

FIRSTENERGY CORP
Form 10-Q
April 23, 2019

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

FORM 10-Q
(Mark One)

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

For the quarterly period ended March 31, 2019

OR

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

For the transition period from _____ to _____
Commission Registrant; State of Incorporation; I.R.S. Employer
File Number Address; and Telephone Number Identification No.

333-21011 FIRSTENERGY CORP. 34-1843785
(An Ohio Corporation)
76 South Main Street
Akron, OH 44308
Telephone (800)736-3402

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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).
Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller Reporting Company

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standard provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

	OUTSTANDING AS OF MARCH 31, 2019
CLASS	
Common Stock, \$0.10 par value	531,442,309
FirstEnergy Website and Other Social Media Sites and Applications	

FirstEnergy's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, amendments to those reports and all other documents filed with or furnished to the SEC pursuant to Section 13(a) of the Securities Exchange Act of 1934 are made available free of charge on or through the "Investors" page of FirstEnergy's website at www.firstenergycorp.com. These documents are also available to the public from commercial document retrieval services and the website maintained by the SEC at www.sec.gov.

These SEC filings are posted on the website as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. Additionally, FirstEnergy routinely posts additional important information, including press releases, investor presentations and notices of upcoming events under the "Investors" section of FirstEnergy's website and recognizes FirstEnergy's website 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 Regulation FD. Investors may be notified of postings to the website by signing up for email alerts and RSS feeds on the "Investors" page of FirstEnergy's website. FirstEnergy also uses Twitter® and Facebook® as additional channels of distribution to reach public investors and as a supplemental means of disclosing material non-public information for complying with its disclosure obligations under Regulation FD. Information contained on FirstEnergy's website, Twitter® handle or Facebook® page, and any corresponding applications of those sites, shall not be deemed incorporated into, or to be part of, this report.

Forward-Looking Statements: This Form 10-Q includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 based on information currently available to management. Such statements are subject to certain risks and uncertainties and readers are cautioned not to place undue reliance on these forward-looking statements. 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," "forecast," "target," "will," "intend," "believe," "project," "estimate," "plan" 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, which may include the following (see Glossary of Terms for definitions of capitalized terms):

- The ability to successfully execute an exit from commodity-based generation, including, without limitation, mitigating exposure for remedial activities associated with formerly owned generation assets.
The risks associated with the FES Bankruptcy that could adversely affect us, our liquidity or results of operations, including, without limitation, that conditions to the FES Bankruptcy settlement agreement may not be met or that the FES Bankruptcy settlement agreement may not be otherwise consummated, and if so, the potential for litigation and payment demands against us by FES or FENOC or their creditors.
The ability to accomplish or realize anticipated benefits from strategic and financial goals, including, but not limited to, our strategy to operate and grow as a fully regulated business, to execute our transmission and distribution investment plans, to continue to reduce costs through FE Tomorrow and other initiatives, and to improve our credit metrics, strengthen our balance sheet and grow earnings.
- Legislative and regulatory developments at the federal and state levels, including, but not limited to, matters related to rates, compliance and enforcement activity.
- Economic and weather conditions affecting future operating results, such as significant weather events and other natural disasters, and associated regulatory events or actions.
- Changes in assumptions regarding economic conditions within our territories, the reliability of our transmission and distribution system, or the availability of capital or other resources supporting identified transmission and distribution investment opportunities.
- Changes in customers' demand for power, including, but not limited to, the impact of state and federal energy efficiency and peak demand reduction mandates.
- Changes in national and regional economic conditions affecting us and/or our major industrial and commercial customers or others with which we do business.
- The risks associated with cyber-attacks and other disruptions to our information technology system that may compromise our operations, and data security breaches of sensitive data, intellectual property and proprietary or personally identifiable information.
- The ability to comply with applicable state and federal reliability standards and energy efficiency and peak demand reduction mandates.
- Changes to federal and state environmental laws and regulations, including, but not limited to, those related to climate change.
- Changing market conditions affecting the measurement of certain liabilities and the value of assets held in our pension trusts and other trust funds, or causing us to make additional contributions sooner, or in amounts that are larger, than currently anticipated.
- The risks associated with the decommissioning of our retired and former nuclear facilities.
- The risks and uncertainties associated with litigation, arbitration, mediation and like proceedings.
- Labor disruptions by our unionized workforce.
- Changes to significant accounting policies.
- Any changes in tax laws or regulations, including the Tax Act, or adverse tax audit results or rulings.
- The ability to access the public securities and other capital and credit markets in accordance with our financial plans, the cost of such capital and overall condition of the capital and credit markets affecting us.

- Actions that may be taken by credit rating agencies that could negatively affect either our access to or terms of financing or our financial condition and liquidity.
- The risks and other factors discussed from time to time in our SEC filings.

Dividends declared from time to time on our common stock, and thereby on our preferred stock, during any period may in the aggregate vary from prior periods due to circumstances considered by our 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.

These forward-looking statements are also qualified by, and should be read together with, the risk factors included in FirstEnergy's filings with the SEC, including but not limited to the most recent Annual Report on Form 10-K and any subsequent Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. The foregoing review of factors also 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. FirstEnergy expressly disclaims any obligation to update or revise, 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, which subsequently merged with and into FE on January 1, 2014
AESC	Allegheny Energy Service Corporation, a subsidiary of FirstEnergy Corp.
AE Supply	Allegheny Energy Supply Company, LLC, an unregulated generation subsidiary
AGC	Allegheny Generating Company, formerly a generation subsidiary of AE Supply that became a wholly owned subsidiary of MP in May 2018
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
BSPC	Bay Shore Power Company
CEI	The Cleveland Electric Illuminating Company, an Ohio electric utility operating subsidiary
CES	Competitive Energy Services, formerly a reportable operating segment of FirstEnergy
FE	FirstEnergy Corp., a public utility holding company
FELHC	FirstEnergy License Holding Company
FENOC	FirstEnergy Nuclear Operating Company, a subsidiary of FE, which operates NG's nuclear generating facilities
FES	FirstEnergy Solutions Corp., together with its consolidated subsidiaries, FG, NG, FE Aircraft Leasing Corp., Norton Energy Storage LLC, and FGMUC, which provides energy-related products and services
FES Debtors	FES and FENOC
FESC	FirstEnergy Service Company, which provides legal, financial and other corporate support services
FET	FirstEnergy Transmission, LLC, formerly known as Allegheny Energy Transmission, LLC, which is the parent of ATSI, MAIT and TrAIL, and has a joint venture in PATH
FEV	FirstEnergy Ventures Corp., which invests in certain unregulated enterprises and business ventures
FG	FirstEnergy Generation, LLC, a wholly owned subsidiary of FES, which owns and operates non-nuclear generating facilities
FGMUC	FirstEnergy Generation Mansfield Unit 1 Corp., a wholly owned subsidiary of FG, which has certain leasehold interests in a portion of Unit 1 at the Bruce Mansfield plant
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	Global Rail Group, LLC, a subsidiary of Global Holding that owns coal transportation operations near Roundup, Montana
GPU	GPU, Inc., former parent of JCP&L, ME and PN, that merged with FE on November 7, 2001
JCP&L	Jersey Central Power & Light Company, a New Jersey electric utility operating subsidiary
MAIT	Mid-Atlantic Interstate Transmission, LLC, a subsidiary of FET, which owns and operates transmission facilities
ME	Metropolitan Edison Company, a Pennsylvania electric utility operating subsidiary
MP	Monongahela Power Company, a West Virginia electric utility operating subsidiary
NG	FirstEnergy Nuclear Generation, LLC, a wholly owned 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	

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	Potomac-Appalachian Transmission Highline, LLC, a joint venture between FE and a subsidiary of AEP
PATH-Allegheny	PATH Allegheny Transmission Company, LLC
PATH-WV	PATH West Virginia Transmission Company, LLC
PE	The Potomac Edison Company, a Maryland and West Virginia electric utility operating subsidiary
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
Signal Peak	Signal Peak Energy, LLC, 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
Transmission Companies	ATSI, MAIT and TrAIL
Utilities	OE, CEI, TE, Penn, JCP&L, ME, PN, MP, PE and WP
WP	West Penn Power Company, a Pennsylvania electric utility operating subsidiary

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

ACE	Affordable Clean Energy	EPA	United States Environmental Protection Agency
ADIT	Accumulated Deferred Income Taxes	EPS	Earnings per Share
AEP	American Electric Power Company, Inc.	ERO	Electric Reliability Organization
AFS	Available-for-sale	ESP IV	Electric Security Plan IV
AFUDC	Allowance for Funds Used During Construction	Facebook®	Facebook is a registered trademark of Facebook, Inc.
ALJ	Administrative Law Judge	FASB	Financial Accounting Standards Board
AOCI	Accumulated Other Comprehensive Income	FERC	Federal Energy Regulatory Commission
Apple®	Apple®, iPad® and iPhone® are registered trademarks of Apple Inc.	FE Tomorrow	FirstEnergy's initiative launched in late 2016 to identify its optimal organizational structure and properly align corporate costs and systems to efficiently support a fully regulated company going forward
ARO	Asset Retirement Obligation	FES Bankruptcy	FES Debtors' voluntary petitions for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code with the Bankruptcy Court
ARP	Alternative Revenue Program	Fitch	Fitch Ratings
ARR	Auction Revenue Right	FPA	Federal Power Act
ASC	Accounting Standard Codification	FTR	Financial Transmission Right
ASU	Accounting Standards Update	GAAP	Accounting Principles Generally Accepted in the United States of America
Bankruptcy Court	U.S. Bankruptcy Court in the Northern District of Ohio in Akron	GHG	Greenhouse Gases
Bath County	Bath County Pumped Storage Hydro-Power Station	IIP	Infrastructure Investment Program
BGS	Basic Generation Service	IRS	Internal Revenue Service
BNSF	BNSF Railway Company	ISO	Independent System Operator
BRA	PJM RPM Base Residual Auction	JCP&L Reliability Plus	JCP&L Reliability Plus IIP
CAA	Clean Air Act	kW	Kilowatt
CCR	Coal Combustion Residuals	LBR	Little Blue Run
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act of 1980	LIBOR	London Interbank Offered Rate
CFR	Code of Federal Regulations	LOC	Letter of Credit
CO ₂	Carbon Dioxide	LS Power	LS Power Equity Partners III, LP
CPP	EPA's Clean Power Plan	LTIIPs	Long-Term Infrastructure Improvement Plans
CSAPR	Cross-State Air Pollution Rule	MDPSC	Maryland Public Service Commission
CSX	CSX Transportation, Inc.	MGP	Manufactured Gas Plants
CTA	Consolidated Tax Adjustment	MISO	Midcontinent Independent System Operator, Inc.
CWA	Clean Water Act	mmBTU	One Million British Thermal Units
D.C. Circuit		Moody's	Moody's Investors Service, Inc.

United States Court of Appeals
for the District of Columbia
Circuit

DCR	Delivery Capital Recovery	MW	Megawatt
DMR	Distribution Modernization Rider	MWH	Megawatt-hour
DPM	Distribution Platform Modernization	NAAQS	National Ambient Air Quality Standards
DSIC	Distribution System Improvement Charge	NDT	Nuclear Decommissioning Trust
DSP	Default Service Plan	NERC	North American Electric Reliability Corporation
EDC	Electric Distribution Company	NJBPU	New Jersey Board of Public Utilities
EDCP	Executive Deferred Compensation Plan	NMB	Non-Market Based
EDIS	Electric Distribution Investment Surcharge	NOAC	Northwest Ohio Aggregation Coalition
EE&C	Energy Efficiency and Conservation	NOI	Notice of Inquiry
EGS	Electric Generation Supplier	NOL	Net Operating Loss
EGU	Electric Generation Units	NOPR	Notice of Proposed Rulemaking
EmPOWER Maryland	EmPOWER Maryland Energy Efficiency Act	NOx	Nitrogen Oxide
ENEC	Expanded Net Energy Cost	NRC	Nuclear Regulatory Commission

NUG	Non-Utility Generation	RFP	Request for Proposal
NYPSC	New York State Public Service Commission	RGGI	Regional Greenhouse Gas Initiative
OCA	Office of Consumer Advocate	ROE	Return on Equity
OCC	Ohio Consumers' Counsel	RPM	Reliability Pricing Model
OEPA	Ohio Environmental Protection Agency	RSS	Rich Site Summary
OMAEG	Ohio Manufacturers' Association Energy Group	RTEP	Regional Transmission Expansion Plan
OPEB	Other Post-Employment Benefits	RTO	Regional Transmission Organization
OPIC	Other Paid-in Capital	S&P	Standard & Poor's Ratings Service
OVEC	Ohio Valley Electric Corporation	SBC	Societal Benefits Charge
PA DEP	Pennsylvania Department of Environmental Protection	SEC	United States Securities and Exchange Commission
PJM	PJM Interconnection, LLC	SIP	State Implementation Plan(s) Under the Clean Air Act
PJM Tariff	PJM Open Access Transmission Tariff	SO ₂	Sulfur Dioxide
POLR	Provider of Last Resort	SOS	Standard Offer Service
POR	Purchase of Receivables	SPE	Special Purpose Entity
PPA	Purchase Power Agreement	SREC	Solar Renewable Energy Credit
PPB	Parts per Billion	SSO	Standard Service Offer
PPUC	Pennsylvania Public Utility Commission	Tax Act	Tax Cuts and Jobs Act adopted December 22, 2017
PUCO	Public Utilities Commission of Ohio	TMI-2	Three Mile Island Unit 2
PURPA	Public Utility Regulatory Policies Act of 1978	Twitter®	Twitter is a registered trademark of Twitter, Inc.
RCRA	Resource Conservation and Recovery Act	UCC	Official committee of unsecured creditors appointed in connection with the FES Bankruptcy
REC	Renewable Energy Credit	VIE	Variable Interest Entity
Regulation	Regulation Fair Disclosure promulgated by the SEC	VSCC	Virginia State Corporation Commission
FD		WVPSC	Public Service Commission of West Virginia
RFC	ReliabilityFirst Corporation		

PART I. FINANCIAL INFORMATION

ITEM I. Financial Statements

FIRSTENERGY CORP.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(In millions, except per share amounts)	For the Three Months Ended March 31,	
	2019	2018
REVENUES:		
Distribution services and retail generation	\$2,309	\$2,295
Transmission	352	319
Other	222	248
Total revenues ⁽¹⁾	2,883	2,862
OPERATING EXPENSES:		
Fuel	131	139
Purchased power	781	820
Other operating expenses	779	940
Provision for depreciation	297	277
Amortization (deferral) of regulatory assets, net	5	(148)
General taxes	261	254
Total operating expenses	2,254	2,282
OPERATING INCOME	629	580
OTHER INCOME (EXPENSE):		
Miscellaneous income, net	54	67
Interest expense	(253)	(248)
Capitalized financing costs	18	15
Total other expense	(181)	(166)
INCOME BEFORE INCOME TAXES	448	414
INCOME TAXES	93	233
INCOME FROM CONTINUING OPERATIONS	355	181
Discontinued operations (Note 3) ⁽²⁾	(35)	1,188
NET INCOME	320	1,369
INCOME ALLOCATED TO PREFERRED STOCKHOLDERS (Note 4)	5	156
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$315	\$1,213

EARNINGS PER SHARE OF COMMON STOCK (Note 4):

Basic - Continuing Operations	\$0.66	\$0.05
Basic - Discontinued Operations	(0.07)	2.50
Basic - Net Income Attributable to Common Stockholders	\$0.59	\$2.55
Diluted - Continuing Operations	\$0.66	\$0.05
Diluted - Discontinued Operations	(0.07)	2.49
Diluted - Net Income Attributable to Common Stockholders	\$0.59	\$2.54

WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:

Basic	530	476
Diluted	533	478

(1) Includes excise and gross receipts tax collections of \$102 million in the three months ended March 31, 2019 and 2018.

(2) Net of income tax expense (benefits) of \$5 million and \$(871) million for the three months ended March 31, 2019 and 2018, respectively.

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

FIRSTENERGY CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

(In millions)	For the Three Months Ended March 31,	
	2019	2018
NET INCOME	\$320	\$1,369
OTHER COMPREHENSIVE INCOME (LOSS):		
Pension and OPEB prior service costs	(7)	(18)
Amortized losses on derivative hedges	1	15
Change in unrealized gains on AFS securities	—	(106)
Other comprehensive loss	(6)	(109)
Income tax benefits on other comprehensive loss	(1)	(53)
Other comprehensive loss, net of tax	(5)	(56)
COMPREHENSIVE INCOME	\$315	\$1,313

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

FIRSTENERGY CORP.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions, except share amounts)	March 31, 2019	December 31, 2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 174	\$ 367
Restricted cash	36	62
Receivables-		
Customers, net of allowance for uncollectible accounts of \$48 in 2019 and \$50 in 2018	1,263	1,221
Affiliated companies, net of allowance for uncollectible accounts of \$928 in 2019 and \$920 in 2018	—	20
Other, net of allowance for uncollectible accounts of \$1 in 2019 and \$2 in 2018	238	270
Materials and supplies, at average cost	268	252
Prepaid taxes and other	314	175
Current assets - discontinued operations	21	25
	2,314	2,392
PROPERTY, PLANT AND EQUIPMENT:		
In service	40,028	39,469
Less — Accumulated provision for depreciation	10,961	10,793
	29,067	28,676
Construction work in progress	1,199	1,235
	30,266	29,911
INVESTMENTS:		
Nuclear plant decommissioning trusts	843	790
Nuclear fuel disposal trust	259	256
Other	257	253
	1,359	1,299
DEFERRED CHARGES AND OTHER ASSETS:		
Goodwill	5,618	5,618
Regulatory assets	102	91
Other	831	752
	6,551	6,461
	\$40,490	\$ 40,063
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES:		
Currently payable long-term debt	\$ 206	\$ 503
Short-term borrowings	1,300	1,250
Accounts payable	892	965
Accounts payable - affiliated companies	30	—
Accrued taxes	562	533
Accrued compensation and benefits	253	318
Collateral	30	39
Other	1,051	1,026
	4,324	4,634
CAPITALIZATION:		
Stockholders' equity-		

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Common stock, \$0.10 par value, authorized 700,000,000 shares - 531,442,309 and 511,915,450 shares outstanding as of March 31, 2019 and December 31, 2018, respectively	53	51
Preferred stock, \$100 par value, authorized 5,000,000 shares, of which 1,616,000 are designated Series A Convertible Preferred - 209,822 and 704,589 shares outstanding as of March 31, 2019 and December 31, 2018, respectively	21	71
Other paid-in capital	11,381	11,530
Accumulated other comprehensive income	36	41
Accumulated deficit	(4,559) (4,879)
Total stockholders' equity	6,932	6,814
Long-term debt and other long-term obligations	18,814	17,751
	25,746	24,565
NONCURRENT LIABILITIES:		
Accumulated deferred income taxes	2,620	2,502
Retirement benefits	2,417	2,906
Regulatory liabilities	2,574	2,498
Asset retirement obligations	822	812
Adverse power contract liability	85	89
Other	1,902	2,057
	10,420	10,864
COMMITMENTS, GUARANTEES AND CONTINGENCIES (Note 14)		
	\$40,490	\$ 40,063

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

FIRSTENERGY CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Three Months Ended March 31,	
	2019	2018
(In millions)		
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 320	\$ 1,369
Adjustments to reconcile net income to net cash from operating activities-		
(Gain) loss on disposal, net of tax (Note 3)	24	(1,239)
Depreciation and amortization, including regulatory assets, net, intangible assets and deferred debt-related costs	345	280
Deferred income taxes and investment tax credits, net	91	278
Retirement benefits, net of payments	(39)	(46)
Pension trust contributions	(500)	(1,250)
Changes in current assets and liabilities-		
Receivables	92	32
Materials and supplies	(12)	36
Prepaid taxes and other	(148)	(144)
Accounts payable	(143)	96
Accrued taxes	(81)	(145)
Accrued compensation and benefits	(123)	(108)
Other current liabilities	—	(15)
Collateral, net	(9)	(7)
Other	1	(17)
Net cash used for operating activities	(182)	(880)
CASH FLOWS FROM FINANCING ACTIVITIES:		
New Financing-		
Long-term debt	1,400	—
Short-term borrowings, net	50	900
Preferred stock issuance	—	1,616
Common stock issuance	—	850
Redemptions and Repayments-		
Long-term debt	(628)	(1,476)
Preferred stock dividend payments	(3)	(21)
Common stock dividend payments	(201)	(171)
Other	(25)	(19)
Net cash provided from financing activities	593	1,679
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(554)	(583)
Proceeds from asset sales	—	20
Sales of investment securities held in trusts	153	300
Purchases of investment securities held in trusts	(162)	(322)
Notes receivable from affiliated companies	—	(500)
Asset removal costs	(65)	(57)
Other	(2)	(1)

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Net cash used for investing activities	(630)	(1,143)
Net change in cash, cash equivalents, and restricted cash	(219)	(344)
Cash, cash equivalents, and restricted cash at beginning of period	429	643
Cash, cash equivalents, and restricted cash at end of period	\$210	\$299

SUPPLEMENTAL CASH FLOW INFORMATION:

Non-cash transaction, beneficial conversion feature (Note 4)	\$—	\$296
Non-cash transaction, deemed dividend preferred stock (Note 4)	\$—	\$(113)

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

FIRSTENERGY CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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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 was incorporated under Ohio law in 1996. FE's principal business is the holding, directly or indirectly, of all of the outstanding equity of its principal subsidiaries: OE, CEI, TE, Penn (a wholly owned subsidiary of OE), JCP&L, ME, PN, FESC, AE Supply, MP, PE, WP, FET and its principal subsidiaries (ATSI, MAIT and TrAIL), and AESC. In addition, FE holds all of the outstanding equity of other direct subsidiaries including: FirstEnergy Properties, Inc., FEV, FELHC, Inc., GPU Nuclear, Inc., and Allegheny Ventures, Inc.

FE and its subsidiaries are principally involved in the transmission, distribution and generation of electricity. FirstEnergy's ten utility operating companies comprise one of the nation's largest investor-owned electric systems, based on serving over six million customers in the Midwest and Mid-Atlantic regions. FirstEnergy's transmission operations include approximately 24,500 miles of lines and two regional transmission operation centers. AGC, JCP&L and MP control 3,790 MWs of total capacity.

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 Annual Report on Form 10-K for the year ended December 31, 2018.

FE and its subsidiaries follow GAAP and comply with the related regulations, orders, policies and practices prescribed by the SEC, FERC, and, as applicable, the NRC, the PUCO, the PPUC, the MDPSC, the NYPSC, the WVPS, 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 statement 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 necessarily 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 as appropriate and permitted pursuant to GAAP. FE and its subsidiaries consolidate a VIE when it is determined that it is the primary beneficiary (see Note 10, "Variable Interest Entities"). Investments in affiliates over which FE and its subsidiaries have the ability to exercise significant influence, but do not have a controlling financial interest, 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 of FE's ownership share of the entity's earnings is reported in the Consolidated Statements of Income and Comprehensive Income.

Certain prior year amounts have been reclassified to conform to the current year presentation, as discussed in Note 3, "Discontinued Operations."

FES and FENOC Chapter 11 Filing

On March 31, 2018, the FES Debtors announced that, in order to facilitate an orderly financial restructuring, they filed voluntary petitions under Chapter 11 of the United States Bankruptcy Code with the Bankruptcy Court (which is referred to throughout as the FES Bankruptcy). As a result of the bankruptcy filings, FirstEnergy concluded that it no longer had a controlling interest in the FES Debtors as the entities are subject to the jurisdiction of the Bankruptcy Court and, accordingly, as of March 31, 2018, the FES Debtors were deconsolidated from FirstEnergy's consolidated financial statements. Since such time, FE has accounted and will account for its investments in the FES Debtors at fair values of zero. FE concluded that in connection with the disposal, FES and FENOC became discontinued operations. See Note 3, "Discontinued Operations," for additional information.

On September 26, 2018, the Bankruptcy Court approved a FES Bankruptcy settlement agreement dated August 26, 2018, by and among FirstEnergy, two groups of key FES creditors (collectively, the FES Key Creditor Groups), the FES Debtors and the UCC. The FES Bankruptcy settlement agreement resolves certain claims by FirstEnergy against the FES Debtors and all claims by the FES Debtors and the FES Key Creditor Groups against FirstEnergy, and includes the following terms, among others:

• FE will pay certain pre-petition FES and FENOC employee-related obligations, which include unfunded pension obligations and other employee benefits.

FE will waive all pre-petition claims (other than those claims under the Tax Allocation Agreement for the 2018 tax year) and certain post-petition claims, against the FES Debtors related to the FES Debtors and their businesses, including the full borrowings by FES under the \$500 million secured credit facility, the \$200 million credit agreement being used to support surety bonds, the BNSF/CSX rail settlement guarantee, and the FES Debtors' unfunded pension obligations.

A nonconsensual release of all claims against FirstEnergy by the FES Debtors' creditors, which was subsequently waived pursuant to the Waiver Agreement, discussed below.

A \$225 million cash payment from FirstEnergy.

A \$628 million aggregate principal amount note issuance by FirstEnergy to the FES Debtors, which may be decreased by the amount, if any, of cash paid by FirstEnergy to the FES Debtors under the Intercompany Income Tax Allocation Agreement for the tax benefits related to the sale or deactivation of certain plants.

Transfer of the Pleasants Power Station and related assets, including the economic interests therein as of January 1, 2019, and a requirement that FE continue to provide access to the McElroy's Run CCR Impoundment Facility, which is not being transferred. FE will provide certain guarantees for retained environmental liabilities of AE Supply, including the McElroy's Run CCR Impoundment Facility.

FirstEnergy agrees to waive all pre-petition claims related to shared services and credit for nine months of the FES Debtors' shared service costs beginning as of April 1, 2018 through December 31, 2018, in an amount not to exceed \$112.5 million, and FirstEnergy agrees to extend the availability of shared services until no later than June 30, 2020. FirstEnergy agrees to fund through its pension plan a pension enhancement, subject to a cap, should FES offer a voluntary enhanced retirement package in 2019 and to offer certain other employee benefits (approximately \$15 million recognized in the first quarter of 2019).

FirstEnergy agrees to perform under the Intercompany Tax Allocation Agreement through the FES Debtors' emergence from bankruptcy, at which time FirstEnergy will waive a 2017 overpayment for NOLs of approximately \$71 million, reverse 2018 estimated payments for NOLs of approximately \$88 million and pay the FES Debtors for the use of NOLs in an amount no less than \$66 million for 2018 (approximately \$52 million was paid in 2018, which amount will be finalized after filing the 2018 Federal tax return).

The FES Bankruptcy settlement agreement remains subject to satisfaction of certain conditions, most notably the issuance of a final order by the Bankruptcy Court approving the plan or plans of reorganization for the FES Debtors that are acceptable to FirstEnergy consistent with the requirements of the FES Bankruptcy settlement agreement. There can be no assurance that such conditions will be satisfied or the FES Bankruptcy settlement agreement will be otherwise consummated, and the actual outcome of this matter may differ materially from the terms of the agreement described herein. FirstEnergy will continue to evaluate the impact of any new factors on the settlement and their relative impact on the financial statements.

In connection with the FES Bankruptcy settlement agreement, FirstEnergy entered into a separation agreement with the FES Debtors to implement the separation of the FES Debtors and their businesses from FirstEnergy. A business separation committee was established between FirstEnergy and the FES Debtors to review and determine issues that arise in the context of the separation of the FES Debtors' businesses from those of FirstEnergy.

As contemplated under the FES Bankruptcy settlement agreement, AE Supply entered into an agreement on December 31, 2018, to transfer the 1,300 MW Pleasants Power Station and related assets to FG, while retaining certain specified liabilities. Under the terms of the agreement, FG acquired the economic interests in Pleasants as of January 1, 2019, and AE Supply will operate Pleasants until the transfer is completed. After closing, AE Supply will continue to provide access to the McElroy's Run CCR Impoundment Facility, which is not being transferred, and FE will provide certain guarantees for retained environmental liabilities of AE Supply, including the McElroy's Run CCR Impoundment Facility. The transfer of the Pleasants Power Station is subject to various customary and other closing conditions, including the effectiveness of a plan of reorganization for the FES Debtors in connection with the FES Bankruptcy. There can be no assurance that all closing conditions will be satisfied or that the transfer will be consummated.

On April 11, 2019, the Bankruptcy Court entered an order denying the FES Debtors' disclosure statement approval motion. The Bankruptcy Court concluded that the nonconsensual third-party releases proposed under the plan of reorganization and which were a condition under the FES Bankruptcy settlement agreement for FirstEnergy's benefit, were legally impermissible and rendered the plan unconfirmable. On April 18, 2019, FirstEnergy consented to the waiver of the condition. In return, the FES Debtors agreed to provide FirstEnergy with the same third-party release provided in favor of certain other parties in any plan of reorganization and pay FirstEnergy approximately \$60 million

in cash to resolve certain outstanding pension and service charges totaling \$87 million, which resulted in FirstEnergy recognizing a \$27 million pre-tax charge to income in the first quarter of 2019 (\$17 million of which was recognized in continuing operations). Further, the FES Debtors agreed to initiate negotiations with the EPA, OEPA, PA DEP and the NRC to obtain those parties' cooperation with the FES Debtors' revised plan of reorganization. FirstEnergy may choose to participate in those negotiations at its option.

Capitalized Financing Costs

For each of the three months ended March 31, 2019 and 2018, capitalized financing costs on FirstEnergy's Consolidated Statements of Income include \$13 million and \$11 million, respectively, of allowance for equity funds used during construction and \$5 million and \$4 million, respectively, of capitalized interest.

Restricted Cash

Restricted cash primarily relates to the consolidated VIE's discussed in Note 10, "Variable Interest Entities." The cash collected from JCP&L, MP, PE and the Ohio Companies' customers is used to service debt of their respective funding companies.

New Accounting Pronouncements

Recently Adopted Pronouncements

ASU 2016-02, "Leases (Topic 842)" (Issued February 2016 and subsequently updated to address implementation questions): The new guidance requires organizations that lease assets with lease terms of more than 12 months to recognize assets and liabilities for the rights and obligations created by those leases on their balance sheets, as well as new qualitative and quantitative disclosures. FirstEnergy implemented a third-party software tool that assisted with the initial adoption and will assist with ongoing compliance. FirstEnergy chose to apply the requirements of the standard in the period of adoption (January 1, 2019) with no restatement of prior periods. Upon adoption, on January 1, 2019, FirstEnergy increased assets and liabilities by \$186 million, with no impact to results of operations or cash flows. See Note 8, "Leases," for additional information on FirstEnergy's leases.

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

ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" (issued June 2016 and subsequently updated): ASU 2016-13 removes all recognition thresholds and will require companies to recognize an allowance for credit losses for the difference between the amortized cost basis of a financial instrument and the amount of amortized cost that the company expects to collect over the instrument's contractual life. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted.

ASU 2018-15, "Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract" (Issued August 2018): ASU 2018-15 requires implementation costs incurred by customers in cloud computing arrangements to be deferred and recognized over the term of the arrangement, if those costs would be capitalized by the customers in a software licensing arrangement. The guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted.

2. REVENUE

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

FirstEnergy's revenues are primarily derived from electric service provided by the Utilities and Transmission Companies.

The following tables represent a disaggregation of revenue from contracts with customers for the three months ended March 31, 2019 and 2018 by type of service from each reportable segment:

Revenues by Type of Service	For the Three Months Ended March 31, 2019			
	Regulated Distribution	Regulated Transmission	Corporate/Other and Reconciling Adjustments ⁽¹⁾	Total
	(In millions)			
Distribution services ⁽²⁾	\$ 1,286	\$ —	\$ (21)	\$ 1,265
Retail generation	1,058	—	(14)	1,044
Wholesale sales	106	—	4	110
Transmission ⁽²⁾	—	352	—	352
Other	34	—	1	35
Total revenues from contracts with customers	\$ 2,484	\$ 352	\$ (30)	\$ 2,806
ARP	62	—	—	62
Other non-customer revenue	27	4	(16)	15
Total revenues	\$ 2,573	\$ 356	\$ (46)	\$ 2,883

⁽¹⁾ Includes eliminations and reconciling adjustments of inter-segment revenues.

⁽²⁾ Includes \$32 million in reductions to revenue related to amounts subject to refund resulting from the Tax Act (\$27 million at Regulated Distribution and \$5 million at Regulated Transmission).

Revenues by Type of Service	For the Three Months Ended March 31, 2018			
	Regulated Distribution	Regulated Transmission	Corporate/Other and Reconciling Adjustments ⁽¹⁾	Total
	(In millions)			
Distribution services ⁽²⁾	\$ 1,281	\$ —	\$ (12)	\$ 1,269
Retail generation	1,040	—	(14)	1,026
Wholesale sales	123	—	5	128
Transmission ⁽²⁾	—	319	—	319
Other	35	—	1	36
Total revenues from contracts with customers	\$ 2,479	\$ 319	\$ (20)	\$ 2,778
ARP	64	—	—	64
Other non-customer revenue	33	4	(17)	20
Total revenues	\$ 2,576	\$ 323	\$ (37)	\$ 2,862

⁽¹⁾ Includes eliminations and reconciling adjustments of inter-segment revenues.

⁽²⁾ Includes \$76 million in reductions to revenue related to amounts subject to refund resulting from the Tax Act (\$72 million at Regulated Distribution and \$4 million at Regulated Transmission).

Other non-customer revenue includes revenue from late payment charges of \$11 million and \$10 million, as well as revenue from derivatives of \$2 million and \$10 million, for the three months ended March 31, 2019 and 2018, respectively.

Regulated Distribution

The Regulated Distribution segment distributes electricity through FirstEnergy's ten utility operating companies and also controls 3,790 MWs of regulated electric generation capacity located primarily in West Virginia, Virginia and New Jersey. Each of the Utilities earns revenue from state-regulated rate tariffs under which it provides distribution

services to residential, commercial and industrial customers in its service territory. The Utilities are obligated under the regulated construct to deliver power to customers reliably, as it is needed, which creates an implied monthly contract with the end-use customer. See Note 13, "Regulatory Matters," for additional information on rate recovery mechanisms. Distribution and electric revenues are recognized over time as electricity is distributed and delivered to the customer and the customers consume the electricity immediately as delivery occurs.

Retail generation sales relate to POLR, SOS, SSO and default service requirements in Ohio, Pennsylvania, New Jersey and Maryland, as well as generation sales in West Virginia that are regulated by the WVPSC. Certain of the Utilities have default service

obligations to provide power to non-shopping customers who have elected to continue to receive service under regulated retail tariffs. The volume of these sales varies depending on the level of shopping that occurs. Supply plans vary by state and by service territory. Default service for the Ohio Companies, Pennsylvania Companies, JCP&L and PE's Maryland jurisdiction are provided through a competitive procurement process approved by each state's respective commission. Retail generation revenues are recognized over time as electricity is delivered and consumed immediately by the customer.

The following table represents a disaggregation of the Regulated Distribution segment revenue from contracts with distribution service and retail generation customers for the three months ended March 31, 2019 and 2018, by class:

Revenues by Customer Class	For the Three Months Ended March 31,	
	2019	2018
	(In millions)	
Residential	\$1,484	\$1,463
Commercial	587	580
Industrial	249	254
Other	24	24
Total Revenues	\$2,344	\$2,321

Wholesale sales primarily consist of generation and capacity sales into the PJM market from FirstEnergy's regulated electric generation capacity and NUGs. Certain of the Utilities may also purchase power in the PJM markets to supply power to their customers. Generally, these power sales from generation and purchases to serve load are netted hourly and reported gross as either revenues or purchased power on the Consolidated Statements of Income based on whether the entity was a net seller or buyer each hour. Capacity revenues are recognized ratably over the PJM planning year at prices cleared in the annual BRA and incremental auctions. Capacity purchases and sales through PJM capacity auctions are reported within revenues on the Consolidated Statements of Income. Certain capacity income (bonuses) and charges (penalties) related to the availability of units that have cleared in the auctions are unknown and not recorded in revenue until, and unless, they occur.

The Utilities' distribution customers are metered on a cycle basis. An estimate of unbilled revenues is calculated to recognize electric service provided from the last meter reading through the end of the month. This estimate includes many factors, among which are historical customer usage, load profiles, estimated weather impacts, customer shopping activity and prices in effect for each class of customer. In each accounting period, the Utilities accrue the estimated unbilled amount as revenue and reverse the related prior period estimate. Customer payments vary by state but are generally due within 30 days.

ASC 606 excludes industry-specific accounting guidance for recognizing revenue from ARPs as these programs represent contracts between the utility and its regulators, as opposed to customers. Therefore, revenue from these programs are not within the scope of ASC 606 and regulated utilities are permitted to continue to recognize such revenues in accordance with existing practice but are presented separately from revenue arising from contracts with customers. FirstEnergy currently has ARPs in Ohio, primarily under rider DMR, and in New Jersey.

Regulated Transmission

The Regulated Transmission segment provides transmission infrastructure owned and operated by ATSI, TrAIL, MAIT and certain of FirstEnergy's utilities (JCP&L, MP, PE and WP) to transmit electricity from generation sources to distribution facilities. The segment's revenues are primarily derived from forward-looking formula rates at ATSI, TrAIL and MAIT, as well as stated transmission rates at JCP&L, MP, PE and WP. Both the forward-looking formula

and stated rates recover costs that the regulatory agencies determine are permitted to be recovered and provide a return on transmission capital investment. Under forward-looking formula rates, the revenue requirement is updated annually based on a projected rate base and projected costs, which is subject to an annual true-up based on actual costs. Revenue requirements under stated rates are calculated annually by multiplying the highest one-hour peak load in each respective transmission zone by the approved, stated rate in that zone. Revenues and cash receipts for the stand-ready obligation of providing transmission service are recognized ratably over time.

Effective January 1, 2018, JCP&L is subject to a FERC-approved settlement agreement that provides an annual revenue requirement of \$155 million through December 31, 2019, which is recognized ratably as revenue over time.

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

Revenues from Contracts with Customers by Transmission Asset Owner	For the Three Months Ended March 31, 2019	2018
	(In millions)	
ATSI	\$174	\$158
TrAIL	58	60
MAIT	49	30
Other	71	71
Total Revenues	\$352	\$319

3. DISCONTINUED OPERATIONS

FES, FENOC, BSPPC and a portion of AE Supply (including the Pleasants Power Station), representing substantially all of FirstEnergy's operations that previously comprised the CES reportable operating segment, are presented as discontinued operations in FirstEnergy's consolidated financial statements resulting from the FES Bankruptcy and actions taken as part of the strategic review to exit commodity-exposed generation, as discussed below. Prior period results have been reclassified to conform with such presentation as discontinued operations.

FES and FENOC Chapter 11 Bankruptcy Filing

As discussed in Note 1, "Organization and Basis of Presentation," on March 31, 2018, FES and FENOC announced the FES Bankruptcy. FirstEnergy concluded that it no longer had a controlling interest in the FES Debtors, as the entities are subject to the jurisdiction of the Bankruptcy Court and, accordingly, as of March 31, 2018, FES and FENOC were deconsolidated from FirstEnergy's consolidated financial statements, and FirstEnergy has accounted and will account for its investments in FES and FENOC at fair values of zero. In connection with the disposal and the FES Bankruptcy settlement agreement approved by the Bankruptcy Court in September 2018, as further discussed in Note 1, "Organization and Basis of Presentation," FE recorded an after-tax gain on disposal of \$435 million in 2018, which includes a \$1.2 billion gain recorded in the first quarter of 2018.

By eliminating a significant portion of its competitive generation fleet with the deconsolidation of the FES Debtors, FirstEnergy has concluded the FES Debtors meet the criteria for discontinued operations, as this represents a significant event in management's strategic review to exit commodity-exposed generation and transition to a fully regulated company.

FES Borrowings from FE

On March 9, 2018, FES borrowed \$500 million from FE under the secured credit facility, dated as of December 6, 2016, among FES, as Borrower, FG and NG as guarantors, and FE, as lender, which fully utilized the committed line of credit available under the secured credit facility. Following deconsolidation of FES, FE fully reserved for the \$500 million associated with the borrowings under the secured credit facility. Under the terms of the FES Bankruptcy settlement agreement, FE will release any and all claims against the FES Debtors with respect to the \$500 million borrowed under the secured credit facility.

On March 16, 2018, FES and FENOC withdrew from the unregulated companies' money pool, which included FE, FES and FENOC. Under the terms of the FES Bankruptcy settlement agreement, FE reinstated \$88 million for 2018 estimated payments for NOLs applied against the FES Debtor's position in the unregulated companies' money pool prior to their withdrawal on March 16, 2018, which increased the amount the FES Debtors owed FE under the money pool to \$92 million. In addition, as of March 31, 2018, AE Supply had a \$102 million outstanding unsecured promissory note owed from FES. Following deconsolidation of FES and FENOC on March 31, 2018 and given the terms of the FES Bankruptcy settlement agreement, FE fully reserved the \$92 million associated with the outstanding unsecured borrowings under the unregulated companies' money pool and the \$102 million associated with the AE Supply unsecured promissory note, under the terms of the FES Bankruptcy settlement agreement, FirstEnergy will release any and all claims against the FES Debtors with respect to the \$92 million owed under the unregulated money pool and \$102 million unsecured promissory note. For the three months ended March 31, 2019, approximately \$9 million of interest was accrued and subsequently reserved.

Services Agreements

Pursuant to the FES Bankruptcy settlement agreement, FirstEnergy entered into an amended and restated shared services agreement with the FES Debtors to extend the availability of shared services until no later than June 30, 2020, subject to reductions in services if requested by the FES Debtors. Under the amended shared services agreement, and consistent with the prior shared services agreements, costs are directly billed or assigned at no more than cost. In addition to providing for certain notice requirements and other terms and conditions, the agreement provided for a credit to the FES Debtors in an amount up to \$112.5 million for charges incurred for services provided under prior shared services agreements and the amended shared services agreement from April 1, 2018 through December 31, 2018. The entire credit for shared services provided to the FES Debtors (\$112.5 million) has been recognized by FE and was included within loss from discontinued operations as of December 31, 2018. FES has paid approximately \$35 million through March 31, 2019.

Benefit Obligations

FirstEnergy will retain certain obligations for the FES Debtors' employees for services provided prior to emergence from bankruptcy. The retention of this obligation at March 31, 2018, resulted in a net liability of \$820 million (including EDCP, pension and OPEB) with a corresponding loss from discontinued operations. EDCP and pension/OPEB service costs earned by the FES Debtors' employees during bankruptcy are billed under the shared services agreement. As FE continues to provide pension benefits to FES/FENOC employees, all components of pension cost, including the mark to market, are seen as providing ongoing services and are reported in the continuing operations of FE, subsequent to the bankruptcy filing. FE has billed FES and FENOC \$10 million for their share of pension and OPEB service costs for the three months ended March 31, 2019.

Purchase Power

FES at times provides power through affiliated company power sales to meet a portion of the Utilities' POLR and default service requirements and provides power to certain affiliates' facilities. As of March 31, 2019, the Utilities owed FES approximately \$26 million related to these purchases. The terms and conditions of the power purchase agreements are generally consistent with industry practices and other similar third-party arrangements. The Utilities purchased and recognized in continuing operations approximately \$83 million and \$103 million of power purchases from FES for the three months ended March 31, 2019 and 2018, respectively.

Income Taxes

For U.S. federal income taxes, until emergence from bankruptcy, the FES Debtors will continue to be consolidated in FirstEnergy's tax return and taxable income will be determined based on the tax basis of underlying individual net assets. Deferred taxes previously recorded on the inside basis differences may not represent the actual tax consequence for the outside basis difference, causing a recharacterization of an existing consolidated-return NOL as a future worthless stock deduction. FirstEnergy currently estimates a future worthless stock deduction of approximately \$4.8 billion (\$1.0 billion, net of tax) and is net of unrecognized tax benefits of \$418 million (\$88 million, net of tax). The estimated worthless stock deduction is contingent upon the emergence of the FES Debtors from the FES Bankruptcy and such amounts may be materially impacted by future events.

Additionally, discontinued operations include tax expense of approximately \$14 million and \$16 million in the first three months of 2019 and 2018, respectively, due to certain aspects of the Tax Act that only apply as a result of the FES Debtors remaining a part of FirstEnergy's consolidated tax return.

See Note 1, "Organization and Basis of Presentation", for further discussion of the settlement among FirstEnergy, the FES Key Creditor Groups, the FES Debtors and the UCC.

Competitive Generation Asset Sales

FirstEnergy announced in January 2017 that AE Supply and AGC had entered into an asset purchase agreement with a subsidiary of LS Power, as amended and restated in August 2017, to sell four natural gas generating plants, AE Supply's interest in the Buchanan Generating facility and approximately 59% of AGC's interest in Bath County (1,615

MWs of combined capacity). On December 13, 2017, AE Supply completed the sale of the natural gas generating plants. On March 1, 2018, AE Supply completed the sale of the Buchanan Generating Facility. On May 3, 2018, AE Supply and AGC completed the sale of approximately 59% of AGC's interest in Bath County. Also, on May 3, 2018, following the closing of the sale by AGC of a portion of its ownership interest in Bath County, AGC completed the redemption of AE Supply's shares in AGC and AGC became a wholly owned subsidiary of MP.

On March 9, 2018, BSPC and FG entered into an asset purchase agreement with Walleye Power, LLC (formerly Walleye Energy, LLC), for the sale of the Bay Shore Generating Facility, including the 136 MW Bay Shore Unit 1 and other retired coal-fired generating equipment owned by FG. The Bankruptcy Court approved the sale on July 13, 2018, and the transaction was completed on July 31, 2018.

As contemplated under the FES Bankruptcy settlement agreement, AE Supply entered into an agreement on December 31, 2018, to transfer the 1,300 MW Pleasants Power Station and related assets to FG, while retaining certain specified liabilities. Under the terms of the agreement, FG acquired the economic interests in Pleasants as of January 1, 2019, and AE Supply will operate Pleasants until the transfer is completed. After closing, AE Supply will continue to provide access to the McElroy's Run CCR Impoundment Facility, which is not being transferred, and FE will provide certain guarantees for retained environmental liabilities of AE Supply, including the McElroy's Run CCR Impoundment Facility. The transfer of the Pleasants Power Station is subject to

various customary and other closing conditions, including the effectiveness of a plan of reorganization for the FES Debtors in connection with the FES Bankruptcy. There can be no assurance that all closing conditions will be satisfied or that the transfer will be consummated.

Individually, the AE Supply and BSPC asset sales and Pleasants Power Station transfer did not qualify for reporting as discontinued operations. However, in the aggregate, the transactions were part of management's strategic review to exit commodity-exposed generation and, when considered with FES' and FENOC's bankruptcy filings on March 31, 2018, represent a collective elimination of substantially all of FirstEnergy's competitive generation fleet and meet the criteria for discontinued operations.

Summarized Results of Discontinued Operations

Summarized results of discontinued operations for the three months ended March 31, 2019 and 2018, were as follows:

(In millions)	For the Three Months Ended March 31,	
	2019	2018
Revenues	\$54	\$736
Fuel	(35)	(164)
Purchased power	—	(58)
Other operating expenses	(10)	(369)
Provision for depreciation	—	(63)
General taxes	(4)	(23)
Other expense, net ⁽¹⁾	(2)	(62)
Income (Loss) from discontinued operations, before tax	3	(3)
Income tax expense	14	48
Loss from discontinued operations, net of tax	(11)	(51)
Gain (Loss) on disposal of FES and FENOC, net of tax	(24)	1,239
Income (Loss) from discontinued operations	\$(35)	\$1,188

⁽¹⁾ Other expense, net for the three months ended March 31, 2019, reflects FG's economic interests in Pleasants effective January 1, 2019, as further discussed above.

The gain (loss) on disposal of FES and FENOC recognized in the three months ended March 31, 2019 and 2018, consisted of the following:

(In millions)	For the Three Months Ended March 31,	
	2019	2018
Removal of investment in FES and FENOC	\$—	\$2,193
Assumption of benefit obligations retained at FE	—	(820)
Guarantees and credit support provided by FE	—	(139)
Reserve on receivables and allocated pension/OPEB mark-to-market	—	(914)
Settlement consideration and services credit	(33)	—
Gain (Loss) on disposal of FES and FENOC, before tax	(33)	320
Income tax benefit, including estimated worthless stock deduction	9	919
Gain (Loss) on disposal of FES and FENOC, net of tax	\$(24)	\$1,239

As of March 31, 2019, and December 31, 2018, material and supplies of \$21 million and \$25 million, respectively, are included in FirstEnergy's Consolidated Balance Sheets as Current assets - discontinued operations.

FirstEnergy's Consolidated Statement of Cash Flows combines cash flows from discontinued operations with cash flows from continuing operations within each cash flow category. The following table summarizes the major classes of cash flow items as discontinued operations for the three months ended March 31, 2019 and 2018:

(In millions)	For the Three Months Ended March 31,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income (loss) from discontinued operations	\$(35)	\$1,188
Depreciation and amortization, including regulatory assets, net, intangible assets and deferred debt-related costs	—	64
Unrealized gain on derivative transactions	—	(10)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	—	(16)
Sales of investment securities held in trusts	—	109
Purchases of investment securities held in trusts	—	(122)
4. EARNINGS PER SHARE OF COMMON STOCK		

The convertible preferred stock issued in January 2018 (see Note 9, "Capitalization") is considered participating securities since these shares participate in dividends on common stock on an "as-converted" basis. As a result, EPS of common stock is computed using the two-class method required for participating securities.

The two-class method uses an earnings allocation formula that treats participating securities as having rights to earnings that otherwise would have been available only to common stockholders. Under the two-class method, net income attributable to common stockholders is derived by subtracting the following from income from continuing operations:

- preferred stock dividends,
- deemed dividends for the amortization of the beneficial conversion feature recognized at issuance of the preferred stock (if any), and
- an allocation of undistributed earnings between the common stock and the participating securities (convertible preferred stock) based on their respective rights to receive dividends.

Net losses are not allocated to the convertible preferred stock as they do not have a contractual obligation to share in the losses of FirstEnergy. FirstEnergy allocates undistributed earnings based upon income from continuing operations.

The preferred stock includes an embedded conversion option at a price that is below the fair value of the common stock on the commitment date. This beneficial conversion feature, which was approximately \$296 million, represents the difference between the fair value per share of the common stock and the conversion price, multiplied by the number of common shares issuable upon conversion. The beneficial conversion feature was amortized as a deemed dividend over the period from the issue date to the first allowable conversion date (July 22, 2018) as a charge to OPIC, since FE is in an accumulated deficit position with no retained earnings to declare a dividend. As noted above, for EPS reporting purposes, this beneficial conversion feature was reflected in net income attributable to common stockholders as a deemed dividend and was fully amortized in 2018.

Basic EPS available to common stockholders is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding during the period. Participating securities are excluded

from basic weighted average ordinary shares outstanding. Diluted EPS available to common stockholders is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding, including all potentially dilutive common shares, if the effect of such common shares is dilutive.

Diluted EPS reflects the dilutive effect of potential common shares from share-based awards and convertible preferred shares. The dilutive effect of outstanding share-based awards is computed using the treasury stock method, which assumes any proceeds that could be obtained upon the exercise of the award would be used to purchase common stock at the average market price for the period. The dilutive effect of the convertible preferred stock is computed using the if-converted method, which assumes conversion of the convertible preferred stock at the beginning of the period, giving income recognition for the add-back of the preferred share dividends, amortization of beneficial conversion feature, and undistributed earnings allocated to preferred stockholders.

The following table reconciles basic and diluted EPS of common stock:

	For the Three Months Ended March 31,	
Reconciliation of Basic and Diluted EPS of Common Stock	2019	2018
(In millions, except per share amounts)		
EPS of Common Stock		
Income from continuing operations	\$355	\$181
Less: Preferred dividends	(3)	(43)
Less: Amortization of beneficial conversion feature	—	(113)
Less: Undistributed earnings allocated to preferred stockholders ⁽¹⁾	(2)	—
Income from continuing operations available to common stockholders	350	25
Discontinued operations, net of tax	(35)	1,188
Less: Undistributed earnings allocated to preferred stockholders ⁽¹⁾	—	—
Income (loss) from discontinued operations available to common stockholders	(35)	1,188
Income available to common stockholders, basic and diluted	\$315	\$1,213
Share Count information:		
Weighted average number of basic shares outstanding	530	476
Assumed exercise of dilutive stock options and awards	3	2
Weighted average number of diluted shares outstanding	533	478
Income (loss) available to common stockholders, per common share:		
Income from continuing operations, basic	\$0.66	\$0.05
Discontinued operations, basic	(0.07)	2.50
Income available to common stockholders, basic	\$0.59	\$2.55
Income from continuing operations, diluted	\$0.66	\$0.05
Discontinued operations, diluted	(0.07)	2.49
Income available to common stockholders, diluted	\$0.59	\$2.54

Undistributed earnings were not allocated to participating securities for the three months ended March 31, 2018, as ⁽¹⁾ income from continuing operations less dividends declared (common and preferred) and deemed dividends were a net loss. Discontinued operations undistributed earnings allocated to preferred stockholders for the three months ended March 31, 2019, were less than \$500 thousand.

For the three months ended March 31, 2018, 1 million shares from stock options and awards were excluded from the calculation of diluted shares outstanding, as their inclusion would be antidilutive to basic EPS from continuing operations. For the three months ended March 31, 2019, no shares from stock options and awards were excluded from the calculation of diluted shares outstanding. Also, 8 million and 59 million shares associated with the assumed conversion of preferred stock were excluded as of March 31, 2019 and 2018, respectively, as their inclusion would be antidilutive to basic EPS from continuing operations.

5. PENSION AND OTHER POSTEMPLOYMENT BENEFITS

The components of the consolidated net periodic costs (credits) for pension and OPEB were as follows:

Components of Net Periodic Benefit Costs (Credits) For the Three Months Ended March 31,	Pension		OPEB	
	2019	2018	2019	2018
	(In millions)			
Service costs ⁽¹⁾	\$48	\$56	\$1	\$1
Interest costs ⁽²⁾	93	93	5	6
Expected return on plan assets ⁽²⁾	(135)	(144)	(7)	(8)
Amortization of prior service costs (credits) ⁽²⁾	2	2	(9)	(20)
Special termination costs ⁽²⁾	15	—	—	—
Net periodic costs (credits), including amounts capitalized	\$23	\$7	\$(10)	\$(21)
Net periodic costs (credits), recognized in earnings	\$6	\$(14)	\$(10)	\$(21)

⁽¹⁾ Service costs, net of capitalization, are reported within Other operating expenses on FirstEnergy's Consolidated Statements of Income.

⁽²⁾ Non-service costs are reported within Miscellaneous income, net, within Other Income (Expense) on FirstEnergy's Consolidated Statements of Income.

Amounts in the tables above include FES and FENOC's share of the net periodic pension and OPEB costs (credits) of \$11 million and \$(1) million, respectively, for the three months ended March 31, 2019. FES and FENOC's share of the net periodic pension and OPEB costs (credits) were \$13 million and \$(10) million, respectively, for the three months ended March 31, 2018. The 2018 amounts and 2019 special termination costs associated with FES' voluntary enhanced retirement package are a component of Discontinued Operations in FirstEnergy's Consolidated Statements of Income. Following FES and FENOC's voluntary bankruptcy filing and resolution of certain disputed pension and service charges discussed in Note 1, "Organization and Basis of Presentation", FE has billed FES and FENOC \$10 million for their share of pension and OPEB service costs for the three months ended March 31, 2019.

On February 1, 2019, FirstEnergy made a \$500 million voluntary cash contribution to the qualified pension plan. As a result of this contribution, FirstEnergy expects no required contributions through 2021.

6. ACCUMULATED OTHER COMPREHENSIVE INCOME

The changes in AOCI for the three months ended March 31, 2019 and 2018, for FirstEnergy are shown in the following table:

	Gains & Losses on Cash Flow Hedges	Unrealized Gains on AFS Securities	Defined Benefit & OPEB Plans	Total
AOCI Balance, January 1, 2019	\$(11)	\$ —	\$ 52	\$41
Amounts reclassified from AOCI	1	—	(7)	(6)
Other comprehensive income (loss)	1	—	(7)	(6)
Income tax benefits on other comprehensive income (loss)	—	—	(1)	(1)
Other comprehensive income (loss), net of tax	1	—	(6)	(5)
AOCI Balance, March 31, 2019	\$(10)	\$ —	\$ 46	\$36

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AOCI Balance, January 1, 2018	\$ (22)	\$ 67	\$ 97	\$ 142
Other comprehensive income before reclassifications	—	(97)	—	(97)
Amounts reclassified from AOCI	2	(1)	(18)	(17)
Deconsolidation of FES and FENOC	13	(8)	—	5
Other comprehensive income (loss)	15	(106)	(18)	(109)
Income tax (benefits) on other comprehensive income (loss)	8	(39)	(22)	(53)
Other comprehensive income (loss), net of tax	7	(67)	4	(56)
AOCI Balance, March 31, 2018	\$ (15)	\$ —	\$ 101	\$ 86

The following amounts were reclassified from AOCI for FirstEnergy in the three months ended March 31, 2019 and 2018:

Reclassifications from AOCI ⁽¹⁾	For the Three Months Ended March 31,		Affected Line Item in Consolidated Statements of Income
	2019	2018 ⁽²⁾	
	(In millions)		
Gains & losses on cash flow hedges			
Commodity contracts	\$ —	\$ 1	Other operating expenses
Long-term debt	1	1	Interest expense
	—	(1)	Income taxes
	\$ 1	\$ 1	Net of tax
Unrealized gains on AFS securities			
Realized gains on sales of securities	\$ —	\$ (1)	Discontinued Operations
Defined benefit pension and OPEB plans			
Prior-service costs	\$ (7)	\$ (18)	⁽³⁾
	1	5	Income taxes
	\$ (6)	\$ (13)	Net of tax

⁽¹⁾ Amounts in parenthesis represent credits to the Consolidated Statements of Income from AOCI.

⁽²⁾ Includes stranded tax amounts reclassified from AOCI in connection with the adoption of ASU 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income".

⁽³⁾ Components are included in the computation of net periodic pension cost. See Note 5, "Pension and Other Postemployment Benefits," for additional details.

7. INCOME TAXES

FirstEnergy's interim effective tax rates reflect the estimated annual effective tax rates for 2019 and 2018. These tax rates are affected by estimated annual permanent items, such as AFUDC equity and other flow-through items, as well as discrete items that may occur in any given period, but are not consistent from period to period.

FirstEnergy's effective tax rate for the three months ended March 31, 2019 and 2018 was 20.8% and 56.3%, respectively. The higher effective tax rate in 2018 was primarily due to a one-time charge of \$126 million to income tax expense in continuing operations associated with the re-measurement of West Virginia state deferred income taxes, resulting from the legal and financial separation of FES and FENOC from FirstEnergy, which occurred in the first quarter of 2018. See Note 3, "Discontinued Operations" for other tax matters relating to the FES Bankruptcy that were recognized in discontinued operations. Furthermore, starting in 2018, FirstEnergy's regulated entities began amortizing the net excess deferred income taxes, which resulted in a net income tax benefit, reducing the effective tax rate. See Note 13, "Regulatory Matters," for additional detail.

During the three months ended March 31, 2019, FirstEnergy increased its reserve for uncertain tax benefits by approximately \$5 million, none of which had an impact to the effective tax rate as the full amount was recorded within discontinued operations. As of March 31, 2019, it is reasonably possible that FirstEnergy could record a net decrease to its reserve for uncertain tax positions by approximately \$45 million within the next twelve months due to the statute of limitations expiring or resolution with taxing authorities, of which approximately \$40 million would impact FirstEnergy's effective tax rate.

8. LEASES

FirstEnergy primarily leases vehicles as well as building space, office equipment, and other property and equipment under cancelable and noncancelable leases. FirstEnergy does not have any material leases in which it is the lessor.

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

Leases with an initial term of 12 months or less are recognized as lease expense on a straight-line basis over the lease term and not recorded on the balance sheet. Most leases include one or more, options to renew, with renewal terms that can extend the lease term from 1 to 40 years, and certain leases include options to terminate. The exercise of lease renewal options is at FirstEnergy's sole discretion. Renewal options are included within the lease liability if they are reasonably certain based on various factors relative to the contract. Certain leases also include options to purchase the leased property. The depreciable life of leased assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise. FirstEnergy's lease agreements do not contain any material restrictive covenants.

For vehicles leased under master lease agreements, the lessor is guaranteed a residual value up to a stated percentage of the equipment cost at the end of the lease term. As of March 31, 2019, the maximum potential loss for these lease agreements at the end of the lease term is approximately \$16 million.

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

(In millions)	For the Three Months Ended March 31, 2019			
	Vehicles	Buildings	Other	Total
Operating lease costs ⁽¹⁾	\$7	\$ 2	\$ 3	\$ 12
Finance lease costs:				
Amortization of right-of-use assets	4	—	1	5
Interest on lease liabilities	1	1	—	2
Total finance lease cost	5	1	1	7
Total lease cost	\$12	\$ 3	\$ 4	\$ 19

⁽¹⁾ Includes \$4 million of short-term lease costs.

Lease terms and discount rates were as follows:

	As of March 31, 2019
Weighted-average remaining lease terms (years)	
Operating leases	8.71
Finance leases	4.89
Weighted-average discount rate ⁽¹⁾	
Operating leases	4.96 %
Finance leases	3.44 %

⁽¹⁾ When an implicit rate is not readily determinable, an incremental borrowing rate is utilized, determining the present value of lease payments. The rate is determined based on expected term and information available at the commencement date.

Supplemental balance sheet information related to leases was as follows:

(In millions)	Financial Statement Line Item	As of March 31, 2019
Assets		
Operating lease assets, net of accumulated amortization of \$5 million	Deferred charges and other assets	\$ 187
Finance lease assets, net of accumulated amortization of \$87 million	Property, plant and equipment	77
Total leased assets		\$ 264
Liabilities		
Current:		
Operating	Other current liabilities	\$ 29
Finance	Currently payable long-term debt	16
Noncurrent:		
Operating	Other noncurrent liabilities	190
Finance	Long-term debt and other long-term obligations	55
Total leased liabilities		\$ 290

Supplemental cash flow information related to leases was as follows:

(In millions)	For the Three Months Ended March 31, 2019
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	\$ 8
Operating cash flows from finance leases	1
Finance cash flows from finance leases	4
Right-of-use assets obtained in exchange for lease obligations:	
Operating leases	\$ 6
Finance leases	1

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

(In millions)	Operating Leases	Finance Leases	Total
2019	\$ 24	\$ 16	\$40
2020	36	19	55
2021	34	17	51
2022	33	14	47
2023	30	8	38
2024	25	4	29
Thereafter	95	12	107

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Total lease payments ⁽¹⁾	277	90	367
Less imputed interest	(58)	(19)	(77)
Total net present value	\$ 219	\$ 71	\$290

⁽¹⁾ Operating lease payments for certain leases are offset by sublease receipts of \$30 million over 14 years.

As of March 31, 2019, additional operating leases agreements, primarily for vehicles, that have not yet commenced are \$15 million. These leases are expected to commence in 2019 with lease terms of 3 to 10 years.

The future minimum capital lease payments as of December 31, 2018, as reported in the 2018 Form 10-K under ASC 840, are as follows:

Capital Leases

	(In millions)
2019	\$ 24
2020	19
2021	16
2022	13
2023	8
Years thereafter	16
Total minimum lease payments	96
Interest portion	(23)
Present value of net minimum lease payments	73
Less current portion	18
Noncurrent portion	\$ 55

The future minimum operating lease payments as of December 31, 2018, as reported in the 2018 Form 10-K under ASC 840 are as follows:

Operating Leases

	(In millions)
2019	\$ 34
2020	36
2021	34
2022	30
2023	28
Years thereafter	127
Total minimum lease payments	\$ 289

9. CAPITALIZATION

Stockholders' Equity

The changes in stockholders' equity for the three months ended March 31, 2019 and 2018, for FirstEnergy are included in the following tables:

(In millions)	Series A		Common Stock	OPIC	AOCI	Accumulated Deficit	Total Stockholders' Equity	
	Convertible Preferred Stock	Shares Amount						
Balance, January 1, 2019	0.7	\$ 71	512	\$ 51	\$11,530	\$ 41	\$ (4,879)	\$ 6,814
Net income							320	320
Other comprehensive loss, net of tax						(5)		(5)
Stock-based compensation				7				7
Stock Investment Plan and certain share-based benefit plans			1	1				1
Cash dividends declared on common stock				(202)				(202)
Cash dividends declared on preferred stock				(3)				(3)
	(0.5)	(50)	18	2	48			—

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Conversion of Series A Convertible Preferred
Stock

Balance, March 31, 2019	0.2	\$ 21	531	\$ 53	\$11,381	\$ 36	\$ (4,559)	\$ 6,932
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(In millions)	Series A Convertible Preferred Stock		Common Stock		OPIC	AOCI	Accumulated Deficit	Total Stockholders' Equity
	Share Amount	Share Amount	Share Amount	Share Amount				
Balance, January 1, 2018	—	\$ —	445	\$ 44	\$ 10,001	\$ 142	\$ (6,262)	\$ 3,925
Net income							1,369	1,369
Other comprehensive loss, net of tax						(56)		(56)
Stock-based compensation					19			19
Stock Investment Plan and certain share-based benefit plans			2	1	5			6
Cash dividends declared on common stock					(343)			(343)
Cash dividends declared on preferred stock					(42)			(42)
Stock issuance ⁽¹⁾	1.6	162	30	3	2,297			2,462
Impact of adopting new accounting pronouncements ⁽²⁾							35	35
Balance, March 31, 2018	1.6	\$ 162	477	\$ 48	\$ 11,937	\$ 86	\$ (4,858)	\$ 7,375

⁽¹⁾ The preferred stock included an embedded conversion option at a price that was below the fair value of the Common Stock on the commitment date. This beneficial conversion feature (BCF), which was approximately \$296 million, was recorded to OPIC as well as the amortization of the BCF (deemed dividend of \$113 million for the three months ended March 31, 2018) through the period from the issue date to the first allowable conversion date (July 22, 2018). There is no net impact to OPIC for the three months ended March 31, 2018. Please see below for additional information on the issuance.

⁽²⁾ FirstEnergy adopted ASU 2016-01, "Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities" standard on January 1, 2018, and subsequently recorded a cumulative effect adjustment to retained earnings of \$57 million representing unrealized gains on equity securities with FES NDTs that were previously recorded to AOCI. In addition, FirstEnergy adopted ASU 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" and upon adoption, recorded a \$22 million cumulative effect adjustment for stranded tax effects, such as pension and OPEB prior service costs and losses on derivative hedges, to retained earnings on January 1, 2018. These amounts are offset in other comprehensive loss and do not have an impact on total stockholders' equity.

Dividends declared for each share of common stock and as-converted share of preferred stock was \$0.38 and \$0.72 during the first quarter of 2019 and 2018, respectively.

Stock Issuance

On January 22, 2018, FirstEnergy entered into agreements for the private placement of its equity securities representing an approximately \$2.5 billion investment in FE. FE entered into a Preferred Stock Purchase Agreement (the Preferred SPA) for the private placement of 1,616,000 shares of mandatorily convertible preferred stock, designated as the Series A Convertible Preferred Stock, par value \$100 per share, representing an investment of nearly \$1.62 billion (\$162 million of mandatorily convertible preferred stock and \$1.46 billion of OPIC). FE also entered into a Common Stock Purchase Agreement for the private placement of 30,120,482 shares of FE's common stock, par value \$0.10 per share, representing an investment of \$850 million (\$3 million of Common Stock and \$847 million of OPIC).

The preferred stock participates in dividends on the common stock on an as-converted basis based on the number of shares of common stock a holder of preferred stock would receive if its shares of preferred stock were converted on the dividend record date at the conversion price in effect at that time. Such dividends are paid at the same time that the dividends on common stock are paid.

Each share of preferred stock is convertible at the option of the holders into a number of shares of common stock equal to the \$1,000 liquidation preference, divided by the Conversion Price then in effect. As of March 31, 2019, the Conversion Price in effect was \$27.42 per share. The Conversion Price is subject to anti-dilution adjustments and adjustments for subdivisions and combinations of the common stock, as well as dividends on the common stock paid in common stock and for certain equity issuances below the Conversion Price then in effect. During 2018, 911,411 of preferred shares were converted into 33,238,910 common shares at the option of the preferred holders. Also at the option of the shareholders, 494,767 preferred shares were converted into 18,044,018 common shares in January 2019, resulting in 209,822 preferred shares outstanding and yet to be converted as of March 31, 2019.

In general, any shares of preferred stock outstanding on July 22, 2019, will be automatically converted. Further, the preferred stock will automatically convert to common stock upon certain events of bankruptcy or liquidation of FE. FE may elect to convert the preferred stock if, at any time, fewer than 323,200 shares of preferred stock are outstanding. However, no shares of preferred stock will be converted prior to January 22, 2020, if such conversion will cause a converting holder to be deemed to beneficially own, together with its affiliates whose holdings would be aggregated with such holder for purposes of Section 13(d) under the Exchange Act, more than 4.9% of the then-outstanding common stock. Furthermore, in no event shall FE issue more than 58,964,222 shares

of common stock (the Share Cap) in the aggregate upon conversion of the convertible preferred stock. From and after the time at which the aggregate number of shares of common stock issued upon conversion of the preferred stock equals the Share Cap, each holder electing to convert convertible preferred stock will be entitled to receive a cash payment equal to the market value of the common stock such holder does not receive upon conversion.

The preferred stock includes an embedded conversion option at a price that is below the fair value of the common stock on the commitment date. This beneficial conversion feature, which was approximately \$296 million, represents the difference between the fair value per share of the common stock and the conversion price, multiplied by the number of common shares issuable upon conversion. The beneficial conversion feature was amortized as a deemed dividend over the period from the issue date to the first allowable conversion date (July 22, 2018) as a charge to OPIC, since FE is in an accumulated deficit position with no retained earnings to declare a dividend. As noted above, for EPS reporting purposes, this beneficial conversion feature will be reflected in net income attributable to common stockholders as a deemed dividend. The amount amortized for the three months ended March 31, 2018, was approximately \$113 million. The BCF was fully amortized as of December 31, 2018.

The holders of preferred stock have limited class voting rights related to the creation of additional securities that are senior or equal with the preferred stock, as well as certain reclassifications and amendments that would affect the rights of the holders of preferred stock. The holders of preferred stock also have the right to approve issuances of securities convertible or exchangeable for common stock, subject to certain exceptions for compensation arrangements and bona fide dividend reinvestment or share purchase plans.

10. VARIABLE INTEREST ENTITIES

FirstEnergy performs qualitative analyses based on control and economics to determine whether a variable interest classifies FirstEnergy as the primary beneficiary (a controlling financial interest) of a VIE. An enterprise has a controlling financial interest if it has both power and economic control, such that an entity has: (i) the power to direct the activities of a VIE that most significantly impact the entity's economic performance; and (ii) 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.

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

Consolidated VIEs

VIEs in which FirstEnergy is the primary beneficiary consist of the following (included in FirstEnergy's consolidated financial statements):

Ohio Securitization - In September 2012, the Ohio Companies created separate, wholly owned limited liability company SPEs which issued phase-in recovery bonds to securitize the recovery of certain all-electric customer heating discounts, fuel and purchased power regulatory assets. The phase-in recovery bonds are payable only from, and secured by, phase-in recovery property owned by the SPEs. The bondholder has no recourse to the general credit of FirstEnergy or any of the Ohio Companies. Each of the Ohio Companies, as servicer of its respective SPE, manages and administers the phase-in recovery property including the billing, collection and remittance of usage-based charges payable by retail electric customers. In the aggregate, the Ohio Companies are entitled to annual servicing fees of \$445 thousand that are recoverable through the usage-based charges. The SPEs are considered VIEs and each one is consolidated into its applicable utility. As of March 31, 2019, and December 31, 2018, \$280 million and \$292 million of the phase-in recovery bonds were outstanding, respectively.

JCP&L Securitization - In August 2006, JCP&L Transition Funding II sold transition bonds to securitize the recovery of deferred costs associated with JCP&L's supply of BGS. JCP&L did not purchase and does not own any of the transition bonds, which are included as long-term debt on FirstEnergy's Consolidated Balance Sheets. The transition

bonds are the sole obligations of JCP&L Transition Funding II and are collateralized by its equity and assets, which consist primarily of bondable transition property. As of March 31, 2019, and December 31, 2018, \$37 million and \$41 million of the transition bonds were outstanding, respectively.

MP and PE Environmental Funding Companies - The entities issued bonds, the proceeds of which were used to construct environmental control facilities. The limited liability company SPEs own the irrevocable right to collect non-bypassable environmental control charges from all customers who receive electric delivery service in MP's and PE's West Virginia service territories. Principal and interest owed on the environmental control bonds is secured by, and payable solely from, the proceeds of the environmental control charges. Creditors of FirstEnergy, other than the limited liability company SPEs, have no recourse to any assets or revenues of the special purpose limited liability companies. As of March 31, 2019, and December 31, 2018, \$346 million and \$358 million of the environmental control bonds were outstanding, respectively.

Unconsolidated VIEs

FirstEnergy is not the primary beneficiary of the following VIEs:

Global Holding - 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 with coal sales in U.S. and international markets. FEV is not the

primary beneficiary of the joint venture, as it does not have control over the significant activities affecting the joint ventures economic performance. FEV's ownership interest is subject to the equity method of accounting. As of March 31, 2019, the carrying value of the equity method investment was zero.

As discussed in Note 14, "Commitments, Guarantees and Contingencies," FE is the guarantor under Global Holding's \$300 million term loan facility, which matures in March 2020, and has an outstanding principal balance of \$188 million as of March 31, 2019. Failure by Global Holding to meet the terms and conditions under its term loan facility could require FE to be obligated under the provisions of its guarantee, resulting in consolidation of Global Holding by FE.

PATH WV - PATH, a proposed transmission line from West Virginia through Virginia into Maryland, which PJM cancelled in 2012, is a series limited liability company that is comprised of multiple series, each of which has separate rights, powers and duties regarding specified property and the series profits and losses associated with such property. A subsidiary of FE 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 PATH-WV. FirstEnergy's ownership interest in PATH-WV is subject to the equity method of accounting. As of March 31, 2019, the carrying value of the equity method investment was \$17 million.

- Purchase Power Agreements - FirstEnergy evaluated its PPAs and determined that certain NUG entities at its Regulated Distribution segment 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 11 long-term PPAs 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 one of these NUG entities, it does not have a variable interest or the entities do not meet the criteria to be considered a VIE. FirstEnergy may hold a variable interest in the remaining one entity; 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 at its Regulated Distribution segment to be recovered from customers. Purchased power costs related to the contract that may contain a variable interest during the three months ended March 31, 2019 and 2018, were \$31 million and \$32 million, respectively.

FES and FENOC - As a result of the Chapter 11 bankruptcy filing discussed in Note 3, "Discontinued Operations," FE evaluated its investments in FES and FENOC and determined they are VIEs. FE is not the primary beneficiary because it lacks a controlling interest in FES and FENOC, which are subject to the jurisdiction of the Bankruptcy Court. The carrying values of the equity investments in FES and FENOC were zero