the NDT funds restricts or limits the trusts' ability to hold certain types of assets including private or direct placements, warrants, securities of FirstEnergy, investments in companies owning nuclear power plants, financial derivatives, securities convertible into common stock and securities of the trust funds' custodian or managers and their parents or subsidiaries.

AFS Securities

FirstEnergy holds debt and equity securities within its NDT, nuclear fuel disposal and NUG trusts. These trust investments are considered AFS securities, recognized at fair market value. FirstEnergy has no securities held for trading purposes.

The following table summarizes the amortized cost basis, unrealized gains (there were no unrealized losses) and fair values of investments held in NDT, nuclear fuel disposal and NUG trusts as of June 30, 2013 and December 31, 2012:

	June 30, 2013[1]			December 31, 2012[2]		
	Cost Basis	Unrealized Gains	Fair Value	Cost Basis	Unrealized Gains	Fair Value
	(In millions)					
Debt securities						
FirstEnergy	$1,827	$14	$1,841	$1,827	$34	$1,861
FES	876	3	879	778	14	792
Equity securities						
FirstEnergy	$431	$25	$456	$293	$16	$309
FES	313	20	333	281	13	294

(1) Excludes short-term cash investments: FE Consolidated - $116 million; FES - $58 million.
(2) Excludes short-term cash investments: FE Consolidated - $326 million; FES - $196 million.

Proceeds from the sale of investments in AFS securities, realized gains and losses on those sales, OTTI and interest and dividend income for the three months and six months ended June 30, 2013 and 2012 were as follows:

Three Months Ended					
June 30, 2013	Sale Proceeds	Realized Gains	Realized Losses	OTTI	Interest and Dividend Income
	(In millions)				
FirstEnergy	$638	$16	$(11)	$(46)	$22
FES	235	13	(8)	(38)	15
June 30, 2012	Sale Proceeds	Realized Gains	Realized Losses	OTTI	Interest and Dividend Income
	(In millions)				
FirstEnergy	$131	$17	$(15)	$(3)	$18
FES	25	13	(11)	(3)	11

Six Months Ended					
June 30, 2013	Sale Proceeds	Realized Gains	Realized Losses	OTTI	Interest and Dividend Income
	(In millions)				
FirstEnergy	$1,177	$40	$(16)	$(53)	$48
FES	487	33	(11)	(45)	28
June 30, 2012	Sale Proceeds	Realized Gains	Realized Losses	OTTI	Interest and Dividend Income
	(In millions)				
FirstEnergy	$382	$37	$(28)	$(7)	$33

FES	109	26	(19	) (6	) 18

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Held-To-Maturity Securities

The following table provides the amortized cost basis, unrealized gains (there were no unrealized losses) and approximate fair values of investments in held-to-maturity securities as of June 30, 2013 and December 31, 2012:

	June 30, 2013			December 31, 2012		
	Cost Basis	Unrealized Gains	Fair Value	Cost Basis	Unrealized Gains	Fair Value
	(In millions)					
Debt Securities						
FirstEnergy	$47	$—	$47	$54	$30	$84

Investments in emission allowances, employee benefit trusts and cost and equity method investments, including FirstEnergy's investment in Global Holding, totaling $640 million as of June 30, 2013, and $644 million as of December 31, 2012, are excluded from the amounts reported above.

LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS

All borrowings with initial maturities of less than one year are defined as short-term financial instruments under GAAP and are reported as Short-term borrowings on the Consolidated Balance Sheets at cost. Since these borrowings are short-term in nature, FirstEnergy believes that their costs approximate their fair market value. The following table provides the approximate fair value and related carrying amounts of long-term debt and other long-term obligations, excluding capital lease obligations and net unamortized premiums and discounts:

	June 30, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In millions)			
FirstEnergy	$17,212	$18,388	$16,957	$19,460
FES	3,016	3,126	4,194	4,524

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 FirstEnergy and its subsidiaries. FirstEnergy classified short-term borrowings, long-term debt and other long-term obligations as Level 2 in the fair value hierarchy as of June 30, 2013 and December 31, 2012.

During the first quarter of 2013, FE issued in aggregate $1.5 billion of senior unsecured notes in two series: $650 million of 2.75% senior notes due March 15, 2018 and $850 million of 4.25% senior notes due March 15, 2023. The stated interest rates are subject to adjustments based upon changes in the credit ratings of FirstEnergy but will not decrease below the issued rates. The proceeds were used to repay short-term borrowings and to invest in the money pool for FES and AE Supply's use in funding a portion of their concurrent tender offers.

Also during the first quarter of 2013, pursuant to tender offers launched in February 2013, FES and AE Supply repurchased $369 million and $294 million, respectively, of outstanding senior notes with interest rates ranging from 5.75% to 6.8%. The $369 million of FES repurchases consisted of original maturities of $252 million due 2021 and $117 million due 2039. The $294 million of AE Supply repurchases consisted of original maturities of $194 million due 2019 and $100 million due 2039. FES and AE Supply paid $67 million and $43 million, respectively, in tender premiums to repurchase the tendered senior notes. FirstEnergy recorded a loss on debt redemption of $119 million

(FES - $71 million), including such premiums and other related expenses. The tender premiums paid are included in cash flows from financing activities in the Consolidated Statement of Cash Flows.

In March 2013, ME issued $300 million of 3.50% senior unsecured notes due March 15, 2023. Proceeds from this offering were used to repay $150 million of ME 4.95% senior unsecured notes that matured in March 2013 and short-term borrowings.

On April 15, 2013, FES redeemed $400 million of its 4.80% senior notes due 2015 and recorded a loss on debt redemption of $32 million including $31 million of make-whole premiums paid. The make-whole premiums paid are included in cash flows from operating activities in the Consolidated Statement of Cash Flows.

On June 3, 2013, FG exercised a mandatory put option and repurchased approximately $235 million of PCRBs due 2023, which FG is currently holding for remarketing subject to future market and other conditions.

In September 2012, the Ohio Companies formed CEI Funding LLC, OE Funding LLC and TE Funding LLC, respectively, as separate, wholly-owned limited liability SPEs. Each SPE is a bankruptcy-remote, special purpose limited liability company that is restricted to activities necessary to issue phase-in recovery bonds and perform other functions in connection with the bond issuance. Creditors of FirstEnergy and the Ohio Companies have no recourse to any assets or revenues of the SPEs. The phase-in recovery bonds issued by these SPEs are payable only from, and secured by, phase-in recovery property held by the SPEs (i.e. the right to impose, charge and collect irrevocable non-bypassable usage-based charges payable by retail electric customers in the service territories of the Ohio Companies) and the bondholder has no recourse to the general credit of FirstEnergy or any of the Ohio Companies. The SPEs are considered VIEs and each one is consolidated into its applicable utility. In June 2013, the SPEs formed by the Ohio Companies issued $445 million of phase-in recovery bonds with a weighted average coupon of 2.48% to securitize the recovery of certain all electric customer heating discounts, fuel and purchased power regulatory assets. The phase-in recovery bonds were sold to a trust that concurrently sold a like aggregate amount of its pass through trust certificates to public investors. The proceeds were primarily used to redeem $410 million in existing taxable bonds of the Ohio Companies with a weighted average coupon of 5.71% and pay $30 million of make-whole premiums associated with such redemptions which will also be recovered. The $410 million redemption consisted of original maturities of $225 million due 2013, $150 million due 2015 and $35 million due 2020. The make-whole premiums paid are included in cash flows from operating activities in the Consolidated Statement of Cash Flows.

9. DERIVATIVE INSTRUMENTS

FirstEnergy is exposed to financial risks resulting from fluctuating interest rates and commodity prices, including prices for electricity, natural gas, coal and energy transmission. To manage the volatility relating to these exposures, FirstEnergy’s Risk Policy Committee, comprised of senior management, provides general management oversight for risk management activities throughout FirstEnergy. The Risk Policy Committee is responsible for promoting the effective design and implementation of sound risk management programs and oversees compliance with corporate risk management policies and established risk management practice. FirstEnergy also uses a variety of derivative instruments for risk management purposes including forward contracts, options, futures contracts and swaps.

FirstEnergy accounts for derivative instruments on its Consolidated Balance Sheets at fair value unless they meet the normal purchases and normal sales criteria. Derivatives that meet those criteria are accounted for under the accrual method of accounting, and their effects are included in earnings at the time of contract performance. Changes in the fair value of derivative instruments that qualified and were designated as cash flow hedge instruments are recorded in AOCI. Changes in the fair value of derivative instruments that are not designated as cash flow hedge instruments are recorded in net income on a mark-to-market basis. FirstEnergy has contractual derivative agreements through 2031.

Cash Flow Hedges

FirstEnergy has used cash flow hedges for risk management purposes to manage the volatility related to exposures associated with fluctuating interest rates and commodity prices. The effective portion of gains and losses on a derivative contract is reported as a component of AOCI with subsequent reclassification to earnings in the period during which the hedged forecasted transaction affects earnings.

Total net unamortized gains included in AOCI associated with instruments previously designated to be in a cash flow hedging relationship totaled $6 million and $10 million as of June 30, 2013 and December 31, 2012, respectively. Since the forecasted transactions remain probable of occurring, these amounts will be amortized into earnings over the life of the hedging instruments. Approximately $9 million is expected to be amortized to income during the next twelve months.

FirstEnergy has used forward starting swap agreements to hedge a portion of the consolidated interest rate risk associated with anticipated issuances of fixed-rate, long-term debt securities of its subsidiaries. These derivatives were

treated as cash flow hedges, protecting against the risk of changes in future interest payments resulting from changes in benchmark U.S. Treasury rates between the date of hedge inception and the date of the debt issuance. No forward starting swap agreements accounted for as a cash flow hedge were outstanding as of June 30, 2013 or December 31, 2012. Total unamortized losses included in AOCI associated with prior interest rate cash flow hedges totaled $63 million and $70 million as of June 30, 2013 and December 31, 2012, respectively. Based on current estimates, approximately $9 million will be amortized to interest expense during the next twelve months.

Refer to Note 5, Accumulated Other Comprehensive Income, for reclassifications from AOCI during the three and six months ended June 30, 2013 and 2012.

Fair Value Hedges

FirstEnergy has used fixed-for-floating interest rate swap agreements to hedge a portion of the consolidated interest rate risk associated with the debt portfolio of its subsidiaries. These derivative instruments were treated as fair value hedges of fixed-rate, long-term debt issues, protecting against the risk of changes in the fair value of fixed-rate debt instruments due to lower interest rates. As of June 30, 2013 and December 31, 2012, no fixed-for-floating interest rate swap agreements were outstanding.

Unamortized gains included in long-term debt associated with prior fixed-for-floating interest rate swap agreements totaled $60 million and $79 million as of June 30, 2013 and December 31, 2012, respectively. Based on current estimates, approximately $16

million will be amortized to interest expense during the next twelve months. Reclassifications from long-term debt into interest expense totaled approximately $5 million and $6 million during the three months ended June 30, 2013 and 2012, respectively and $11 million during the six months ended June 30, 2013 and 2012. In connection with the redemptions of senior notes by FES and taxable bonds by CEI and OE during the three months ended June 30, 2013, unamortized gains associated with fixed for floating interest rate swap agreements of $8 million were included in the loss on debt redemptions in the Consolidated Statements of Income (Loss) of FirstEnergy for the three and six months ended June 30, 2013. Refer to Note 8, Fair Value Measurements - Long-Term Debt and Other Long-Term Obligations, for additional information regarding FirstEnergy's debt redemptions during the three and six months ended June 30, 2013.

Commodity Derivatives

FirstEnergy uses both physically and financially settled derivatives to manage its exposure to volatility in commodity prices. Commodity derivatives are used for risk management purposes to hedge exposures when it makes economic sense to do so, including circumstances where the hedging relationship does not qualify for hedge accounting.

Electricity forwards are used to balance expected sales with expected generation and purchased power. Natural gas futures are entered into based on expected consumption of natural gas primarily for use in FirstEnergy’s combustion turbine units. Heating oil futures are entered into based on expected consumption of oil and the financial risk in FirstEnergy’s coal transportation contracts. Derivative instruments are not used in quantities greater than forecasted needs.

As of June 30, 2013, FirstEnergy’s net asset position under commodity derivative contracts was $85 million, which related to FES positions. Under these commodity derivative contracts, FES posted $45 million of collateral. Certain commodity derivative contracts include credit risk related contingent features that would require FES to post $8 million of additional collateral if the credit rating for its debt were to fall below investment grade.

Based on commodity derivative contracts held as of June 30, 2013, an adverse change of 10% in commodity prices would decrease net income by approximately $18 million during the next twelve months.

NUGs

As of June 30, 2013, FirstEnergy's net liability position under NUG contracts was $232 million representing contracts held at JCP&L, ME and PN. NUG contracts represent purchased power agreements with third-party non-utility generators that are transacted to satisfy certain obligations under PURPA. Changes in the fair value of NUG contracts are subject to regulatory accounting treatment and do not impact earnings.

LCAPP

The LCAPP law was enacted in New Jersey during 2011 to promote the construction of qualified electric generation facilities. JCP&L maintains two LCAPP contracts, which are financially settled agreements that allow eligible generators to receive payments from, or make payments to, JCP&L pursuant to an annually calculated load-ratio share of the capacity produced by the generator based upon the annual forecasted peak demand as determined by PJM. JCP&L expects to recover from its customers payments made to the generators and give credit to customers for payments from the generators under these contracts. As a result, the projected future obligations for the LCAPP contracts are reflected on the Consolidated Balance Sheets as derivative liabilities with a corresponding regulatory asset. Since the LCAPP contracts are subject to regulatory accounting, changes in their fair value do not impact earnings.

FTRs

As of June 30, 2013, FirstEnergy's and FES's net liability position under FTRs was $2 million and FES posted $7 million of collateral. FirstEnergy holds FTRs that generally represent an economic hedge of future congestion charges that will be incurred in connection with FirstEnergy’s load obligations. FirstEnergy acquires the majority of its FTRs in an annual auction through a self-scheduling process involving the use of ARRs allocated to members of an RTO that have load serving obligations and through the direct allocation of FTRs from the PJM RTO. The PJM RTO has a rule that allows directly allocated FTRs to be granted to LSEs in zones that have newly entered PJM. For the first two planning years, PJM permits the LSEs to request a direct allocation of FTRs in these new zones at no cost as opposed to receiving ARRs. The directly allocated FTRs differ from traditional FTRs in that the ownership of all or part of the FTRs may shift to another LSE if customers choose to shop with the other LSE.

The future obligations for the FTRs acquired at auction are reflected on the Consolidated Balance Sheets and have not been designated as cash flow hedge instruments. FirstEnergy initially records these FTRs at the auction price less the obligation due to the RTO, and subsequently adjusts the carrying value of remaining FTRs to their estimated fair value at the end of each accounting period prior to settlement. Changes in the fair value of FTRs held by FES and AE Supply are included in other operating expenses as unrealized gains or losses. Unrealized gains or losses on FTRs held by FirstEnergy’s utilities are recorded as regulatory assets or liabilities. Directly allocated FTRs are accounted for under the accrual method of accounting, and their effects are included in earnings at the time of contract performance.

FirstEnergy records the fair value of derivative instruments on a gross basis. The following table summarizes the fair value and classification of derivative instruments on FirstEnergy's Consolidated Balance Sheets:

Derivative Assets	Fair Value		Derivative Liabilities	Fair Value	
	June 30, 2013	December 31, 2012		June 30, 2013	December 31, 2012
	(In millions)			(In millions)	
Current Assets - Derivatives			Current Liabilities - Derivatives		
Commodity Contracts	$166	$153	Commodity Contracts	$(133)	$(119)
FTRs	7	7	FTRs	(9)	(7)
	173	160		(142)	(126)
			Noncurrent Liabilities - Adverse Power Contract Liability		
			NUGs	(256)	(290)
Deferred Charges and Other Assets - Other			LCAAP	(158)	(144)
Commodity Contracts	87	99	Noncurrent Liabilities - Other		
FTRs	—	1	Commodity Contracts	(35)	(36)
NUGs	24	36	FTRs	—	(2)
	111	136		(449)	(472)
Derivative Assets	$284	$296	Derivative Liabilities	$(591)	$(598)

FirstEnergy enters into contracts with counterparties that allow for net settlement of derivative assets and derivative liabilities. Certain of these contracts contain margining provisions that require the use of collateral to mitigate credit exposure between FirstEnergy and these counterparties. In situations where collateral is pledged to mitigate exposures related to derivative and non-derivative instruments with the same counterparty, FirstEnergy allocates the collateral based on the percentage of the net fair value of derivative instruments to the total fair value of the combined derivative and non-derivative instruments. The following tables summarize the fair value of derivative instruments on FirstEnergy's Consolidated Balance Sheets and the effect of netting arrangements and collateral on its financial position:

		Amounts Not Offset in Consolidated Balance Sheet		
June 30, 2013	Fair Value	Derivative Instruments	Cash Collateral (Received)/Pledged	Net Fair Value
	(In millions)			
Derivative Assets				
Commodity contracts	$253	$(149)	$(5)	$99
FTRs	7	(7)	—	—
NUG contracts	24	—	—	24
	$284	$(156)	$(5)	$123
Derivative Liabilities				
Commodity contracts	$(168)	$149	$16	$(3)

FTRs	(9)	7	2	—
NUG contracts	(256)	—	—	(256)
LCAPP contracts	(158)	—	—	(158)
	$(591)	$156	$18	$(417)

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December 31, 2012	Fair Value	Amounts Not Offset in Consolidated Balance Sheet		
		Derivative Instruments	Cash Collateral (Received)/Pledged	Net Fair Value
	(In millions)			
Derivative Assets				
Commodity contracts	$252	$(142)	$(5)	$105
FTRs	8	(8)	—	—
NUG contracts	36	—	—	36
	$296	$(150)	$(5)	$141
Derivative Liabilities				
Commodity contracts	$(155)	$142	$12	$(1)
FTRs	(9)	8	1	—
NUG contracts	(290)	—	—	(290)
LCAPP contracts	(144)	—	—	(144)
	$(598)	$150	$13	$(435)

The following table summarizes the volumes associated with FirstEnergy's outstanding derivative transactions as of June 30, 2013:

	Purchases	Sales	Net	Units
	(In millions)			
Power Contracts	29	38	(9)	MWH
FTRs	70	—	70	MWH
NUGs	12	—	12	MWH
LCAPP	408	—	408	MW
Natural Gas	48	—	48	mmBTU

The effect of derivative instruments not in a hedging relationship on the Consolidated Statements of Income (Loss) during the three months and six months ended June 30, 2013 and 2012, are summarized in the following tables:

	Three Months Ended June 30			
	Commodity Contracts	FTRs	Interest Rate Swaps	Total
	(In millions)			
2013				
Unrealized Loss Recognized in:				
Other Operating Expense	$(10)	$(1)	$—	$(11)
Realized Gain (Loss) Reclassified to:				
Revenues	$6	$5	$—	$11
Purchased Power Expense	(2)	—	—	(2)
Other Operating Expense	—	(9)	—	(9)
Fuel Expense	2	—	—	2
2012				
Unrealized Gain (Loss) Recognized in:				
Other Operating Expense	$12	$12	$—	$24
Interest Expense	—	—	(20)	(20)
Realized Gain (Loss) Reclassified to:				
Revenues	$99	$5	$—	$104
Purchased Power Expense	(104)	—	—	(104)
Other Operating Expense	—	(18)	—	(18)
Fuel Expense	(1)	—	—	(1)

	Six Months Ended June 30			
	Commodity Contracts	FTRs	Interest Rate Swaps	Total
	(In millions)			
2013				
Unrealized Loss Recognized in:				
Other Operating Expense	$(15)	$(2)	$—	$(17)
Realized Gain (Loss) Reclassified to:				
Revenues	$16	$12	$—	$28
Purchased Power Expense	(13)	—	—	(13)
Other Operating Expense	—	(18)	—	(18)
Fuel Expense	2	—	—	2
2012				
Unrealized Gain (Loss) Recognized in:				
Other Operating Expense	$65	$17	$—	$82
Interest Expense	—	—	(20)	(20)
Realized Gain (Loss) Reclassified to:				
Revenues	$213	$11	$—	$224
Purchased Power Expense	(221)	—	—	(221)

Other Operating Expense	—	(41)	—	(41)
Fuel Expense	(1)	—	—	(1)

The unrealized and realized gains (losses) on FirstEnergy's derivative instruments subject to regulatory accounting during the three and six months ended June 30, 2013 and 2012, are summarized in the following tables:

Derivatives Not in a Hedging Relationship with Regulatory Offset	Three Months Ended June 30			
	NUGs	LCAPP	Regulated FTRs	Total
	(In millions)			
2013				
Unrealized Loss on Derivative Instrument	$(38)	$(12)	$—	$(50)
Realized Gain on Derivative Instrument	20	—	1	21
2012				
Unrealized Loss on Derivative Instrument	$(54)	$(145)	$—	$(199)
Realized Gain on Derivative Instrument	61	—	5	66

Derivatives Not in a Hedging Relationship with Regulatory Offset	Six Months Ended June 30			
	NUGs	LCAPP	Regulated FTRs	Total
	(In millions)			
2013				
Unrealized Loss on Derivative Instrument	$(20)	$(14)	$—	$(34)
Realized Gain on Derivative Instrument	43	—	—	43
2012				
Unrealized Loss on Derivative Instrument	$(133)	$(145)	$(1)	$(279)
Realized Gain on Derivative Instrument	133	—	9	142

The following tables provide a reconciliation of changes in the fair value of certain contracts that are deferred for future recovery from (or credit to) customers during the three months and six months ended June 30, 2013 and 2012:

Derivatives Not in a Hedging Relationship with Regulatory Offset	Three Months Ended June 30			
	NUGs	LCAPP	Regulated FTRs	Total
	(In millions)			
Outstanding net liability as of April 1, 2013	$(213)	$(146)	$(1)	$(360)
Additions/Change in value of existing contracts	(38)	(12)	—	(50)
Settled contracts	20	—	1	21
Outstanding net liability as of June 30, 2013	$(231)	$(158)	$—	$(389)
Outstanding net liability as of April 1, 2012	$(300)	$—	$(5)	$(305)
Additions/Change in value of existing contracts	(54)	(145)	—	(199)
Settled contracts	61	—	5	66
Outstanding net liability as of June 30, 2012	$(293)	$(145)	$—	$(438)

Derivatives Not in a Hedging Relationship with Regulatory Offset	Six Months Ended June 30			
	NUGs	LCAPP	Regulated FTRs	Total
	(In millions)			
Outstanding net liability as of January 1, 2013	$(254)	$(144)	$—	$(398)

Additions/Change in value of existing contracts	(20)	(14)	—	(34)
Settled contracts	43	—	—	43
Outstanding net liability as of June 30, 2013	$(231)	$(158)	$—	$(389)
Outstanding net liability as of January 1, 2012	$(293)	$—	$(8)	$(301)
Additions/Change in value of existing contracts	(133)	(145)	(1)	(279)
Settled contracts	133	—	9	142
Outstanding net liability as of June 30, 2012	$(293)	$(145)	$—	$(438)

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10. ASSET RETIREMENT OBLIGATIONS

FirstEnergy has recognized applicable legal obligations for AROs and their associated cost primarily for nuclear power plant decommissioning, reclamation of sludge disposal ponds, closure of coal ash disposal sites, underground and above-ground storage tanks, wastewater treatment lagoons and transformers containing PCBs. In addition, FirstEnergy has recognized conditional retirement obligations, primarily for asbestos remediation.

The ARO liabilities for FES primarily relate to the decommissioning of the Beaver Valley, Davis-Besse and Perry nuclear generating facilities. FES uses an expected cash flow approach to measure the fair value of their nuclear decommissioning AROs.

Conditional retirement obligations associated with tangible long-lived assets are recognized at fair value in the period in which they are incurred if a reasonable estimate can be made, even though there may be uncertainty about timing or method of settlement. When settlement is conditional on a future event occurring, it is reflected in the measurement of the liability, not in the recognition of the liability.

The following table summarizes the changes to the ARO balances during 2013:

ARO Reconciliation	FirstEnergy	FES
	(In millions)	
Balance, December 31, 2012	$1,599	$965
Liabilities settled	(10)	(11)
Accretion	55	33
Revisions in estimated cash flows	151	151
Balance, June 30, 2013	$1,795	$1,138

Revisions to the estimated cash flows associated with the ARO liability of FES increased the liability by $151 million. The revision in estimates for the ARO balance relates primarily to increased cost estimates for the closure of LBR. The revised cost estimates were the result of a Closure Plan submitted to the PA DEP by FG on March 28, 2013, which provides for placing a final cap over LBR. See Note 12, Commitments, Guarantees, and Contingencies for additional information related to the closure of LBR.

11. REGULATORY MATTERS

STATE REGULATION

Each of the Utilities' retail rates, conditions of service, issuance of securities and other matters are subject to regulation in the states in which it operates - in Maryland by the MDPSC, in Ohio by the PUCO, in New Jersey by the NJBPU, in Pennsylvania by the PPUC, in West Virginia by the WVPSC and in New York by the NYPSC. The transmission operations of PE in Virginia are subject to certain regulations of the VSCC. In addition, under Ohio law, municipalities may regulate rates of a public utility, subject to appeal to the PUCO if not acceptable to the utility.

As competitive retail electric suppliers serving retail customers primarily in Ohio, Pennsylvania, Illinois, Michigan, New Jersey and Maryland, FES and AE Supply are subject to state laws applicable to competitive electric suppliers in those states, including affiliate codes of conduct that apply to FES, AE Supply and their public utility affiliates. In addition, if FES, AE Supply or any of their subsidiaries were to engage in the construction of significant new generation facilities in any of those states, they would also be subject to state siting authority.

MARYLAND

PE provides SOS pursuant to a combination of settlement agreements, MDPSC orders and regulations, and statutory provisions. SOS supply is competitively procured in the form of rolling contracts of varying lengths through periodic auctions that are overseen by the MDPSC and a third party monitor. Although settlements with respect to residential SOS for PE customers expired on December 31, 2012, by statute, service continues in the same manner unless changed by order of the MDPSC. The settlement provisions relating to non-residential SOS have also expired, however, by MDPSC order, the terms of service remain in place unless PE requests or the MDPSC orders a change. PE recovers its costs plus a return for providing SOS.

The Maryland legislature in 2008 adopted a statute codifying the EmPOWER Maryland goals to reduce electric consumption by 10% and reduce electricity demand by 15%, in each case by 2015. PE's initial plan submitted in compliance with the statute was approved in 2009 and covered 2009-2011, the first three years of the statutory period. Expenditures were originally estimated to be approximately $101 million for the PE programs for the entire period of 2009-2015. Meanwhile, after extensive meetings with the MDPSC Staff and other stakeholders, on August 31, 2011, PE filed a new comprehensive plan for the second three year period, 2012-2014, that includes additional and improved programs. The 2012-2014 plan is expected to cost approximately $66 million out of the original $101 million estimate for the entire EmPOWER program. On December 22, 2011, the MDPSC issued an order approving PE's second plan with various modifications and follow-up assignments. PE continues to recover program costs subject

to a five-year amortization. Maryland law only allows for the utility to recover lost distribution revenue attributable to energy efficiency or demand reduction programs through a base rate case proceeding, and to date such recovery has not been sought or obtained by PE.

Pursuant to a bill passed by the Maryland legislature in 2011, the MDPSC adopted rules, effective May 28, 2012, that create specific requirements related to a utility's obligation to address service interruptions, downed wire response, customer communication, vegetation management, equipment inspection, and annual reporting. The MDPSC will be required to assess each utility's compliance with the new rules, and may assess penalties of up to $25,000 per day, per violation. The new rules set utility-specific SAIDI and SAIFI targets for 2012-2015; prescribe detailed tree-trimming requirements, outage restoration and downed wire response deadlines; and impose other reliability and customer satisfaction requirements. PE has advised the MDPSC that compliance with the new rules is expected to increase costs by approximately $106 million over the period 2012-2015. On April 1, 2013, the Maryland electric utilities, including PE, filed their first annual reports on compliance with the new rules. The MDPSC has scheduled a hearing for August 20, 2013, to discuss the reports.

Following a "derecho" storm through the region on June 29, 2012, the MDPSC convened a new proceeding to consider matters relating to the electric utilities' performance in responding to the storm. Hearings on the matter were conducted in September 2012. Concurrently, Maryland's governor convened a special panel to examine possible ways to improve the resilience of the electric distribution system. On October 3, 2012, that panel issued a report calling for various measures including: acceleration and expansion of some of the requirements contained in the reliability standards which had become final on May 28, 2012; for selective increased investment in system hardening; for creation of separate recovery mechanisms for the costs of those changes and investments; and penalties or bonuses on returns earned by the utilities based on their reliability performance. On February 27, 2013, the MDPSC issued an order requiring the utilities to submit several reports between March 29 and August 30, 2013, relating to the costs and benefits of making further system and staffing enhancements in order to attempt to reduce storm outage durations. The order further requires the Staff of the MDPSC to report on possible performance-based rate structures and to propose additional rules relating to feeder performance standards, outage communication and reporting, and sharing of special needs customer information. PE continues to respond to the requirements in the order consistent with the schedule set forth therein.

NEW JERSEY

JCP&L currently provides BGS for retail customers who do not choose a third party EGS and for customers of third party EGSs that fail to provide the contracted service. The supply for BGS, which is comprised of two components, is provided through contracts procured through separate, annually held descending clock auctions, the results of which are approved by the NJBPU. One BGS component and auction, reflecting hourly real time energy prices, is available for larger commercial and industrial customers. The other BGS component and auction, providing a fixed price service, is intended for smaller commercial and residential customers. All New Jersey EDCs participate in this competitive BGS procurement process and recover BGS costs directly from customers as a charge separate from base rates.

On September 7, 2011, the Division of Rate Counsel filed a Petition with the NJBPU asserting that it has reason to believe that JCP&L is earning an unreasonable return on its New Jersey jurisdictional rate base. The Division of Rate Counsel requested that the NJBPU order JCP&L to file a base rate case petition so that the NJBPU may determine whether JCP&L's current rates for electric service are just and reasonable. In its written Order issued July 31, 2012, the NJBPU found that a base rate proceeding "will assure that JCP&L's rates are just and reasonable and that JCP&L is investing sufficiently to assure the provision of safe, adequate and proper utility service to its customers" and ordered JCP&L to file a base rate case using a historical 2011 test year. The rate case petition was filed on November 30, 2012. In the filing, JCP&L requested approval to increase its revenues by approximately $31.5 million and

reserved the right to update the filing to include costs associated with the impact of Hurricane Sandy. The NJBPU has transmitted the case to the New Jersey Office of Administrative Law for further proceedings and an ALJ has been assigned. On February 22, 2013, JCP&L updated its filing to request recovery of $603 million of distribution-related Hurricane Sandy restoration costs, resulting in increasing the total revenues requested to approximately $112 million. On June 14, 2013, JCP&L further updated its filing to: 1) include the impact of a depreciation study which had been directed by the NJBPU; 2) remove costs associated with 2012 major storms, consistent with the NJBPU orders establishing a generic proceeding to review 2011 and 2012 major storm costs (discussed below); and 3) reflect other revisions to JCP&L's filing. The updated filing now represents an increase of approximately $20.6 million over the revenues produced by existing base rates. Testimony has also been filed in the matter by the Division of Rate Counsel and several other intervening parties in opposition to the base rate increase JCP&L requested. Specifically, the testimony of the Division of Rate Counsel's witnesses recommended that revenues produced by JCP&L's base rates for electric service be reduced by approximately $202.8 million (such amount did not address the revenue requirements associated with major storm events of 2011 and 2012, which are subject to review in the generic proceeding). Hearings are currently scheduled in the rate case for mid-September through mid-November. JCP&L is expected to file its rebuttal testimony on August 7, 2013.

On March 20, 2013, the NJBPU ordered that a generic proceeding be established to investigate the prudence of costs incurred by all New Jersey utilities for service restoration efforts associated with the major storm events of 2011 and 2012. The Order provided that if any utility had already filed a proceeding for recovery of such storm costs, to the extent the amount of approved recovery had not yet been determined, the prudence of such costs would be reviewed in the generic proceeding. On May 31, 2013, the NJBPU clarified its earlier order to indicate that the 2011 major storm costs would be reviewed expeditiously in the generic proceeding with the goal of maintaining the base rate case schedule established by the ALJ where recovery of such costs would be addressed.

The NJBPU further indicated in the May 31 clarification that it would review the 2012 major storm costs in the generic proceeding and the recovery of such costs would be considered through a Phase II in the existing base rate case or through another appropriate method to be determined at the conclusion of the generic proceeding. On June 21, 2013, consistent with NJBPU's orders, JCP&L filed the detailed report in support of recovery of major storm costs with the NJBPU. JCP&L intends to vigorously pursue its position in the base rate case and full recovery of the costs associated with the major storm events of 2011 and 2012 but we cannot predict the outcome of these proceedings.

Pursuant to a formal Notice issued by the NJBPU on September 14, 2011, public hearings were held in September 2011 to solicit comments regarding the state of preparedness and responsiveness of New Jersey's EDCs prior to, during, and after Hurricane Irene, with additional hearings held in October 2011. Additionally, the NJBPU accepted written comments through October 28, 2011 related to this inquiry. On December 14, 2011, the NJBPU Staff filed a report of its preliminary findings and recommendations with respect to the electric utility companies' planning and response to Hurricane Irene and the October 2011 snowstorm. The NJBPU selected a consultant to further review and evaluate the New Jersey EDCs' preparation and restoration efforts with respect to Hurricane Irene and the October 2011 snowstorm, and the consultant's report was submitted to and subsequently accepted by the NJBPU on September 12, 2012. JCP&L submitted written comments on the report. On January 24, 2013, based upon recommendations in its consultant's report, the NJBPU ordered the New Jersey EDCs to take a number of specific actions to improve their preparedness and responses to major storms. The order includes specific deadlines for implementation of measures with respect to preparedness efforts, communications, restoration and response, post event and underlying infrastructure issues. On May 31, 2013, the NJBPU ordered that the New Jersey EDCs implement a series of new communications enhancements intended to develop more effective communications among EDCs, municipal officials, customers and the NJBPU during extreme weather events and other expected periods of extended service interruptions. The new requirements include making information regarding estimated times of restoration available on the EDC's web sites and through other technological expedients. JCP&L is implementing the required measures consistent with the schedule set out in the above NJBPU's orders.