FIRSTENERGY CORP
Form 10-Q
November 04, 2014

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

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

For the quarterly period ended September 30, 2014

OR

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

For the transition period from ____________________ to ____________________

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

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

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

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

CLASS	OUTSTANDING AS OF OCTOBER 31, 2014
FirstEnergy Corp., $0.10 par value	420,792,515
FirstEnergy Solutions Corp., no par value	7

FirstEnergy Corp. is the sole holder of FirstEnergy Solutions Corp. common stock.
This combined Form 10-Q is separately filed by FirstEnergy Corp. and FirstEnergy Solutions Corp. Information contained herein relating to any individual registrant is filed by such registrant on its own behalf. No registrant makes any representation as to information relating to the other registrant, except that information relating to FirstEnergy Solutions Corp. is also attributed to FirstEnergy Corp.
FirstEnergy Web Site and Other Social Media Sites and Applications

Each of the registrants' Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed with or furnished to the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are also made available free of charge on or through the "Investors" page of FirstEnergy's Internet web site at www.firstenergycorp.com.

These SEC filings are posted on the web site as soon as reasonably practicable after they are electronically filed with the SEC. Additionally, the registrants routinely post additional important information including press releases, investor presentations and notices of upcoming events, under the "Investors" section of FirstEnergy's Internet web site and recognize FirstEnergy's Internet web site as a channel of distribution to reach public investors and as a means of disclosing material non-public information for complying with disclosure obligations under SEC Regulation FD. Investors may be notified of postings to the web site by signing up for email alerts and RSS feeds on the "Investors" page of FirstEnergy's Internet web site or through push alerts from FirstEnergy Investor Relations apps for Apple Inc.'s iPad® and iPhone® devices, which can be installed for free at the Apple® online store. FirstEnergy also uses Twitter® and Facebook® as additional channels of distribution to reach public investors and as a supplemental means of disclosing material non-public information for complying with its disclosure obligations under SEC Regulation FD. Information contained on FirstEnergy's Internet web site or its Twitter® or Facebook® site, and any corresponding applications of those sites, shall not be deemed incorporated into, or to be part of, this report.
OMISSION OF CERTAIN INFORMATION
FirstEnergy Solutions Corp. meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this Form 10-Q with the reduced disclosure format specified in General Instruction H(2) to Form 10-Q.

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

- The speed and nature of increased competition in the electric utility industry, in general, and the retail sales market in particular.
- The ability to experience growth in the Regulated Distribution and Regulated Transmission segments and to successfully implement our revised sales strategy in the Competitive Energy Services segment.
- The accomplishment of our regulatory and operational goals in connection with our transmission plan and pending distribution rate cases and the effectiveness of our repositioning strategy.
- The impact of the regulatory process on pending matters in the various states in which we do business including, but not limited to, matters related to rates and pending rate cases, and the ESP IV in Ohio.
- The impact of the federal regulatory process on FERC-regulated entities and transactions, in particular FERC regulation of wholesale energy and capacity markets, including PJM markets and also FERC-jurisdictional wholesale transactions, FERC regulation of cost-of-service rates, including FERC Opinion No. 531’s revised ROE methodology for FERC-jurisdictional wholesale generation and transmission utility service, and FERC’s compliance and enforcement activity, including compliance and enforcement activity related to NERC’s mandatory reliability standards.
- The uncertainties of various cost recovery and cost allocation issues resulting from ATSI's realignment into PJM.
- Economic or weather conditions affecting future sales and margins such as a polar vortex or other significant weather events, and all associated regulatory events or actions.
- Regulatory outcomes associated with storm restoration costs, including but not limited to, Hurricane Sandy, Hurricane Irene and the October snowstorm of 2011.
- Changing energy, capacity and commodity market prices including, but not limited to, coal, natural gas and oil, and their availability and impact on margins.
- The continued ability of our regulated utilities to recover their costs.
- Costs being higher than anticipated and the success of our policies to control costs and to mitigate low energy, capacity and market prices.
- Other legislative and regulatory changes, and revised environmental requirements, including, but not limited to, possible GHG emission, water discharge, and CCR regulations, the potential impacts of CSAPR, and the effects of the EPA's MATS rules including our estimated costs of compliance.
- The uncertainty of the timing and amounts of the capital expenditures that may arise in connection with any litigation, including NSR litigation, or potential regulatory initiatives or rulemakings (including that such expenditures could result in our decision to deactivate or idle certain generating units).
- The uncertainties associated with the deactivation of certain older regulated and competitive fossil units, including the impact on vendor commitments, and the timing thereof as they relate to, among other things, RMR arrangements and the reliability of the transmission grid.
- The impact of other future changes to the operational status or availability of our generating units.
- Adverse regulatory or legal decisions and outcomes with respect to our nuclear operations (including, but not limited to the revocation or non-renewal of necessary licenses, approvals or operating permits by the NRC or as a result of the incident at Japan's Fukushima Daiichi Nuclear Plant).
- Issues arising from the indications of cracking in the shield building at Davis-Besse.
- The risks and uncertainties associated with litigation, arbitration, mediation and like proceedings, including, but not limited to, any such proceedings related to vendor commitments.

- Replacement power costs being higher than anticipated or not fully hedged.
- The ability to comply with applicable state and federal reliability standards and energy efficiency and peak demand reduction mandates.
- Changes in customers' demand for power, including, but not limited to, changes resulting from the implementation of state and federal energy efficiency and peak demand reduction mandates.
- The ability to accomplish or realize anticipated benefits from strategic and financial goals, including, but not limited to, the ability to continue to reduce costs and successfully execute our announced financial plans designed to improve our credit metrics and strengthen our balance sheet through, among other actions, our previously-implemented dividend reduction and our other proposed capital raising initiatives.
- Our ability to improve electric commodity margins and the impact of, among other factors, the increased cost of fuel and fuel transportation on such margins.
- Changing market conditions that could affect the measurement of certain liabilities and the value of assets held in our NDTs, pension trusts and other trust funds, and cause us and/or our subsidiaries to make additional contributions sooner, or in amounts that are larger than currently anticipated.
- The impact of changes to material accounting policies.
- The ability to access the public securities and other capital and credit markets in accordance with our announced financial plans, the cost of such capital and overall condition of the capital and credit markets affecting us and our subsidiaries.

- Actions that may be taken by credit rating agencies that could negatively affect us and/or our subsidiaries' access to financing, increase the costs thereof, and increase requirements to post additional collateral to support outstanding commodity positions, LOCs and other financial guarantees.
- Changes in national and regional economic conditions affecting us, our subsidiaries and/or our major industrial and commercial customers and other counterparties with which we do business, including fuel suppliers.
- The impact of any changes in tax laws or regulations or adverse tax audit results or rulings.
- Issues concerning the stability of domestic and foreign financial institutions and counterparties with which we do business.
- The risks and other factors discussed from time to time in our SEC filings, and other similar factors.

Dividends declared from time to time on FE's common stock during any period may in the aggregate vary from prior periods due to circumstances considered by FE's Board of Directors at the time of the actual declarations. A security rating is not a recommendation to buy or hold securities and is subject to revision or withdrawal at any time by the assigning rating agency. Each rating should be evaluated independently of any other rating.

The foregoing review of factors should not be construed as exhaustive. New factors emerge from time to time, and it is not possible for management to predict all such factors, nor assess the impact of any such factor on FirstEnergy's business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statements. The registrants expressly disclaim any current intention to update, except as required by law, any forward-looking statements contained herein as a result of new information, future events or otherwise.

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GLOSSARY OF TERMS

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

AE	Allegheny Energy, Inc., a Maryland utility holding company that merged with a subsidiary of FirstEnergy on February 25, 2011. As of January 1, 2014, AE merged with and into FirstEnergy Corp.
AE Supply	Allegheny Energy Supply Company, LLC, an unregulated generation subsidiary
AGC	Allegheny Generating Company, a generation subsidiary of AE Supply and equity method investee of MP.
ATSI	American Transmission Systems, Incorporated, formerly a direct subsidiary of FE that became a subsidiary of FET in April 2012, which owns and operates transmission facilities.
CEI	The Cleveland Electric Illuminating Company, an Ohio electric utility operating subsidiary
FE	FirstEnergy Corp., a public utility holding company
FELHC	FirstEnergy License Holding Company, Inc.
FENOC	FirstEnergy Nuclear Operating Company, which operates nuclear generating facilities
FES	FirstEnergy Solutions Corp., which provides energy-related products and services
FESC	FirstEnergy Service Company, which provides legal, financial and other corporate support services
FET	FirstEnergy Transmission, LLC, formerly known as Allegheny Energy Transmission, LLC which is the parent of ATSI and TrAIL and has a joint venture in PATH.
FEV	FirstEnergy Ventures Corp., which invests in certain unregulated enterprises and business ventures
FG	FirstEnergy Generation, LLC, a wholly-owned subsidiary of FES, which owns and operates non-nuclear generating facilities
FirstEnergy	FirstEnergy Corp., together with its consolidated subsidiaries
Global Holding	Global Mining Holding Company, LLC, a joint venture between FEV, WMB Marketing Ventures, LLC and Pinesdale LLC
Global Rail	A subsidiary of Global Holding that owns coal transportation operations near Roundup, Montana
JCP&L	Jersey Central Power & Light Company, a New Jersey electric utility operating subsidiary
ME	Metropolitan Edison Company, a Pennsylvania electric utility operating subsidiary
MP	Monongahela Power Company, a West Virginia electric utility operating subsidiary
NG	FirstEnergy Nuclear Generation, LLC, a subsidiary of FES, which owns nuclear generating facilities
OE	Ohio Edison Company, an Ohio electric utility operating subsidiary
Ohio Companies	CEI, OE and TE
PATH	Potomac-Appalachian Transmission Highline, LLC, a joint venture between FE and a subsidiary of AEP
PATH-Allegheny	PATH Allegheny Transmission Company, LLC
PATH-WV	PATH West Virginia Transmission Company, LLC
PE	The Potomac Edison Company, a Maryland electric utility operating subsidiary
Penn	Pennsylvania Power Company, a Pennsylvania electric utility operating subsidiary of OE
Pennsylvania Companies	ME, PN, Penn and WP
PN	Pennsylvania Electric Company, a Pennsylvania electric utility operating subsidiary
PNBV	PNBV Capital Trust, a special purpose entity created by OE in 1996
Signal Peak	An indirect subsidiary of Global Holding that owns mining operations near Roundup, Montana
TE	The Toledo Edison Company, an Ohio electric utility operating subsidiary

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

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

AEP	American Electric Power Company, Inc.
AFS	Available-for-sale
AFUDC	Allowance for Funds Used During Construction
ALJ	Administrative Law Judge
Anker WV	Anker West Virginia Mining Company, Inc.
Anker Coal	Anker Coal Group, Inc.
AOCI	Accumulated Other Comprehensive Income
Apple®	Apple®, iPad® and iPhone® are registered trademarks of Apple Inc.
ARO	Asset Retirement Obligation
ARR	Auction Revenue Right

GLOSSARY OF TERMS, Continued

ASLB	Atomic Safety and Licensing Board
ASU	Accounting Standards Update
BGS	Basic Generation Service
BRA	PJM RPM Base Residual Auction
CAA	Clean Air Act
CAIR	Clean Air Interstate Rule
CBA	Collective Bargaining Agreement
CCB	Coal Combustion By-products
CCR	Coal Combustion Residuals
CDWR	California Department of Water Resources
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act of 1980
CFR	Code of Federal Regulations
CO_2	Carbon Dioxide
CSA	Coal Sales Agreement
CSAPR	Cross-State Air Pollution Rule
CTA	Consolidated Tax Adjustment
CWA	Clean Water Act
CWIP	Construction Work in Progress
DCR	Delivery Capital Recovery
DOE	United States Department of Energy
DOL	United States Department of Labor
DR	Demand Response
DSP	Default Service Plan
EDC	Electric Distribution Company
EE&C	Energy Efficiency and Conservation
EGS	Electric Generation Supplier
ELPC	Environmental Law & Policy Center
ENEC	Expanded Net Energy Cost
EPA	United States Environmental Protection Agency
ERO	Electric Reliability Organization
ESP	Electric Security Plan
Facebook®	Facebook is a registered trademark of Facebook, Inc.
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Fitch	Fitch Ratings
FMB	First Mortgage Bond
FPA	Federal Power Act
FTR	Financial Transmission Right
GAAP	Accounting Principles Generally Accepted in the United States of America
GHG	Greenhouse Gases
GWH	Gigawatt-hour
HCL	Hydrochloric Acid
IBEW	International Brotherhood of Electrical Workers
ICE	IntercontinentalExchange, Inc.
ICG	International Coal Group Inc.
IRS	Internal Revenue Service
kV	Kilovolt

KWH	Kilowatt-hour
LBR	Little Blue Run
LCAPP	Long-Term Capacity Agreement Pilot Program
LMP	Locational Marginal Price

GLOSSARY OF TERMS, Continued

LOC	Letter of Credit
LSE	Load Serving Entity
MATS	Mercury and Air Toxics Standards
MDPSC	Maryland Public Service Commission
MISO	Midcontinent Independent System Operator, Inc.
MISO LTTR	MISO Long Term Financial Transmission Right
mmBTU	One Million British Thermal Units
Moody’s	Moody’s Investors Service, Inc.
MOPR	Minimum Offer Price Rule
MVP	Multi-Value Project
MW	Megawatt
MWH	Megawatt-hour
NDT	Nuclear Decommissioning Trust
NERC	North American Electric Reliability Corporation
NITS	Network Integration Transmission Service
NJBPU	New Jersey Board of Public Utilities
NMB	Non-Market Based
NNSR	Non-Attainment New Source Review
NOL	Net Operating Loss
NOV	Notice of Violation
NOx	Nitrogen Oxide
NPDES	National Pollutant Discharge Elimination System
NRC	Nuclear Regulatory Commission
NRG	NRG Energy, Inc.
NSR	New Source Review
NUG	Non-Utility Generation
NYISO	New York Independent System Operator, Inc.
NYPSC	New York State Public Service Commission
OATT	Open Access Transmission Tariff
OCC	Ohio Consumers' Counsel
OPEB	Other Post-Employment Benefits
OTTI	Other Than Temporary Impairments
OVEC	Ohio Valley Electric Corporation
PA DEP	Pennsylvania Department of Environmental Protection
PCRB	Pollution Control Revenue Bond
PJM	PJM Interconnection, L.L.C.
PM	Particulate Matter
POLR	Provider of Last Resort
PPUC	Pennsylvania Public Utility Commission
PSA	Power Supply Agreement
PSD	Prevention of Significant Deterioration
PTC	Price-to-Compare
PUCO	Public Utilities Commission of Ohio
PURPA	Public Utility Regulatory Policies Act of 1978
RCRA	Resource Conservation and Recovery Act
REC	Renewable Energy Credit
REIT	Real Estate Investment Trust

RFC	ReliabilityFirst Corporation
RFP	Request for Proposal
RGGI	Regional Greenhouse Gas Initiative
RMR	Reliability Must-Run

GLOSSARY OF TERMS, Continued

ROE	Return on Equity
RPM	Reliability Pricing Model
RTEP	Regional Transmission Expansion Plan
RTO	Regional Transmission Organization
S&P	Standard & Poor’s Ratings Service
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
SB221	Amended Substitute Senate Bill No. 221
SB310	Substitute Senate Bill No. 310
SBC	Societal Benefits Charge
SEC	United States Securities and Exchange Commission
SERTP	Southeastern Regional Transmission Planning
SIP	State Implementation Plan(s) Under the Clean Air Act
SO_2	Sulfur Dioxide
SOS	Standard Offer Service
SPE	Special Purpose Entity
SREC	Solar Renewable Energy Credit
SSO	Standard Service Offer
TDS	Total Dissolved Solid
TMDL	Total Maximum Daily Load
TMI-2	Three Mile Island Unit 2
TSC	Transmission Service Charge
Twitter®	Twitter is a registered trademark of Twitter, Inc.
U.S. Court of Appeals for the D.C. Circuit	United States Court of Appeals for the District of Columbia Circuit
UWUA	Utility Workers Union of America
VIE	Variable Interest Entity
VRR	Variable Resource Requirement
VSCC	Virginia State Corporation Commission
WVDEP	West Virginia Department of Environmental Protection
WVPSC	Public Service Commission of West Virginia

PART I. FINANCIAL INFORMATION

ITEM I. Financial Statements

FIRSTENERGY CORP.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
(In millions, except per share amounts)	2014	2013	2014	2013
REVENUES:				
Electric utilities	$2,554	$2,526	$7,542	$7,128
Unregulated businesses	1,334	1,506	4,024	4,131
Total revenues*	3,888	4,032	11,566	11,259
OPERATING EXPENSES:				
Fuel	544	657	1,711	1,915
Purchased power	1,188	1,120	3,726	2,932
Other operating expenses	858	877	3,061	2,645
Provision for depreciation	308	316	904	909
Amortization of regulatory assets, net	35	312	27	443
General taxes	239	242	738	747
Impairment of long-lived assets	—	—	—	473
Total operating expenses	3,172	3,524	10,167	10,064
OPERATING INCOME	716	508	1,399	1,195
OTHER INCOME (EXPENSE):				
Gain (loss) on debt redemptions (Note 8)	—	9	(8)	(132)
Investment income	16	5	67	8
Interest expense	(275)	(257)	(802)	(771)
Capitalized financing costs	28	21	89	62
Total other expense	(231)	(222)	(654)	(833)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	485	286	745	362
INCOME TAXES	152	77	226	129
INCOME FROM CONTINUING OPERATIONS	333	209	519	233
Discontinued operations (net of income taxes of $0, $3, $69 and $9, respectively) (Note 14)	—	9	86	17
NET INCOME	$333	$218	$605	$250
EARNINGS PER SHARE OF COMMON STOCK:				

Basic - Continuing Operations	$0.79	$0.50	$1.24	$0.56
Basic - Discontinued Operations (Note 14)	—	0.02	0.20	0.04
Basic - Net Earnings per Basic Share	$0.79	$0.52	$1.44	$0.60
Diluted - Continuing Operations	$0.79	$0.50	$1.24	$0.56
Diluted - Discontinued Operations (Note 14)	—	0.02	0.20	0.04
Diluted - Net Earnings per Diluted Share	$0.79	$0.52	$1.44	$0.60
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:				
Basic	420	418	419	418
Diluted	421	419	420	419
DIVIDENDS DECLARED PER SHARE OF COMMON STOCK**	$0.72	$1.10	$1.44	$1.65

* Includes excise tax collections of $105 million and $117 million in the three months ended September 30, 2014 and 2013, respectively, and $321 million and $346 million in the nine months ended September 30, 2014 and 2013, respectively.

** The nine months ended September 30, 2014 includes a dividend declared of $0.36 per share on each of January 21, 2014; March 18, 2014; July 15, 2014; and September 16, 2014 paid or payable on March 1, 2014; June 1 2014; September 1, 2014; and December 1, 2014, respectively. The nine months ended September 30, 2013 includes a dividend declared of $0.55 per share on each of March 19, 2013; July 16, 2013; and September 17, 2013 paid on June 1, 2013; September 1, 2013; and December 1, 2013, respectively.

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

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FIRSTENERGY CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

(In millions)	Three Months Ended September 30 2014	Three Months Ended September 30 2013	Nine Months Ended September 30 2014	Nine Months Ended September 30 2013
NET INCOME	$333	$218	$605	$250
OTHER COMPREHENSIVE INCOME (LOSS):				
Pensions and OPEB prior service costs	(42)	(47)	(126)	(148)
Amortized gains (losses) on derivative hedges	—	2	(1)	4
Change in unrealized gain on available-for-sale securities	(11)	6	40	3
Other comprehensive loss	(53)	(39)	(87)	(141)
Income tax benefits on other comprehensive loss	(21)	(15)	(35)	(55)
Other comprehensive loss, net of tax	(32)	(24)	(52)	(86)
COMPREHENSIVE INCOME	$301	$194	$553	$164

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

FIRSTENERGY CORP.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions, except share amounts)	September 30, 2014	December 31, 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$109	$218
Receivables-		
Customers, net of allowance for uncollectible accounts of $63 in 2014 and $52 in 2013	1,605	1,720
Other, net of allowance for uncollectible accounts of $5 in 2014 and $3 in 2013	214	198
Materials and supplies, at average cost	771	752
Prepaid taxes	185	226
Derivatives	180	166
Accumulated deferred income taxes	327	366
Collateral	221	155
Other	173	212
	3,785	4,013
PROPERTY, PLANT AND EQUIPMENT:		
In service	46,664	44,228
Less — Accumulated provision for depreciation	14,040	13,280
	32,624	30,948
Construction work in progress	2,301	2,304
	34,925	33,252
INVESTMENTS:		
Nuclear plant decommissioning trusts	2,365	2,201
Other	894	903
	3,259	3,104
ASSETS HELD FOR SALE	—	235
DEFERRED CHARGES AND OTHER ASSETS:		
Goodwill	6,418	6,418
Regulatory assets	1,668	1,854
Other	1,169	1,548
	9,255	9,820
	$51,224	$50,424
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES:		
Currently payable long-term debt	$1,386	$1,415
Short-term borrowings	1,621	3,404
Accounts payable	1,190	1,250
Accrued taxes	489	485
Accrued compensation and benefits	277	351
Derivatives	166	111
Other	850	621
	5,979	7,637
CAPITALIZATION:		

Common stockholders' equity-		
Common stock, $0.10 par value, authorized 490,000,000 shares - 420,729,105 and 418,628,559 shares outstanding as of September 30, 2014 and December 31, 2013, respectively	42	42
Other paid-in capital	9,836	9,776
Accumulated other comprehensive income	232	284
Retained earnings	2,592	2,590
Total common stockholders' equity	12,702	12,692
Noncontrolling interest	2	3
Total equity	12,704	12,695
Long-term debt and other long-term obligations	18,531	15,831
	31,235	28,526
NONCURRENT LIABILITIES:		
Accumulated deferred income taxes	7,188	6,968
Retirement benefits	2,754	2,689
Asset retirement obligations	1,755	1,678
Deferred gain on sale and leaseback transaction	833	858
Adverse power contract liability	222	290
Other	1,258	1,778
	14,010	14,261
COMMITMENTS, GUARANTEES AND CONTINGENCIES (Note 11)		
	$51,224	$50,424

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

FIRSTENERGY CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30	
(In millions)	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$605	$250
Adjustments to reconcile net income to net cash from operating activities-		
Income from discontinued operations (Note 14)	(86)	(17)
Provision for depreciation	904	909
Amortization of regulatory assets, net	27	443
Nuclear fuel amortization	160	156
Deferred purchased power and other costs	(89)	(61)
Deferred income taxes and investment tax credits, net	327	114
Impairments of long-lived assets	—	473
Investment impairments	10	74
Deferred rents and lease market valuation liability	(56)	(48)
Retirement benefits	(60)	(133)
Gain on asset sales	—	(21)
Commodity derivative transactions, net (Note 9)	60	15
Loss on debt redemptions (Note 8)	8	132
Make-whole premiums paid on debt redemptions	—	(181)
Changes in current assets and liabilities-		
Receivables	90	(7)
Materials and supplies	(19)	117
Prepayments and other current assets	42	(59)
Accounts payable	(47)	(279)
Accrued taxes	(145)	(146)
Accrued interest	66	29
Accrued compensation and benefits	(74)	(43)
Cash collateral, net	(71)	(67)
Other	85	21
Net cash provided from operating activities	1,737	1,671
CASH FLOWS FROM FINANCING ACTIVITIES:		
New Financing-		
Long-term debt	3,778	2,745
Short-term borrowings, net	—	1,435
Redemptions and Repayments-		
Long-term debt	(1,062)	(2,662)
Short-term borrowings, net	(1,783)	—
Tender premiums paid on debt redemptions	—	(110)
Common stock dividend payments	(452)	(690)
Other	(37)	(64)
Net cash provided from financing activities	444	654
CASH FLOWS FROM INVESTING ACTIVITIES:		

Property additions	(2,473)	(1,960)
Nuclear fuel	(98)	(159)
Proceeds from asset sales	394	—
Sales of investment securities held in trusts	1,511	1,545
Purchases of investment securities held in trusts	(1,593)	(1,567)
Cash investments	42	(12)
Asset removal costs	(80)	(125)
Other	7	3
Net cash used for investing activities	(2,290)	(2,275)
Net change in cash and cash equivalents	(109)	50
Cash and cash equivalents at beginning of period	218	172
Cash and cash equivalents at end of period	$109	$222

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

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

	Three Months Ended September 30		Nine Months Ended September 30	
(In millions)	2014	2013	2014	2013
STATEMENTS OF INCOME (LOSS)				
REVENUES:				
Electric sales to non-affiliates	$1,315	$1,455	$3,989	$4,066
Electric sales to affiliates	164	186	689	482
Other	42	38	124	107
Total revenues	1,521	1,679	4,802	4,655
OPERATING EXPENSES:				
Fuel	270	304	923	936
Purchased power from affiliates	64	132	203	401
Purchased power from non-affiliates	627	724	2,274	1,755
Other operating expenses	356	339	1,276	1,105
Provision for depreciation	83	80	236	231
General taxes	31	35	99	106
Total operating expenses	1,431	1,614	5,011	4,534
OPERATING INCOME (LOSS)	90	65	(209)	121
OTHER INCOME (EXPENSE):				
Loss on debt redemptions (Note 8)	(1)	—	(6)	(103)
Investment income (loss)	13	(3)	57	(4)
Miscellaneous income	1	21	5	29
Interest expense — affiliates	(1)	(1)	(5)	(7)
Interest expense — other	(37)	(35)	(110)	(126)
Capitalized interest	7	9	27	28
Total other expense	(18)	(9)	(32)	(183)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES (BENEFITS)	72	56	(241)	(62)
INCOME TAXES (BENEFITS)	28	23	(95)	(19)
INCOME (LOSS) FROM CONTINUING OPERATIONS	44	33	(146)	(43)
Discontinued operations (net of income taxes of $0, $5, $70 and $8, respectively) (Note 14)	—	7	116	14
NET INCOME (LOSS)	$44	$40	$(30)	$(29)

STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

NET INCOME (LOSS)	$44	$40	$(30)	$(29)
OTHER COMPREHENSIVE INCOME (LOSS):				
Pensions and OPEB prior service costs	(4)	(5)	(14)	(16)
Amortized gain on derivative hedges	(2)	(1)	(7)	(3)
Change in unrealized gain on available-for-sale securities	(9)	5	35	2
Other comprehensive income (loss)	(15)	(1)	14	(17)
Income taxes (benefits) on other comprehensive income (loss)	(6)	(1)	5	(7)
Other comprehensive income (loss), net of tax	(9)	—	9	(10)
COMPREHENSIVE INCOME (LOSS)	$35	$40	$(21)	$(39)

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

FIRSTENERGY SOLUTIONS CORP.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions, except share amounts)	September 30, 2014	December 31, 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$2	$2
Receivables-		
Customers, net of allowance for uncollectible accounts of $21 in 2014 and $11 in 2013	445	539
Affiliated companies	488	1,036
Other, net of allowance for uncollectible accounts of $3 in 2014 and 2013	114	81
Notes receivable from affiliated companies	214	—
Materials and supplies	471	448
Derivatives	168	165
Collateral	218	136
Prepayments and other	98	109
	2,218	2,516
PROPERTY, PLANT AND EQUIPMENT:		
In service	13,745	12,472
Less — Accumulated provision for depreciation	5,087	4,755
	8,658	7,717
Construction work in progress	688	1,308
	9,346	9,025
INVESTMENTS:		
Nuclear plant decommissioning trusts	1,381	1,276
Other	11	11
	1,392	1,287
ASSETS HELD FOR SALE	—	122
DEFERRED CHARGES AND OTHER ASSETS:		
Customer intangibles	82	95
Goodwill	23	23
Property taxes	9	41
Unamortized sale and leaseback costs	210	168
Derivatives	42	53
Other	107	172
	473	552
	$13,429	$13,502
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES:		
Currently payable long-term debt	$535	$892
Short-term borrowings-		
Affiliated companies	—	431
Other	21	4
Accounts payable-		
Affiliated companies	453	765

Other	178	290
Accrued taxes	167	66
Derivatives	166	110
Other	170	197
	1,690	2,755
CAPITALIZATION:		
Common stockholder's equity-		
Common stock, without par value, authorized 750 shares - 7 shares outstanding as of September 30, 2014 and December 31, 2013	3,592	3,080
Accumulated other comprehensive income	63	54
Retained earnings	2,148	2,178
Total common stockholder's equity	5,803	5,312
Long-term debt and other long-term obligations	2,631	2,130
	8,434	7,442
NONCURRENT LIABILITIES:		
Deferred gain on sale and leaseback transaction	833	858
Accumulated deferred income taxes	741	741
Retirement benefits	197	185
Asset retirement obligations	1,059	1,015
Derivatives	20	14
Other	455	492
	3,305	3,305
COMMITMENTS, GUARANTEES AND CONTINGENCIES (Note 11)		
	$13,429	$13,502

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

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

	Nine Months Ended September 30	
(In millions)	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(30)	$(29)
Adjustments to reconcile net loss to net cash from operating activities-		
Income from discontinued operations (Note 14)	(116)	(14)
Provision for depreciation	236	231
Nuclear fuel amortization	160	156
Deferred rents and lease market valuation liability	(63)	(61)
Deferred income taxes and investment tax credits, net	(15)	205
Investment impairments	9	66
Gain on asset sales	—	(20)
Commodity derivative transactions, net (Note 9)	61	15
Loss on debt redemptions (Note 8)	6	103
Make-whole premiums paid on debt redemptions	—	(31)
Changes in current assets and liabilities-		
Receivables	609	(214)
Materials and supplies	(23)	66
Prepayments and other current assets	26	(22)
Accounts payable	(383)	129
Accrued taxes	7	(131)
Accrued compensation and benefits	(15)	(5)
Cash collateral, net	(82)	(35)
Other	41	(20)
Net cash provided from operating activities	428	389
CASH FLOWS FROM FINANCING ACTIVITIES:		
New financing-		
Long-term debt	878	—
Equity contribution from parent	500	1,500
Redemptions and repayments-		
Long-term debt	(749)	(1,179)
Short-term borrowings, net	(414)	—
Tender premiums paid on debt redemptions	—	(67)
Other	(14)	(7)
Net cash provided from financing activities	201	247
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(586)	(477)
Nuclear fuel	(98)	(159)
Proceeds from asset sales	307	21
Sales of investment securities held in trusts	890	650
Purchases of investment securities held in trusts	(933)	(694)

Loans to affiliated companies, net	(214)	22
Other	5	—
Net cash used for investing activities	(629)	(637)
Net change in cash and cash equivalents	—	(1)
Cash and cash equivalents at beginning of period	2	3
Cash and cash equivalents at end of period	$2	$2

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

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FIRSTENERGY CORP. AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION

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

FirstEnergy Corp. was organized under the laws of the State of Ohio in 1996. FirstEnergy's principal business is the holding, directly or indirectly, of all of the outstanding common stock of its principal subsidiaries: OE, CEI, TE, Penn (a wholly owned subsidiary of OE), JCP&L, ME, PN, FESC, FES and its principal subsidiaries (FG and NG), AE Supply, MP, PE, WP and FET and its principal subsidiaries ATSI and TrAIL. In addition, FirstEnergy holds all of the outstanding common stock of other direct subsidiaries including: FirstEnergy Properties, Inc., FEV, FENOC, FELHC, Inc., and GPU Nuclear, Inc.

These interim financial statements have been prepared pursuant to the rules and regulations of the SEC for Quarterly Reports on Form 10-Q. Certain information and disclosures normally included in financial statements and notes prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. These interim financial statements should be read in conjunction with the financial statements and notes included in the combined Annual Report on Form 10-K for the year ended December 31, 2013.

FirstEnergy follows GAAP and complies with the related regulations, orders, policies and practices prescribed by the SEC, FERC, and, as applicable, the PUCO, the PPUC, the MDPSC, the NYPSC, the WVPSC, the VSCC and the NJBPU. The accompanying interim financial statements are unaudited, but reflect all adjustments, consisting of normal recurring adjustments, that, in the opinion of management, are necessary for a fair statement of the financial statements. The preparation of financial statements in conformity with GAAP requires management to make periodic estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. Actual results could differ from these estimates. The reported results of operations are not indicative of results of operations for any future period. FE and its subsidiaries have evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued.

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

For the three months ended September 30, 2014 and 2013, capitalized financing costs on FirstEnergy's Consolidated Statements of Income includes $14 million and $4 million, respectively, of allowance for equity funds used during construction and $14 million and $17 million, respectively, of capitalized interest. For the nine months ended September 30, 2014 and 2013, capitalized financing costs on FirstEnergy's Consolidated Statements of Income includes $35 million and $11 million, respectively, of allowance for equity funds used during construction, and $54 million and $51 million, respectively, of capitalized interest.

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

New Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, requiring entities to recognize revenue by applying a five-step model in accordance with the core principle to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, ASU No. 2014-09 specifies the accounting for costs to obtain or fulfill a contract with a customer and expands disclosure requirements for revenue recognition. This standard is effective for fiscal years beginning after December 15, 2016, with no early adoption permitted, and shall be applied retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. FirstEnergy is currently evaluating the impact on its financial statements of adopting this standard.

2. 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. FirstEnergy evaluates goodwill for impairment annually on July 31 and more frequently if indicators of impairment arise.

FirstEnergy's reporting units are consistent with its reportable segments and consist of Regulated Distribution, Regulated Transmission, Competitive Energy Services and Other/Corporate. The following table presents goodwill by reporting unit (there have been no changes in goodwill for any reporting unit during 2014):

Goodwill	Regulated Distribution	Regulated Transmission	Competitive Energy Services	Other/Corporate	Consolidated
	(In millions)				
Balance as of September 30, 2014	$5,092	$526	$800	$ —	$6,418

FirstEnergy performed a quantitative assessment for the Regulated Distribution, Regulated Transmission and Competitive Energy Services reporting units as of July 31, 2014. The fair values for each of the reporting units were calculated using a discounted cash flow analysis and indicated no impairment of goodwill.

The fair value of the Competitive Energy Services reporting unit exceeded its carrying value by approximately 10%, impacted by near term weak economic conditions and low energy and capacity prices. Key assumptions incorporated into the Competitive Energy Services discounted cash flow analysis requiring significant management judgment included: discount rates, future energy and capacity pricing, projected operating income, capital expenditures, including the impact of pending carbon and other environmental legislation, and terminal multiples. The July 31, 2014 assessment for this reporting unit included a discount rate of 8.5% and a terminal multiple of 7.0x earnings before, interest, taxes, depreciation, and amortization. Continued weak economic conditions, lower than forecasted power and capacity prices, and revised environmental requirements could have a negative impact on future goodwill assessments.

Key assumptions incorporated in the Regulated Distribution and Regulated Transmission discounted cash flow analysis requiring significant management judgment included: discount rates, growth rates, projected operating income, changes in working capital, projected capital expenditures, projected funding of pension plans, expected results of future rate proceedings, and terminal multiples.

3. EARNINGS PER SHARE OF COMMON STOCK

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

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

(In millions, except per share amounts)	Three Months Ended September 30		Nine Months Ended September 30	
Reconciliation of Basic and Diluted Earnings per Share of Common Stock	2014	2013	2014	2013
Income from continuing operations	$333	$209	$519	$233
Discontinued operations (Note 14)	—	9	86	17
Net income	$333	$218	$605	$250
Weighted average number of basic shares outstanding	420	418	419	418
Assumed exercise of dilutive stock options and awards[(1)]	1	1	1	1
Weighted average number of diluted shares outstanding	421	419	420	419
Earnings per share:				
Basic earnings per share:				
Income from continuing operations	$0.79	$0.50	$1.24	$0.56
Discontinued operations (Note 14)	—	0.02	0.20	0.04
Net earnings per basic share	$0.79	$0.52	$1.44	$0.60
Diluted earnings per share:				
Income from continuing operations	$0.79	$0.50	$1.24	$0.56
Discontinued operations (Note 14)	—	0.02	0.20	0.04
Net earnings per diluted share	$0.79	$0.52	$1.44	$0.60

(1) For the three months ended September 30, 2014 and September 30, 2013, 1 million and 2 million shares, respectively, were excluded from the calculation of diluted shares outstanding, as their inclusion would be antidilutive. For the nine months ended September 30, 2014 and September 30, 2013, 2 million shares were excluded from the calculation of diluted shares outstanding, as their inclusion would be antidilutive.

4. PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

On August 25, 2014, the qualified pension plan was amended authorizing a voluntary cashout window program for certain eligible terminated participants with vested benefits. Eligible terminated participants will be able to elect an immediate lump sum cash payment of their vested benefits. Additionally, annuity options will also be offered and may be elected instead of the lump sum cash payment. The election period is September 15, 2014 to October 31, 2014. Payment of benefits for participants that elect an immediate lump sum cash payment or an annuity will commence on December 1, 2014. The components of the consolidated net periodic cost (credits) for pensions and OPEB (including amounts capitalized) were as follows:

Components of Net Periodic Benefit Costs (Credits)	Pensions		OPEB	
For the Three Months Ended September 30,	2014	2013	2014	2013
	(In millions)			
Service costs	$42	$49	$2	$3
Interest costs	100	93	9	9
Expected return on plan assets	(116)	(125)	(8)	(8)
Amortization of prior service costs (credits)	2	3	(44)	(50)
Net periodic costs (credits)	$28	$20	$(41)	$(46)

Components of Net Periodic Benefit Costs (Credits)	Pensions		OPEB	
For the Nine Months Ended September 30,	2014	2013	2014	2013
	(In millions)			
Service costs	$125	$147	$6	$9
Interest costs	301	279	29	27
Expected return on plan assets	(346)	(375)	(24)	(24)
Amortization of prior service costs (credits)	6	9	(132)	(157)
Net periodic costs (credits)	$86	$60	$(121)	$(145)

FES' share of the net periodic pensions and OPEB costs (credits) were as follows:

	Pensions		OPEB	
	2014	2013	2014	2013
	(In millions)			
For the Three Months Ended September 30,	$5	$5	$(5)	$(5)
For the Nine Months Ended September 30,	$13	$15	$(15)	$(15)

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

Net Periodic Benefit Expense (Credit)	Pensions		OPEB	
For the Three Months Ended September 30,	2014	2013	2014	2013
	(In millions)			
FirstEnergy	$19	$16	$(24)	$(31)
FES	4	5	(4)	(4)

Net Periodic Benefit Expense (Credit)	Pensions		OPEB	
For the Nine Months Ended September 30,	2014	2013	2014	2013
	(In millions)			
FirstEnergy	$61	$41	$(78)	$(95)

FES	12	13	(13)	(12)
12				

5. ACCUMULATED OTHER COMPREHENSIVE INCOME

The changes in AOCI, net of tax, in the three and nine months ended September 30, 2014 and 2013, for FirstEnergy and FES are shown in the following tables:

FirstEnergy

	Gains & Losses on Cash Flow Hedges	Unrealized Gains on AFS Securities	Defined Benefit Pension & OPEB Plans	Total
	(In millions)			
AOCI Balance as of July 1, 2014	$(36)	$41	$259	$264
Other comprehensive income before reclassifications	—	2	—	2
Amounts reclassified from AOCI	—	(8)	(26)	(34)
Net other comprehensive loss	—	(6)	(26)	(32)
AOCI Balance as of September 30, 2014	$(36)	$35	$233	$232
AOCI Balance as of July 1, 2013	$(37)	$13	$347	$323
Other comprehensive income before reclassifications[1]	—	5	—	5
Amounts reclassified from AOCI	1	(1)	(29)	(29)
Net other comprehensive income (loss)	1	4	(29)	(24)
AOCI Balance as of September 30, 2013	$(36)	$17	$318	$299

[1] Unrealized Gains on AFS Securities is net of tax of $3 million.

FES

	Gains & Losses on Cash Flow Hedges	Unrealized Gains on AFS Securities	Defined Benefit Pension & OPEB Plans	Total
	(In millions)			
AOCI Balance as of July 1, 2014	$(5)	$36	$41	$72
Other comprehensive income before reclassifications[1]	—	1	—	1
Amounts reclassified from AOCI	(1)	(6)	(3)	(10)
Net other comprehensive loss	(1)	(5)	(3)	(9)
AOCI Balance as of September 30, 2014	$(6)	$31	$38	$63
AOCI Balance as of July 1, 2013	$1	$12	$49	$62
Other comprehensive income before reclassifications[2]	—	4	—	4

Amounts reclassified from AOCI	—	(1)	(3)	(4)
Net other comprehensive income (loss)	—	3	(3)	—
AOCI Balance as of September 30, 2013	$1	$15	$46	$62

(1) Unrealized Gains on AFS Securities is net of tax of $1 million.
(2) Unrealized Gains on AFS Securities is net of tax of $3 million.

FirstEnergy

	Gains & Losses on Cash Flow Hedges	Unrealized Gains on AFS Securities	Defined Benefit Pension & OPEB Plans	Total
	(In millions)			
AOCI Balance as of January 1, 2014	$(36)	$9	$311	$284
Other comprehensive income before reclassifications[1]	1	55	—	56
Amounts reclassified from AOCI	(1)	(29)	(78)	(108)
Net other comprehensive income (loss)	—	26	(78)	(52)
AOCI Balance as of September 30, 2014	$(36)	$35	$233	$232
AOCI Balance as of January 1, 2013	$(38)	$15	$408	$385
Other comprehensive income before reclassifications[2]	—	19	—	19
Amounts reclassified from AOCI	2	(17)	(90)	(105)
Net other comprehensive income (loss)	2	2	(90)	(86)
AOCI Balance as of September 30, 2013	$(36)	$17	$318	$299

(1) Unrealized Gains on AFS Securities is net of tax of $30 million.
(2) Unrealized Gains on AFS Securities is net of tax of $11 million.

FES

	Gains & Losses on Cash Flow Hedges	Unrealized Gains on AFS Securities	Defined Benefit Pension & OPEB Plans	Total
	(In millions)			
AOCI Balance as of January 1, 2014	$(1)	$8	$47	$54
Other comprehensive income (loss) before reclassifications[1]	(1)	50	—	49
Amounts reclassified from AOCI	(4)	(27)	(9)	(40)
Net other comprehensive income (loss)	(5)	23	(9)	9
AOCI Balance as of September 30, 2014	$(6)	$31	$38	$63
AOCI Balance as of January 1, 2013	$3	$13	$56	$72
Other comprehensive income before reclassifications[2]	—	17	—	17
Amounts reclassified from AOCI	(2)	(15)	(10)	(27)
Net other comprehensive income (loss)	(2)	2	(10)	(10)

AOCI Balance as of September 30, 2013	$1	$15	$46	$62

(1) Unrealized Gains on AFS Securities is net of tax of $29 million.
(2) Unrealized Gains on AFS Securities is net of tax of $9 million.

The following amounts were reclassified from AOCI in the three months ended September 30, 2014 and 2013:

FE	Three Months Ended September 30		Nine Months Ended September 30		Affected Line Item in Consolidated Statements of
Reclassifications from AOCI [2]	2014	2013	2014	2013	Income
	(In millions)				
Gains & losses on cash flow hedges					
Commodity contracts	$(2)	$(1)	$(7)	$(5)	Other operating expenses
Long-term debt	2	3	6	9	Interest expense
	—	2	(1)	4	Total before taxes
	—	(1)	—	(2)	Income taxes
	$—	$1	$(1)	$2	Net of tax
Unrealized gains on AFS securities					
Realized gains on sales of securities	$(13)	$(2)	$(46)	$(27)	Investment income
	5	1	17	10	Income taxes
	$(8)	$(1)	$(29)	$(17)	Net of tax
Defined benefit pension and OPEB plans					
Prior-service costs	$(42)	$(47)	$(126)	$(148)	[1]
	16	18	48	58	Income taxes
	$(26)	$(29)	$(78)	$(90)	Net of tax

[1] These AOCI components are included in the computation of net periodic pension cost. See Note 4, Pensions and Other Postemployment Benefits for additional details.
[2] Parenthesis represent credits to the Consolidated Statements of Income from AOCI.

FES	Three Months Ended September 30		Nine Months Ended September 30		Affected Line Item in Consolidated Statements of
Reclassifications from AOCI [2]	2014	2013	2014	2013	Income (Loss)
	(In millions)				
Gains & losses on cash flow hedges					
Commodity contracts	$(2)	$(1)	$(7)	$(5)	Other operating expenses
Long-term debt	—	—	—	2	Interest expense — other
	(2)	(1)	(7)	(3)	Total before taxes
	1	1	3	1	Income taxes (benefits)
	$(1)	$—	$(4)	$(2)	Net of tax
Unrealized gains on AFS securities					
Realized gains on sales of securities	$(11)	$(2)	$(43)	$(24)	Investment income (loss)
	5	1	16	9	Income taxes (benefits)
	$(6)	$(1)	$(27)	$(15)	Net of tax
Defined benefit pension and OPEB plans					
Prior-service costs	$(4)	$(5)	$(14)	$(16)	[1]
	1	2	5	6	Income taxes (benefits)
	$(3)	$(3)	$(9)	$(10)	Net of tax

(1) These AOCI components are included in the computation of net periodic pension cost. See Note 4, Pensions and Other Postemployment Benefits for additional details.
(2) Parenthesis represent credits to the Consolidated Statements of Income (Loss) from AOCI.

6. INCOME TAXES

FirstEnergy’s and FES’ interim effective tax rates reflect the estimated annual effective tax rates for 2014 and 2013, adjusted for tax expense associated with certain discrete items that may occur in any given period, but are not consistent from period to period.

FirstEnergy’s effective tax rate from continuing operations for the three months ended September 30, 2014 and 2013 was 31.3% and 26.9%, respectively. The 2014 effective tax rate was impacted primarily from an IRS-approved change in accounting method for costs associated with the refurbishment of meters and transformers, partially offset by a valuation allowance against local NOL carryforwards. The accounting method change resulted in an increase in the tax basis of certain assets for costs previously not deducted for tax purposes. The 2013 effective tax rate benefited from reductions to valuation allowances against state NOL carryforwards, as well as changes in state apportionment factors, which reduced deferred tax liabilities.

FirstEnergy's effective tax rates from continuing operations for the nine months ended September 30, 2014 and 2013 were 30.3% and 35.6%, respectively. The decrease in the effective tax rate is primarily due to a change in accounting method as described above, the elimination of certain future tax liabilities associated with basis differences, a reduction in state deferred tax liabilities resulting from changes in state apportionment factors, and a reduction in the amount of valuation allowance against state and local NOL carryforwards recorded year over year.

FES’ effective tax rates from continuing operations for the three months ended September 30, 2014 and 2013 were 38.9% and 41.1%, respectively. The decrease in the effective tax rate is primarily due to an increase in pre-tax losses from continuing operations in jurisdictions with higher tax rates, partially offset by valuation allowances on local NOL carryforwards. The effective tax rates for the nine months ended September 30, 2014 and 2013 were 39.4% and 30.6%, respectively. The increase in the effective tax rate on losses from continuing operations is primarily due to an increase in pre-tax losses from continuing operations in jurisdictions with higher tax rates, a benefit resulting from a reduction in state deferred tax liabilities associated with changes in apportionment factors, partially offset by valuation allowances against local NOL carryforwards.

On October 15, 2014, approximately $30 million of previously unrecognized income tax benefits including interest, related to positions taken in determining business nexus, were recognized as a result of the statute of limitations expiring, all of which will affect FirstEnergy's effective tax rate in the fourth quarter of 2014.

In April 2014, the IRS completed its examination of FirstEnergy’s 2011 and 2012 federal income tax returns and issued Revenue Agent Reports for those years, which did not result in a material impact to FirstEnergy’s effective tax rate.

7. VARIABLE INTEREST ENTITIES

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

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

The caption "noncontrolling interest" within the consolidated financial statements is used to reflect the portion of a VIE that FirstEnergy consolidates, but does not own. The change in noncontrolling interest within the Consolidated Balance Sheets during the nine months ended September 30, 2014, was primarily due to a distribution to owners.

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

Ohio Securitization

In September 2012, the Ohio Companies formed CEI Funding LLC, OE Funding LLC and TE Funding LLC, respectively, as separate, wholly-owned limited liability SPEs. The phase-in recovery bonds issued by these SPEs are payable only from, and secured by, phase-in recovery property held by the SPEs (i.e. the right to impose, charge and collect irrevocable non-bypassable usage-based charges payable by retail electric customers in the service territories of the Ohio Companies) and the bondholder has no recourse to the general credit of FirstEnergy or any of the Ohio Companies. The SPEs are considered VIEs and each one is consolidated into its applicable utility.

Mining Operations

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

Trusts

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

PATH-WV

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

On August 24, 2012, PJM removed the PATH project from its long-range expansion plans. See Note 10, Regulatory Matters, for additional information on the abandonment of PATH.

Power Purchase Agreements

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

FirstEnergy has determined that for all but two of these NUG entities, it does not have variable interests in the entities or the entities do not meet the criteria to be considered a VIE. FirstEnergy may hold variable interests in the remaining two entities; however, it applied the scope exception that exempts enterprises unable to obtain the necessary information to evaluate entities.

Because FirstEnergy has no equity or debt interests in the NUG entities, its maximum exposure to loss relates primarily to the above-market costs incurred for power. FirstEnergy expects any above-market costs incurred at its Regulated Distribution segment to be recovered from customers. Purchased power costs related to the contracts that may contain a variable interest were $49 million and $48 million during the three months ended September 30, 2014 and 2013, respectively, and $150 million and $139 million during the nine months ended September 30, 2014 and 2013, respectively.

Sale and Leaseback

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

In March of 2013, FG acquired the remaining interests in connection with the 1987 Bruce Mansfield Plant sale and leaseback transactions for approximately $221 million. Also during 2013, NG purchased lessor equity interests in OE's existing sale and leaseback of Beaver Valley Unit 2 for $23 million.

In February 2014, NG purchased lessor equity interests in OE's existing sale and leaseback of Beaver Valley Unit 2 for approximately $94 million. As of September 30, 2014, FirstEnergy's leasehold interest was 8.11% of Perry Unit 1, 93.83% of Bruce Mansfield Unit 1 and 2.60% of Beaver Valley Unit 2. 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. Additionally, on June 24, 2014, NG entered into a purchase agreement with an owner participant to purchase its lessor equity interests representing approximately half of the remaining non-affiliated leasehold interest in Perry Unit 1 on May 23, 2016, which is just prior to the end of the lease term. Finally, NG has recently reached an agreement in principle with the owner participants regarding its acquisition of the remaining lessor equity interests in OE's existing sale and leaseback of Perry Unit 1. However, no assurance can be given that an agreement will be finalized and the acquisition of the remaining Perry Unit 1 lessor equity interests will be completed.

FES, and other FE subsidiaries are exposed to losses under their applicable sale and leaseback agreements upon the occurrence of certain contingent events. The maximum exposure under these provisions represents the net amount of casualty value payments due upon the occurrence of specified casualty events. Net discounted lease payments would not be payable if the casualty loss payments were made. The following table discloses each company's net exposure to loss based upon the casualty value provisions as of September 30, 2014:

	Maximum Exposure	Discounted Lease Payments, net[1]	Net Exposure
	(In millions)		
FES	$1,231	$1,017	$214
Other FE subsidiaries	670	399	271

[1]The net present value of FirstEnergy's consolidated sale and leaseback operating lease commitments is $1.0 billion.

8. FAIR VALUE MEASUREMENTS

RECURRING AND NONRECURRING FAIR VALUE MEASUREMENTS

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

Level 1 - Quoted prices for identical instruments in active market

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

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

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

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

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

NUG contracts represent purchase power agreements with third-party non-utility generators that are transacted to satisfy certain obligations under PURPA. NUG contract carrying values are recorded at fair value and adjusted periodically using a mark-to-model methodology, which approximates market. The primary unobservable inputs into the model are regional power prices and generation MWH. Pricing for the NUG contracts is a combination of market prices for the current year and next three years based on observable data and internal models using historical trends and market data for the remaining years under contract. The internal models use forecasted energy purchase prices as an input when prices are not defined by the contract. Forecasted market prices are based on ICE quotes and management assumptions. Generation MWH reflects data provided by contractual arrangements and historical trends. The model calculates the fair value by multiplying the prices by the generation MWH. Generally, significant increases or decreases in inputs in isolation could result in a higher or lower fair value measurement.

LCAPP contracts are financially settled agreements that allow eligible generators to receive payments from, or make payments to, JCP&L, pursuant to an annually calculated load-ratio share of the capacity produced by the generator based upon the annual forecasted peak demand as determined by PJM. LCAPP contracts are recorded at fair value. During the fourth quarter of 2013, all LCAPP contracts were terminated. See Note 9, Derivative Instruments for additional information.

FirstEnergy primarily applies the market approach for recurring fair value measurements using the best information available. Accordingly, FirstEnergy maximizes the use of observable inputs and minimizes the use of unobservable inputs. There were no changes in valuation methodologies used as of September 30, 2014, from those used as of December 31, 2013. The determination of the fair value measures takes into consideration various factors, including but not limited to, nonperformance risk, counterparty credit risk and the impact of credit enhancements (such as cash deposits, LOCs and priority interests). The impact of these forms of risk was not significant to the fair value measurements.

Transfers between levels are recognized at the end of the reporting period. There were no transfers between levels during the nine months ended September 30, 2014. The following tables set forth the recurring assets and liabilities that are accounted for at fair value by level within the fair value hierarchy:

FirstEnergy

Recurring Fair Value Measurements	September 30, 2014				December 31, 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets	(In millions)							
Corporate debt securities	$—	$1,230	$—	$1,230	$—	$1,365	$—	$1,365
Derivative assets - commodity contracts	1	187	—	188	7	208	—	215
Derivative assets - FTRs	—	—	35	35	—	—	4	4
Derivative assets - NUG contracts[1]	—	—	2	2	—	—	20	20
Equity securities[2]	711	—						