FIRSTENERGY CORP
Form 10-Q
August 05, 2014

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

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

For the quarterly period ended June 30, 2014

OR

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

For the transition period from ___________________ to ___________________

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o FirstEnergy Corp. and FirstEnergy Solutions Corp.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes þ No o FirstEnergy Corp. and FirstEnergy Solutions Corp.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer þ FirstEnergy Corp.

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

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

CLASS	OUTSTANDING AS OF JULY 31, 2014
FirstEnergy Corp., $0.10 par value	420,344,546
FirstEnergy Solutions Corp., no par value	7

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

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

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

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

- The speed and nature of increased competition in the electric utility industry, in general, and the retail sales market in particular.
- The ability to experience growth in the Regulated Distribution and Regulated Transmission segments and to successfully implement our revised sales strategy in the Competitive Energy Services segment.
- The accomplishment of our regulatory and operational goals in connection with our transmission plan and planned distribution rate cases and the effectiveness of our repositioning strategy.
- The impact of the regulatory process on the pending matters before FERC and in the various states in which we do business including, but not limited to, matters related to rates and pending rate cases and the ESP IV.
- 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 the polar vortex or other significant weather events, and all associated regulatory events or actions.
- Regulatory outcomes associated with storm restoration, including but not limited to, Hurricane Sandy, Hurricane Irene and the October snowstorm of 2011.
- Changing energy, capacity and commodity market prices including, but not limited to, coal, natural gas and oil, and their availability and impact on margins.
- The continued ability of our regulated utilities to recover their costs.
- Costs being higher than anticipated and the success of our policies to control costs and to mitigate low energy, capacity and market prices.
- Other legislative and regulatory changes, and revised environmental requirements, including, but not limited to, possible GHG emission, water discharge, and CCR regulations, the potential impacts of CSAPR, and the effects of the EPA's MATS rules including our estimated costs of compliance.
- The uncertainty of the timing and amounts of the capital expenditures that may arise in connection with any litigation, including NSR litigation or potential regulatory initiatives or rulemakings (including that such expenditures could result in our decision to deactivate or idle certain generating units).
- The uncertainties associated with the deactivation of certain older regulated and competitive fossil units including the impact on vendor commitments, and the timing thereof as they relate to, among other things, RMR arrangements and the reliability of the transmission grid.
- 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 impact of future changes to the operational status or availability of our generating units.
- The risks and uncertainties associated with litigation, arbitration, mediation and like proceedings, including, but not limited to, any such proceedings related to vendor commitments.
- Replacement power costs being higher than anticipated or not fully hedged.
- The ability to comply with applicable state and federal reliability standards and energy efficiency and peak demand reduction mandates.
- Changes in customers' demand for power, including but not limited to, changes resulting from the implementation of state and federal energy efficiency and peak demand reduction mandates.
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The ability to accomplish or realize anticipated benefits from strategic and financial goals including, but not limited to, the ability to reduce costs and to successfully complete our announced financial plans designed to improve our credit metrics and strengthen our balance sheet, including but not limited to, our announced dividend reduction and our 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 our subsidiaries to make additional contributions sooner, or in amounts that are larger than currently anticipated.
- The impact of changes to material accounting policies.
- The ability to access the public securities and other capital and credit markets in accordance with our announced financial plans, the cost of such capital and overall condition of the capital and credit markets affecting us and our subsidiaries.
- Actions that may be taken by credit rating agencies that could negatively affect us and 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 our major industrial and commercial customers, and other counterparties including fuel suppliers, with which we do business.
- The impact of any changes in tax laws or regulations or adverse tax audit results or rulings.

- Issues concerning the stability of domestic and foreign financial institutions and counterparties with which we do business.
- The risks and other factors discussed from time to time in our SEC filings, and other similar factors.

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

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

TABLE OF CONTENTS

GLOSSARY OF TERMS

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

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

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

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

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

GLOSSARY OF TERMS, Continued

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

ICG	International Coal Group Inc.
IRS	Internal Revenue Service
kV	Kilovolt
KWH	Kilowatt-hour

GLOSSARY OF TERMS, Continued

LBR	Little Blue Run
LCAPP	Long-Term Capacity Agreement Pilot Program
LMP	Locational Marginal Price
LOC	Letter of Credit
LSE	Load Serving Entity
MAAC	Mid-Atlantic Region of PJM
MATS	Mercury and Air Toxics Standards
MDPSC	Maryland Public Service Commission
MISO	Midcontinent Independent System Operator, Inc.
M/kWh	Mill per Kilowatt-Hour
mmBTU	One Million British Thermal Units
Moody's	Moody's Investors Service, Inc.
MOPR	Minimum Offer Price Rule
MVP	Multi-value Project
MW	Megawatt
MWH	Megawatt-hour
NDT	Nuclear Decommissioning Trust
NERC	North American Electric Reliability Corporation
NITS	Network Integration Transmission Service
NJBPU	New Jersey Board of Public Utilities
NMB	Non-Market Based
NNSR	Non-Attainment New Source Review
NOL	Net Operating Loss
NOV	Notice of Violation
NOx	Nitrogen Oxide
NPDES	National Pollutant Discharge Elimination System
NRC	Nuclear Regulatory Commission
NRG	NRG Energy, Inc.
NSR	New Source Review
NUG	Non-Utility Generation
NYISO	New York Independent System Operator, Inc.
NYPSC	New York State Public Service Commission
OATT	Open Access Transmission Tariff
OCA	Office of Consumer Advocate
OCC	Ohio Consumers' Counsel
OPEB	Other Post-Employment Benefits
OTTI	Other Than Temporary Impairments
OVEC	Ohio Valley Electric Corporation
PA DEP	Pennsylvania Department of Environmental Protection
PCRB	Pollution Control Revenue Bond
Pennsylvania Industrials	ME Industrial Users Group and PN Industrial Customer Alliance
PJM	PJM Interconnection, L.L.C.
PM	Particulate Matter
POLR	Provider of Last Resort
PPUC	Pennsylvania Public Utility Commission
PSA	Power Supply Agreement

PSD	Prevention of Significant Deterioration
PTC	Price-to-Compare
PUCO	Public Utilities Commission of Ohio
PURPA	Public Utility Regulatory Policies Act of 1978
RCRA	Resource Conservation and Recovery Act

GLOSSARY OF TERMS, Continued

REC	Renewable Energy Credit
REIT	Real Estate Investment Trust
RFC	ReliabilityFirst Corporation
RFP	Request for Proposal
RGGI	Regional Greenhouse Gas Initiative
RMR	Reliability Must-Run
RPM	Reliability Pricing Model
RTEP	Regional Transmission Expansion Plan
RTO	Regional Transmission Organization
S&P	Standard & Poor’s Ratings Service
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
SB221	Amended Substitute Senate Bill 221
SB310	Senate Bill 310
SBC	Societal Benefits Charge
SEC	United States Securities and Exchange Commission
SERTP	Southeastern Regional Transmission Planning
SIP	State Implementation Plan(s) Under the Clean Air Act
SMIP	Smart Meter Implementation Plan
SO_2	Sulfur Dioxide
SOS	Standard Offer Service
SPE	Special Purpose Entity
SREC	Solar Renewable Energy Credit
SSO	Standard Service Offer
TDS	Total Dissolved Solid
TMDL	Total Maximum Daily Load
TMI-2	Three Mile Island Unit 2
TSC	Transmission Service Charge
Twitter®	Twitter is a registered trademark of Twitter, Inc.
U.S. Court of Appeals for the D.C. Circuit	United States Court of Appeals for the District of Columbia Circuit
UWUA	Utility Workers Union of America
VIE	Variable Interest Entity
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)

	Three Months Ended June 30		Six Months Ended June 30	
(In millions, except per share amounts)	2014	2013	2014	2013
REVENUES:				
Electric utilities	$2,256	$2,217	$4,988	$4,602
Unregulated businesses	1,240	1,290	2,690	2,625
Total revenues*	3,496	3,507	7,678	7,227
OPERATING EXPENSES:				
Fuel	550	628	1,167	1,258
Purchased power	1,083	866	2,538	1,812
Other operating expenses	1,021	886	2,203	1,768
Provision for depreciation	302	300	596	593
Amortization (deferral) of regulatory assets, net	20	72	(8)	131
General taxes	228	240	499	505
Impairment of long-lived assets	—	473	—	473
Total operating expenses	3,204	3,465	6,995	6,540
OPERATING INCOME	292	42	683	687
OTHER INCOME (EXPENSE):				
Loss on debt redemptions (Note 7)	(1)	(24)	(8)	(141)
Investment income (loss)	29	(15)	51	3
Interest expense	(262)	(256)	(527)	(514)
Capitalized financing costs	32	23	61	41
Total other expense	(202)	(272)	(423)	(611)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES (BENEFITS)	90	(230)	260	76
INCOME TAXES (BENEFITS)	26	(62)	74	52
INCOME (LOSS) FROM CONTINUING OPERATIONS	64	(168)	186	24
Discontinued operations (net of income taxes of $0, $4, $69 and $6, respectively) (Note 13)	—	4	86	8
NET INCOME (LOSS)	$64	$(164)	$272	$32

EARNINGS (LOSSES) PER SHARE OF COMMON STOCK:				
Basic - Continuing Operations	$0.16	$(0.40)	$0.45	$0.06
Basic - Discontinued Operations (Note 13)	—	0.01	0.20	0.02
Basic - Net Earnings (Loss) per Basic Share	$0.16	$(0.39)	$0.65	$0.08
Diluted - Continuing Operations	$0.15	$(0.40)	$0.45	$0.06
Diluted - Discontinued Operations (Note 13)	—	0.01	0.20	0.02
Diluted - Net Earnings (Loss) per Diluted Share	$0.15	$(0.39)	$0.65	$0.08
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:				
Basic	420	418	419	418
Diluted	421	418	420	419
DIVIDENDS DECLARED PER SHARE OF COMMON STOCK**	$—	$—	$0.72	$0.55

* Includes excise tax collections of $99 million and $107 million in the three months ended June 30, 2014 and 2013, respectively, and $216 million and $229 million in the six months ended June 30, 2014 and 2013, respectively.

** The six months ended June 30, 2014 includes a dividend declared of $0.36 per share on January 21, 2014, paid on March 1, 2014 and a dividend declared of $0.36 per share on March 18, 2014, paid on June 1, 2014. The six months ended June 30, 2013 includes a dividend declared of $0.55 per share on March 19, 2013, paid on June 1, 2013.

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)

	Three Months Ended June 30		Six Months Ended June 30	
(In millions)	2014	2013	2014	2013
NET INCOME (LOSS)	$64	$(164)	$272	$32
OTHER COMPREHENSIVE INCOME (LOSS):				
Pensions and OPEB prior service costs	(42)	(55)	(84)	(101)
Amortized gains (losses) on derivative hedges	(1)	1	(1)	2
Change in unrealized gain on available-for-sale securities	30	(8)	51	(3)
Other comprehensive loss	(13)	(62)	(34)	(102)
Income tax benefits on other comprehensive loss	(6)	(24)	(14)	(40)
Other comprehensive loss, net of tax	(7)	(38)	(20)	(62)
COMPREHENSIVE INCOME (LOSS)	$57	$(202)	$252	$(30)

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

2

FIRSTENERGY CORP.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions, except share amounts)	June 30, 2014	December 31, 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$76	$218
Receivables-		
Customers, net of allowance for uncollectible accounts of $59 in 2014 and $52 in 2013	1,731	1,720
Other, net of allowance for uncollectible accounts of $3 in 2014 and $3 in 2013	231	198
Materials and supplies, at average cost	802	752
Prepaid taxes	246	226
Derivatives	249	166
Accumulated deferred income taxes	377	366
Collateral	266	155
Other	205	212
	4,183	4,013
PROPERTY, PLANT AND EQUIPMENT:		
In service	46,133	44,228
Less — Accumulated provision for depreciation	13,797	13,280
	32,336	30,948
Construction work in progress	2,180	2,304
	34,516	33,252
INVESTMENTS:		
Nuclear plant decommissioning trusts	2,364	2,201
Other	896	903
	3,260	3,104
ASSETS HELD FOR SALE	—	235
DEFERRED CHARGES AND OTHER ASSETS:		
Goodwill	6,418	6,418
Regulatory assets	1,732	1,854
Other	1,279	1,548
	9,429	9,820
	$51,388	$50,424
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES:		
Currently payable long-term debt	$1,016	$1,415
Short-term borrowings	2,323	3,404
Accounts payable	1,341	1,250
Accrued taxes	397	485
Accrued compensation and benefits	283	351
Derivatives	201	111
Other	612	621
	6,173	7,637
CAPITALIZATION:		

Common stockholders' equity-		
Common stock, $0.10 par value, authorized 490,000,000 shares - 420,271,254 and 418,628,559 shares outstanding as of June 30, 2014 and December 31, 2013, respectively	42	42
Other paid-in capital	9,817	9,776
Accumulated other comprehensive income	264	284
Retained earnings	2,560	2,590
Total common stockholders' equity	12,683	12,692
Noncontrolling interest	2	3
Total equity	12,685	12,695
Long-term debt and other long-term obligations	18,415	15,831
	31,100	28,526
NONCURRENT LIABILITIES:		
Accumulated deferred income taxes	7,081	6,968
Retirement benefits	2,732	2,689
Asset retirement obligations	1,730	1,678
Deferred gain on sale and leaseback transaction	841	858
Adverse power contract liability	237	290
Other	1,494	1,778
	14,115	14,261
COMMITMENTS, GUARANTEES AND CONTINGENCIES (Note 10)		
	$51,388	$50,424

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

FIRSTENERGY CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30	
(In millions)	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$272	$32
Adjustments to reconcile net income to net cash from operating activities-		
Provision for depreciation	596	593
Amortization (deferral) of regulatory assets, net	(8)	131
Nuclear fuel amortization	98	98
Deferred purchased power and other costs	(47)	(39)
Deferred income taxes and investment tax credits, net	159	119
Impairments of long-lived assets	—	473
Investment impairments	3	53
Deferred rents and lease market valuation liability	(79)	(75)
Retirement benefits	(42)	(104)
Commodity derivative transactions, net (Note 8)	40	17
Loss on debt redemptions (Note 7)	8	141
Make-whole premiums paid on debt redemptions	—	(61)
Income from discontinued operations (Note 13)	(86)	(8)
Changes in current assets and liabilities-		
Receivables	(44)	(125)
Materials and supplies	(50)	42
Prepayments and other current assets	(20)	(185)
Accounts payable	103	(312)
Accrued taxes	(159)	(205)
Accrued compensation and benefits	(70)	(34)
Cash collateral, net	(127)	(38)
Other	75	(20)
Net cash provided from operating activities	622	493
CASH FLOWS FROM FINANCING ACTIVITIES:		
New Financing-		
Long-term debt	3,137	2,245
Short-term borrowings, net	—	1,285
Redemptions and Repayments-		
Long-term debt	(925)	(1,968)
Short-term borrowings, net	(1,081)	—
Tender premiums paid on debt redemptions	—	(110)
Common stock dividend payments	(302)	(460)
Other	(24)	(16)
Net cash provided from financing activities	805	976
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(1,809)	(1,412)
Nuclear fuel	(58)	(50)
Proceeds from asset sales	394	—

Sales of investment securities held in trusts	1,164	1,177
Purchases of investment securities held in trusts	(1,221)	(1,173)
Asset removal costs	(47)	(111)
Other	8	(1)
Net cash used for investing activities	(1,569)	(1,570)
Net change in cash and cash equivalents	(142)	(101)
Cash and cash equivalents at beginning of period	218	172
Cash and cash equivalents at end of period	$76	$71

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

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

(In millions)	Three Months Ended June 30 2014	2013	Six Months Ended June 30 2014	2013
STATEMENTS OF OPERATIONS				
REVENUES:				
Electric sales to non-affiliates	$1,234	$1,277	$2,674	$2,611
Electric sales to affiliates	176	140	525	296
Other	42	35	82	69
Total revenues	1,452	1,452	3,281	2,976
OPERATING EXPENSES:				
Fuel	334	332	653	632
Purchased power from affiliates	75	137	139	269
Purchased power from non-affiliates	618	525	1,647	1,031
Other operating expenses	468	387	920	766
Provision for depreciation	79	76	153	151
General taxes	29	34	68	71
Total operating expenses	1,603	1,491	3,580	2,920
OPERATING INCOME (LOSS)	(151)	(39)	(299)	56
OTHER INCOME (EXPENSE):				
Loss on debt redemptions (Note 7)	—	(32)	(5)	(103)
Investment income (loss)	24	(18)	44	(1)
Miscellaneous income	4	6	4	8
Interest expense — affiliates	(2)	(5)	(4)	(6)
Interest expense — other	(37)	(39)	(73)	(91)
Capitalized interest	8	10	20	19
Total other expense	(3)	(78)	(14)	(174)
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(154)	(117)	(313)	(118)
INCOME TAX BENEFITS	(67)	(42)	(123)	(42)
LOSS FROM CONTINUING OPERATIONS	(87)	(75)	$(190)	$(76)
Discontinued operations (net of income taxes of $0, $1, $70 and $3, respectively) (Note 13)	—	4	116	7
NET LOSS	$(87)	$(71)	$(74)	$(69)

STATEMENTS OF COMPREHENSIVE LOSS

NET LOSS	$(87)	$(71)	$(74)	$(69)
OTHER COMPREHENSIVE INCOME (LOSS):				
Pensions and OPEB prior service costs	(5)	(5)	(10)	(11)
Amortized gain on derivative hedges	(3)	(1)	(5)	(2)
Change in unrealized gain on available-for-sale securities	25	(8)	44	(3)
Other comprehensive income (loss)	17	(14)	29	(16)
Income taxes (benefits) on other comprehensive income (loss)	7	(5)	11	(6)
Other comprehensive income (loss), net of tax	10	(9)	18	(10)
COMPREHENSIVE LOSS	$(77)	$(80)	$(56)	$(79)

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, 2014	December 31, 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$2	$2
Receivables-		
Customers, net of allowance for uncollectible accounts of $14 in 2014 and $11 in 2013	534	539
Affiliated companies	475	1,036
Other, net of allowance for uncollectible accounts of $3 in 2014 and 2013	97	81
Notes receivable from affiliated companies	168	—
Materials and supplies	466	448
Derivatives	238	165
Collateral	256	136
Prepayments and other	125	109
	2,361	2,516
PROPERTY, PLANT AND EQUIPMENT:		
In service	13,622	12,472
Less — Accumulated provision for depreciation	4,968	4,755
	8,654	7,717
Construction work in progress	682	1,308
	9,336	9,025
INVESTMENTS:		
Nuclear plant decommissioning trusts	1,379	1,276
Other	11	11
	1,390	1,287
ASSETS HELD FOR SALE	—	122
DEFERRED CHARGES AND OTHER ASSETS:		
Customer intangibles	86	95
Goodwill	23	23
Property taxes	19	41
Unamortized sale and leaseback costs	215	168
Derivatives	57	53
Other	112	172
	512	552
	$13,599	$13,502
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES:		
Currently payable long-term debt	$291	$892
Short-term borrowings-		
Affiliated companies	—	431
Other	308	4
Accounts payable-		
Affiliated companies	421	765

Other	259	290
Accrued taxes	98	66
Derivatives	200	110
Other	183	197
	1,760	2,755
CAPITALIZATION:		
Common stockholder's equity-		
Common stock, without par value, authorized 750 shares - 7 shares outstanding as of June 30, 2014 and December 31, 2013	3,583	3,080
Accumulated other comprehensive income	72	54
Retained earnings	2,104	2,178
Total common stockholder's equity	5,759	5,312
Long-term debt and other long-term obligations	2,721	2,130
	8,480	7,442
NONCURRENT LIABILITIES:		
Deferred gain on sale and leaseback transaction	841	858
Accumulated deferred income taxes	746	741
Asset retirement obligations	1,044	1,015
Retirement benefits	193	185
Derivatives	43	14
Other	492	492
	3,359	3,305
COMMITMENTS, GUARANTEES AND CONTINGENCIES (Note 10)		
	$13,599	$13,502

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

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

	Six Months Ended June 30	
(In millions)	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(74)	$(69)
Adjustments to reconcile net loss to net cash from operating activities-		
Provision for depreciation	153	151
Nuclear fuel amortization	98	98
Deferred rents and lease market valuation liability	(76)	(72)
Deferred income taxes and investment tax credits, net	(23)	141
Investment impairments	3	45
Retirement benefits	(2)	(3)
Commodity derivative transactions, net (Note 8)	40	17
Loss on debt redemptions (Note 7)	5	103
Make-whole premiums paid on debt redemptions	—	(31)
Income from discontinued operations (Note 13)	(116)	(7)
Changes in current assets and liabilities-		
Receivables	550	(156)
Materials and supplies	(18)	52
Prepayments and other current assets	5	(40)
Accounts payable	(339)	(91)
Accrued taxes	(57)	(134)
Accrued compensation and benefits	(7)	3
Cash collateral, net	(117)	2
Other	58	(9)
Net cash provided from operating activities	83	—
CASH FLOWS FROM FINANCING ACTIVITIES:		
New financing-		
Long-term debt	637	—
Equity contribution from parent	500	1,500
Redemptions and repayments-		
Long-term debt	(664)	(1,179)
Short-term borrowings, net	(127)	—
Tender premiums paid on debt redemptions	—	(67)
Other	(10)	(5)
Net cash provided from financing activities	336	249
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(477)	(350)
Nuclear fuel	(57)	(50)
Proceeds from asset sales	307	19
Sales of investment securities held in trusts	707	487
Purchases of investment securities held in trusts	(736)	(515)
Loans to affiliated companies, net	(168)	156

Other	5	3
Net cash used for investing activities	(419)	(250)
Net change in cash and cash equivalents	—	(1)
Cash and cash equivalents at beginning of period	2	3
Cash and cash equivalents at end of period	$2	$2

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

FIRSTENERGY CORP. AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION

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

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

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

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

FE and its subsidiaries consolidate all majority-owned subsidiaries over which they exercise control and, when applicable, entities for which they have a controlling financial interest. Intercompany transactions and balances are eliminated in consolidation. FE and its subsidiaries consolidate a VIE when it is determined that it is the primary beneficiary (see Note 6, Variable Interest Entities). Investments in affiliates over which FE and its subsidiaries have the ability to exercise significant influence, but with respect to which they are not the primary beneficiary and do not exercise control, follow the equity method of accounting. Under the equity method, the interest in the entity is reported as an investment in the Consolidated Balance Sheets and the percentage share of the entity's earnings is reported in the Consolidated Statements of Income and Comprehensive Income. These Notes to the Consolidated Financial Statements are combined for FirstEnergy and FES.

For the three months ended June 30, 2014 and 2013, capitalized financing costs on FirstEnergy's Consolidated Statements of Income (Loss) includes $14 million and $4 million, respectively, of allowance for equity funds used during construction and $18 million and $19 million, respectively, of capitalized interest. For the six months ended June 30, 2014 and 2013, capitalized financing costs on FirstEnergy's Consolidated Statements of Income (Loss) includes $21 million and $7 million, respectively, of allowance for equity funds used during construction, and $40 million and $34 million, respectively, of capitalized interest.

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications include, but are not limited to, the classification of discontinued operations associated with the sale of hydro assets discussed in additional detail in Note 13, Discontinued Operations.

New Accounting Pronouncements

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

2. 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 (loss) per share of common stock:

(In millions, except per share amounts)	Three Months Ended June 30		Six Months Ended June 30	
Reconciliation of Basic and Diluted Earnings (Loss) per Share of Common Stock	2014	2013	2014	2013
Income (loss) from continuing operations	$64	$(168)	$186	$24
Discontinued operations (Note 13)	—	4	86	8
Net income (loss)	$64	$(164)	$272	$32
Weighted average number of basic shares outstanding	420	418	419	418
Assumed exercise of dilutive stock options and awards(1)	1	—	1	1
Weighted average number of diluted shares outstanding	421	418	420	419
Earnings (loss) per share:				
Basic earnings per share:				
Income (loss) from continuing operations	$0.16	$(0.40)	$0.45	$0.06
Discontinued operations (Note 13)	—	0.01	0.20	0.02
Net earnings (loss) per basic share	$0.16	$(0.39)	$0.65	$0.08
Diluted earnings (loss) per share:				
Income (loss) from continuing operations	$0.15	$(0.40)	$0.45	$0.06
Discontinued operations (Note 13)	—	0.01	0.20	0.02
Net earnings (loss) per diluted share	$0.15	$(0.39)	$0.65	$0.08

(1) For the three months ended June 30, 2014 and June 30, 2013, 1 million shares were excluded from the calculation of diluted shares outstanding, as their inclusion would be antidilutive. For the six months ended June 30, 2014, 2 million shares were excluded from the calculation of diluted shares outstanding. The number of potentially dilutive securities not included in the calculation of diluted shares outstanding due to their antidilutive effect was not significant for the six months ended June 30, 2013.

3. PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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

Components of Net Periodic Benefit Costs (Credits)	Pensions		OPEB	
For the Three Months Ended June 30,	2014	2013	2014	2013
	(In millions)			
Service costs	$41	$49	$2	$3
Interest costs	101	93	10	9
Expected return on plan assets	(115)	(125)	(8)	(8)
Amortization of prior service costs (credits)	2	3	(44)	(58)
Net periodic costs (credits)	$29	$20	$(40)	$(54)

Components of Net Periodic Benefit Costs (Credits)	Pensions		OPEB	
For the Six Months Ended June 30,	2014	2013	2014	2013
	(In millions)			
Service costs	$83	$98	$4	$6
Interest costs	201	186	20	18
Expected return on plan assets	(230)	(250)	(16)	(16)
Amortization of prior service costs (credits)	4	6	(88)	(107)
Net periodic costs (credits)	$58	$40	$(80)	$(99)

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

	Pensions		OPEB	
	2014	2013	2014	2013
	(In millions)			
For the Three Months Ended June 30,	$4	$5	$(5)	$(5)
For the Six Months Ended June 30,	$8	$10	$(10)	$(10)

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

Net Periodic Benefit Expense (Credit)	Pensions		OPEB	
For the Three Months Ended June 30,	2014	2013	2014	2013
	(In millions)			
FirstEnergy	$21	$14	$(27)	$(34)
FES	4	5	(5)	(5)

Net Periodic Benefit Expense (Credit)	Pensions		OPEB	
For the Six Months Ended June 30,	2014	2013	2014	2013
	(In millions)			
FirstEnergy	$42	$25	$(54)	$(64)
FES	8	8	(9)	(8)

4. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

FirstEnergy

	Gains & Losses on Cash Flow Hedges	Unrealized Gains on AFS Securities	Defined Benefit Pension & OPEB Plans	Total
	(In millions)			
AOCI Balance as of April 1, 2014	$(36)	$22	$285	$271
Other comprehensive income before reclassifications	1	31	—	32
Amounts reclassified from AOCI	(1)	(12)	(26)	(39)
Net other comprehensive income (loss)	—	19	(26)	(7)
AOCI Balance as of June 30, 2014	$(36)	$41	$259	$264
AOCI Balance as of April 1, 2013	$(37)	$18	$380	$361
Other comprehensive loss before reclassifications	—	(1)	—	(1)
Amounts reclassified from AOCI	—	(4)	(33)	(37)
Net other comprehensive loss	—	(5)	(33)	(38)
AOCI Balance as of June 30, 2013	$(37)	$13	$347	$323

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, 2014	$(2)	$20	$44	$62
Other comprehensive income (loss) before reclassifications	(1)	28	—	27
Amounts reclassified from AOCI	(2)	(12)	(3)	(17)
Net other comprehensive income (loss)	(3)	16	(3)	10
AOCI Balance as of June 30, 2014	$(5)	$36	$41	$72
AOCI Balance as of April 1, 2013	$2	$17	$52	$71
Other comprehensive loss before reclassifications	—	(1)	—	(1)
Amounts reclassified from AOCI	(1)	(4)	(3)	(8)
Net other comprehensive loss	(1)	(5)	(3)	(9)

AOCI Balance as of June 30, 2013	$1	$12	$49	$62

12

FirstEnergy

	Gains & Losses on Cash Flow Hedges	Unrealized Gains on AFS Securities	Defined Benefit Pension & OPEB Plans	Total
	(In millions)			
AOCI Balance as of January 1, 2014	$(36)	$9	$311	$284
Other comprehensive income before reclassifications	1	53	—	54
Amounts reclassified from AOCI	(1)	(21)	(52)	(74)
Net other comprehensive income (loss)	—	32	(52)	(20)
AOCI Balance as of June 30, 2014	$(36)	$41	$259	$264
AOCI Balance as of January 1, 2013	$(38)	$15	$408	$385
Other comprehensive income before reclassifications	—	14	—	14
Amounts reclassified from AOCI	1	(16)	(61)	(76)
Net other comprehensive income (loss)	1	(2)	(61)	(62)
AOCI Balance as of June 30, 2013	$(37)	$13	$347	$323

FES

	Gains & Losses on Cash Flow Hedges	Unrealized Gains on AFS Securities	Defined Benefit Pension & OPEB Plans	Total
	(In millions)			
AOCI Balance as of January 1, 2014	$(1)	$8	$47	$54
Other comprehensive income (loss) before reclassifications	(1)	49	—	48
Amounts reclassified from AOCI	(3)	(21)	(6)	(30)
Net other comprehensive income (loss)	(4)	28	(6)	18
AOCI Balance as of June 30, 2014	$(5)	$36	$41	$72
AOCI Balance as of January 1, 2013	$3	$13	$56	$72
Other comprehensive income before reclassifications	—	13	—	13
Amounts reclassified from AOCI	(2)	(14)	(7)	(23)
Net other comprehensive loss	(2)	(1)	(7)	(10)
AOCI Balance as of June 30, 2013	$1	$12	$49	$62

13

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

FE	Three Months Ended June 30		Affected Line Item in Consolidated Statements of Income (Loss)
Reclassifications from AOCI (b)	2014	2013	
	(In millions)		
Gains & losses on cash flow hedges			
Commodity contracts	$(3)	$(1)	Other operating expenses
Long-term debt	2	2	Interest expense
	(1)	1	Total before taxes
	—	(1)	Income taxes (benefits)
	$(1)	$—	Net of tax
Unrealized gains on AFS securities			
Realized gains on sales of securities	$(19)	$(6)	Investment income (loss)
	7	2	Income taxes (benefits)
	$(12)	$(4)	Net of tax
Defined benefit pension and OPEB plans			
Prior-service costs	$(42)	$(55)	(a)
	16	22	Income taxes (benefits)
	$(26)	$(33)	Net of tax

(a) These AOCI components are included in the computation of net periodic pension cost. See Note 3, Pensions and Other Postemployment Benefits for additional details.
(b) Parenthesis represent credits to the Consolidated Statements of Income (Loss) from AOCI.

FES	Three Months Ended June 30		Affected Line Item in Consolidated Statements of Operations
Reclassifications from AOCI (b)	2014	2013	
	(In millions)		
Gains & losses on cash flow hedges			
Commodity contracts	$(3)	$(1)	Other operating expenses
	1	—	Income tax benefits
	$(2)	$(1)	Net of tax
Unrealized gains on AFS securities			
Realized gains on sales of securities	$(18)	$(6)	Investment income (loss)
	6	2	Income tax benefits
	$(12)	$(4)	Net of tax
Defined benefit pension and OPEB plans			
Prior-service costs	$(5)	$(5)	(a)
	2	2	Income tax benefits
	$(3)	$(3)	Net of tax

(a) These AOCI components are included in the computation of net periodic pension cost. See Note 3, Pensions and Other Postemployment Benefits for additional details.
(b) Parenthesis represent credits to the Consolidated Statements of Operations from AOCI.
The following amounts were reclassified from AOCI in the six months ended June 30, 2014 and 2013:

14

FE	Six Months Ended June 30		Affected Line Item in Consolidated Statements of Income (Loss)
Reclassifications from AOCI (b)	2014	2013	
	(In millions)		
Gains & losses on cash flow hedges			
Commodity contracts	$(5)	$(4)	Other operating expenses
Long-term debt	4	6	Interest expense
	(1)	2	Total before taxes
	—	(1)	Income taxes (benefits)
	$(1)	$1	Net of tax
Unrealized gains on AFS securities			
Realized gains on sales of securities	$(33)	$(25)	Investment income (loss)
	12	9	Income taxes (benefits)
	$(21)	$(16)	Net of tax
Defined benefit pension and OPEB plans			
Prior-service costs	$(84)	$(101)	(a)
	32	40	Income taxes (benefits)
	$(52)	$(61)	Net of tax

(a) These AOCI components are included in the computation of net periodic pension cost. See Note 3, Pensions and Other Postemployment Benefits for additional details.
(b) Parenthesis represent credits to the Consolidated Statements of Income (Loss) from AOCI.

FES	Six Months Ended June 30		Affected Line Item in Consolidated Statements of Operations
Reclassifications from AOCI (b)	2014	2013	
	(In millions)		
Gains & losses on cash flow hedges			
Commodity contracts	$(5)	$(4)	Other operating expenses
Long-term debt	—	2	Interest expense
	(5)	(2)	Total before taxes
	2	—	Income tax benefits
	$(3)	$(2)	Net of tax
Unrealized gains on AFS securities			
Realized gains on sales of securities	$(32)	$(22)	Investment income (loss)
	11	8	Income tax benefits
	$(21)	$(14)	Net of tax
Defined benefit pension and OPEB plans			
Prior-service costs	$(10)	$(11)	(a)
	4	4	Income taxes benefits
	$(6)	$(7)	Net of tax

(a) These AOCI components are included in the computation of net periodic pension cost. See Note 3, Pensions and Other Postemployment Benefits for additional details.

(b) Parenthesis represent credits to the Consolidated Statements of Operations from AOCI.

5. INCOME TAXES

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

FirstEnergy's effective tax rates from continuing operations for the three months ended June 30, 2014 and 2013 were 28.9% and 27.0%, respectively. The 2014 effective tax rate was impacted primarily from a reduction in deferred tax liabilities associated with changes in state apportionment factors. The 2013 effective tax rate was impacted primarily from a valuation allowance against state and local NOL carryforwards that offset the benefit received from pre-tax losses. The effective tax rates from continuing operations for the six months ended June 30, 2014 and 2013 were 28.5% and 68.4%, respectively. The decrease in the effective tax rate is primarily due to an increase in the benefit of AFUDC equity flow through, the elimination of certain future tax liabilities associated with basis differences, and the reduction in state deferred tax liabilities resulting from changes in state apportionment factors. Additionally, as discussed above, the 2013 effective tax rate includes the impact of recording a valuation allowance against state and local net operating loss carryforwards.

FES' effective tax rates from continuing operations for the three months ended June 30, 2014 and 2013 were 43.5% and 35.9%, respectively, and the effective tax rates for the six months ended June 30, 2014 and 2013 were 39.3% and 35.6%, respectively. For both periods, the increase in the effective tax rate is primarily due to an increase in pre-tax losses from continuing operations in jurisdictions with higher tax rates, a benefit resulting from a reduction in state deferred tax liabilities associated with changes in apportionment factors, partially offset by valuation allowances on local net operating loss carryforwards recognized in 2013.

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

6. VARIABLE INTEREST ENTITIES

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

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

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

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

Ohio Securitization

In September 2012, the Ohio Companies formed CEI Funding LLC, OE Funding LLC and TE Funding LLC, respectively, as separate, wholly-owned limited liability SPEs. Each SPE is a bankruptcy-remote, special purpose limited liability company that is restricted to activities necessary to issue phase-in recovery bonds and perform other functions in connection with the bond issuance. Creditors of FirstEnergy and the Ohio Companies have no recourse to any assets or revenues of the SPEs. The phase-in recovery bonds issued by these SPEs are payable only from, and secured by, phase-in recovery property held by the SPEs (i.e. the right to impose, charge and collect irrevocable non-bypassable usage-based charges payable by retail electric customers in the service territories of the Ohio Companies) and the bondholder has no recourse to the general credit of FirstEnergy or any of the Ohio Companies. The SPEs are considered VIEs and each one is consolidated into its applicable utility.

Mining Operations

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

Trusts

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

PATH-WV

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

On August 24, 2012, PJM removed the PATH project from its long-range expansion plans. See Note 9, Regulatory Matters, for additional information on the abandonment of PATH.

Power Purchase Agreements

FirstEnergy evaluated its power purchase agreements and determined that certain NUG entities at its Regulated Distribution segment may be VIEs to the extent that they own a plant that sells substantially all of its output to the applicable utilities and the contract price for power is correlated with the plant’s variable costs of production. FirstEnergy maintains 19 long-term power purchase agreements with NUG entities that were entered into pursuant to PURPA. FirstEnergy was not involved in the creation of, and has no equity or debt invested in, any of these entities.

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

Because FirstEnergy has no equity or debt interests in the NUG entities, its maximum exposure to loss relates primarily to the above-market costs incurred for power. FirstEnergy expects any above-market costs incurred at its Regulated Distribution segment to be recovered from customers. Purchased power costs related to the contracts that may contain a variable interest were $40 million and $41 million during the three months ended June 30, 2014 and 2013, respectively, and $102 million and $90 million during the six months ended June 30, 2014 and 2013, respectively.

Sale and Leaseback

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

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

In February 2014, NG purchased lessor equity interests in OE's existing sale and leaseback of Beaver Valley Unit 2 for approximately $94 million. As of June 30, 2014, FirstEnergy's leasehold interest was 8.11% of Perry Unit 1, 93.83% of Bruce Mansfield Unit 1 and 2.60% of Beaver Valley Unit 2. On June 24, 2014, OE exercised its irrevocable right to repurchase from the remaining owner participants the lessors' interests in Beaver Valley Unit 2 at the end of the lease term (June 1, 2017), which right to repurchase was assigned to NG. Additionally, on June 24, 2014, NG entered into a purchase agreement with an owner participant to purchase its lessor equity interests representing approximately half of the remaining non-affiliated leasehold interest in Perry Unit 1 on May 23, 2016, which is just prior to the end of the lease term.

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, 2014:

	Maximum Exposure	Discounted Lease Payments, net[1]	Net Exposure
	(In millions)		
FES	$1,212	$1,000	$212
Other FE subsidiaries	701	393	308

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

17

7. FAIR VALUE MEASUREMENTS

RECURRING AND NONRECURRING FAIR VALUE MEASUREMENTS

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

Level 1 - Quoted prices for identical instruments in active market

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

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

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

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

FTRs are financial instruments that entitle the holder to a stream of revenues (or charges) based on the hourly day-ahead congestion price differences across transmission paths. FTRs are acquired by FirstEnergy in the annual, monthly and long-term RTO auctions and are initially recorded using the auction clearing price less cost. After initial recognition, FTRs' carrying values are periodically adjusted to fair value using a mark-to-model methodology, which approximates market. The primary inputs into the model, which are generally less observable than objective sources, are the most recent RTO auction clearing prices and the FTRs' remaining hours. The model calculates the fair value by multiplying the most recent auction clearing price by the remaining FTR hours less the prorated FTR cost. Generally, significant increases or decreases in inputs in isolation could result in a higher or lower fair value measurement. See Note 8, Derivative Instruments, for additional information regarding FirstEnergy's FTRs.

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

LCAPP contracts are financially settled agreements that allow eligible generators to receive payments from, or make payments to, JCP&L, pursuant to an annually calculated load-ratio share of the capacity produced by the generator based upon the annual forecasted peak demand as determined by PJM. LCAPP contracts are recorded at fair value.

During the fourth quarter of 2013, all LCAPP contracts were terminated. See Note 8, Derivative Instruments for additional information.

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

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

FirstEnergy

Recurring Fair Value Measurements	June 30, 2014				December 31, 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets	(In millions)							
Corporate debt securities	$—	$1,194	$—	$1,194	$—	$1,365	$—	$1,365
Derivative assets - commodity contracts	7	262	—	269	7	208	—	215
Derivative assets - FTRs	—	—	37	37	—	—	4	4
Derivative assets - NUG contracts(1)	—	—	2	2	—	—	20	20
Equity securities(2)	700	—	—	700	317	—	—	317
Foreign government debt securities	—	80	—	80	—	109	—	109
U.S. government debt securities	—	172	—	172	—	165	—	165
U.S. state debt securities	—	242	—	242	—	228	—	228
Other(3)	95	272	—	367	187	255	—	442
Total assets	$802	$2,222	$39	$3,063	$511	$2,330	$24	$2,865
Liabilities								
Derivative liabilities - commodity contracts	$(16)	$(212)	$—	$(228)	$(13)	$(100)	$—	$(113)
Derivative liabilities - FTRs	—	—	(16)	(16)	—	—	(12)	(12)
Derivative liabilities - NUG contracts(1)	—	—	(171)	(171)	—	—	(222)	(222)
Total liabilities	$(16)	$(212)	$(187)	$(415)	$(13)	$(100)	$(234)	$(347)
Net assets (liabilities)(4)	$786	$2,010	$(148)	$2,648	$498	$2,230	$(210)	$2,518

(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 $(36) million and $10 million as of June 30, 2014 and December 31, 2013, respectively, 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, LCAPP contracts and FTRs that are classified as Level 3 in the fair value hierarchy for the periods ended June 30, 2014 and December 31, 2013:

	NUG Contracts[1]			LCAPP Contracts			FTRs		
	Derivative Assets	Derivative Liabilities	Net	Derivative Assets	Derivative Liabilities	Net	Derivative Assets	Derivative Liabilities	Net
	(In millions)								
January 1, 2013 Balance	$36	$(290)	$(254)	$—	$(144)	$(144)	$8	$(9)	$(1)
Unrealized gain (loss)	(8)	(17)	(25)	—	(22)	(22)	3	1	4
Purchases	—	—	—	—	—	—	6	(15)	(9)
Terminations[2]	—	—	—	—	166	166	—	—	—
Settlements	(8)	85	77	—	—	—	(13)	11	(2)
December 31, 2013 Balance	$20	$(222)	$(202)	$—	$—	$—	$4	$(12)	$(8)
Unrealized gain	1	26	27	—	—	—	19	6	25
Purchases	—	—	—	—	—	—	26	(17)	9
Settlements	(19)	25	6	—	—	—	(12)	7	(5)
June 30, 2014 Balance	$2	$(171)	$(169)	$—	$—	$—	$37	$(16)	$21

(1) Changes in the fair value of NUG contracts are generally subject to regulatory accounting treatment and do not impact earnings.
(2) See Note 8, Derivative Instruments

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, 2014:

	Fair Value, Net (In millions)	Valuation Technique	Significant Input	Range	Weighted Average	Units
FTRs	$21	Model	RTO auction clearing prices	($6.70) to $8.00	$1.10	Dollars/MWH
NUG Contracts	$(169)	Model	Generation	600 to 5,202,000	955,000	MWH
			Electricity regional prices	$49.30 to $59.00	$54.10	Dollars/MWH

20

FES

Recurring Fair Value Measurements	June 30, 2014				December 31, 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets	(In millions)							
Corporate debt securities	$—	$651	$—	$651	$—	$792	$—	$792
Derivative assets - commodity contracts	7	262	—	269	7	208	—	215
Derivative assets - FTRs	—	—	26	26	—	—	3	3
Equity securities(1)	459	—	—	459	207	—	—	207
Foreign government debt securities	—	57	—	57	—	65	—	65
U.S. government debt securities	—	30	—	30	—	27	—	27
U.S. state debt securities	—	9	—	9	—	—	—	—
Other(2)	—	198	—	198	—	176	—	176
Total assets	$466	$1,207	$26	$1,699	$214	$1,268	$3	$1,485
Liabilities								
Derivative liabilities - commodity contracts	$(15)	$(212)	$—	$(227)	$(13)	$(100)	$—	$(113)
Derivative liabilities - FTRs	—	—	(16)	(16)	—	—	(11)	(11)
Total liabilities	$(15)	$(212)	$(16)	$(243)	$(13)	$(100)	$(11)	$(124)
Net assets (liabilities)(3)	$451	$995	$10	$1,456	$201	$1,168	$(8)	$1,361

(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 $(25) million and $9 million as of June 30, 2014 and December 31, 2013, 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, 2014 and December 31, 2013:

	Derivative Asset FTRs	Derivative Liability FTRs	Net FTRs
	(In millions)		
January 1, 2013 Balance	$6	$(6)	$—
Unrealized loss	—	(2)	(2)
Purchases	5	(12)	(7)
Settlements	(8)	9	1
December 31, 2013 Balance	$3	$(11)	$(8)
Unrealized gain	15	5	20
Purchases	15	(17)	(2)
Settlements	(7)	7	—
June 30, 2014 Balance	$26	$(16)	$10

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, 2014:

	Fair Value, Net (In millions)	Valuation Technique	Significant Input	Range	Weighted Average	Units
FTRs	$10	Model	RTO auction clearing prices	($6.70) to $8.00	$0.90	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, AFS securities and notes receivable.

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 first 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 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, nuclear fuel disposal and NUG 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, nuclear fuel disposal and NUG trusts as of June 30, 2014 and December 31, 2013:

	June 30, 2014(1)			December 31, 2013(2)		
	Cost Basis	Unrealized Gains	Fair Value	Cost Basis	Unrealized Gains	Fair Value
	(In millions)					
Debt securities						
FirstEnergy	$1,715	$51	$1,766	$1,881	$33	$1,914
FES	805	24	829	918	17	935
Equity securities						
FirstEnergy	$617	$83	$700	$308	$9	$317
FES	411	48	459	207	—	207

(1) Excludes short-term cash investments: FE Consolidated - $139 million; FES - $91 million.
(2) Excludes short-term cash investments: FE Consolidated - $204 million; FES - $135 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 months and six months ended June 30, 2014 and 2013 were as follows:

Three Months Ended

June 30, 2014	Sale Proceeds	Realized Gains	Realized Losses	OTTI	Interest and Dividend Income
	(In millions)				
FirstEnergy	$543	$35	$(15)	$(1)	$24
FES	284	30	(12)	(1)	14

June 30, 2013	Sale Proceeds	Realized Gains	Realized Losses	OTTI	Interest and Dividend Income
	(In millions)				
FirstEnergy	$638	$16	$(11)	$(46)	$22
FES	235	13	(8)	(38)	15

Six Months Ended

June 30, 2014	Sale Proceeds	Realized Gains	Realized Losses	OTTI	Interest and Dividend Income
	(In millions)				
FirstEnergy	$1,164	$63	$(31)	$(3)	$49
FES	707	49	(17)	(3)	29

June 30, 2013	Sale Proceeds	Realized Gains	Realized Losses	OTTI	Interest and Dividend Income
	(In millions)				
FirstEnergy	$1,177	$40	$(16)	$(53)	$48
FES	487	33	(11)	(45)	28

Held-To-Maturity Securities

The following table provides the amortized cost basis, unrealized gains (there were no unrealized losses) and approximate fair values of investments in held-to-maturity securities as of June 30, 2014 and December 31, 2013:

	June 30, 2014			December 31, 2013		
	Cost Basis	Unrealized Gains	Fair Value	Cost Basis	Unrealized Gains	Fair Value
	(In millions)					
Debt Securities						
FirstEnergy	$19	$8	$27	$33	$2	$35

Investments in employee benefit trusts and cost and equity method investments, including FirstEnergy's investment in Global Holding, totaling $636 million as of June 30, 2014 and December 31, 2013, 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 premiums and discounts:

	June 30, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In millions)			
FirstEnergy	$19,258	$20,816	$17,049	$17,957
FES	2,993	3,136	3,001	3,073

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 and its subsidiaries. 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, 2014 and December 31, 2013.

On March 31, 2014, FE, FES, AE Supply, FET and FE's other borrower subsidiaries entered into extensions and amendments to the three existing multi-year syndicated revolving credit facilities. Each Facility was extended until March 31, 2019. The FE facility was amended to increase the lending banks' commitments under the facility by $1 billion to a total of $3.5 billion and to increase the individual borrower sublimit for FE by $1 billion to a total of $3.5 billion. The FES/AE Supply facility was amended to decrease the lending banks' commitments by $1 billion to a total of $1.5 billion. The lending banks' commitments under the FET facility remain at $1 billion and that facility was amended to increase ATSI's individual borrower sublimit to $500 million from $100 million and TrAIL's individual borrower sublimit to $400 million from $200 million. FirstEnergy expensed approximately $5 million (FES - $3 million) of unamortized debt expense as a result of the amendments, included in Loss on Debt Redemptions in the Consolidated Statement of Income (Loss) in the first six months of 2014.

On March 31, 2014, FE executed, and fully utilized, a new $1 billion variable rate term loan credit agreement with a maturity date of March 31, 2019. The initial borrowing under the term loan, which took the form of a Eurodollar rate advance, may be converted from time to time, in whole or in part, to alternate base rate advances or other Eurodollar rate advances. The proceeds from this term loan reduced borrowings under the FE Facility.

During the first quarter of 2014, FG and NG remarketed approximately $235 million and $182 million, respectively, of PCRBs, previously held by the companies. The NG PCRBs were remarketed with a fixed interest rate of 4% per annum and a mandatory put date of June 3, 2019 and the FG PCRBs were remarketed with a fixed interest rate of 3.75% per annum and a mandatory put date of December 3, 2018.

In addition, in the first quarter of 2014, FG and NG repurchased approximately $197 million and $16 million, respectively, of PCRBs, which were subject to a mandatory tender. The PCRBs are being held either for remarketing subject to future market and other conditions or have been remarketed in the second quarter as described below. Additionally, FG retired $50 million of PCRB's at maturity.

On April 1, 2014, PN and ME repurchased approximately $45 million and $29 million of PCRBs, respectively, which were subject to a mandatory put on such date. The companies are currently holding the PCRBs for remarketing subject to future market and other conditions. Additionally, on April 1, 2014, ME retired $150 million of long-term debt at maturity.

On May 19, 2014, FET issued $600 million of 4.35% senior notes due 2025 and $400 million of 5.45% senior notes due 2044. Proceeds received from the issuance of the senior notes were used to (i) repay borrowings under its revolving credit facility and the FirstEnergy unregulated company money pool; (ii) fund a capital contribution to ATSI; and (iii) for working capital needs and other general business purposes.

On June 11, 2014, ME and PN issued $250 million of 4% senior notes due 2025 and $200 million of 4.15% senior notes due 2025, respectively. Proceeds received from the issuance of the senior notes were used to repay ME and PN's borrowings under the FirstEnergy revolving credit facility and the FirstEnergy regulated utility money pool.

In addition, in the second quarter of 2014, FG and NG remarketed approximately $57 million and $164 million, respectively, of PCRBs previously held by the companies. The bonds were remarketed with a fixed interest rate of 3.50% per annum with a mandatory put date of June 1, 2020.

8. 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 relating 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. Derivatives that meet those criteria are accounted for under the accrual method of accounting, and their effects are included in earnings at the time of contract performance. Changes in the fair value of derivative instruments that qualified and were designated as cash flow hedge instruments are recorded in AOCI. Changes in the fair value of derivative instruments that are not designated as cash flow hedge instruments are recorded in net income on a mark-to-market basis. 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. The effective portion of gains and losses on a derivative contract is reported as a component of AOCI with subsequent reclassification to earnings in the period during which the hedged forecasted transaction affects earnings.

Total net unamortized gains (losses) included in AOCI associated with instruments previously designated to be in a cash flow hedging relationship totaled $(3) million and $2 million as of June 30, 2014 and December 31, 2013, respectively. Since the forecasted transactions remain probable of occurring, these amounts will be amortized into earnings over the life of the hedging instruments. Approximately $7 million is expected to be amortized to income during the next twelve months.

FirstEnergy has used forward starting 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 treated 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. No forward starting swap agreements accounted for as a cash flow hedge were outstanding as of June 30, 2014 or December 31, 2013. Total pre-tax unamortized losses included in AOCI associated with prior interest rate cash flow hedges totaled $54 million and $59 million as of June 30, 2014 and December 31, 2013, respectively. Based on current estimates, approximately $9 million will be amortized to interest expense during the next twelve months.

As of June 30, 2014 and December 31, 2013, no commodity or interest rate derivatives were designated as cash flow hedges.

Refer to Note 4, Accumulated Other Comprehensive Income, for reclassifications from AOCI during the three and six months ended June 30, 2014 and 2013.

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. These derivative instruments were treated as fair value hedges of fixed-rate, long-term debt issues, protecting against the risk of changes in the fair value of fixed-rate debt instruments due to lower interest rates. As of June 30, 2014 and December 31, 2013, 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 $38 million and $44 million as of June 30, 2014 and December 31, 2013, respectively. Based on current estimates, approximately $12 million will be amortized to interest expense during the next twelve months. Reclassifications from long-term debt into interest expense totaled approximately $3 million and $5 million during the three months ended June 30, 2014 and 2013, respectively, and $6 million and $11 million during the six months ended June 30, 2014 and 2013, respectively.

As of June 30, 2014 and December 31, 2013, no commodity or interest rate derivatives were designated as fair value hedges.

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. Heating oil futures are entered into based on expected consumption of oil and the financial risk in FirstEnergy's coal transportation contracts. Derivative instruments are not used in quantities greater than forecasted needs.

As of June 30, 2014, FirstEnergy's net asset position under commodity derivative contracts was $41 million, which related to FES positions. Under these commodity derivative contracts, FES posted $62 million of collateral. Certain commodity derivative contracts include credit risk related contingent features that would require FES to post $41 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, 2014, an adverse change of 10% in commodity prices would decrease net income by approximately $24 million during the next twelve months.

Interest Rate Swaps

During the three months ended June 30, 2014, FE executed notional $500 million of forward-starting, pay-fixed/receive-float, interest rate swaps with an effective date of December 31, 2015 and a weighted average 10-year fixed rate of 3.21%. On June 10, 2014, the interest rate swaps were terminated resulting in a realized gain and cash proceeds of approximately $6 million. The realized gain is recorded as a reduction to interest expense in the Consolidated Statements of Income (Loss).

NUGs

As of June 30, 2014, FirstEnergy's net liability position under NUG contracts was $169 million, representing contracts held at JCP&L, ME and PN. NUG contracts represent purchased power agreements with third-party non-utility generators that are transacted to satisfy certain obligations under PURPA. Changes in the fair value of NUG contracts are subject to regulatory accounting treatment and do not impact earnings.

LCAPP

The LCAPP law was enacted in New Jersey during 2011 to promote the construction of qualified electric generation facilities. JCP&L maintained two LCAPP contracts, which were financially settled agreements that allowed eligible generators to receive payments from, or make payments to, JCP&L pursuant to an annually calculated load-ratio share of the capacity produced by the generator based upon the annual forecasted peak demand as determined by PJM. JCP&L expected to recover from its customers payments made to the generators and give credit to customers for payments from the generators under these contracts. As a result, the projected future obligations for the LCAPP contracts were considered derivative liabilities with a corresponding regulatory asset. Since the LCAPP contracts were subject to regulatory accounting, changes in their fair value did not impact earnings. On October 11, 2013, the U.S. District Court for the District of New Jersey declared that the LCAPP was preempted by the FPA and unconstitutional. On October 22, 2013, the Superior Court of New Jersey Appellate Division dismissed two consolidated appeals which had been taken from the final order of the NJBPU which accepted and adopted the recommendation of the NJBPU's Agent regarding implementation of the LCAPP law. Dismissal of the consolidated appeals, along with pending matters currently on remand to the NJBPU, was without prejudice subject to the parties exercising their appellate rights in the federal courts. The parties filed an appeal with the U.S. Court of Appeals for the Third Circuit and briefing by the parties was completed by March 5, 2014. Consistent with the provisions of the LCAPP contracts, the U.S. District Court's ruling was a termination event. During the fourth quarter of 2013, JCP&L issued termination notices to the counterparties and reversed the derivative liability and corresponding regulatory asset on its Consolidated Balance Sheet.

FTRs

As of June 30, 2014, FirstEnergy's and FES's net asset position under FTRs was $21 million and $10 million, respectively, and FES posted $5 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 an RTO that have load serving obligations and through the direct allocation of FTRs from the PJM RTO. The PJM RTO has a rule that allows directly allocated FTRs to be granted to LSEs in zones that have newly entered PJM. For the first two planning years, PJM permits the LSEs to request a direct allocation of FTRs in these new zones at no cost as opposed to receiving ARRs. The directly allocated FTRs differ from traditional FTRs in that the ownership of all or part of the FTRs may shift to another LSE if customers choose to shop with the other LSE.

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 the RTO, 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 June 30, 2014 (In millions)	December 31, 2013	Derivative Liabilities	Fair Value June 30, 2014 (In millions)	December 31, 2013
Current Assets - Derivatives			Current Liabilities - Derivatives		
Commodity Contracts	$213	$162	Commodity Contracts	$(186)	$(102)
FTRs	36	4	FTRs	(15)	(9)
	249	166		(201)	(111)
			Noncurrent Liabilities - Adverse Power Contract Liability		
Deferred Charges and Other Assets - Other			NUGs	(171)	(222)
Commodity Contracts	56	53	Noncurrent Liabilities - Other		
FTRs	1	—	Commodity Contracts	(42)	(11)
NUGs	2	20	FTRs	(1)	(3)
	59	73		(214)	(236)
Derivative Assets	$308	$239	Derivative Liabilities	$(415)	$(347)

FirstEnergy enters into contracts with counterparties that allow for net settlement of derivative assets and derivative liabilities. 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 instruments 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, 2014	Fair Value	Derivative Instruments	Cash Collateral (Received)/Pledged	Net Fair Value
	(In millions)			
Derivative Assets				
Commodity contracts	$269	$(183)	$—	$86
FTRs	37	(16)	—	21
NUG contracts	2	(1)	—	1
	$308	$(200)	$—	$108
Derivative Liabilities				
Commodity contracts	$(228)	$183	$13	$(32)

FTRs	(16)	16	—	—
NUG contracts	(171)	1	—	(170)
	$(415)	$200	$13	$(202)

December 31, 2013	Fair Value	Amounts Not Offset in Consolidated Balance Sheet		
		Derivative Instruments	Cash Collateral (Received)/Pledged	Net Fair Value
	(In millions)			
Derivative Assets				
Commodity contracts	$215	$(106)	$(9)	$100
FTRs	4	(4)	—	—
NUG contracts	20	—	—	20
	$239	$(110)	$(9)	$120
Derivative Liabilities				
Commodity contracts	$(113)	$106	$7	$—
FTRs	(12)	4	5	(3)
NUG contracts	(222)	—	—	(222)
	$(347)	$110	$12	$(225)

The following table summarizes the volumes associated with FirstEnergy’s outstanding derivative transactions as of June 30, 2014:

	Purchases	Sales	Net	Units
	(In millions)			
Power Contracts	33	35	(2)	MWH
FTRs	82	—	82	MWH
NUGs	7	—	7	MWH
Natural Gas	60	3	57	mmBTU

The effect of derivative instruments not in a hedging relationship on FirstEnergy's Consolidated Statements of Income (Loss) during the three months ended June 30, 2014 and 2013, are summarized in the following tables:

	Three Months Ended June 30			
	Commodity Contracts	FTRs	Interest Rate Swaps	Total
	(In millions)			
2014				
Unrealized Gain (Loss) Recognized in:				
Other Operating Expense [1]	$(70)	$13	$—	$(57)
Realized Gain (Loss) Reclassified to:				
Revenues [2]	$2	$(1)	$—	$1
Purchased Power Expense [3]	22	—	—	22
Other Operating Expense [4]	—	(10)	—	(10)
Fuel Expense	2	—	—	2
Interest Expense	—	—	6	6

(1) Includes ($70) million for commodity contracts and $13 million for FTRs associated with FES.
(2) Represents losses on structured financial contracts. Includes $2 million for commodity contracts and ($1) million for FTRs associated with FES.
(3) Realized losses on financially settled wholesale sales contracts of $16 million resulting from higher market prices were netted in purchased power. Includes $22 million for commodity contracts associated with FES.
(4) Includes ($9) million for FTRs associated with FES.

	Three Months Ended June 30			
	Commodity Contracts	FTRs	Interest Rate Swaps	Total
	(In millions)			
2013				
Unrealized Loss Recognized in:				
Other Operating Expense [5]	$(10)	$(1)	$—	$(11)
Realized Gain (Loss) Reclassified to:				
Revenues [6]	$6	$5	$—	$11
Purchased Power Expense [7]	(2)	—	—	(2)
Other Operating Expense [8]	—	(9)	—	(9)
Fuel Expense	2	—	—	2

(5) Includes ($10) million for commodity contracts and ($1) million for FTRs associated with FES.
(6) Includes $5 million for commodity contracts and $5 million for FTRs associated with FES.
(7) Includes ($2) million for commodity contracts associated with FES.
(8) Includes ($8) million for FTRs associated with FES.

	Six Months Ended June 30			
	Commodity Contracts	FTRs	Interest Rate Swaps	Total
	(In millions)			
2014				
Unrealized Gain (Loss) Recognized in:				
Other Operating Expense[1]	$(58)	$18	$—	$(40)
Realized Gain (Loss) Reclassified to:				
Revenues[2]	$(11)	$51	$—	$40
Purchased Power Expense[3]	458	—	—	458
Other Operating Expense[4]	—	(17)	—	(17)
Fuel Expense	11	—	—	11
Interest Expense	—	—	6	6

(1) Includes ($58) million for commodity contracts and $18 million for FTRs associated with FES.
(2) Represents losses on structured financial contracts. Includes ($11) million for commodity contracts and $50 million for FTRs associated with FES.
(3) Realized losses on financially settled wholesale sales contracts of $337 million resulting from higher market prices were netted in purchased power. Includes $458 million for commodity contracts associated with FES.
(4) Includes ($16) million for FTRs associated with FES.

	Six Months Ended June 30			
	Commodity Contracts	FTRs	Interest Rate Swaps	Total
	(In millions)			
2013				
Unrealized Loss Recognized in:				
Other Operating Expense[5]	$(15)	$(2)	$—	$(17)
Realized Gain (Loss) Reclassified to:				
Revenues[6]	$16	$12	$—	$28
Purchased Power Expense[7]	(13)	—	—	(13)
Other Operating Expense[8]	—	(18)	—	(18)
Fuel Expense	2	—	—	2

(5) Includes ($15) million for commodity contracts and ($2) million for FTRs associated with FES.
(6) Includes $15 million for commodity contracts and $11 million for FTRs associated with FES.
(7) Includes ($13) million for commodity contracts associated with FES.
(8) Includes ($16) million for FTRs associated with FES.

The unrealized and realized gains (losses) on FirstEnergy's derivative instruments subject to regulatory accounting during the three months and six months ended June 30, 2014 and 2013, are summarized in the following tables:

	Three Months Ended June 30			
Derivatives Not in a Hedging Relationship with Regulatory Offset	NUGs	LCAPP(1)	Regulated FTRs	Total
	(In millions)			
2014				
Unrealized Gain (Loss) on Derivative Instrument	$(2)	$—	$11	$9
Realized Gain (Loss) on Derivative Instrument	18	—	(4)	14
2013				
Unrealized Loss on Derivative Instrument	$(38)	$(12)	$—	$(50)
Realized Gain on Derivative Instrument	20	—	1	21

	Six Months Ended June 30			
Derivatives Not in a Hedging Relationship with Regulatory Offset	NUGs	LCAPP(1)	Regulated FTRs	Total
	(In millions)			
2014				
Unrealized Gain on Derivative Instrument	$25	$—	$15	$40
Realized Gain (Loss) on Derivative Instrument	8	—	(5)	