ALLEGHENY GENERATING COMPANY

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

GLOSSARY OF TERMS

The following abbreviations and acronyms may be used in these financial statements to identify Allegheny Generating Company and its current and former affiliated companies:

AE Supply	Allegheny Energy Supply Company, LLC, an unregulated affiliated company
AGC	Allegheny Generating Company, a generation subsidiary of AE Supply and equity method investee of MP
FE	FirstEnergy Corp., a publicly owned holding company
FESC	FirstEnergy Service Company, which provides legal, financial and other corporate support services
FirstEnergy	FirstEnergy Corp., together with its consolidated subsidiaries
MP	Monongahela Power Company, a West Virginia electric utility operating affiliated company

The following abbreviations and acronyms may be used to identify frequently used terms in these financial statements:

Bath County	Bath County Pumped Storage Hydro-Power Station
AMT	Alternative Minimum Tax
ASU	Accounting Standards Update
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
GAAP	Accounting Principles Generally Accepted in the United States of America
IRS	Internal Revenue Service
LS Power	LS Power Equity Partners, LP
MW	megawatts
NOL	Net Operating Loss
Tax Act	Tax Cuts and Jobs Act adopted December 22, 2017
VSCC	Virginia State Corporation Commission

Report of Independent Auditors

To Management and the Board of Directors
Of Allegheny Generating Company

We have audited the accompanying financial statements of Allegheny Generating Company, which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of income, of common stockholders' equity, and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Allegheny Generating Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP (signed)

Cleveland, Ohio
March 9, 2018

ALLEGHENY GENERATING COMPANY
STATEMENTS OF INCOME

	For the Years Ended December 31	
(In thousands)	**2017**	**2016**
REVENUES	$ 22,811	$ 22,141
OPERATING EXPENSES:		
Other operating expenses	3,029	2,900
Provision for depreciation	5,729	5,285
General taxes	1,253	1,237
Total operating expenses	10,011	9,422
OPERATING INCOME	12,800	12,719
OTHER INCOME (EXPENSE):		
Miscellaneous Income	3	3
Interest expense	(2,269)	(2,442)
Total other expense	(2,266)	(2,439)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	10,534	10,280
INCOME TAXES	3,129	3,252
INCOME FROM CONTINUING OPERATIONS	7,405	7,028
Discontinued operations (net of income tax expense of $5,024 and $4,866, respectively)	10,773	10,483
NET INCOME	$ 18,178	$ 17,511

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

ALLEGHENY GENERATING COMPANY
BALANCE SHEETS

(In thousands, except share amounts)	December 31, 2017	December 31, 2016
ASSETS		
CURRENT ASSETS:		
Receivables - affiliated companies	$ 4,489	$ 6,197
Materials and supplies, at average cost	1,220	1,163
Prepaid taxes and other	928	810
	6,637	8,170
UTILITY PLANT:		
In service	225,127	224,397
Less — Accumulated provision for depreciation	38,202	32,480
	186,925	191,917
Construction work in progress	718	851
	187,643	192,768
ASSETS HELD FOR SALE (NOTE 9)	256,422	255,758
	$ 450,702	$ 456,696
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES:		
Accounts payable-		
Affiliated companies	$ 15	$ 2
Other	1,022	1,116
Short-term borrowings - affiliated companies	32,231	24,393
Accrued taxes	—	5
Accrued interest	2,333	2,333
Other	168	158
	35,769	28,007
CAPITALIZATION:		
Common stockholders' equity-		
Common stock, $1 par value, 5,000 shares authorized - 1,109 shares outstanding	1	1
Other paid-in capital	128,404	127,611
Retained earnings	23,377	35,199
Total common stockholders' equity	151,782	162,811
Long-term debt and other long-term obligations	99,755	99,686
	251,537	262,497
NONCURRENT LIABILITIES:		
Accumulated deferred income taxes	64,357	132,044
Accumulated deferred investment tax credits	21,433	22,754
Regulatory liabilities	77,606	11,383
Other	—	11
	163,396	166,192
COMMITMENTS AND CONTINGENCIES (Note 7)		
	$ 450,702	$ 456,696

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

ALLEGHENY GENERATING COMPANY
STATEMENTS OF COMMON STOCKHOLDERS' EQUITY

(In thousands, except share amounts)	Common Stock: Number of Shares	Common Stock: Carrying Value	Other Paid-in Capital	Retained Earnings
Balance, January 1, 2016	1,109	$ 1	$ 127,303	$ 17,688
Net income				17,511
Consolidated tax benefit allocation			308	
Balance, December 31, 2016	1,109	$ 1	$ 127,611	$ 35,199
Net income				18,178
Consolidated tax benefit allocation			793	
Cash dividends declared on common stock				(30,000)
Balance, December 31, 2017	1,109	$ 1	$ 128,404	$ 23,377

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

ALLEGHENY GENERATING COMPANY
STATEMENTS OF CASH FLOWS

(In thousands)	For the Years Ended December 31 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 18,178	$ 17,511
Adjustments to reconcile net income to net cash from operating activities-		
Provision for depreciation	5,729	5,285
Deferred income taxes and investment tax credits, net	(1,355)	(707)
Discontinued operations	(10,773)	(10,483)
Changes in current assets and liabilities-		
Receivables	27,471	32,035
Materials and supplies	(58)	(624)
Other current assets	(118)	260
Accounts payable	(4,109)	(6,431)
Accrued taxes	(8,500)	(7,385)
Accrued interest	(3,312)	(3,566)
Other current liabilities	10	(4)
Other	200	196
Net cash provided from operating activities	23,363	26,087
CASH FLOWS FROM FINANCING ACTIVITIES:		
Short-term borrowings, net	7,838	(23,215)
Common stock dividend payments	(30,000)	—
Net cash used for financing activities	(22,162)	(23,215)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(1,201)	(2,872)
Net cash used for investing activities	(1,201)	(2,872)
Net change in cash and cash equivalents	—	—
Cash and cash equivalents at beginning of period	—	—
Cash and cash equivalents at end of period	$ —	$ —
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the year -		
Interest (net of amounts capitalized)	$ 5,304	$ 5,731
Income taxes, net of refunds	$ 9,386	$ 9,403

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

ALLEGHENY GENERATING COMPANY
NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND BASIS OF PRESENTATION

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

AGC, which is incorporated in Virginia, is 59% owned by AE Supply and 41% owned by MP. AE Supply and MP are wholly owned subsidiaries of FE. AGC owns an undivided 40% interest (1,200 MWs) in a 3,003 MW pumped storage, hydroelectric station in Bath County, Virginia, operated by the 60% owner, Virginia Electric and Power Company, a non-affiliated utility. AGC provides its share of the power generated by the Bath County station to AE Supply and MP in proportion to their ownership interests.

AGC is subject to regulation by the VSCC and FERC.

The preparation of financial statements in conformity with GAAP requires management to make periodic estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. Actual results could differ from these estimates. The reported results of operations are not necessarily indicative of results of operations for any future period. AGC has evaluated events and transactions for potential recognition or disclosure through March 9, 2018, the date the financial statements were issued.

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

REVENUES AND RECEIVABLES

Revenues of AGC are determined under a "cost-of-service" wholesale rate schedule approved by FERC. Under this arrangement, AGC recovers in revenues from its owners, AE Supply and MP, its operation and maintenance expenses, depreciation, taxes other than income taxes, income tax expense at the statutory rate and a component for debt and equity return on its investment. In return, AE Supply and MP receive AGC's share of the power generated by the station.

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. AGC nets its regulatory assets and liabilities based on federal and state jurisdictions.

As a result of the Tax Act, FirstEnergy, including AGC, adjusted its net 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 net deferred tax liabilities was offset with a regulatory liability, as appropriate, for amounts expected to be refunded to rate payers in future rates, with the remainder recorded to deferred income tax expense.

The following table provides information about the composition of net regulatory liabilities as of December 31, 2017 and December 31, 2016, and the changes during the year ended December 31, 2017:

Net Regulatory Liabilities by Source	December 31, 2017	December 31, 2016	Decrease
		(In millions)	
Customer payables for future income taxes	$ (79)	$ (12)	$ (67)
Other	1	1	—
Net Regulatory Liabilities included on the Balance Sheets	$ (78)	$ (11)	$ (67)

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. AGC recognizes liabilities for planned major maintenance projects as they are incurred.

AGC evaluates long-lived assets classified as held and used for impairment when events or changes in circumstances indicate the carrying value of the long-lived assets may not be recoverable. First, the 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.

JOINTLY-OWNED PLANTS

As noted above, AGC, owns an undivided 40% interest (1,200 MWs) in a 3,003 MW pumped storage, hydroelectric station in Bath County, Virginia, operated by the 60% owner, Virginia Electric and Power Company, a non-affiliated utility. Net Property, plant and equipment includes $531 million, representing AGC's share in this facility as of December 31, 2017. AGC is obligated to pay its share of the costs of this jointly-owned facility in the same proportion as its ownership interest using its own financing. As discussed in Note 6, "Regulatory Matters," in January 2017 AE Supply entered into an asset purchase agreement (which was subsequently amended and restated) with a subsidiary of LS Power to sell AE Supply's indirect interest (23.75%) in Bath County.

NEW ACCOUNTING PRONOUNCEMENTS

Recently Adopted Pronouncements

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. AGC 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 FASB was not adopted in 2017. Unless otherwise indicated, AGC 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. AGC 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 AGC'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. AGC 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, AGC elected to apply the new guidance on a modified retrospective basis. AGC 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. AGC 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. FirstEnergy 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. AGC 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 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. AGC 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 retrospectively (1) disaggregate the current-service-cost component from the other components of net benefit cost (the “other components”) and present it with other current compensation costs for related employees in the income statement and (2) present the other components elsewhere in the income statement and outside of income from operations if such a subtotal is presented. In addition, ASU 2017-07 requires service costs to be capitalized as appropriate and non-service costs to be charged to earnings. AGC will present non-service costs in the caption “Miscellaneous Income” with the exception of the annual mark-to-market adjustment which will be disclosed separately.

2. TAXES

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

AGC is party to an intercompany income tax allocation agreement with FE that provides for the allocation of consolidated tax liabilities. Net tax benefits attributable to FirstEnergy, excluding any tax benefits derived from interest expense associated with acquisition indebtedness from the merger with GPU, are reallocated to the subsidiaries of FirstEnergy that have taxable income. That allocation is accounted for as a capital contribution to the company receiving the tax benefit.

On December 22, 2017, the President signed into law the Tax Act. Substantially all of the provisions of the Tax Act are effective for taxable years beginning after December 31, 2017. The Tax Act includes significant changes to the Internal Revenue Code of 1986 (as amended, the Code), including amendments which significantly change the taxation of business entities and includes specific provisions related to regulated public utilities including AGC. The more significant changes that impact AGC included in the Tax Act are the following:

- Reduction of the corporate federal income tax rate from 35% to 21%, effective in 2018;
- Elimination of 50% bonus depreciation of qualified property for rate regulated utilities, as of September 27, 2017;
- Limitation of the utilization of federal NOLs arising after December 31, 2017 to 80% of taxable income with an indefinite carryforward;
- Repeal of the corporate AMT and allowing taxpayers to claim a refund on any AMT credit carryovers.

The most significant change that impacts AGC in the current year is the reduction of the corporate federal income tax rate. Other provisions are not expected to have a significant impact on the financial statements, but may impact the effective tax rate in future years. Under US GAAP, specifically ASC Topic 740, Income Taxes, the tax effects of changes in tax laws must be recognized in the period in which the law is enacted, or December 22, 2017, for the Tax Act. ASC 740 also requires deferred tax assets and liabilities to be measured at the enacted tax rate expected to apply when temporary differences are to be realized or settled. Thus, at the date of enactment, AGC's deferred taxes were re-measured based upon the new tax rate, which resulted in a material decrease to AGC's net deferred income tax liabilities. AGC recorded a corresponding net regulatory liability to the extent the change in deferred taxes would result in amounts previously collected from utility customers to be subject to refunds to such customers, generally through reductions in future rates. All other amounts were recorded as an adjustment to AGC's deferred income tax provision.

AGC has completed its assessment of the accounting for certain effects of the provisions in the Tax Act, and as allowed under SEC Staff Accounting Bulletin 118 (SAB 118), has recorded provisional income tax amounts as of December 31, 2017 related to depreciation for which the impacts of the Tax Act could not be finalized, but for which a reasonable estimate could be determined.

Under the new law, property acquired and placed into service after September 27, 2017, will no longer qualify for fifty percent bonus depreciation. As a result, AGC will need to evaluate the contractual terms of its capital expenditures to determine if capital additions are still eligible for fifty percent bonus depreciation under the prior tax law. As of December 31, 2017, AGC has not yet completed this analysis, but has recorded a reasonable estimate of the effects of these changes based on capital costs incurred prior to year-end. In addition, SAB 118 allows for a measurement period for companies to finalize the provisional amounts recorded as of December 31, 2017. AGC expects to record any final adjustments to the provisional amounts by the fourth quarter of 2018, which could result in a material impact to AGC's income tax provision or financial position.

AGC's assessment of accounting for the Tax Act are based upon management's current understanding of the Tax Act. However, it is expected that further guidance will be issued during 2018, which may result in adjustments that could have a material impact to AGC's future results of operations, cash flows, or financial position.

As a result of the Tax Act, AGC recognized an immaterial non-cash benefit to income tax expense and resulted in excess deferred taxes of $50 million, of which the revenue impact was recorded as a regulatory liability. These adjustments had no impact on our 2017 cash flows.

INCOME TAXES:	**2017**	**2016**
	(In thousands)	
Currently payable-		
Federal	$ 4,380	$ 3,835
State	104	124
	4,484	3,959
Deferred, net-		
Federal	(852)	(321)
State	33	150
	(819)	(171)
Investment tax credit amortization	(536)	(536)
Total income taxes	$ 3,129	$ 3,252

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

(In thousands)	**2017**	**2016**
Book income before income taxes	$ 10,534	$ 10,280
Federal income tax expense at statutory rate (35%)	$ 3,687	$ 3,598
Increases (reductions) in taxes resulting from-		
State income tax, net of federal income tax benefit	175	176
Amortization of deferred investment tax credits	(536)	(536)
Remeasurement of deferred taxes	(205)	—
Other, net	8	14
Total income taxes	$ 3,129	$ 3,252
Effective income tax rate	29.7%	31.6%

AGC's effective tax rate on pre-tax income for 2017 and 2016 was 29.7% and 31.6%, respectively. The decrease primarily resulted from the remeasurement of accumulated deferred income taxes in conjunction with the Tax Act, as discussed above.

Accumulated deferred income taxes as of December 31, 2017 and 2016, were as follows:

(In thousands)	**2017**	**2016**
Property basis differences	$ 70,638	$ 144,472
Unamortized investment tax credits	(6,417)	(13,187)
Other	136	759
Net deferred income tax liabilities	$ 64,357	$ 132,044

AGC has recorded as deferred income tax assets the effect of NOLs and tax credits that will more likely than not be realized through future operations and through the reversal of existing temporary differences. As of December 31, 2017, AGC's deferred income tax assets attributable to loss carryforwards and tax credits were immaterial.

AGC accounts for uncertainty in income taxes recognized in its financial statements. A recognition threshold and measurement attribute are utilized for financial statement recognition and measurement of tax positions taken or expected to be taken on a company's tax return. For the years ended December 31, 2017 and 2016, AGC did not record any unrecognized tax benefits, nor does AGC have a reserve for any uncertain tax positions.

AGC recognizes interest expense or income and penalties related to uncertain tax positions in income taxes. That amount is computed by applying the applicable statutory interest rate to the difference between the tax position recognized and the amount previously taken or expected to be taken on the federal income tax return. During 2017 and 2016, AGC did not record any interest related to uncertain tax positions, nor did AGC have cumulative net interest payable recorded on its balance sheets.

For federal income tax purposes, AGC files as a member of the FE consolidated group. In February 2017, the IRS completed its examination of FE's 2015 federal income tax return and issued a Full Acceptance Letter with no changes or adjustments to AGC's taxable income. In August 2017, the IRS substantially completed its examination of FE’s 2016 federal income tax return and, on January 18, 2018, issued a Full Acceptance Letter with no changes or adjustments to AGC’s taxable income. AGC has tax returns under review by state taxing authorities at the audit or appeals level for tax years 2014-2016.

General Taxes

Details of general taxes for the years ended December 31, 2017 and 2016 are shown below:

(In thousands)	**2017**	**2016**
Real and personal property	$ 1,253	$ 1,237
Total general taxes	$ 1,253	$ 1,237

3. FAIR VALUE MEASUREMENTS

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

	December 31, 2017		**December 31, 2016**	
(In thousands)	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Long-term debt	$ 100,000	$ 106,800	$ 100,000	$ 96,500

The fair values of long-term debt and other long-term obligations reflect the present value of the cash outflows relating to those securities based on the current call price, the yield to maturity or the yield to call, as deemed appropriate at the end of each respective period. The yields assumed were based on securities with similar characteristics offered by corporations with credit ratings similar to those of AGC. AGC classified short-term borrowings, long-term debt and other long-term obligations as Level 2 in the fair value hierarchy as of December 31, 2017 and December 31, 2016.

4. CAPITALIZATION

COMMON STOCK

In addition to paying dividends from retained earnings, AGC has authorization from the FERC to pay cash dividends to AE Supply and MP from paid-in capital accounts, as long as its FERC-defined equity-to-total-capitalization ratio remains above 45%.

LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS

The following table presents outstanding long-term debt for AGC as of December 31, 2017 and 2016:

	As of December 31, 2017		**As of December 31,**	
(Dollar amounts in thousands)	**Maturity Date**	**Interest Rate**	**2017**	**2016**
Unsecured notes - fixed rate	2021	5.060%	$ 100,000	$ 100,000

As of December 31, 2017, AGC has a $100 million scheduled debt repayment in 2021.

As of December 31, 2017, AGC was in compliance with all debt covenant default provisions.

5. SHORT-TERM BORROWINGS AND BANK LINES OF CREDIT

AGC had $32 million and $24 million of outstanding short-term borrowings as of December 31, 2017 and 2016, respectively.

FirstEnergy Money Pool

AGC has the ability to borrow from FE's unregulated companies and FE to meet its short-term working capital requirements but AGC is not permitted to lend to FE's unregulated companies and FE. FESC administers this money pool and tracks surplus funds of FE and applicable subsidiaries, as well as proceeds available from bank borrowings. Companies receiving a loan under the money pool agreement must repay the principal amount of the loan, together with accrued interest, within 364 days of borrowing the funds. The rate of interest is the same for each company receiving a loan from the pool and is based on the average cost of funds available through the pool. The average interest rate for borrowings in 2017 was 2.30% per annum.

6. REGULATORY MATTERS

FEDERAL REGULATION

With respect to its wholesale services and rates, AGC is subject to regulation by FERC.

To date, FERC has yet to issue guidance to address how to reflect the impacts resulting from the Tax Act in customer rates. Management continues to monitor and investigate the impact of changes to federal regulation resulting from the Tax Act.

FERC MATTERS

Competitive Generation Asset Sale

FirstEnergy announced in January 2017 that AE Supply and AGC had entered into an asset purchase agreement with a subsidiary of LS Power, as amended and restated in August 2017, to sell four natural gas generating plants, AE Supply's interest in the Buchanan Generating facility and approximately 59% of AGC's interest in Bath County (1,615 MWs of combined capacity) for an all-cash purchase price of $825 million, subject to adjustments and through multiple, independent closings. On December 13, 2017, AE Supply completed the sale of the natural gas generating plants with net proceeds, subject to post-closing adjustments, of approximately $388 million. Additionally on March 1, 2018, AE Supply completed the sale of the Buchanan Generating Facility with net proceeds of approximately $20 million. The sale of AE Supply's interests in the Bath County hydroelectric power station is expected to generate net proceeds of $355 million and is anticipated to close in the first half of 2018, subject to various customary and other closing conditions, including, without limitation, receipt of regulatory approvals.

As part of the closing of the natural gas generating plants, FE provided the purchaser two limited three-year guarantees totaling $555 million of certain obligations of AE Supply and AGC arising under the amended and restated purchase agreement.

With the sale of the gas plants completed, upon the consummation of the sale of AGC's interest in the Bath County hydroelectric power station or the sale or deactivation of the Pleasants Power Station, AE Supply is obligated under the amended and restated purchase agreement and AE Supply's applicable debt agreements, to satisfy and discharge approximately $305 million of currently outstanding senior notes as well as its $142 million of pollution control notes and AGC's $100 million senior notes, which are expected to require the payment of "make-whole" premiums currently estimated to be approximately $95 million based on current interest rates.

On October 20, 2017, the parties filed an application with the VSCC for approval of the sale of approximately 59% of AGC's interest in the Bath County hydroelectric power station. On December 12, 2017, FERC issued an order authorizing the partial transfer of the related hydroelectric license for Bath County under Part I of the FPA. In December 2017, AGC, AE Supply and MP filed with FERC and AGC and AE Supply filed with the VSCC, applications for approval of AGC redeeming AE Supply's shares in AGC upon consummation of the Bath County transaction. On February 2, 2018, the VSCC issued an order finding that approval of the proposed stock redemption is not required, and on February 16, 2018, FERC issued an order authorizing the redemption. Upon the consummation of the redemption, AGC will become a wholly-owned subsidiary of MP.

Sale of MP's Indirect Interest in Bath County

On December 16, 2016, MP issued an RFP for the sale of its indirect ownership interest in Bath County. Bids were received by an independent evaluator in February 2017 for the RFP. MP no longer plans to move forward with that sale of its ownership interest. In the future, MP may re-evaluate its options with respect to its interest in Bath County.

AGC Capital Stock Redemption

In December 2017, AGC, AE Supply and MP filed with FERC and AGC and AE Supply filed with the VSCC, applications for approval of AGC redeeming AE Supply's shares in AGC upon consummation of AGC's sale of a portion of its ownership interest in the Bath County hydroelectric station. On February 2, 2018, the VSCC issued an order finding that approval of the proposed stock redemption is not required, and on February 16, 2018, FERC issued an order authorizing the redemption. Upon the consummation of the redemption, AGC will become a wholly-owned subsidiary of MP.

Rate Agreement Update

On December 20, 2017, AGC filed with FERC a proposed update to AGC's rate agreement to sell capacity from Bath County to AE Supply and MP. The update reflects the Bath County component of the "Competitive Generation Asset Sale" discussed above and AGC's reacquisition of its capital stock from AE Supply. AGC requested the revised rate agreement to become effective the later of February 16, 2018 or the date on which the Bath County transaction and capital stock reacquisition have both been consummated. On February 15, 2018, FERC issued an order accepting the revised rate agreement as requested.

7. COMMITMENTS AND CONTINGENCIES

ENVIRONMENTAL MATTERS

Various federal, state and local authorities regulate AGC with regard to air and water quality and other environmental matters. Pursuant to a March 28, 2017 executive order, the EPA 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. AGC 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 AGC's earnings and competitive position to the extent that AGC 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 and proceedings related to AGC's normal business operations pending against AGC. The loss or range of loss in these matters is not expected to be material to AGC.

AGC 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 AGC 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 AGC has legal liability or is otherwise made subject to liability, it could have a material adverse effect on AGC's financial condition, results of operations and cash flows.

8. TRANSACTIONS WITH AFFILIATED COMPANIES

See the Revenues and Receivables section of Note 1 for a description of costs recovered from AE Supply and MP. In 2017 and 2016, there were additional affiliated company transactions with FESC, a subsidiary of FE, (including capital) for services performed at cost and payments made on behalf of AGC. The primary affiliated company transactions for AGC during the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
	(In thousands)	
Revenues	$ 22,811	$ 22,141
Expenses:		
Support services	314	224
Interest expense to affiliates	244	671

FirstEnergy does not bill directly or allocate any of its costs to any subsidiary company. Costs are allocated from FESC. The majority of costs are directly billed or assigned at no more than cost. The remaining costs are for services that are provided on behalf of more than one company, or costs that cannot be precisely identified and are allocated using formulas developed by FESC. The current allocation or assignment formulas used and their bases include multiple factor formulas: each company's proportionate amount of FirstEnergy's aggregate direct payroll, number of employees, asset balances, revenues, number of customers, other factors and specific departmental charge ratios. Intercompany transactions with FirstEnergy and its other subsidiaries are generally settled under commercial terms within thirty days.

AGC and FirstEnergy's other subsidiaries are parties to an intercompany income tax allocation agreement with FE and its other subsidiaries that provides for the allocation of consolidated tax liabilities. Net tax benefits attributable to FE are generally reallocated to the subsidiaries of FirstEnergy that have taxable income. That allocation is accounted for as a capital contribution to the company receiving the tax benefit (see Note 2, "Taxes").

9. DISCONTINUED OPERATIONS

As discussed in Note 6, "Regulatory Matters," above, in January 2017, AE Supply and AGC entered into an asset purchase agreement with a subsidiary of LS Power, as amended and restated in August 2017, to sell four natural gas generating plants, AE Supply's interest in the Buchanan Generating facility and approximately 59% of AGC's interest in Bath County (1,615 MWs of combined capacity) for an all-cash purchase price of $825 million, subject to adjustments and through multiple, independent closings.

Assets held for sale related to this transaction as of December 31, 2017, include property, plant and equipment (net of accumulated provision for depreciation) of $254 million and materials and supplies inventory of $2 million.

The results of all assets included in this transaction are reported as discontinued operations in AE Supply's Consolidated Statements of Operations, and were as follows:

	For the Years Ended December 31	
	2017	2016
	(In thousands)	
Revenues:		
Electric sales to non-affiliates	$ 24,971	$ 32,367
Total revenues	24,971	32,367
Operating Expenses:		
Operating and maintenance expenses	4,028	3,917
Provision for depreciation	—	7,726
General taxes	1,834	1,809
Total operating expenses	5,862	13,452
Other expense		
Interest expense	(3,312)	(3,566)
Total other expense	(3,312)	(3,566)
Income from discontinued operations before income taxes	15,797	15,349
Income taxes	(5,024)	(4,866)
Income from discontinued operations, net of tax	$ 10,773	$ 10,483