

FILE

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of The)
Cleveland Electric Illuminating Company) Case No. 18-563-EL-ATA
for Approval of a Tariff Change.)

In the Matter of the Application of Ohio)
Edison Company for Approval of a Tariff) Case No. 18-564-EL-ATA
Change.)

In the Matter of the Application of The)
Toledo Edison Company for Approval of a) Case No. 18-565-EL-ATA
Tariff Change.)

OBJECTIONS OF
THE OHIO CABLE TELECOMMUNICATIONS ASSOCIATION

May 22, 2018

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In the Matter of the Application of)	
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Company for Approval of a Tariff Change)	
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Ohio Edison Company for Approval)	Case No. 18-564-EL-ATA
of a Tariff Change)	
 In the Matter of the Application of)	
The Toledo Edison Company for)	Case No. 18-565-EL-ATA
Approval of a Tariff Change)	

**OBJECTIONS OF
THE OHIO CABLE TELECOMMUNICATIONS ASSOCIATION**

I. INTRODUCTION

The Ohio Cable Telecommunications Association (“OCTA”) objects to the proposed rate increases filed by The Cleveland Electric Illuminating Company, Ohio Edison Company and Toledo Edison Company on May 1, 2018, in the captioned proceedings.

With its three retail electric utilities in Ohio, and more than 1.2 million poles in the state, FirstEnergy (“FE”) collects millions annually from OCTA members and other Ohio providers for pole-attachment rentals. In the last thirteen months, beginning in April 2017, the amounts that FE companies have charged communications providers for pole attachments has ballooned. Over OCTA’s objections and requests for a multi-year phase-in to temper the rate shock, each of the FE utilities has imposed 150-200% increases to its pole rates since April 2017. The pace of these increases is quickening too: FE sought six additional pole-rate increases—two for each of its operating companies—in the last thirteen months. These newest requests, filed just six months after the last rate increases went into effect in December 2017, reflect an alarming trend.

Rule 4901:1-3-03(A)(1), Ohio Administrative Code, requires the applicants to provide nondiscriminatory rates, terms and conditions that are both just and reasonable. The applicants carry the burden of demonstrating that their proposals are just and reasonable; but they have failed to do so here. The latest round of FE pole-rate increases reveals yet a new issue: a dramatic drop in the accumulated deferred taxes (“ADT”) component of the net-bare pole cost element of the formula. As explained in Section II.A., this drop in ADT increases the net bare pole cost, and thus, the annual pole rate. FE’s application of Ohio’s pole-rate formula has resulted in three unreasonable pole attachment rates that, absent Commission examination, will be applied summarily to hundreds of thousands of poles across a large portion of the state of Ohio.

FE does not explain the reasons for its latest round of increases, let alone attempt to justify them. There appears to be a connection between the drop in ADT and the Tax Cuts and Jobs Act of 2017 (“TCJA”). Assuming that indeed there is a connection between FE’s treatment of ADT and the TCJA, which lowered the federal corporate income tax from 35 percent to 21 percent, FE has managed to make the cost of pole attachments more expensive despite the new tax law—effectively creating an additional “tax” on Ohio’s pole attachers. FE’s accounting practices now reflected in these pole-rate applications also could have implications for the pole rates of all Ohio’s investor-owned utilities, not to mention implications for accounting and rate-design challenges in other areas, including in retail electric service rates.

While the OCTA is asking the Commission here to hit “pause” and investigate, the OCTA is not asking for anything more than the rejection of the FE companies’ proposed pole-rate rates until the Commission can look into the matter. The OCTA is not, moreover, advocating a pole-rate methodology different than Ohio’s pole-rate formula. Because the pole formula is well established and well-known to all stakeholders, it remains a particularly powerful

tool in identifying accounting and other anomalies that can lead to unjust and unreasonable rates. That is exactly what the OCTA believes may be happening here. And because the Commission's processes, rules and formula make it difficult to make rate adjustments after a tariffed pole rate has gone into effect, now is the time to consider whether FE's proposals would create an unjust and unreasonable rate. Undertaking such an inquiry moreover, could provide clues as to how FE, and perhaps other utilities intend to ensure that tax law benefits inure to their ratepayers, providers with attachments to FE poles, and users of monopoly services and functions.

In addition to these objections, the OCTA has filed motions to intervene in these proceedings and is serving initial discovery requests on the FE utilities. In order for the OCTA, the Staff and the Commission to fully investigate the proposals with the benefit of additional information from the utilities, the Commission should suspend the automatic approval of these proposed pole attachment rate increases.

II. THE PROPOSALS

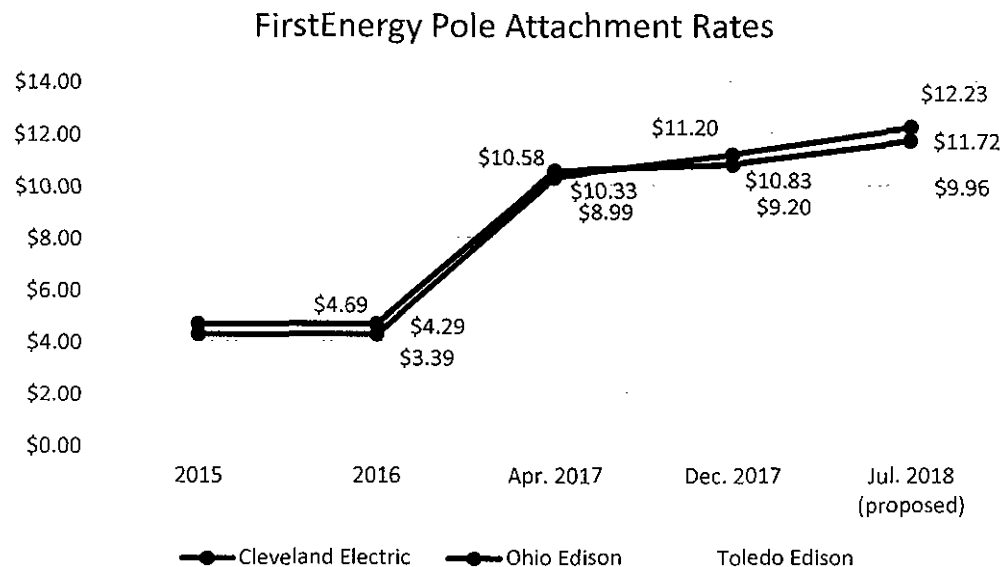
As the applicants in these proceedings, FE carries the burden of proof,¹ and must prove the reasonableness of the proposals. FE has not met that burden. FE again has proposed significant rate increases, and done so without adequate justification. If allowed to go into effect, FE will have nearly tripled their pole attachment rates in the last year. More specifically, the

¹ *In the Matter of the Ottoville Mut. Tel. Co. for Authority to Increase its Rates and Charges and to Revise its Tariffs on an Emergency and Temporary Basis Pursuant to Section 4909.16, Revised Code*, Case No. 73-356-Y, 1973 Ohio PUC LEXIS 3 at *4 (“* * * the applicant must shoulder the burden of proof in every application proceeding before the Commission * * *”). See also, *In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio to Adjust its Pipeline Infrastructure Replacement Program Cost Recovery Charge and Related Matters*, Case No. 09-458-GA-RDR, 2009 Ohio PUC LEXIS 1170 *23 (“DEO did not meet its burden of proof to establish that its proposed incremental [operation and maintenance] costs were actually incremental to DEO's base rates”); See also, *In the Matter of the Ohio Bell Tel. Co. for Authority to Amend Certain of its Intrastate Tariffs to Increase and Adjust its Rates and Charges and to Change its Regulations and Practices Affecting the Same*, Case No. 84-1435-TP-AIR, 1985 Ohio PUCO LEXIS 7 at *79 (“The applicant has the burden of establishing the reasonableness of its proposals.”).

percentage increases that the applicants have implemented or proposed since April 2017 for each of the applicants is as follows:

Cleveland Electric Illuminating:	185%
Ohio Edison:	150%
Toledo Edison:	194%

The following chart illustrates the increases and how the recent filings continue an unsustainable trend for pole attachers in the FE service territories:



A. The Commission Should Investigate FirstEnergy’s decision to inflate its net bare pole cost account by reducing the Accumulated Deferred Taxes Component in the Pole Formula.

In general terms, FE’s latest submissions show that its pole rates are increasing because its net bare-pole costs are increasing. Starting with the gross investment in the pole asset account, the net bare-pole cost element of the pole-rate formula is *less* accumulated depreciation, *less* a deduction for electric-only appurtenances that are booked into account 364, and *less* accumulated deferred taxes (“ADT”). The lower any of the three deductions is, the higher the net

bare-pole costs, and, thus the higher the pole rate. If, for example, the amount of ADT drops, the net bare-pole cost increases. That is exactly what is happening here.

Over the last few reporting periods, the deferred taxes component was dropping steadily, but essentially incrementally—generating corresponding increases to the bare-pole cost. But FE’s rate calculations using year-end 2017 data reflect precipitous drops in ADT to about *half* of what FE had reported at year-end 2016. For example, between the year 2014 and 2016 Ohio Edison’s plant-wide ADT dropped by 2.04%, while it dropped 50.24% in one year, from 2016 to 2017:²

Difference between YE 2014 and YE 2016	Difference between YE 2016 to YE 2017
2.04%	50.24%

The obvious effect of this ADT drop is the inflation of FE’s net bare-pole cost, and its pole rates. Indeed, the OCTA’s preliminary calculations show that Cleveland Electric, Ohio Edison and Toledo Edison’s per-pole rates increased by \$1.90, \$1.14 and \$0.97, respectively since the Commission-approved rates went into effect in April 2017. These dollar amounts may appear small at first blush, but they are per-pole increases and result in significantly higher charges for pole attachments.

These latest jumps prompt serious concerns that FE is failing to set rates that fulfills the requirement of Rule 4901:1-3-03(A)(1) of just and reasonable pole rates. Setting aside the fact that FE has sought multiple pole-rate increases within a single calendar year, the fact that OCTA members are paying on average 176% more for pole attachments now than they were 14 months

² Compare Line 12 (Accumulated Deferred Taxes (Electric))(190, 281-3) of Ohio Edison’s pole rate calculation worksheets. *In the Matter of the Application of Ohio Edison for Approval of a Tariff Change*, Application Exhibit C, Case No. 15-975-EL-ATA; *In the Matter of the Application of Ohio Edison for Approval of a Tariff Change*, Application Exhibit C, Case No.17-2006-EL-ATA; and *In the Matter of the Application of Ohio Edison for Approval of a Tariff Change*, Application Exhibit C, Case No. 18-564-EL-ATA.

ago certainly is cause enough for concern. That FE has not explained in its application the basis for this precipitous drop in its ADT figures adds to the concern. To the extent that the ADT drop and pole-rate increase is related to the TCJA,³ at a minimum FE should explain why a higher pole rate is just and reasonable in light of the Commission's requirement that tax cuts would generate lower tax expenses, and, thus, savings to the ratepayers.

B. The Impact of the Tax Cuts and Jobs Act of 2017 should be fully recognized in the 2018 pole attachment rates being set in these proceedings.

The TCJA became effective January 1, 2018, and reduced the federal corporate income tax rate from 35 percent to 21 percent. The Commission has recognized that the TCJA affects Ohio's jurisdictional rate-regulated utilities, including FE. The Commission has unequivocally stated that "all tax impacts resulting from the TCJA will be returned to customers..." *See, In the Matter of the Commission's Investigation of the Financial Impact of the Tax Cuts and Jobs Act of 2017 on Regulated Ohio Utility Companies*, Case No. 18-47-AU-COI, Second Entry on Rehearing at ¶15 (April 25, 2018). FE filed their proposed adjustments to their pole attachment rates on May 1, 2018, without addressing the TCJA despite (i) the very clear statement from the Commission made only a few days prior to FE's applications; (ii) the investigation in Case No. 18-47-AU-COI that has been open for months; and (iii) FE's apparent admission in its most recent FERC Form 1 filing that the TCJA has changed, at least in part, its treatment of ADT.

The Commission has not yet determined how the savings from the TCJA will be returned to customers. What it *has* determined (in addition to holding that the TCJA's tax benefits are to

³ And it appears that this drop, in fact, *is* related to FE's treatment of deferred taxes. In notes in its most recent FERC Form 1 filings, the FE companies stated that "[a]s a result of the Tax Cuts and Jobs Act adopted December 22, 2017 (Tax Act), FirstEnergy Corp., together with its consolidated subsidiaries (FirstEnergy), including CEI, adjusted its deferred tax liabilities at December 31, 2017, for the reduction in the corporate income tax rate from 35% to 21%. The impact of reducing the deferred tax liabilities was offset with a regulatory liability, as appropriate, with the remainder recorded to deferred income tax expense." FERC Form No. 1 (ED. 12-88) at p. 123.1, *excerpted* as Ex. 1 (the language is the same across Cleveland Electric, Ohio Edison and Toledo Edison's FERC Form No. 1 reports, as shown in the exhibit).

go to electric customers), is that the utilities must “record on their books as a deferred liability, in an appropriate account, the estimated reduction in federal income tax resulting from the TCJA.” *Id.* While FE presumably is following this instruction, there is no evidence yet of tax-related savings to FE customers. To the contrary; while FE recorded for year-end 2017 the big drop in ADT that produces the higher net bare-pole cost, its reported tax expenses have remained in line with prior years. As a result, rather than seeing a decrease in tax expense, a lower tax carrying charge, and, thus, a lower pole rate, as OCTA expected would be the case⁴ the initial and surprising effect of FE’s application of the TCJA is *increased* pole rates.

Moreover, to the extent that ADT reduces the net value of rate-base elements in electric-service rates-setting as it does for pole rate-setting, it would seem that lower reported deferred taxes would have an inflationary effect on electric rates as well.⁵ That result clearly would be at odds with the Commission’s statements in Case No. 18-47-AU-COI.

The OCTA believes, furthermore, that “automatic” approval of FE’s pole rates could be counterproductive to the Commission’s efforts to ensure that rates are reasonable—and that electric customers receive the benefits of the recent federal tax cuts. The TCJA appears to inject uncertainty in both areas. For example, federal filings made by Duke Energy Ohio show a very dramatic drop in deferred taxes from year-end 2017 when compared to year-end 2016 than what the FE utilities reported.⁶ *See* Ex. 3. By contrast, Ohio Power’s year-end reports reflect an increase in deferred taxes during those same years. *See* Ex. 4. Whatever the ultimate effect on customer rates that emerge from this uncertainty, the immediate and summary approval of FE’s pole rates could create “precedent” with negative unintended consequences far beyond the three

⁴ *See* Ex. 2, a letter from the OCTA to Barcy F. McNeal, Commission Secretary filed in Case No. 18-47-AU-COI (Mar. 7, 2018).

⁵ *See Inquiry Regarding the Effect of the Tax Cuts and Jobs Act on Commission-Jurisdictional Rates*, 162 FERC ¶ 61,223, at pp 9-12 (2018) (citations omitted).

⁶ Duke Energy Ohio’s year end ADT dropped 48% between 2016 and 2017, nearly as much as the 50% drop reported by Ohio Edison.

utilities' pole rates if the foundation and implications of these rates are left unexplored. Thus, the Commission should not allow FE's new pole rates to go into effect until it investigates the bases and implication of FE's rates.⁷

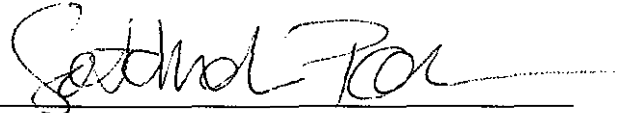
Finally, the OCTA would note that there is no audit or reconciliation process in the Commission's rules or in the decision adopting the approval process applicable to pole attachment rate proceedings. Adjustments to the pole attachment rates are approved according to the Commission's automatic approval process and the rate remains until the next rate adjustment is approved and takes effect. *See, In the Matter of the Adoption of Chapter 4901:1-3, Ohio Administrative Code, Concerning Access to Poles, Ducts, Conduits, and Rights-of-Way by Public Utilities*, Case No. 13-579-AU-ORD, Entry at ¶17 (November 30, 2016). If these applications are approved as proposed, particularly under the automatic approval process, nothing in the Commission's existing protocol ensures that the impact of the TCJA will be recognized in 2018 or in future approved pole attachment rates. It would be equally unfair for the Commission to approve these adjustments without adequate consideration of the TCJA, and put the OCTA into a position of filing a complaint per Section 4905.71, Ohio Revised Code, when the Commission already has stated that impact of the TCJA will be returned to customers.

⁷ The OCTA is not suggesting that the Commission must complete its review of the impact of the TCJA within the 60-day automatic approval period applicable to these applications. The Commission can suspend the automatic approval, and recognize the impact of the TCJA in the pole attachment rates that are approved in these proceedings. Moreover, the Commission has determined that pole attachment rates would be separately established outside of base rate proceedings through a simplified formula. *In the Matter of the Adoption of Chapter 4901:1-3, Ohio Administrative Code, Concerning Access to Poles, Ducts, Conduits, and Rights-of-Way by Public Utilities*, Case No. 13-579-AU-ORD, Entry at ¶17 (November 30, 2016); Opinion and Order at ¶46 (July 30, 2014) and Entry on Rehearing at ¶54 (April 22, 2015). The rates are designed, calculated, and allocated in a unique manner from other utility rates under Rule 4901:1-3-04, Ohio Administrative Code. Because the Commission has recognized that pole attachment rates are uniquely established, the Commission does not need to complete its examination of the impact of the TCJA for all other utility rates. Rather, the OCTA is suggesting only that the Commission take action in these proceedings that considers these possible relationships and implications before it determines that FE's pole rates pass muster.

III. CONCLUSION

For these reasons, the OCTA requests the Commission to reject FE's proposed pole rates, suspend automatic approval of the applications and conduct further investigation consistent with the issues raised in this submission.

Respectfully Submitted,



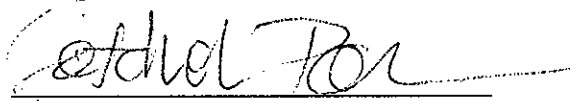
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CERTIFICATE OF SERVICE

The Public Utilities Commission of Ohio's e-filing system will electronically serve notice of the filing of this document on the parties referenced on the service list of the docket cards who have electronically subscribed to the cases. In addition, the undersigned hereby certifies that a copy of the foregoing document is also being served (via electronic mail) on the 22nd day of May 2018 upon the persons listed below.

Carrie Dunn Lucco at: cdunn@firstenergycorp.com
William L. Wright at: william.wright@ohioattorneygeneral.gov

A handwritten signature in black ink, appearing to read "Gretchen L. Petrucci", written over a horizontal line.

Gretchen L. Petrucci

EXHIBIT 1

THIS FILING IS

Item 1: ☒ An Initial (Original)
Submission

OR ☐ Resubmission No. _____

Form 1 Approved
OMB No.1902-0021
(Expires 12/31/2019)

Form 1-F Approved
OMB No.1902-0029
(Expires 12/31/2019)

Form 3-Q Approved
OMB No.1902-0205
(Expires 12/31/2019)



FERC FINANCIAL REPORT

FERC FORM No. 1: Annual Report of Major Electric Utilities, Licensees and Others and Supplemental Form 3-Q: Quarterly Financial Report

These reports are mandatory under the Federal Power Act, Sections 3, 4(a), 304 and 309, and 18 CFR 141.1 and 141.400. Failure to report may result in criminal fines, civil penalties and other sanctions as provided by law. The Federal Energy Regulatory Commission does not consider these reports to be of confidential nature

Exact Legal Name of Respondent (Company)

Cleveland Electric Illuminating Company, The

Year/Period of Report

End of 2017/Q4

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) / /	Year/Period of Report 2017/Q4
Cleveland Electric Illuminating Company, The			
NOTES TO FINANCIAL STATEMENTS (Continued)			

1. ORGANIZATION, BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The Cleveland Electric Illuminating Company (CEI), together with its consolidated subsidiary, is a wholly owned subsidiary of FirstEnergy Corp. (FE), and is incorporated in Ohio. CEI operates an electric distribution system in Ohio. CEI is subject to regulation by the Public Utilities Commission of Ohio (PUCO) and the Federal Energy Regulatory Commission (FERC).

BASIS OF PRESENTATION

The accompanying financial statements have been prepared in accordance with FERC accounting requirements as set forth in the Uniform System of Accounts and accounting releases, which differ from Generally Accepted Accounting Principles in the United States of America (GAAP). The significant differences between FERC and GAAP related to these financial statements include the following:

- Wholly owned subsidiaries that are consolidated under GAAP are accounted for under the equity method of accounting under FERC. As such investment in subsidiaries are reflected under the equity method of accounting on the FERC income statement, balance sheet and cash flow statement, and on a consolidated basis on the GAAP income statement, balance sheet and cash flow statement.
- The current portion of long-term debt, long-term assets or long-term liabilities is not reported separately on the FERC balance sheet.
- Deferred Income Taxes are recorded on a gross basis on the FERC balance sheet with deferred tax assets and deferred tax liabilities being reported separately.
- Asset removal costs are classified as accumulated depreciation on the FERC balance sheet and as regulatory liabilities on the GAAP balance sheet.
- For income statement purposes, there are differences in items included in Operating Income and Other Income and Deductions under GAAP and FERC reporting, including costs which are recorded in operating expenses for GAAP and non-operating expenses for FERC.
- Regulatory Assets and Liabilities per GAAP differ from Regulatory Assets and Liabilities per FERC because Account 189, Unamortized loss on reacquired debt and Account 257, Unamortized gain on reacquired debt are Regulatory Assets and Liabilities for GAAP statements but not for FERC statements.
- Capital leases are recorded on a net basis in Plant in Service on the FERC balance sheet.
- Estimated interest and penalties related to uncertain tax positions are recorded as part of interest expense and penalties respectively for FERC statements and as a component of income tax expense for GAAP statements.
- Other Comprehensive Income pages 122a-b are not audited per FERC instructions.
- Unamortized debt issuance costs are included in deferred charges on the FERC balance sheet and an offset to long-term debt on the GAAP balance sheet.
- Regulatory Assets and Liabilities presented on a gross basis on the FERC balance sheet with Regulatory Assets and Liabilities netted for GAAP.

CEI complies with the regulations, orders, policies and practices prescribed by FERC and the PUCO. The preparation of financial statements requires management to make periodic estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. Actual results could differ from these estimates. The reported results of operations are not indicative of results of operations for any future period.

ACCOUNTING FOR THE EFFECTS OF REGULATION

CEI accounts for the effects of regulation through the application of regulatory accounting since its rates are established by a third-party regulator with the authority to set rates that bind customers, are cost-based and can be charged to and collected from customers. CEI records regulatory assets and liabilities that result from the regulated rate-making process that would not be recorded under GAAP for non-regulated entities. These assets and liabilities are amortized in the Consolidated Statements of Income concurrent with their recovery or refund through customer rates. CEI believes that it is probable that its regulatory assets and liabilities will be recovered and settled, respectively, through future rates.

As a result of the Tax Cuts and Jobs Act adopted December 22, 2017 (Tax Act), FirstEnergy Corp., together with its consolidated subsidiaries (FirstEnergy), including CEI, adjusted its deferred tax liabilities at December 31, 2017, for the reduction in the corporate income tax rate from 35% to 21%. The impact of reducing the deferred tax liabilities was offset with a regulatory liability, as appropriate, with the remainder recorded to deferred income tax expense.

REVENUES AND RECEIVABLES

CEI's principal business is providing electric service to customers in Ohio. CEI's retail customers are metered on a cycle basis. Electric revenues are recorded based on energy delivered through the end of the calendar month. An estimate of unbilled revenues is

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) / /	Year/Period of Report 2017/Q4
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NOTES TO FINANCIAL STATEMENTS (Continued)			

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, CEI accrues the estimated unbilled amount as revenue and reverses the related prior period estimate.

Receivables from customers include distribution and retail electric sales to residential, commercial and industrial customers. There was no material concentration of receivables as of December 31, 2017 and 2016, with respect to any particular segment of CEI's customers. Billed and unbilled customer receivables were \$70 million and \$53 million, respectively, as of December 31, 2017, and were \$62 million and \$48 million, respectively, as of December 31, 2016.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment reflects original cost (net of any impairments recognized), including payroll and related costs such as taxes, employee benefits, administrative and general costs, and capitalized interest incurred to place the assets in service. The costs of normal maintenance, repairs and minor replacements are expensed as incurred. CEI recognizes liabilities for planned major maintenance projects as they are incurred.

CEI provides for depreciation on a straight-line basis at various rates over the estimated lives of property included in plant in service. Depreciation expense was approximately 3.1% of average depreciable property in 2017 and 2016.

CEI evaluates long-lived assets classified as held and used for impairment when events or changes in circumstances indicate the carrying value of such assets may not be recoverable. First, the estimated undiscounted future cash flows attributable to the assets is compared with the carrying value of the assets. If the carrying value is greater than the undiscounted future cash flows, an impairment charge is recognized equal to the amount the carrying value of the assets exceeds its estimated fair value.

ASSET RETIREMENT OBLIGATIONS (ARO)

CEI has recognized applicable legal obligations for AROs and its associated cost primarily relating to closure of coal ash disposal sites. In addition, CEI has recognized conditional retirement obligations, primarily for asbestos remediation.

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

CEI's ending ARO balance as of December 31, 2017 and 2016 was \$3 million. Accretion recorded during 2017 and 2016 was insignificant.

GOODWILL

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

No impairment of goodwill was indicated as a result of testing in 2017 and 2016. In 2017 and 2016, CEI performed a qualitative assessment, assessing economic, industry and market considerations in addition to CEI's overall financial performance. It was determined that the fair value was, more likely than not, greater than its carrying value and a quantitative analysis was not necessary.

INVESTMENTS

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

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) / /	Year/Period of Report 2017/Q4
Cleveland Electric Illuminating Company, The			
NOTES TO FINANCIAL STATEMENTS (Continued)			

COMMON STOCK

In addition to paying dividends from retained earnings, CEI has authorization from the FERC to pay cash dividends to FirstEnergy from paid-in capital accounts, as long as its FERC-defined equity-to-total-capitalization ratio remains above 35%.

NEW ACCOUNTING PRONOUNCEMENTS

Recently Adopted Pronouncements

Accounting Standards Update (ASU) 2016-15, "*Classification of Certain Cash Receipts and Cash Payments*" (Issued August 2016): The standard is intended to eliminate diversity in practice in how certain cash receipts and cash payments are presented and classified in the Consolidated Statements of Cash Flows, including the presentation of debt prepayment or debt extinguishment costs, all of which will be classified as financing activities. ASU 2016-15 is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017. CEI early adopted this ASU as of January 1, 2017. There was no impact to prior periods.

Recently Issued Pronouncements - The following new authoritative accounting guidance issued by the Financial Accounting Standards Board (FASB) was not adopted in 2017. Unless otherwise indicated, CEI 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. CEI has assessed other FASB issuances of new standards not described below and has not included these standards based upon the current expectation that such new standards will not significantly impact CEI's financial reporting.

ASU 2014-09, "*Revenue from Contracts with Customers*" (Issued May 2014 and subsequently updated to address implementation questions): The new revenue recognition guidance: establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, provides new and more detailed guidance on specific topics and expands and improves disclosures about revenue. CEI has evaluated its revenues and the new guidance will have limited impacts to current revenue recognition practices upon adoption on January 1, 2018. As part of the adoption, CEI elected to apply the new guidance on a modified retrospective basis. CEI will not record a cumulative adjustment to retained earnings for initially applying the new guidance as no revenue recognition differences were identified in the timing or amount of revenue. In addition upon adoption, certain immaterial financial statement presentation changes will be implemented. CEI expects to disaggregate revenue by type of service in future revenue disclosures.

ASU 2016-02, "*Leases (Topic 842)*" (Issued February 2016)) and ASU 2018-01, "*Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*" (Issued January 2018): ASU 2016-02 will require 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. In addition, new qualitative and quantitative disclosures of the amounts, timing, and uncertainty of cash flows arising from leases will be required. The ASU will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. ASU 2018-01 (same effective date and transition requirements as ASU 2016-02) provides an optional transition practical expedient that, if elected, would not require an entity to reconsider its accounting for existing land easements that are not currently accounted for under the old leases standard. CEI does not plan to adopt these standards early. Lessors and lessees will be required to apply a modified retrospective transition approach, which requires adjusting the accounting for any leases existing at the beginning of the earliest comparative period presented in the adoption-period financial statements. Any leases that expire before the initial application date will not require any accounting adjustment. CEI expects an increase in assets and liabilities, however, it is currently assessing the impact on its Consolidated Financial Statements. This assessment includes monitoring utility industry implementation guidance. FirstEnergy is in the process of conducting outreach activities across its business units and analyzing its lease population. In addition, it has begun implementation of a third-party software tool that will assist with the initial adoption and ongoing compliance.

ASU 2016-18, "*Restricted Cash*" (issued November 2016): ASU 2016-18 addresses the presentation of changes in restricted cash and restricted cash equivalents in the statement of cash flows. The guidance is required to be applied retrospectively. In its first quarter 2018 financials, CEI will show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. In addition, CEI will disclose the nature of its restricted cash and restricted cash equivalent balances within the footnotes.

ASU 2017-01, "*Business Combinations: Clarifying the Definition of a Business*" (Issued January 2017): ASU 2017-01 assists entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU 2017-01 is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017. The ASU will be applied prospectively to any transactions occurring within the period of adoption. CEI will not early adopt this standard.

ASU 2017-07, "*Compensation-Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic*

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Postretirement Benefit Cost (Issued March 2017): ASU 2017-07 requires entities to only capitalize service costs while non-service costs are to be charged to earnings. However, utilities subject to FERC's accounting jurisdiction can choose to either continue to capitalize all of the components of pension and other post-employment benefit costs consistent with past practice or elect to capitalize only service costs consistent with the requirements of ASC 715 for FERC reporting. Upon adoption in 2018, CEI will elect to change its capitalization policy to follow GAAP and capitalize only service costs. In 2018, CEI will disclose the impacts of the one-time election to change its capitalization policy upon implementing ASU 2017-07.

ASU 2018-02, *"Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income"* (Issued February 2018): ASU 2018-02 allows entities to reclassify from Accumulated Other Comprehensive Income (AOCI) to retained earnings stranded tax effects resulting from the Tax Act. ASU 2018-02 is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2018. Early adoption of the ASU is permitted including adoption in any interim period. ASU 2018-02 should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the income tax rate change resulting from the Tax Act is recognized. CEI did not adopt this ASU as of December 31, 2017.

2. PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)

FirstEnergy provides noncontributory qualified defined benefit pension plans that cover substantially all of its employees and non-qualified pension plans that cover certain employees, including employees of CEI. The plans provide defined benefits based on years of service and compensation levels. In addition, FirstEnergy provides a minimum amount of noncontributory life insurance to retired employees in addition to optional contributory insurance. Health care benefits, which include certain employee contributions, deductibles and co-payments, are also available upon retirement to certain employees, their dependents and, under certain circumstances, their survivors. CEI recognizes its allocated portion of the expected cost of providing pension and OPEB to employees and their beneficiaries and covered dependents from the time employees are hired until they become eligible to receive those benefits. CEI also recognizes its allocated portion of obligations to former or inactive employees after employment, but before retirement, for disability-related benefits.

FirstEnergy recognizes a pension and OPEB mark-to-market adjustment for the change in the fair value of plan assets and net actuarial gains and losses annually in the fourth quarter of each fiscal year and whenever a plan is determined to qualify for a remeasurement. The remaining components of pension and OPEB expense, primarily service costs, interest on obligations, assumed return on assets and prior service costs, are recorded on a monthly basis. CEI's pension and OPEB mark-to-market adjustments for the years ended December 31, 2017 and 2016 were \$18 million (\$14 million net of amounts capitalized) and \$46 million (\$21 million net of amounts capitalized), respectively. In 2017, the pension and OPEB mark-to-market adjustment primarily reflects a 50 bps decrease in the discount rate used to measure benefit obligations, partially offset by higher than expected asset returns.

FirstEnergy's pension and OPEB funding policy is based on actuarial computations using the projected unit credit method. In 2016, FirstEnergy satisfied its minimum required funding obligations of \$382 million and addressed 2017 funding obligations to its qualified pension plan with total contributions of \$882 million, including \$500 million of FE common stock contributed to the qualified pension plan on December 13, 2016 (\$25 million of cash contributions and \$46 million of equity contributions at CEI). In January 2018, FirstEnergy satisfied its minimum required funding obligations of \$500 million and addressed funding obligations for future years to its qualified pension plan with additional contributions of \$750 million (\$31 million at CEI).

Pension and OPEB costs are affected by employee demographics (including age, compensation levels and employment periods), the level of contributions made to the plans and earnings on plan assets. Pension and OPEB costs may also be affected by changes in key assumptions, including anticipated rates of return on plan assets, the discount rates and health care trend rates used in determining the projected benefit obligations for pension and OPEB costs. FirstEnergy uses a December 31 measurement date for its pension and OPEB plans. The fair value of the plan assets represents the actual market value as of the measurement date.

FirstEnergy's assumed rate of return on pension plan assets considers historical market returns and economic forecasts for the types of investments held by the pension trusts. In 2017, FirstEnergy's qualified pension and OPEB plan assets experienced gains of \$999 million, or 15.1% compared to gains of \$472 million, or 8.2% in 2016 and losses of \$(172) million, or (2.7)% in 2015, and assumed a 7.50% rate of return for 2017 and 2016 and a 7.75% rate of return for 2015 on plan assets which generated \$478 million, \$429 million and \$476 million of expected returns on plan assets, respectively. The expected return on pension and OPEB assets is based on the trusts' asset allocation targets and the historical performance of risk-based and fixed income securities. The gains or losses generated as a result of the difference between expected and actual returns on plan assets will increase or decrease future net periodic pension and OPEB cost as the difference is recognized annually in the fourth quarter of each fiscal year or whenever a plan is determined to qualify for remeasurement.

During 2017, the Society of Actuaries released its updated mortality improvement scale for pension plans, MP-2017, incorporating three additional years of Social Security Administration (SSA) data on U.S. population mortality. MP-2017 incorporates SSA mortality data from 2013 to 2015 and a slight modification of two input values designed to improve the model's year-over-year stability. The updated improvement scale indicates a slight decline in life expectancy. Due to the additional years of data on population mortality, the

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RP2014 mortality table with the projection scale MP-2017 was utilized to determine the 2017 benefit cost and obligation as of December 31, 2017 for the FirstEnergy pension and OPEB plans. The impact of using the projection scale MP-2017 resulted in a decrease in the projected pension benefit obligation of \$62 million and was included in the 2017 pension and OPEB mark-to-market adjustment.

CEI's allocated share of pension and OPEB costs (credits) and CEI's share of net liability, including the mark-to-market adjustment was as follows:

As of December 31,	Pension		OPEB	
	2017	2016	2017	2016
	(in millions)			
CEI's share of net liability ⁽²⁾	\$ 77	\$ 66	\$ 42	\$ 35
CEI's share of net periodic costs (credits) ⁽¹⁾	4	46	5	(4)

(1) Includes annual pension and OPEB mark-to-market adjustment

(2) Excludes \$148 million and \$137 million as of December 31, 2017 and 2016, respectively, of affiliated non-current liabilities related to pension and OPEB mark-to-market costs allocated to CEI.

In selecting an assumed discount rate, FE considers currently available rates of return on high-quality fixed income investments expected to be available during the period to maturity of the pension and OPEB obligations. The assumed rates of return on plan assets consider historical market returns and economic forecasts for the types of investments held by FE's pension trusts. The long-term rate of return is developed considering the portfolio's asset allocation strategy.

3. LEASES

CEI leases certain office space and other property and equipment under cancelable and noncancelable leases.

Operating lease expense which includes rent expense for the use of office space and other property and equipment owned by affiliated companies for the years ended December 31, 2017 and 2016 was \$5 million and \$4 million, respectively. CEI's estimated future minimum lease payments for capital and operating leases as of December 31, 2017 with initial or remaining lease terms in excess of one year are as follows:

(In millions)	2018	2019	2020	2021	2022	Thereafter	Total	Less: amount representing interest and fees	Present value of net minimum capital lease payments
Capital Leases	\$4	\$4	\$4	\$3	\$3	\$6	\$24	\$8	\$16
Operating Leases	\$2	\$2	\$1	\$1	\$1	\$2	\$9	n/a	n/a

The carrying amounts of assets recorded under capital lease agreements included in "Property, plant and equipment, net" on CEI's Consolidated Balance Sheets as of December 31, 2017 and 2016 were \$16 million and \$14 million, respectively.

4. REGULATORY MATTERS

STATE REGULATION

CEI's retail rates, conditions of service, issuance of securities and other matters are subject to regulation in Ohio by the PUCO. In addition, under Ohio law, municipalities may regulate rates of a public utility, subject to appeal to the PUCO if not acceptable to the utility.

OHIO

CEI, Ohio Edison Company (OE) and The Toledo Edison Company (TE) (the Ohio Companies) currently operate under an Electric Security Plan IV (ESP IV) which commenced June 1, 2016 and expires May 31, 2024. The material terms of ESP IV, as approved in the PUCO's Opinion and Order issued on March 31, 2016 and Fifth Entry on Rehearing on October 12, 2016, include Distribution Modernization Rider (Rider DMR), which provides for the Ohio Companies to collect \$132.5 million annually for three years, with the possibility of a two-year extension. Rider DMR will be grossed up for federal income taxes, resulting in an approved amount of approximately \$204 million in 2017. Revenues from Rider DMR will be excluded from the significantly excessive earnings test for the initial three-year term but the exclusion will be reconsidered upon application for a potential two-year extension. The PUCO set three conditions for continued recovery under Rider DMR: (1) retention of the corporate headquarters and nexus of operations in Akron, Ohio; (2) no change in control of the Ohio Companies; and (3) a demonstration of sufficient progress in the implementation of grid

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modernization programs approved by the PUCO. ESP IV also continues a base distribution rate freeze through May 31, 2024. In addition, ESP IV continues the supply of power to non-shopping customers at a market-based price set through an auction process.

ESP IV also continues Rider Delivery Capital Recovery (DCR), which supports continued investment related to the distribution system for the benefit of customers, with increased revenue caps of \$30 million per year from June 1, 2016 through May 31, 2019; \$20 million per year from June 1, 2019 through May 31, 2022; and \$15 million per year from June 1, 2022 through May 31, 2024. Other material terms of ESP IV include: (1) the collection of lost distribution revenues associated with energy efficiency and peak demand reduction programs; (2) an agreement to file a Grid Modernization Business Plan for PUCO consideration and approval (which filing was made on February 29, 2016, and remains pending); (3) a goal across FirstEnergy to reduce carbon dioxide emissions by 90% below 2005 levels by 2045; (4) contributions, totaling \$51 million (\$22 million at CEI) to: (a) fund energy conservation programs, economic development and job retention in the Ohio Companies' service territories; (b) establish a fuel-fund in each of the Ohio Companies' service territories to assist low-income customers; and (c) establish a Customer Advisory Agency to ensure preservation and growth of the competitive market in Ohio; and (5) an agreement to file an application to transition to a straight fixed variable cost recovery mechanism for residential customers' base distribution rates (which filing was made on April 3, 2017, and remains pending).

Several parties, including the Ohio Companies, filed applications for rehearing regarding the Ohio Companies' ESP IV with the PUCO. The Ohio Companies' application for rehearing challenged, among other things, the PUCO's failure to adopt the Ohio Companies' suggested modifications to Rider DMR. The Ohio Companies had previously suggested that a properly designed Rider DMR would be valued at \$558 million annually for eight years, and include an additional amount that recognizes the value of the economic impact of FirstEnergy maintaining its headquarters in Ohio. Other parties' applications for rehearing argued, among other things, that the PUCO's adoption of Rider DMR is not supported by law or sufficient evidence. On August 16, 2017, the PUCO denied all remaining intervenor applications for rehearing, denied the Ohio Companies' challenges to the modifications to Rider DMR and added a third-party monitor to ensure that Rider DMR funds are spent appropriately. On September 15, 2017, the Ohio Companies filed an application for rehearing of the PUCO's August 16, 2017 ruling on the issues of the third-party monitor and the Return on Equity calculation for advanced metering infrastructure. On October 11, 2017, the PUCO denied the Ohio Companies' application for rehearing on both issues. On October 16, 2017, the Sierra Club and the Ohio Manufacturer's Association Energy Group filed notices of appeal with the Supreme Court of Ohio appealing various PUCO entries on their applications for rehearing. On November 16, 2017, the Ohio Companies intervened in the appeal. Additional parties subsequently filed notices of appeal with the Supreme Court of Ohio challenging various PUCO entries on their applications for rehearing. On February 26, 2018, appellants filed their briefs. Briefs of the PUCO and the Ohio Companies are currently due April 17, 2018. For additional information, see "FERC Matters - Ohio ESP IV Purchase Power Agreement (PPA)," below.

Under Ohio Revised Code (ORC) 4928.66, the Ohio Companies are required to implement energy efficiency programs that achieve certain annual energy savings and total peak demand reductions. Starting in 2017, ORC 4928.66 requires the energy savings benchmark to increase by 1% and the peak demand reduction benchmark to increase by 0.75% annually thereafter through 2020 and the energy savings benchmark to increase by 2% annually from 2021 through 2027, with a cumulative benchmark of 22.2% by 2027. On April 15, 2016, the Ohio Companies filed an application for approval of their three-year energy efficiency portfolio plans for the period from January 1, 2017 through December 31, 2019. The plans as proposed comply with benchmarks contemplated by ORC 4928.66 and provisions of the ESP IV, and include a portfolio of energy efficiency programs targeted to a variety of customer segments, including residential customers, low income customers, small commercial customers, large commercial and industrial customers and governmental entities. On December 9, 2016, the Ohio Companies filed a Stipulation and Recommendation with several parties that contained changes to the plan and a decrease in the plan costs. The Ohio Companies anticipate the cost of the plans will be approximately \$268 million over the life of the portfolio plans and such costs are expected to be recovered through the Ohio Companies' existing rate mechanisms. On November 21, 2017, the PUCO issued an order that approved the filed Stipulation and Recommendation with several modifications, including a cap on the Ohio Companies' collection of program costs and shared savings set at 4% of the Ohio Companies' total sales to customers as reported on 2015 FERC Form 1. On December 21, 2017, the Ohio Companies filed an application for rehearing challenging the PUCO's modification of the Stipulation and Recommendation to include the 4% cost cap, which was denied by the PUCO on January 10, 2018. On March 12, 2018, the Ohio Companies filed a Notice of Appeal with the Supreme Court of Ohio challenging the PUCO's imposition of a 4% cost cap. Various other parties also filed Notices of Appeal challenging various PUCO entries on their applications for rehearing.

Ohio law requires electric utilities and electric service companies in Ohio to serve part of their load from renewable energy resources measured by an annually increasing percentage amount through 2026, except that in 2014 Substitute Senate Bill No. 310 froze 2015 and 2016 requirements at the 2014 level (2.5%), pushing back scheduled increases, which resumed in 2017 (3.5%), and increases 1% each year through 2026 (to 12.5%) and shall remain at 12.5% in 2027 and each year thereafter. The Ohio Companies conducted Requests for Proposals in 2009, 2010 and 2011 to secure Renewable Energy Credits (RECs) to help meet these renewable energy requirements. In September 2011, the PUCO opened a docket to review the Ohio Companies' alternative energy recovery rider through which the Ohio Companies recover the costs of acquiring these RECs. The PUCO issued an Opinion and Order on August 7, 2013, approving the Ohio Companies' acquisition process and their purchases of RECs to meet statutory mandates in all instances except for certain purchases arising from one auction and directed the Ohio Companies to credit non-shopping customers in the amount of \$43.4 million, plus interest, on the basis that the Ohio Companies did not prove such purchases were prudent. On

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December 24, 2013, following the denial of their application for rehearing, the Ohio Companies filed a notice of appeal and a motion for stay of the PUCO's order with the Supreme Court of Ohio, which was granted. The Ohio Consumers' Counsel (OCC) and the Environmental Law & Policy Center (ELPC) also filed appeals of the PUCO's order. On January 24, 2018, the Supreme Court of Ohio reversed the PUCO order finding that the order violated the rule against prohibiting retroactive ratemaking. On February 5, 2018, the OCC and ELPC filed a motion for reconsideration, to which the Ohio Companies responded in opposition on February 15, 2018.

On April 9, 2014, the PUCO initiated a generic investigation of marketing practices in the competitive retail electric service market, with a focus on the marketing of fixed-price or guaranteed percent-off Standard Service Offer rate contracts where there is a provision that permits the pass-through of new or additional charges. On November 18, 2015, the PUCO ruled that on a going-forward basis, pass-through clauses may not be included in fixed-price contracts for all customer classes. On December 18, 2015, several participants filed applications for rehearing, including FirstEnergy Solutions Corp. (FES), which requested the PUCO to change the ruling or have it only apply to residential and small commercial customers. On January 13, 2016, the PUCO granted reconsideration for further consideration of the matters specified in the applications for rehearing. On March 29, 2017, the PUCO issued a Second Entry on Rehearing that granted, in part, the applications for rehearing filed by FES and other parties, finding that the PUCO's guidelines regarding fixed-price contracts should not apply to large mercantile customers. This finding changes the original order, which applied the guidelines to all customers, including mercantile customers. The PUCO also reaffirmed several provisions of the original order, including that the fixed-price guidelines only apply on a going-forward basis and not to existing contracts and that regulatory-out clauses in contracts are permissible.

On December 1, 2017, the Ohio Companies filed an application with the PUCO for approval of a Distribution Platform Modernization (DPM) Plan. The DPM Plan is a portfolio of approximately \$450 million in distribution platform investment projects, which are designed to modernize the Ohio Companies' distribution grid, prepare it for further grid modernization projects, and provide customers with immediate reliability benefits. The Ohio Companies have requested that the PUCO issue an order approving the DPM Plan and associated cost recovery no later than May 2, 2018, so that the Ohio Companies can expeditiously commence the DPM Plan and customers can begin to realize the associated benefits.

On January 10, 2018, the PUCO opened a case to consider the impacts of the Tax Act and determine the appropriate course of action to pass benefits on to customers. The Ohio Companies must establish a regulatory liability, effective January 1, 2018, for the estimated reduction in federal income tax resulting from the Tax Act, and filed comments on February 15, 2018, explaining that customers will save nearly \$40 million annually as a result of updating tariff riders for the tax rate changes and that the Ohio Companies' base distribution rates are not impacted by the Tax Act changes because they are frozen through May 2024. The Ohio Companies filed reply comments on March 7, 2018.

FEDERAL REGULATION

With respect to its wholesale services and rates, CEI is subject to regulation by FERC. Under the Federal Power Act, FERC regulates rates for interstate wholesale sales, accounting and other matters.

FERC regulates the sale of power for resale in interstate commerce in part by granting authority to public utilities to sell wholesale power at market-based rates upon showing that the seller cannot exert market power in generation or transmission or erect barriers to entry into markets. CEI has been authorized by FERC to sell wholesale power in interstate commerce and has a market-based rate tariff on file with FERC; although major wholesale purchases remain subject to regulation by the relevant state commissions. As a condition to selling electricity on a wholesale basis at market-based rates, CEI, like other entities granted market-based rate authority, must file electronic quarterly reports with FERC listing its sales transactions for the prior quarter.

RELIABILITY MATTERS

Federally-enforceable mandatory reliability standards apply to the bulk electric system and impose certain operating, record-keeping and reporting requirements on CEI. North American Electric Reliability Corporation (NERC) is the Electric Reliability Organization designated by FERC to establish and enforce these reliability standards, although NERC has delegated day-to-day implementation and enforcement of these reliability standards to eight regional entities, including *ReliabilityFirst* Corporation (RFC). All of FirstEnergy's facilities, including those of CEI, are located within the RFC region. FirstEnergy actively participates in the NERC and RFC stakeholder processes, and otherwise monitors and manages its companies, including CEI, in response to the ongoing development, implementation and enforcement of the reliability standards implemented and enforced by RFC.

FirstEnergy, including CEI, believes that it is in compliance with all currently-effective and enforceable reliability standards. Nevertheless, in the course of operating its extensive electric utility systems and facilities, FirstEnergy, including CEI, occasionally learns of isolated facts or circumstances that could be interpreted as excursions from the reliability standards. If and when such occurrences are found, FirstEnergy, including CEI, develops information about the occurrence and develops a remedial response to the specific circumstances, including in appropriate cases "self-reporting" an occurrence to RFC. Moreover, it is clear that NERC, RFC

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and FERC will continue to refine existing reliability standards as well as to develop and adopt new reliability standards. Any inability on FirstEnergy's, including CEI's, part to comply with the reliability standards for its bulk electric system could result in the imposition of financial penalties, or obligations to upgrade or build transmission facilities, that could have a material adverse effect on CEI's financial condition, results of operations and cash flows.

FERC MATTERS

Ohio ESP IV Purchase Power Agreement (PPA)

On August 4, 2014, the Ohio Companies filed an application with the PUCO seeking approval of their ESP IV. ESP IV included a proposed Rider Retail Rate Stability, which would flow through to customers either charges or credits representing the net result of the price paid to FES through an eight-year FERC-jurisdictional PPA, referred to as the ESP IV PPA, against the revenues received from selling such output into the PJM Interconnection, L.L.C. (PJM) markets. The Ohio Companies entered into stipulations which modified ESP IV, and on March 31, 2016, the PUCO issued an Opinion and Order adopting and approving the Ohio Companies' stipulated ESP IV with modifications. FES and the Ohio Companies entered into the ESP IV PPA on April 1, 2016, but subsequently agreed to suspend it and advised FERC of this course of action.

On March 21, 2016, a number of generation owners filed with FERC a complaint against PJM requesting that FERC expand the Minimum Offer Price Rule (MOPR) in the PJM Open Access Transmission Tariff to prevent the alleged artificial suppression of prices in the PJM capacity markets by state-subsidized generation, in particular alleged price suppression that could result from the ESP IV PPA and other similar agreements. The complaint requested that FERC direct PJM to initiate a stakeholder process to develop a long-term MOPR reform for existing resources that receive out-of-market revenue. On January 9, 2017, the generation owners filed to amend their complaint to include challenges to certain legislation and regulatory programs in Illinois. On January 24, 2017, FirstEnergy Service Company (FESC), acting on behalf of its affected affiliates and along with other utility companies, filed a motion to dismiss the amended complaint for various reasons, including that the ESP IV PPA matter is now moot. In addition, on January 30, 2017, FESC along with other utility companies filed a substantive protest to the amended complaint, demonstrating that the question of the proper role for state participation in generation development should be addressed in the PJM stakeholder process. On August 30, 2017, the generation owners requested expedited action by FERC. This proceeding remains pending before FERC.

Regional Transmission Organization (RTO) Realignment

In a May 31, 2011 order, FERC ruled that the costs for certain "legacy Regional Transmission Expansion Plan" transmission projects in PJM approved before CEI affiliate American Transmission Systems, Incorporated (ATSI) joined PJM could be charged to transmission customers in the ATSI zone, which includes CEI's service territory. The amount to be paid, and the question of derived benefits, is pending before FERC as a result of a June 25, 2014 order from a divided three-judge panel of the United States Court of Appeals for the Seventh Circuit (Seventh Circuit), which ruled that FERC had not quantified the benefits that western PJM utilities would derive from certain new 500 Kilovolt (kV) or higher lines and thus had not adequately supported its decision to socialize the costs of these lines. The majority found that eastern PJM utilities are the primary beneficiaries of the lines, while western PJM utilities are only incidental beneficiaries, and that, while incidental beneficiaries should pay some share of the costs of the lines, that share should be proportionate to the benefit they derive from the lines, and not on load-ratio share in PJM as a whole. The court remanded the case to FERC, which issued an order setting the issue of cost allocation for hearing and settlement proceedings. On June 15, 2016, various parties, including CEI, filed a settlement agreement at FERC agreeing to apply a combined usage based/socialization approach to cost allocation for charges to transmission customers in the aggregate of the zones within PJM for transmission projects operating at or above 500 kV. Certain other parties in the proceeding did not agree to the settlement and filed protests to the settlement seeking, among other issues, to strike certain of the evidence advanced by FirstEnergy and certain of the other settling parties in support of the settlement, as well as provided further comments in opposition to the settlement. FirstEnergy and certain of the other parties responded to such opposition. On October 20, 2017, the settling and non-opposing parties requested expedited action by FERC. The settlement is pending before FERC.

The outcome of this proceeding and its impact, if any, on CEI cannot be predicted at this time.

FERC Notice of Inquiry on Tax Act

On March 15, 2018, FERC took action to address the impact of the Tax Act on FERC-jurisdictional rates, including transmission and electric wholesale rates. Because CEI does not have a FERC-jurisdictional transmission rate, FERC is not at this time requiring CEI to submit any changes to FERC-jurisdictional CEI rates to address the impact of the Tax Act.

In a related docket, on March 15, 2018, FERC issued a Notice of Inquiry seeking information regarding whether and how FERC should address possible changes to accumulated deferred income taxes and bonus depreciation on FERC-jurisdictional rates, including wholesale rates, which may be impacted by the Tax Act. Responses to the Notice of Inquiry are due May 21, 2018, after which the matter will be before FERC for further action.

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The outcome of the Notice of Inquiry is proceeding and its impact, if any, on CEI cannot be predicted at this time.

Market-Based Rate Authority, Triennial Update

CEI holds authority from FERC to sell electricity at market-based rates. One condition for retaining this authority is that every three years CEI must file an update with FERC that demonstrates that it continues to meet FERC's requirements for holding market-based rate authority. On December 23, 2016, FERC, on behalf of its affiliates with market-based rate authority, including CEI, submitted to FERC the most recent triennial market power analysis filing for CEI for the current cycle of this filing requirement. On July 27, 2017, FERC accepted the triennial filing as submitted.

5. COMMITMENTS AND CONTINGENCIES

ENVIRONMENTAL MATTERS

Various federal, state and local authorities regulate CEI with regard to air and water quality and other environmental matters. Pursuant to a March 28, 2017 executive order, the United States Environmental Protection Agency and other federal agencies are to review existing regulations that potentially burden the development or use of domestically produced energy resources and appropriately suspend, revise or rescind those that unduly burden the development of domestic energy resources beyond the degree necessary to protect the public interest or otherwise comply with the law. CEI cannot predict the timing or ultimate outcome of any of these reviews or how any future actions taken as a result thereof, in particular with respect to existing environmental regulations, may impact its business, results of operations, cash flows and financial condition.

Compliance with environmental regulations could have a material adverse effect on CEI's earnings and competitive position to the extent that CEI competes with companies that are not subject to such regulations and, therefore, do not bear the risk of costs associated with compliance, or failure to comply, with such regulations.

OTHER LEGAL PROCEEDINGS

Other Legal Matters

There are various lawsuits, claims (including claims for asbestos exposure) and proceedings related to CEI's normal business operations pending against CEI or its subsidiaries. The loss or range of loss in these matters is not expected to be material to CEI or its subsidiaries. The other potentially material items not otherwise discussed above are described under "Note 4, Regulatory Matters" of the Notes to Consolidated Financial Statements.

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

6. TRANSACTIONS WITH AFFILIATED COMPANIES

CEI's operating revenues, operating expenses, miscellaneous income and interest expenses include transactions with affiliated companies. These affiliated company transactions include affiliated company power sales agreements between FirstEnergy's competitive and regulated companies, support service billings, interest on affiliated company notes including the money pools and other transactions.

FE's competitive companies at times provide power through affiliated company power sales to meet a portion of the CEI, OE, TE, Pennsylvania Power Company (Penn), Jersey Central Power & Light Company (JCP&L), Metropolitan Edison Company (ME), Pennsylvania Electric Company (PN), Monongahela Power Company (MP), Potomac Edison Company (PE), and West Penn Power Company (WP) (together the Utilities') Provider of Last Resort (POLR) and default service requirements. The primary affiliated company transactions for CEI during the years ended December 31, 2017 and 2016 are as follows:

THIS FILING IS

Item 1: ☒ An Initial (Original) Submission OR ☐ Resubmission No. _____

Form 1 Approved
OMB No.1902-0021
(Expires 12/31/2019)
Form 1-F Approved
OMB No.1902-0029
(Expires 12/31/2019)
Form 3-Q Approved
OMB No.1902-0205
(Expires 12/31/2019)



FERC FINANCIAL REPORT

FERC FORM No. 1: Annual Report of Major Electric Utilities, Licensees and Others and Supplemental Form 3-Q: Quarterly Financial Report

These reports are mandatory under the Federal Power Act, Sections 3, 4(a), 304 and 309, and 18 CFR 141.1 and 141.400. Failure to report may result in criminal fines, civil penalties and other sanctions as provided by law. The Federal Energy Regulatory Commission does not consider these reports to be of confidential nature

Exact Legal Name of Respondent (Company)

Ohio Edison Company

Year/Period of Report

End of 2017/Q4

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) / /	Year/Period of Report 2017/Q4
Ohio Edison Company			
NOTES TO FINANCIAL STATEMENTS (Continued)			

1. ORGANIZATION, BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Ohio Edison Company (OE) is a wholly owned subsidiary of FirstEnergy Corp. (FE), and is incorporated in Ohio. OE operates an electric distribution system in Ohio. OE is subject to regulation by the Public Utilities Commission of Ohio (PUCO) and the Federal Energy Regulatory Commission (FERC).

BASIS OF PRESENTATION

The accompanying financial statements have been prepared in accordance with FERC accounting requirements as set forth in the Uniform System of Accounts and accounting releases, which differ from Generally Accepted Accounting Principles in the United States of America (GAAP). The significant differences between FERC and GAAP related to these financial statements include the following:

- Wholly owned subsidiaries that are consolidated under GAAP are accounted for under the equity method of accounting under FERC. As such investment in subsidiaries are reflected under the equity method of accounting on the FERC income statement, balance sheet and cash flow statement, and on a consolidated basis on the GAAP income statement, balance sheet and cash flow statement.
- The current portion of long-term debt, long-term assets or long-term liabilities is not reported separately on the FERC balance sheet.
- Unamortized debt issuance costs are included in deferred charges on the FERC balance sheet and an offset to long-term debt on the GAAP balance sheet.
- Deferred Income Taxes are recorded on a gross basis on the FERC balance sheet with deferred tax assets and deferred tax liabilities being reported separately.
- Asset removal costs are classified as accumulated depreciation on the FERC balance sheet and as regulatory liabilities on the GAAP balance sheet.
- For income statement purposes, there are differences in items included in Operating Income and Other Income and Deductions under GAAP and FERC reporting, including costs which are recorded in operating expenses for GAAP and non-operating expenses for FERC.
- Regulatory Assets and Liabilities per GAAP differ from Regulatory Assets and Liabilities per FERC because Account 189, unamortized loss on reacquired debt and Account 257, Unamortized gain on reacquired debt are Regulatory Assets and Liabilities for GAAP statements but not for FERC statements.
- Capital leases are recorded on a net basis in Plant in Service on the FERC balance sheet.
- Estimated interest and penalties related to uncertain tax positions are recorded as part of interest expense and penalties respectively for FERC statements and as a component of income tax expense for GAAP statements.
- Other Comprehensive Income pages 122a-b are not audited per FERC instructions.
- Regulatory Assets and Liabilities presented on a gross basis on the FERC balance sheet with Regulatory Assets and Liabilities netted for GAAP.

OE complies with the regulations, orders, policies and practices prescribed by FERC and the PUCO. The preparation of financial statements requires management to make periodic estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. Actual results could differ from these estimates. The reported results of operations are not indicative of results of operations for any future period.

ACCOUNTING FOR THE EFFECTS OF REGULATION

Regulatory assets represent incurred costs that have been deferred because of their probable future recovery from customers through regulated rates. Regulatory liabilities represent amounts that are expected to be credited to customers through future regulated rates or amounts collected from customers for costs not yet incurred. OE nets its regulatory assets and liabilities based on federal and state jurisdictions.

As a result of the Tax Cuts and Jobs Act adopted December 22, 2017 (Tax Act), FirstEnergy Corp., together with its consolidated subsidiaries (FirstEnergy), including OE, adjusted its deferred tax liabilities at December 31, 2017, for the reduction in the corporate income tax rate from 35% to 21%. The impact of reducing the deferred tax liabilities was offset with a regulatory liability, as appropriate, with the remainder recorded to deferred income tax expense.

REVENUES AND RECEIVABLES

OE's principal business is providing electric service to customers in Ohio. OE's retail customers are metered on a cycle basis. Electric revenues are recorded based on energy delivered through the end of the calendar month. 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

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NOTES TO FINANCIAL STATEMENTS (Continued)			

prices in effect for each class of customer. In each accounting period, OE accrues the estimated unbilled amount as revenue and reverses the related prior period estimate.

Receivables from customers include distribution and retail electric sales to residential, commercial and industrial customers. There was no material concentration of receivables as of December 31, 2017 and 2016, with respect to any particular segment of OE's customers. Billed and unbilled customer receivables were \$89 million and \$69 million, respectively, as of December 31, 2017, and were \$81 million and \$63 million, respectively, as of December 31, 2016.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment reflects original cost (net of any impairments recognized), including payroll and related costs such as taxes, employee benefits, administrative and general costs, and interest costs incurred to place the assets in service. The costs of normal maintenance, repairs and minor replacements are expensed as incurred. OE recognizes liabilities for planned major maintenance projects as they are incurred.

OE provides for depreciation on a straight-line basis at various rates over the estimated lives of property included in plant in service. Depreciation expense was approximately 2.8% and 2.8% of average depreciable property in 2017 and 2016, respectively.

OE evaluates long-lived assets classified as held and used for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. First, the estimated undiscounted future cash flows attributable to the assets is compared with the carrying value of the assets. If the carrying value is greater than the undiscounted future cash flows, an impairment charge is recognized equal to the amount the carrying value of the assets exceeds its estimated fair value.

ASSET RETIREMENT OBLIGATIONS (ARO)

OE has recognized conditional retirement obligations, primarily for asbestos remediation.

Prior to June 1, 2017, OE recognized applicable legal obligations for AROs and its associated cost primarily for the decommissioning of Beaver Valley and Perry due to its leasehold interest in Beaver Valley Unit 2 and Perry. OE used an expected cash flow approach to measure the fair value of its nuclear decommissioning AROs. OE maintained Nuclear Decommissioning Trusts (NDTs) that were legally restricted for purposes of settling the nuclear decommissioning AROs. As of December 31, 2017, these NDT's have been transferred to FirstEnergy Nuclear Generation, LLC (NG). The fair value of the decommissioning trust assets as of December 31, 2016, was \$95 million.

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

The following table summarizes the changes to OE's ARO balances during 2017 and 2016:

ARO Reconciliation	(In millions)
Balance, January 1, 2016	\$ 54
Transfer to affiliated company	(28)
Accretion	3
Balance, December 31, 2016	29
Transfer to affiliated company	(27)
Accretion	1
Balance, December 31, 2017	\$ 3

During the second quarter of 2017, in connection with NG purchasing the lessor equity interests of the remaining non-affiliated leasehold interests from an owner participant in the Beaver Valley Unit 2 sale leaseback and the expiration of the leases, OE transferred the ARO and related NDT assets associated with the leasehold interest to NG with the difference of \$39 million reducing the common stock of OE.

During 2016, in connection with NG purchasing the lessor equity interests of the remaining non-affiliated leasehold interests from an

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NOTES TO FINANCIAL STATEMENTS (Continued)			

owner participant in Perry Unit 1, OE transferred the ARO and related NDT assets associated with the leasehold interest to NG with the difference of \$28 million reducing the common stock of OE. As of June 30, 2016, NG owns 100% of Perry Unit 1.

INVESTMENTS

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

During the second quarter of 2017, in connection with NG purchasing the lessor equity interests of the remaining non-affiliated leasehold interests from an owner participant in the Beaver Valley Unit 2 and the expiration of the leases, OE transferred NDT assets of \$96 million associated with their leasehold interests to NG. See "Asset Retirement Obligations" section above for additional information.

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

Generally, unrealized gains and losses on AFS securities are recognized in Accumulated Other Comprehensive Income (AOCI). However, unrealized losses held in the NDTs were recognized in earnings since the trust arrangements, as currently defined, did not meet the required ability and intent to hold criteria in consideration of OTTI.

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

AFS Securities

OE previously held debt securities within its NDT trusts. The trust investments were considered AFS securities, recognized at fair market value. OE has no securities held for trading purposes. As of December 31, 2017, OE did not hold any debt securities.

The following table summarizes the amortized cost basis, unrealized gains (there were no unrealized losses) and fair values of investments held in the NDT trust as of December 31, 2016:

December 31, 2016 ⁽¹⁾			
	Cost Basis	Unrealized Gains	Fair Value
(In millions)			
Debt securities	\$ 92	\$ 1	\$ 93

⁽¹⁾ Excludes short-term cash investments of \$2 million for the year ended December 31, 2016.

Proceeds from the sale of investments in AFS securities, OTTI and interest and dividend income for the years ended December 31, 2017 and 2016 were as follows:

	Sale Proceeds	Realized Gains	OTTI	Interest and Dividend Income
(In millions)				
2017	\$ 14	\$ —	\$ —	\$ 1
2016	\$ 29	\$ 2	\$ (1)	\$ 3

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NOTES TO FINANCIAL STATEMENTS (Continued)			

COMMON STOCK

In addition to paying dividends from retained earnings, OE has authorization from the FERC to pay cash dividends to FirstEnergy from paid-in capital accounts, as long as its FERC-defined equity-to-total-capitalization ratio remains above 35%.

NEW ACCOUNTING PRONOUNCEMENTS

Recently Adopted Pronouncements

Accounting Standards Update (ASU) 2016-15, "Classification of Certain Cash Receipts and Cash Payments" (Issued August 2016): The standard is intended to eliminate diversity in practice in how certain cash receipts and cash payments are presented and classified in the Statements of Cash Flows, including the presentation of debt prepayment or debt extinguishment costs, all of which will be classified as financing activities. ASU 2016-15 is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017. OE early adopted this ASU as of January 1, 2017. There was no impact to prior periods.

Recently Issued Pronouncements - The following new authoritative accounting guidance issued by the Financial Accounting Standards Board (FASB) was not adopted in 2017. Unless otherwise indicated, OE 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. OE has assessed other FASB issuances of new standards not described below and has not included these standards based upon the current expectation that such new standards will not significantly impact OE's financial reporting.

ASU 2014-09, "Revenue from Contracts with Customers" (Issued May 2014 and subsequently updated to address implementation questions): The new revenue recognition guidance: establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, provides new and more detailed guidance on specific topics and expands and improves disclosures about revenue. OE has evaluated its revenues and the new guidance will have limited impacts to current revenue recognition practices upon adoption on January 1, 2018. As part of the adoption, OE elected to apply the new guidance on a modified retrospective basis. OE will not record a cumulative adjustment to retained earnings for initially applying the new guidance as no revenue recognition differences were identified in the timing or amount of revenue. In addition, upon adoption, certain immaterial presentation changes will be implemented. OE expects to disaggregate revenue by type of service in future revenue disclosures.

ASU 2016-02, "Leases (Topic 842)" (Issued February 2016) and ASU 2018-01, "Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842" (Issued January 2018): ASU 2016-02 will require 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. In addition, new qualitative and quantitative disclosures of the amounts, timing, and uncertainty of cash flows arising from leases will be required. The ASU will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. ASU 2018-01 (same effective date and transition requirements as ASU 2016-02) provides an optional transition practical expedient that, if elected, would not require an entity to reconsider its accounting for existing land easements that are not currently accounted for under the old leases standard. OE does not plan to adopt these standards early. Lessors and lessees will be required to apply a modified retrospective transition approach, which requires adjusting the accounting for any leases existing at the beginning of the earliest comparative period presented in the adoption-period financial statements. Any leases that expire before the initial application date will not require any accounting adjustment. OE expects an increase in assets and liabilities, however, it is currently assessing the impact on its Financial Statements. This assessment includes monitoring utility industry implementation guidance. FirstEnergy is in the process of conducting outreach activities across its business units and analyzing its lease population. In addition, it has begun implementation of a third-party software tool that will assist with the initial adoption and ongoing compliance.

ASU 2016-18, "Restricted Cash" (Issued November 2016). ASU 2016-18 addresses the presentation of changes in restricted cash and restricted cash equivalents in the statement of cash flows. The guidance is required to be applied retrospectively. In its first quarter 2018 financial statements, OE will show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. In addition, OE will disclose the nature of its restricted cash and restricted cash equivalent balances within the footnotes.

ASU 2017-01, "Business Combinations: Clarifying the Definition of a Business" (Issued January 2017): ASU 2017-01 assists entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU 2017-01 is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017. The ASU will be applied prospectively to any transactions occurring within the period of adoption. OE will not early adopt this standard.

ASU 2017-07, "Compensation-Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" (Issued March 2017): ASU 2017-07 requires entities to only capitalize service costs while non-service

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costs are to be charged to earnings. However, utilities subject to FERC's accounting jurisdiction can choose to either continue to capitalize all of the components of pension and other post-employment benefit costs consistent with past practice or elect to capitalize only service costs consistent with the requirements of ASC 715 for FERC reporting. Upon adoption in 2018, OE will elect to change its capitalization policy to follow GAAP and capitalize only service costs. In 2018, OE will disclose the impacts of the one-time election to change its capitalization policy upon implementing ASU 2017-07.

ASU 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" (Issued February 2018): ASU 2018-02 allows entities to reclassify from AOCI to retained earnings stranded tax effects resulting from the Tax Act. ASU 2018-02 is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2018. Early adoption of the ASU is permitted including adoption in any interim period. ASU 2018-02 should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the income tax rate change resulting from the Tax Act is recognized. OE did not adopt this ASU as of December 31, 2017.

2. PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)

FirstEnergy provides noncontributory qualified defined benefit pension plans that cover substantially all of its employees and non-qualified pension plans that cover certain employees, including employees of OE. The plans provide defined benefits based on years of service and compensation levels. In addition, FirstEnergy provides a minimum amount of noncontributory life insurance to retired employees in addition to optional contributory insurance. Health care benefits, which include certain employee contributions, deductibles and co-payments, are also available upon retirement to certain employees, their dependents and, under certain circumstances, their survivors. OE recognizes its allocated portion of the expected cost of providing pension and OPEB to employees and their beneficiaries and covered dependents from the time employees are hired until they become eligible to receive those benefits. OE also recognizes its allocated portion of obligations to former or inactive employees after employment, but before retirement, for disability-related benefits.

FirstEnergy recognizes a pension and OPEB mark-to-market adjustment for the change in the fair value of plan assets and net actuarial gains and losses annually in the fourth quarter of each fiscal year and whenever a plan is determined to qualify for a remeasurement. The remaining components of pension and OPEB expense, primarily service costs, interest on obligations, assumed return on assets and prior service costs, are recorded on a monthly basis. OE's pension and OPEB mark-to-market adjustments for the years ended December 31, 2017 and 2016 were (\$8) million (\$5 million net of amounts capitalized) and \$24 million (\$17 million net of amounts capitalized), respectively. In 2017, the pension and OPEB mark-to-market adjustment primarily reflects a 50 bps decrease in the discount rate used to measure benefit obligations, partially offset by higher than expected asset returns.

FirstEnergy's pension and OPEB funding policy is based on actuarial computations using the projected unit credit method. In 2016, FirstEnergy satisfied its minimum required funding obligations of \$382 million and addressed 2017 funding obligations to its qualified pension plan with total contributions of \$882 million, including \$500 million of FE common stock contributed to the qualified pension plan on December 13, 2016 (\$114 million of cash contributions and \$22 million of equity contributions at OE). In January 2018, FirstEnergy satisfied its minimum required funding obligations of \$500 million and addressed funding obligations for future years to its qualified pension plan with additional contributions of \$750 million (\$27 million at OE).

Pension and OPEB costs are affected by employee demographics (including age, compensation levels and employment periods), the level of contributions made to the plans and earnings on plan assets. Pension and OPEB costs may also be affected by changes in key assumptions, including anticipated rates of return on plan assets, the discount rates and health care trend rates used in determining the projected benefit obligations for pension and OPEB costs. FirstEnergy uses a December 31 measurement date for its pension and OPEB plans. The fair value of the plan assets represents the actual market value as of the measurement date.

FirstEnergy's assumed rate of return on pension plan assets considers historical market returns and economic forecasts for the types of investments held by the pension trusts. In 2017, FirstEnergy's qualified pension and OPEB plan assets experienced gains of \$999 million, or 15.1% compared to gains of \$472 million, or 8.2% in 2016 and losses of \$(172) million, or (2.7)% in 2015, and assumed a 7.50% rate of return for 2017 and 2016 and a 7.75% rate of return for 2015 on plan assets which generated \$478 million, \$429 million and \$476 million of expected returns on plan assets, respectively. The expected return on pension and OPEB assets is based on the trusts' asset allocation targets and the historical performance of risk-based and fixed income securities. The gains or losses generated as a result of the difference between expected and actual returns on plan assets will increase or decrease future net periodic pension and OPEB cost as the difference is recognized annually in the fourth quarter of each fiscal year or whenever a plan is determined to qualify for remeasurement.

During 2017, the Society of Actuaries released its updated mortality improvement scale for pension plans, MP-2017, incorporating three additional years of SSA data on U.S. population mortality. MP-2017 incorporates Social Security Administration (SSA) mortality data from 2013 to 2015 and a slight modification of two input values designed to improve the model's year-over-year stability. The updated improvement scale indicates a slight decline in life expectancy. Due to the additional years of data on population mortality, the RP2014 mortality table with the projection scale MP-2017 was utilized to determine the 2017 benefit cost and obligation as of

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December 31, 2017 for the FirstEnergy pension and OPEB plans. The impact of using the projection scale MP-2017 resulted in a decrease in the projected pension benefit obligation of \$62 million and was included in the 2017 pension and OPEB mark-to-market adjustment.

The following is a summary of the plan status:

As of December 31,	Pension		OPEB	
	2017	2016	2017	2016
	(In millions)			
OE's share of net liability ⁽²⁾	\$ 163	\$ 189	\$ 6	\$ 10
OE's share of net periodic costs (credits) ⁽¹⁾	(15)	19	(10)	(11)

⁽¹⁾ Includes annual pension and OPEB mark-to-market adjustment

⁽²⁾ Excludes \$228 million and \$214 million as of December 31, 2017 and 2016, respectively, of affiliated non-current liabilities related to pension and OPEB mark-to-market costs allocated to OE

In selecting an assumed discount rate, FE considers currently available rates of return on high-quality fixed income investments expected to be available during the period to maturity of the pension and OPEB obligations. The assumed rates of return on plan assets consider historical market returns and economic forecasts for the types of investments held by FE's pension trusts. The long-term rate of return is developed considering the portfolio's asset allocation strategy. OE's share of net liability and net periodic costs in prior year have been revised to exclude amounts related to its wholly owned subsidiary, Pennsylvania Power Company (Penn).

3. LEASES

OE leases certain office space and other property and equipment under cancelable and noncancelable leases.

In 1987, OE sold portions of its ownership interests in Perry Unit 1 and Beaver Valley Unit 2 and entered into operating leases on the portions sold for basic lease terms of approximately 29 years, which expired in 2016 and 2017, respectively. During the terms of its lease, OE was responsible, to the extent of its leasehold interests, for costs associated with the units including construction expenditures, operation and maintenance expenses, insurance, nuclear fuel, property taxes and decommissioning.

On May 23, 2016, NG completed the repurchase of the 3.75% lessor equity interests of the remaining non-affiliated leasehold interest in Perry Unit 1 for \$50 million. In addition, the Perry Unit 1 leases expired in accordance with their terms on May 30, 2016, resulting in NG being the sole owner of Perry Unit 1 and entitled to 100% of the unit's output.

On June 24, 2014, OE exercised its irrevocable right to repurchase from the remaining owner participants the lessors' interests in Beaver Valley Unit 2 at the end of the lease term (June 1, 2017), which right to repurchase was assigned to NG. Upon the completion of this transaction, NG obtained all of the lessor equity interests at Beaver Valley Unit 2. Upon the expiration of the Beaver Valley Unit 2 leases, NG became the sole owner of Beaver Valley Unit 2 and is entitled to 100% of the unit's output.

Operating lease expense which includes rent expense for the use of office space and other property and equipment owned by affiliated companies for the years ended December 31, 2017 and 2016 was \$44 million and \$111 million, respectively. OE's estimated future minimum lease payments for capital and operating leases as of December 31, 2017 with initial or remaining lease terms in excess of one year are as follows:

(In millions)	2018	2019	2020	2021	2022	Thereafter	Total	Less: amount representing interest and fees	Present value of net minimum capital lease payments
Capital leases	\$ 3	\$ 3	\$ 3	\$ 3	\$ 3	\$ 1	\$ 16	\$ 2	\$ 14
Operating leases	\$ 2	\$ 2	\$ 1	\$ 1	\$ 1	\$ 4	\$ 11	N/A	N/A

The carrying amounts of assets recorded under capital lease agreements included in "Property, plant and equipment, net" on OE's Balance Sheets as of December 31, 2017 and 2016 were \$14 million and \$17 million, respectively.

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4. REGULATORY MATTERS

STATE REGULATION

OE's retail rates, conditions of service, issuance of securities and other matters are subject to regulation in Ohio by the PUCO. In addition, under Ohio law, municipalities may regulate rates of a public utility, subject to appeal to the PUCO if not acceptable to the utility.

OHIO

OE, The Cleveland Electric Illuminating Company (CEI) and The Toledo Edison Company (TE) (the Ohio Companies) currently operate under an Electric Security Plan IV (ESP IV) which commenced June 1, 2016 and expires May 31, 2024. The material terms of ESP IV, as approved in the PUCO's Opinion and Order issued on March 31, 2016 and Fifth Entry on Rehearing on October 12, 2016, include Distribution Modernization Rider (DMR), which provides for the Ohio Companies to collect \$132.5 million annually for three years, with the possibility of a two-year extension. Rider DMR will be grossed up for federal income taxes, resulting in an approved amount of approximately \$204 million in 2017. Revenues from Rider DMR will be excluded from the significantly excessive earnings test for the initial three-year term but the exclusion will be reconsidered upon application for a potential two-year extension. The PUCO set three conditions for continued recovery under Rider DMR: (1) retention of the corporate headquarters and nexus of operations in Akron, Ohio; (2) no change in control of the Ohio Companies; and (3) a demonstration of sufficient progress in the implementation of grid modernization programs approved by the PUCO. ESP IV also continues a base distribution rate freeze through May 31, 2024. In addition, ESP IV continues the supply of power to non-shopping customers at a market-based price set through an auction process.

ESP IV also continues Rider Delivery Capital Recovery (DCR), which supports continued investment related to the distribution system for the benefit of customers, with increased revenue caps of \$30 million per year from June 1, 2016 through May 31, 2019; \$20 million per year from June 1, 2019 through May 31, 2022; and \$15 million per year from June 1, 2022 through May 31, 2024. Other material terms of ESP IV include: (1) the collection of lost distribution revenues associated with energy efficiency and peak demand reduction programs; (2) an agreement to file a Grid Modernization Business Plan for PUCO consideration and approval (which filing was made on February 29, 2016, and remains pending); (3) a goal across FirstEnergy to reduce carbon dioxide emissions by 90% below 2005 levels by 2045; (4) contributions, totaling \$51 million to: (a) fund energy conservation programs, economic development and job retention in the Ohio Companies' service territories; (b) establish a fuel-fund in each of the Ohio Companies' service territories to assist low-income customers; and (c) establish a Customer Advisory Agency to ensure preservation and growth of the competitive market in Ohio; and (5) an agreement to file an application to transition to a straight fixed variable cost recovery mechanism for residential customers' base distribution rates (which filing was made on April 3, 2017, and remains pending).

Several parties, including the Ohio Companies, filed applications for rehearing regarding the Ohio Companies' ESP IV with the PUCO. The Ohio Companies' application for rehearing challenged, among other things, the PUCO's failure to adopt the Ohio Companies' suggested modifications to Rider DMR. The Ohio Companies had previously suggested that a properly designed Rider DMR would be valued at \$558 million annually for eight years, and include an additional amount that recognizes the value of the economic impact of FirstEnergy maintaining its headquarters in Ohio. Other parties' applications for rehearing argued, among other things, that the PUCO's adoption of Rider DMR is not supported by law or sufficient evidence. On August 16, 2017, the PUCO denied all remaining intervenor applications for rehearing, denied the Ohio Companies' challenges to the modifications to Rider DMR and added a third-party monitor to ensure that Rider DMR funds are spent appropriately. On September 15, 2017, the Ohio Companies filed an application for rehearing of the PUCO's August 16, 2017 ruling on the issues of the third-party monitor and the Return on Equity calculation for advanced metering infrastructure. On October 11, 2017, the PUCO denied the Ohio Companies' application for rehearing on both issues. On October 16, 2017, the Sierra Club and the Ohio Manufacturer's Association Energy Group filed notices of appeal with the Supreme Court of Ohio appealing various PUCO entries on their applications for rehearing. On November 16, 2017, the Ohio Companies intervened in the appeal. Additional parties subsequently filed notices of appeal with the Supreme Court of Ohio challenging various PUCO entries on their applications for rehearing. On February 26, 2018, appellants filed their briefs. Briefs of the PUCO and the Ohio Companies are currently due April 17, 2018. For additional information, see "FERC Matters - Ohio ESP IV Purchase Power Agreement (PPA)," below.

Under Ohio Revised Code (ORC) 4928.66, the Ohio Companies are required to implement energy efficiency programs that achieve certain annual energy savings and total peak demand reductions. Starting in 2017, ORC 4928.66 requires the energy savings benchmark to increase by 1% and the peak demand reduction benchmark to increase by 0.75% annually thereafter through 2020 and the energy savings benchmark to increase by 2% annually from 2021 through 2027, with a cumulative benchmark of 22.2% by 2027. On April 15, 2016, the Ohio Companies filed an application for approval of their three-year energy efficiency portfolio plans for the period from January 1, 2017 through December 31, 2019. The plans as proposed comply with benchmarks contemplated by ORC 4928.66 and provisions of the ESP IV, and include a portfolio of energy efficiency programs targeted to a variety of customer segments, including residential customers, low income customers, small commercial customers, large commercial and industrial customers and governmental entities. On December 9, 2016, the Ohio Companies filed a Stipulation and Recommendation with several parties that contained changes to the plan and a decrease in the plan costs. The Ohio Companies anticipate the cost of the

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plans will be approximately \$268 million over the life of the portfolio plans and such costs are expected to be recovered through the Ohio Companies' existing rate mechanisms. On November 21, 2017, the PUCO issued an order that approved the filed Stipulation and Recommendation with several modifications, including a cap on the Ohio Companies' collection of program costs and shared savings set at 4% of the Ohio Companies' total sales to customers as reported on 2015 FERC Form 1. On December 21, 2017, the Ohio Companies filed an application for rehearing challenging the PUCO's modification of the Stipulation and Recommendation to include the 4% cost cap, which was denied by the PUCO on January 10, 2018. On March 12, 2018, the Ohio Companies filed a Notice of Appeal with the Supreme Court of Ohio challenging the PUCO's imposition of a 4% cost cap. Various other parties also filed Notices of Appeal challenging various PUCO entries on their applications for rehearing.

Ohio law requires electric utilities and electric service companies in Ohio to serve part of their load from renewable energy resources measured by an annually increasing percentage amount through 2026, except that in 2014 Substitute Senate Bill No. 310 froze 2015 and 2016 requirements at the 2014 level (2.5%), pushing back scheduled increases, which resumed in 2017 (3.5%), and increases 1% each year through 2026 (to 12.5%) and shall remain at 12.5% in 2027 and each year thereafter. The Ohio Companies conducted Requests for Proposals in 2009, 2010 and 2011 to secure Renewable Energy Credits (RECs) to help meet these renewable energy requirements. In September 2011, the PUCO opened a docket to review the Ohio Companies' alternative energy recovery rider through which the Ohio Companies recover the costs of acquiring these RECs. The PUCO issued an Opinion and Order on August 7, 2013, approving the Ohio Companies' acquisition process and their purchases of RECs to meet statutory mandates in all instances except for certain purchases arising from one auction and directed the Ohio Companies to credit non-shopping customers in the amount of \$43.4 million, plus interest, on the basis that the Ohio Companies did not prove such purchases were prudent. On December 24, 2013, following the denial of their application for rehearing, the Ohio Companies filed a notice of appeal and a motion for stay of the PUCO's order with the Supreme Court of Ohio, which was granted. The Ohio Consumers' Counsel (OCC) and the Environmental Law & Policy Center (ELPC) also filed appeals of the PUCO's order. On January 24, 2018, the Supreme Court of Ohio reversed the PUCO order finding that the order violated the rule against prohibiting retroactive ratemaking. On February 5, 2018, the OCC and ELPC filed a motion for reconsideration, to which the Ohio Companies responded in opposition on February 15, 2018.

On April 9, 2014, the PUCO initiated a generic investigation of marketing practices in the competitive retail electric service market, with a focus on the marketing of fixed-price or guaranteed percent-off Standard Service Offer rate contracts where there is a provision that permits the pass-through of new or additional charges. On November 18, 2015, the PUCO ruled that on a going-forward basis, pass-through clauses may not be included in fixed-price contracts for all customer classes. On December 18, 2015, several participants filed applications for rehearing, including FirstEnergy Solutions Corp. (FES), which requested the PUCO to change the ruling or have it only apply to residential and small commercial customers. On January 13, 2016, the PUCO granted reconsideration for further consideration of the matters specified in the applications for rehearing. On March 29, 2017, the PUCO issued a Second Entry on Rehearing that granted, in part, the applications for rehearing filed by FES and other parties, finding that the PUCO's guidelines regarding fixed-price contracts should not apply to large mercantile customers. This finding changes the original order, which applied the guidelines to all customers, including mercantile customers. The PUCO also reaffirmed several provisions of the original order, including that the fixed-price guidelines only apply on a going-forward basis and not to existing contracts and that regulatory-out clauses in contracts are permissible.

On December 1, 2017, the Ohio Companies filed an application with the PUCO for approval of a Distribution Platform Modernization (DPM) Plan. The DPM Plan is a portfolio of approximately \$450 million in distribution platform investment projects, which are designed to modernize the Ohio Companies' distribution grid, prepare it for further grid modernization projects, and provide customers with immediate reliability benefits. The Ohio Companies have requested that the PUCO issue an order approving the DPM Plan and associated cost recovery no later than May 2, 2018, so that the Ohio Companies can expeditiously commence the DPM Plan and customers can begin to realize the associated benefits.

On January 10, 2018, the PUCO opened a case to consider the impacts of the Tax Act and determine the appropriate course of action to pass benefits on to customers. The Ohio Companies must establish a regulatory liability, effective January 1, 2018, for the estimated reduction in federal income tax resulting from the Tax Act, and filed comments on February 15, 2018, explaining that customers will save nearly \$40 million annually as a result of updating tariff riders for the tax rate changes and that the Ohio Companies' base distribution rates are not impacted by the Tax Act changes because they are frozen through May 2024. The Ohio Companies filed reply comments on March 7, 2018.

FEDERAL REGULATION

With respect to its wholesale services and rates, OE is subject to regulation by FERC. Under the Federal Power Act (FPA), FERC regulates rates for interstate wholesale sales, accounting and other matters.

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FERC regulates the sale of power for resale in interstate commerce in part by granting authority to public utilities to sell wholesale power at market-based rates upon showing that the seller cannot exert market power in generation or transmission or erect barriers to entry into markets. OE has been authorized by FERC to sell wholesale power in interstate commerce and has a market-based rate tariff on file with FERC; although major wholesale purchases remain subject to regulation by the relevant state commissions. As a condition to selling electricity on a wholesale basis at market-based rates, OE, like other entities granted market-based rate authority, must file electronic quarterly reports with FERC listing its sales transactions for the prior quarter.

RELIABILITY MATTERS

Federally-enforceable mandatory reliability standards apply to the bulk electric system and impose certain operating, record-keeping and reporting requirements on OE. North American Electric Reliability Corporation (NERC) is the Electric Reliability Organization designated by FERC to establish and enforce these reliability standards, although NERC has delegated day-to-day implementation and enforcement of these reliability standards to eight regional entities, including *ReliabilityFirst* Corporation (RFC). All of FirstEnergy's facilities, including those of OE, are located within the RFC region. FirstEnergy actively participates in the NERC and RFC stakeholder processes, and otherwise monitors and manages its companies, including OE, in response to the ongoing development, implementation and enforcement of the reliability standards implemented and enforced by RFC.

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

FERC MATTERS

Ohio ESP IV PPA

On August 4, 2014, the Ohio Companies filed an application with the PUCO seeking approval of their ESP IV. ESP IV included a proposed Rider Retail Rate Stability, which would flow through to customers either charges or credits representing the net result of the price paid to FES through an eight-year FERC-jurisdictional PPA, referred to as the ESP IV PPA, against the revenues received from selling such output into the PJM Interconnection, L.L.C. (PJM) markets. The Ohio Companies entered into stipulations which modified ESP IV, and on March 31, 2016, the PUCO issued an Opinion and Order adopting and approving the Ohio Companies' stipulated ESP IV with modifications. FES and the Ohio Companies entered into the ESP IV PPA on April 1, 2016, but subsequently agreed to suspend it and advised FERC of this course of action.

On March 21, 2016, a number of generation owners filed with FERC a complaint against PJM requesting that FERC expand the Minimum Offer Price Rule (MOPR) in the PJM Open Access Transmission Tariff to prevent the alleged artificial suppression of prices in the PJM capacity markets by state-subsidized generation, in particular alleged price suppression that could result from the ESP IV PPA and other similar agreements. The complaint requested that FERC direct PJM to initiate a stakeholder process to develop a long-term MOPR reform for existing resources that receive out-of-market revenue. On January 9, 2017, the generation owners filed to amend their complaint to include challenges to certain legislation and regulatory programs in Illinois. On January 24, 2017, FirstEnergy Service Company (FESC), acting on behalf of its affected affiliates and along with other utility companies, filed a motion to dismiss the amended complaint for various reasons, including that the ESP IV PPA matter is now moot. In addition, on January 30, 2017, FESC along with other utility companies filed a substantive protest to the amended complaint, demonstrating that the question of the proper role for state participation in generation development should be addressed in the PJM stakeholder process. On August 30, 2017, the generation owners requested expedited action by FERC. This proceeding remains pending before FERC.

Regional Transmission Organization (RTO) Realignment

In a May 31, 2011 order, FERC ruled that the costs for certain "legacy Regional Transmission Expansion Plan" transmission projects in PJM approved before OE affiliate American Transmission Systems, Incorporated (ATSI) joined PJM could be charged to transmission customers in the ATSI zone, which includes OE's service territory. The amount to be paid, and the question of derived benefits, is pending before FERC as a result of a June 25, 2014 order from a divided three-judge panel of the United States Court of Appeals for the Seventh Circuit (Seventh Circuit), which ruled that FERC had not quantified the benefits that western PJM utilities would derive from certain new 500 Kilovolt (kV) or higher lines and thus had not adequately supported its decision to socialize the costs of these lines. The majority found that eastern PJM utilities are the primary beneficiaries of the lines, while western PJM utilities are only

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incidental beneficiaries, and that, while incidental beneficiaries should pay some share of the costs of the lines, that share should be proportionate to the benefit they derive from the lines, and not on load-ratio share in PJM as a whole. The court remanded the case to FERC, which issued an order setting the issue of cost allocation for hearing and settlement proceedings. On June 15, 2016, various parties, including OE, filed a settlement agreement at FERC agreeing to apply a combined usage based/socialization approach to cost allocation for charges to transmission customers in the aggregate of the zones within PJM for transmission projects operating at or above 500 kV. Certain other parties in the proceeding did not agree to the settlement and filed protests to the settlement seeking, among other issues, to strike certain of the evidence advanced by FirstEnergy and certain of the other settling parties in support of the settlement, as well as provided further comments in opposition to the settlement. FirstEnergy and certain of the other parties responded to such opposition. On October 20, 2017, the settling and non-opposing parties requested expedited action by FERC. The settlement is pending before FERC.

The outcome of this proceeding and its impact, if any, on OE cannot be predicted at this time.

FERC Notice of Inquiry on Tax Act

On March 15, 2018, FERC took action to address the impact of the Tax Act on FERC-jurisdictional rates, including transmission and electric wholesale rates. Because OE does not have a FERC-jurisdictional transmission rate, FERC is not at this time requiring OE to submit any changes to FERC-jurisdictional OE rates to address the impact of the Tax Act.

In a related docket, on March 15, 2018, FERC issued a Notice of Inquiry seeking information regarding whether and how FERC should address possible changes to accumulated deferred income taxes and bonus depreciation on FERC-jurisdictional rates, including wholesale rates, which may be impacted by the Tax Act. Responses to the Notice of Inquiry are due May 21, 2018, after which the matter will be before FERC for further action.

The outcome of the Notice of Inquiry is proceeding and its impact, if any, on OE cannot be predicted at this time.

Market-Based Rate Authority, Triennial Update

OE holds authority from FERC to sell electricity at market-based rates. One condition for retaining this authority is that every three years OE must file an update with FERC that demonstrates that it continues to meet FERC's requirements for holding market-based rate authority. On December 23, 2016, FERC, on behalf of its affiliates with market-based rate authority, including OE, submitted to FERC the most recent triennial market power analysis filing for OE for the current cycle of this filing requirement. On July 27, 2017, FERC accepted the triennial filing as submitted.

5. COMMITMENTS, GUARANTEES AND CONTINGENCIES

ENVIRONMENTAL MATTERS

Various federal, state and local authorities regulate OE with regard to air and water quality and other environmental matters. Pursuant to a March 28, 2017 executive order, the United States Environmental Protection Agency and other federal agencies are to review existing regulations that potentially burden the development or use of domestically produced energy resources and appropriately suspend, revise or rescind those that unduly burden the development of domestic energy resources beyond the degree necessary to protect the public interest or otherwise comply with the law. OE cannot predict the timing or ultimate outcome of any of these reviews or how any future actions taken as a result thereof, in particular with respect to existing environmental regulations, may impact its business, results of operations, cash flows and financial condition.

Compliance with environmental regulations could have a material adverse effect on OE's earnings and competitive position to the extent that OE competes with companies that are not subject to such regulations and, therefore, do not bear the risk of costs associated with compliance, or failure to comply, with such regulations.

OTHER LEGAL PROCEEDINGS

Nuclear Plant Matters

On June 1, 2017, OE transferred its NDT assets and related AROs associated with Beaver Valley Unit 2 to NG, as a result of NG's \$38 million purchase of the 2.60% lessor equity interests of the remaining non-affiliated leasehold interests in Beaver Valley Unit 2 and the expiration of the Beaver Valley Unit 2 leases in accordance with their terms.

THIS FILING IS

Item 1: ☒ An Initial (Original)
Submission

OR ☐ Resubmission No. _____

Form 1 Approved
OMB No.1902-0021
(Expires 12/31/2019)
Form 1-F Approved
OMB No.1902-0029
(Expires 12/31/2019)
Form 3-Q Approved
OMB No.1902-0205
(Expires 12/31/2019)



FERC FINANCIAL REPORT

FERC FORM No. 1: Annual Report of Major Electric Utilities, Licensees and Others and Supplemental Form 3-Q: Quarterly Financial Report

These reports are mandatory under the Federal Power Act, Sections 3, 4(a), 304 and 309, and 18 CFR 141.1 and 141.400. Failure to report may result in criminal fines, civil penalties and other sanctions as provided by law. The Federal Energy Regulatory Commission does not consider these reports to be of confidential nature

Exact Legal Name of Respondent (Company)

Toledo Edison Company, The

Year/Period of Report

End of 2017/Q4

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1. ORGANIZATION AND BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The Toledo Edison Company (TE), together with its consolidated subsidiary, is a wholly owned subsidiary of FirstEnergy Corp. (FE), and is incorporated in Ohio. TE operates an electric distribution system in Ohio. TE is subject to regulation by the Public Utilities Commission of Ohio (PUCO) and the Federal Energy Regulatory Commission (FERC).

BASIS OF PRESENTATION

The accompanying financial statements have been prepared in accordance with FERC accounting requirements as set forth in the Uniform System of Accounts and accounting releases, which differ from Generally Accepted Accounting Principles in the United States of America (GAAP). The significant differences between FERC and GAAP related to these financial statements include the following:

- Wholly owned subsidiaries that are consolidated under GAAP are accounted for under the equity method of accounting under FERC. As such investment in subsidiaries are reflected under the equity method of accounting on the FERC income statement, balance sheet and cash flow statement, and on a consolidated basis on the GAAP income statement, balance sheet and cash flow statement.
- Deferred Income Taxes are recorded on a gross basis on the FERC balance sheet with deferred tax assets and deferred tax liabilities being reported separately.
- Asset removal costs are classified as accumulated depreciation on the FERC balance sheet and as regulatory liabilities on the GAAP balance sheet.
- For income statement purposes, there are differences in items included in Operating Income and Other Income and Deductions under GAAP and FERC reporting, including costs which are recorded in operating expenses for GAAP and non-operating expenses for FERC.
- Regulatory Assets and Liabilities per GAAP differ from Regulatory Assets and Liabilities per FERC because Account 189, Unamortized loss on reacquired debt and Account 257, Unamortized gain on reacquired debt are Regulatory Assets and Liabilities for GAAP statements but not for FERC statements.
- Capital leases are recorded on a net basis in Plant in Service on the FERC balance sheet.
- Estimated interest and penalties related to uncertain tax positions are recorded as part of interest expense and penalties respectively for FERC statements and as a component of income tax expense for GAAP statements.
- Other Comprehensive Income pages 122a-b are not audited per FERC instructions.
- Unamortized debt issuance costs are included in deferred charges on the FERC balance sheet and an offset to long-term debt on the GAAP balance sheet.
- Regulatory Assets and Liabilities presented on a gross basis on the FERC balance sheet with Regulatory Assets and Liabilities netted for GAAP.

TE complies with the regulations, orders, policies and practices prescribed by FERC and the PUCO. The preparation of financial statements requires management to make periodic estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. Actual results could differ from these estimates. The reported results of operations are not indicative of results of operations for any future period.

ACCOUNTING FOR THE EFFECTS OF REGULATION

TE accounts for the effects of regulation through the application of regulatory accounting since its rates are established by a third-party regulator with the authority to set rates that bind customers, are cost-based and can be charged to and collected from customers. TE records regulatory assets and liabilities that result from the regulated rate-making process that would not be recorded under GAAP by non-regulated entities. These assets and liabilities are amortized in the Statements of Income concurrent with their recovery or refund through customer rates. TE believes that it is probable that its regulatory assets and liabilities will be recovered and settled, respectively, through future rates.

As a result of the Tax Cuts and Jobs Act adopted December 22, 2017 (Tax Act), FirstEnergy Corp., together with its consolidated subsidiaries (FirstEnergy), including TE, adjusted its deferred tax liabilities at December 31, 2017, for the reduction in the corporate income tax rate from 35% to 21%. The impact of reducing the deferred tax liabilities was offset with a regulatory liability, as appropriate, with the remainder recorded to deferred income tax expense.

REVENUES AND RECEIVABLES

TE's principal business is providing electric service to customers in Ohio. TE's retail customers are metered on a cycle basis. Electric revenues are recorded based on energy delivered through the end of the calendar month. 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

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prices in effect for each class of customer. In each accounting period, TE accrues the estimated unbilled amount as revenue and reverses the related prior period estimate.

Receivables from customers include distribution and retail electric sales to residential, commercial and industrial customers. There was no material concentration of receivables as of December 31, 2017 and 2016, with respect to any particular segment of TE's customers. Billed and unbilled customer receivables were \$27 million and \$25 million, respectively, as of December 31, 2017 and were \$30 million and \$22 million, respectively, as of December 31, 2016.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment reflects original cost (net of any impairments recognized), including payroll and related costs such as taxes, employee benefits, administrative and general costs, and interest costs incurred to place the assets in service. The costs of normal maintenance, repairs and minor replacements are expensed as incurred. TE recognizes liabilities for planned major maintenance projects as they are incurred.

TE provides for depreciation on a straight-line basis at various rates over the estimated lives of property included in plant in service. Depreciation expense was approximately 3.1% of average depreciable property in 2017 and 2016.

TE evaluates long-lived assets classified as held and used for impairment when events or changes in circumstances indicate the carrying value of such assets may not be recoverable. First, the estimated undiscounted future cash flows attributable to the assets is compared with the carrying value of the assets. If the carrying value is greater than the undiscounted future cash flows, an impairment charge is recognized equal to the amount the carrying value of the assets exceeds its estimated fair value.

ASSET RETIREMENT OBLIGATIONS (ARO)

TE has recognized conditional retirement obligations, primarily for asbestos remediation.

Prior to June 1, 2017, TE recognized applicable legal obligations for AROs and its associated cost primarily for the decommissioning of Beaver Valley and Perry due to its leasehold interest in Beaver Valley Unit 2 and Perry. TE used an expected cash flow approach to measure the fair value of its nuclear decommissioning AROs. TE maintained Nuclear Decommissioning Trust (NDTs) that were legally restricted for purposes of settling the nuclear decommissioning AROs. As of December 31, 2017, these NDTs have been transferred to FirstEnergy Nuclear Generation, LLC (NG). The fair value of the decommissioning trust assets as of December 31, 2016, was \$92 million.

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

ARO Reconciliation	(In millions)
Balance, January 1, 2016	\$ 28
Accretion	3
Settlements	(8)
Balance, December 31, 2016	23
Accretion	1
Settlements	(1)
Transfer to affiliated company	(22)
Balance, December 31, 2017	\$ 1

During the second quarter of 2017, in connection with NG purchasing the lessor equity interests of the remaining non-affiliated leasehold interests from an owner participant in the Beaver Valley Unit 2 sale leaseback and the expiration of the leases, TE transferred the ARO and related NDT assets associated with the leasehold interest to NG with the difference of \$34 million reducing the other-paid-in capital of TE.

INVESTMENTS

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

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During the second quarter of 2017, in connection with NG purchasing the lessor equity interests of the remaining non-affiliated leasehold interests from an owner participant in the Beaver Valley Unit 2 and the expiration of the leases, TE transferred NDT assets of \$93 million associated with their leasehold interests to NG. See the "Asset Retirement Obligations" section above for additional information.

At the end of each reporting period, TE evaluates its investments for Other-Than-Temporary Impairments (OTTI). Investments classified as available-for-sale securities are evaluated to determine whether a decline in fair value below the cost basis is other than temporary. TE considers its intent to hold the securities, the likelihood that it will be required to sell the securities before recovery of its cost basis and the likelihood of recovery of the securities' entire amortized cost basis. If the decline in fair value is determined to be other than temporary, the cost basis of the securities is written down to fair value.

Generally, unrealized gains and losses on available-for-sale securities are recognized in Accumulated Other Comprehensive Income (AOCI). However, unrealized losses held in the NDT trust are recognized in earnings since the trust arrangements, as they are currently defined, do not meet the required ability and intent to hold criteria in consideration of OTTI.

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

GOODWILL

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

No impairment of goodwill was indicated as a result of testing in 2017 and 2016. In 2017 and 2016, TE performed a qualitative assessment, assessing economic, industry and market considerations in addition to TE's overall financial performance. It was determined that the fair value was, more likely than not, greater than its carrying value and a quantitative analysis was not necessary.

COMMON STOCK

In addition to paying dividends from retained earnings, TE has authorization from the FERC to pay cash dividends to FirstEnergy from paid-in capital accounts, as long as its FERC-defined equity-to-total-capitalization ratio remains above 35%.

NEW ACCOUNTING PRONOUNCEMENTS

Recently Adopted Pronouncements

Accounting Standards Update (ASU) 2016-15, "Classification of Certain Cash Receipts and Cash Payments" (Issued August 2016): The standard is intended to eliminate diversity in practice in how certain cash receipts and cash payments are presented and classified in the Consolidated Statements of Cash Flows, including the presentation of debt prepayment or debt extinguishment costs, all of which will be classified as financing activities. ASU 2016-15 is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017. TE early adopted this ASU as of January 1, 2017. There was no impact to prior periods.

Recently Issued Pronouncements - The following new authoritative accounting guidance issued by the Financial Accounting Standards Board (FASB) was not adopted in 2017. Unless otherwise indicated, TE 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. TE has assessed other FASB issuances of new standards not described below and has not included these standards based upon the current expectation that such new standards will not significantly impact TE's financial reporting.

ASU 2014-09, "Revenue from Contracts with Customers" (Issued May 2014 and subsequently updated to address implementation questions): The new revenue recognition guidance establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, provides new and more detailed guidance on specific topics

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and expands and improves disclosures about revenue. TE has evaluated its revenues and the new guidance will have limited impacts to current revenue recognition practices upon adoption on January 1, 2018. As part of the adoption, TE elected to apply the new guidance on a modified retrospective basis. TE will not record a cumulative adjustment to retained earnings for initially applying the new guidance as no revenue recognition differences were identified in the timing or amount of revenue. In addition upon adoption, certain immaterial financial statement presentation changes will be implemented. TE expects to disaggregate revenue by type of service in future revenue disclosures.

ASU 2016-02, "*Leases (Topic 842)*" (Issued February 2016)) and ASU 2018-01, "*Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*" (Issued January 2018): ASU 2016-02 will require 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. In addition, new qualitative and quantitative disclosures of the amounts, timing, and uncertainty of cash flows arising from leases will be required. The ASU will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. ASU 2018-01 (same effective date and transition requirements as ASU 2016-02) provides an optional transition practical expedient that, if elected, would not require an entity to reconsider its accounting for existing land easements that are not currently accounted for under the old leases standard. TE does not plan to adopt these standards early. Lessors and lessees will be required to apply a modified retrospective transition approach, which requires adjusting the accounting for any leases existing at the beginning of the earliest comparative period presented in the adoption-period financial statements. Any leases that expire before the initial application date will not require any accounting adjustment. TE expects an increase in assets and liabilities, however, it is currently assessing the impact on its Consolidated Financial Statements. This assessment includes monitoring utility industry implementation guidance. FirstEnergy is in the process of conducting outreach activities across its business units and analyzing its lease population. In addition, it has begun implementation of a third-party software tool that will assist with the initial adoption and ongoing compliance.

ASU 2016-18, "*Restricted Cash*" (issued November 2016): ASU 2016-18 addresses the presentation of changes in restricted cash and restricted cash equivalents in the statement of cash flows. The guidance is required to be applied retrospectively. In its first quarter 2018 financials, TE will show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. In addition, TE will disclose the nature of its restricted cash and restricted cash equivalent balances within the footnotes.

ASU 2017-01, "*Business Combinations: Clarifying the Definition of a Business*" (Issued January 2017): ASU 2017-01 assists entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU 2017-01 is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017. The ASU will be applied prospectively to any transactions occurring within the period of adoption. TE will not early adopt this standard.

ASU 2017-07, "*Compensation-Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*" (Issued March 2017): ASU 2017-07 requires entities to only capitalize service costs while non-service costs are to be charged to earnings. However, utilities subject to FERC's accounting jurisdiction can choose to either continue to capitalize all of the components of pension and other post-employment benefit costs consistent with past practice or elect to capitalize only service costs consistent with the requirements of ASC 715 for FERC reporting. Upon adoption in 2018, TE will elect to change its capitalization policy to follow GAAP and capitalize only service costs. In 2018, TE will disclose the impacts of the one-time election to change its capitalization policy upon implementing ASU 2017-07.

ASU 2018-02, "*Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*" (Issued February 2018): ASU 2018-02 allows entities to reclassify from AOCI to retained earnings stranded tax effects resulting from the Tax Cuts and Jobs Act adopted December 22, 2017 (Tax Act). ASU 2018-02 is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2018. Early adoption of the ASU is permitted including adoption in any interim period. ASU 2018-02 should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the income tax rate change resulting from the Tax Act is recognized. TE did not adopt this ASU as of December 31, 2017.

2. PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)

FirstEnergy provides noncontributory qualified defined benefit pension plans that cover substantially all of its employees and non-qualified pension plans that cover certain employees, including employees of TE. The plans provide defined benefits based on years of service and compensation levels. In addition, FirstEnergy provides a minimum amount of noncontributory life insurance to retired employees in addition to optional contributory insurance. Health care benefits, which include certain employee contributions, deductibles and co-payments, are also available upon retirement to certain employees, their dependents and, under certain circumstances, their survivors. TE recognizes its allocated portion of the expected cost of providing pension and OPEB to employees and their beneficiaries and covered dependents from the time employees are hired until they become eligible to receive those benefits. TE also recognizes its allocated portion of obligations to former or inactive employees after employment, but before retirement, for disability-related benefits.

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FirstEnergy recognizes a pension and OPEB mark-to-market adjustment for the change in the fair value of plan assets and net actuarial gains and losses annually in the fourth quarter of each fiscal year and whenever a plan is determined to qualify for a remeasurement. The remaining components of pension and OPEB expense, primarily service costs, interest on obligations, assumed return on assets and prior service costs, are recorded on a monthly basis. TE's pension and OPEB mark-to-market adjustments for the years ended December 31, 2017 and 2016 were (\$2) million (\$2 million net of amounts capitalized) and \$8 million (\$7 million net of amounts capitalized), respectively. In 2017, the pension and OPEB mark-to-market adjustment primarily reflects a 50 bps decrease in the discount rate used to measure benefit obligations, partially offset by higher than expected asset returns.

FirstEnergy's pension and OPEB funding policy is based on actuarial computations using the projected unit credit method. In 2016, FirstEnergy satisfied its minimum required funding obligations of \$382 million and addressed 2017 funding obligations to its qualified pension plan with total contributions of \$882 million, including \$500 million of FE common stock contributed to the qualified pension plan on December 13, 2016 (\$8 million of equity contributions at TE). In January 2018, FirstEnergy satisfied its minimum required funding obligations of \$500 million and addressed funding obligations for future years to its qualified pension plan with additional contributions of \$750 million (\$11 million at TE).

Pension and OPEB costs are affected by employee demographics (including age, compensation levels and employment periods), the level of contributions made to the plans and earnings on plan assets. Pension and OPEB costs may also be affected by changes in key assumptions, including anticipated rates of return on plan assets, the discount rates and health care trend rates used in determining the projected benefit obligations for pension and OPEB costs. FirstEnergy uses a December 31 measurement date for its pension and OPEB plans. The fair value of the plan assets represents the actual market value as of the measurement date.

FirstEnergy's assumed rate of return on pension plan assets considers historical market returns and economic forecasts for the types of investments held by the pension trusts. In 2017, FirstEnergy's qualified pension and OPEB plan assets experienced gains of \$999 million, or 15.1% compared to gains of \$472 million, or 8.2% in 2016 and losses of \$(172) million, or (2.7)% in 2015, and assumed a 7.50% rate of return for 2017 and 2016 and a 7.75% rate of return for 2015 on plan assets which generated \$478 million, \$429 million and \$476 million of expected returns on plan assets, respectively. The expected return on pension and OPEB assets is based on the trusts' asset allocation targets and the historical performance of risk-based and fixed income securities. The gains or losses generated as a result of the difference between expected and actual returns on plan assets will increase or decrease future net periodic pension and OPEB cost as the difference is recognized annually in the fourth quarter of each fiscal year or whenever a plan is determined to qualify for remeasurement.

During 2017, the Society of Actuaries released its updated mortality improvement scale for pension plans, MP-2017, incorporating three additional years of Social Security Administration (SSA) data on U.S. population mortality. MP-2017 incorporates SSA mortality data from 2013 to 2015 and a slight modification of two input values designed to improve the model's year-over-year stability. The updated improvement scale indicates a slight decline in life expectancy. Due to the additional years of data on population mortality, the RP2014 mortality table with the projection scale MP-2017 was utilized to determine the 2017 benefit cost and obligation as of December 31, 2017 for the FirstEnergy pension and OPEB plans. The impact of using the projection scale MP-2017 resulted in a decrease in the projected pension benefit obligation of \$62 million and was included in the 2017 pension and OPEB mark-to-market adjustment.

TE's allocated share of pension and OPEB costs (credits) and TE's share of net liability, including the mark-to-market adjustment was as follows:

As of December 31,	Pension		OPEB	
	2017	2016	2017	2016
	<i>(in millions)</i>			
TE's share of net liability ⁽²⁾	\$ 27	\$ 31	\$ 26	\$ 27
TE's share of net periodic costs (credits) ⁽¹⁾	(3)	7	(4)	(4)

⁽¹⁾ Includes annual pension and OPEB mark-to-market adjustment

⁽²⁾ Excludes \$94 million and \$90 million as of December 31, 2017 and 2016, respectively, of affiliated non-current liabilities related to pension and OPEB mark-to-market costs allocated to TE

In selecting an assumed discount rate, FE considers currently available rates of return on high-quality fixed income investments expected to be available during the period to maturity of the pension and OPEB obligations. The assumed rates of return on plan assets consider historical market returns and economic forecasts for the types of investments held by FE's pension trusts. The long-term rate of return is developed considering the portfolio's asset allocation strategy.

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3. LEASES

TE leases certain office space and other property and equipment under cancelable and noncancelable leases.

In 1987, TE sold portions of its ownership interests in Beaver Valley Unit 2 and entered into an operating lease for lease terms of approximately 30 years. During the terms of the lease, TE was responsible, to the extent of its leasehold interests, for costs associated with the units including construction expenditures, operation and maintenance expenses, insurance, nuclear fuel, property taxes and decommissioning.

During 2008, NG purchased 158.5 Megawatt (MWs) of lessor equity interests in the sale and leaseback of Beaver Valley Unit 2. TE continued to lease these MW under these respective sale and leaseback arrangements, which expired on June 1, 2017. On June 1, 2017, NG completed the purchase of the 2.60% lessor equity interests of the remaining non-affiliated leasehold interests in Beaver Valley Unit 2 for \$38 million. In addition, the Beaver Valley Unit 2 leases expired in accordance with their terms on June 1, 2017, resulting in NG being the sole owner of Beaver Valley Unit 2.

Operating lease expense which includes rent expense for the use of office space and other property and equipment owned by affiliated companies for the years ended December 31, 2017 and 2016 was \$13 million and \$27 million, respectively. TE's estimated future minimum lease payments for capital and operating leases as of December 31, 2017, with initial or remaining lease terms in excess of one year are as follows:

(In millions)	2018	2019	2020	2021	2022	Thereafter	Total	Less: amount representing interest and fees	Present value of net minimum capital lease payments
Capital leases	\$ 2	\$ 2	\$ 1	\$ 1	\$ 1	\$ 1	\$ 8	\$ 1	\$ 7
Operating leases	\$ 1	\$ 1	\$ —	\$ —	\$ —	\$ —	\$ 2	N/A	N/A

The carrying amounts of assets recorded under capital lease agreements included in "Property, plant and equipment, net," on TE's Consolidated Balance Sheets as of December 31, 2017 and 2016 were \$7 million and \$8 million, respectively.

4. REGULATORY MATTERS

STATE REGULATION

TE's retail rates, conditions of service, issuance of securities and other matters are subject to regulation in Ohio by the PUCO. In addition, under Ohio law, municipalities may regulate rates of a public utility, subject to appeal to the PUCO if not acceptable to the utility.

OHIO

TE, Cleveland Electric Illuminating Company (CEI) and Ohio Edison Company (OE) (the Ohio Companies) currently operate under an Electric Security Plan IV (ESP IV) which commenced June 1, 2016 and expires May 31, 2024. The material terms of ESP IV, as approved in the PUCO's Opinion and Order issued on March 31, 2016 and Fifth Entry on Rehearing on October 12, 2016, include Distribution Modernization Rider (DMR), which provides for the Ohio Companies to collect \$132.5 million annually for three years, with the possibility of a two-year extension. Rider DMR will be grossed up for federal income taxes, resulting in an approved amount of approximately \$204 million in 2017. Revenues from Rider DMR will be excluded from the significantly excessive earnings test for the initial three-year term but the exclusion will be reconsidered upon application for a potential two-year extension. The PUCO set three conditions for continued recovery under Rider DMR: (1) retention of the corporate headquarters and nexus of operations in Akron, Ohio; (2) no change in control of the Ohio Companies; and (3) a demonstration of sufficient progress in the implementation of grid modernization programs approved by the PUCO. ESP IV also continues a base distribution rate freeze through May 31, 2024. In addition, ESP IV continues the supply of power to non-shopping customers at a market-based price set through an auction process.

ESP IV also continues Rider Delivery Capital Recovery (DCR), which supports continued investment related to the distribution system for the benefit of customers, with increased revenue caps of \$30 million per year from June 1, 2016 through May 31, 2019; \$20 million per year from June 1, 2019 through May 31, 2022; and \$15 million per year from June 1, 2022 through May 31, 2024. Other material terms of ESP IV include: (1) the collection of lost distribution revenues associated with energy efficiency and peak demand reduction programs; (2) an agreement to file a Grid Modernization Business Plan for PUCO consideration and approval (which filing was made on February 29, 2016, and remains pending); (3) a goal across FirstEnergy to reduce carbon dioxide emissions by 90% below 2005 levels by 2045; (4) contributions, totaling \$51 million to: (a) fund energy conservation programs, economic development and job retention in the Ohio Companies' service territories; (b) establish a fuel-fund in each of the Ohio Companies' service territories to assist low-income customers; and (c) establish a Customer Advisory Agency to ensure preservation and growth of the competitive market in

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Ohio; and (5) an agreement to file an application to transition to a straight fixed variable cost recovery mechanism for residential customers' base distribution rates (which filing was made on April 3, 2017, and remains pending).

Several parties, including the Ohio Companies, filed applications for rehearing regarding the Ohio Companies' ESP IV with the PUCO. The Ohio Companies' application for rehearing challenged, among other things, the PUCO's failure to adopt the Ohio Companies' suggested modifications to Rider DMR. The Ohio Companies had previously suggested that a properly designed Rider DMR would be valued at \$558 million annually for eight years, and include an additional amount that recognizes the value of the economic impact of FirstEnergy maintaining its headquarters in Ohio. Other parties' applications for rehearing argued, among other things, that the PUCO's adoption of Rider DMR is not supported by law or sufficient evidence. On August 16, 2017, the PUCO denied all remaining intervenor applications for rehearing, denied the Ohio Companies' challenges to the modifications to Rider DMR and added a third-party monitor to ensure that Rider DMR funds are spent appropriately. On September 15, 2017, the Ohio Companies filed an application for rehearing of the PUCO's August 16, 2017 ruling on the issues of the third-party monitor and the Return on Equity calculation for advanced metering infrastructure. On October 11, 2017, the PUCO denied the Ohio Companies' application for rehearing on both issues. On October 16, 2017, the Sierra Club and the Ohio Manufacturer's Association Energy Group filed notices of appeal with the Supreme Court of Ohio appealing various PUCO entries on their applications for rehearing. On November 16, 2017, the Ohio Companies intervened in the appeal. Additional parties subsequently filed notices of appeal with the Supreme Court of Ohio challenging various PUCO entries on their applications for rehearing. On February 26, 2018, appellants filed their briefs. Briefs of the PUCO and the Ohio Companies are currently due April 17, 2018. For additional information, see "FERC Matters - Ohio ESP IV Purchase Power Agreement (PPA)," below.

Under Ohio Revised Code (ORC) 4928.66, the Ohio Companies are required to implement energy efficiency programs that achieve certain annual energy savings and total peak demand reductions. Starting in 2017, ORC 4928.66 requires the energy savings benchmark to increase by 1% and the peak demand reduction benchmark to increase by 0.75% annually thereafter through 2020 and the energy savings benchmark to increase by 2% annually from 2021 through 2027, with a cumulative benchmark of 22.2% by 2027. On April 15, 2016, the Ohio Companies filed an application for approval of their three-year energy efficiency portfolio plans for the period from January 1, 2017 through December 31, 2019. The plans as proposed comply with benchmarks contemplated by ORC 4928.66 and provisions of the ESP IV, and include a portfolio of energy efficiency programs targeted to a variety of customer segments, including residential customers, low income customers, small commercial customers, large commercial and industrial customers and governmental entities. On December 9, 2016, the Ohio Companies filed a Stipulation and Recommendation with several parties that contained changes to the plan and a decrease in the plan costs. The Ohio Companies anticipate the cost of the plans will be approximately \$268 million over the life of the portfolio plans and such costs are expected to be recovered through the Ohio Companies' existing rate mechanisms. On November 21, 2017, the PUCO issued an order that approved the filed Stipulation and Recommendation with several modifications, including a cap on the Ohio Companies' collection of program costs and shared savings set at 4% of the Ohio Companies' total sales to customers as reported on 2015 FERC Form 1. On December 21, 2017, the Ohio Companies filed an application for rehearing challenging the PUCO's modification of the Stipulation and Recommendation to include the 4% cost cap, which was denied by the PUCO on January 10, 2018. On March 12, 2018, the Ohio Companies filed a Notice of Appeal with the Supreme Court of Ohio challenging the PUCO's imposition of a 4% cost cap. Various other parties also filed Notices of Appeal challenging various PUCO entries on their applications for rehearing.

Ohio law requires electric utilities and electric service companies in Ohio to serve part of their load from renewable energy resources measured by an annually increasing percentage amount through 2026, except that in 2014 Substitute Senate Bill No. 310 froze 2015 and 2016 requirements at the 2014 level (2.5%), pushing back scheduled increases, which resumed in 2017 (3.5%), and increases 1% each year through 2026 (to 12.5%) and shall remain at 12.5% in 2027 and each year thereafter. The Ohio Companies conducted Request for Proposals in 2009, 2010 and 2011 to secure Renewable Energy Credits (RECs) to help meet these renewable energy requirements. In September 2011, the PUCO opened a docket to review the Ohio Companies' alternative energy recovery rider through which the Ohio Companies recover the costs of acquiring these RECs. The PUCO issued an Opinion and Order on August 7, 2013, approving the Ohio Companies' acquisition process and their purchases of RECs to meet statutory mandates in all instances except for certain purchases arising from one auction and directed the Ohio Companies to credit non-shopping customers in the amount of \$43.4 million, plus interest, on the basis that the Ohio Companies did not prove such purchases were prudent. On December 24, 2013, following the denial of their application for rehearing, the Ohio Companies filed a notice of appeal and a motion for stay of the PUCO's order with the Supreme Court of Ohio, which was granted. The Ohio Consumers' Counsel (OCC) and the Environmental Law & Policy Center (ELPC) also filed appeals of the PUCO's order. On January 24, 2018, the Supreme Court of Ohio reversed the PUCO order finding that the order violated the rule against prohibiting retroactive ratemaking. On February 5, 2018, the OCC and ELPC filed a motion for reconsideration, to which the Ohio Companies responded in opposition on February 15, 2018.

On April 9, 2014, the PUCO initiated a generic investigation of marketing practices in the competitive retail electric service market, with a focus on the marketing of fixed-price or guaranteed percent-off Standard Service Offer rate contracts where there is a provision that permits the pass-through of new or additional charges. On November 18, 2015, the PUCO ruled that on a going-forward basis, pass-through clauses may not be included in fixed-price contracts for all customer classes. On December 18, 2015, several participants filed applications for rehearing, including FirstEnergy Solutions Corp. (FES), which requested the PUCO to change the ruling or have it only apply to residential and small commercial customers. On January 13, 2016, the PUCO granted reconsideration

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for further consideration of the matters specified in the applications for rehearing. On March 29, 2017, the PUCO issued a Second Entry on Rehearing that granted, in part, the applications for rehearing filed by FES and other parties, finding that the PUCO's guidelines regarding fixed-price contracts should not apply to large mercantile customers. This finding changes the original order, which applied the guidelines to all customers, including mercantile customers. The PUCO also reaffirmed several provisions of the original order, including that the fixed-price guidelines only apply on a going-forward basis and not to existing contracts and that regulatory-out clauses in contracts are permissible.

On December 1, 2017, the Ohio Companies filed an application with the PUCO for approval of a Distribution Platform Modernization (DPM) Plan. The DPM Plan is a portfolio of approximately \$450 million in distribution platform investment projects, which are designed to modernize the Ohio Companies' distribution grid, prepare it for further grid modernization projects, and provide customers with immediate reliability benefits. The Ohio Companies have requested that the PUCO issue an order approving the DPM Plan and associated cost recovery no later than May 2, 2018, so that the Ohio Companies can expeditiously commence the DPM Plan and customers can begin to realize the associated benefits.

On January 10, 2018, the PUCO opened a case to consider the impacts of the Tax Act and determine the appropriate course of action to pass benefits on to customers. The Ohio Companies must establish a regulatory liability, effective January 1, 2018, for the estimated reduction in federal income tax resulting from the Tax Act, and filed comments on February 15, 2018, explaining that customers will save nearly \$40 million annually as a result of updating tariff riders for the tax rate changes and that the Ohio Companies' base distribution rates are not impacted by the Tax Act changes because they are frozen through May 2024. The Ohio Companies filed reply comments on March 7, 2018.

FEDERAL REGULATION

With respect to its wholesale services and rates, TE is subject to regulation by FERC. Under the Federal Power Act (FPA), FERC regulates rates for interstate wholesale sales, accounting and other matters.

FERC regulates the sale of power for resale in interstate commerce in part by granting authority to public utilities to sell wholesale power at market-based rates upon showing that the seller cannot exert market power in generation or transmission or erect barriers to entry into markets. TE has been authorized by FERC to sell wholesale power in interstate commerce and has a market-based rate tariff on file with FERC; although major wholesale purchases remain subject to regulation by the relevant state commissions. As a condition to selling electricity on a wholesale basis at market-based rates, TE, like other entities granted market-based rate authority, must file electronic quarterly reports with FERC listing its sales transactions for the prior quarter.

RELIABILITY MATTERS

Federally-enforceable mandatory reliability standards apply to the bulk electric system and impose certain operating, record-keeping and reporting requirements on TE. North American Electric Reliability Corporation (NERC) is the Electric Reliability Organization designated by FERC to establish and enforce these reliability standards, although NERC has delegated day-to-day implementation and enforcement of these reliability standards to eight regional entities, including *ReliabilityFirst* Corporation (RFC). All of FirstEnergy's facilities, including those of TE, are located within the RFC region. FirstEnergy actively participates in the NERC and RFC stakeholder processes, and otherwise monitors and manages its companies, including TE, in response to the ongoing development, implementation and enforcement of the reliability standards implemented and enforced by RFC.

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

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FERC MATTERS

Ohio ESP IV PPA

On August 4, 2014, the Ohio Companies filed an application with the PUCO seeking approval of their ESP IV. ESP IV included a proposed Rider Retail Rate Stability, which would flow through to customers either charges or credits representing the net result of the price paid to FES through an eight-year FERC-jurisdictional PPA, referred to as the ESP IV PPA, against the revenues received from selling such output into the PJM Interconnection, L.L.C. (PJM) markets. The Ohio Companies entered into stipulations which modified ESP IV, and on March 31, 2016, the PUCO issued an Opinion and Order adopting and approving the Ohio Companies' stipulated ESP IV with modifications. FES and the Ohio Companies entered into the ESP IV PPA on April 1, 2016, but subsequently agreed to suspend it and advised FERC of this course of action.

On March 21, 2016, a number of generation owners filed with FERC a complaint against PJM requesting that FERC expand the Minimum Offer Price Rule (MOPR) in the PJM Open Access Transmission Tariff to prevent the alleged artificial suppression of prices in the PJM capacity markets by state-subsidized generation, in particular alleged price suppression that could result from the ESP IV PPA and other similar agreements. The complaint requested that FERC direct PJM to initiate a stakeholder process to develop a long-term MOPR reform for existing resources that receive out-of-market revenue. On January 9, 2017, the generation owners filed to amend their complaint to include challenges to certain legislation and regulatory programs in Illinois. On January 24, 2017, FirstEnergy Service Company (FESC), acting on behalf of its affected affiliates and along with other utility companies, filed a motion to dismiss the amended complaint for various reasons, including that the ESP IV PPA matter is now moot. In addition, on January 30, 2017, FESC along with other utility companies filed a substantive protest to the amended complaint, demonstrating that the question of the proper role for state participation in generation development should be addressed in the PJM stakeholder process. On August 30, 2017, the generation owners requested expedited action by FERC. This proceeding remains pending before FERC.

Regional Transmission Organization (RTO) Realignment

In a May 31, 2011 order, FERC ruled that the costs for certain "legacy Regional Transmission Expansion Plan" transmission projects in PJM approved before TE affiliate American Transmission Systems, Incorporated (ATSI) joined PJM could be charged to transmission customers in the ATSI zone, which includes TE's service territory. The amount to be paid, and the question of derived benefits, is pending before FERC as a result of a June 25, 2014 order from a divided three-judge panel of the United States Court of Appeals for the Seventh Circuit (Seventh Circuit), which ruled that FERC had not quantified the benefits that western PJM utilities would derive from certain new 500 Kilovolt (kV) or higher lines and thus had not adequately supported its decision to socialize the costs of these lines. The majority found that eastern PJM utilities are the primary beneficiaries of the lines, while western PJM utilities are only incidental beneficiaries, and that, while incidental beneficiaries should pay some share of the costs of the lines, that share should be proportionate to the benefit they derive from the lines, and not on load-ratio share in PJM as a whole. The court remanded the case to FERC, which issued an order setting the issue of cost allocation for hearing and settlement proceedings. On June 15, 2016, various parties, including TE, filed a settlement agreement at FERC agreeing to apply a combined usage based/socialization approach to cost allocation for charges to transmission customers in the aggregate of the zones within PJM for transmission projects operating at or above 500 kV. Certain other parties in the proceeding did not agree to the settlement and filed protests to the settlement seeking, among other issues, to strike certain of the evidence advanced by FirstEnergy and certain of the other settling parties in support of the settlement, as well as provided further comments in opposition to the settlement. FirstEnergy and certain of the other parties responded to such opposition. On October 20, 2017, the settling and non-opposing parties requested expedited action by FERC. The settlement is pending before FERC.

The outcome of this proceeding and its impact, if any, on TE cannot be predicted at this time.

FERC Notice of Inquiry on Tax Act

On March 15, 2018, FERC took action to address the impact of the Tax Act on FERC-jurisdictional rates, including transmission and electric wholesale rates. Because TE does not have a FERC-jurisdictional transmission rate, FERC is not at this time requiring TE to submit any changes to FERC-jurisdictional TE rates to address the impact of the Tax Act.

In a related docket, on March 15, 2018, FERC issued a Notice of Inquiry seeking information regarding whether and how FERC should address possible changes to accumulated deferred income taxes and bonus depreciation on FERC-jurisdictional rates, including wholesale rates, which may be impacted by the Tax Act. Responses to the Notice of Inquiry are due May 21, 2018, after which the matter will be before FERC for further action.

The outcome of the Notice of Inquiry is proceeding and its impact, if any, on TE cannot be predicted at this time.

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Market-Based Rate Authority, Triennial Update

TE holds authority from FERC to sell electricity at market-based rates. One condition for retaining this authority is that every three years TE must file an update with FERC that demonstrates that it continues to meet FERC's requirements for holding market-based rate authority. On December 23, 2016, FERC, on behalf of its affiliates with market-based rate authority, including TE, submitted to FERC the most recent triennial market power analysis filing for TE for the current cycle of this filing requirement. On July 27, 2017, FERC accepted the triennial filing as submitted.

5. COMMITMENTS AND CONTINGENCIES

ENVIRONMENTAL MATTERS

Various federal, state and local authorities regulate TE with regard to air and water quality and other environmental matters. Pursuant to a March 28, 2017 executive order, the United States Environmental Protection Agency and other federal agencies are to review existing regulations that potentially burden the development or use of domestically produced energy resources and appropriately suspend, revise or rescind those that unduly burden the development of domestic energy resources beyond the degree necessary to protect the public interest or otherwise comply with the law. TE cannot predict the timing or ultimate outcome of any of these reviews or how any future actions taken as a result thereof, in particular with respect to existing environmental regulations, may impact its business, results of operations, cash flows and financial condition.

Compliance with environmental regulations could have a material adverse effect on TE's earnings and competitive position to the extent that TE competes with companies that are not subject to such regulations and, therefore, do not bear the risk of costs associated with compliance, or failure to comply, with such regulations.

Regulation of Waste Disposal

FirstEnergy and certain of its subsidiaries, including TE, have been named as potentially responsible parties at waste disposal sites, which may require cleanup under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA). Allegations of disposal of hazardous substances at historical sites and the liability involved are often unsubstantiated and subject to dispute; however, federal law provides that all potentially responsible parties for a particular site may be liable on a joint and several basis. Environmental liabilities that are considered probable have been recognized on the Consolidated Balance Sheet as of December 31, 2017, based on estimates of the total costs of cleanup, FE's and its subsidiaries' proportionate responsibility for such costs and the financial ability of other unaffiliated entities to pay. Total liabilities of approximately \$1 million have been accrued by TE through December 31, 2017. FirstEnergy or its subsidiaries, including TE, could be found potentially responsible for additional amounts or additional sites, but the loss or range of losses cannot be determined or reasonably estimated at this time.

OTHER LEGAL PROCEEDINGS

Nuclear Plant Matters

On June 1, 2017, TE transferred its NDT assets and related AROs associated with Beaver Valley Unit 2 to NG, as a result of NG's \$38 million purchase of the 2.60% lessor equity interests of the remaining non-affiliated leasehold interests in Beaver Valley Unit 2 and the expiration of the Beaver Valley Unit 2 leases in accordance with their terms.

Other Legal Matters

There are various lawsuits, claims (including claims for asbestos exposure) and proceedings related to TE's normal business operations pending against TE or its subsidiaries. The loss or range of loss in these matters is not expected to be material to TE or its subsidiaries. The other potentially material items not otherwise discussed above are described under Note 4, "Regulatory Matters," of the Notes to Consolidated Financial Statements.

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

EXHIBIT 2



Vorys, Sater, Seymour and Pease LLP
Legal Counsel

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Columbus, Ohio 43216-1008

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Founded 1909

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March 7, 2018

Ms. Barcy F. McNeal, Secretary
Public Utilities Commission of Ohio
180 E. Broad Street, 11th Floor
Columbus, OH 43215-3793

Re: Commission's Investigation of the Financial Impact of the Tax Cuts and
Jobs Act of 2017 on Regulated Ohio Utility Companies
Case No. 18-47-AU-COI

Dear Ms. McNeal:

I am writing on behalf of the Ohio Cable Telecommunications Association ("OCTA"). The OCTA is a trade association that represents the interests of its members from the cable television and telecommunications industry in proceedings before the Public Utilities Commission of Ohio ("Commission").

On January 10, 2018, the Commission initiated this proceeding to consider the impacts of the Tax Cuts and Jobs Act of 2017 and to "determine the appropriate course of action to pass benefits resulting from the legislation on to ratepayers" in Ohio.¹ The Commission requested initial comments and has since allowed parties the opportunity to file reply comments. The OCTA files this letter in lieu of reply comments.

Pole attachment and conduit occupancy rates have been established by the Commission per the rate formulas set forth in Ohio Administrative Code Rule 4901:1-3-04(D), which follows the formula set forth in 47 C.F.R. 1.1409(e) and they utilize information taken from the pole owner's "FERC Form No. 1."² That information includes an income tax component. The OCTA writes to express its expectation that any impact on pole attachment and conduit occupancy rates associated with the Tax Cuts and Jobs Act of 2017 will be carried

¹ January 10, 2018 Entry at ¶1.

² This Ohio Administrative Code Rule was adopted in *In the Matter of the Adoption of Chapter 4901:1-3, Ohio Administrative Code, Concerning Access to Poles, Ducts, Conduits, and Rights-of-Way by Public Utilities*, Case No. 13-579-AU-ORD, Entry on Rehearing (October 15, 2014).

VORYS

Legal Counsel

Ms. Barcy F. McNeal, Secretary

March 7, 2018

Page 2

through FERC Form No. 1 when adjustment filings are next made by the pole and conduit owners pursuant to the Commission's rules and the owners' tariffs.

Please do not hesitate to contact me should you have any questions regarding this matter.

Very truly yours,

/s/ Gretchen L. Petrucci

Gretchen L. Petrucci
Attorney for the Ohio Cable Telecommunications
Association

GLP/jaw

cc: Parties of Record

This foregoing document was electronically filed with the Public Utilities

Commission of Ohio Docketing Information System on

3/7/2018 4:53:27 PM

In

Case No(s). 18-0047-AU-COI

**Summary: Correspondence electronically filed by Mrs. Gretchen L. Petrucci on behalf of Ohio
Cable Telecommunications Association**

EXHIBIT 3

Name of Respondent Duke Energy Ohio, Inc.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 04/13/2017	Year/Period of Report End of 2016/Q4
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ACCUMULATED DEFERRED INCOME TAXES (Account 190)

1. Report the information called for below concerning the respondent's accounting for deferred income taxes.
2. At Other (Specify), include deferrals relating to other income and deductions.

Line No.	Description and Location (a)	Balance of Beginning of Year (b)	Balance at End of Year (c)
1	Electric		
2		-18,185,187	60,718,211
3			
4			
5			
6			
7	Other		
8	TOTAL Electric (Enter Total of lines 2 thru 7)	-18,185,187	60,718,211
9	Gas		
10		31,141,324	35,341,042
11			
12			
13			
14			
15	Other		
16	TOTAL Gas (Enter Total of lines 10 thru 15)	31,141,324	35,341,042
17	Other (Specify)	71,929,717	1,900,512
18	TOTAL (Acct 190) (Total of lines 8, 16 and 17)	84,885,854	97,959,765

Notes

Name of Respondent Duke Energy Ohio, Inc.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 04/13/2017	Year/Period of Report End of 2016/Q4
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ACCUMULATED DEFERRED INCOME TAXES - ACCELERATED AMORTIZATION PROPERTY (Account 281) (Continued)

3. Use footnotes as required.

CHANGES DURING YEAR		ADJUSTMENTS				Balance at End of Year (k)	Line No.
Amounts Debited to Account 410.2 (e)	Amounts Credited to Account 411.2 (f)	Debits		Credits			
		Account Credited (g)	Amount (h)	Account Debited (i)	Amount (j)		
						</	

NOTES (Continued)

Name of Respondent Duke Energy Ohio, Inc.		This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission		Date of Report (Mo, Da, Yr) 04/13/2017	Year/Period of Report End of 2016/Q4		
ACCUMULATED DEFERRED INCOME TAXES - OTHER PROPERTY (Account 282) (Continued)							
3. Use footnotes as required.							
CHANGES DURING YEAR		ADJUSTMENTS				Balance at End of Year (k)	Line No.
Amounts Debited to Account 410.2 (e)	Amounts Credited to Account 411.2 (f)	Debits		Credits			
		Account Credited (g)	Amount (h)	Account Debited (i)	Amount (j)		
							1
				Footnote	9,311,906	725,561,921	2
				Footnote	1,188,720	697,345,005	3
							4
					10,500,626	1,082,906,980	5
2,538,146	627,682	Footnote	8,171,557			23,229,572	6
							7
							8
2,538,146	627,682		8,171,557		10,500,626	1,106,136,552	9
							10
1,086,841	590,634		16,160,494		2,330,373	1,076,661,139	11
1,451,305	37,048		-7,988,937		8,170,253	29,475,413	12
							13
NOTES (Continued)							

Name of Respondent Duke Energy Ohio, Inc.		This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission		Date of Report (Mo, Da, Yr) 04/13/2017		Year/Period of Report End of 2016/Q4	
ACCUMULATED DEFERRED INCOME TAXES - OTHER (Account 283) (Continued)							
3. Provide in the space below explanations for Page 276 and 277. Include amounts relating to insignificant items listed under Other.							
4. Use footnotes as required.							
CHANGES DURING YEAR		ADJUSTMENTS				Balance at End of Year (k)	Line No.
Amounts Debited to Account 410.2 (e)	Amounts Credited to Account 411.2 (f)	Debits Account Credited (g)	Amount (h)	Credits Account Debited (i)	Amount (j)		
							1
							2
			13,257,692			48,083,531	3
							4
							5
							6
							7
			13,257,692			48,083,531	8
							10
					92,393	66,400,762	11
							12
							13
							14
							15
							16
					92,393	66,400,752	17
3,072	9,898					-1,189,009	18
3,072	9,898		13,257,692		92,393	113,295,274	19
							20
	9,737		10,955,550		91,142	111,507,461	21
3,072	161		2,302,142		1,251	1,787,813	22
							23

NOTES (Continued)

Name of Respondent Duke Energy Ohio, Inc.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 04/12/2018	Year/Period of Report End of 2017/Q4
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ACCUMULATED DEFERRED INCOME TAXES (Account 190)

- Report the information called for below concerning the respondent's accounting for deferred income taxes.
- At Other (Specify), include deferrals relating to other income and deductions.

Line No.	Description and Location (a)	Balance of Beginning of Year (b)	Balance at End of Year (c)
1	Electric		
2		60,718,211	105,719,293
3			
4			
5			
6			
7	Other		
8	TOTAL Electric (Enter Total of lines 2 thru 7)	60,718,211	105,719,293
9	Gas		
10		35,341,042	66,274,214
11			
12			
13			
14			
15	Other		
16	TOTAL Gas (Enter Total of lines 10 thru 15)	35,341,042	66,274,214
17	Other (Specify)	1,900,512	429,594
18	TOTAL (Acct 190) (Total of lines 8, 16 and 17)	97,959,765	172,423,101

Notes

Name of Respondent Duke Energy Ohio, Inc.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 04/12/2018	Year/Period of Report End of 2017/Q4
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ACCUMULATED DEFERRED INCOME TAXES - ACCELERATED AMORTIZATION PROPERTY (Account 281) (Continued)

3. Use footnotes as required.

CHANGES DURING YEAR		ADJUSTMENTS				Balance at End of Year (k)	Line No.
Amounts Debited to Account 410.2 (e)	Amounts Credited to Account 411.2 (f)	Debits		Credits			
		Account Credited (g)	Amount (h)	Account Debited (i)	Amount (j)		
							1
							2
							3
							4
							5
							6
							7
							8
							9
							10
							11
							12
							13
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							21

NOTES (Continued)

Name of Respondent Duke Energy Ohio, Inc.		This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission		Date of Report (Mo, Da, Yr) 04/12/2018	Year/Period of Report End of 2017/Q4		
ACCUMULATED DEFERRED INCOME TAXES - OTHER PROPERTY (Account 282) (Continued)							
3. Use footnotes as required.							
CHANGES DURING YEAR		ADJUSTMENTS				Balance at End of Year (k)	Line No.
Amounts Debited to Account 410.2 (e)	Amounts Credited to Account 411.2 (f)	Debits Account Credited (g)	Amount (h)	Credits Account Debited (i)	Amount (j)		
							1
-529,999			327,445,710			453,914,358	2
1,017,377	23		148,632,906			227,789,224	3
							4
487,378	23		476,078,616			681,664,582	5
1,421,682	4,007,569					18,099,292	6
							7
							8
1,909,060	4,007,592		476,078,616			699,763,874	9
							10
1,884,050	4,006,339		458,095,726			692,825,562	11
25,010	1,253		17,982,890			6,938,312	12
							13
NOTES (Continued)							

EXHIBIT 4

Name of Respondent Ohio Power Company		This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) / /	Year/Period of Report End of 2016/Q4
ACCUMULATED DEFERRED INCOME TAXES (Account 190)				
1. Report the information called for below concerning the respondent's accounting for deferred income taxes. 2. At Other (Specify), include deferrals relating to other income and deductions.				
Line No.	Description and Location (a)	Balance of Beginning of Year (b)	Balance at End of Year (c)	
1	Electric			
2	Contributions in Aid of Construction	19,680,640	18,452,813	
3	Securitization Deferred Equity Income-Long Term	26,617,833	19,236,951	
4	Deferred State Income Taxes	13,155,773	11,495,846	
5	Interest Expense Capitalized for Tax	23,990,836	25,467,661	
6	Provision for Refunds	9,616,988	65,366,213	
7	Other	55,670,493	41,379,715	
8	TOTAL Electric (Enter Total of lines 2 thru 7)	148,732,563	181,399,199	
9	Gas			
10				
11				
12				
13				
14				
15	Other			
16	TOTAL Gas (Enter Total of lines 10 thru 15)			
17	Other (Specify) Nonutility, SFAS 109, 87 & 133	13,626,278	50,976,638	
18	TOTAL (Acct 190) (Total of lines 8, 16 and 17)	162,358,841	232,375,837	
Notes				
		(b)	(c)	
Nonutility Items - 190.2		12,581,130	49,459,805	
SFAS 109 - 190.3 & 190.4		1,045,148	1,516,833	
Total Line 17		13,626,278	50,976,638	
Reconciliation of details applicable to Account 190, Line 18, Columns (b) and (c):				
Balance at Beginning of Year		\$162,358,841		
(Less) Amounts Debited to:				
(a) Account 410.1		(57,136,747)		
(b) Account 410.2		(11,427,087)		
(c) Various		(217,773)		
(Plus) Amounts Credited to:				
(a) Account 409.3		0		
(b) Account 411.1		120,983,575		
(c) Account 411.2		17,125,569		
(d) Various		689,459		
Balance at End of Year		\$232,375,837		

Name of Respondent Ohio Power Company	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) / /	Year/Period of Report End of 2016/Q4
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ACCUMULATED DEFERRED INCOME TAXES - ACCELERATED AMORTIZATION PROPERTY (Account 281) (Continued)

3. Use footnotes as required.

CHANGES DURING YEAR		ADJUSTMENTS				Balance at End of Year (k)	Line No.
Amounts Debited to Account 410.2 (e)	Amounts Credited to Account 411.2 (f)	Debits		Credits			
		Account Credited (g)	Amount (h)	Account Debited (i)	Amount (j)		
							1
							2
							3
							4
							5
							6
							7
							8
							9
							10
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							21

NOTES (Continued)

Name of Respondent Ohio Power Company		This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission		Date of Report (Mo, Da, Yr) / /		Year/Period of Report End of 2016/Q4	
ACCUMULATED DEFERRED INCOME TAXES - OTHER PROPERTY (Account 282) (Continued)							
3. Use footnotes as required.							
CHANGES DURING YEAR		ADJUSTMENTS				Balance at End of Year (k)	Line No.
Amounts Debited to Account 410.2 (e)	Amounts Credited to Account 411.2 (f)	Debits		Credits			
		Account Credited (g)	Amount (h)	Account Debited (i)	Amount (j)		
						1,028,907,995	1
							2
							3
							4
						1,028,907,995	5
							6
	638					760,425	7
		Various	15,159,491	Various	13,557,522	80,849,511	8
	638		15,159,491		13,557,522	1,110,517,931	9
							10
	638		15,159,491		13,557,522	1,110,517,931	11
							12
							13
NOTES (Continued)							

Name of Respondent Ohio Power Company	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) / /	Year/Period of Report End of 2016/Q4
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ACCUMULATED DEFERRED INCOME TAXES - OTHER (Account 283) (Continued)

3. Provide in the space below explanations for Page 276 and 277. Include amounts relating to insignificant items listed under Other.
4. Use footnotes as required.

CHANGES DURING YEAR		ADJUSTMENTS				Balance at End of Year (k)	Line No.
Amounts Debited to Account 410.2 (e)	Amounts Credited to Account 411.2 (f)	Debits		Credits			
		Account Credited (g)	Amount (h)	Account Debited (i)	Amount (j)		
						64,742,295	
						57,994,149	
						79,775,788	
						40,977,735	
						32,845,275	
5,731,039	5,917,043					100,378,954	
5,731,039	5,917,043					415,314,200	
							1
							1
							1
							1
							1
							10
							1
39,870		Various	9,717,541	Various	8,558,140	48,835,494	1
5,770,909	5,917,043		9,717,541		8,558,140	464,149,694	1
							2
5,770,909	5,917,043		9,604,523		8,037,490	429,425,073	2
			113,018		518,650	34,724,621	2
							2

NOTES (Continued)

Name of Respondent Ohio Power Company	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) / /	Year/Period of Report End of 2017/Q4
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ACCUMULATED DEFERRED INCOME TAXES (Account 190)

1. Report the information called for below concerning the respondent's accounting for deferred income taxes.
2. At Other (Specify), include deferrals relating to other income and deductions.

Line No.	Description and Location (a)	Balance of Beginning of Year (b)	Balance at End of Year (c)
1	Electric		
2	Contributions in Aid of Construction	18,452,813	18,301,941
3	Deferred Equity Carrying Charge - Fuel Amortization		-38,108,885
4	Deferred State Income Taxes	11,495,846	13,850,323
5	Interest Expense Capitalized for Tax	25,467,661	27,739,079
6	Provision for Refunds	65,366,213	32,509,936
7	Other	60,616,666	49,327,016
8	TOTAL Electric (Enter Total of lines 2 thru 7)	181,399,199	103,620,308
9	Gas		
10			
11			
12			
13			
14			
15	Other		
16	TOTAL Gas (Enter Total of lines 10 thru 15)		
17	Other (Specify) Nonutility, SFAS 109.87 & 133	50,976,638	182,391,529
18	TOTAL (Acct 190) (Total of lines 8, 16 and 17)	232,375,837	286,011,837

Notes

	(b)	(c)
Nonutility Items - 190.2	49,459,805	41,678,607
SFAS 109 - 190.3 & 190.4	1,516,833	140,712,922
Total Line 17	50,976,638	182,391,529

Reconciliation of details applicable to Account 190, Line 18, Columns (b) and (c):

Balance at Beginning of Year	\$232,375,837
(Less) Amounts Debited to:	
(a) Account 410.1	(133,277,228)
(b) Account 410.2	(16,761,656)
(c) Various	(812,378)
(Plus) Amounts Credited to:	
(a) Account 409.3	0
(b) Account 411.1	56,355,596
(c) Account 411.2	8,123,200
(d) Various	140,008,466
Balance at End of Year	\$286,011,837

Name of Respondent Ohio Power Company		This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission		Date of Report (Mo, Da, Yr) / /		Year/Period of Report End of 2017/Q4	
ACCUMULATED DEFERRED INCOME TAXES - ACCELERATED AMORTIZATION PROPERTY (Account 281) (Continued)							
3. Use footnotes as required.							
CHANGES DURING YEAR		ADJUSTMENTS				Balance at End of Year (k)	Line No.
Amounts Debited to Account 410.2 (e)	Amounts Credited to Account 411.2 (f)	Debits		Credits			
		Account Credited (g)	Amount (h)	Account Debited (i)	Amount (j)		
							1
							2
							3
							4
							5
							6
							7
							8
							9
							10
							11
							12
							13
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							15
							16
							17
							18
							19
							20
							21
NOTES (Continued)							

Name of Respondent Ohio Power Company		This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission		Date of Report (Mo, Da, Yr) / /		Year/Period of Report End of 2017/Q4	
ACCUMULATED DEFERRED INCOME TAXES - OTHER PROPERTY (Account 282) (Continued)							
3. Use footnotes as required.							
CHANGES DURING YEAR		ADJUSTMENTS				Balance at End of Year: (k)	Line No.
Amounts Debited to Account 410.2 (e)	Amounts Credited to Account 411.2 (f)	Debits		Credits			
		Account Credited (g)	Amount (h)	Account Debited (i)	Amount (j)		
						1,220,427,286	2
							3
							4
						1,220,427,286	5
							6
	304,552					455,873	7
		Various	542,760,593	Various	14,387,987	-447,523,095	8
	304,552		542,760,593		14,387,987	773,360,064	9
							10
	304,552		542,760,593		14,387,987	773,360,064	11
							12
							13
NOTES (Continued)							

Name of Respondent Ohio Power Company		This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission		Date of Report (Mo, Da, Yr) / /		Year/Period of Report End of 2017/Q4	
ACCUMULATED DEFERRED INCOME TAXES - OTHER (Account 283) (Continued)							
3. Provide in the space below explanations for Page 276 and 277. Include amounts relating to insignificant items listed under Other.							
4. Use footnotes as required.							
CHANGES DURING YEAR		ADJUSTMENTS				Balance at End of Year (k)	Line No.
Amounts Debited to Account 410.2 (e)	Amounts Credited to Account 411.2 (f)	Debits Account Credited (g)	Amount (h)	Credits Account Debited (i)	Amount (j)		
						35,619,555	1
						57,821,783	2
						36,926,031	3
						24,863,990	4
						39,466,606	5
1,884,384	1,821,910					91,762,177	6
1,884,384	1,821,910					286,460,142	7
							8
							9
							10
							11
							12
							13
							14
							15
							16
							17
130,649	134,712	Various	72,503,137	Various	8,941,584	-14,730,122	18
2,015,033	1,956,622		72,503,137		8,941,584	271,730,020	19
							20
2,015,033	1,956,622		72,479,990		8,474,738	229,955,131	21
			23,147		466,846	41,774,889	22
							23

NOTES (Continued)