TRANS-ALLEGHENY INTERSTATE LINE 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 Trans-Allegheny Interstate Line Company, and its current and former affiliated companies:

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
FE	FirstEnergy Corp., a publicly owned 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, MAIT 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 affiliated company
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
OE	Ohio Edison Company, an Ohio electric utility operating affiliated company
PATH	Potomac-Appalachian Transmission Highline, LLC, a joint venture between FE and a subsidiary of AEP
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 affiliated company
WP	West Penn Power Company, a Pennsylvania electric utility operating affiliated company
TrAIL	Trans-Allegheny Interstate Line Company, a subsidiary of FET, which owns and operates transmission facilities

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

AEP	American Electric Power Company, Inc.
AFUDC	Allowance for Funds Used During Construction
AMT	Alternative Minimum Tax
ASU	Accounting Standards Update
CWIP	Construction Work in Progress
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
kV	Kilovolt
LOC	Letter of Credit
NERC	North American Electric Reliability Corporation
NOL	Net Operating Loss
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
R&D	Research and Development
RFC	Reliability*First* Corporation
RTEP	Regional Transmission Expansion Plan
SEC	United States Securities and Exchange Commission

Tax Act	Tax Cuts and Jobs Act adopted December 22, 2017
VSCC	Virginia State Corporation Commission
WVPSC	Public Service Commission of West Virginia

Report of Independent Auditors

To Management and the Board of Directors
Of Trans-Allegheny Interstate Line Company

We have audited the accompanying financial statements of Trans-Allegheny Interstate Line Company, which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of income, of common stockholder's 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 Trans-Allegheny Interstate Line 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

TRANS-ALLEGHENY INTERSTATE LINE COMPANY
STATEMENTS OF INCOME

	For the Years Ended December 31	
(In millions)	**2017**	**2016**
REVENUES	$ 281	$ 252
OPERATING EXPENSES:		
Other operating expenses	12	10
Provision for depreciation	47	41
General taxes	12	12
Total operating expenses	71	63
OPERATING INCOME	210	189
OTHER INCOME (EXPENSE):		
Interest expense	(26)	(27)
Capitalized financing costs	2	12
Total other expense	(24)	(15)
INCOME BEFORE INCOME TAXES	186	174
INCOME TAXES	73	84
NET INCOME	$ 113	$ 90

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

TRANS-ALLEGHENY INTERSTATE LINE COMPANY
BALANCE SHEETS

(In millions)	December 31, 2017	December 31, 2016
ASSETS		
CURRENT ASSETS:		
Receivables-		
Affiliated companies	$ 30	$ 1
Other	23	21
Prepaid taxes and other	11	10
	64	32
UTILITY PLANT:		
In service	2,124	2,050
Less — Accumulated provision for depreciation	177	139
	1,947	1,911
Construction work in progress	18	48
	1,965	1,959
OTHER PROPERTY AND INVESTMENTS:	6	6
DEFERRED CHARGES AND OTHER ASSETS:		
Regulatory assets	—	82
Property taxes	5	5
Other	3	4
	8	91
	$ 2,043	$ 2,088
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES:		
Short-term borrowings - affiliated companies	$ 106	$ 170
Accounts payable - affiliated companies	1	1
Accrued taxes	17	19
Accrued interest	2	2
	126	192
CAPITALIZATION:		
Common stockholder's equity-		
Other paid-in capital	900	900
Retained earnings	25	27
Total common stockholder's equity	925	927
Long-term debt and other long-term obligations	621	621
	1,546	1,548
NONCURRENT LIABILITIES:		
Accumulated deferred income taxes	248	336
Regulatory liabilities	110	—
Property taxes	5	5
Other	8	7
	371	348
COMMITMENTS AND CONTINGENCIES (Note 7)		
	$ 2,043	$ 2,088

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

TRANS-ALLEGHENY INTERSTATE LINE COMPANY
STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

(In millions, except share amounts)	Common Stock		
	Outstanding Shares	**Other Paid-in Capital**	**Retained Earnings**
Balance, January 1, 2016	1,000	$ 899	$ 32
Net income			90
Cash dividends declared on common stock			(95)
Return of capital to parent		(150)	
Equity contribution from parent		150	
Consolidated tax benefit allocation		1	
Balance, December 31, 2016	1,000	$ 900	$ 27
Net income			113
Equity contribution from parent		150	
Return of capital from subsidiary		(150)	
Cash dividends declared on common stock			(115)
Balance, December 31, 2017	1,000	$ 900	$ 25

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

TRANS-ALLEGHENY INTERSTATE LINE COMPANY
STATEMENTS OF CASH FLOWS

	For the Years Ended December 31	
(In millions)	**2017**	**2016**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 113	$ 90
Adjustments to reconcile net income to net cash from operating activities-		
Provision for depreciation	47	41
Deferred income taxes and investment tax credits, net	100	60
Transmission revenue collections, net	(4)	5
Allowance for funds used during construction - equity	(2)	(10)
Changes in current assets and liabilities -		
Receivables	(26)	(2)
Prepaid taxes and other	(1)	—
Accrued taxes	(2)	(123)
Other	1	1
Net cash provided from operating activities	226	62
CASH FLOWS FROM FINANCING ACTIVITIES:		
Short-term borrowings - affiliated companies	—	170
Redemptions and repayments - affiliated companies	(64)	—
Return of capital payments	—	(150)
Parent company equity contribution	150	150
Common stock dividend payments	(115)	(95)
Other	—	(1)
Net cash provided from (used for) financing activities	(29)	74
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(47)	(209)
Loans to affiliated companies, net	—	72
Return of capital from subsidiary	(150)	—
Other	—	1
Net cash used for investing activities	(197)	(136)
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)	$ 25	$ 24
Income taxes, net of refunds	$ 6	$ 147

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

TRANS-ALLEGHENY INTERSTATE LINE COMPANY
NOTES TO FINANCIAL STATEMENTS

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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.

TrAIL is a wholly owned subsidiary of FET, a direct subsidiary of FE. TrAIL was formed to construct, manage and finance transmission expansion projects, including a 500 kV transmission line from southwestern Pennsylvania through West Virginia and into Virginia (TrAIL Line). All segments of the TrAIL Line were energized and placed into service on May 19, 2011.

TrAIL is subject to regulation by FERC, the PPUC, VSCC and WVPSC.

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. TrAIL 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

Under a formula rate mechanism approved by the FERC, TrAIL 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, TrAIL 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

TrAIL 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.

TrAIL 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. TrAIL 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 TrAIL, 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	Increase (Decrease)
		(In millions)	
Customer receivables (payables) for future income taxes	$ (164)	$ 23	$ (187)
Asset removal costs	(52)	(43)	(9)
Deferred transmission costs	106	102	4
Net Regulatory Assets (Liabilities) included on the Balance Sheets	$ (110)	$ 82	$ (192)

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

TrAIL provides for depreciation on a straight-line basis at various rates over the estimated lives of property included in plant in service. Depreciation expense was approximately 2.2% of average depreciable property in 2017 and 2016. TrAIL has been granted certain incentives by FERC, including the inclusion of CWIP in rate base for most components of the TrAIL Line. As a result, AFUDC is not applicable to such components of the TrAIL Line.

For the year ended December 31, 2017, capitalized financing costs on TrAIL's Statement of Income include $2 million of allowance for equity funds used during construction. For the year ended December 31, 2016, capitalized financing costs on TrAIL's Statement of Income include $10 million and $2 million, respectively, of allowance for equity funds used during construction and capitalized interest.

TrAIL 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.

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.

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. TrAIL 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, TrAIL 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. TrAIL 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 TrAIL'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. TrAIL 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, TrAIL elected to apply the new guidance on a modified retrospective basis. TrAIL 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. TrAIL 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. TrAIL 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. TrAIL 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. TrAIL 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. TrAIL 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

TrAIL 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.

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

TrAIL 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 be eligible for full expensing for all taxpayers other than regulated utilities. As a result, TrAIL will need to evaluate the contractual terms of its capital expenditures to determine eligibility for full expensing. As of December 31, 2017, TrAIL 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. TrAIL expects to record any final adjustments to the provisional amounts by the fourth quarter of 2018, which could result in a material impact to TrAIL’s income tax provision or financial position.

TrAIL’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 TrAIL’s future results of operations, cash flows, or financial position.

As a result of the Tax Act, TrAIL recognized a non-cash benefit to income tax expense of $1 million which resulted in excess deferred taxes of $134 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	$ (37)	$ 17
State	10	7
	(27)	24
Deferred, net-		
Federal	95	26
State	5	34
	100	60
Total income taxes	$ 73	$ 84

TrAIL'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	$ 186	$ 174
Federal income tax expense at statutory rate (35%)	$ 65	$ 61
Increases (reductions) in taxes resulting from-		
State income tax, net of federal income tax benefit	9	9
State Valuation Allowances	—	18
AFUDC equity and other flow-through	—	(4)
Other	(1)	—
Total income taxes	$ 73	$ 84
Effective income tax rate	39.2%	48.3%

TrAIL's effective tax rate on pre-tax income for 2017 and 2016 was 39.2% and 48.3%, respectively. The change in the effective tax rate was primarily due to the absence of valuation allowances recorded on state NOL carryforwards in 2016 that management believes more likely than not, will not be realized, partial offset by a reduction in the benefit of AFUDC equity and other state flow-through in 2017.

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

(In millions)	**2017**	**2016**
Property basis differences	$ 297	$ 532
Regulatory asset/liability	46	41
NOL carryforwards	(115)	(248)
Valuation allowances on NOL carryforwards	22	18
Other	(2)	(7)
Net deferred income tax liabilities	$ 248	$ 336

TrAIL 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, TrAIL's loss carryforwards consisted of approximately $417 million ($88 million, tax-effected) of Federal NOL carryforwards which begin to expire in 2031 and $475 million ($26 million, tax-effected) of State NOL carryforwards, that have been partially reserved and begin to expire in 2031.

TrAIL accounts for uncertainty in income taxes recognized in its financial statements. A recognition threshold and measurement attribute is utilized for financial statement recognition and measurement of tax positions taken or expected to be taken on a company's tax return. As of December 31, 2017 and 2016, TrAIL's total unrecognized income tax benefits were approximately $2 million, none of which would impact the effective tax rate if ultimately recognized in future years.

On October 18, 2017, the Supreme Court of Pennsylvania affirmed the Commonwealth Court's holding that the state's net loss carryover provision violated the Pennsylvania Uniformity Clause and was unconstitutional. However, the Supreme Court of Pennsylvania also opined that the portion of the net loss carryover provision that created the violation may be severed from the statute, enabling the statute to operate as the legislature intended, and on October 30, 2017, the Pennsylvania Governor signed House Bill 542 into law which, among other things, amended Pennsylvania's limitation on net loss deductions to remove the flat-dollar limitation. On January 4, 2018, the Supreme Court of Pennsylvania denied to further hear any arguments related to the matter and, as a result, TrAIL withdrew its protective refund claims from the state of Pennsylvania on January 30, 2018. Upon doing so, TrAIL will reverse a previously recorded unrecognized tax benefit of approximately $2 million in the first quarter of 2018, none of which will impact TrAIL's effective tax rate.

TrAIL 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. TrAIL's recognition of net interest associated with unrecognized tax benefits in 2017 by TrAIL for the years ended December 31, 2017 and 2016 was not material. For the years ended December 31, 2017 and 2016, the cumulative net interest payable recorded by TrAIL was not material.

For federal income tax purposes, TrAIL 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 TrAIL'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 TrAIL's taxable income. TrAIL 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 millions)	2017	2016
Real and personal property	$ 12	$ 12
Total general taxes	$ 12	$ 12

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, TrAIL believes that their costs approximates their fair market value. The following table provides the approximate fair value and related carrying value of long-term debt, which excludes net unamortized debt issuance costs:

	December 31, 2017		December 31, 2016	
(In millions)	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Long-term debt	$ 625	$ 645	$ 625	$ 634

The fair value of long-term debt reflects 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 TrAIL. TrAIL classified short-term borrowings, long-term debt as Level 2 in the fair value hierarchy as of December 31, 2017 and December 31, 2016.

4. CAPITALIZATION

COMMON STOCK

TrAIL is authorized to issue 5,000 shares of common stock, $1.00 par value, as of December 31, 2017. As of December 31, 2017 and 2016, there were 1,000 common shares outstanding.

LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS

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

	As of December 31, 2017		As of December 31,	
(Dollar amounts in millions)	Maturity Date	Interest Rate	2017	2016
Unsecured notes - fixed rate	2025	3.760% - 3.850%	$ 625	$ 625
Unamortized debt issuance costs			(4)	(4)
Total long-term debt and other long-term obligations			$ 621	$ 621

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

Debt Covenant Default Provisions

TrAIL 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 TrAIL 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 TrAIL's financial condition.

Additionally, there are cross-default provisions in certain financing arrangements of FE and its subsidiaries, including TrAIL. 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 TrAIL would generally cross-default FE financing arrangements containing these provisions, defaults by FE would generally not cross-default applicable TrAIL financing arrangements.

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

5. SHORT-TERM BORROWINGS AND BANK LINES OF CREDIT

TrAIL had $106 million and $170 million of outstanding short-term borrowings as of December 31, 2017 and 2016, respectively.

Revolving Credit Facility

FET and its subsidiaries, including TrAIL, 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, TrAIL may borrow up to its sub-limit of $400 million, all of which was available to TrAIL as of January 31, 2018. TrAIL 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 TrAIL, 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.

6. REGULATORY MATTERS

FEDERAL REGULATION

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

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 TrAIL. 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 TrAIL, are located within the RFC region. FirstEnergy actively participates in the NERC and RFC stakeholder processes, and otherwise monitors and manages its companies, including TrAIL, in response to the ongoing development, implementation and enforcement of the reliability standards implemented and enforced by RFC.

FirstEnergy, including TrAIL, 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 TrAIL, 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 TrAIL, 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 TrAIL'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 TrAIL's financial condition, results of operations and cash flows.

STATE REGULATORY MATTERS

In several recent proceedings before the PPUC whereby TrAIL or one of the Pennsylvania Companies requested approval to locate and construct transmission projects in western Pennsylvania, the PPUC approved the projects but requested an economic analysis of the costs and benefits to Pennsylvania ratepayers of TrAIL owning the projects as compared to one of the Pennsylvania Companies. In each instance, TrAIL, or one of the Pennsylvania Companies, submitted the requested information in compliance with the PPUC orders.

7. COMMITMENTS AND CONTINGENCIES

ENVIRONMENTAL MATTERS

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

TrAIL 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 TrAIL 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 TrAIL 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 TrAIL's financial condition, results of operations and cash flows.

8. TRANSACTIONS WITH AFFILIATED COMPANIES

In addition to the intercompany income tax allocation and short-term borrowing arrangement, TrAIL has other operating expense and interest expense transactions with affiliated companies, primarily MP, PE, WP and FESC. The primary affiliated-company transactions for TrAIL during the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
	(In millions)	
Revenues	$ 10	$ 10
Expenses:		
Support services	19	19
Investment Income	1	—
Interest expense to affiliates	—	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.

As of December 31, 2017 and 2016, TrAIL had $5 million of affiliated non-current liabilities related to pension and OPEB mark-to-market costs allocated to TrAIL.

TrAIL 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").