MID-ATLANTIC INTERSTATE TRANSMISSION, LLC

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 FirstEnergy Transmission, LLC and its current and former subsidiaries and affiliated companies:

AE	Allegheny Energy, Inc., a Maryland utility holding company that merged with a subsidiary of FirstEnergy on February 25, 2011, which subsequently merged with and into FE on January 1, 2014
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
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
FirstEnergy	FirstEnergy Corp., together with its consolidated subsidiaries
GPU	GPU, Inc., former parent of JCP&L, ME and PN, that merged with FE on November 7, 2001
JCP&L	Jersey Central Power & Light Company, a New Jersey electric utility operating subsidiary
MAIT	Mid-Atlantic Interstate Transmission, LLC, a subsidiary of FET, formed to own and operate transmission facilities
ME	Metropolitan Edison Company, a Pennsylvania electric utility operating subsidiary
MP	Monongahela Power Company, a West Virginia electric utility operating subsidiary
OE	Ohio Edison Company, an Ohio electric utility operating subsidiary
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 and West Virginia electric utility operating subsidiary
Penn	Pennsylvania Power Company, a Pennsylvania electric utility operating subsidiary of OE
PN	Pennsylvania Electric Company, a Pennsylvania electric utility operating subsidiary
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
WP	West Penn Power Company, a Pennsylvania electric utility operating subsidiary

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

ADIT	Accumulated Deferred Income Taxes
AMT	Alternative Minimum Tax
AEP	American Electric Power Company, Inc.
AFUDC	Allowance for Funds Used During Construction
ALJ	Administrative Law Judge
ARO	Asset Retirement Obligation
ASU	Accounting Standards Update
D.C. Circuit	United States Court of Appeals for the District of Columbia Circuit
ERO	Electric Reliability Organization
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FPA	Federal Power Act
GAAP	Accounting Principles Generally Accepted in the United States of America
IRS	Internal Revenue Service
ISO	Independent System Operator
ITC	Investment Tax Credit
kV	Kilovolt
LOC	Letter of Credit
MISO	Midcontinent Independent System Operator, Inc.
MVP	Multi-Value Project
NERC	North American Electric Reliability Corporation
NJBPU	New Jersey Board of Public Utilities
NOL	Net Operating Loss

OPEB	Other Post-Employment Benefits
PJM	PJM Interconnection, L.L.C.
PJM Region	The aggregate of the zones within PJM
PJM Tariff	PJM Open Access Transmission Tariff
PPUC	Pennsylvania Public Utility Commission
RFC	Reliability*First* Corporation
ROE	Return on Equity
RTEP	Regional Transmission Expansion Plan
RTO	Regional Transmission Organization
SEC	United States Securities and Exchange Commission
Seventh Circuit	United States Court of Appeals for the Seventh Circuit
Tax Act	Tax Cuts and Jobs Act adopted December 22, 2017

Report of Independent Auditors

To Management and the Board of Directors
Of Mid-Atlantic Interstate Transmission, LLC

We have audited the accompanying financial statements of Mid-Atlantic Interstate Transmission, LLC, which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of income, of 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 Mid-Atlantic Interstate Transmission, LLC 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

MID-ATLANTIC INTERSTATE TRANSMISSION, LLC
STATEMENTS OF INCOME

	For the Years Ended December 31	
(In thousands)	**2017**	**2016**
REVENUES	$ 108,507	$ 96,433
OPERATING EXPENSES:		
Other operating expenses	40,061	25,575
Provision for depreciation	18,646	14,262
General taxes	61	563
Amortization of regulatory assets/liabilities, net	3,151	—
Impairment of assets	12,967	—
Total operating expenses	74,886	40,400
OPERATING INCOME	33,621	56,033
OTHER INCOME (EXPENSE):		
Miscellaneous income	848	1,050
Interest expense	(1,211)	—
Capitalized financing costs	7,223	669
Total other income	6,860	1,719
INCOME BEFORE INCOME TAXES	40,481	57,752
INCOME TAXES	15,361	23,963
NET INCOME	$ 25,120	$ 33,789

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

MID-ATLANTIC INTERSTATE TRANSMISSION, LLC
BALANCE SHEETS

(In thousands)	December 31, 2017	December 31, 2016
ASSETS		
CURRENT ASSETS:		
Receivables-		
Affiliated companies	$ 1,656	$ —
Other	7,299	5,567
Notes receivable from affiliated companies	—	40,563
Prepaid taxes and other	432	—
	9,387	46,130
UTILITY PLANT:		
In service	1,142,966	1,023,984
Less — Accumulated provision for depreciation	365,216	356,173
	777,750	667,811
Construction work in progress	155,440	43,457
	933,190	711,268
DEFERRED CHARGES AND OTHER ASSETS:		
Goodwill	223,592	223,592
Regulatory assets	—	25,613
Other	922	—
	224,514	249,205
	$ 1,167,091	$ 1,006,603
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES:		
Short-term borrowings - affiliated companies	$ 137,227	$ —
Accounts payable - affiliated companies	2,539	2,960
Accrued taxes	7,573	—
Other	205	—
	147,544	2,960
CAPITALIZATION:		
Members' equity-		
Membership Interest A	39,146	39,146
Membership Interest B	743,776	743,776
Retained earnings	6,993	—
Total member's equity	789,915	782,922
NONCURRENT LIABILITIES:		
Accumulated deferred income taxes	130,802	218,200
Regulatory Liabilities	96,304	—
Other	2,526	2,521
	229,632	220,721
COMMITMENTS AND CONTINGENCIES (Note 6)		
	$ 1,167,091	$ 1,006,603

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

MID-ATLANTIC INTERSTATE TRANSMISSION, LLC
STATEMENTS OF EQUITY

(In thousands)	Member's Capital A	Member's Capital B	Retained Earnings
Balance, January 1, 2016	$ 39,146	$ 743,776	$ —
Net income			33,789
Cash dividends declared			(33,789)
Balance, December 31, 2016	$ 39,146	$ 743,776	$ —
Net income			25,120
Cash dividends declared			(18,127)
Balance, December 31, 2017	$ 39,146	$ 743,776	$ 6,993

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

MID-ATLANTIC INTERSTATE TRANSMISSION, LLC
STATEMENTS OF CASH FLOWS

(In thousands)	For the Years Ended December 31 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 25,120	$ 33,789
Adjustments to reconcile net income to net cash from operating activities-		
Depreciation and amortization of regulatory assets/liabilities, net	21,797	14,262
Deferred income taxes and investment tax credits, net	29,200	20,378
Transmission revenue collections, net	12,153	—
Allowance for funds used during construction - equity	(6,861)	(669)
Impairment of assets	12,967	—
Changes in current assets and liabilities -		
Receivables	(1,252)	—
Accounts payable	(13,263)	—
Accrued taxes	7,573	—
Other	(6,177)	—
Net cash provided from operating activities	81,257	67,760
CASH FLOWS FROM FINANCING ACTIVITIES:		
Short-term borrowings - affiliated companies	137,227	—
Dividend payments	(18,127)	(33,789)
Other	(1,042)	—
Net cash provided from (used for) financing activities	118,058	(33,789)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(229,313)	(47,760)
Loans to affiliated companies, net	40,563	13,789
Asset removal costs	(10,565)	—
Net cash used for investing activities	(199,315)	(33,971)
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 (received) during the year-		
Interest (net of amounts capitalized)	$ 917	$ —
Income taxes (refunds), net	$ (21,412)	$ 3,585

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

MID-ATLANTIC INTERSTATE TRANSMISSION, LLC
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.

MAIT, which is organized under Delaware law, is a subsidiary of FET, a direct subsidiary of FE. Following receipt of necessary regulatory approvals, on January 31, 2017, MAIT issued membership interests to FET, PN and ME in exchange for their respective cash and transmission asset contributions. MAIT owns and operates all of the FERC-jurisdictional transmission assets previously owned by ME and PN, consisting of approximately 4,234 circuit miles of transmission lines with nominal voltages of 500 kV, 345 kV, 230 kV, 138 kV, 115 kV, 69 kV and 46 kV in the PJM Region. Subsequently, on March 13, 2017, FERC issued an order authorizing MAIT to issue short- and long-term debt securities, permitting MAIT to participate in the FirstEnergy regulated companies' money pool for working capital, fund day-to-day operations, support capital investment and establish an actual capital structure for ratemaking purposes.

The cash and net transmission assets transferred to MAIT from FET, PN and ME on January 31, 2017, included the following:

	(In millions)
Cash	$ 38
Utility Plant	1,026
Accum. Depreciation	(358)
CWIP	47
ITC	(2)
Goodwill	224
Net Regulatory Assets	23
Other deferred charges	2
ADIT	(217)
	$ 783

In accordance with GAAP, the accompanying financial statements have been retrospectively updated to reflect the formation of MAIT as of the earliest period presented.

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. MAIT has evaluated events and transactions for potential recognition or disclosure through March 9, 2018, the date the financial statements were issued.

REVENUES AND RECEIVABLES

Under a formula rate mechanism approved by the FERC, MAIT makes annual filings in order to recover incurred costs and an allowed return. An initial rate filing is made for each calendar year using estimated costs, which is used to determine the initial billings to customers. All prudently incurred allowable operation and maintenance costs, a return earned on rate base and an income tax allowance are recovered or refunded through a subsequent true-up mechanism. As such, MAIT recognizes revenue as it incurs recoverable costs and earns the allowed return. Any differences between revenues earned based on actual costs and the amounts billed based on estimated costs are recognized as a regulatory asset or liability and will be recovered or refunded, respectively, in subsequent periods.

ACCOUNTING FOR THE EFFECTS OF REGULATION

MAIT accounts for the effects of regulation through the application of regulatory accounting since its rates are established by a third-party regulator with the authority to set rates that bind customers, are cost-based and can be charged to and collected from customers.

MAIT records regulatory assets and liabilities that result from the regulated rate-making process that would not be recorded under GAAP by non-regulated entities. These assets and liabilities are amortized in the Statements of Income concurrent with their recovery or refund through customer rates. MAIT believes that it is probable that its regulatory assets and liabilities will be recovered and settled, respectively, through future rates.

As a result of the Tax Act, FirstEnergy, including MAIT, 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 assets and liabilities as of December 31, 2017 and December 31, 2016, and the changes during the year ended December 31, 2017:

Net Regulatory Assets (Liabilities) by Source	**December 31, 2017**	**December 31, 2016**	**Decrease**
		(In millions)	
Customer receivables (payables) for future income taxes	$ (85)	$ 24	$ (109)
Deferred transmission costs	(11)	1	(12)
Other	—	1	(1)
Net Regulatory Assets (Liabilities) included on the Balance Sheets	$ (96)	$ 26	$ (122)

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

MAIT provides for depreciation on a straight-line basis at various rates over the estimated lives of property included in plant in service. Depreciation expense was approximately 1.6% of average depreciable property in 2017 and 2016.

For the years ended December 31, 2017 and 2016, capitalized financing costs on MAIT's Statements of Income include $7 million and $1 million, respectively, of allowance for equity funds used during construction.

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

INVESTMENTS

All temporary cash investments purchased with an initial maturity of three months or less are reported as cash equivalents on the Balance Sheets, at cost, which approximates their fair market value.

GOODWILL

As discussed above, on January 31, 2017, MAIT issued membership interests to FET, PN and ME in exchange for their respective cash and transmission asset contributions, which included $224 million of goodwill.

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

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

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. MAIT 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, MAIT 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. MAIT 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 MAIT'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. MAIT 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, MAIT elected to apply the new guidance on a modified retrospective basis. MAIT 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. MAIT 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. MAIT 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. MAIT 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. MAIT 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. MAIT 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. MAIT accounts for its participation within the FirstEnergy pension plan similar to that of FirstEnergy, therefore MAIT will follow the same methodology in adopting this standard as FirstEnergy.

2. TAXES

MAIT 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.

MAIT 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 MAIT. The more significant changes that impact MAIT 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 MAIT 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, MAIT's deferred taxes were re-measured based upon the new tax rate, which resulted in a material decrease to MAIT's net deferred income tax liabilities. MAIT 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 MAIT's deferred income tax provision.

MAIT 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, MAIT 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, MAIT 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. MAIT expects to record any final adjustments to the provisional amounts by the fourth quarter of 2018, which could result in a material impact to MAIT's income tax provision or financial position.

MAIT'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 MAIT's future results of operations, cash flows, or financial position.

As a result of the Tax Act, MAIT recognized an immaterial non-cash benefit to income tax expense and resulted in excess deferred taxes of $76 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 millions)	
Currently payable (receivable)-		
Federal	$ (15)	$ 1
State	1	3
	(14)	4
Deferred, net-		
Federal	26	17
State	3	3
	29	20
Total income taxes	$ 15	$ 24

MAIT'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 millions)	2017	2016
Book income before income taxes	$ 40	$ 58
Federal income tax expense at statutory rate (35%)	$ 14	$ 20
Increases (reductions) in taxes resulting from-		
State income taxes, net of federal income tax benefit	3	4
AFUDC	(1)	—
Other, net	(1)	—
Total income taxes	$ 15	$ 24
Effective income tax rate	37.5%	41.4%

MAIT's effective tax rate on pre-tax income for 2017 and 2016 was 37.5% and 41.4%, respectively. The decrease in the effective tax rate was primarily due to an increase in the benefit for AFUDC equity and other state flow-through in 2017.

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

(In millions)	2017	2016
Property basis differences	$ 135	$ 221
All other	(4)	(3)
Net accumulated deferred income tax liabilities	$ 131	$ 218

MAIT will record 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, MAIT had no loss carryforwards or tax credits.

MAIT accounts for uncertainty in income taxes recognized in its financial statements. A recognition threshold and measurement attributed is 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, MAIT did not record any unrecognized tax benefits, nor does MAIT have a reserve for any uncertain tax positions.

MAIT 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 tax return. During 2017 and 2016, MAIT did not record any interest related to uncertain tax positions, nor did MAIT have cumulative net interest payable recorded on its balance sheet.

3. CAPITALIZATION

COMMON STOCK

MAIT issued membership interest on January 31, 2017, in exchange for cash and asset contributions from FET, PN and ME.

As of December 31, 2017, MAIT has no scheduled debt repayments for the next five years.

Debt Covenant Default Provisions

MAIT has various debt covenants under certain financing arrangements, including its revolving credit facility. The most restrictive of the debt covenants relate to the nonpayment of interest and/or principal on such debt and the maintenance of certain financial ratios. The failure by MAIT to comply with the covenants contained in any of its financing arrangements could result in an event of default, which may have an adverse effect on MAIT's financial condition.

Additionally, there are cross-default provisions in certain financing arrangements of FE and its subsidiaries, including MAIT. These provisions generally trigger a default in the applicable financing arrangement of an entity if it or any of its significant subsidiaries default under another financing arrangement in excess of a certain principal amount, typically $100 million. Although such defaults by MAIT would generally cross-default FE financing arrangements containing these provisions, defaults by FE would generally not cross-default applicable MAIT financing arrangements.

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

4. SHORT-TERM BORROWINGS AND BANK LINES OF CREDIT

MAIT had $137 million of outstanding short-term borrowings as of December 31, 2017 and no outstanding short-term borrowings as of December 31, 2016.

Revolving Credit Facility

FET and its subsidiaries, including MAIT, participate in two separate five-year syndicated revolving credit facilities with aggregate commitments of $5.0 billion (Facilities), which are available through December 6, 2021. FET and its subsidiaries may use borrowings under their Facilities for working capital and other general corporate purposes, including intercompany loans and advances by a borrower to any of its subsidiaries. Generally, borrowings under each of the Facilities are available to each borrower separately and mature on the earlier of 364 days from the date of borrowing or the commitment termination date, as the same may be extended. Each of the Facilities contains financial covenants requiring each borrower to maintain a consolidated debt-to-total-capitalization ratio (as defined under each of the Facilities) of no more than 65%, and 75% for FET, measured at the end of each fiscal quarter.

Under this Facility, MAIT may borrow up to its sub-limit of $400 million, all of which was available to MAIT as of January 31, 2018. MAIT has regulatory and other short-term debt limitations of $400 million which includes amounts that may be borrowed under the regulated companies' money pool.

The Facility does not contain provisions that restrict the ability to borrow or accelerate payment of outstanding advances in the event of any change in credit ratings of the borrowers. Pricing is defined in “pricing grids,” whereby the cost of funds borrowed under the Facility is related to the credit ratings of the company borrowing the funds, other than the FET facility, which is based on its subsidiaries' credit ratings. Additionally, borrowings under the Facility are subject to the usual and customary provisions for acceleration upon the occurrence of events of default, including a cross-default for other indebtedness in excess of $100 million.

FirstEnergy Money Pool

FE’s regulated companies, including MAIT, also have the ability to borrow from each other and the holding company to meet their short-term working capital requirements. FESC administers this money pool and tracks surplus funds of FE and the respective regulated 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 regulated pool and is based on the average cost of funds available through the pool. The average interest rate for borrowings in 2017 was 1.48% per annum.

5. REGULATORY MATTERS

FEDERAL REGULATION

With respect to its transmission services and rates, MAIT is subject to regulation by FERC. Under the FPA, FERC regulates rates for transmission of electric power, accounting and other matters. FERC regulations require MAIT to provide open access transmission service at FERC-approved rates, terms and conditions. MAIT's transmission facilities are subject to functional control by PJM, and transmission service using MAIT's transmission facilities is provided by PJM under the PJM Tariff. See "FERC Matters" below.

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.

RELIABILITY MATTERS

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

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

FERC MATTERS

MAIT Transmission Formula Rate

On October 28, 2016, as amended on January 10, 2017, MAIT submitted an application to FERC requesting authorization to implement a forward-looking formula transmission rate to recover and earn a return on transmission assets effective February 1, 2017. Various intervenors submitted protests of the proposed MAIT formula rate. Among other things, the protest asked FERC to suspend the proposed effective date for the formula rate until June 1, 2017. On March 10, 2017, FERC issued an order accepting the MAIT formula transmission rate for filing, suspending the formula transmission rate for five months to become effective July 1, 2017, and establishing hearing and settlement judge procedures. On April 10, 2017, MAIT requested rehearing of FERC's decision to suspend the effective date of the formula rate. FERC's order on rehearing remains pending. MAIT's rates went into effect on July 1, 2017, subject to refund pending the outcome of the hearing and settlement procedures. On October 13, 2017, MAIT and certain parties filed a settlement agreement with FERC. The settlement agreement provides for certain changes to MAIT's formula rate, changes MAIT's ROE from 11% to 10.3%, sets the recovery amount for certain regulatory assets, and establishes that MAIT's capital structure will not exceed 60% equity over the period ending December 31, 2021. The settlement agreement further provides that the ROE and the 60% cap on the equity component of MAIT's capital structure will remain in effect unless changed pursuant to section 205 or 206 of the FPA provided the effective date for any change shall be no earlier than January 1, 2022. The settlement agreement currently is pending at FERC. As a result of the settlement agreement, MAIT recognized a pre-tax impairment charge of $13 million in the third quarter of 2017.

PJM Transmission Rates

PJM and its stakeholders have been debating the proper method to allocate costs for certain transmission facilities. While FirstEnergy and other parties advocate for a traditional "beneficiary pays" (or usage based) approach, others advocate for "socializing" the costs on a load-ratio share basis, where each customer in the zone would pay based on its total usage of energy within PJM. This question has been the subject of extensive litigation before FERC and the appellate courts, including before the Seventh Circuit. On June 25, 2014, a divided three-judge panel of the Seventh Circuit ruled that FERC had not quantified the benefits that western PJM utilities would derive from certain new 500 kV or higher lines and thus had not adequately supported its decision to socialize the costs of these lines. The majority found that eastern PJM utilities are the primary beneficiaries of the lines, while western PJM utilities are only incidental beneficiaries, and that, while incidental beneficiaries should pay some share of the costs of the lines, that share should be proportionate to the benefit they derive from the lines, and not on load-ratio share in PJM as a whole. The court remanded the case to FERC, which issued an order setting the issue of cost allocation for hearing and settlement proceedings. On June 15, 2016, various parties, including ATSI and the Utilities, filed a settlement agreement at FERC agreeing to apply a combined usage based/socialization approach to cost allocation for charges to transmission customers in the PJM Region for transmission projects operating at or above 500 kV. Certain other parties in the proceeding did not agree to the settlement and filed protests to the settlement seeking, among other issues, to strike certain of the evidence advanced by FirstEnergy and certain of the other settling parties in support of the settlement, as well as provided further comments in opposition to the settlement. FirstEnergy and certain of the other parties responded to such opposition. On October 20, 2017, the settling and non-opposing parties requested expedited action by FERC. The settlement is pending before FERC.

The outcome of this proceeding and its impact, if any, on MAIT as successor in interest to ME and PN, cannot be predicted at this time.

6. COMMITMENTS AND CONTINGENCIES

ENVIRONMENTAL MATTERS

Various federal, state and local authorities regulate MAIT 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. MAIT 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 MAIT's earnings and competitive position to the extent that MAIT 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 MAIT's normal business operations pending against MAIT. The loss or range of loss in these matters is not expected to be material to MAIT. The other potentially material items not otherwise discussed above are described under Note 6, "Regulatory Matters" of the Notes to Financial Statements.

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

7. TRANSACTIONS WITH AFFILIATED COMPANIES

MAIT's operating revenues, operating expenses, miscellaneous income and interest expenses include transactions with affiliated companies. The primary affiliated-company transactions for MAIT, including the effects of the transmission arrangements with ME, PN and FESC during the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
	(In millions)	
Revenues	$ 4	$ 4
Support services	46	15
Interest expense	1	—

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.

MAIT 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").