FIRSTENERGY CORP
Form 10-Q
July 28, 2016

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

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

For the quarterly period ended June 30, 2016

OR

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

For the transition period from ___________________ to ___________________

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

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

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

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

CLASS	OUTSTANDING AS OF JUNE 30, 2016
FirstEnergy Corp., $0.10 par value	425,198,228
FirstEnergy Solutions Corp., no par value	7

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

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

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

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

- The speed and nature of increased competition in the electric utility industry, in general, and the retail sales market in particular.
- The ability to experience growth in the Regulated Distribution and Regulated Transmission segments.
- The accomplishment of our regulatory and operational goals in connection with our transmission investment plan, including, but not limited to, the proposed transmission asset transfer to MAIT, and the effectiveness of our strategy to reflect a more regulated business profile.
- Changes in assumptions regarding economic conditions within our territories, assessment of the reliability of our transmission system, or the availability of capital or other resources supporting identified transmission investment opportunities.
- The impact of the regulatory process and resulting outcomes on the matters at the federal level and in the various states in which we do business including, but not limited to, matters related to rates and the ESP IV.
- The impact of the federal regulatory process on FERC-regulated entities and transactions, in particular FERC regulation of wholesale energy and capacity markets, including PJM markets and FERC-jurisdictional wholesale transactions; FERC regulation of cost-of-service rates, including FERC Opinion No. 531's revised ROE methodology for FERC-jurisdictional wholesale generation and transmission utility service; and FERC’s compliance and enforcement activity, including compliance and enforcement activity related to NERC’s mandatory reliability standards.
- The uncertainties of various cost recovery and cost allocation issues resulting from ATSI's realignment into PJM.
- Economic or weather conditions affecting future sales and margins such as a polar vortex or other significant weather events, and all associated regulatory events or actions.
- Changing energy, capacity and commodity market prices including, but not limited to, coal, natural gas and oil prices, and their availability and impact on margins and asset valuations, including without limitation impairments thereon.
- The risks and uncertainties at the CES segment, including FES, related to continued depressed wholesale energy and capacity markets, including the potential need to deactivate or sell additional generating units.
- The continued ability of our regulated utilities to recover their costs.
- Costs being higher than anticipated and the success of our policies to control costs and to mitigate low energy, capacity and market prices.
- Other legislative and regulatory changes, and revised environmental requirements, including, but not limited to, the effects of the EPA's CPP, CCR, CSAPR and MATS programs, including our estimated costs of compliance, CWA waste water effluent limitations for power plants, and CWA 316(b) water intake regulation.
- The uncertainty of the timing and amounts of the capital expenditures that may arise in connection with any litigation, including NSR litigation, or potential regulatory initiatives or rulemakings (including that such initiatives or rulemakings could result in our decision to deactivate or idle certain generating units).
- The uncertainties associated with the deactivation of certain older regulated and competitive fossil units, including the impact on vendor commitments, such as long-term fuel and transportation agreements, and as it relates to the reliability of the transmission grid, the timing thereof.
- The impact of other future changes to the operational status or availability of our generating units and any capacity performance charges associated with unit unavailability.
- Adverse regulatory or legal decisions and outcomes with respect to our nuclear operations (including, but not limited to, the revocation or non-renewal of necessary licenses, approvals or operating permits by the NRC or as a result of

the incident at Japan's Fukushima Daiichi Nuclear Plant).

- Issues arising from the indications of cracking in the shield building at Davis-Besse.
- The risks and uncertainties associated with litigation, arbitration, mediation and like proceedings, including, but not limited to, any such proceedings related to vendor commitments, such as long-term fuel and transportation agreements.
- The impact of labor disruptions by our unionized workforce.
- Replacement power costs being higher than anticipated or not fully hedged.
- The ability to comply with applicable state and federal reliability standards and energy efficiency and peak demand reduction mandates.
- Changes in customers' demand for power, including, but not limited to, changes resulting from the implementation of state and federal energy efficiency and peak demand reduction mandates.
- The ability to accomplish or realize anticipated benefits from strategic and financial goals, including, but not limited to, the ability to continue to reduce costs and to successfully execute our financial plans designed to improve our credit metrics and strengthen our balance sheet through, among other actions, our cash flow improvement plan and other proposed capital raising initiatives.
- Our ability to improve electric commodity margins and the impact of, among other factors, the increased cost of fuel and fuel transportation on such margins.

- Changing market conditions that could affect the measurement of certain liabilities and the value of assets held in our NDTs, pension trusts and other trust funds, and cause us and/or our subsidiaries to make additional contributions sooner, or in amounts that are larger than currently anticipated.
- The impact of changes to material accounting policies.
- The ability to access the public securities and other capital and credit markets in accordance with our financial plans, the cost of such capital and overall condition of the capital and credit markets affecting us and our subsidiaries.
- Actions that may be taken by credit rating agencies that could negatively affect us and/or our subsidiaries' access to financing, increase the costs thereof, and increase requirements to post additional collateral to support outstanding commodity positions, LOCs and other financial guarantees.
- Changes in national and regional economic conditions affecting us, our subsidiaries and/or our major industrial and commercial customers, and other counterparties with which we do business, including fuel suppliers.
- The impact of any changes in tax laws or regulations or adverse tax audit results or rulings.
- Issues concerning the stability of domestic and foreign financial institutions and counterparties with which we do business.
- The risks associated with cyber-attacks and other disruptions to our information technology system that may compromise our generation, transmission and/or distribution services and data security breaches of sensitive data, intellectual property and proprietary or personally identifiable information regarding our business, employees, shareholders, customers, suppliers, business partners and other individuals in our data centers and on our networks.
- The risks and other factors discussed from time to time in our SEC filings, and other similar factors.

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

The foregoing factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements and risks that are included in FirstEnergy's and FES' filings with the SEC, including but not limited to the most recent Annual Report on Form 10-K and any subsequent Quarterly Reports on Form 10-Q. New factors emerge from time to time, and it is not possible for management to predict all such factors, nor assess the impact of any such factor on FirstEnergy's business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statements. The registrants expressly disclaim any current intention to update, except as required by law, any forward-looking statements contained herein as a result of new information, future events or otherwise.

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GLOSSARY OF TERMS

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

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

PNBV	PNBV Capital Trust, a special purpose entity created by OE in 1996
Signal Peak	An indirect subsidiary of Global Holding that owns mining operations near Roundup, Montana
TE	The Toledo Edison Company, an Ohio electric utility operating subsidiary
TrAIL	Trans-Allegheny Interstate Line Company, a subsidiary of FET, which owns and operates transmission facilities
Utilities	OE, CEI, TE, Penn, JCP&L, ME, PN, MP, PE and WP
WP	West Penn Power Company, a Pennsylvania electric utility operating subsidiary

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

AAA	American Arbitration Association
AEP	American Electric Power Company, Inc.
AFS	Available-for-sale
AFUDC	Allowance for Funds Used During Construction
ALJ	Administrative Law Judge
AOCI	Accumulated Other Comprehensive Income
Apple®	Apple®, iPad® and iPhone® are registered trademarks of Apple Inc.
ARO	Asset Retirement Obligation

GLOSSARY OF TERMS, Continued

ARR	Auction Revenue Right
ASU	Accounting Standards Update
BGS	Basic Generation Service
BNSF	BNSF Railway Company
BRA	PJM RPM Base Residual Auction
CAA	Clean Air Act
CCR	Coal Combustion Residuals
CDWR	California Department of Water Resources
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act of 1980
CFIP	Cash Flow Improvement Project
CFR	Code of Federal Regulations
CO_2	Carbon Dioxide
CPP	EPA's Clean Power Plan
CSAPR	Cross-State Air Pollution Rule
CSX	CSX Transportation, Inc.
CTA	Consolidated Tax Adjustment
CWA	Clean Water Act
DCR	Delivery Capital Recovery
DR	Demand Response
DSIC	Distribution System Improvement Charge
DSP	Default Service Plan
EDC	Electric Distribution Company
EE&C	Energy Efficiency and Conservation
EGS	Electric Generation Supplier
ELPC	Environmental Law & Policy Center
EmPOWER Maryland	EmPower Maryland Energy Efficiency Act
ENEC	Expanded Net Energy Cost
EPA	United States Environmental Protection Agency
ERO	Electric Reliability Organization
ESP	Electric Security Plan
ESP IV PPA	Unit Power Agreement entered into on April 1, 2016 by and between the Ohio Companies and FES
ESP IV PPA Facilities	100% of the output of the W. H. Sammis plant, 100% of the output of the Davis-Besse Nuclear Power Station and FES' 4.85% entitlement in OVEC
Facebook®	Facebook is a registered trademark of Facebook, Inc.
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Fitch	Fitch Ratings
FMB	First Mortgage Bond
FPA	Federal Power Act
FTR	Financial Transmission Right
GAAP	Accounting Principles Generally Accepted in the United States of America
GHG	Greenhouse Gases
GWH	Gigawatt-hour
HB554	Ohio House Bill No. 554
HCl	Hydrochloric Acid
ICE	Intercontinental Exchange, Inc.

IRP	Integrated Resource Plan
IRS	Internal Revenue Service
ISO	Independent System Operator
kV	Kilovolt
KWH	Kilowatt-hour
LOC	Letter of Credit

GLOSSARY OF TERMS, Continued

LSE	Load Serving Entity
LTIIPs	Long-Term Infrastructure Improvement Plans
MATS	Mercury and Air Toxics Standards
MDPSC	Maryland Public Service Commission
MISO	Midcontinent Independent System Operator, Inc.
MLP	Master Limited Partnership
mmBTU	One Million British Thermal Units
Moody’s	Moody’s Investors Service, Inc.
MOPR	Minimum Offer Price Rule
MVP	Multi-Value Project
MW	Megawatt
MWH	Megawatt-hour
NAAQS	National Ambient Air Quality Standards
NDT	Nuclear Decommissioning Trust
NERC	North American Electric Reliability Corporation
Ninth Circuit	United States Court of Appeals for the Ninth Circuit
NJBPU	New Jersey Board of Public Utilities
NOL	Net Operating Loss
NOV	Notice of Violation
NOx	Nitrogen Oxide
NPDES	National Pollutant Discharge Elimination System
NRC	Nuclear Regulatory Commission
NSR	New Source Review
NUG	Non-Utility Generation
NYPSC	New York State Public Service Commission
OCC	Ohio Consumers' Counsel
OPEB	Other Post-Employment Benefits
OTTI	Other Than Temporary Impairments
OVEC	Ohio Valley Electric Corporation
PA DEP	Pennsylvania Department of Environmental Protection
PCB	Polychlorinated Biphenyl
PCRB	Pollution Control Revenue Bond
PJM	PJM Interconnection, L.L.C.
PJM Region	The aggregate of the zones within PJM
PJM Tariff	PJM Open Access Transmission Tariff
PM	Particulate Matter
POLR	Provider of Last Resort
POR	Purchase of Receivables
PPA	Purchase Power Agreement
PPB	Parts Per Billion
PPUC	Pennsylvania Public Utility Commission
PSA	Power Supply Agreement
PSD	Prevention of Significant Deterioration
PUCO	Public Utilities Commission of Ohio
PURPA	Public Utility Regulatory Policies Act of 1978
RCRA	Resource Conservation and Recovery Act
REC	Renewable Energy Credit

REIT	Real Estate Investment Trust
RFC	ReliabilityFirst Corporation
RFP	Request for Proposal
RGGI	Regional Greenhouse Gas Initiative
ROE	Return on Equity

GLOSSARY OF TERMS, Continued

RPM	Reliability Pricing Model
RRS	Retail Rate Stability
RSS	Rich Site Summary
RTEP	Regional Transmission Expansion Plan
RTO	Regional Transmission Organization
S&P	Standard & Poor's Ratings Service
SB221	Amended Substitute Ohio Senate Bill No. 221
SB310	Substitute Ohio Senate Bill No. 310
SB320	Ohio Senate Bill No. 320
SBC	Societal Benefits Charge
SEC	United States Securities and Exchange Commission
SEC Regulation FD	SEC Regulation Fair Disclosure
Seventh Circuit	United States Court of Appeals for the Seventh Circuit
SIP	State Implementation Plan(s) Under the Clean Air Act
SO_2	Sulfur Dioxide
Sixth Circuit	United States Court of Appeals for the Sixth Circuit
SOS	Standard Offer Service
SPE	Special Purpose Entity
SREC	Solar Renewable Energy Credit
SSO	Standard Service Offer
TDS	Total Dissolved Solid
TMI-2	Three Mile Island Unit 2
TO	Transmission Owner
Twitter®	Twitter is a registered trademark of Twitter, Inc.
U.S. Court of Appeals for the D.C. Circuit	United States Court of Appeals for the District of Columbia Circuit
VIE	Variable Interest Entity
VSCC	Virginia State Corporation Commission
WVDEP	West Virginia Department of Environmental Protection
WVPSC	Public Service Commission of West Virginia

PART I. FINANCIAL INFORMATION

ITEM I. Financial Statements

FIRSTENERGY CORP.
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(Unaudited)

(In millions, except per share amounts)	For the Three Months Ended June 30 2016	2015	For the Six Months Ended June 30 2016	2015
REVENUES:				
Regulated Distribution	$2,200	$2,239	$4,721	$4,801
Regulated Transmission	264	269	539	507
Unregulated businesses	937	957	2,010	2,054
Total revenues*	3,401	3,465	7,270	7,362
OPERATING EXPENSES:				
Fuel	438	383	819	896
Purchased power	889	989	2,013	2,102
Other operating expenses	964	900	1,882	1,957
Provision for depreciation	334	322	663	641
Amortization of regulatory assets, net	63	59	124	91
General taxes	241	242	521	511
Impairment of assets (Note 2)	1,447	16	1,447	16
Total operating expenses	4,376	2,911	7,469	6,214
OPERATING INCOME (LOSS)	(975)	554	(199)	1,148
OTHER INCOME (EXPENSE):				
Investment income (loss)	19	(3)	47	14
Interest expense	(289)	(282)	(577)	(561)
Capitalized financing costs	26	33	51	67
Total other expense	(244)	(252)	(479)	(480)
INCOME (LOSS) BEFORE INCOME TAXES (BENEFITS)	(1,219)	302	(678)	668
INCOME TAXES (BENEFITS)	(130)	115	83	259
NET INCOME (LOSS)	$(1,089)	$187	$(761)	$409
EARNINGS (LOSSES) PER SHARE OF COMMON STOCK:				
Basic	$(2.56)	$0.44	$(1.79)	$0.97
Diluted	$(2.56)	$0.44	$(1.79)	$0.97
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:				
Basic	425	422	424	422

Diluted	425	423	424	423
DIVIDENDS DECLARED PER SHARE OF COMMON STOCK	$—	$—	$0.72	$0.72

* Includes excise tax collections of $92 million and $96 million in the three months ended June 30, 2016 and 2015, respectively, and $199 million and $211 million in the six months ended June 30, 2016 and 2015, respectively.

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

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

	For the Three Months Ended June 30		For the Six Months Ended June 30	
(In millions)	2016	2015	2016	2015
NET INCOME (LOSS)	$(1,089)	$187	$(761)	$409
OTHER COMPREHENSIVE INCOME (LOSS):				
Pension and OPEB prior service costs	(18)	(32)	(36)	(63)
Amortized losses on derivative hedges	2	1	4	2
Change in unrealized gains on available-for-sale securities	35	(14)	63	(10)
Other comprehensive income (loss)	19	(45)	31	(71)
Income taxes (benefits) on other comprehensive income (loss)	7	(17)	11	(27)
Other comprehensive income (loss), net of tax	12	(28)	20	(44)
COMPREHENSIVE INCOME (LOSS)	$(1,077)	$159	$(741)	$365

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

FIRSTENERGY CORP.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions, except share amounts)	June 30, 2016	December 31, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$199	$ 131
Receivables-		
Customers, net of allowance for uncollectible accounts of $63 in 2016 and $69 in 2015	1,341	1,415
Other, net of allowance for uncollectible accounts of $3 in 2016 and $5 in 2015	153	180
Materials and supplies	759	785
Prepaid taxes	280	135
Derivatives	161	157
Collateral	20	70
Other	163	167
	3,076	3,040
PROPERTY, PLANT AND EQUIPMENT:		
In service	50,367	49,952
Less — Accumulated provision for depreciation	15,295	15,160
	35,072	34,792
Construction work in progress	2,389	2,422
	37,461	37,214
INVESTMENTS:		
Nuclear plant decommissioning trusts	2,456	2,282
Other	527	506
	2,983	2,788
DEFERRED CHARGES AND OTHER ASSETS:		
Goodwill (Note 2)	5,618	6,418
Regulatory assets	1,187	1,348
Other	1,076	1,286
	7,881	9,052
	$51,401	$ 52,094
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES:		
Currently payable long-term debt	$1,327	$ 1,166
Short-term borrowings	2,925	1,708
Accounts payable	938	1,075
Accrued taxes	439	519
Accrued compensation and benefits	341	334
Derivatives	102	106
Other	687	694
	6,759	5,602
CAPITALIZATION:		
Common stockholders’ equity-		
Common stock, $0.10 par value, authorized 490,000,000 shares - 425,198,228 and 423,560,397 shares outstanding as of June 30, 2016 and December 31, 2015, respectively	42	42

Other paid-in capital	9,984	9,952
Accumulated other comprehensive income	191	171
Retained earnings	1,190	2,256
Total common stockholders' equity	11,407	12,421
Noncontrolling interest	—	1
Total equity	11,407	12,422
Long-term debt and other long-term obligations	18,348	19,099
	29,755	31,521
NONCURRENT LIABILITIES:		
Accumulated deferred income taxes	6,888	6,773
Retirement benefits	4,177	4,245
Asset retirement obligations	1,448	1,410
Deferred gain on sale and leaseback transaction	774	791
Adverse power contract liability	181	197
Other	1,419	1,555
	14,887	14,971
COMMITMENTS, GUARANTEES AND CONTINGENCIES (Note 12)		
	$51,401	$ 52,094

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

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FIRSTENERGY CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Six Months Ended June 30	
(In millions)	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (loss)	$(761)	$409
Adjustments to reconcile net income (loss) to net cash from operating activities-		
Depreciation and amortization, including nuclear fuel, regulatory assets, net, and customer intangible asset amortization	922	869
Deferred purchased power and other costs	(33)	(45)
Deferred income taxes and investment tax credits, net	72	219
Impairment of assets (Note 2)	1,447	16
Investment impairments	10	24
Deferred costs on sale leaseback transaction, net	24	24
Retirement benefits	31	(16)
Pension trust contributions	(160)	(143)
Commodity derivative transactions, net (Note 9)	5	(7)
Lease payments on sale and leaseback transaction	(94)	(102)
Changes in current assets and liabilities-		
Receivables	101	8
Prepayments and other current assets	(91)	(116)
Accounts payable	(22)	(245)
Accrued taxes	(80)	(23)
Accrued compensation and benefits	(50)	12
Other current liabilities	17	2
Cash collateral, net	21	38
Other	101	66
Net cash provided from operating activities	1,460	990
CASH FLOWS FROM FINANCING ACTIVITIES:		
New Financing-		
Long-term debt	—	200
Short-term borrowings, net	1,225	1,109
Redemptions and Repayments-		
Long-term debt	(581)	(292)
Common stock dividend payments	(305)	(303)
Other	36	(2)
Net cash provided from financing activities	375	712
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(1,492)	(1,486)
Nuclear fuel	(188)	(97)
Sales of investment securities held in trusts	1,024	819
Purchases of investment securities held in trusts	(1,073)	(881)
Asset removal costs	(63)	(67)
Other	25	19

Net cash used for investing activities	(1,767)	(1,693)
Net change in cash and cash equivalents	68	9
Cash and cash equivalents at beginning of period	131	85
Cash and cash equivalents at end of period	$199	$94

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

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

	For the Three Months Ended June 30		For the Six Months Ended June 30	
(In millions)	2016	2015	2016	2015
STATEMENTS OF OPERATIONS				
REVENUES:				
Electric sales to non-affiliates	$958	$914	$1,965	$1,989
Electric sales to affiliates	102	157	249	412
Other	42	48	87	95
Total revenues	1,102	1,119	2,301	2,496
OPERATING EXPENSES:				
Fuel	228	191	393	421
Purchased power from affiliates	167	77	249	147
Purchased power from non-affiliates	266	392	643	935
Other operating expenses	369	337	609	750
Provision for depreciation	84	81	167	161
General taxes	19	25	45	54
Impairment of assets (Note 2)	540	16	540	16
Total operating expenses	1,673	1,119	2,646	2,484
OPERATING INCOME (LOSS)	(571)	—	(345)	12
OTHER INCOME (EXPENSE):				
Investment income	19	1	32	14
Miscellaneous income	1	4	3	4
Interest expense — affiliates	(1)	(2)	(3)	(4)
Interest expense — other	(37)	(37)	(73)	(74)
Capitalized interest	8	9	18	18
Total other expense	(10)	(25)	(23)	(42)
LOSS BEFORE INCOME TAX BENEFITS	(581)	(25)	(368)	(30)
INCOME TAX BENEFITS	(143)	(4)	(61)	(6)
NET LOSS	$(438)	$(21)	$(307)	$(24)
STATEMENTS OF COMPREHENSIVE LOSS				
NET LOSS	$(438)	$(21)	$(307)	$(24)
OTHER COMPREHENSIVE INCOME (LOSS):				
Pension and OPEB prior service costs	(3)	(4)	(7)	(8)
Amortized gains on derivative hedges	(1)	(1)	(1)	(2)

Change in unrealized gains on available-for-sale securities	33	(12)	56	(9)
Other comprehensive income (loss)	29	(17)	48	(19)
Income taxes (benefits) on other comprehensive income (loss)	12	(6)	19	(7)
Other comprehensive income (loss), net of tax	17	(11)	29	(12)
COMPREHENSIVE LOSS	$(421)	$(32)	$(278)	$(36)

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

FIRSTENERGY SOLUTIONS CORP.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions, except share amounts)	June 30, 2016	December 31, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$2	$ 2
Receivables-		
Customers, net of allowance for uncollectible accounts of $7 in 2016 and $8 in 2015	225	275
Affiliated companies	411	451
Other, net of allowance for uncollectible accounts of $3 in 2016 and 2015	37	59
Notes receivable from affiliated companies	—	11
Materials and supplies	430	470
Derivatives	155	154
Collateral	20	70
Prepayments and other	81	66
	1,361	1,558
PROPERTY, PLANT AND EQUIPMENT:		
In service	13,992	14,311
Less — Accumulated provision for depreciation	5,706	5,765
	8,286	8,546
Construction work in progress	1,061	1,157
	9,347	9,703
INVESTMENTS:		
Nuclear plant decommissioning trusts	1,510	1,327
Other	10	10
	1,520	1,337
DEFERRED CHARGES AND OTHER ASSETS:		
Customer intangibles	52	61
Goodwill (Note 2)	—	23
Property taxes	20	40
Derivatives	83	79
Other	377	367
	532	570
	$12,760	$ 13,168
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES:		
Currently payable long-term debt	$439	$ 512
Short-term borrowings-		
Affiliated companies	210	—
Other	—	8
Accounts payable-		
Affiliated companies	360	542
Other	114	139
Accrued taxes	78	76
Derivatives	99	104
Other	173	181
	1,473	1,562

CAPITALIZATION:		
Common stockholder's equity-		
Common stock, without par value, authorized 750 shares - 7 shares outstanding as of June 30, 2016 and December 31, 2015	3,643	3,613
Accumulated other comprehensive income	75	46
Retained earnings	1,639	1,946
Total common stockholder's equity	5,357	5,605
Long-term debt and other long-term obligations	2,347	2,510
	7,704	8,115
NONCURRENT LIABILITIES:		
Deferred gain on sale and leaseback transaction	774	791
Accumulated deferred income taxes	627	600
Retirement benefits	344	332
Asset retirement obligations	877	831
Derivatives	46	38
Other	915	899
	3,583	3,491
COMMITMENTS, GUARANTEES AND CONTINGENCIES (Note 12)		
	$12,760	$ 13,168

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

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

(In millions)	For the Six Months Ended June 30 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(307)	$(24)
Adjustments to reconcile net loss to net cash from operating activities-		
Depreciation and amortization, including nuclear fuel and customer intangible asset amortization	281	278
Deferred costs on sale and leaseback transaction, net	24	24
Deferred income taxes and investment tax credits, net	(16)	50
Investment impairments	9	22
Commodity derivative transactions, net (Note 9)	5	(7)
Lease payments on sale and leaseback transaction	(94)	(102)
Impairment of assets (Note 2)	540	16
Changes in current assets and liabilities-		
Receivables	110	277
Materials and supplies	12	(9)
Prepayments and other current assets	(13)	(9)
Accounts payable	(79)	(259)
Accrued taxes	2	(23)
Accrued compensation and benefits	(6)	1
Other current liabilities	22	17
Cash collateral, net	50	89
Other	16	2
Net cash provided from operating activities	556	343
CASH FLOWS FROM FINANCING ACTIVITIES:		
New financing-		
Short-term borrowings, net	210	124
Redemptions and repayments-		
Long-term debt	(245)	(69)
Other	(2)	(2)
Net cash (used for) provided from financing activities	(37)	53
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(335)	(264)
Nuclear fuel	(188)	(97)
Sales of investment securities held in trusts	441	376
Purchases of investment securities held in trusts	(467)	(404)
Cash investments	11	—
Loans to affiliated companies, net	11	(13)
Other	8	6
Net cash used for investing activities	(519)	(396)

Net change in cash and cash equivalents	—	—
Cash and cash equivalents at beginning of period	2	2
Cash and cash equivalents at end of period	$2	$2

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

FIRSTENERGY CORP. AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION

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

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

FirstEnergy and its subsidiaries are principally involved in the generation, transmission, and distribution of electricity. FirstEnergy’s ten utility operating companies comprise one of the nation’s largest investor-owned electric systems, based on serving six million customers in the Midwest and Mid-Atlantic regions. Its generation subsidiaries control nearly 17,000 MW of capacity from a diverse mix of non-emitting nuclear, scrubbed coal, natural gas, hydroelectric and other renewables. FirstEnergy’s transmission operations include approximately 24,000 miles of lines and two regional transmission operation centers.
These interim financial statements have been prepared pursuant to the rules and regulations of the SEC for Quarterly Reports on Form 10-Q. Certain information and disclosures normally included in financial statements and notes prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. These interim financial statements should be read in conjunction with the financial statements and notes included in the combined Annual Report on Form 10-K for the year ended December 31, 2015. These Notes to the Consolidated Financial Statements are combined for FirstEnergy and FES.

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

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

For the three months ended June 30, 2016 and 2015, Capitalized financing costs on FirstEnergy's Consolidated Statements of Income (Loss) include $9 million and $14 million, respectively, of allowance for equity funds used during construction and $17 million and $19 million, respectively, of capitalized interest. For the six months ended

June 30, 2016 and 2015, Capitalized financing costs on FirstEnergy's Consolidated Statements of Income (Loss) include $17 million and $30 million, respectively, of allowance for equity funds used during construction and $34 million and $37 million, respectively, of capitalized interest.

During the second quarter of 2015, FirstEnergy and FES recognized an impairment charge of $16 million associated with certain transportation equipment. In order to conform to current year presentation, the charge was reclassified from Other operating expenses in the Consolidated Statement of Income (Loss) to Impairment of assets.

New Accounting Pronouncements

In May 2014, the FASB issued, ASU 2014-09 "Revenue from Contracts with Customers", requiring entities to recognize revenue by applying a five-step model in accordance with the core principle to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the accounting for costs to obtain or fulfill a contract with a customer is specified and disclosure requirements for revenue recognition are expanded. In August 2015, the FASB issued a final ASU deferring the effective date until fiscal years beginning after December 15, 2017. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, (the original effective date). In March 2016, the FASB issued ASU 2016-08, “Principal versus Agent Considerations (Reporting Revenue Gross versus Net)", clarifying the principal versus agent implementation guidance in the following areas: unit of account at which the principal/agent determination is made; applying the control principle to certain types of transactions and the control principle and principal/agent indicators. In April 2016, the FASB issued ASU 2016-10, “Identifying Performance Obligations and Licensing”, clarifying the identification of performance obligations and the licensing implementation guidance. In May 2016, the FASB issued ASU 2016-11, “Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant

to Staff Announcements at the March 3, 2016 EITF Meeting”, rescinding certain SEC Staff Observer comments that are codified in Topic 605, Revenue Recognition, and Topic 932, Extractive Activities-Oil and Gas, effective upon adoption of Topic 606. In May 2016, FASB issued ASU 2016-12 "Narrow-Scope Improvements and Practical Expedients", which is intended to not change the core principle of the guidance in Topic 606, but rather affect only the narrow aspects of Topic 606 by reducing the potential for diversity in practice at initial application and by reducing the cost and complexity of applying Topic 606 both at transition and on an ongoing basis. The standards shall be applied retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. FirstEnergy is currently evaluating the impact on its financial statements of adopting these standards.

In February 2015, the FASB issued, ASU 2015-02 "Consolidations: Amendments to the Consolidation Analysis", which amends current consolidation guidance including changes to both the variable and voting interest models used by companies to evaluate whether an entity should be consolidated. A reporting entity must apply the amendments using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the period of adoption or apply the amendments retrospectively. FirstEnergy's adoption of ASU 2015-02, on January 1, 2016, did not result in a change in the consolidation of VIEs by FirstEnergy or its subsidiaries. See Note 7, Variable Interest Entities, for additional information.

In April 2015, the FASB issued, ASU 2015-03 "Simplifying the Presentation of Debt Issuance Costs", which requires debt issuance costs to be presented on the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. In addition, in August 2015, the FASB issued ASU 2015-15, "Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements", which allows debt issuance costs related to line of credit arrangements to be presented as an asset and amortized ratably over the term of the arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit. FirstEnergy adopted ASU 2015-15 and ASU 2015-03 beginning January 1, 2016. As of December 31, 2015, FirstEnergy and FES reclassified $93 million and $17 million of debt issuance costs included in Deferred charges and other assets to Long-term debt and other long-term obligations. FirstEnergy will elect to continue presenting debt issuance costs relating to its revolving credit facilities as an asset.

In January of 2016, the FASB issued ASU 2016-01, "Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities", which primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the FASB clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The ASU will be effective in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption for certain provisions can be elected for all financial statements of fiscal years and interim periods that have not yet been issued or that have not yet been made available for issuance. FirstEnergy is currently evaluating the impact on its financial statements of adopting this standard.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)", which 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. 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. FirstEnergy is currently evaluating the impact on its financial statements of adopting this standard.

In March of 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting", which simplifies several aspects of the accounting for employee share-based payment. The new guidance will require all income tax effects of awards to be recognized in the income statement when the awards vest or are settled. It also will not require liability accounting when an employer repurchases more of an employee's shares for tax withholding purposes. The ASU will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, with early adoption permitted. FirstEnergy is currently evaluating the impact on its financial statements of adopting this standard.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," which removes all recognition thresholds and will require companies to recognize an allowance for credit losses for the difference between the amortized cost basis of a financial instrument and the amount of amortized cost that the company expects to collect over the instrument's contractual life. The ASU is effective for fiscal years and for interim periods with those fiscal years beginning after December 15, 2019. Early adoption is permitted for fiscal years beginning after December 15, 2018. FirstEnergy is currently evaluating the impact on its financial statements of adopting this standard.

Additionally, during 2016, the FASB issued the following ASUs:

- ASU 2016-05, "Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships",
- ASU 2016-06, "Contingent Put and Call Options in Debt Instruments (a consensus of the FASB Emerging Issues Task Force)",and
- ASU 2016-07, "Simplifying the Transition to the Equity Method of Accounting".

FirstEnergy does not expect these ASUs to have a material effect on its financial statements.

2. ASSET IMPAIRMENTS

Plant Impairments

FirstEnergy reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The recoverability of a long-lived asset is measured by comparing its carrying value to the sum of undiscounted future cash flows expected to result from the use and eventual disposition of the asset. If the carrying value is greater than the undiscounted cash flows, an impairment exists and a loss is recognized for the amount by which the carrying value of the long-lived asset exceeds its estimated fair value. FirstEnergy utilizes the income approach, based upon discounted cash flows to estimate fair value.

On July 19, 2016, FirstEnergy and FES committed to exit operations of the Bay Shore Unit 1 generating station (136 MW) by October 1, 2020, through either sale or deactivation and to deactivate Units 1-4 of the W. H. Sammis generating station (720 MW) by May 31, 2020. As a result of these decisions, FirstEnergy recorded a non-cash pre-tax impairment charge of $647 million ($517 million - FES) in the second quarter of 2016, which is included in Impairment of assets on the Consolidated Statement of Income (Loss) and included within the results of the CES segment. Deactivation of these units is subject to review by PJM. In addition, FirstEnergy and FES recorded termination and settlement costs on fuel contracts of approximately $58 million (pre-tax) in the second quarter of 2016 resulting from plant retirements and deactivations.

Goodwill

FirstEnergy tests goodwill for impairment annually as of July 31 and considers more frequent testing if indicators of potential impairment arise. As a result of low capacity prices associated with the 2019/2020 PJM Base Residual Auction in May 2016, as well as its annual update to its fundamental long-term capacity and energy price forecast, FirstEnergy determined that an interim impairment analysis of the CES reporting unit’s goodwill was necessary during the second quarter of 2016.

Consistent with FirstEnergy’s annual goodwill impairment test, a discounted cash flow analysis was used to determine the fair value of the CES reporting unit for purposes of step one of the interim goodwill impairment test. Key assumptions incorporated into the CES discounted cash flow analysis requiring significant management judgment included the following:

- Future Energy and Capacity Prices: Observable market information for near-term forward power prices, PJM auction results for near term capacity pricing, and a longer-term fundamental pricing model for energy and capacity that considered the impact of key factors such as load growth, plant retirements, carbon and other environmental regulations, and natural gas pipeline construction, as well as coal and natural gas pricing.
- Retail Sales and Margin: CES' current retail targeted portfolio to estimate future retail sales volume as well as historical financial results to estimate retail margins.
- Operating and Capital Costs: Estimated future operating and capital costs, including the estimated impact on costs of pending carbon and other environmental regulations, as well as costs associated with capacity performance reforms in the PJM market.
- Discount Rate: A discount rate of 9.50%, based on selected comparable companies' capital structure, return on debt and return on equity.
- Terminal Value: A terminal value of 7.0x earnings before interest, taxes, depreciation and amortization based on consideration of peer group data and analyst consensus expectations.

Based on the impairment analysis, FirstEnergy determined that the carrying value of goodwill exceeded its fair value and recognized a non-cash pre-tax impairment charge of $800 million ($23 million - FES). The impairment is

included within the caption Impairment of assets in the Consolidated Statement of Income (Loss).

The changes in the carrying amount of goodwill for the six months ended June 30, 2016 were as follows:

Goodwill	Regulated Distribution	Regulated Transmission	Competitive Energy Services	Consolidated
	(In millions)			
Balance as of December 31, 2015	$5,092	$ 526	$ 800	$ 6,418
Impairment	—	—	(800)	(800)
Balance as of June 30, 2016	$5,092	$ 526	$ —	$ 5,618

3. EARNINGS PER SHARE OF COMMON STOCK

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

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

(In millions, except per share amounts)	For the Three Months Ended June 30		For the Six Months Ended June 30	
Reconciliation of Basic and Diluted Earnings per Share of Common Stock	2016	2015	2016	2015
Net income (loss)	$(1,089)	$187	$(761)	$409
Weighted average number of basic shares outstanding	425	422	424	422
Assumed exercise of dilutive stock options and awards[1]	—	1	—	1
Weighted average number of diluted shares outstanding	425	423	424	423
Basic earnings (losses) per share of common stock	$(2.56)	$0.44	$(1.79)	$0.97
Diluted earnings (losses) per share of common stock	$(2.56)	$0.44	$(1.79)	$0.97

(1) For both the three and six months ended June 30, 2016, three million shares were excluded from the calculation of diluted shares outstanding, as their inclusion would be antidilutive as a result of the net loss. For both the three and six months ended June 30, 2015, one million shares were excluded from the calculation of diluted shares outstanding, as their inclusion would be antidilutive.

4. PENSION AND OTHER POSTEMPLOYMENT BENEFITS

In 2016, FirstEnergy has minimum required funding obligations of $381 million to its qualified pension plan, of which $245 million has been contributed through July 2016, including $85 million at FES in July of 2016. FirstEnergy expects to make future contributions to the qualified pension plan in 2016 to satisfy its remaining 2016 funding obligations, as well as address certain of its future funding obligations, with cash, up to $500 million of equity or a combination thereof, depending on, among other things, market conditions.

The components of the consolidated net periodic cost (credits) for pension and OPEB (including amounts capitalized) were as follows:

Components of Net Periodic Benefit Costs (Credits)	Pension		OPEB	
For the Three Months Ended June 30	2016	2015	2016	2015
	(In millions)			
Service costs	$48	$48	$1	$1
Interest costs	99	96	8	7
Expected return on plan assets	(100)	(111)	(8)	(8)
Amortization of prior service costs (credits)	2	2	(20)	(34)
Net periodic costs (credits)	$49	$35	$(19)	$(34)

Components of Net Periodic Benefit Costs (Credits)	Pension		OPEB	
For the Six Months Ended June 30	2016	2015	2016	2015
	(In millions)			
Service costs	$96	$96	$2	$2

Interest costs	199	192	15	14
Expected return on plan assets	(197)	(222)	(16)	(16)
Amortization of prior service costs (credits)	4	4	(40)	(67)
Net periodic costs (credits)	$102	$70	$(39)	$(67)

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

	Pension		OPEB	
	2016	2015	2016	2015
	(In millions)			
For the Three Months Ended June 30	$6	$ 4	$(4)	$(5)
For the Six Months Ended June 30	12	8	(8)	(10)

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

Net Periodic Benefit Expense (Credit)	Pension		OPEB	
For the Three Months Ended June 30	2016	2015	2016	2015
	(In millions)			
FirstEnergy	$35	$ 24	$(15)	$(22)
FES	6	4	(4)	(4)

Net Periodic Benefit Expense (Credit)	Pension		OPEB	
For the Six Months Ended June 30	2016	2015	2016	2015
	(In millions)			
FirstEnergy	$72	$ 49	$(30)	$(45)
FES	12	8	(8)	(8)

5. ACCUMULATED OTHER COMPREHENSIVE INCOME

The changes in AOCI, net of tax, in the three and six months ended June 30, 2016 and 2015, for FirstEnergy are included in the following tables:

FirstEnergy	Gains & Losses on Cash Flow Hedges	Unrealized Gains on AFS Securities	Defined Benefit Pension & OPEB Plans	Total
	(In millions)			
AOCI Balance as of April 1, 2016	$(32)	$ 36	$ 175	$179
Other comprehensive income before reclassifications	—	47	—	47
Amounts reclassified from AOCI	2	(12)	(18)	(28)
Other comprehensive income (loss)	2	35	(18)	19
Income taxes (benefits) on other comprehensive income (loss)	1	13	(7)	7
Other comprehensive income (loss), net of tax	1	22	(11)	12
AOCI Balance as of June 30, 2016	$(31)	$ 58	$ 164	$191
AOCI Balance as of April 1, 2015	$(36)	$ 28	$ 238	$230
Other comprehensive loss before reclassifications	—	(7)	—	(7)
Amounts reclassified from AOCI	1	(7)	(32)	(38)
Other comprehensive income (loss)	1	(14)	(32)	(45)
Income taxes (benefits) on other comprehensive income (loss)	1	(5)	(13)	(17)
Other comprehensive loss, net of tax	—	(9)	(19)	(28)
AOCI Balance as of June 30, 2015	$(36)	$ 19	$ 219	$202

	Gains & Losses on Cash Flow Hedges	Unrealized Gains on AFS Securities	Defined Benefit Pension & OPEB Plans	Total
	(In millions)			
AOCI Balance as of January 1, 2016	$(33)	$ 18	$ 186	$171
Other comprehensive income before reclassifications	—	88	—	88
Amounts reclassified from AOCI	4	(25)	(36)	(57)
Other comprehensive income (loss)	4	63	(36)	31
Income taxes (benefits) on other comprehensive income (loss)	2	23	(14)	11
Other comprehensive income (loss), net of tax	2	40	(22)	20
AOCI Balance as of June 30, 2016	$(31)	$ 58	$ 164	$191

AOCI Balance as of January 1, 2015	$(37)	$ 25	$ 258	$246
Other comprehensive income before reclassifications	—	7	—	7
Amounts reclassified from AOCI	2	(17)	(63)	(78)
Other comprehensive income (loss)	2	(10)	(63)	(71)
Income taxes (benefits) on other comprehensive income (loss)	1	(4)	(24)	(27)
Other comprehensive income (loss), net of tax	1	(6)	(39)	(44)
AOCI Balance as of June 30, 2015	$(36)	$ 19	$ 219	$202

The following amounts were reclassified from AOCI for FirstEnergy in the three and six months ended June 30, 2016 and 2015:

Reclassifications from AOCI[2]	For the Three Months Ended June 30		For the Six Months Ended June 30		Affected Line Item in Consolidated Statements of Income (Loss)
	2016	2015	2016	2015	
	(In millions)				
Gains & losses on cash flow hedges					
Commodity contracts	$—	$(1)	$—	$(2)	Other operating expenses
Long-term debt	2	2	4	4	Interest expense
	2	1	4	2	Total before taxes
	(1)	(1)	(2)	(1)	Income taxes (benefits)
	$1	$—	$2	$1	Net of tax
Unrealized gains on AFS securities					
Realized gains on sales of securities	$(12)	$(7)	$(25)	$(17)	Investment income (loss)
	4	2	9	6	Income taxes (benefits)
	$(8)	$(5)	$(16)	$(11)	Net of tax
Defined benefit pension and OPEB plans					
Prior-service costs	$(18)	$(32)	$(36)	$(63)	[1]
	7	13	14	24	Income taxes (benefits)
	$(11)	$(19)	$(22)	$(39)	Net of tax

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

The changes in AOCI, net of tax, in the three and six months ended June 30, 2016 and 2015, for FES are included in the following tables:

FES

	Gains & Losses on Cash Flow Hedges	Unrealized Gains on AFS Securities	Defined Benefit Pension & OPEB Plans	Total
	(In millions)			
AOCI Balance as of April 1, 2016	$(9)	$ 30	$ 37	$58
Other comprehensive income before reclassifications	—	44	—	44
Amounts reclassified from AOCI	(1)	(11)	(3)	(15)
Other comprehensive income (loss)	(1)	33	(3)	29
Income taxes (benefits) on other comprehensive income (loss)	—	13	(1)	12
Other comprehensive income (loss), net of tax	(1)	20	(2)	17
AOCI Balance as of June 30, 2016	$(10)	$ 50	$ 35	$75
AOCI Balance as of April 1, 2015	$(8)	$ 24	$ 40	$56
Other comprehensive loss before reclassifications	—	(7)	—	(7)
Amounts reclassified from AOCI	(1)	(5)	(4)	(10)
Other comprehensive loss	(1)	(12)	(4)	(17)
Income tax benefits on other comprehensive loss	—	(4)	(2)	(6)
Other comprehensive loss, net of tax	(1)	(8)	(2)	(11)
AOCI Balance as of June 30, 2015	$(9)	$ 16	$ 38	$45

	Gains & Losses on Cash Flow Hedges	Unrealized Gains on AFS Securities	Defined Benefit Pension & OPEB Plans	Total
	(In millions)			
AOCI Balance as of January 1, 2016	$(9)	$ 16	$ 39	$46
Other comprehensive income before reclassifications	—	80	—	80
Amounts reclassified from AOCI	(1)	(24)	(7)	(32)
Other comprehensive income (loss)	(1)	56	(7)	48
Income taxes (benefits) on other comprehensive income (loss)	—	22	(3)	19
Other comprehensive income (loss), net of tax	(1)	34	(4)	29
AOCI Balance as of June 30, 2016	$(10)	$ 50	$ 35	$75

AOCI Balance as of January 1, 2015	$(7)	$ 21	$ 43	$57
Other comprehensive income before reclassifications	—	6	—	6
Amounts reclassified from AOCI	(2)	(15)	(8)	(25)
Other comprehensive loss	(2)	(9)	(8)	(19)
Income tax benefits on other comprehensive loss	—	(4)	(3)	(7)
Other comprehensive loss, net of tax	(2)	(5)	(5)	(12)
AOCI Balance as of June 30, 2015	$(9)	$ 16	$ 38	$45

The following amounts were reclassified from AOCI for FES in the three and six months ended June 30, 2016 and 2015:

	For the Three Months Ended June 30		For the Six Months Ended June 30		Affected Line Item in Consolidated Statements of Operations
Reclassifications from AOCI[2]	2016	2015	2016	2015	
	(In millions)				
Gains & losses on cash flow hedges					
Commodity contracts	$(1)	$(1)	$(1)	$(2)	Other operating expenses
	—	—	—	—	Income tax benefits
	$(1)	$(1)	$(1)	$(2)	Net of tax
Unrealized gains on AFS securities					
Realized gains on sales of securities	$(11)	$(5)	$(24)	$(15)	Investment income
	4	2	9	6	Income tax benefits
	$(7)	$(3)	$(15)	$(9)	Net of tax
Defined benefit pension and OPEB plans					
Prior-service costs	$(3)	$(4)	$(7)	$(8)	[1]
	1	2	3	3	Income tax benefits
	$(2)	$(2)	$(4)	$(5)	Net of tax

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

6. INCOME TAXES

FirstEnergy’s and FES’ interim effective tax rates reflect the estimated annual effective tax rates for 2016 and 2015. These tax rates are affected by estimated annual 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.

FirstEnergy’s effective tax rate for the three months ended June 30, 2016 and 2015 was 10.7% and 38.1%, respectively. FirstEnergy’s effective tax rate for the six months ended June 30, 2016 and 2015 was (12.2)% and 38.8%, respectively. The change in the effective tax rate for both periods is primarily due to the impairment of $800 million of goodwill (as described in Note 2), of which $433 million is non-deductible for tax purposes. Additionally, $159 million of valuation allowances were recorded against state and local NOL carryforwards that management believes, more likely than not, will not be realized based primarily on projected taxable income reflecting updates to FirstEnergy's annual long-term fundamental pricing model for energy and capacity in the second quarter of 2016 as well as certain statutory limitations on the utilization of state and local NOL carryforwards.

FES’ effective tax rate for the three months ended June 30, 2016 and 2015 was 24.6% and 16.0%, respectively. FES’ effective tax rate for the six months ended June 30, 2016 and 2015 was 16.6% and 20.0%, respectively. The change in the effective tax rate for both periods is primarily due to valuation allowances of $65 million recorded against state and local NOL carryforwards that management believes, more likely than not, will not be realized as described above

as well as the impairment of goodwill, of which $23 million is non-deductible for tax purposes.

In March 2016, FirstEnergy recorded unrecognized tax benefits of $69 million primarily related to protective refund claims filed with the Commonwealth of Pennsylvania as a result of a recent ruling by the Commonwealth Court finding that the state’s NOL carryover limitation violated the uniformity clause and was unconstitutional. The Commonwealth of Pennsylvania has appealed this ruling to the Pennsylvania Supreme Court.

As of June 30, 2016, it is reasonably possible that approximately $54 million of unrecognized tax benefits may be resolved within the next twelve months as a result of the statute of limitations expiring and expected resolution with respect to certain claims, of which approximately $15 million would affect FirstEnergy's effective tax rate.

In February 2016, the IRS completed its examination of FirstEnergy’s 2014 federal income tax return and issued a full acceptance letter with no adjustments.

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7. VARIABLE INTEREST ENTITIES

FirstEnergy performs qualitative analyses based on control and economics to determine whether a variable interest classifies FirstEnergy as the primary beneficiary (a controlling financial interest) of a VIE. An enterprise has a controlling financial interest if it has both power and economic control, such that an entity has (i) the power to direct the activities of a VIE that most significantly impact the entity's economic performance, and (ii) the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. FirstEnergy consolidates a VIE when it is determined that it is the primary beneficiary.

The caption "noncontrolling interest" within the consolidated financial statements is used to reflect the portion of a VIE that FirstEnergy consolidates, but does not own.

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

Consolidated VIEs

VIEs in which FirstEnergy is the primary beneficiary consist of the following (included in FirstEnergy's consolidated financial statements):

- PNBV Trust - PNBV, a business trust established by OE in 1996, issued certain beneficial interests and notes to fund the acquisition of a portion of the bonds issued by certain owner trusts in connection with the sale and leaseback in 1987 of a portion of OE's interest in the Perry Plant and Beaver Valley Unit 2. OE used debt and available funds to purchase the notes issued by PNBV. The beneficial ownership of PNBV includes a 3% interest by unaffiliated third parties.
- Ohio Securitization - In September 2012, the Ohio Companies created separate, wholly-owned limited liability companies (SPEs) which issued phase-in recovery bonds to securitize the recovery of certain all-electric customer heating discounts, fuel and purchased power regulatory assets. The phase-in recovery bonds are payable only from, and secured by, phase-in recovery property owned by the SPEs. The bondholder has no recourse to the general credit of FirstEnergy or any of the Ohio Companies. Each of the Ohio Companies, as servicer of its respective SPE, manages and administers the phase-in recovery property including the billing, collection and remittance of usage-based charges payable by retail electric customers. In the aggregate, the Ohio Companies are entitled to annual servicing fees of $445 thousand that are recoverable through the usage-based charges. The SPEs are considered VIEs and each one is consolidated into its applicable utility. As of June 30, 2016 and December 31, 2015, $350 million and $362 million of the phase-in recovery bonds were outstanding, respectively.
- JCP&L Securitization - In June 2002, JCP&L Transition Funding sold transition bonds to securitize the recovery of JCP&L's bondable stranded costs associated with the previously divested Oyster Creek Nuclear Generating Station. In August 2006, JCP&L Transition Funding II sold transition bonds to securitize the recovery of deferred costs associated with JCP&L's supply of BGS. JCP&L did not purchase and does not own any of the transition bonds, which are included as long-term debt on FirstEnergy's and JCP&L's Consolidated Balance Sheets. The transition bonds are the sole obligations of JCP&L Transition Funding and JCP&L Transition Funding II and are collateralized by each company's equity and assets, which consist primarily of bondable transition property. As of June 30, 2016 and December 31, 2015, $108 million and $128 million of the transition bonds were outstanding, respectively.
- MP and PE Environmental Funding Companies - The entities issued bonds, the proceeds of which were used to construct environmental control facilities. The special purpose limited liability companies own the irrevocable right to collect non-bypassable environmental control charges from all customers who receive electric delivery service in MP's and PE's West Virginia service territories. Principal and interest owed on the environmental control bonds is secured by, and payable solely from, the proceeds of the environmental control charges. Creditors of FirstEnergy, other than the special purpose limited liability companies, have no recourse to any assets or revenues of the special purpose limited liability companies. As of June 30, 2016 and December 31, 2015, $418 million and $429 million of

the environmental control bonds were outstanding, respectively.

Unconsolidated VIEs

FirstEnergy is not the primary beneficiary of the following VIEs:

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

As discussed in Note 12, Commitments, Guarantees and Contingencies, FE is the guarantor under Global Holding's $300 million term loan facility. Failure by Global Holding to meet the terms and conditions under its term loan facility could require FE to be obligated under the provisions of its guarantee, resulting in consolidation of Global Holding by FE.

- PATH WV - PATH is a series limited liability company that is comprised of multiple series, each of which has separate rights, powers and duties regarding specified property and the series profits and losses associated with such property. A subsidiary of FE owns 100% of the Allegheny Series (PATH-Allegheny) and 50% of the West Virginia Series (PATH-WV), which is a joint venture with a subsidiary of AEP. FirstEnergy is not the primary beneficiary of PATH-WV, as it does not have control over the significant activities affecting the economics of PATH-WV. FirstEnergy's ownership interest in PATH-WV is subject to the equity method of accounting.
- Power Purchase Agreements - FirstEnergy evaluated its power purchase agreements and determined that certain NUG entities at its Regulated Distribution segment may be VIEs to the extent that they own a plant that sells substantially all of its output to the applicable utilities and the contract price for power is correlated with the plant’s variable costs of production.

FirstEnergy maintains 14 long-term power purchase agreements with NUG entities that were entered into pursuant to PURPA. FirstEnergy was not involved in the creation of, and has no equity or debt invested in, any of these entities. FirstEnergy has determined that for all but one of these NUG entities, it does not have a variable interest in the entities or the entities do not meet the criteria to be considered a VIE. FirstEnergy may hold a variable interest in the remaining one entity; however, it applied the scope exception that exempts enterprises unable to obtain the necessary information to evaluate entities.

Because FirstEnergy has no equity or debt interests in the NUG entities, its maximum exposure to loss relates primarily to the above-market costs incurred for power. FirstEnergy expects any above-market costs incurred at its Regulated Distribution segment to be recovered from customers. Purchased power costs related to the contracts that may contain a variable interest during the three months ended June 30, 2016 and 2015 were $25 million and $27 million, respectively, and $56 million and $58 million during the six months ended June 30, 2016 and 2015, respectively.

- Sale and Leaseback Transactions - OE and FES have obligations that are not included on their Consolidated Balance Sheets related to Beaver Valley Unit 2 and 2007 Bruce Mansfield Unit 1 sale and leaseback arrangements, respectively, which are satisfied through operating lease payments. FirstEnergy is not the primary beneficiary of these interests as it does not have control over the significant activities affecting the economics of the arrangements. As of June 30, 2016, FirstEnergy's leasehold interest was 2.60% of Beaver Valley Unit 2 and 93.83% of Bruce Mansfield Unit 1.

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

On May 23, 2016, NG completed the purchase of the 3.75% lessor equity interests of the remaining non-affiliated leasehold interest in Perry Unit 1 for $50 million. In addition, the Perry Unit 1 leases expired in accordance with their terms on May 30, 2016, resulting in NG being the sole owner of Perry Unit 1 and entitled to 100% of the unit's output. Thereafter, OE transferred its NDT assets and related ARO to NG associated with Perry Unit 1. See Note 10, Asset Retirement Obligations, for additional information.

FES and other FE subsidiaries are exposed to losses under their applicable sale and leaseback agreements upon the occurrence of certain contingent events. The maximum exposure under these provisions represents the net amount of casualty value payments due upon the occurrence of specified casualty events. Net discounted lease payments would not be payable if the casualty loss payments were made. The following table discloses each company’s net exposure to loss based upon the casualty value provisions as of June 30, 2016:

	Maximum	Net

	Exposure	Discounted Lease Payments, net	Exposure
	(In millions)		
FirstEnergy	$1,123	$ 880	$ 243
FES	1,094	872	222

8. FAIR VALUE MEASUREMENTS

RECURRING FAIR VALUE MEASUREMENTS

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

Level 1 - Quoted prices for identical instruments in active market

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

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

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

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

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

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

FirstEnergy primarily applies the market approach for recurring fair value measurements using the best information available. Accordingly, FirstEnergy maximizes the use of observable inputs and minimizes the use of unobservable inputs. There were no changes in valuation methodologies used as of June 30, 2016, from those used as of December 31, 2015. The determination of the fair value measures takes into consideration various factors, including but not limited to, nonperformance risk, counterparty credit risk and the impact of credit enhancements (such as cash deposits, LOCs and priority interests). The impact of these forms of risk was not significant to the fair value measurements.

Transfers between levels are recognized at the end of the reporting period. There were no transfers between levels during the six months ended June 30, 2016. The following tables set forth the recurring assets and liabilities that are accounted for at fair value by level within the fair value hierarchy:

FirstEnergy

Recurring Fair Value Measurements	June 30, 2016				December 31, 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets	(In millions)							
Corporate debt securities	$—	$1,206	$—	$1,206	$—	$1,245	$—	$1,245
Derivative assets - commodity contracts	12	214	—	226	4	224	—	228
Derivative assets - FTRs	—	—	17	17	—	—	8	8
Derivative assets - NUG contracts[1]	—	—	1	1	—	—	1	1
Equity securities[2]	770	—	—	770	576	—	—	576
Foreign government debt securities	—	73	—	73	—	75	—	75
U.S. government debt securities	—	189	—	189	—	180	—	180
U.S. state debt securities	—	247	—	247	—	246	—	246
Other[3]	199	231	—	430	105	212	—	317
Total assets	$981	$2,160	$18	$3,159	$685	$2,182	$9	$2,876
Liabilities								
Derivative liabilities - commodity contracts	$(3)	$(137)	$—	$(140)	$(9)	$(122)	$—	$(131)
Derivative liabilities - FTRs	—	—	(8)	(8)	—	—	(13)	(13)
Derivative liabilities - NUG contracts[1]	—	—	(124)	(124)	—	—	(137)	(137)
Total liabilities	$(3)	$(137)	$(132)	$(272)	$(9)	$(122)	$(150)	$(281)
Net assets (liabilities)[4]	$978	$2,023	$(114)	$2,887	$676	$2,060	$(141)	$2,595

(1) NUG contracts are subject to regulatory accounting treatment and do not impact earnings.

(2) NDT funds hold equity portfolios whose performance is benchmarked against the Alerian MLP Index or the Wells Fargo Hybrid and Preferred Securities REIT index.

(3) Primarily consists of short-term cash investments.

(4) Excludes $7 million as of June 30, 2016 and December 31, 2015, of receivables, payables, taxes and accrued income associated with financial instruments reflected within the fair value table.

Rollforward of Level 3 Measurements

The following table provides a reconciliation of changes in the fair value of NUG contracts and FTRs that are classified as Level 3 in the fair value hierarchy for the periods ended June 30, 2016 and December 31, 2015:

	NUG Contracts[1]			FTRs		
	Derivative Assets	Derivative Liabilities	Net	Derivative Assets	Derivative Liabilities	Net
	(In millions)					
January 1, 2015 Balance	$2	$ (153)	$(151)	$39	$ (14)	$25
Unrealized gain (loss)	2	(49)	(47)	(5)	(7)	(12)
Purchases	—	—	—	22	(11)	11
Settlements	(3)	65	62	(48)	19	(29)
December 31, 2015 Balance	$1	$ (137)	$(136)	$8	$ (13)	$(5)
Unrealized loss	—	(11)	(11)	—	(1)	(1)
Purchases	—	—	—	15	(7)	8
Settlements	—	24	24	(6)	13	7
June 30, 2016 Balance	$1	$ (124)	$(123)	$17	$ (8)	$9

[1] NUG contracts are subject to regulatory accounting treatment and do not impact earnings.

Level 3 Quantitative Information

The following table provides quantitative information for FTRs and NUG contracts that are classified as Level 3 in the fair value hierarchy for the period ended June 30, 2016:

	Fair Value, Net (In millions)	Valuation Technique	Significant Input	Range	Weighted Average	Units
FTRs	$ 9	Model	RTO auction clearing prices	($2.60) to $6.60	$1.00	Dollars/MWH
NUG Contracts	$ (123)	Model	Generation	400 to 3,430,000	719,000	MWH
			Regional electricity prices	$33.80 to $33.90	$33.80	Dollars/MWH

FES

Recurring Fair Value Measurements	June 30, 2016				December 31, 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets	(In millions)							
Corporate debt securities	$—	$698	$—	$698	$—	$678	$—	$678
Derivative assets - commodity contracts	12	214	—	226	4	224	—	228
Derivative assets - FTRs	—	—	12	12	—	—	5	5
Equity securities[1]	495	—	—	495	378	—	—	378
Foreign government debt securities	—	57	—	57	—	59	—	59
U.S. government debt securities	—	60	—	60	—	23	—	23
U.S. state debt securities	—	4	—	4	—	4	—	4
Other[2]	—	192	—	192	—	184	—	184

Total assets	$507	$1,225	$12	$1,744	$382	$1,172	$5	$1,559
Liabilities								
Derivative liabilities - commodity contracts	$(3)	$(137)	$—	$(140)	$(9)	$(122)	$—	$(131)
Derivative liabilities - FTRs	—	—	(5)	(5)	—	—	(11)	(11)
Total liabilities	$(3)	$(137)	$(5)	$(145)	$(9)	$(122)	$(11)	$(142)
Net assets (liabilities)[3]	$504	$1,088	$7	$1,599	$373	$1,050	$(6)	$1,417

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(1) NDT funds hold equity portfolios whose performance is benchmarked against the Alerian MLP Index or the Wells Fargo Hybrid and Preferred Securities REIT index.
(2) Primarily consists of short-term cash investments.
(3) Excludes $4 million and $1 million as of June 30, 2016 and December 31, 2015, respectively, of receivables, payables, taxes and accrued income associated with the financial instruments reflected within the fair value table.

Rollforward of Level 3 Measurements

The following table provides a reconciliation of changes in the fair value of FTRs held by FES and classified as Level 3 in the fair value hierarchy for the periods ended June 30, 2016 and December 31, 2015:

	Derivative Asset	Derivative Liability	Net Asset (Liability)
	(In millions)		
January 1, 2015 Balance	$27	$ (13)	$ 14
Unrealized gain (loss)	2	(5)	(3)
Purchases	9	(10)	(1)
Settlements	(33)	17	(16)
December 31, 2015 Balance	$5	$ (11)	$ (6)
Unrealized loss	—	(1)	(1)
Purchases	9	(4)	5
Settlements	(2)	11	9
June 30, 2016 Balance	$12	$ (5)	$ 7

Level 3 Quantitative Information

The following table provides quantitative information for FTRs held by FES that are classified as Level 3 in the fair value hierarchy for the period ended June 30, 2016:

	Fair Value, Net (In millions)	Valuation Technique	Significant Input	Range	Weighted Average	Units
FTRs	$ 7	Model	RTO auction clearing prices	($2.60) to $6.60	$0.70	Dollars/MWH

INVESTMENTS

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

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

fair value is determined to be other than temporary, the cost basis of the securities is written down to fair value.

Unrealized gains and losses on AFS securities are recognized in AOCI. However, unrealized losses held in the NDTs of FES, OE and TE are recognized in earnings since the trust arrangements, as they are currently defined, do not meet the required ability and intent to hold criteria in consideration of OTTI. The NDTs of JCP&L, ME and PN are subject to regulatory accounting with unrealized gains and losses offset against regulatory assets.

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

AFS Securities

FirstEnergy holds debt and equity securities within its NDT and nuclear fuel disposal trusts. These trust investments are considered AFS securities, recognized at fair market value. FirstEnergy has no securities held for trading purposes.

The following table summarizes the amortized cost basis, unrealized gains (there were no unrealized losses) and fair values of investments held in NDT and nuclear fuel disposal trusts as of June 30, 2016 and December 31, 2015:

	June 30, 2016[1]			December 31, 2015[2]		
	Cost Basis	Unrealized Gains	Fair Value	Cost Basis	Unrealized Gains	Fair Value
	(In millions)					
Debt securities						
FirstEnergy	$1,698	$ 62	$1,760	$1,778	$ 16	$1,794
FES	820	41	861	801	9	810
Equity securities						
FirstEnergy	$681	$ 89	$770	$542	$ 34	$576
FES	434	61	495	354	24	378

[1] Excludes short-term cash investments: FE Consolidated - $176 million; FES - $154 million.
[2] Excludes short-term cash investments: FE Consolidated - $157 million; FES - $139 million.

Proceeds from the sale of investments in AFS securities, realized gains and losses on those sales, OTTI and interest and dividend income for the three and six months ended June 30, 2016 and 2015 were as follows:

For the Three Months Ended

June 30, 2016	Sale Proceeds	Realized Gains	Realized Losses	OTTI	Interest and Dividend Income
	(In millions)				
FirstEnergy	$559	$ 34	$ (24)	$(2)	$ 25
FES	303	25	(15)	(2)	13

June 30, 2015	Sale Proceeds	Realized Gains	Realized Losses	OTTI	Interest and Dividend Income
	(In millions)				
FirstEnergy	$448	$ 42	$ (39)	$(17)	$ 25
FES	187	32	(27)	(16)	15

For the Six Months Ended

June 30, 2016	Sale Proceeds	Realized Gains	Realized Losses	OTTI	Interest and Dividend Income

	Sale Proceeds	Realized Gains	Realized Losses	OTTI	Interest and Dividend Income
	(In millions)				
FirstEnergy	$1,024	$ 95	$ (73)	$(10)	$ 48
FES	441	67	(43)	(9)	26

June 30, 2015	Sale Proceeds	Realized Gains	Realized Losses	OTTI	Interest and Dividend Income
	(In millions)				
FirstEnergy	$819	$ 102	$ (89)	$(24)	$ 50
FES	376	70	(55)	(22)	29

Held-To-Maturity Securities

Unrealized gains (there were no unrealized losses) and approximate fair values of investments in held-to-maturity securities as of June 30, 2016 and December 31, 2015 are immaterial to FirstEnergy. Investments in employee benefit trusts and equity method investments totaling $273 million as of June 30, 2016 and $255 million as of December 31, 2015, are excluded from the amounts reported above.

LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS

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 Consolidated Balance Sheets at cost. Since these borrowings are short-term in nature, FirstEnergy believes that their costs approximate their fair market value. The following table provides the approximate fair value and related carrying amounts of long-term debt and other long-term obligations, excluding capital lease obligations and net unamortized debt issuance costs, premiums and discounts:

	June 30, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In millions)			
FirstEnergy	$19,664	$21,627	$20,244	$21,519
FES	2,791	2,884	3,027	3,121

The fair values of long-term debt and other long-term obligations reflect the present value of the cash outflows relating to those securities based on the current call price, the yield to maturity or the yield to call, as deemed appropriate at the end of each respective period. The yields assumed were based on securities with similar characteristics offered by corporations with credit ratings similar to those of FirstEnergy. FirstEnergy classified short-term borrowings, long-term debt and other long-term obligations as Level 2 in the fair value hierarchy as of June 30, 2016 and December 31, 2015.

9. DERIVATIVE INSTRUMENTS

FirstEnergy is exposed to financial risks resulting from fluctuating interest rates and commodity prices, including prices for electricity, natural gas, coal and energy transmission. To manage the volatility related to these exposures, FirstEnergy's Risk Policy Committee, comprised of senior management, provides general management oversight for risk management activities throughout FirstEnergy. The Risk Policy Committee is responsible for promoting the effective design and implementation of sound risk management programs and oversees compliance with corporate risk management policies and established risk management practice. FirstEnergy also uses a variety of derivative instruments for risk management purposes including forward contracts, options, futures contracts and swaps.

FirstEnergy accounts for derivative instruments on its Consolidated Balance Sheets at fair value (unless they meet the normal purchases and normal sales criteria) as follows:

- Changes in the fair value of derivative instruments that are designated and qualify as cash flow hedges are recorded to AOCI with subsequent reclassification to earnings in the period during which the hedged forecasted transaction affects earnings.
- Changes in the fair value of derivative instruments that are designated and qualify as fair value hedges are recorded as an adjustment to the item being hedged. When fair value hedges are discontinued, the adjustment recorded to the item being hedged is amortized into earnings.

- Changes in the fair value of derivative instruments that are not designated in a hedging relationship are recorded in earnings on a mark-to-market basis, unless otherwise noted.

Derivative instruments meeting the normal purchases and normal sales criteria are accounted for under the accrual method of accounting with their effects included in earnings at the time of contract performance.

FirstEnergy has contractual derivative agreements through 2020.

Cash Flow Hedges

FirstEnergy has used cash flow hedges for risk management purposes to manage the volatility related to exposures associated with fluctuating commodity prices and interest rates.

Total pre-tax net unamortized losses included in AOCI associated with instruments previously designated as cash flow hedges totaled $12 million as of June 30, 2016 and $11 million as of December 31, 2015. Since the forecasted transactions remain probable

of occurring, these amounts will be amortized into earnings over the life of the hedging instruments. Less than $1 million of net unamortized losses is expected to be amortized to income during the next twelve months.

FirstEnergy has used forward starting interest rate swap agreements to hedge a portion of the consolidated interest rate risk associated with anticipated issuances of fixed-rate, long-term debt securities of its subsidiaries. These derivatives were designated as cash flow hedges, protecting against the risk of changes in future interest payments resulting from changes in benchmark U.S. Treasury rates between the date of hedge inception and the date of the debt issuance. Total pre-tax unamortized losses included in AOCI associated with prior interest rate cash flow hedges totaled $37 million and $42 million as of June 30, 2016 and December 31, 2015, respectively. Based on current estimates, approximately $8 million of these unamortized losses are expected to be amortized to interest expense during the next twelve months.

Refer to Note 5, Accumulated Other Comprehensive Income, for reclassifications from AOCI during the three and six months ended June 30, 2016 and 2015.

As of June 30, 2016 and December 31, 2015, no commodity or interest rate derivatives were designated as cash flow hedges.

Fair Value Hedges

FirstEnergy has used fixed-for-floating interest rate swap agreements to hedge a portion of the consolidated interest rate risk associated with the debt portfolio of its subsidiaries. As of June 30, 2016 and December 31, 2015, no fixed-for-floating interest rate swap agreements were outstanding.

Unamortized gains included in long-term debt associated with prior fixed-for-floating interest rate swap agreements totaled $15 million and $20 million as of June 30, 2016 and December 31, 2015, respectively. During the next twelve months, approximately $9 million of unamortized gains are expected to be amortized to interest expense. Amortization of unamortized gains included in long-term debt totaled approximately $3 million during the three months ended June 30, 2016 and 2015. Amortization of unamortized gains included in long-term debt totaled approximately $6 million during the six months ended June 30, 2016 and 2015.

Commodity Derivatives

FirstEnergy uses both physically and financially settled derivatives to manage its exposure to volatility in commodity prices. Commodity derivatives are used for risk management purposes to hedge exposures when it makes economic sense to do so, including circumstances where the hedging relationship does not qualify for hedge accounting.

Electricity forwards are used to balance expected sales with expected generation and purchased power. Natural gas futures are entered into based on expected consumption of natural gas primarily for use in FirstEnergy’s combustion turbine units. Derivative instruments are not used in quantities greater than forecasted needs.

As of June 30, 2016, FirstEnergy’s net asset position under commodity derivative contracts was $86 million, which related to FES positions. Under these commodity derivative contracts, FES posted $6 million of collateral and received $3 million of collateral. Certain commodity derivative contracts include credit risk related contingent features that would require FES to post $4 million of additional collateral if the credit rating for its debt were to fall below investment grade.

Based on commodity derivative contracts held as of June 30, 2016, an increase in commodity prices of 10% would decrease net income by approximately $33 million during the next twelve months.

NUGs

As of June 30, 2016, FirstEnergy's net liability position under NUG contracts was $123 million, representing contracts held at JCP&L, ME and PN. Changes in the fair value of NUG contracts are subject to regulatory accounting treatment and do not impact earnings.

FTRs

As of June 30, 2016, FirstEnergy's and FES' FTR position was a $9 million and $7 million net asset, respectively, and FES posted $10 million of collateral. FirstEnergy holds FTRs that generally represent an economic hedge of future congestion charges that will be incurred in connection with FirstEnergy’s load obligations. FirstEnergy acquires the majority of its FTRs in an annual auction through a self-scheduling process involving the use of ARRs allocated to members of PJM that have load serving obligations.

The future obligations for the FTRs acquired at auction are reflected on the Consolidated Balance Sheets and have not been designated as cash flow hedge instruments. FirstEnergy initially records these FTRs at the auction price less the obligation due to PJM, and subsequently adjusts the carrying value of remaining FTRs to their estimated fair value at the end of each accounting period prior to settlement. Changes in the fair value of FTRs held by FES and AE Supply are included in other operating expenses as unrealized gains or losses. Unrealized gains or losses on FTRs held by FirstEnergy’s utilities are recorded as regulatory assets or liabilities. Directly allocated FTRs are accounted for under the accrual method of accounting, and their effects are included in earnings at the time of contract performance.

FirstEnergy records the fair value of derivative instruments on a gross basis. The following table summarizes the fair value and classification of derivative instruments on FirstEnergy's Consolidated Balance Sheets:

Derivative Assets	Fair Value		Derivative Liabilities	Fair Value	
	June 30, 2016	December 31, 2015		June 30, 2016	December 31, 2015
	(In millions)			(In millions)	
Current Assets - Derivatives			Current Liabilities - Derivatives		
Commodity Contracts	$144	$ 150	Commodity Contracts	$(94)	$ (94)
FTRs	17	7	FTRs	(8)	(12)
	161	157		(102)	(106)
Deferred Charges and Other Assets - Other			Noncurrent Liabilities - Adverse Power Contract Liability		
			NUGs[1]	(124)	(137)
Commodity Contracts	82	78	Noncurrent Liabilities - Other		
FTRs	—	1	Commodity Contracts	(46)	(37)
NUGs[1]	1	1	FTRs	—	(1)
	83	80		(170)	(175)
Derivative Assets	$244	$ 237	Derivative Liabilities	$(272)	$ (281)

[1] NUG contracts are subject to regulatory accounting treatment and do not impact earnings.

FirstEnergy enters into contracts with counterparties that allow for the offsetting of derivative assets and derivative liabilities under netting arrangements with the same counterparty. Certain of these contracts contain margining provisions that require the use of collateral to mitigate credit exposure between FirstEnergy and these counterparties. In situations where collateral is pledged to mitigate exposures related to derivative and non-derivative instruments with the same counterparty, FirstEnergy allocates the collateral based on the percentage of the net fair value of derivative instruments to the total fair value of the combined derivative and non-derivative instruments. The following tables summarize the fair value of derivative assets and derivative liabilities on FirstEnergy's Consolidated Balance Sheets and the effect of netting arrangements and collateral on its financial position:

		Amounts Not Offset in Consolidated Balance Sheet		
June 30, 2016	Fair Value	Derivative Instruments	Cash Collateral (Received)/Pledged	Net Fair Value
	(In millions)			
Derivative Assets				
Commodity contracts	$226	$(128)	$ (3)	$95
FTRs	17	(8)	—	9
NUG contracts	1	—	—	1
	$244	$(136)	$ (3)	$105
Derivative Liabilities				
Commodity contracts	$(140)	$128	$ 2	$(10)
FTRs	(8)	8	—	—

NUG contracts	(124)	—	—	(124)
	$(272)	$136	$ 2	$(134)

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December 31, 2015	Fair Value	Amounts Not Offset in Consolidated Balance Sheet		Net Fair Value
		Derivative Instruments	Cash Collateral (Received)/Pledged	
	(In millions)			
Derivative Assets				
Commodity contracts	$228	$ (125)	$ —	$103
FTRs	8	(8)	—	—
NUG contracts	1	—	—	1
	$237	$ (133)	$ —	$104
Derivative Liabilities				
Commodity contracts	$(131)	$ 125	$ 3	$(3)
FTRs	(13)	8	5	—
NUG contracts	(137)	—	—	(137)
	$(281)	$ 133	$ 8	$(140)

The following table summarizes the volumes associated with FirstEnergy's outstanding derivative transactions as of June 30, 2016:

	Purchases	Sales	Net	Units
	(In millions)			
Power Contracts	11	46	(35)	MWH
FTRs	55	—	55	MWH
NUGs	4	—	4	MWH
Natural Gas	61	—	61	mmBTU

The effect of active derivative instruments not in a hedging relationship on the Consolidated Statements of Income (Loss) during the three months and six months ended June 30, 2016 and 2015, are summarized in the following tables:

	For the Three Months Ended June 30		
	Commodity Contracts	FTRs	Total
	(In millions)		
2016			
Unrealized Gain (Loss) Recognized in:			
Other Operating Expense[1]	$(79)	$ 9	$(70)
Realized Gain (Loss) Reclassified to:			
Revenues[1]	$59	$ 1	$60
Purchased Power Expense[1]	(37)	—	(37)
Other Operating Expense[1]	—	(9)	(9)

[1] All amounts are associated with FES.

	For the Three Months Ended June 30		
	Commodity Contracts	FTRs	Total
	(In millions)		
2015			
Unrealized Gain (Loss) Recognized in:			
Other Operating Expense[2]	$11	$ (2)	$9
Realized Gain (Loss) Reclassified to:			
Revenues[2]	$8	$ 8	$16
Purchased Power Expense[2]	(25)	—	(25)
Other Operating Expense[2]	—	(13)	(13)
Fuel Expense	(5)	—	(5)

[2] All amounts are associated with FES.

2016	For the Six Months Ended June 30 Commodity Contracts	FTRs	Total
	(In millions)		
Unrealized Gain (Loss) Recognized in:			
Other Operating Expense[1]	$(17)	$12	$(5)
Realized Gain (Loss) Reclassified to:			
Revenues[1]	$130	$3	$133
Purchased Power Expense[1]	(83)	—	(83)
Other Operating Expense[1]	—	(22)	(22)
Fuel Expense	(7)	—	(7)

[1] All amounts are associated with FES.

2015	For the Six Months Ended June 30 Commodity Contracts	FTRs	Total
	(In millions)		
Unrealized Gain (Loss) Recognized in:			
Other Operating Expense[2]	$22	$(15)	$7
Realized Gain (Loss) Reclassified to:			
Revenues[3]	$7	$45	$52
Purchased Power Expense[4]	(28)	—	(28)
Other Operating Expense[4]	—	(26)	(26)
Fuel Expense	(21)	—	(21)

[2] Includes $22 million for commodity contracts and $(14) million for FTRs associated with FES.
[3] Includes $7 million for commodity contracts and $44 million for FTRs associated with FES.
[4] All amounts are associated with FES.

The following table provides a reconciliation of changes in the fair value of FirstEnergy's derivative instruments subject to regulatory accounting during the three and six months ended June 30, 2016 and 2015. Changes in the value of these instruments are deferred for future recovery from (or credit to) customers:

	For the Three Months Ended June 30		
Derivatives Not in a Hedging Relationship with Regulatory Offset	NUGs	Regulated FTRs	Total
	(In millions)		
Outstanding net liability as of April 1, 2016	$(135)	$ (2)	$(137)
Purchases	—	4	4
Settlements	11	2	13
Outstanding net asset (liability) as of June 30, 2016	$(124)	$ 4	$(120)
Outstanding net asset (liability) as of April 1, 2015	$(148)	$ 1	$(147)
Unrealized loss	(8)	—	(8)
Purchases	—	12	12
Settlements	16	(1)	15
Outstanding net asset (liability) as of June 30, 2015	$(140)	$ 12	$(128)

	For the Six Months Ended June 30		
Derivatives Not in a Hedging Relationship with Regulatory Offset	NUGs	Regulated FTRs	Total
	(In millions)		
Outstanding net asset (liability) as of January 1, 2016	$(136)	$ 1	$(135)
Unrealized loss	(12)	—	(12)
Purchases	—	4	4
Settlements	24	(1)	23
Outstanding net asset (liability) as of June 30, 2016	$(124)	$ 4	$(120)
Outstanding net asset (liability) as of January 1, 2015	$(151)	$ 11	$(140)
Unrealized gain (loss)	(16)	1	(15)
Purchases	—	12	12
Settlements	27	(12)	15
Outstanding net asset (liability) as of June 30, 2015	$(140)	$ 12	$(128)

10. ASSET RETIREMENT OBLIGATIONS

FirstEnergy has recognized applicable legal obligations for AROs and their associated cost primarily for nuclear power plant decommissioning, reclamation of sludge disposal ponds, closure of coal ash disposal sites, underground and above-ground storage tanks, wastewater treatment lagoons and transformers containing PCBs. In addition, FirstEnergy has recognized conditional retirement obligations, primarily for asbestos remediation.

The ARO liabilities for FES primarily relate to the decommissioning of the Beaver Valley, Davis-Besse and Perry nuclear generating facilities. FES uses an expected cash flow approach to measure the fair value of their nuclear decommissioning AROs.

FirstEnergy and FES maintain NDTs that are legally restricted for purposes of settling the nuclear decommissioning ARO. The fair values of the decommissioning trust assets as of June 30, 2016 and December 31, 2015 were as follows:

	2016	2015

	(In millions)	
FirstEnergy	$2,456	$2,282
FES	$1,510	$1,327

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The following table summarizes the changes to the ARO balances during 2016:

ARO Reconciliation	FirstEnergy	FES
	(In millions)	
Balance, December 31, 2015	$1,410	$831
Liabilities settled	(13)	(12)
Liabilities incurred	4	32
Accretion	47	26
Balance, June 30, 2016	$1,448	$877

During the second quarter of 2016, in connection with NG purchasing the lessor equity interests of the remaining non-affiliated leasehold interests from an owner participant in Perry Unit 1, OE transferred the ARO and related nuclear decommissioning trust assets associated with the leasehold interest to NG with the difference of $28 million credited to the Common stock of FES. As of June 30, 2016, NG owns 100% of Perry Unit 1.

11. REGULATORY MATTERS

STATE REGULATION

Each of the Utilities' retail rates, conditions of service, issuance of securities and other matters are subject to regulation in the states in which it operates - in Maryland by the MDPSC, in Ohio by the PUCO, in New Jersey by the NJBPU, in Pennsylvania by the PPUC, in West Virginia by the WVPSC and in New York by the NYPSC. The transmission operations of PE in Virginia are subject to certain regulations of the VSCC. In addition, under Ohio law, municipalities may regulate rates of a public utility, subject to appeal to the PUCO if not acceptable to the utility.

As competitive retail electric suppliers serving retail customers primarily in Ohio, Pennsylvania, Illinois, Michigan, New Jersey and Maryland, FES and AE Supply are subject to state laws applicable to competitive electric suppliers in those states, including affiliate codes of conduct that apply to FES, AE Supply and their public utility affiliates. In addition, if any of the FirstEnergy affiliates were to engage in the construction of significant new transmission or generation facilities, depending on the state, they may be required to obtain state regulatory authorization to site, construct and operate the new transmission or generation facility.

MARYLAND

PE provides SOS pursuant to a combination of settlement agreements, MDPSC orders and regulations, and statutory provisions. SOS supply is competitively procured in the form of rolling contracts of varying lengths through periodic auctions that are overseen by the MDPSC and a third party monitor. Although settlements with respect to SOS supply for PE customers have expired, service continues in the same manner until changed by order of the MDPSC. PE recovers its costs plus a return for providing SOS.

The Maryland legislature adopted a statute in 2008 codifying the EmPOWER Maryland goals to reduce electric consumption and demand and requiring each electric utility to file a plan every three years. PE's current plan, covering the three-year period 2015-2017, was approved by the MDPSC on December 23, 2014. The costs of the 2015-2017 plan are expected to be approximately $68 million for that three-year period, of which $32 million was incurred through June 2016. On July 16, 2015, the MDPSC issued an order setting new incremental energy savings goals for 2017 and beyond, beginning with the level of savings achieved under PE's current plan for 2016, and ramping up 0.2% per year thereafter to reach 2%. PE continues to recover program costs subject to a five-year amortization. Maryland law only allows for the utility to recover lost distribution revenue attributable to energy efficiency or demand reduction programs through a base rate case proceeding, and to date, such recovery has not been sought or obtained by PE.

On February 27, 2013, the MDPSC issued an order (the February 27 Order) requiring the Maryland electric utilities to submit analyses relating to the costs and benefits of making further system and staffing enhancements in order to attempt to reduce storm outage durations. The order further required the Staff of the MDPSC to report on possible performance-based rate structures and to propose additional rules relating to feeder performance standards, outage communication and reporting, and sharing of special needs customer information. PE's responsive filings discussed the steps needed to harden the utility's system in order to attempt to achieve various levels of storm response speed described in the February 27 Order, and projected that it would require approximately $2.7 billion in infrastructure investments over 15 years to attempt to achieve the quickest level of response for the largest storm projected in the February 27 Order. On July 1, 2014, the Staff of the MDPSC issued a set of reports that recommended the imposition of extensive additional requirements in the areas of storm response, feeder performance, estimates of restoration times, and regulatory reporting. The Staff of the MDPSC also recommended the imposition of penalties, including customer rebates, for a utility's failure or inability to comply with the escalating standards of storm restoration speed proposed by the Staff of the MDPSC. In addition, the Staff of the MDPSC proposed that the utilities be required to develop and implement system hardening plans, up to a rate impact cap on cost. The MDPSC conducted a hearing September 15-18, 2014, to consider certain of these matters, and has not yet issued a ruling on any of those matters.

NEW JERSEY

JCP&L currently provides BGS for retail customers who do not choose a third party EGS and for customers of third party EGSs that fail to provide the contracted service. The supply for BGS is comprised of two components, procured through separate, annually held descending clock auctions, the results of which are approved by the NJBPU. One BGS component reflects hourly real time energy prices and is available for larger commercial and industrial customers. The second BGS component provides a fixed price service and is intended for smaller commercial and residential customers. All New Jersey EDCs participate in this competitive BGS procurement process and recover BGS costs directly from customers as a charge separate from base rates.

Pursuant to the NJBPU's March 26, 2015 final order in JCP&L's 2012 rate case proceeding directing that certain studies be completed, on July 22, 2015, the NJBPU approved the NJBPU staff's recommendation to implement such studies, which include operational and financial components. The independent consultant conducting the review issued a final report on July 27, 2016, recognizing that JCP&L is meeting the NJBPU requirements and making various operational and financial recommendations. The NJBPU is expected to complete its review in the third quarter of 2016.

In an Order issued October 22, 2014, in a generic proceeding to review its policies with respect to the use of a CTA in base rate cases (Generic CTA proceeding), the NJBPU stated that it would continue to apply its current CTA policy in base rate cases, subject to incorporating the following modifications: (i) calculating savings using a five-year look back from the beginning of the test year; (ii) allocating savings with 75% retained by the company and 25% allocated to rate payers; and (iii) excluding transmission assets of electric distribution companies in the savings calculation. On November 5, 2014, the Division of Rate Counsel appealed the NJBPU Order regarding the Generic CTA proceeding to the New Jersey Superior Court and JCP&L has filed to participate as a respondent in that proceeding. Briefing has been completed, and oral argument has not yet been scheduled.

On April 28, 2016, JCP&L filed tariffs with the NJBPU proposing a general rate increase associated with its distribution operations that seeks to improve service and benefit customers by supporting equipment maintenance, tree trimming, and inspections of lines, poles and substations, while also compensating for other business and operating expenses. The filing requested approval to increase annual operating revenues by approximately $142.1 million based upon a hybrid test year for the twelve months ending June 30, 2016. JCP&L requested that the proposed new rates take effect in January 2017. On July 13, 2016, this matter was submitted to the Office of Administrative Law for hearing and the issuance of an Initial Decision. A procedural schedule has not yet been issued.

On June 19, 2015, JCP&L, along with PN, ME, FET and MAIT made filings with FERC, the NJBPU, and the PPUC requesting authorization for JCP&L, PN and ME to contribute their transmission assets to MAIT, a new transmission-only subsidiary of FET. The procedural schedule was suspended while the NJBPU considered a motion on a legal issue regarding whether MAIT can be designated as a "public utility" in New Jersey. On February 24, 2016, the NJBPU issued an Order concluding that MAIT does not satisfy the “electricity distribution” element necessary for “public utility” status because MAIT would not own any electric distribution assets in New Jersey. On April 22, 2016, JCP&L and MAIT filed a supplemental petition and testimony seeking to include certain JCP&L distributions assets in the transfer to satisfy the "electricity distribution" element necessary for "public utility" status in accordance with the NJBPU’s February 24, 2016 order. On July 18, 2016, the procedural schedule was set with evidentiary hearings in late October and early November of 2016. See Transfer of Transmission Assets to MAIT in FERC Matters below for further discussion of this transaction.

OHIO

The Ohio Companies operated under their ESP 3 plan which expired on May 31, 2016. On May 18, 2016, in response to previous appeals, the Supreme Court of Ohio issued its Opinion affirming in all respects the PUCO's ESP 3 Order.

The Ohio Companies filed an application with the PUCO on August 4, 2014 seeking approval of their ESP IV entitled Powering Ohio's Progress. The Ohio Companies filed a Stipulation and Recommendation on December 22, 2014, and supplemental stipulations and recommendations on May 28, 2015, and June 4, 2015. On December 1, 2015, the Ohio Companies filed a Third Supplemental Stipulation and Recommendation, which included PUCO Staff as a signatory party in addition to other signatories.

The material terms of ESP IV, as modified by the stipulations included:

- An eight-year term (June 1, 2016 - May 31, 2024);
- Contemplates continuing a base distribution rate freeze through May 31, 2024;
- An Economic Stability Program that flows through charges or credits through Rider RRS representing the net result of the price paid to FES through an eight-year FERC-jurisdictional PPA, referred to as the ESP IV PPA, for the output of the ESP IV PPA Facilities against the revenues received from selling such output into the PJM markets;
- Continuing to provide power to non-shopping customers at a market-based price set through an auction process;
- Continuing Rider DCR with increased revenue caps of approximately $30 million per year from June 1, 2016 through May 31, 2019; $20 million per year from June 1, 2019 through May 31, 2022; and $15 million per year from June 1, 2022 through May 31, 2024 that supports continued investment related to the distribution system for the benefit of customers;
- Collection of lost distribution revenues associated with energy efficiency and peak demand reduction programs;
- A risk-sharing mechanism that would provide guaranteed credits under Rider RRS in years five through eight to customers as follows: $10 million in year five, $20 million in year six, $30 million in year seven and $40 million in year eight;

- A continuing commitment not to recover from retail customers certain costs related to transmission cost allocations for the longer of the five-year period from June 1, 2011 through May 31, 2016 or when the amount of such costs avoided by customers for certain types of products totals $360 million, including such costs from MISO along with such costs from PJM, subject to the outcome of certain FERC proceedings;
- Potential procurement of 100 MW of new Ohio wind or solar resources subject to a demonstrated need to procure new renewable energy resources as part of a strategy to further diversify Ohio's energy portfolio;
- An agreement to file a case with the PUCO by April 3, 2017, seeking to transition to decoupled base rates for residential customers;
- An agreement to file by February 29, 2016, a Grid Modernization Business Plan for PUCO consideration and approval (which filing was made on February 29, 2016);
- A goal across FirstEnergy to reduce CO_2 emissions by 90% below 2005 levels by 2045;
- A contribution of $3 million per year ($24 million over the eight-year term) to fund energy conservation programs, economic development and job retention in the Ohio Companies service territory;
- Contributions of $2.4 million per year ($19 million over the eight-year term) to fund a fuel-fund in each of the Ohio Companies service territories to assist low-income customers; and
- A contribution of $1 million per year ($8 million over the eight-year term) to establish a Customary Advisory Council to ensure preservation and growth of the competitive market in Ohio.

On March 31, 2016, the PUCO issued an Opinion and Order adopting and approving, with modifications, the Ohio Companies’ ESP IV. Certain changes arising from the approval of ESP IV went into effect on June 1, 2016. The PUCO’s modifications of ESP IV, among others, included:

- Limiting average customer bill amounts for the first two years of the plan, subject to certain exceptions, and permitting deferral for the second year;
- Prohibiting recovery of retirement costs of the ESP IV PPA Facilities through Rider RRS;
- Assigning the burden of capacity performance penalties incurred by the ESP IV PPA Facilities to the Ohio Companies, rather than customers, and to provide that all capacity performance bonuses earned by the ESP IV PPA Facilities be retained by the Ohio Companies, rather than customers; and
- Providing for the modification of the severability provision previously included in ESP IV, to also address potential future PJM Tariff or rule changes prohibiting the Ohio Companies from offering output of the ESP IV PPA Facilities into PJM auctions.

FES and the Ohio Companies entered into the ESP IV PPA on April 1, 2016.

On January 27, 2016, certain parties filed a complaint with FERC against FES and the Ohio Companies requesting FERC review the ESP IV PPA under Section 205 of the FPA. On April 27, 2016, FERC issued an order granting the complaint, prohibiting any transactions under the ESP IV PPA pending future authorization by FERC, and directing FES to submit the ESP IV PPA for FERC review if the companies desired to transact under the agreement. Pursuant to FERC's directives in the order, FES and the Ohio Companies submitted required compliance filings. FES and the Ohio Companies did not file the ESP IV PPA for FERC review, but rather agreed to suspend the ESP IV PPA prior to transacting thereunder, pending the outcome of the PUCO and FERC proceedings.

On April 29, 2016 and May 2, 2016, applications for rehearing on the Ohio Companies ESP IV were filed with the PUCO by several parties, including the Ohio Companies. As part of the Ohio Companies’ application for rehearing, the Ohio Companies proposed a modified Rider RRS. The PUCO issued an Entry on Rehearing on May 11, 2016 granting the applications for rehearing for the purpose of further consideration of the matters raised therein. On June 29, 2016, PUCO Staff filed testimony recommending that the Ohio Companies’ modified Rider RRS proposal be denied, and instead recommended a new Distribution Modernization Rider providing for the collection of $131 million annually for three years with a possible extension for an additional two years. The hearing began on July 11, 2016 for the

modified Rider RRS proposal. On July 25, 2016, the Ohio Companies filed testimony that continues to recommend that the PUCO approve the proposed modified Rider RRS and that the revenues and expenses of the proposed modified Rider RRS be excluded from the significantly excessive earnings test. The Ohio Companies' filing also provided testimony that a properly designed Distribution Modernization Rider would be valued at $558 million annually for 8 years, include an additional amount, as determined by the PUCO, that recognizes the value of the economic impact of FirstEnergy maintaining its headquarters in Ohio, and would also be excluded from the significantly excessive earnings test.

Several parties filed protests and comments with FERC alleging, among other things, that the modified Rider RRS constitutes a "virtual PPA". The filings and responses thereto are pending before FERC.

On March 21, 2016, a number of generation owners filed with FERC a complaint against PJM requesting that FERC expand the MOPR in the PJM Tariff to prevent the alleged artificial suppression of prices in the PJM capacity markets by state-subsidized generation, in particular alleged price suppression that could result from the ESP IV PPA and other similar agreements. The complaint requested an order by May 1, 2016, so the revised rule could be in effect for the May 2016 BRA, and also that FERC direct PJM to initiate a stakeholder process to develop a long-term MOPR reform for existing resources that receive out-of-market revenue. FERC took no action on the complaint prior to the BRA, and therefore the proposed MOPR was not in effect for the auction. Subsequently, certain municipal and industrial customers and