

CLEVELAND ELECTRIC ILLUMINATING CO

Form 10-Q

August 02, 2011

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D. C. 20549**

**FORM 10-Q**

**(Mark One)**

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

**For the quarterly period ended June 30, 2011**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

<b>Commission File Number</b>	<b>Registrant; State of Incorporation; Address; and Telephone Number</b>	<b>I.R.S. Employer Identification No.</b>
<b>333-21011</b>	<b>FIRSTENERGY CORP. (An Ohio Corporation) 76 South Main Street Akron, OH 44308 Telephone (800)736-3402</b>	<b>34-1843785</b>
<b>000-53742</b>	<b>FIRSTENERGY SOLUTIONS CORP. (An Ohio Corporation) c/o FirstEnergy Corp. 76 South Main Street Akron, OH 44308 Telephone (800)736-3402</b>	<b>31-1560186</b>
<b>1-2578</b>	<b>OHIO EDISON COMPANY (An Ohio Corporation) c/o FirstEnergy Corp. 76 South Main Street Akron, OH 44308 Telephone (800)736-3402</b>	<b>34-0437786</b>
<b>1-2323</b>	<b>THE CLEVELAND ELECTRIC ILLUMINATING COMPANY (An Ohio Corporation) c/o FirstEnergy Corp. 76 South Main Street Akron, OH 44308 Telephone (800)736-3402</b>	<b>34-0150020</b>
<b>1-3583</b>	<b>THE TOLEDO EDISON COMPANY (An Ohio Corporation) c/o FirstEnergy Corp. 76 South Main Street Akron, OH 44308</b>	<b>34-4375005</b>

**Telephone (800)736-3402**

<b>1-3141</b>	<b>JERSEY CENTRAL POWER &amp; LIGHT COMPANY</b> (A New Jersey Corporation) c/o FirstEnergy Corp. 76 South Main Street Akron, OH 44308 Telephone (800)736-3402	<b>21-0485010</b>
<b>1-446</b>	<b>METROPOLITAN EDISON COMPANY</b> (A Pennsylvania Corporation) c/o FirstEnergy Corp. 76 South Main Street Akron, OH 44308 Telephone (800)736-3402	<b>23-0870160</b>
<b>1-3522</b>	<b>PENNSYLVANIA ELECTRIC COMPANY</b> (A Pennsylvania Corporation) c/o FirstEnergy Corp. 76 South Main Street Akron, OH 44308 Telephone (800)736-3402	<b>25-0718085</b>

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  No  FirstEnergy Corp., FirstEnergy Solutions Corp., Ohio Edison Company, The Cleveland Electric Illuminating Company, The Toledo Edison Company, Jersey Central Power & Light Company, Metropolitan Edison Company and Pennsylvania Electric Company

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  No  FirstEnergy Corp., FirstEnergy Solutions Corp., Ohio Edison Company, The Cleveland Electric Illuminating Company, The Toledo Edison Company, Jersey Central Power & Light Company, Metropolitan Edison Company, and Pennsylvania Electric Company

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  FirstEnergy Corp.

Accelerated Filer  N/A

Non-accelerated Filer (Do not check if a smaller reporting company)  FirstEnergy Solutions Corp., Ohio Edison Company, The Cleveland Electric Illuminating Company, The Toledo Edison Company, Jersey Central Power & Light Company, Metropolitan Edison Company and Pennsylvania Electric Company

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Smaller Reporting Company  N/A

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes  No  FirstEnergy Corp., FirstEnergy Solutions Corp., Ohio Edison Company, The Cleveland Electric Illuminating Company, The Toledo Edison Company, Jersey Central Power & Light Company, Metropolitan Edison Company and Pennsylvania Electric Company

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

<b>CLASS</b>	<b>OUTSTANDING AS OF JULY 29, 2011</b>
FirstEnergy Corp., \$.10 par value	418,216,437
FirstEnergy Solutions Corp., no par value	7
Ohio Edison Company, no par value	60
The Cleveland Electric Illuminating Company, no par value	67,930,743
The Toledo Edison Company, \$5 par value	29,402,054
Jersey Central Power & Light Company, \$10 par value	13,628,447
Metropolitan Edison Company, no par value	740,905
Pennsylvania Electric Company, \$20 par value	4,427,577

FirstEnergy Corp. is the sole holder of FirstEnergy Solutions Corp., Ohio Edison Company, The Cleveland Electric Illuminating Company, The Toledo Edison Company, Jersey Central Power & Light Company, Metropolitan Edison Company and Pennsylvania Electric Company common stock.

This combined Form 10-Q is separately filed by FirstEnergy Corp., FirstEnergy Solutions Corp., Ohio Edison Company, The Cleveland Electric Illuminating Company, The Toledo Edison Company, Jersey Central Power & Light Company, Metropolitan Edison Company and Pennsylvania Electric Company. 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 any other registrant, except that information relating to any of the FirstEnergy subsidiary registrants is also attributed to FirstEnergy Corp.

**FirstEnergy Web Site**

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 FirstEnergy's Internet web site at [www.firstenergycorp.com](http://www.firstenergycorp.com).

These reports are posted on the web site as soon as reasonably practicable after they are electronically filed with the SEC. Additionally, the registrants routinely post important information on 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. Information contained on FirstEnergy's Internet web site shall not be deemed incorporated into, or to be part of, this report.

**OMISSION OF CERTAIN INFORMATION**

FirstEnergy Solutions Corp., Ohio Edison Company, The Cleveland Electric Illuminating Company, The Toledo Edison Company, Jersey Central Power & Light Company, Metropolitan Edison Company and Pennsylvania Electric Company meet the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and are therefore filing this Form 10-Q with the reduced disclosure format specified in General Instruction H(2) to Form 10-Q.

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**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, 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.

Actual results may differ materially due to:

The speed and nature of increased competition in the electric utility industry.

The impact of the regulatory process on the pending matters in the various states in which we do business including, but not limited to, matters related to rates.

The status of the PATH project in light of PJM's direction to suspend work on the project pending review of its planning process, its re-evaluation of the need for the project and the uncertainty of the timing and amounts of any related capital expenditures.

Business and regulatory impacts from ATSI's realignment into PJM Interconnection, L.L.C.

Economic or weather conditions affecting future sales and margins.

Changes in markets for energy services.

Changing energy and commodity market prices and availability.

Financial derivative reforms that could increase our liquidity needs and collateral costs.

The continued ability of FirstEnergy's regulated utilities to collect transition and other costs.

Operation and maintenance costs being higher than anticipated.

Other legislative and regulatory changes, and revised environmental requirements, including possible GHG emission, water intake and coal combustion residual regulations, the potential impacts of any laws, rules or regulations that ultimately replace CAIR, including the Cross-State Air Pollution Rule (CSAPR), and the effects of the EPA's recently released MACT proposal to establish certain mercury and other emission standards for electric generating units.

The uncertainty of the timing and amounts of the capital expenditures that may arise in connection with any NSR litigation or potential regulatory initiatives or rulemakings (including that such expenditures could result in our decision to shut down or idle certain generating units).

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 including as a result of the incident at Japan's Fukushima Daiichi Nuclear Plant).

Adverse legal decisions and outcomes related to Met-Ed's and Penelec's ability to recover certain transmission costs through their transmission service charge riders.

The continuing availability of generating units and changes in their ability to operate at or near full capacity.

Replacement power costs being higher than anticipated or inadequately hedged.

The ability to comply with applicable state and federal reliability standards and energy efficiency mandates.

Changes in customers' demand for power, including but not limited to, changes resulting from the implementation of state and federal energy efficiency mandates.

The ability to accomplish or realize anticipated benefits from strategic goals.

Efforts and our ability to improve electric commodity margins and the impact of, among other factors, the increased cost of coal and coal transportation on such margins.

The ability to experience growth in the distribution business.

The changing market conditions that could affect the value of assets held in FirstEnergy's nuclear decommissioning trusts, pension trusts and other trust funds, and cause us to make additional contributions sooner, or in amounts that are larger than currently anticipated.

The ability to access the public securities and other capital and credit markets in accordance with FirstEnergy's financing plan, the cost of such capital and overall condition of the capital and credit markets affecting FirstEnergy and its subsidiaries.

Changes in general economic conditions affecting FirstEnergy and its subsidiaries.

Interest rates and any actions taken by credit rating agencies that could negatively affect FirstEnergy's and its subsidiaries' access to financing or their costs and increase requirements to post additional collateral to support outstanding commodity positions, LOCs and other financial guarantees.

The continuing uncertainty of the national and regional economy and its impact on FirstEnergy's and its subsidiaries' major industrial and commercial customers.

Issues concerning the soundness of financial institutions and counterparties with which FirstEnergy and its subsidiaries do business.

Issues arising from the recently completed merger of FirstEnergy and Allegheny Energy, Inc. and the ongoing coordination of their combined operations including FirstEnergy's ability to maintain relationships with customers, employees or suppliers, as well as the ability to successfully integrate the businesses and realize cost savings and any other synergies and the risk that the credit ratings of the combined company or its subsidiaries may be different from what the companies expect.

The risks and other factors discussed from time to time in the registrants' SEC filings, and other similar factors.

Dividends declared from time to time on FirstEnergy's common stock during any annual period may in aggregate vary from the indicated amount due to circumstances considered by FirstEnergy'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 the registrants' 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 any forward-looking statements contained herein as a result of new information, future events or otherwise.

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**GLOSSARY OF TERMS**

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

AE	Allegheny Energy, Inc., a Maryland utility holding company that merged with a subsidiary of FirstEnergy on February 25, 2011
AESC	Allegheny Energy Service Corporation, a subsidiary of AE
AE Supply	Allegheny Energy Supply Company LLC, an unregulated generation subsidiary of AE
AET	Allegheny Energy Transmission, LLC, a parent of TrAIL and PATH
AGC	Allegheny Generating Company, a generation subsidiary of AE
Allegheny	Allegheny Energy, Inc., together with its consolidated subsidiaries
AVE	Allegheny Ventures, Inc.
ATSI	American Transmission Systems, Incorporated, which owns and operates transmission facilities
CEI	The Cleveland Electric Illuminating Company, an Ohio electric utility operating subsidiary
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
FEV	FirstEnergy Ventures Corp., which invests in certain unregulated enterprises and business ventures
FGCO	FirstEnergy Generation Corp., which owns and operates non-nuclear generating facilities
FirstEnergy	FirstEnergy Corp., a public utility holding company
Global Rail	A joint venture between FEV and WMB Loan Ventures II LLC, that owns coal transportation operations near Roundup, Montana
GPU	GPU, Inc., former parent of JCP&L, Met-Ed and Penelec, that merged with FirstEnergy on November 7, 2001
JCP&L	Jersey Central Power & Light Company, a New Jersey electric utility operating subsidiary
Met-Ed	Metropolitan Edison Company, a Pennsylvania electric utility operating subsidiary
MP	Monongahela Power Company, a West Virginia electric utility operating subsidiary of AE
NGC	FirstEnergy Nuclear Generation Corp., 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 Allegheny and a subsidiary of American Electric Power Company, Inc.
PATH-VA	PATH Allegheny Virginia Transmission Corporation
PE	The Potomac Edison Company, a Maryland electric operating subsidiary of AE
Penelec	Pennsylvania Electric Company, a Pennsylvania electric utility operating subsidiary
Penn	Pennsylvania Power Company, a Pennsylvania electric utility operating subsidiary of OE
Pennsylvania Companies	Met-Ed, Penelec, Penn and WP
PNBV	PNBV Capital Trust, a special purpose entity created by OE in 1996
Shippingport	Shippingport Capital Trust, a special purpose entity created by CEI and TE in 1997
Signal Peak	A joint venture between FEV and WMB Loan Ventures LLC, that owns mining operations near Roundup, Montana
TE	The Toledo Edison Company, an Ohio electric utility operating subsidiary
TrAIL	Trans-Allegheny Interstate Line Company

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Utilities	OE, CEI, TE, Penn, JCP&L, Met-Ed, Penelec, MP, PE and WP
Utility Registrants	OE, CEI, TE, JCP&L, Met-Ed and Penelec
WP	West Penn Power Company, a Pennsylvania electric utility operating subsidiary of AE

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

ALJ	Administrative Law Judge
AOCL	Accumulated Other Comprehensive Loss
AEP	American Electric Power
AQC	Air Quality Control
ARO	Asset Retirement Obligation
ARR	Auction Revenue Rights
BGS	Basic Generation Service
BMP	Bruce Mansfield Plant
CAA	Clean Air Act
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CATR	Clean Air Transport Rule
CBP	Competitive Bid Process

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**GLOSSARY OF TERMS, Cont d.**

CCB	Coal Combustion By-products
CDWR	California Department of Water Resources
CO <sub>2</sub>	Carbon Dioxide
CSAPR	Cross-State Air Pollution Rule
CTC	Competitive Transition Charge
CWA	Clean Water Act
CWIP	Construction Work in Progress
DCPD	Deferred Compensation Plan for Outside Directors
DOE	United States Department of Energy
DOJ	United States Department of Justice
DPA	Department of the Public Advocate, Division of Rate Counsel (New Jersey)
DSP	Default Service Plan
EDCP	Executive Deferred Compensation Plan
EE&C	Energy Efficiency and Conservation
EIS	Energy Insurance Services, Inc.
EMP	Energy Master Plan
ENEC	Expanded Net Energy Cost
EPA	United States Environmental Protection Agency
ESOP	Employee Stock Ownership Plan
ESP	Electric Security Plan
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FMB	First Mortgage Bond
FPA	Federal Power Act
FRR	Fixed Resource Requirement
FTRs	Financial Transmission Rights
GAAP	Generally Accepted Accounting Principles in the United States
RGGI	Regional Greenhouse Gas Initiative
GHG	Greenhouse Gases
IRS	Internal Revenue Service
JOA	Joint Operating Agreement
kV	Kilovolt
KWH	Kilowatt-hours
LBR	Little Blue Run
LED	Light-Emitting Diode
LOC	Letter of Credit
LSE	Load Serving Entity
LTIP	Long-Term Incentive Plan
MACT	Maximum Achievable Control Technology
MDE	Maryland Department of the Environment
MDPSC	Maryland Public Service Commission
MEIUG	Met-Ed Industrial Users Group
MISO	Midwest Independent Transmission System Operator, Inc.
Moody's	Moody's Investors Service, Inc.
MRO	Market Rate Offer
MSHA	Mine Safety and Health Administration
MTEP	MISO Regional Transmission Expansion Plan

MVP	Multi-value Project
MW	Megawatts
MWH	Megawatt-hours
NAAQS	National Ambient Air Quality Standards
NDT	Nuclear Decommissioning Trusts
NERC	North American Electric Reliability Corporation
NJBPU	New Jersey Board of Public Utilities
NNSR	Non-Attainment New Source Review
NOAC	Northwest Ohio Aggregation Coalition
NOPEC	Northeast Ohio Public Energy Council
NOV	Notice of Violation
NO <sub>x</sub>	Nitrogen Oxide
NPDES	National Pollutant Discharge Elimination System
NRC	Nuclear Regulatory Commission

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**GLOSSARY OF TERMS, Cont d.**

NSR	New Source Review
NUG	Non-Utility Generation
NUGC	Non-Utility Generation Charge
NYSEG	New York State Electric and Gas
OCC	Ohio Consumers Counsel
OCI	Other Comprehensive Income
OPEB	Other Post-Employment Benefits
OSBA	Office of Small Business Advocate
OVEC	Ohio Valley Electric Corporation
PA DEP	Pennsylvania Department of Environmental Protection
PCRB	Pollution Control Revenue Bond
PICA	Pennsylvania Intergovernmental Cooperation Authority
PJM	PJM Interconnection L. L. C.
POLR	Provider of Last Resort; an electric utility's obligation to provide generation service to customers whose alternative supplier fails to deliver service
PPUC	Pennsylvania Public Utility Commission
PSCWV	Public Service Commission of West Virginia
PSA	Power Supply Agreement
PSD	Prevention of Significant Deterioration
PUCO	Public Utilities Commission of Ohio
PURPA	Public Utility Regulatory Policies Act of 1978
RECs	Renewable Energy Credits
RFP	Request for Proposal
RGGI	Regional Greenhouse Gas Initiative
RPM	Reliability Pricing Model
RTEP	Regional Transmission Expansion Plan
RTC	Regulatory Transition Charge
RTO	Regional Transmission Organization
S&P	Standard & Poor's Ratings Service
SB221	Amended Substitute Senate Bill 221
SBC	Societal Benefits Charge
SEC	U.S. Securities and Exchange Commission
SIP	State Implementation Plan(s) Under the Clean Air Act
SMIP	Smart Meter Implementation Plan
SNCR	Selective Non-Catalytic Reduction
SO <sub>2</sub>	Sulfur Dioxide
SOS	Standard Offer Service
TBC	Transition Bond Charge
TDS	Total Dissolved Solid
TMDL	Total Maximum Daily Load
TMI-2	Three Mile Island Unit 2
TSC	Transmission Service Charge
VIE	Variable Interest Entity
VSCC	Virginia State Corporation Commission
WVDEP	West Virginia Department of Environmental Protection
WVPSC	Public Service Commission of West Virginia





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

<b>In millions, except per share amounts</b>	<b>Three Months Ended June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>REVENUES:</b>				
Electric utilities	\$ 2,590	\$ 2,373	\$ 4,925	\$ 4,916
Unregulated businesses	1,470	766	2,711	1,522
Total revenues*	4,060	3,139	7,636	6,438
<b>EXPENSES:</b>				
Fuel	635	350	1,088	684
Purchased power	1,220	1,063	2,406	2,301
Other operating expenses	1,105	673	2,138	1,374
Provision for depreciation	282	190	502	383
Amortization of regulatory assets	90	161	222	373
General taxes	242	176	479	381
Total expenses	3,574	2,613	6,835	5,496
<b>OPERATING INCOME</b>	<b>486</b>	<b>526</b>	<b>801</b>	<b>942</b>
<b>OTHER INCOME (EXPENSE):</b>				
Investment income	31	31	52	47
Interest expense	(265)	(207)	(496)	(420)
Capitalized interest	20	40	38	81
Total other expense	(214)	(136)	(406)	(292)
<b>INCOME BEFORE INCOME TAXES</b>	<b>272</b>	<b>390</b>	<b>395</b>	<b>650</b>
<b>INCOME TAXES</b>	<b>101</b>	<b>134</b>	<b>179</b>	<b>245</b>
<b>NET INCOME</b>	<b>171</b>	<b>256</b>	<b>216</b>	<b>405</b>
Loss attributable to noncontrolling interest	(10)	(9)	(15)	(15)
<b>EARNINGS AVAILABLE TO FIRSTENERGY CORP.</b>	<b>\$ 181</b>	<b>\$ 265</b>	<b>\$ 231</b>	<b>\$ 420</b>

**EARNINGS PER SHARE OF COMMON STOCK:**

Basic	\$	0.43	\$	0.87	\$	0.61	\$	1.38
Diluted	\$	0.43	\$	0.87	\$	0.61	\$	1.37

**AVERAGE SHARES OUTSTANDING:**

Basic		418		304		380		304
Diluted		420		305		382		305

**DIVIDENDS DECLARED PER SHARE OF COMMON STOCK**

	\$	0.55	\$	0.55
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\* Includes excise tax collections of \$116 million and \$99 million in the three months ended June 30, 2011 and 2010, respectively, and \$235 million and \$208 million in the six months ended June 30, 2011 and 2010, respectively.

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

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

(In millions)	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
<b>NET INCOME</b>	\$ 171	\$ 256	\$ 216	\$ 405
<b>OTHER COMPREHENSIVE INCOME:</b>				
Pension and other postretirement benefits	111	17	130	30
Unrealized gain on derivative hedges	17	6	11	10
Change in unrealized gain on available-for-sale securities	10	6	19	12
Other comprehensive income	138	29	160	52
Income tax expense related to other comprehensive income	53	9	54	16
Other comprehensive income, net of tax	85	20	106	36
<b>COMPREHENSIVE INCOME</b>	256	276	322	441
<b>COMPREHENSIVE LOSS ATTRIBUTABLE TO NONCONTROLLING INTEREST</b>	(10)	(9)	(15)	(15)
<b>COMPREHENSIVE INCOME AVAILABLE TO FIRSTENERGY CORP.</b>	\$ 266	\$ 285	\$ 337	\$ 456

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

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**FIRSTENERGY CORP.**  
**CONSOLIDATED BALANCE SHEETS**  
**(Unaudited)**

(In millions)	ASSETS	June 30, 2011	December 31, 2010
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents		\$ 476	\$ 1,019
Receivables-			
Customers, net of allowance for uncollectible accounts of \$35 in 2011 and \$36 in 2010		1,578	1,392
Other, net of allowance for uncollectible accounts of \$8 in 2011 and 2010		256	176
Materials and supplies, at average cost		866	638
Prepaid taxes		474	199
Derivatives		265	182
Other		203	92
		4,118	3,698
<b>PROPERTY, PLANT AND EQUIPMENT:</b>			
In service		39,568	29,451
Less Accumulated provision for depreciation		11,593	11,180
		27,975	18,271
Construction work in progress		1,465	1,517
Property, plant and equipment held for sale, net		502	
		29,942	19,788
<b>INVESTMENTS:</b>			
Nuclear plant decommissioning trusts		2,051	1,973
Investments in lease obligation bonds		414	476
Nuclear fuel disposal trust		212	208
Other		479	345
		3,156	3,002
<b>DEFERRED CHARGES AND OTHER ASSETS:</b>			
Goodwill		6,456	5,575
Regulatory assets		2,182	1,826
Intangible assets		973	256
Other		769	660
		10,380	8,317
		\$ 47,596	\$ 34,805

**LIABILITIES AND CAPITALIZATION****CURRENT LIABILITIES:**

Currently payable long-term debt	\$	2,058	\$	1,486
Short-term borrowings		656		700
Accounts payable		1,122		872
Accrued taxes		399		326
Accrued compensation and benefits		331		315
Derivatives		287		266
Other		691		733
		5,544		4,698

**CAPITALIZATION:**

Common stockholders' equity-				
Common stock, \$0.10 par value, authorized 490,000,000 and 375,000,000 shares, respectively- 418,216,437 and 304,835,407 shares outstanding, respectively		42		31
Other paid-in capital		9,782		5,444
Accumulated other comprehensive loss		(1,433)		(1,539)
Retained earnings		4,607		4,609
Total common stockholders' equity		12,998		8,545
Noncontrolling interest		(48)		(32)
Total equity		12,950		8,513
Long-term debt and other long-term obligations		16,491		12,579
		29,441		21,092

**NONCURRENT LIABILITIES:**

Accumulated deferred income taxes		5,219		2,879
Retirement benefits		2,134		1,868
Asset retirement obligations		1,459		1,407
Deferred gain on sale and leaseback transaction		942		959
Adverse power contract liability		649		466
Other		2,208		1,436
		12,611		9,015

**COMMITMENTS, GUARANTEES AND CONTINGENCIES (Note 9)**

	\$	47,596	\$	34,805
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The accompanying Combined Notes to the Consolidated Financial Statements are an integral part of these financial statements.

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

<b>(In millions)</b>	<b>Six Months Ended June 30</b>	
	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income	\$ 216	\$ 405
Adjustments to reconcile net income to net cash from operating activities-		
Provision for depreciation	502	383
Amortization of regulatory assets	222	373
Nuclear fuel and lease amortization	92	76
Deferred purchased power and other costs	(168)	(146)
Deferred income taxes and investment tax credits, net	552	159
Deferred rents and lease market valuation liability	(61)	(62)
Accrued compensation and retirement benefits	49	(27)
Commodity derivative transactions, net	(21)	(29)
Pension trust contribution	(262)	
Asset impairments	41	21
Cash collateral paid, net	(31)	(63)
Interest rate swap transactions		43
Decrease (increase) in operating assets-		
Receivables	199	(156)
Materials and supplies	24	(17)
Prepayments and other current assets	(268)	(81)
Increase (decrease) in operating liabilities-		
Accounts payable	(28)	18
Accrued taxes	(66)	(58)
Accrued interest	(4)	10
Other	43	9
Net cash provided from operating activities	1,031	858
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
New Financing-		
Long-term debt	503	
Short-term borrowings, net		281
Redemptions and Repayments-		
Long-term debt	(1,002)	(407)
Short-term borrowings, net	(44)	
Common stock dividend payments	(420)	(335)
Other	(76)	(23)
Net cash used for financing activities	(1,039)	(484)

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Property additions	(1,018)	(997)
Proceeds from asset sales		116
Sales of investment securities held in trusts	1,703	1,915
Purchases of investment securities held in trusts	(1,807)	(1,934)
Customer acquisition costs	(2)	(105)
Cash investments	50	59
Cash received in Allegheny merger	590	
Other	(51)	(21)
Net cash used for investing activities	(535)	(967)
Net change in cash and cash equivalents	(543)	(593)
Cash and cash equivalents at beginning of period	1,019	874
Cash and cash equivalents at end of period	\$ 476	\$ 281

**SUPPLEMENTAL CASH FLOW INFORMATION:**

Non-cash transaction: merger with Allegheny, common stock issued \$ 4,354 \$

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

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**FIRSTENERGY SOLUTIONS CORP.**  
**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
**(Unaudited)**

(In millions)	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
<b>STATEMENTS OF INCOME</b>				
<b>REVENUES:</b>				
Electric sales to non-affiliates	\$ 1,052	\$ 729	\$ 2,097	\$ 1,397
Electric sales to affiliates	170	539	431	1,146
Other	70	58	156	171
Total revenues	1,292	1,326	2,684	2,714
<b>EXPENSES:</b>				
Fuel	316	343	659	671
Purchased power from affiliates	65	69	134	130
Purchased power from non-affiliates	329	310	626	760
Other operating expenses	429	304	910	608
Provision for depreciation	68	63	136	126
General taxes	30	22	60	49
Impairment of long-lived assets	7		20	2
Total expenses	1,244	1,111	2,545	2,346
<b>OPERATING INCOME</b>	48	215	139	368
<b>OTHER INCOME (EXPENSE):</b>				
Investment income	16	13	22	14
Miscellaneous income (expense)	4	4	8	7
Interest expense affiliates	(2)	(2)	(3)	(5)
Interest expense other	(52)	(51)	(105)	(101)
Capitalized interest	10	24	20	44
Total other expense	(24)	(12)	(58)	(41)
<b>INCOME BEFORE INCOME TAXES</b>	24	203	81	327
<b>INCOME TAXES</b>	4	69	25	113
<b>NET INCOME</b>	\$ 20	\$ 134	\$ 56	\$ 214



**STATEMENTS OF COMPREHENSIVE  
INCOME**

<b>NET INCOME</b>	\$	20	\$	134	\$	56	\$	214
<b>OTHER COMPREHENSIVE INCOME:</b>								
Pension and other postretirement benefits		1		1		3		(9)
Unrealized gain on derivative hedges		14		3		5		4
Change in unrealized gain on available-for-sale securities		8		6		15		11
Other comprehensive income		23		10		23		6
Income taxes related to other comprehensive income		10		4		8		2
Other comprehensive income, net of tax		13		6		15		4
<b>COMPREHENSIVE INCOME</b>	<b>\$</b>	<b>33</b>	<b>\$</b>	<b>140</b>	<b>\$</b>	<b>71</b>	<b>\$</b>	<b>218</b>

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

**Table of Contents****FIRSTENERGY SOLUTIONS CORP.****CONSOLIDATED BALANCE SHEETS  
(Unaudited)**

(In millions)		June 30, 2011	December 31, 2010
	<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents		\$ 6	\$ 9
Receivables-			
Customers, net of allowance for uncollectible accounts of \$18 in 2011 and \$17 in 2010		450	366
Associated companies		490	478
Other, net of allowances for uncollectible accounts of \$3 in 2011 and \$7 in 2010		51	90
Notes receivable from associated companies		490	397
Materials and supplies, at average cost		499	545
Derivatives		221	182
Prepayments and other		49	59
		2,256	2,126
<b>PROPERTY, PLANT AND EQUIPMENT:</b>			
In service		11,455	11,321
Less Accumulated provision for depreciation		4,206	4,024
		7,249	7,297
Construction work in progress		694	1,063
Property, plant and equipment held for sale, net		487	
		8,430	8,360
<b>INVESTMENTS:</b>			
Nuclear plant decommissioning trusts		1,184	1,146
Other		10	12
		1,194	1,158
<b>DEFERRED CHARGES AND OTHER ASSETS:</b>			
Customer intangibles		129	134
Goodwill		24	24
Property taxes		41	41
Unamortized sale and leaseback costs		76	73
Derivatives		135	98
Other		75	48
		480	418

	\$ 12,360	\$ 12,062
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**LIABILITIES AND CAPITALIZATION****CURRENT LIABILITIES:**

Currently payable long-term debt	\$ 1,088	\$ 1,132
Short-term borrowings-		
Associated companies	541	12
Other	1	
Accounts payable-		
Associated companies	393	467
Other	191	241
Derivatives	242	266
Other	262	322
	2,718	2,440

**CAPITALIZATION:**

Common stockholder s equity-		
Common stock, without par value, authorized 750 shares- 7 shares outstanding	1,488	1,490
Accumulated other comprehensive loss	(105)	(120)
Retained earnings	2,474	2,418
Total common stockholder s equity	3,857	3,788
Long-term debt and other long-term obligations	3,000	3,181
	6,857	6,969

**NONCURRENT LIABILITIES:**

Deferred gain on sale and leaseback transaction	942	959
Accumulated deferred income taxes	216	58
Asset retirement obligations	875	892
Retirement benefits	295	285
Lease market valuation liability	194	217
Derivatives	85	81
Other	178	161
	2,785	2,653

**COMMITMENTS, GUARANTEES AND CONTINGENCIES (Note 9)**

	\$ 12,360	\$ 12,062
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The accompanying Combined Notes to the Consolidated Financial Statements are an integral part of these financial statements.

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

<b>(In millions)</b>	<b>Six Months Ended June 30</b>	
	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income	\$ 56	\$ 214
Adjustments to reconcile net income to net cash from operating activities-		
Provision for depreciation	136	126
Nuclear fuel and lease amortization	92	78
Deferred rents and lease market valuation liability	(58)	(59)
Deferred income taxes and investment tax credits, net	126	114
Asset impairments	28	21
Accrued compensation and retirement benefits	8	7
Commodity derivative transactions, net	(60)	(29)
Cash collateral paid, net	(40)	(38)
Decrease (increase) in operating assets-		
Receivables	(36)	(193)
Materials and supplies	50	(29)
Prepayments and other current assets	12	25
Decrease in operating liabilities-		
Accounts payable	(124)	(32)
Accrued taxes	(29)	(8)
Other	21	21
Net cash provided from operating activities	182	218
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
New financing-		
Long-term debt	247	
Short-term borrowings, net	530	76
Redemptions and repayments-		
Long-term debt	(472)	(295)
Other	(11)	(1)
Net cash provided from (used for) financing activities	294	(220)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Property additions	(334)	(566)
Proceeds from asset sales		116
Sales of investment securities held in trusts	513	957
Purchases of investment securities held in trusts	(545)	(979)
Loans to associated companies, net	(93)	631
Customer acquisition costs	(2)	(105)

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Leasehold improvement payments to associated companies		(51)
Other	(18)	(1)
Net cash provided from (used for) investing activities	(479)	2
Net change in cash and cash equivalents	(3)	
Cash and cash equivalents at beginning of period	9	
Cash and cash equivalents at end of period	\$ 6	\$

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

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**OHIO EDISON COMPANY**  
**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
(Unaudited)

(In thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
<b>STATEMENTS OF INCOME</b>				
<b>REVENUES:</b>				
Electric sales	\$ 360,203	\$ 415,437	\$ 724,034	\$ 895,362
Excise and gross receipts tax collections	24,941	23,949	53,136	52,424
Total revenues	385,144	439,386	777,170	947,786
<b>EXPENSES:</b>				
Purchased power from affiliates	69,134	134,050	162,396	287,727
Purchased power from non-affiliates	62,667	78,826	123,046	173,057
Other operating expenses	110,778	88,275	212,240	177,130
Provision for depreciation	22,470	22,014	44,346	43,894
Amortization of regulatory assets, net	2,405	9,424	3,179	38,769
General taxes	45,592	43,362	95,018	90,854
Total expenses	313,046	375,951	640,225	811,431
<b>OPERATING INCOME</b>	72,098	63,435	136,945	136,355
<b>OTHER INCOME (EXPENSE):</b>				
Investment income	5,043	6,309	9,351	11,553
Miscellaneous income (expense)	(477)	1,295	(187)	1,003
Interest expense	(22,011)	(22,155)	(44,156)	(44,465)
Capitalized interest	510	295	841	503
Total other expense	(16,935)	(14,256)	(34,151)	(31,406)
<b>INCOME BEFORE INCOME TAXES</b>	55,163	49,179	102,794	104,949
<b>INCOME TAXES</b>	16,538	11,856	34,029	31,465
<b>NET INCOME</b>	38,625	37,323	68,765	73,484
Income attributable to noncontrolling interest	114	130	230	262

<b>EARNINGS AVAILABLE TO PARENT</b>	\$ 38,511	\$ 37,193	\$ 68,535	\$ 73,222
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**STATEMENTS OF COMPREHENSIVE  
INCOME**

<b>NET INCOME</b>	\$ 38,625	\$ 37,323	\$ 68,765	\$ 73,484
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**OTHER COMPREHENSIVE INCOME:**

Pension and other postretirement benefits	1,122	322	1,461	4,337
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Increase in unrealized gain on available-for-sale securities	1,591	520	1,569	811
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Other comprehensive income	2,713	842	3,030	5,148
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Income tax expense (benefit) related to other comprehensive income	386	(26)	(1,110)	667
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Other comprehensive income, net of tax	2,327	868	4,140	4,481
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<b>COMPREHENSIVE INCOME</b>	40,952	38,191	72,905	77,965
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**COMPREHENSIVE INCOME  
ATTRIBUTABLE TO**

<b>NONCONTROLLING INTEREST</b>	114	130	230	262
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**COMPREHENSIVE INCOME AVAILABLE  
TO PARENT**

	\$ 40,838	\$ 38,061	\$ 72,675	\$ 77,703
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The accompanying Combined Notes to the Consolidated Financial Statements are an integral part of these financial statements.

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**OHIO EDISON COMPANY  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)**

(In thousands)	June 30, 2011	December 31, 2010
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 176	\$ 420,489
Receivables-		
Customers, net of allowance for uncollectible accounts of \$3,564 in 2011 and \$4,086 in 2010	159,393	176,591
Associated companies	68,709	118,135
Other	32,798	12,232
Notes receivable from associated companies	95,884	16,957
Prepayments and other	35,339	6,393
	392,299	750,797
<b>UTILITY PLANT:</b>		
In service	3,176,455	3,136,623
Less Accumulated provision for depreciation	1,230,570	1,207,745
	1,945,885	1,928,878
Construction work in progress	66,656	45,103
	2,012,541	1,973,981
<b>OTHER PROPERTY AND INVESTMENTS:</b>		
Investment in lease obligation bonds	177,835	190,420
Nuclear plant decommissioning trusts	133,354	127,017
Other	92,440	95,563
	403,629	413,000
<b>DEFERRED CHARGES AND OTHER ASSETS:</b>		
Regulatory assets	392,580	400,322
Pension assets	62,612	28,596
Property taxes	71,331	71,331
Unamortized sale and leaseback costs	27,628	30,126
Other	19,041	17,634
	573,192	548,009
	\$ 3,381,661	\$ 3,685,787

**LIABILITIES AND CAPITALIZATION**

**CURRENT LIABILITIES:**



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Currently payable long-term debt	\$ 1,429	\$ 1,419
Short-term borrowings-		
Associated companies		142,116
Other	166	320
Accounts payable-		
Associated companies	94,821	99,421
Other	41,417	29,639
Accrued taxes	69,364	78,707
Accrued interest	25,374	25,382
Other	79,795	74,947
	312,366	451,951

**CAPITALIZATION:**

Common stockholder's equity-		
Common stock, without par value, authorized 175,000,000 shares 60 shares outstanding	783,871	951,866
Accumulated other comprehensive loss	(174,936)	(179,076)
Retained earnings	110,156	141,621
Total common stockholder's equity	719,091	914,411
Noncontrolling interest	5,313	5,680
Total equity	724,404	920,091
Long-term debt and other long-term obligations	1,151,720	1,152,134
	1,876,124	2,072,225

**NONCURRENT LIABILITIES:**

Accumulated deferred income taxes	749,687	696,410
Accumulated deferred investment tax credits	9,439	10,159
Retirement benefits	183,345	183,712
Asset retirement obligations	69,164	74,456
Other	181,536	196,874
	1,193,171	1,161,611

**COMMITMENTS AND CONTINGENCIES (Note 9)**

	\$ 3,381,661	\$ 3,685,787
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The accompanying Combined Notes to the Consolidated Financial Statements are an integral part of these financial statements.

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**OHIO EDISON COMPANY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

<b>(In thousands)</b>	<b>Six Months Ended June 30</b>	
	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income	\$ 68,765	\$ 73,484
Adjustments to reconcile net income to net cash from operating activities-		
Provision for depreciation	44,346	43,894
Amortization of regulatory assets, net	3,179	38,769
Purchased power cost recovery reconciliation	(8,584)	(1,514)
Amortization of lease costs	(4,696)	(4,619)
Deferred income taxes and investment tax credits, net	62,216	4,964
Accrued compensation and retirement benefits	(8,328)	(16,154)
Accrued regulatory obligations	(3,309)	(2,309)
Cash collateral from (to) suppliers, net	(850)	1,215
Pension trust contribution	(27,000)	
Decrease (increase) in operating assets-		
Receivables	80,968	49,250
Prepayments and other current assets	(28,947)	5,072
Decrease in operating liabilities-		
Accounts payable	(22,253)	(57,208)
Accrued taxes	(9,360)	(25,685)
Other	4,261	(114)
Net cash provided from operating activities	150,408	109,045
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Redemptions and Repayments-		
Long-term debt	(707)	(2,957)
Short-term borrowings, net	(142,270)	(93,017)
Common stock dividend payments	(268,000)	(250,000)
Other	(2,340)	(881)
Net cash used for financing activities	(413,317)	(346,855)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Property additions	(78,894)	(71,698)
Leasehold improvement payments from associated companies		18,375
Sales of investment securities held in trusts	19,595	59,804
Purchases of investment securities held in trusts	(25,547)	(64,063)
Loans to associated companies, net	(78,927)	12,420
Cash investments	11,962	11,774
Other	(5,593)	(1,298)

Net cash used for investing activities	(157,404)	(34,686)
Net change in cash and cash equivalents	(420,313)	(272,496)
Cash and cash equivalents at beginning of period	420,489	324,175
Cash and cash equivalents at end of period	\$ 176	\$ 51,679

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

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**THE CLEVELAND ELECTRIC ILLUMINATING COMPANY**  
**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
**(Unaudited)**

(In thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
<b>STATEMENTS OF INCOME</b>				
<b>REVENUES:</b>				
Electric sales	\$ 202,148	\$ 280,180	\$ 408,890	\$ 592,677
Excise tax collections	15,706	15,495	33,851	33,068
Total revenues	217,854	295,675	442,741	625,745
<b>EXPENSES:</b>				
Purchased power from affiliates	36,040	99,422	82,208	208,815
Purchased power from non-affiliates	23,099	32,651	41,319	70,049
Other operating expenses	31,625	28,937	66,661	60,172
Provision for depreciation	18,488	18,336	36,914	36,447
Amortization of regulatory assets, net	18,166	30,807	41,536	75,946
General taxes	36,954	28,840	77,166	67,329
Total expenses	164,372	238,993	345,804	518,758
<b>OPERATING INCOME</b>	53,482	56,682	96,937	106,987
<b>OTHER INCOME (EXPENSE):</b>				
Investment income	5,637	6,605	12,234	14,152
Miscellaneous income	1,038	675	1,674	1,257
Interest expense	(32,135)	(33,262)	(65,213)	(66,883)
Capitalized interest	36	7	63	33
Total other expense	(25,424)	(25,975)	(51,242)	(51,441)
<b>INCOME BEFORE INCOME TAXES</b>	28,058	30,707	45,695	55,546
<b>INCOME TAXES</b>	6,209	8,785	10,645	19,628
<b>NET INCOME</b>	21,849	21,922	35,050	35,918
Income attributable to noncontrolling interest	309	366	675	785

<b>EARNINGS AVAILABLE TO PARENT</b>	\$ 21,540	\$ 21,556	\$ 34,375	\$ 35,133
<b>STATEMENTS OF COMPREHENSIVE INCOME</b>				
<b>NET INCOME</b>	\$ 21,849	\$ 21,922	\$ 35,050	\$ 35,918
<b>OTHER COMPREHENSIVE INCOME (LOSS):</b>				
Pension and other postretirement benefits (charges)	2,975	3,228	5,942	(19,357)
Income tax expense (benefit) related to other comprehensive income	860	976	398	(7,301)
Other comprehensive income (loss), net of tax	2,115	2,252	5,544	(12,056)
<b>COMPREHENSIVE INCOME</b>	23,964	24,174	40,594	23,862
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST</b>	309	366	675	785
<b>COMPREHENSIVE INCOME AVAILABLE TO PARENT</b>	\$ 23,655	\$ 23,808	\$ 39,919	\$ 23,077

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

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**THE CLEVELAND ELECTRIC ILLUMINATING COMPANY**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

(In thousands)	June 30, 2011	December 31, 2010
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 244	\$ 238
Receivables-		
Customers, net of allowance for uncollectible accounts of \$2,801 in 2011 and \$4,589 in 2010	97,997	183,744
Associated companies	32,348	77,047
Other	13,476	11,544
Notes receivable from associated companies	71,911	23,236
Materials and supplies, at average cost	13,784	398
Prepayments and other	6,431	3,258
	236,191	299,465
<b>UTILITY PLANT:</b>		
In service	2,417,031	2,396,893
Less Accumulated provision for depreciation	944,379	932,246
	1,472,652	1,464,647
Construction work in progress	59,281	38,610
	1,531,933	1,503,257
<b>OTHER PROPERTY AND INVESTMENTS:</b>		
Investment in lessor notes	286,745	340,029
Other	10,048	10,074
	296,793	350,103
<b>DEFERRED CHARGES AND OTHER ASSETS:</b>		
Goodwill	1,688,521	1,688,521
Regulatory assets	320,337	370,403
Pension assets	14,652	
Property taxes	80,614	80,614
Other	12,884	11,486
	2,117,008	2,151,024
	\$ 4,181,925	\$ 4,303,849

**LIABILITIES AND CAPITALIZATION**

**CURRENT LIABILITIES:**

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Currently payable long-term debt	\$ 188	\$ 161
Short-term borrowings from associated companies	23,303	105,996
Accounts payable-		
Associated companies	51,001	32,020
Other	18,700	14,947
Accrued taxes	83,265	84,668
Accrued interest	18,551	18,555
Other	38,685	44,569
	233,693	300,916

**CAPITALIZATION:**

Common stockholder s equity-		
Common stock, without par value, authorized 105,000,000 shares, 67,930,743 shares outstanding	887,053	887,087
Accumulated other comprehensive loss	(147,643)	(153,187)
Retained earnings	539,280	568,906
Total common stockholder s equity	1,278,690	1,302,806
Noncontrolling interest	15,195	18,017
Total equity	1,293,885	1,320,823
Long-term debt and other long-term obligations	1,831,023	1,852,530
	3,124,908	3,173,353

**NONCURRENT LIABILITIES:**

Accumulated deferred income taxes	640,059	622,771
Accumulated deferred investment tax credits	10,574	10,994
Retirement benefits	76,010	95,654
Other	96,681	100,161
	823,324	829,580

**COMMITMENTS AND CONTINGENCIES (Note 9)**

	\$ 4,181,925	\$ 4,303,849
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The accompanying Combined Notes to the Consolidated Financial Statements are an integral part of these financial statements.

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**THE CLEVELAND ELECTRIC ILLUMINATING COMPANY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

<b>(In thousands)</b>	<b>Six Months Ended June 30</b>	
	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income	\$ 35,050	\$ 35,918
Adjustments to reconcile net income to net cash from operating activities-		
Provision for depreciation	36,914	36,447
Amortization of regulatory assets, net	41,536	75,946
Deferred income taxes and investment tax credits, net	17,221	(18,083)
Accrued compensation and retirement benefits	5,421	5,421
Accrued regulatory obligations	(2,001)	(444)
Cash collateral from suppliers, net		685
Pension trust contribution	(35,000)	
Decrease (increase) in operating assets-		
Receivables	140,455	51,757
Prepayments and other current assets	(17,469)	5,392
Increase (decrease) in operating liabilities-		
Accounts payable	10,135	(34,488)
Accrued taxes	(346)	(11,317)
Other	(4,436)	2,023
Net cash provided from operating activities	227,480	149,257
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Redemptions and Repayments-		
Long-term debt	(74)	(54)
Short-term borrowings, net	(104,228)	(136,013)
Common stock dividend payments	(64,000)	(100,000)
Other	(5,239)	(3,367)
Net cash used for financing activities	(173,541)	(239,434)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Property additions	(52,743)	(44,373)
Loans to associated companies, net	(48,676)	2,322
Redemptions of lessor notes	53,283	48,608
Other	(5,797)	(2,365)
Net cash provided from (used for) investing activities	(53,933)	4,192
Net change in cash and cash equivalents	6	(85,985)



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Cash and cash equivalents at beginning of period	238	86,230
Cash and cash equivalents at end of period	\$ 244	\$ 245

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

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**THE TOLEDO EDISON COMPANY**  
**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
(Unaudited)

(In thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
<b>STATEMENTS OF INCOME</b>				
<b>REVENUES:</b>				
Electric sales	\$ 93,048	\$ 114,691	\$ 199,373	\$ 240,122
Excise tax collections	6,270	6,059	13,572	13,100
Total revenues	99,318	120,750	212,945	253,222
<b>EXPENSES:</b>				
Purchased power from affiliates	17,037	47,106	52,554	101,725
Purchased power from non-affiliates	16,114	15,223	30,102	33,713
Other operating expenses	32,549	25,499	69,136	51,044
Provision for depreciation	7,959	8,013	15,890	15,963
Deferral of regulatory assets, net	(7,054)	(1,800)	(18,532)	(10,299)
General taxes	12,438	12,282	26,890	25,743
Total expenses	79,043	106,323	176,040	217,889
<b>OPERATING INCOME</b>	<b>20,275</b>	<b>14,427</b>	<b>36,905</b>	<b>35,333</b>
<b>OTHER INCOME (EXPENSE):</b>				
Investment income	2,599	5,057	5,521	8,857
Miscellaneous income (expense)	396	(945)	(1,233)	(2,351)
Interest expense	(10,415)	(10,455)	(20,858)	(20,942)
Capitalized interest	135	80	237	158
Total other expense	(7,285)	(6,263)	(16,333)	(14,278)
<b>INCOME BEFORE INCOME TAXES</b>	<b>12,990</b>	<b>8,164</b>	<b>20,572</b>	<b>21,055</b>
<b>INCOME TAXES</b>	<b>1,429</b>	<b>948</b>	<b>3,164</b>	<b>6,330</b>
<b>NET INCOME</b>	<b>11,561</b>	<b>7,216</b>	<b>17,408</b>	<b>14,725</b>
Income attributable to noncontrolling interest	2	2	4	5

<b>EARNINGS AVAILABLE TO PARENT</b>	\$	11,559	\$	7,214	\$	17,404	\$	14,720
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**STATEMENTS OF COMPREHENSIVE  
INCOME**

<b>NET INCOME</b>	\$	11,561	\$	7,216	\$	17,408	\$	14,725
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**OTHER COMPREHENSIVE INCOME:**

Pension and other postretirement benefits		575		714		1,167		1,010
Increase (decrease) in unrealized gain on available-for-sale securities		754		(330)		2,059		39
Other comprehensive income		1,329		384		3,226		1,049
Income tax expense related to other comprehensive income		351		65		685		235
Other comprehensive income, net of tax		978		319		2,541		814

<b>COMPREHENSIVE INCOME</b>		12,539		7,535		19,949		15,539
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**COMPREHENSIVE INCOME  
ATTRIBUTABLE TO NONCONTROLLING  
INTEREST**

		2		2		4		5
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**COMPREHENSIVE INCOME AVAILABLE  
TO PARENT**

	\$	12,537	\$	7,533	\$	19,945	\$	15,534
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The accompanying Combined Notes to the Consolidated Financial Statements are an integral part of these financial statements.

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**THE TOLEDO EDISON COMPANY  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)**

<b>(In thousands)</b>	<b>June 30, 2011</b>	<b>December 31, 2010</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 12	\$ 149,262
Receivables-		
Customers, net of allowance for uncollectible accounts of \$1,142 in 2011 and \$1 in 2010	45,931	29
Associated companies	48,340	31,777
Other, net of allowance for uncollectible accounts of \$339 in 2011 and \$330 in 2010	5,272	18,464
Notes receivable from associated companies	128,815	96,765
Prepayments and other	12,052	2,306
	240,422	298,603
<b>UTILITY PLANT:</b>		
In service	955,002	947,203
Less Accumulated provision for depreciation	453,517	446,401
	501,485	500,802
Construction work in progress	17,386	12,604
	518,871	513,406
<b>OTHER PROPERTY AND INVESTMENTS:</b>		
Investment in lessor notes	82,153	103,872
Nuclear plant decommissioning trusts	79,018	75,558
Other	1,448	1,492
	162,619	180,922
<b>DEFERRED CHARGES AND OTHER ASSETS:</b>		
Goodwill	500,576	500,576
Regulatory assets	89,112	72,059
Pension assets	24,603	
Property taxes	24,990	24,990
Other	42,341	23,750
	681,622	621,375
	\$ 1,603,534	\$ 1,614,306

**LIABILITIES AND CAPITALIZATION****CURRENT LIABILITIES:**

Currently payable long-term debt	\$	188	\$	199
Accounts payable- Associated companies		22,144		17,168
Other		12,524		7,351
Accrued taxes		23,699		24,401
Accrued interest		5,933		5,931
Lease market valuation liability		36,900		36,900
Other		18,060		23,145
		119,448		115,095

**CAPITALIZATION:**

Common stockholder's equity- Common stock, \$5 par value, authorized 60,000,000 shares, 29,402,054 shares outstanding		147,010		147,010
Other paid-in capital		178,157		178,182
Accumulated other comprehensive loss		(46,642)		(49,183)
Retained earnings		100,937		117,534
Total common stockholder's equity		379,462		393,543
Noncontrolling interest		2,593		2,589
Total equity		382,055		396,132
Long-term debt and other long-term obligations		600,524		600,493
		982,579		996,625

**NONCURRENT LIABILITIES:**

Accumulated deferred income taxes		168,429		132,019
Accumulated deferred investment tax credits		5,715		5,930
Retirement benefits		51,764		71,486
Asset retirement obligations		29,737		28,762
Lease market valuation liability		180,850		199,300
Other		65,012		65,089
		501,507		502,586

**COMMITMENTS, GUARANTEES AND CONTINGENCIES (Note 9)**

	\$	1,603,534	\$	1,614,306
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The accompanying Combined Notes to the Consolidated Financial Statements are an integral part of these financial statements.

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**THE TOLEDO EDISON COMPANY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

<b>(In thousands)</b>	<b>Six Months Ended June 30</b>	
	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income	\$ 17,408	\$ 14,725
Adjustments to reconcile net income to net cash from operating activities-		
Provision for depreciation	15,890	15,963
Deferral of regulatory assets, net	(18,532)	(10,299)
Deferred rents and lease market valuation liability	(43,851)	(42,264)
Deferred income taxes and investment tax credits, net	41,457	16,503
Accrued compensation and retirement benefits	1,085	2,600
Accrued regulatory obligations	(1,193)	(632)
Pension trust contribution	(45,000)	
Cash collateral from (to) suppliers, net	(14)	343
Increase (decrease) in operating assets-		
Receivables	(48,807)	52,754
Prepayments and other current assets	(9,758)	3,608
Increase (decrease) in operating liabilities-		
Accounts payable	3,661	(61,195)
Accrued taxes	(701)	(4,007)
Other	5,771	(8,960)
Net cash used for operating activities	(82,584)	(20,861)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Redemptions and Repayments-		
Long-term debt	(105)	(111)
Short-term borrowings, net		(225,975)
Common stock dividend payments	(34,000)	(130,000)
Other	(1,742)	(112)
Net cash used for financing activities	(35,847)	(356,198)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Property additions	(17,386)	(20,237)
Leasehold improvement payments from associated companies		32,829
Loans to associated companies, net	(32,050)	(10,818)
Redemptions of lessor notes	21,739	20,485
Sales of investment securities held in trusts	28,401	106,814
Purchases of investment securities held in trusts	(30,050)	(107,978)
Other	(1,473)	(2,905)

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Net cash provided from (used for) investing activities	(30,819)	18,190
Net change in cash and cash equivalents	(149,250)	(358,869)
Cash and cash equivalents at beginning of period	149,262	436,712
Cash and cash equivalents at end of period	\$ 12	\$ 77,843

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

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**JERSEY CENTRAL POWER & LIGHT COMPANY**  
**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
(Unaudited)

(In thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
<b>STATEMENTS OF INCOME</b>				
<b>REVENUES:</b>				
Electric sales	\$ 576,977	\$ 709,606	\$ 1,211,000	\$ 1,400,998
Excise tax collections	11,120	11,012	23,607	23,364
Total revenues	588,097	720,618	1,234,607	1,424,362
<b>EXPENSES:</b>				
Purchased power	328,463	410,470	698,631	824,486
Other operating expenses	78,603	75,177	164,682	170,837
Provision for depreciation	26,773	27,093	52,087	55,064
Amortization of regulatory assets, net	40,046	81,326	121,633	150,774
General taxes	15,115	14,902	32,526	31,338
Total expenses	489,000	608,968	1,069,559	1,232,499
<b>OPERATING INCOME</b>	99,097	111,650	165,048	191,863
<b>OTHER INCOME (EXPENSE):</b>				
Miscellaneous income	3,554	1,649	5,464	3,482
Interest expense	(31,125)	(30,041)	(61,782)	(59,464)
Capitalized interest	618	156	1,045	289
Total other expense	(26,953)	(28,236)	(55,273)	(55,693)
<b>INCOME BEFORE INCOME TAXES</b>	72,144	83,414	109,775	136,170
<b>INCOME TAXES</b>	30,383	33,521	48,461	57,051
<b>NET INCOME</b>	\$ 41,761	\$ 49,893	\$ 61,314	\$ 79,119
<b>STATEMENTS OF COMPREHENSIVE INCOME</b>				
<b>NET INCOME</b>	\$ 41,761	\$ 49,893	\$ 61,314	\$ 79,119



**OTHER COMPREHENSIVE INCOME:**

Pension and other postretirement benefits	4,290	4,135	8,511	20,063
Unrealized gain on derivative hedges	69	69	138	138
Other comprehensive income	4,359	4,204	8,649	20,201
Income tax expense related to other comprehensive income	1,612	1,441	3,202	7,999
Other comprehensive income, net of tax	2,747	2,763	5,447	12,202
<b>COMPREHENSIVE INCOME</b>	<b>\$ 44,508</b>	<b>\$ 52,656</b>	<b>\$ 66,761</b>	<b>\$ 91,321</b>

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

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**JERSEY CENTRAL POWER & LIGHT COMPANY**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

(In thousands)	June 30, 2011	December 31, 2010
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 42	\$ 4
Receivables-		
Customers, net of allowance for uncollectible accounts of \$3,306 in 2011 and \$3,769 in 2010	259,313	323,044
Associated companies	66,069	53,780
Other	25,580	26,119
Notes receivable associated companies	16,288	177,228
Prepaid taxes	135,679	10,889
Other	15,421	12,654
	518,392	603,718
<b>UTILITY PLANT:</b>		
In service	4,589,369	4,562,781
Less Accumulated provision for depreciation	1,682,577	1,656,939
	2,906,792	2,905,842
Construction work in progress	112,573	63,535
	3,019,365	2,969,377
<b>OTHER PROPERTY AND INVESTMENTS:</b>		
Nuclear fuel disposal trust	212,419	207,561
Nuclear plant decommissioning trusts	190,422	181,851
Other	2,118	2,104
	404,959	391,516
<b>DEFERRED CHARGES AND OTHER ASSETS:</b>		
Goodwill	1,810,936	1,810,936
Regulatory assets	469,490	513,395
Other	34,028	27,938
	2,314,454	2,352,269
	\$ 6,257,170	\$ 6,316,880

**LIABILITIES AND CAPITALIZATION**

**CURRENT LIABILITIES:**

Currently payable long-term debt	\$ 33,315	\$ 32,402
Short-term borrowings-		
Associated companies	360,917	
Other	50,000	
Accounts payable-		
Associated companies	56,544	28,571
Other	159,720	158,442
Accrued compensation and benefits	35,578	35,232
Customer deposits	23,684	23,385
Accrued taxes	1,346	2,509
Accrued interest	18,059	18,111
Other	13,487	22,263
	752,650	320,915

**CAPITALIZATION:**

Common stockholder s equity-		
Common stock, \$10 par value, authorized 16,000,000 shares- 13,628,447 shares outstanding	136,284	136,284
Other paid-in capital	2,008,847	2,508,874
Accumulated other comprehensive loss	(248,095)	(253,542)
Retained earnings	288,484	227,170
Total common stockholder s equity	2,185,520	2,618,786
Long-term debt and other long-term obligations	1,754,582	1,769,849
	3,940,102	4,388,635

**NONCURRENT LIABILITIES:**

Accumulated deferred income taxes	761,844	715,527
Power purchase contract liability	239,943	233,492
Nuclear fuel disposal costs	196,868	196,768
Retirement benefits	71,711	182,364
Asset retirement obligations	111,831	108,297
Other	182,221	170,882
	1,564,418	1,607,330

**COMMITMENTS, GUARANTEES AND CONTINGENCIES (Note 9)**

	\$ 6,257,170	\$ 6,316,880
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The accompanying Combined Notes to the Consolidated Financial Statements are an integral part of these financial statements.

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**JERSEY CENTRAL POWER & LIGHT COMPANY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

<b>(In thousands)</b>	<b>Six Months Ended June 30</b>	
	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income	\$ 61,314	\$ 79,119
Adjustments to reconcile net income to net cash from operating activities-		
Provision for depreciation	52,087	55,064
Amortization of regulatory assets, net	121,633	150,774
Deferred purchased power and other costs	(70,998)	(67,664)
Deferred income taxes and investment tax credits, net	51,222	(1,425)
Accrued compensation and retirement benefits	1,319	2,608
Cash collateral paid, net	(235)	(23,400)
Pension trust contribution	(105,000)	
Decrease (increase) in operating assets-		
Receivables	58,466	(46,788)
Prepaid taxes	(124,790)	(111,968)
Increase (decrease) in operating liabilities-		
Accounts payable	13,856	11,924
Accrued taxes	(1,167)	10,368
Other	612	(6,446)
Net cash provided from operating activities	58,319	52,166
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
New Financing-		
Short-term borrowings, net	410,917	57,850
Redemptions and Repayments-		
Long-term debt	(14,671)	(13,830)
Common stock dividend payments		(90,000)
Equity payment to parent	(500,000)	
Other	(1,452)	
Net cash used for financing activities	(105,206)	(45,980)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Property additions	(98,153)	(80,727)
Loans to associated companies, net	160,940	85,049
Sales of investment securities held in trusts	375,885	281,242
Purchases of investment securities held in trusts	(385,448)	(289,454)
Other	(6,299)	(2,224)
Net cash provided from (used for) investing activities	46,925	(6,114)

Net change in cash and cash equivalents	38	72
Cash and cash equivalents at beginning of period	4	27
Cash and cash equivalents at end of period	\$ 42	\$ 99

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

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**METROPOLITAN EDISON COMPANY**  
**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
(Unaudited)

(In thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
<b>REVENUES:</b>				
Electric sales	\$ 265,363	\$ 422,030	\$ 603,779	\$ 873,590
Gross receipts tax collections	14,601	20,629	33,401	42,196
Total revenues	279,964	442,659	637,180	915,786
<b>EXPENSES:</b>				
Purchased power from affiliates	34,935	149,000	84,824	310,080
Purchased power from non-affiliates	100,836	85,276	253,879	177,204
Other operating expenses	50,075	90,151	97,307	192,134
Provision for depreciation	12,766	13,440	25,189	26,198
Amortization of regulatory assets, net	22,167	48,589	54,261	97,389
General taxes	17,152	19,894	39,302	41,634
Total expenses	237,931	406,350	554,762	844,639
<b>OPERATING INCOME</b>	42,033	36,309	82,418	71,147
<b>OTHER INCOME (EXPENSE):</b>				
Interest income	13	880	106	2,097
Miscellaneous income	915	1,381	1,885	3,554
Interest expense	(13,130)	(13,002)	(26,187)	(26,775)
Capitalized interest	228	159	375	285
Total other expense	(11,974)	(10,582)	(23,821)	(20,839)
<b>INCOME BEFORE INCOME TAXES</b>	30,059	25,727	58,597	50,308
<b>INCOME TAXES</b>	13,281	8,618	19,232	20,884
<b>NET INCOME</b>	\$ 16,778	\$ 17,109	\$ 39,365	\$ 29,424
<b>STATEMENTS OF COMPREHENSIVE INCOME</b>				
<b>NET INCOME</b>	\$ 16,778	\$ 17,109	\$ 39,365	\$ 29,424

**OTHER COMPREHENSIVE INCOME**

Pension and other postretirement benefits	2,227	2,162	4,190	11,871
Unrealized gain on derivative hedges	84	84	168	168
Other comprehensive income	2,311	2,246	4,358	12,039
Income tax expense related to other comprehensive income	869	724	1,632	4,901
Other comprehensive income, net of tax	1,442	1,522	2,726	7,138

<b>COMPREHENSIVE INCOME</b>	\$ 18,220	\$ 18,631	\$ 42,091	\$ 36,562
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The accompanying Combined Notes to the Consolidated Financial Statements are an integral part of these financial statements.

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**METROPOLITAN EDISON COMPANY  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)**

(In thousands)	ASSETS	June 30, 2011	December 31, 2010
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents		\$ 157	\$ 243,220
Receivables-			
Customers, net of allowance for uncollectible accounts of \$3,087 in 2011 and \$3,868 in 2010		143,820	178,522
Associated companies		12,849	24,920
Other		16,437	13,007
Notes receivable from associated companies		10,432	11,028
Prepaid taxes		27,083	343
Other		1,443	2,289
		212,221	473,329
<b>UTILITY PLANT:</b>			
In service		2,266,437	2,247,853
Less Accumulated provision for depreciation		859,055	846,003
		1,407,382	1,401,850
Construction work in progress		42,604	23,663
		1,449,986	1,425,513
<b>OTHER PROPERTY AND INVESTMENTS:</b>			
Nuclear plant decommissioning trusts		301,188	289,328
Other		840	884
		302,028	290,212
<b>DEFERRED CHARGES AND OTHER ASSETS:</b>			
Goodwill		416,499	416,499
Regulatory assets		341,488	295,856
Power purchase contract asset		65,861	111,562
Other		54,587	31,699
		878,435	855,616
		\$ 2,842,670	\$ 3,044,670

**LIABILITIES AND CAPITALIZATION**

**CURRENT LIABILITIES:**



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Currently payable long-term debt	\$ 28,760	\$ 28,760
Short-term borrowings-		
Associated companies	238,399	124,079
Other	50,000	
Accounts payable-		
Associated companies	24,377	33,942
Other	48,262	29,862
Accrued taxes	12,844	60,856
Accrued interest	16,011	16,114
Other	29,605	29,278
	448,258	322,891

**CAPITALIZATION:**

Common stockholder s equity-		
Common stock, without par value, authorized 900,000 shares, 740,905 and 859,500 shares outstanding, respectively	842,023	1,197,076
Accumulated other comprehensive loss	(139,657)	(142,383)
Retained earnings	46,772	32,406
Total common stockholder s equity	749,138	1,087,099
Long-term debt and other long-term obligations	704,486	718,860
	1,453,624	1,805,959

**NONCURRENT LIABILITIES:**

Accumulated deferred income taxes	494,716	473,009
Accumulated deferred investment tax credits	6,656	6,866
Nuclear fuel disposal costs	44,471	44,449
Asset retirement obligations	199,162	192,659
Retirement benefits	22,276	29,121
Power purchase contract liability	121,924	116,027
Other	51,583	53,689
	940,788	915,820

**COMMITMENTS AND CONTINGENCIES (Note 9)**

	\$ 2,842,670	\$ 3,044,670
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The accompanying Combined Notes to the Consolidated Financial Statements are an integral part of these financial statements.

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**METROPOLITAN EDISON COMPANY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

<b>(In thousands)</b>	<b>Six Months Ended June 30</b>	
	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income	\$ 39,365	\$ 29,424
Adjustments to reconcile net income to net cash from operating activities-		
Provision for depreciation	25,189	26,198
Amortization of regulatory assets, net	54,261	97,389
Deferred costs recoverable as regulatory assets	(41,699)	(38,358)
Deferred income taxes and investment tax credits, net	11,972	(12,079)
Accrued compensation and retirement benefits	(510)	(1,573)
Cash collateral from suppliers, net	174	50
Pension trust contribution	(35,000)	
Decrease (increase) in operating assets-		
Receivables	46,240	(29,439)
Prepaid taxes	(26,740)	(31,246)
Increase (decrease) in operating liabilities-		
Accounts payable	5,148	733
Accrued taxes	(47,676)	9,519
Accrued interest	(103)	(1,277)
Other	10,903	7,553
Net cash provided from operating activities	41,524	56,894
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
New Financing-		
Short-term borrowings, net	164,320	17,898
Redemptions and Repayments-		
Common stock	(150,000)	
Long-term debt	(14,784)	(100,000)
Common stock dividend payments	(80,000)	
Equity payment to parent	(150,000)	
Net cash used for financing activities	(230,464)	(82,102)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Property additions	(46,647)	(54,405)
Sales of investment securities held in trusts	501,260	376,610
Purchases of investment securities held in trusts	(506,220)	(381,219)
Loans to associated companies, net	596	85,943
Other	(3,112)	(1,715)

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Net cash provided from (used for) investing activities	(54,123)	25,214
Net change in cash and cash equivalents	(243,063)	6
Cash and cash equivalents at beginning of period	243,220	120
Cash and cash equivalents at end of period	\$ 157	\$ 126

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

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**PENNSYLVANIA ELECTRIC COMPANY**  
**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
**(Unaudited)**

(In thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
<b>STATEMENTS OF INCOME</b>				
<b>REVENUES:</b>				
Electric sales	\$ 238,942	\$ 350,335	\$ 547,258	\$ 736,271
Gross receipts tax collections	12,727	16,162	29,256	33,686
Total revenues	251,669	366,497	576,514	769,957
<b>EXPENSES:</b>				
Purchased power from affiliates	54,635	152,945	102,119	321,345
Purchased power from non-affiliates	64,459	86,829	205,895	178,252
Other operating expenses	44,570	67,070	85,898	139,464
Provision for depreciation	15,770	16,605	30,343	31,287
Amortization (deferral) of regulatory assets, net	12,608	(10,522)	25,615	(20,488)
General taxes	14,665	18,647	35,401	35,181
Total expenses	206,707	331,574	485,271	685,041
<b>OPERATING INCOME</b>	44,962	34,923	91,243	84,916
<b>OTHER INCOME (EXPENSE):</b>				
Miscellaneous income	644	1,310	669	2,923
Interest expense	(17,361)	(17,630)	(34,595)	(34,920)
Capitalized interest	41	183	63	323
Total other expense	(16,676)	(16,137)	(33,863)	(31,674)
<b>INCOME BEFORE INCOME TAXES</b>	28,286	18,786	57,380	53,242
<b>INCOME TAXES</b>	13,568	5,812	25,356	22,969
<b>NET INCOME</b>	\$ 14,718	\$ 12,974	\$ 32,024	\$ 30,273

**STATEMENTS OF COMPREHENSIVE  
INCOME**

<b>NET INCOME</b>	\$ 14,718	\$ 12,974	\$ 32,024	\$ 30,273
<b>OTHER COMPREHENSIVE INCOME:</b>				
Pension and other postretirement benefits	1,890	1,830	3,475	10,377
Unrealized gain on derivative hedges	17	16	33	32
Other comprehensive income	1,907	1,846	3,508	10,409
Income tax expense related to other comprehensive income	678	483	1,233	3,767
Other comprehensive income, net of tax	1,229	1,363	2,275	6,642
<b>COMPREHENSIVE INCOME</b>	\$ 15,947	\$ 14,337	\$ 34,299	\$ 36,915

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

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**PENNSYLVANIA ELECTRIC COMPANY  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)**

<b>(In thousands)</b>	<b>June 30, 2011</b>	<b>December 31, 2010</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 2	\$ 5
Receivables-		
Customers, net of allowance for uncollectible accounts of \$2,856 in 2011 and \$3,369 in 2010	121,511	148,864
Associated companies	65,989	54,052
Other	11,420	11,314
Notes receivable from associated companies	13,498	14,404
Prepaid taxes	26,372	14,026
Other	1,423	1,592
	240,215	244,257
<b>UTILITY PLANT:</b>		
In service	2,552,303	2,532,629
Less Accumulated provision for depreciation	947,315	935,259
	1,604,988	1,597,370
Construction work in progress	62,592	30,505
	1,667,580	1,627,875
<b>OTHER PROPERTY AND INVESTMENTS:</b>		
Nuclear plant decommissioning trusts	162,154	152,928
Non-utility generation trusts	126,786	80,244
Other	292	297
	289,232	233,469
<b>DEFERRED CHARGES AND OTHER ASSETS:</b>		
Goodwill	768,628	768,628
Regulatory assets	222,804	163,407
Power purchase contract asset	4,000	5,746
Other	15,272	19,287
	1,010,704	957,068
	\$ 3,207,731	\$ 3,062,669

**LIABILITIES AND CAPITALIZATION**

**CURRENT LIABILITIES:**

Currently payable long-term debt	\$ 45,000	\$ 45,000
Short-term borrowings- Associated companies	159,902	101,338
Accounts payable- Associated companies	77,121	35,626
Other	29,217	41,420
Accrued taxes	3,397	5,075
Accrued interest	17,454	17,378
Other	23,280	22,541
	355,371	268,378

**CAPITALIZATION:**

Common stockholder s equity- Common stock, \$20 par value, authorized 5,400,000 shares- 4,427,577 shares outstanding	88,552	88,552
Other paid-in capital	913,486	913,519
Accumulated other comprehensive loss	(161,251)	(163,526)
Retained earnings	23,017	60,993
Total common stockholder s equity	863,804	899,538
Long-term debt and other long-term obligations	1,072,417	1,072,262
	1,936,221	1,971,800

**NONCURRENT LIABILITIES:**

Accumulated deferred income taxes	415,899	371,877
Retirement benefits	188,407	187,621
Power purchase contract liability	160,130	116,972
Asset retirement obligations	101,441	98,132
Other	50,262	47,889
	916,139	822,491

**COMMITMENTS, GUARANTEES AND CONTINGENCIES (Note 9)**

	\$ 3,207,731	\$ 3,062,669
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The accompanying Combined Notes to the Consolidated Financial Statements are an integral part of these financial statements.

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**PENNSYLVANIA ELECTRIC COMPANY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)**

<b>(In thousands)</b>	<b>Six Months Ended June 30</b>	
	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income	\$ 32,024	\$ 30,273
Adjustments to reconcile net income to net cash from operating activities-		
Provision for depreciation	30,343	31,287
Amortization (deferral) of regulatory assets, net	25,615	(20,488)
Deferred costs recoverable as regulatory assets	(38,291)	(38,955)
Deferred income taxes and investment tax credits, net	46,687	42,943
Accrued compensation and retirement benefits	4,733	4,216
Cash collateral paid, net	(1,276)	(3,613)
Decrease (increase) in operating assets-		
Receivables	19,561	3,266
Prepaid taxes	(12,346)	(37,504)
Increase (decrease) in operating liabilities-		
Accounts payable	23,449	(4,603)
Accrued taxes	(12,373)	(1,339)
Other	13,153	10,227
Net cash provided from operating activities	131,279	15,710
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
New Financing-		
Long-term debt	25,000	
Short-term borrowings, net	58,564	25,313
Redemptions and Repayments-		
Long-term debt	(25,000)	
Common stock dividend payments	(70,000)	
Other	(1,353)	5
Net cash provided from (used for) financing activities	(12,789)	25,318
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Property additions	(64,177)	(58,293)
Loans to associated companies, net	906	498
Sales of investment securities held in trusts	265,223	133,934
Purchases of investment securities held in trusts	(314,738)	(113,067)
Other	(5,707)	(4,104)
Net cash used for investing activities	(118,493)	(41,032)



Net change in cash and cash equivalents	(3)	(4)
Cash and cash equivalents at beginning of period	5	14
Cash and cash equivalents at end of period	\$ 2	\$ 10

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

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**FIRSTENERGY CORP. AND SUBSIDIARIES  
COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)**

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**Table of Contents****COMBINED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****1. ORGANIZATION AND BASIS OF PRESENTATION**

FirstEnergy is a diversified energy company that holds, directly or indirectly, all of the outstanding common stock of its principal subsidiaries: OE, CEI, TE, Penn (a wholly owned subsidiary of OE), ATSI, JCP&L, Met-Ed, Penelec, FENOC, AE and its principal subsidiaries (AE Supply, AGC, MP, PE, WP and TrAIL), FES and its subsidiaries FGCO and NGC, and FESC. AE merged with a subsidiary of FirstEnergy on February 25, 2011, with AE continuing as the surviving corporation and becoming a wholly-owned subsidiary of FirstEnergy (See Note 2, Merger).

FirstEnergy and its subsidiaries follow GAAP and comply 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 and the NJBPU. These unaudited interim financial statements and notes were prepared in accordance with GAAP for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete annual 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.

These unaudited 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, 2010 for FirstEnergy, FES and the Utility Registrants, as applicable. The consolidated unaudited financial statements of FirstEnergy, FES and each of the Utility Registrants reflect all normal recurring adjustments that, in the opinion of management, are necessary to fairly present results of operations for the interim periods. Certain prior year amounts have been reclassified to conform to the current year presentation. Unless otherwise indicated, defined terms used herein have the meanings set forth in the accompanying Glossary of Terms.

FirstEnergy 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. FirstEnergy consolidates a VIE when it is determined that it is the primary beneficiary (see Note 7, Variable Interest Entities). Investments in affiliates over which FirstEnergy and its subsidiaries have the ability to exercise significant influence, but with respect to which 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.

**2. MERGER*****Merger***

On February 25, 2011, the merger between FirstEnergy and Allegheny closed. Pursuant to the terms of the Agreement and Plan of Merger among FirstEnergy, Element Merger Sub, Inc., a Maryland corporation and a wholly-owned subsidiary of FirstEnergy (Merger Sub) and AE, Merger Sub merged with and into AE, with AE continuing as the surviving corporation and becoming a wholly-owned subsidiary of FirstEnergy. As part of the merger, AE shareholders received 0.667 of a share of FirstEnergy common stock for each share of AE common stock outstanding as of the date the merger was completed, and all outstanding AE equity-based employee compensation awards were converted into FirstEnergy equity-based awards on the same basis.

The total consideration in the merger was based on the closing price of a share of FirstEnergy common stock on February 24, 2011, the day prior to the date the merger was completed, and was calculated as follows (in millions, except per share data):

Shares of Allegheny common stock outstanding on February 24, 2011	170
Exchange ratio	0.667
Number of shares of FirstEnergy common stock issued	113
Closing price of FirstEnergy common stock on February 24, 2011	\$ 38.16

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Fair value of shares issued by FirstEnergy	\$	4,327
Fair value of replacement share-based compensation awards relating to pre-merger service		27
Total consideration transferred	\$	4,354

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The allocation of the total consideration transferred to the assets acquired and liabilities assumed includes adjustments for the fair value of coal contracts, energy supply contracts, emission allowances, unregulated property, plant and equipment, derivative instruments, goodwill, intangible assets, long-term debt and accumulated deferred income taxes. The preliminary allocation of the purchase price is as follows:

**(In millions)**

Current assets	\$	1,494
Property, plant and equipment		9,656
Investments		138
Goodwill		881
Other noncurrent assets		1,347
Current liabilities		(716)
Noncurrent liabilities		(3,452)
Long-term debt and other long-term obligations		(4,994)
	\$	4,354

The allocation of purchase price in the table above reflects a refinement made during the quarter ended June 30, 2011 in the determination of the fair values of income tax benefits, certain coal contracts and an adverse purchase power contract. This resulted in an increase in noncurrent assets of approximately \$85 million and decreases in current assets and goodwill of \$15 million and \$71 million, respectively. The impact of the refinements on the amortization of purchase accounting adjustments recorded during the quarter ended March 31, 2011 was not significant. Further modifications to the purchase price allocation may occur as a result of continuing review of the assets acquired and liabilities assumed.

The estimated fair values of the assets acquired and liabilities assumed have been determined based on the accounting guidance for fair value measurements under GAAP, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The excess of the purchase price over the estimated fair values of the assets acquired and liabilities assumed was recognized as goodwill. The Allegheny delivery, transmission and generation businesses have been assigned to the Regulated Distribution, Regulated Independent Transmission and Competitive Energy Services segments, respectively. The preliminary estimate of goodwill from the merger of \$881 million has been assigned to the Competitive Energy Services segment based on expected synergies from the merger. The goodwill is not deductible for tax purposes.

Total goodwill recognized by segment in FirstEnergy's Consolidated Balance Sheet is as follows:

<b>(In millions)</b>	<b>Regulated Distribution</b>	<b>Competitive Energy Services</b>	<b>Regulated Independent Transmission</b>	<b>Other/ Corporate</b>	<b>Consolidated</b>
Balance as of December 31, 2010	\$ 5,551	\$ 24	\$	\$	\$ 5,575
Merger with Allegheny		881			881
Balance as of June 30, 2011	\$ 5,551	\$ 905	\$	\$	\$ 6,456



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The preliminary valuation of the additional intangible assets and liabilities recorded as result of the merger is as follows:

<b>(In millions)</b>	<b>Preliminary Valuation</b>	<b>Weighted Average Amortization Period</b>
Above market contracts:		
Energy contracts	\$ 189	10 years
NUG contracts	124	25 years
Coal supply contracts	516	8 years
	829	
Below market contracts:		
NUG contracts	143	13 years
Coal supply contracts	83	7 years
Transportation contract	35	8 years
	261	
Net intangible assets	\$ 568	

The fair value measurements of intangible assets and liabilities were based on significant unobservable inputs and thus represent level 3 measurements as defined in accounting guidance for fair value measurements.

The fair value of Allegheny's energy, NUG and gas transportation contracts, both above-market and below-market, were estimated based on the present value of the above/below market cash flows attributable to the contracts based on the contract type, discounted by a current market interest rate consistent with the overall credit quality of the portfolio. The above/below market cash flows were estimated by comparing the expected cash flow based on existing contracted prices and expected volumes with the cash flows from estimated current market contract prices for the same expected volumes. The estimated current market contract prices were derived considering current market prices, such as the price of energy and transmission, miscellaneous fees and a normal profit margin. The weighted average amortization period was determined based on the expected volumes to be delivered over the life of the contract.

The fair value of coal supply contracts was determined in a similar manner based on the present value of the above/below market cash flows attributable to the contracts. The fair value adjustment for these contracts is being amortized based on expected deliveries under each contract.

As of June 30, 2011, intangible assets on FirstEnergy's Consolidated Balance Sheet, including those recorded in connection with the merger, include the following:

<b>(In millions)</b>	<b>Intangible Assets</b>
Purchase contract assets	
NUG	\$ 198
OVEC	54
	252
Intangible assets	

Coal contracts	487
FES customer intangible assets	129
Energy contracts	105
	721
Total intangible assets	\$ 973

Acquired land easements and software with a fair value of \$169 million are included in Property, plant and equipment on FirstEnergy's Consolidated Balance Sheet as of June 30, 2011.

In connection with the merger, FirstEnergy recorded merger transaction costs of approximately \$7 million (\$5 million net of tax) and \$7 million (\$5 million net of tax) during the three months ended June 30, 2011 and 2010, respectively and approximately \$89 million (\$72 million net of tax) and \$21 million (\$15 million net of tax) during the first six months of 2011 and 2010, respectively. These costs are included in Other operating expenses in the Consolidated Statements of Income. Merger transaction costs recognized in the first six months of 2011 include \$56 million (\$47 net of tax) of change in control and other benefit payments to AE executives.



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FirstEnergy also recorded approximately \$10 million (\$6 million net of tax) and \$85 million (\$66 million net of tax) in merger integration costs during the three and six months ended June 30 2011, respectively, including an inventory valuation adjustment. In connection with the merger, FirstEnergy reviewed its inventory levels as a result of combining the inventory of both companies. Following this review, FirstEnergy management determined that the combined inventory stock contained excess and duplicative items. FirstEnergy management also adopted a consistent excess and obsolete inventory practice for the combined entity. Application of the revised practice, in conjunction with those items identified as excess and duplicative, resulted in an inventory valuation adjustment of \$67 million (\$42 million net of tax) in the first quarter of 2011.

Revenues and earnings of Allegheny included in FirstEnergy's Consolidated Statement of Income for the periods subsequent to the February 25, 2011 merger date are as follows:

<b>(In millions, except per share amounts)</b>	<b>April 1 June 30, 2011</b>	<b>February 26 June 30, 2011</b>
Total revenues	\$ 1,181	\$ 1,618
Earnings available to FirstEnergy Corp. <sup>(1)</sup>	63	17
Basic Earnings Per Share	\$ 0.15	\$ 0.04
Diluted Earnings Per Share	\$ 0.15	\$ 0.04

<sup>(1)</sup> Includes Allegheny's after-tax merger costs of \$4 million and \$56 million, respectively.

**Pro Forma Financial Information**

The following unaudited pro forma financial information reflects the consolidated results of operations of FirstEnergy as if the merger with Allegheny had taken place on January 1, 2010. The unaudited pro forma information has been calculated after applying FirstEnergy's accounting policies and adjusting Allegheny's results to reflect the depreciation and amortization that would have been charged assuming fair value adjustments to property, plant and equipment, debt and intangible assets had been applied on January 1, 2010, together with the consequential tax effects.

FirstEnergy and Allegheny both incurred non-recurring costs directly related to the merger that have been included in the pro forma earnings presented below. Combined pre-tax transaction costs incurred were approximately \$7 million and \$11 million in the three months ended June 30, 2011 and 2010, respectively, and approximately \$90 million and \$39 million in the six months ended June 30, 2011 and 2010, respectively. In addition, during the six months ended June 30, 2011, \$85 million of pre-tax merger integration costs and \$32 million of charges from merger settlements approved by regulatory agencies were recognized. Charges resulting from merger settlements are not expected to be material in future periods.

The unaudited pro forma financial information has been presented below for illustrative purposes only and is not necessarily indicative of results of operations that would have been achieved or the future consolidated results of operations of the combined company.

<b>(Pro forma amounts in millions, except per share amounts)</b>	<b>Three Months Ended June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Revenues	\$ 4,062	\$ 4,401	\$ 8,848	\$ 9,086
Earnings available to FirstEnergy	\$ 186	\$ 389	\$ 323	\$ 644
Basic Earnings Per Share	\$ 0.44	\$ 0.93	\$ 0.77	\$ 1.54
Diluted Earnings Per Share	\$ 0.44	\$ 0.93	\$ 0.77	\$ 1.53



**Table of Contents****3. EARNINGS PER SHARE**

Basic earnings per share of common stock are computed using the weighted average of actual 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 would be issued if dilutive securities and other agreements to issue common stock were exercised. The following table reconciles basic and diluted earnings per share of common stock:

Reconciliation of Basic and Diluted Earnings per Share of Common Stock	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
	<i>(In millions, except per share amounts)</i>			
Earnings available to FirstEnergy Corp.	\$ 181	\$ 265	\$ 231	\$ 420
Weighted average number of basic shares outstanding <sup>(1)</sup>	418	304	380	304
Assumed exercise of dilutive stock options and awards	2	1	2	1
Weighted average number of diluted shares outstanding <sup>(1)</sup>	420	305	382	305
Basic earnings per share of common stock	\$ 0.43	\$ 0.87	\$ 0.61	\$ 1.38
Diluted earnings per share of common stock	\$ 0.43	\$ 0.87	\$ 0.61	\$ 1.37

<sup>(1)</sup> Includes 113 million shares issued to AE stockholders for the periods subsequent to the merger date. (See Note 2)

**4. FAIR VALUE MEASUREMENTS****(A) 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 on the Consolidated Balance Sheets at cost, which approximates their fair market value, in the caption short-term borrowings. The following table provides the approximate fair value and related carrying amounts of long-term debt and other long-term obligations as of June 30, 2011 and December 31 2010:

	June 30, 2011		December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>(In millions)</i>				
FirstEnergy <sup>(1)</sup>	\$ 18,371	\$ 19,436	\$ 13,928	\$ 14,845
FES	4,056	4,310	4,279	4,403
OE	1,158	1,367	1,159	1,321
CEI	1,831	2,083	1,853	2,035
TE	600	690	600	653
JCP&L	1,795	2,008	1,810	1,962
Met-Ed	729	828	742	821
Penelec	1,120	1,231	1,120	1,189

<sup>(1)</sup> Includes debt assumed in the Allegheny merger (See Note 2) with a carrying value and a fair value as of June 30, 2011 of \$4,530 million and \$4,127 million, respectively.

The fair values of long-term debt and other long-term obligations reflect the present value of the cash outflows relating to those obligations 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 debt with similar characteristics offered by corporations with credit ratings similar to those of FirstEnergy, FES, the Utilities and other subsidiaries.

**(B) 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, available-for-sale securities and notes receivable.

FES and the Utilities periodically evaluate their investments for other-than-temporary impairment. They first consider their intent and ability to hold an equity investment until recovery and then consider, among other factors, the duration and the extent to which the security's fair value has been less than cost and the near-term financial prospects of the security issuer when evaluating an investment for impairment. For debt securities, FES and the Utilities consider their intent to hold the security, the likelihood that they will be required to sell the security before recovery of their cost basis, and the likelihood of recovery of the security's entire amortized cost basis.

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Unrealized gains applicable to the decommissioning trusts of FES, OE and TE are recognized in OCI because fluctuations in fair value will eventually impact earnings while unrealized losses are recorded to earnings. The decommissioning trusts of JCP&L, Met-Ed and Penelec are subject to regulatory accounting. Net unrealized gains and losses are recorded as regulatory assets or liabilities because the difference between investments held in the trust and the decommissioning liabilities will be recovered from or refunded to customers.

The investment policy for the nuclear decommissioning trust 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, preferred stocks, securities convertible into common stock and securities of the trust funds' custodian or managers and their parents or subsidiaries.

*Available-For-Sale Securities*

FES and the Utilities hold debt and equity securities within their NDT, nuclear fuel disposal trusts and NUG trusts. These trust investments are considered as available-for-sale at fair market value. FES and the Utilities have no securities held for trading purposes.

The following table summarizes the amortized cost basis, unrealized gains and losses and fair values of investments held in NDT, nuclear fuel disposal trusts and NUG trusts as of June 30, 2011 and December 31, 2010:

	June 30, 2011 <sup>(1)</sup>				December 31, 2010 <sup>(2)</sup>			
	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
<i>(In millions)</i>								
<b>Debt securities</b>								
FirstEnergy	\$ 2,015	\$ 48	\$	\$ 2,063	\$ 1,699	\$ 31	\$	\$ 1,730
FES	1,023	26		1,049	980	13		993
OE	128	3		131	123	1		124
TE	52	1		53	42			42
JCP&L	353	9		362	281	9		290
Met-Ed	249	5		254	127	4		131
Penelec	210	4		214	145	4		149
<b>Equity securities</b>								
FirstEnergy	\$ 187	\$ 11	\$	\$ 198	\$ 268	\$ 69	\$	\$ 337
FES	90	6		96				
TE	24	2		26				
JCP&L	21	1		22	80	17		97
Met-Ed	32	1		33	125	35		160
Penelec	20	1		21	63	16		79

(1) Excludes cash investments, receivables, payables, deferred taxes and accrued income: FirstEnergy \$130 million; FES \$39 million; OE \$3 million; JCP&L \$19 million; Met-Ed \$14 million and Penelec \$55 million.

(2) Excludes cash investments, receivables, payables, deferred taxes and accrued income: FirstEnergy \$193 million; FES \$153 million; OE \$3 million; TE \$34 million; JCP&L \$3 million; Met-Ed \$(3) million and Penelec \$4 million.

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Proceeds from the sale of investments in available-for-sale securities, realized gains and losses on those sales net of adjustments recorded to earnings and interest and dividend income for the three months and six months ended June 30, 2011 and 2010 were as follows:

**Three Months Ended June 30,**

<b>2011</b>	<b>Sales Proceeds</b>	<b>Realized Gains</b>	<b>Realized Losses</b>	<b>Interest and Dividend Income</b>
			<i>(In millions)</i>	
FirstEnergy	\$ 734	\$ 22	\$ (16)	\$ 28
FES	297	10	(7)	17
OE	12			1
TE	15	1	(1)	1
JCP&L	159	4	(2)	4
Met-Ed	165	4	(3)	3
Penelec	86	3	(3)	2

<b>2010</b>	<b>Sales Proceeds</b>	<b>Realized Gains</b>	<b>Realized Losses</b>	<b>Interest and Dividend Income</b>
			<i>(In millions)</i>	
FirstEnergy	\$ 1,183	\$ 46	\$ (36)	\$ 16
FES	685	41	(35)	9
OE	57	2		
TE	76	2		
JCP&L	91			3
Met-Ed	233	1	(1)	2
Penelec	41			2

**Six Months Ended June 30,**

<b>2011</b>	<b>Sales Proceeds</b>	<b>Realized Gains</b>	<b>Realized Losses</b>	<b>Interest and Dividend Income</b>
			<i>(In millions)</i>	
FirstEnergy	\$ 1,703	\$ 122	\$ (45)	\$ 52
FES	513	22	(23)	32
OE	20			2
TE	28	1	(2)	1
JCP&L	376	26	(6)	8
Met-Ed	501	48	(7)	5
Penelec	265	25	(7)	4

<b>2010</b>	<b>Sales Proceeds</b>	<b>Realized Gains</b>	<b>Realized Losses</b>	<b>Interest and Dividend Income</b>
			<i>(In millions)</i>	
FirstEnergy	\$ 1,915	\$ 83	\$ (86)	\$ 37

FES	957	54	(58)	22
OE	60	2		1
TE	107	3		1
JCP&L	281	9	(9)	7
Met-Ed	377	9	(12)	3
Penelec	134	6	(7)	3

*Held-To-Maturity Securities*

The following table provides the amortized cost basis, unrealized gains and losses, and approximate fair values of investments in held-to-maturity securities as of June 30, 2011 and December 31, 2010:

	June 30, 2011			December 31, 2010			Fair Value
	Cost Basis	Unrealized Gains	Unrealized Losses	Cost Basis	Unrealized Gains	Unrealized Losses	
<i>(In millions)</i>							
<b>Debt Securities</b>							
FirstEnergy	\$ 414	\$ 84	\$	498	\$ 476	\$ 91	\$ 567
OE	178	45		223	190	51	241
CEI	287	39		326	340	41	381

Investments in emission allowances, employee benefits and cost and equity method investments totaling \$345 million as of June 30, 2011 and \$259 million as of December 31, 2010, are not required to be disclosed and are excluded from the amounts reported above.

**Table of Contents***Notes Receivable*

The table below provides the approximate fair value and related carrying amounts of notes receivable as of June 30, 2011 and December 31, 2010. The fair value of notes receivable represents the present value of the cash inflows based on the yield to maturity. The yields assumed were based on financial instruments with similar characteristics and terms. The maturity dates range from 2013 to 2021.

	<b>June 30, 2011</b>		<b>December 31, 2010</b>	
	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Fair Value</b>
	<i>(In millions)</i>			
<b>Notes Receivable</b>				
FirstEnergy	\$ 6	\$ 7	\$ 7	\$ 8
TE	82	94	104	118



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**(C) RECURRING FAIR VALUE MEASUREMENTS**

Authoritative accounting guidance establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy gives the highest priority to Level 1 measurements and the lowest priority to Level 3 measurements.

The three levels of the fair value hierarchy are as follows:

Level 1      Quoted prices for identical instruments in active markets.

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

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

The following tables set forth financial assets and liabilities measured at fair value on a recurring basis by level within the fair value hierarchy. There were no significant transfers between levels during the three months and six months ended June 30, 2011.

**Table of Contents****FirstEnergy Corp.**

The following tables summarize assets and liabilities recorded on FirstEnergy's Consolidated Balance Sheets at fair value as of June 30, 2011 and December 31, 2010:

<b>June 30, 2011</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
		<i>(In millions)</i>		
<b>Assets</b>				
Corporate debt securities	\$	\$ 868	\$	\$ 868
Derivative assets – commodity contracts		312		312
Derivative assets – FTRs			13	13
Derivative assets – interest rate swaps		4		4
Derivative assets – NUG contracts <sup>(1)</sup>			75	75
Equity securities <sup>(2)</sup>	198			198
Foreign government debt securities		206		206
U.S. government debt securities		673		673
U.S. state debt securities		306		306
Other <sup>(4)</sup>		146		146
<b>Total assets</b>	\$ 198	\$ 2,515	\$ 88	\$ 2,801
<b>Liabilities</b>				
Derivative liabilities – commodity contracts	\$	\$ (362)	\$	\$ (362)
Derivative liabilities – FTRs			(7)	(7)
Derivative liabilities – interest rate swaps		(5)		(5)
Derivative liabilities – NUG contracts <sup>(1)</sup>			(522)	(522)
<b>Total liabilities</b>	\$	\$ (367)	\$ (529)	\$ (896)
<b>Net assets (liabilities)<sup>(3)</sup></b>	\$ 198	\$ 2,148	\$ (441)	\$ 1,905

<b>December 31, 2010</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
		<i>(In millions)</i>		
<b>Assets</b>				
Corporate debt securities	\$	\$ 597	\$	\$ 597
Derivative assets – commodity contracts		250		250
Derivative assets – NUG contracts <sup>(1)</sup>			122	122
Equity securities <sup>(2)</sup>	338			338
Foreign government debt securities		149		149
U.S. government debt securities		595		595
U.S. state debt securities		379		379
Other <sup>(4)</sup>		219		219
<b>Total assets</b>	\$ 338	\$ 2,189	\$ 122	\$ 2,649

**Liabilities**

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Derivative liabilities	commodity contracts	\$	\$	(348)	\$	\$	(348)
Derivative liabilities	NUG contracts <sup>(4)</sup>					(466)	(466)
<b>Total liabilities</b>		\$	\$	(348)	\$	(466)	\$ (814)
<b>Net assets (liabilities)<sup>(3)</sup></b>		\$	338	\$	1,841	\$	(344) \$ 1,835

- (1) NUG contracts are generally subject to regulatory accounting and do not materially impact earnings.
- (2) NDT funds hold equity portfolios the performance of which is benchmarked against the S&P 500 Index or Russell 3000 Index.
- (3) Excludes \$6 million and \$(7) million as of June 30, 2011 and December 31, 2010, respectively, of receivables, payables, deferred taxes and accrued income associated with the financial instruments reflected within the fair value table.
- (4) Primarily consists of cash and cash equivalents.

**Table of Contents***Rollforward of Level 3 Measurements*

The following table provides a reconciliation of changes in the fair value of NUG contracts held by the Utilities and FTRs held by FirstEnergy and classified as Level 3 in the fair value hierarchy during the periods ending June 30, 2011 and December 31, 2010:

	<b>Derivative Asset<sup>(1)</sup></b>		<b>Derivative Liability<sup>(1)</sup></b>		<b>Net<sup>(1)</sup></b>
			<i>(In millions)</i>		
January 1, 2011 Balance	\$ 122	\$	(466)	\$	(344)
Realized gain (loss)					
Unrealized gain (loss)	(40)		(203)		(243)
Purchases	13		(3)		10
Issuances					
Sales					
Settlements	(6)		154		148
Transfers into Level 3			(12)		(12)
June 30, 2011 Balance	\$ 89	\$	(530)	\$	(441)
January 1, 2010 Balance	\$ 200	\$	(643)	\$	(443)
Realized gain (loss)					
Unrealized gain (loss)	(71)		(110)		(181)
Purchases					
Issuances					
Sales					
Settlements	(7)		287		280
Transfers into Level 3					
December 31, 2010 Balance	\$ 122	\$	(466)	\$	(344)

<sup>(1)</sup> Changes in the fair value of NUG contracts are generally subject to regulatory accounting and do not materially impact earnings.

**Table of Contents****FirstEnergy Solutions Corp.**

The following tables summarize assets and liabilities recorded on FES Consolidated Balance Sheets at fair value as of June 30, 2011 and December 31, 2010:

<b>June 30, 2011</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
		<i>(In millions)</i>		
<b>Assets</b>				
Corporate debt securities	\$	\$ 562	\$	\$ 562
Derivative assets commodity contracts		283		283
Derivative assets FTRs			2	2
Equity securities <sup>(3)</sup>	96			96
Foreign government debt securities		160		160
U.S. government debt securities		316		316
U.S. state debt securities		7		7
Other <sup>(2)</sup>		42		42
<b>Total assets</b>	\$ 96	\$ 1,370	\$ 2	\$ 1,468
<b>Liabilities</b>				
Derivative liabilities commodity contracts	\$	\$ (327)	\$	\$ (327)
<b>Total liabilities</b>	\$	\$ (327)	\$	\$ (327)
<b>Net assets (liabilities)<sup>(1)</sup></b>	\$ 96	\$ 1,043	\$ 2	\$ 1,141
<b>December 31, 2010</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
		<i>(In millions)</i>		
<b>Assets</b>				
Corporate debt securities	\$	\$ 528	\$	\$ 528
Derivative assets commodity contracts		241		241
Foreign government debt securities		147		147
U.S. government debt securities		308		308
U.S. state debt securities		6		6
Other <sup>(2)</sup>		148		148
<b>Total assets</b>	\$	\$ 1,378	\$	\$ 1,378
<b>Liabilities</b>				
Derivative liabilities commodity contracts	\$	\$ (348)	\$	\$ (348)
<b>Total liabilities</b>	\$	\$ (348)	\$	\$ (348)
<b>Net assets (liabilities)<sup>(1)</sup></b>	\$	\$ 1,030	\$	\$ 1,030

- (1) Excludes \$7 million as of December 31, 2010 of receivables, payables, deferred taxes and accrued income associated with the financial instruments reflected within the fair value table.
- (2) Primarily consists of cash and cash equivalents.
- (3) NDT funds hold equity portfolios the performance of which is benchmarked against the S&P 500 Index or Russell 3000 Index.

*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 during the period ending June 30, 2011:

	<b>Derivative Asset FTRs</b>	<b>Derivative Liability FTRs <i>(In millions)</i></b>	<b>Net FTRs</b>
January 1, 2011 Balance	\$	\$	\$
Realized gain (loss)			
Unrealized gain (loss)	1		1
Purchases	2		2
Issuances			
Sales			
Settlements	(1)		(1)
Transfers in (out) of Level 3			
June 30, 2011 Balance	\$ 2	\$	\$ 2

**Table of Contents****Ohio Edison Company**

The following tables summarize assets and liabilities recorded on OE's Consolidated Balance Sheets at fair value as of June 30, 2011 and December 31, 2010:

<b>June 30, 2011</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<i>(In millions)</i>			
<b>Assets</b>				
U.S. government debt securities	\$	\$ 131	\$	\$ 131
Other		2		2
<b>Total assets<sup>(1)</sup></b>	\$	\$ 133	\$	\$ 133
<b>December 31, 2010</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<i>(In millions)</i>			
<b>Assets</b>				
U.S. government debt securities	\$	\$ 124	\$	\$ 124
Other		2		2
<b>Total assets<sup>(1)</sup></b>	\$	\$ 126	\$	\$ 126

(1) Excludes \$2 million and \$1 million as of June 30, 2011 and December 31, 2010, respectively, of receivables, payables, deferred taxes and accrued income associated with the financial instruments reflected within the fair value table.

**The Toledo Edison Company**

The following tables summarize assets and liabilities recorded on TE's Consolidated Balance Sheets at fair value as of June 30, 2011 and December 31, 2010:

<b>June 30, 2011</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<i>(In millions)</i>			
<b>Assets</b>				
Corporate debt securities	\$	\$ 16	\$	\$ 16
Equity securities <sup>(3)</sup>	26			26
U.S. government debt securities		33		33
U.S. state debt securities		1		1
Other <sup>(2)</sup>		3		3
<b>Total assets<sup>(1)</sup></b>	\$ 26	\$ 53	\$	\$ 79
<b>December 31, 2010</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<i>(In millions)</i>			
<b>Assets</b>				
Corporate debt securities	\$	\$ 7	\$	\$ 7
U.S. government debt securities		33		33
U.S. state debt securities		1		1
Other <sup>(2)</sup>		35		35

<b>Total assets</b> <sup>(1)</sup>	\$	\$	76	\$	\$	76
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- (1) Excludes \$(1) million and \$2 million as of June 30, 2011 and December 31, 2010, respectively of receivables, payables, deferred taxes and accrued income associated with the financial instruments reflected within the fair value table.
- (2) Primarily consists of cash and cash equivalents.
- (3) NDT funds hold equity portfolios the performance of which is benchmarked against the S&P 500 Index or Russell 3000 Index.



**Table of Contents****Jersey Central Power & Light Company**

The following tables summarize assets and liabilities recorded on JCP&L's Consolidated Balance Sheets at fair value as of June 30, 2011 and December 31, 2010:

<b>June 30, 2011</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
		<i>(In millions)</i>		
<b>Assets</b>				
Corporate debt securities	\$	\$ 81	\$	\$ 81
Derivative assets – NUG contracts <sup>(1)</sup>			5	5
Equity securities <sup>(2)</sup>	21			21
Foreign government debt securities		13		13
U.S. government debt securities		54		54
U.S. state debt securities		215		215
Other		14		14
<b>Total assets</b>	\$ 21	\$ 377	\$ 5	\$ 403
<b>Liabilities</b>				
Derivative liabilities – NUG contracts <sup>(1)</sup>	\$	\$	\$ (240)	\$ (240)
<b>Total liabilities</b>	\$	\$	\$ (240)	\$ (240)
<b>Net assets (liabilities)<sup>(3)</sup></b>	\$ 21	\$ 377	\$ (235)	\$ 163
<b>December 31, 2010</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
		<i>(In millions)</i>		
<b>Assets</b>				
Corporate debt securities	\$	\$ 23	\$	\$ 23
Derivative assets – commodity contracts		2		2
Derivative assets – NUG contracts <sup>(1)</sup>			6	6
Equity securities <sup>(2)</sup>	96			96
U.S. government debt securities		33		33
U.S. state debt securities		236		236
Other		4		4
<b>Total assets</b>	\$ 96	\$ 298	\$ 6	\$ 400
<b>Liabilities</b>				
Derivative liabilities – NUG contracts <sup>(1)</sup>	\$	\$	\$ (233)	\$ (233)
<b>Total liabilities</b>	\$	\$	\$ (233)	\$ (233)
<b>Net assets (liabilities)<sup>(3)</sup></b>	\$ 96	\$ 298	\$ (227)	\$ 167

- (1) NUG contracts are subject to regulatory accounting and do not impact earnings.
- (2) NDT funds hold equity portfolios the performance of which is benchmarked against the S&P 500 Index or Russell 3000 Index.
- (3) Excludes \$5 million and \$(3) million as of June 30, 2011 and December 31, 2010, respectively, of receivables, payables, deferred taxes and accrued income associated with the financial instruments reflected within the fair value table.

**Table of Contents***Rollforward of Level 3 Measurements*

The following table provides a reconciliation of changes in the fair value of NUG contracts held by JCP&L and classified as Level 3 in the fair value hierarchy during the periods ending June 30, 2011 and December 31, 2010:

	<b>Derivative Asset NUG Contracts<sup>(1)</sup></b>		<b>Derivative Liability NUG Contracts<sup>(1)</sup></b>		<b>Net NUG Contracts<sup>(1)</sup></b>
			<i>(In millions)</i>		
January 1, 2011 Balance	\$ 6	\$	(233)	\$	(227)
Realized gain (loss)					
Unrealized gain (loss)	(1)		(71)		(72)
Purchases					
Issuances					
Sales					
Settlements			64		64
Transfers in (out) of Level 3					
June 30, 2011 Balance	\$ 5	\$	(240)	\$	(235)
January 1, 2010 Balance	\$ 8	\$	(399)	\$	(391)
Realized gain (loss)					
Unrealized gain (loss)	(1)		36		35
Purchases					
Issuances					
Sales					
Settlements	(1)		130		129
Transfers in (out) of Level 3					
December 31, 2010 Balance	\$ 6	\$	(233)	\$	(227)

<sup>(1)</sup> Changes in the fair value of NUG contracts are subject to regulatory accounting and do not impact earnings.

**Table of Contents****Metropolitan Edison Company**

The following tables summarize assets and liabilities recorded on Met-Ed's Consolidated Balance Sheets at fair value as of June 30, 2011 and December 31, 2010:

<b>June 30, 2011</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
		<i>(In millions)</i>		
<b>Assets</b>				
Corporate debt securities	\$	\$ 138	\$	\$ 138
Derivative assets – NUG contracts <sup>(1)</sup>			66	66
Equity securities <sup>(2)</sup>	33			33
Foreign government debt securities		20		20
U.S. government debt securities		87		87
U.S. state debt securities		2		2
Other		22		22
<b>Total assets</b>	\$ 33	\$ 269	\$ 66	\$ 368
<b>Liabilities</b>				
Derivative liabilities – NUG contracts <sup>(1)</sup>	\$	\$	\$ (122)	\$ (122)
<b>Total liabilities</b>	\$	\$	\$ (122)	\$ (122)
<b>Net assets (liabilities)<sup>(3)</sup></b>	\$ 33	\$ 269	\$ (56)	\$ 246
<b>December 31, 2010</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
		<i>(In millions)</i>		
<b>Assets</b>				
Corporate debt securities	\$	\$ 32	\$	\$ 32
Derivative assets – commodity contracts		5		5
Derivative assets – NUG contracts <sup>(1)</sup>			112	112
Equity securities <sup>(2)</sup>	160			160
Foreign government debt securities		1		1
U.S. government debt securities		88		88
U.S. state debt securities		2		2
Other		14		14
<b>Total assets</b>	\$ 160	\$ 142	\$ 112	\$ 414
<b>Liabilities</b>				
Derivative liabilities – NUG contracts <sup>(1)</sup>	\$	\$	\$ (116)	\$ (116)
<b>Total liabilities</b>	\$	\$	\$ (116)	\$ (116)
<b>Net assets (liabilities)<sup>(3)</sup></b>	\$ 160	\$ 142	\$ (4)	\$ 298

- (1) NUG contracts are subject to regulatory accounting and do not impact earnings.
- (2) NDT funds hold equity portfolios the performance of which is benchmarked against the S&P 500 Index or Russell 3000 Index.
- (3) Excludes \$(1) million and \$(9) million as of June 30, 2011 and December 31, 2010, respectively, of receivables, payables, deferred taxes and accrued income associated with the financial instruments reflected within the fair value table.

**Table of Contents***Rollforward of Level 3 Measurements*

The following table provides a reconciliation of changes in the fair value of NUG contracts held by Met-Ed and classified as Level 3 in the fair value hierarchy during the periods ending June 30, 2011 and December 31, 2010:

	<b>Derivative Asset NUG Contracts<sup>(1)</sup></b>		<b>Derivative Liability NUG Contracts<sup>(1)</sup></b>		<b>Net NUG Contracts<sup>(1)</sup></b>
			<i>(In millions)</i>		
January 1, 2011 Balance	\$ 112	\$	(116)	\$	(4)
Realized gain (loss)					
Unrealized gain (loss)	(42)		(36)		(78)
Purchases					
Issuances					
Sales					
Settlements	(4)		30		26
Transfers in (out) of Level 3					
June 30, 2011 Balance	\$ 66	\$	(122)	\$	(56)
January 1, 2010 Balance	\$ 176	\$	(143)	\$	33
Realized gain (loss)					
Unrealized gain (loss)	(59)		(38)		(97)
Purchases					
Issuances					
Sales					
Settlements	(5)		65		60
Transfers in (out) of Level 3					
December 31, 2010 Balance	\$ 112	\$	(116)	\$	(4)

<sup>(1)</sup> Changes in the fair value of NUG contracts are subject to regulatory accounting and do not impact earnings.

**Table of Contents****Pennsylvania Electric Company**

The following tables summarize assets and liabilities recorded on Penelec's Consolidated Balance Sheets at fair value as of June 30, 2011 and December 31, 2010:

<b>June 30, 2011</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
		<i>(In millions)</i>		
<b>Assets</b>				
Corporate debt securities	\$	\$ 69	\$	\$ 69
Derivative assets – NUG contracts <sup>(1)</sup>			4	4
Equity securities <sup>(2)</sup>	20			20
Foreign government debt securities		12		12
U.S. government debt securities		52		52
U.S. state debt securities		81		81
Other		53		53
<b>Total assets</b>	\$ 20	\$ 267	\$ 4	\$ 291
<b>Liabilities</b>				
Derivative liabilities – NUG contracts <sup>(1)</sup>	\$	\$	\$ (160)	\$ (160)
<b>Total liabilities</b>	\$	\$	\$ (160)	\$ (160)
<b>Net assets (liabilities)<sup>(3)</sup></b>	\$ 20	\$ 267	\$ (156)	\$ 131
<b>December 31, 2010</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
		<i>(In millions)</i>		
<b>Assets</b>				
Corporate debt securities	\$	\$ 8	\$	\$ 8
Derivative assets – commodity contracts		2		2
Derivative assets – NUG contracts <sup>(1)</sup>			4	4
Equity securities <sup>(2)</sup>	81			81
U.S. government debt securities		9		9
U.S. state debt securities		133		133
Other		5		5
<b>Total assets</b>	\$ 81	\$ 157	\$ 4	\$ 242
<b>Liabilities</b>				
Derivative liabilities – NUG contracts <sup>(1)</sup>	\$	\$	\$ (117)	\$ (117)
<b>Total liabilities</b>	\$	\$	\$ (117)	\$ (117)
<b>Net assets (liabilities)<sup>(3)</sup></b>	\$ 81	\$ 157	\$ (113)	\$ 125

- (1) NUG contracts are subject to regulatory accounting and do not impact earnings.
- (2) NDT funds hold equity portfolios the performance of which is benchmarked against the S&P 500 Index or Russell 3000 Index.
- (3) Excludes \$1 million and \$(3) million as of June 30, 2011 and December 31, 2010, respectively, of receivables, payables and accrued income associated with the financial instruments reflected within the fair value table.



**Table of Contents***Rollforward of Level 3 Measurements*

The following table provides a reconciliation of changes in the fair value of NUG and commodity contracts held by Penelec and classified as Level 3 in the fair value hierarchy during the periods ended June 30, 2011 and December 31, 2010:

	<b>Derivative Asset NUG Contracts<sup>(1)</sup></b>		<b>Derivative Liability NUG Contracts<sup>(1)</sup></b>		<b>Net NUG Contracts<sup>(1)</sup></b>
			<i>(In millions)</i>		
January 1, 2011 Balance	\$ 4	\$	(117)	\$	(113)
Realized gain (loss)					
Unrealized gain (loss)			(88)		(88)
Purchases					
Issuances					
Sales					
Settlements			45		45
Transfers in (out) of Level 3					
June 30, 2011 Balance	\$ 4	\$	(160)	\$	(156)
January 1, 2010 Balance	\$ 16	\$	(101)	\$	(85)
Realized gain (loss)					
Unrealized gain (loss)	(11)		(108)		(119)
Purchases					
Issuances					
Sales					
Settlements	(1)		92		91
Transfers in (out) of Level 3					
December 31, 2010 Balance	\$ 4	\$	(117)	\$	(113)

<sup>(1)</sup> Changes in the fair value of NUG contracts are subject to regulatory accounting and do not impact earnings.

**5. 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 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. In addition to derivatives, FirstEnergy also enters into master netting agreements with certain third parties.

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 qualify and are designated as cash flow hedge instruments are recorded in AOCL. 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 December 2018.

*Cash Flow Hedges*

FirstEnergy has used cash flow hedges for risk management purposes to manage the volatility related to exposures associated with fluctuating interest rates and commodity prices. The effective portion of gains and losses on the derivative contract are reported as a component of AOCL with subsequent reclassification to earnings in the period during which the hedged forecasted transaction affects earnings.

As of December 31, 2010, commodity derivative contracts designated in cash flow hedging relationships were \$104 million of assets and \$101 million of liabilities. In February 2011, FirstEnergy elected to dedesignate all outstanding cash flow hedge relationships. Total net unamortized gains included in AOCL associated with dedesignated cash flow hedges totaled \$8 million as of June 30, 2011. Since the forecasted transactions remain probable of occurring, these amounts will be amortized into earnings over the life of the hedging instruments. Reclassifications from AOCL into other operating expenses totaled \$14 million and \$19 million during the three months and six months ended June 30, 2011, respectively. Approximately \$3 million is expected to be amortized to expense 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. As of June 30, 2011, no forward starting swap agreements were outstanding. Total unamortized losses included in AOCL associated with prior interest rate cash flow hedges totaled \$84 million (\$55 million net of tax) as of June 30, 2011. Based on current estimates, approximately \$10 million will be amortized to interest expense during the next twelve months. Reclassifications from AOCL into interest expense totaled \$3 million during the three months ended June 30, 2011 and 2010 and \$6 million during the six months ended June 30, 2011 and 2010.

**Table of Contents***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, 2011, 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 \$113 million (\$73 million net of tax) as of June 30, 2011. Based on current estimates, approximately \$22 million will be amortized to interest expense during the next twelve months. Reclassifications from long-term debt into interest expense totaled approximately \$6 million and \$2 million during the three months ended June 30, 2011 and 2010, respectively and \$11 million and \$3 million during the six months ended June 30, 2011 and 2010, respectively.

*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 natural gas is used in FirstEnergy's peaking units. Heating oil futures are entered into based on expected consumption of oil and the financial risk in FirstEnergy's coal transportation contracts. Interest rate swaps include two interest rate swap agreements that expire during 2011 with an aggregate notional value of \$200 million that were entered into during 2003 to substantially offset two existing interest rate swaps with the same counterparty. The 2003 agreements effectively locked in a net liability and substantially eliminated future income volatility from the interest rate swap positions but do not qualify for cash flow hedge accounting. Derivative instruments are not used in quantities greater than forecasted needs.

As of June 30, 2011, FirstEnergy's net liability position under commodity derivative contracts was \$45 million, which primarily related to FES positions. Under these commodity derivative contracts, FES posted \$81 million and Allegheny posted \$2 million in collateral. Certain commodity derivative contracts include credit risk related contingent features that would require FES to post \$49 million of additional collateral if the credit rating for its debt were to fall below investment grade.

Based on derivative contracts held as of June 30, 2011, an adverse 10% change in commodity prices would decrease net income by approximately \$31 million (\$20 million net of tax) during the next twelve months.

*FTRs*

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 FirstEnergy's unregulated subsidiaries are included in other operating expenses as unrealized gains or losses. Unrealized gains or losses on FTRs held by FirstEnergy's regulated subsidiaries 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.



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The following tables summarize the fair value of derivative instruments in FirstEnergy's Consolidated Balance Sheets:  
**Derivatives not designated as hedging instruments as of June 30, 2011:**

**Derivative Assets**

	<b>Fair Value</b>	
	<b>June 30, 2011</b>	<b>December 31, 2010</b>
	<i>(In millions)</i>	
Power Contracts		
Current Assets	\$ 210	\$ 96
Noncurrent Assets	102	40
FTRs		
Current Assets	13	
Noncurrent Assets		
NUGs		
Current Assets	4	3
Noncurrent Assets	71	119
Interest Rate Swaps		
Current Assets	4	
Noncurrent Assets		
Other		
Current Assets		10
Noncurrent Assets		
Total Derivatives	\$ 404	\$ 268

**Derivative Liabilities**

	<b>Fair Value</b>	
	<b>June 30, 2011</b>	<b>December 31, 2010</b>
	<i>(In millions)</i>	
Power Contracts		
Current Liabilities	\$ 274	\$ 209
Noncurrent Liabilities	88	38
FTRs		
Current Liabilities	7	
Noncurrent Liabilities		
NUGs		
Current Liabilities	317	229
Noncurrent Liabilities	205	238
Interest Rate Swaps		
Current Liabilities	5	
Noncurrent Liabilities		
Other		

Current Liabilities  
 Noncurrent Liabilities

Total Derivatives \$ 896 \$ 714

The following table summarizes the volumes associated with FirstEnergy's outstanding derivative transactions as of June 30, 2011:

	<b>Purchases</b>	<b>Sales</b>	<b>Net</b>	<b>Units</b>
	<i>(In thousands)</i>			
Power Contracts	45,573	(59,549)	(13,976)	MWH
FTRs	53,656		53,656	MWH
Interest Rate Swaps	200,000	(200,000)		notional dollars
NUGs	26,903		26,903	MWH

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The effect of derivative instruments on the Consolidated Statements of Income during the three months and six months ended June 30, 2011 and 2010, are summarized in the following tables:

	<b>Three Months Ended June 30,</b>					<b>Total</b>
	<b>Power Contracts</b>	<b>FTRs</b>	<b>Interest Rate Swaps</b>	<b>Other</b>		
	<i>(In millions)</i>					
<b>Derivatives in a Hedging Relationship</b>						
<b>2011</b>						
Gain (Loss) Recognized in AOCL (Effective Portion)	\$ 14	\$	\$	\$	\$	14
Effective Gain (Loss) Reclassified to: <sup>(1)</sup>						
Purchase Power Expense						
Revenues						
<b>2010</b>						
Gain (Loss) Recognized in AOCL (Effective Portion)	\$	\$	\$	\$ 3	\$	3
Effective Gain (Loss) Reclassified to: <sup>(1)</sup>						
Purchase Power Expense	(3)					(3)
Revenues	(5)					(5)
Fuel Expense				(4)		(4)
<b>Derivatives Not in a Hedging Relationship</b>						
<b>2011</b>						
Unrealized Gain (Loss) Recognized in:						
Purchase Power Expense	\$ 33	\$	\$	\$	\$	33
Revenues	(4)					(4)
Other Operating Expense	(34)	13				(21)
Realized Gain (Loss) Reclassified to:						
Purchase Power Expense	1					1
Revenues	(39)	18				(21)
Other Operating Expense		(59)				(59)
<b>2010</b>						
Unrealized Gain (Loss) Recognized in:						
Purchase Power Expense	\$ 66	\$	\$	\$	\$	66
Realized Gain (Loss) Reclassified to:						
Purchase Power Expense	(26)					(26)
<b>Derivatives Not in a Hedging Relationship with Regulatory Offset<sup>(2)</sup></b>						
<b>Three Months Ended June 30,</b>						
		<b>NUGs</b>		<b>Other</b>		<b>Total</b>
		<i>(In millions)</i>				
<b>2011</b>						
Unrealized Gain (Loss) to Derivative Instrument:		\$ (147)	\$	2	\$	(145)
Unrealized Gain (Loss) to Regulatory Assets:		147		(2)		145

Realized Gain (Loss) to Derivative Instrument:	62	62
Realized Gain (Loss) to Regulatory Assets:	(62)	(62)
<b>2010</b>		
Unrealized Gain (Loss) to Derivative Instrument:	\$ (35)	\$ (35)
Unrealized Gain (Loss) to Regulatory Assets:	35	35
Realized Gain (Loss) to Derivative Instrument:	68	68
Realized Gain (Loss) to Regulatory Assets:	(68)	(68)



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	<b>Six Months Ended June 30,</b>				
	<b>Power</b>		<b>Interest</b>		
	<b>Contracts</b>	<b>FTRs</b>	<b>Rate Swaps</b>	<b>Other</b>	<b>Total</b>
	<i>(In millions)</i>				
<b>Derivatives in a Hedging Relationship</b>					
<b>2011</b>					
Gain (Loss) Recognized in AOCL (Effective Portion)	\$	5	\$	\$	\$ 5
Effective Gain (Loss) Reclassified to: <sup>(1)</sup>					
Purchase Power Expense		16			16
Revenues		(12)			(12)
<b>2010</b>					
Gain (Loss) Recognized in AOCL (Effective Portion)	\$	(2)	\$	\$ 6	\$ 4
Effective Gain (Loss) Reclassified to: <sup>(1)</sup>					
Purchase Power Expense		(7)			(7)
Revenues		(5)			(5)
Fuel Expense				(8)	(8)
<b>Derivatives Not in a Hedging Relationship</b>					
<b>2011</b>					
Unrealized Gain (Loss) Recognized in:					
Purchase Power Expense	\$	61	\$	\$	\$ 61
Revenues		(3)			(3)
Other Operating Expense		(54)	13	1	(40)
Realized Gain (Loss) Reclassified to:					
Purchase Power Expense		(36)			(36)
Revenues		(29)	26		(3)
Other Operating Expense			(87)		(87)
<b>2010</b>					
Unrealized Gain (Loss) Recognized in:					
Purchase Power Expense	\$	39	\$	\$	\$ 39
Realized Gain (Loss) Reclassified to:					
Purchase Power Expense		(49)			(49)
<b>Derivatives Not in a Hedging Relationship with Regulatory Offset<sup>(2)</sup></b>					
<b>Six Months Ended June 30,</b>					
		<b>NUGs</b>		<b>Other</b>	<b>Total</b>
		<i>(In millions)</i>			
<b>2011</b>					
Unrealized Gain (Loss) to Derivative Instrument:	\$	(236)	\$	2	\$ (234)
Unrealized Gain (Loss) to Regulatory Assets:		236		(2)	234
Realized Gain (Loss) to Derivative Instrument:		134		(10)	124
Realized Gain (Loss) to Regulatory Assets:		(134)		10	(124)
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**2010**

Unrealized Gain (Loss) to Derivative Instrument:	\$	(259)	\$	(259)
Unrealized Gain (Loss) to Regulatory Assets:		259		259
Realized Gain (Loss) to Derivative Instrument:		146	(9)	137
Realized Gain (Loss) to Regulatory Assets:		(146)	9	(137)

- (1) The ineffective portion was immaterial.
- (2) Changes in the fair value of certain contracts are deferred for future recovery from (or refund to) customers.

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The following table provides a reconciliation of changes in the fair value of certain contracts that are deferred for future recovery from (or refund to) customers during the three months and six months ended June 30, 2011 and 2010:

<b>Derivatives Not in a Hedging Relationship with Regulatory Offset<sup>(1)</sup></b>	<b>Three Months Ended June 30,</b>		
	<b>NUGs</b>	<b>Other</b>	<b>Total</b>
	<i>(In millions)</i>		
Outstanding net asset (liability) as of April 1, 2011	\$ (362)	\$	\$ (362)
Additions/Change in value of existing contracts	(147)	2	(145)
Settled contracts	62		62
Outstanding net asset (liability) as of June 30, 2011	\$ (447)	\$ 2	\$ (445)
Outstanding net asset (liability) as of April 1, 2010	\$ (590)	\$ 10	\$ (580)
Additions/Change in value of existing contracts	(35)		(35)
Settled contracts	68		68
Outstanding net asset (liability) as of June 30, 2010	\$ (557)	\$ 10	\$ (547)
	<b>Six Months Ended June 30,</b>		
	<b>NUGs</b>	<b>Other</b>	<b>Total</b>
	<i>(In millions)</i>		
Outstanding net asset (liability) as of January 1, 2011	\$ (345)	\$ 10	\$ (335)
Additions/Change in value of existing contracts	(236)	2	(234)
Settled contracts	134	(10)	124
Outstanding net asset (liability) as of June 30, 2011	\$ (447)	\$ 2	\$ (445)
Outstanding net asset (liability) as of January 1, 2010	\$ (444)	\$ 19	\$ (425)
Additions/Change in value of existing contracts	(259)		(259)
Settled contracts	146	(9)	137
Outstanding net asset (liability) as of June 30, 2010	\$ (557)	\$ 10	\$ (547)

<sup>(1)</sup> Changes in the fair value of certain contracts are deferred for future recovery from (or refund to) customers.

**6. PENSION AND OTHER POSTRETIREMENT BENEFITS**

FirstEnergy provides noncontributory qualified defined benefit pension plans that cover substantially all of its employees and non-qualified pension plans that cover certain employees. The plans provide defined benefits based on years of service and compensation levels.

FirstEnergy provides a portion of non-contributory pre-retirement basic life insurance for employees who are eligible to retire. Health care benefits, which include certain employee contributions, deductibles and co-payments, are also available upon retirement to certain employees, their dependents and, under certain circumstances, their survivors. FirstEnergy also has obligations to former or inactive employees after employment, but before retirement, for disability-related benefits.

FirstEnergy's funding policy is based on actuarial computations using the projected unit credit method. During the three months and six months ended June 30, 2011, FirstEnergy made pre-tax contributions to its qualified pension

plans of \$105 million and \$262 million, respectively. FirstEnergy intends to make additional contributions of \$116 million and \$2 million to its qualified pension plans and postretirement benefit plans, respectively, in the last two quarters of 2011.

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As result of the merger with Allegheny, FirstEnergy assumed certain pension and OPEB plans. FirstEnergy measured the funded status of the Allegheny pension plans and postretirement benefit plans other than pensions as of the merger closing date using discount rates of 5.50% and 5.25%, respectively. The fair values of plan assets for Allegheny's pension plans and postretirement benefit plans other than pensions at the date of the merger were \$954 million and \$75 million, respectively, and the actuarially determined benefit obligations for such plans as of that date were \$1,341 million and \$272 million, respectively. The expected returns on plan assets used to calculate net periodic costs for periods in 2011 subsequent to the date of the merger are 8.25% for Allegheny's qualified pension plan and 5.00% for Allegheny's postretirement benefit plans other than pensions.

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

<b>Pension Benefit Cost (Credit)</b>	<b>Three Months Ended June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<i>(In millions)</i>			
Service cost	\$ 34	\$ 25	\$ 62	\$ 49
Interest cost	97	79	181	157
Expected return on plan assets	(115)	(90)	(216)	(181)
Amortization of prior service cost	4	3	7	6
Recognized net actuarial loss	48	47	97	94
Curtailements <sup>(1)</sup>			(2)	
Special termination benefits <sup>(1)</sup>			9	
<b>Net periodic cost</b>	<b>\$ 68</b>	<b>\$ 64</b>	<b>\$ 138</b>	<b>\$ 125</b>

<sup>(1)</sup> Represents costs (credits) incurred related to change in control provision payments to certain executives who were terminated or were expected to be terminated as a result of the merger.

<b>Other Postretirement Benefit Cost (Credit)</b>	<b>Three Months Ended June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<i>(In millions)</i>			
Service cost	\$ 3	\$ 3	\$ 7	\$ 5
Interest cost	12	11	23	22
Expected return on plan assets	(10)	(9)	(20)	(18)
Amortization of prior service cost	(52)	(48)	(100)	(96)
Recognized net actuarial loss	14	15	28	30
<b>Net periodic cost (credit)</b>	<b>\$ (33)</b>	<b>\$ (28)</b>	<b>\$ (62)</b>	<b>\$ (57)</b>

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

<b>Pension Benefit Cost</b>	<b>Three Months Ended June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<i>(In millions)</i>			

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FES	\$	22	\$	22	\$	43	\$	44
OE		5		6		11		11
CEI		5		5		10		11
TE		2		2		3		4
JCP&L		5		6		11		12
Met-Ed		3		3		5		5
Penelec		4		5		9		9
Other FirstEnergy Subsidiaries		22		15		46		29
	\$	<b>68</b>	\$	<b>64</b>	\$	<b>138</b>	\$	<b>125</b>

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Other Postretirement Benefit Credit	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
	<i>(In millions)</i>			
FES	\$ (8)	\$ (7)	\$ (14)	\$ (13)
OE	(5)	(6)	(12)	(12)
CEI	(2)	(1)	(3)	(3)
TE			(1)	(1)
JCP&L	(2)	(2)	(3)	(4)
Met-Ed	(2)	(2)	(5)	(4)
Penelec	(2)	(2)	(5)	(4)
Other FirstEnergy Subsidiaries	(12)	(8)	(19)	(16)
	\$ (33)	\$ (28)	\$ (62)	\$ (57)

**7. VARIABLE INTEREST ENTITIES**

FirstEnergy and its subsidiaries perform qualitative analyses to determine whether a variable interest gives FirstEnergy or its subsidiaries 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.

VIEs included in FirstEnergy's consolidated financial statements are: FEV's joint venture in the Signal Peak mining and coal transportation operations; the PNBV and Shippingport bond trusts that were created to refinance debt originally issued in connection with sale and leaseback transactions; and wholly owned limited liability companies of JCP&L created to sell transition bonds to securitize the recovery of JCP&L's bondable stranded costs associated with the previously divested Oyster Creek Nuclear Generating Station, of which \$295 million was outstanding as of June 30, 2011.

FirstEnergy and its subsidiaries reflect the portion of VIEs not owned by them in the caption noncontrolling interest within the consolidated financial statements. The change in noncontrolling interest within the Consolidated Balance Sheets is primarily the result of net losses of the noncontrolling interests (\$15 million) and distributions to owners (\$4 million) during the six months ended June 30, 2011.

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

***PATH-WV***

PATH, LLC was formed to construct, through its operating companies, the PATH Project, which is a high-voltage transmission line that was proposed to extend from West Virginia through Virginia and into Maryland, including modifications to an existing substation in Putnam County, West Virginia, and the construction of new substations in Hardy County, West Virginia and Frederick County, Maryland as directed by PJM. PATH, LLC 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 AE owns 100% of the Allegheny Series 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 to be constructed by PATH-WV.

Because of the nature of PATH-WV's operations and its FERC approved rate mechanism, FirstEnergy's maximum exposure to loss, through AE, consists of its equity investment in PATH-WV, which was \$27 million at June 30, 2011.

***Power Purchase Agreements***

FirstEnergy evaluated its power purchase agreements and determined that certain NUG entities may be VIEs to the extent that they own a plant that sells substantially all of its output to the Utilities if the contract price for power is correlated with the plant's variable costs of production. FirstEnergy, through its subsidiaries JCP&L, Met-Ed, Penelec, PE, WP and MP, maintains 23 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, these entities.

FirstEnergy has determined that for all but four of these NUG entities, its subsidiaries do not have variable interests in the entities or the entities do not meet the criteria to be considered a VIE. JCP&L, PE and WP may hold variable interests in the remaining four entities; however, FirstEnergy applied the scope exception that exempts enterprises unable to obtain the necessary information to evaluate entities.



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Because JCP&L, PE and WP have no equity or debt interests in the NUG entities, their maximum exposure to loss relates primarily to the above-market costs incurred for power. FirstEnergy expects any above-market costs incurred by its subsidiaries to be recovered from customers, except as described further below. Purchased power costs related to the four contracts that may contain a variable interest that were held by FirstEnergy subsidiaries during the three months ended June 30, 2011, were \$55 million, \$47 million and \$21 million for JCP&L, PE and WP, respectively and \$120 million, \$58 million and \$26 million for the six months ended June 30, 2011, respectively. Purchased power costs related to the two contracts that may contain a variable interest that were held by JCP&L during the three months and six months ended June 30, 2010 were \$53 million and \$117 million, respectively.

In 1998 the PPUC issued an order approving a transition plan for WP that disallowed certain costs, including an estimated amount for an adverse power purchase commitment related to the NUG entity that WP may hold a variable interest, for which WP has taken the scope exception. As of June 30, 2011, WP's reserve for this adverse purchase power commitment was \$59 million, including a current liability of \$11 million, and is being amortized over the life of the commitment.

**Loss Contingencies**

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 arrangement. FES and the Ohio Companies 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 mentioned above as of June 30, 2011:

	<b>Maximum Exposure</b>	<b>Discounted Lease Payments, net<sup>(1)</sup> (In millions)</b>	<b>Net Exposure</b>
FES	\$ 1,348	\$ 1,156	\$ 192
OE	635	445	190
CEI <sup>(2)</sup>	624	69	555
TE <sup>(2)</sup>	624	303	321

(1) The net present value of FirstEnergy's consolidated sale and leaseback operating lease commitments is \$1.6 billion.

(2) CEI and TE are jointly and severally liable for the maximum loss amounts under certain sale-leaseback agreements.

**8. INCOME TAXES**

FirstEnergy accounts for uncertainty in income taxes recognized in its financial statements. Accounting guidance prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of tax positions taken or expected to be taken on a company's tax return. As a result of the merger with Allegheny in the first quarter of 2011, FirstEnergy's unrecognized tax benefits increased by \$97 million. During the second quarter of 2011, FirstEnergy reached a settlement with the IRS on a research and development claim and recognized approximately \$30 million of income tax benefits, including \$5 million that favorably affected FirstEnergy's effective tax rate for the second quarter and first six months of 2011. There were no other material changes to FirstEnergy's unrecognized income tax benefits during the first six months of 2011. After reaching a tentative agreement with the IRS on a tax item at appeals related to the capitalization of certain costs for tax years 2005-2008, as well as reaching a settlement on an unrelated state tax matter in the second quarter of 2010, FirstEnergy recognized approximately \$70 million of net income tax benefits, including \$13 million that favorably affected FirstEnergy's effective tax rate for the second quarter of 2010. The remaining portion of the income tax benefit recognized in the first six months of 2010

increased FirstEnergy's accumulated deferred income taxes for the settled temporary tax item.

As of June 30, 2011, it is reasonably possible that approximately \$46 million of unrecognized income tax benefits may be resolved within the next twelve months, of which approximately \$4 million, if recognized, would affect FirstEnergy's effective tax rate. The potential decrease in the amount of unrecognized income tax benefits is primarily associated with issues related to the capitalization of certain costs and various state tax items.

FirstEnergy recognizes interest expense or income related to uncertain tax positions. That amount is computed by applying the applicable statutory interest rate to the difference between the tax position recognized and the amount previously taken or expected to be taken on the tax return. FirstEnergy includes net interest and penalties in the provision for income taxes. The interest associated with the settlement of the claim noted above favorably affected FirstEnergy's effective tax rate by \$6 million in the first half of 2011. During the first six months of 2011, there were no material changes to the amount of accrued interest, except for a \$6 million increase in accrued interest as a result of the merger with Allegheny. The reversal of accrued interest associated with the recognized income tax benefits noted above favorably affected FirstEnergy's effective tax rate by \$11 million in the first six months of 2010. The net amount of interest accrued as of June 30, 2011 was \$10 million, compared with \$3 million as of December 31, 2010.

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As a result of the non-deductible portion of merger transaction costs, FirstEnergy's effective tax rate was unfavorably impacted by \$28 million in the first six months of 2011.

As a result of the Patient Protection and Affordable Care Act and the Health Care and Education Affordability Reconciliation Act signed into law in March 2010, beginning in 2013 the tax deduction available to FirstEnergy will be reduced to the extent that drug costs are reimbursed under the Medicare Part D retiree subsidy program. As retiree healthcare liabilities and related tax impacts under prior law were already reflected in FirstEnergy's consolidated financial statements, the change resulted in a charge to FirstEnergy's earnings in the first quarter of 2010 of approximately \$13 million and a reduction in accumulated deferred tax assets associated with these subsidies. That charge reflected the anticipated increase in income taxes that will occur as a result of the change in tax law.

Allegheny is currently under audit by the IRS for tax years 2007 and 2008. The 2009 federal return was filed and is subject to review. State tax returns for tax years 2006 through 2009 remain subject to review in Pennsylvania, West Virginia, Maryland and Virginia for certain subsidiaries of AE. FirstEnergy has tax returns that are under review at the audit or appeals level by the IRS (2008-2010) and state tax authorities. Tax returns for all state jurisdictions are open from 2006-2009. The IRS began auditing the year 2008 in February 2008 and the audit was completed in July 2010 with one item under appeal. The 2009 tax year audit began in February 2009 and the 2010 tax year audit began in February 2010. Management believes that adequate reserves have been recognized and final settlement of these audits is not expected to have a material adverse effect on FirstEnergy's financial condition or results of operations.

**9. COMMITMENTS, GUARANTEES AND CONTINGENCIES****(A) GUARANTEES AND OTHER ASSURANCES**

As part of normal business activities, FirstEnergy enters into various agreements on behalf of its subsidiaries to provide financial or performance assurances to third parties. These agreements include contract guarantees, surety bonds and LOCs. As of June 30, 2011, outstanding guarantees and other assurances aggregated approximately \$3.8 billion, consisting of parental guarantees (\$0.8 billion), subsidiaries' guarantees (\$2.6 billion), and surety bonds and LOCs (\$0.4 billion).

FirstEnergy guarantees energy and energy-related payments of its subsidiaries involved in energy commodity activities principally to facilitate or hedge normal physical transactions involving electricity, gas, emission allowances and coal. FirstEnergy also provides guarantees to various providers of credit support for the financing or refinancing by subsidiaries of costs related to the acquisition of property, plant and equipment. These agreements legally obligate FirstEnergy to fulfill the obligations of those subsidiaries directly involved in energy and energy-related transactions or financing where the law might otherwise limit the counterparties' claims. If demands of a counterparty were to exceed the ability of a subsidiary to satisfy existing obligations, FirstEnergy's guarantee enables the counterparty's legal claim to be satisfied by other FirstEnergy assets. FirstEnergy believes the likelihood is remote that such parental guarantees of \$0.2 billion (included in the \$0.8 billion discussed above) as of June 30, 2011 would increase amounts otherwise payable by FirstEnergy to meet its obligations incurred in connection with financings and ongoing energy and energy-related activities.

While these types of guarantees are normally parental commitments for the future payment of subsidiary obligations, subsequent to the occurrence of a credit rating downgrade or material adverse event, the immediate posting of cash collateral, provision of an LOC or accelerated payments may be required of the subsidiary. As of June 30, 2011, FirstEnergy's maximum exposure under these collateral provisions was \$625 million, consisting of \$522 million due to a below investment grade credit rating (of which \$265 million is due to an acceleration of payment or funding obligation) and \$103 million due to material adverse event contractual clauses. Additionally, stress case conditions of a credit rating downgrade or material adverse event and hypothetical adverse price movements in the underlying commodity markets would increase this amount to \$666 million.

Most of FirstEnergy's surety bonds are backed by various indemnities common within the insurance industry. Surety bonds and related guarantees of \$136 million provide additional assurance to outside parties that contractual and statutory obligations will be met in a number of areas including construction contracts, environmental commitments and various retail transactions.

In addition to guarantees and surety bonds, contracts entered into by the Competitive Energy Services segment, including power contracts with affiliates awarded through competitive bidding processes, typically contain margining

provisions that require the posting of cash or LOCs in amounts determined by future power price movements. Based on FES and AE Supply's power portfolios as of June 30, 2011 and forward prices as of that date, FES and AE Supply have posted collateral of \$138 million and \$2 million, respectively. Under a hypothetical adverse change in forward prices (95% confidence level change in forward prices over a one-year time horizon), FES would be required to post an additional \$17 million of collateral. Depending on the volume of forward contracts and future price movements, higher amounts for margining could be required to be posted.

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FES debt obligations are generally guaranteed by its subsidiaries, FGCO and NGC, and FES guarantees the debt obligations of each of FGCO and NGC. Accordingly, present and future holders of indebtedness of FES, FGCO and NGC would have claims against each of FES, FGCO and NGC, regardless of whether their primary obligor is FES, FGCO or NGC.

Signal Peak and Global Rail are borrowers under a \$350 million syndicated two-year senior secured term loan facility due in October 2012. FirstEnergy, together with WMB Loan Ventures LLC and WMB Loan Ventures II LLC, the entities that share ownership in the borrowers with FEV, have provided a guaranty of the borrowers obligations under the facility. In addition, FEV and the other entities that directly own the equity interest in the borrowers have pledged those interests to the lenders under the term loan facility as collateral for the facility.

**(B) ENVIRONMENTAL MATTERS**

Various federal, state and local authorities regulate FirstEnergy with regard to air and water quality and other environmental matters. Compliance with environmental regulations could have a material adverse effect on FirstEnergy's earnings and competitive position to the extent that FirstEnergy competes with companies that are not subject to such regulations and, therefore, do not bear the risk of costs associated with compliance, or failure to comply, with such regulations.

*CAA Compliance*

FirstEnergy is required to meet federally-approved SO<sub>2</sub> and NO<sub>x</sub> emissions regulations under the CAA. FirstEnergy complies with SO<sub>2</sub> and NO<sub>x</sub> reduction requirements under the CAA and SIP(s) by burning lower-sulfur fuel, combustion controls and post-combustion controls, generating more electricity from lower-emitting plants and/or using emission allowances. Violations can result in the shutdown of the generating unit involved and/or civil or criminal penalties.

In July 2008, three complaints were filed against FGCO in the U.S. District Court for the Western District of Pennsylvania seeking damages based on coal-fired Bruce Mansfield Plant air emissions. Two of these complaints also seek to enjoin the Bruce Mansfield Plant from operating except in a safe, responsible, prudent and proper manner, one being a complaint filed on behalf of twenty-one individuals and the other being a class action complaint seeking certification as a class action with the eight named plaintiffs as the class representatives. FGCO believes the claims are without merit and intends to defend itself against the allegations made in these three complaints.

The states of New Jersey and Connecticut filed CAA citizen suits in 2007 alleging NSR violations at the Portland Generation Station against GenOn Energy, Inc. (formerly RRI Energy, Inc. and the current owner and operator), Sithe Energy (the purchaser of the Portland Station from Met-Ed in 1999) and Met-Ed. Specifically, these suits allege that modifications at Portland Units 1 and 2 occurred between 1980 and 2005 without preconstruction NSR permitting in violation of the CAA's PSD program, and seek injunctive relief, penalties, attorney fees and mitigation of the harm caused by excess emissions. In September 2009, the Court granted Met-Ed's motion to dismiss New Jersey's and Connecticut's claims for injunctive relief against Met-Ed, but denied Met-Ed's motion to dismiss the claims for civil penalties. The parties dispute the scope of Met-Ed's indemnity obligation to and from Sithe Energy, and Met-Ed is unable to predict the outcome of this matter.

In January 2009, the EPA issued a NOV to GenOn Energy, Inc. alleging NSR violations at the Portland coal-fired plant based on modifications dating back to 1986. On March 31, 2011, the EPA proposed emissions limits and compliance schedules to reduce SO<sub>2</sub> air emissions by approximately 81% at the Portland Plant based on an interstate pollution transport petition submitted by New Jersey under Section 126 of the CAA. The NOV also alleged NSR violations at the Keystone and Shawville coal-fired plants based on modifications dating back to 1984. Met-Ed, JCP&L, as the former owner of 16.67% of Keystone, and Penelec, as former owner and operator of Shawville, are unable to predict the outcome of this matter.

In June 2008, the EPA issued a Notice and Finding of Violation to Mission Energy Westside, Inc. (Mission) alleging that modifications at the coal-fired Homer City Plant occurred from 1988 to the present without preconstruction NSR permitting in violation of the CAA's PSD program. In May 2010, the EPA issued a second NOV to Mission, Penelec, New York State Electric & Gas Corporation and others that have had an ownership interest in Homer City containing in all material respects allegations identical to those included in the June 2008 NOV. In January 2011, the DOJ filed a complaint against Penelec in the U.S. District Court for the Western District of Pennsylvania seeking injunctive relief

against Penelec based on alleged modifications at Homer City between 1991 to 1994 without preconstruction NSR permitting in violation of the CAA's PSD and Title V permitting programs. The complaint was also filed against the former co-owner, New York State Electric and Gas Corporation, and various current owners of Homer City, including EME Homer City Generation L.P. and affiliated companies, including Edison International. In January 2011, another complaint was filed against Penelec and the other entities described above in the U.S. District Court for the Western District of Pennsylvania seeking damages based on Homer City's air emissions as well as certification as a class action and to enjoin Homer City from operating except in a safe, responsible, prudent and proper manner. Penelec believes the claims are without merit and intends to defend itself against the allegations made in the complaint, but, at this time, is unable to predict the outcome of this matter. In addition, the Commonwealth of Pennsylvania and the States of New Jersey and New York intervened and have filed separate complaints regarding Homer City seeking injunctive relief and civil penalties. Mission is seeking indemnification from Penelec, the co-owner and operator of Homer City prior to its sale in 1999. On April 21, 2011, Penelec and all other defendants filed Motions to Dismiss all of the federal claims and the various state claims. Responsive and Reply briefs were filed on May 26, 2011 and June 17, 2011, respectively. The scope of Penelec's indemnity obligation to and from Mission is under dispute and Penelec is unable to predict the outcome of this matter.

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In August 2009, the EPA issued a Finding of Violation and NOV alleging violations of the CAA and Ohio regulations, including the PSD, NNSR and Title V regulations at the Eastlake, Lakeshore, Bay Shore and Ashtabula coal-fired plants. The EPA's NOV alleges equipment replacements occurring during maintenance outages dating back to 1990 triggered the pre-construction permitting requirements under the PSD and NNSR programs. FGCO received a request for certain operating and maintenance information and planning information for these same generating plants and notification that the EPA is evaluating whether certain maintenance at the Eastlake Plant may constitute a major modification under the NSR provision of the CAA. Later in 2009, FGCO also received another information request regarding emission projections for Eastlake Plant. In June 2011, EPA issued another Finding of Violation and NOV alleging violations of the CAA and Ohio regulations, specifically opacity limitations and requirements to continuously operate opacity monitoring systems at the Eastlake, Lakeshore, Bay Shore and Ashtabula coal-fired plants. Also, in June 2011, FirstEnergy received an information request pursuant to section 114(a) of the CAA for certain operating maintenance and planning information, among other information regarding these plants. FGCO intends to comply with the CAA, including the EPA's information requests but, at this time, is unable to predict the outcome of this matter.

In August 2000, AE received an information request pursuant to section 114(a) of the CAA letter from the EPA requesting that it provide information and documentation relevant to the operation and maintenance of the following ten coal-fired plants, which collectively include 22 electric generation units Albright, Armstrong, Fort Martin, Harrison, Hatfield's Ferry, Mitchell, Pleasants, Rivesville, R. Paul Smith and Willow Island to determine compliance with the CAA and related requirements, including potential application of the NSR standards under the CAA, which can require the installation of additional air emission control equipment when the major modification of an existing facility results in an increase in emissions. AE has provided responsive information to this and a subsequent request but is unable to predict the outcome of this matter.

In May 2004, AE, AE Supply, MP and WP received a Notice of Intent to Sue Pursuant to CAA §7604 from the Attorneys General of New York, New Jersey and Connecticut and from the PA DEP, alleging that Allegheny performed major modifications in violation of the PSD provisions of the CAA at the following West Virginia coal-fired plants: Albright Unit 3; Fort Martin Units 1 and 2; Harrison Units 1, 2 and 3; Pleasants Units 1 and 2 and Willow Island Unit 2. The Notice also alleged PSD violations at the Armstrong, Hatfield's Ferry and Mitchell coal-fired plants in Pennsylvania and identifies PA DEP as the lead agency regarding those facilities. In September 2004, AE, AE Supply, MP and WP received a separate Notice of Intent to Sue from the Maryland Attorney General that essentially mirrored the previous Notice.

In June 2005, the PA DEP and the Attorneys General of New York, New Jersey, Connecticut and Maryland filed suit against AE, AE Supply, MP, PE and WP in the United States District Court for the Western District of Pennsylvania alleging, among other things, that Allegheny performed major modifications in violation of the CAA and the Pennsylvania Air Pollution Control Act at the Hatfield's Ferry, Armstrong and Mitchell Plants in Pennsylvania. On January 17, 2006, the PA DEP and the Attorneys General filed an amended complaint. A non-jury trial on liability only was held in September 2010. Plaintiffs filed their proposed findings of fact and conclusions of law in December 2010, Allegheny made its related filings in February 2011 and plaintiffs filed their responses in April 2011. The parties are awaiting a decision from the District Court, but there is no deadline for that decision.

In September 2007, Allegheny also received a NOV from the EPA alleging NSR and PSD violations under the CAA, as well as Pennsylvania and West Virginia state laws at the Hatfield's Ferry and Armstrong Plants in Pennsylvania and the Fort Martin and Willow Island coal-fired plants in West Virginia.

FirstEnergy intends to vigorously defend against the CAA matters described above but cannot predict their outcomes.

*State Air Quality Compliance*

In early 2006, Maryland passed the Healthy Air Act, which imposes state-wide emission caps on SO<sub>2</sub> and NO<sub>x</sub>, requires mercury emission reductions and mandates that Maryland join the RGGI and participate in that coalition's regional efforts to reduce CO<sub>2</sub> emissions. On April 20, 2007, Maryland became the 10th state to join the RGGI. The Healthy Air Act provides a conditional exemption for the R. Paul Smith coal-fired plant for NO<sub>x</sub>, SO<sub>2</sub> and mercury, based on a PJM declaration that the plant is vital to reliability in the Baltimore/Washington DC metropolitan area, which PJM determined in 2006. Pursuant to the legislation, the Maryland Department of the Environment

(MDE) passed alternate NO<sub>x</sub> and SO<sub>2</sub> limits for R. Paul Smith, which became effective in April 2009. However, R. Paul Smith is still required to meet the Healthy Air Act mercury reductions of 80% beginning in 2010. The statutory exemption does not extend to R. Paul Smith's CO<sub>2</sub> emissions. Maryland issued final regulations to implement RGGI requirements in February 2008. Ten RGGI auctions have been held through the end of calendar year 2010. RGGI allowances are also readily available in the allowance markets, affording another mechanism by which to secure necessary allowances. On March 14, 2011, MDE requested PJM perform an analysis to determine if termination of operation at R. Paul Smith would adversely impact the reliability of electrical service in the PJM region under current system conditions. FirstEnergy is unable to predict the outcome of this matter.



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In January 2010, the WVDEP issued a NOV for opacity emissions at Allegheny's Pleasants coal-fired plant. FirstEnergy is discussing with WVDEP steps to resolve the NOV including installing a reagent injection system to reduce opacity.

*National Ambient Air Quality Standards*

The EPA's CAIR requires reductions of NO<sub>x</sub> and SO<sub>2</sub> emissions in two phases (2009/2010 and 2015), ultimately capping SO<sub>2</sub> emissions in affected states to 2.5 million tons annually and NO<sub>x</sub> emissions to 1.3 million tons annually. In 2008, the U.S. Court of Appeals for the District of Columbia Circuit vacated CAIR in its entirety and directed the EPA to redo its analysis from the ground up. In December 2008, the Court reconsidered its prior ruling and allowed CAIR to remain in effect to temporarily preserve its environmental values until the EPA replaces CAIR with a new rule consistent with the Court's opinion. The Court ruled in a different case that a cap-and-trade program similar to CAIR, called the NO<sub>x</sub> SIP Call, cannot be used to satisfy certain CAA requirements (known as reasonably available control technology) for areas in non-attainment under the 8-hour ozone NAAQS. In July 2011, the EPA finalized the Cross-State Air Pollution Rule (CSAPR) to replace CAIR, which remains in effect until CSAPR becomes effective (60 days after publication in the Federal Register). CSAPR requires reductions of NO<sub>x</sub> and SO<sub>2</sub> emissions in two phases (2012 and 2014), ultimately capping SO<sub>2</sub> emissions in affected states to 2.4 million tons annually and NO<sub>x</sub> emissions to 1.2 million tons annually. CSAPR allows trading of NO<sub>x</sub> and SO<sub>2</sub> emission allowances between power plants located in the same state and interstate trading of NO<sub>x</sub> and SO<sub>2</sub> emission allowances with some restrictions. FGCO's future cost of compliance may be substantial and changes to FirstEnergy's operations may result. Management is currently assessing the impact of CSAPR, other environmental proposals and other factors on FirstEnergy's competitive fossil generating facilities, including but not limited to, the impact on value of our emissions allowances (currently reflected at \$38 million on our Consolidated Balance Sheet as of June 30, 2011) and the operations of its coal-fired plants.

*Hazardous Air Pollutant Emissions*

On March 16, 2011, the EPA released its MACT proposal to establish emission standards for mercury, hydrochloric acid and various metals for electric generating units. Depending on the action taken by the EPA and how any future regulations are ultimately implemented, FirstEnergy's future cost of compliance with MACT regulations may be substantial and changes to FirstEnergy's operations may result.

*Climate Change*

There are a number of initiatives to reduce GHG emissions under consideration at the federal, state and international level. At the federal level, members of Congress have introduced several bills seeking to reduce emissions of GHG in the United States, and the House of Representatives passed one such bill, the American Clean Energy and Security Act of 2009, in June 2009. The Senate continues to consider a number of measures to regulate GHG emissions. President Obama has announced his Administration's New Energy for America Plan that includes, among other provisions, proposals to ensure that 10% of electricity used in the United States comes from renewable sources by 2012, to increase to 25% by 2025, to implement an economy-wide cap-and-trade program to reduce GHG emissions by 80% by 2050. Certain states, primarily the northeastern states participating in the RGGI and western states, led by California, have coordinated efforts to develop regional strategies to control emissions of certain GHGs.

In September 2009, the EPA finalized a national GHG emissions collection and reporting rule that required FirstEnergy to measure GHG emissions commencing in 2010 and will require it to submit reports commencing in 2011. In December 2009, the EPA released its final Endangerment and Cause or Contribute Findings for Greenhouse Gases under the Clean Air Act. The EPA's finding concludes that concentrations of several key GHGs increase the threat of climate change and may be regulated as air pollutants under the CAA. In April 2010, the EPA finalized new GHG standards for model years 2012 to 2016 passenger cars, light-duty trucks and medium-duty passenger vehicles and clarified that GHG regulation under the CAA would not be triggered for electric generating plants and other stationary sources until January 2, 2011, at the earliest. In May 2010, the EPA finalized new thresholds for GHG emissions that define when permits under the CAA's NSR program would be required. The EPA established an emissions applicability threshold of 75,000 tons per year (tpy) of carbon dioxide equivalents (CO<sub>2</sub>) effective January 2, 2011 for existing facilities under the CAA's PSD program. Until July 1, 2011, this emissions applicability threshold will only apply if PSD is triggered by non-CO<sub>2</sub> pollutants.

At the international level, the Kyoto Protocol, signed by the U.S. in 1998 but never submitted for ratification by the U.S. Senate, was intended to address global warming by reducing the amount of man-made GHG, including CO<sub>2</sub>, emitted by developed countries by 2012. A December 2009 U.N. Climate Change Conference in Copenhagen did not reach a consensus on a successor treaty to the Kyoto Protocol, but did take note of the Copenhagen Accord, a non-binding political agreement that recognized the scientific view that the increase in global temperature should be below two degrees Celsius; includes a commitment by developed countries to provide funds, approaching \$30 billion over the next three years with a goal of increasing to \$100 billion by 2020; and establishes the Copenhagen Green Climate Fund to support mitigation, adaptation, and other climate-related activities in developing countries. To the extent that they have become a party to the Copenhagen Accord, developed economies, such as the European Union, Japan, Russia and the United States, would commit to quantified economy-wide emissions targets from 2020, while developing countries, including Brazil, China and India, would agree to take mitigation actions, subject to their domestic measurement, reporting and verification.

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In 2009, the U.S. Court of Appeals for the Second Circuit and the U.S. Court of Appeals for the Fifth Circuit reversed and remanded lower court decisions that had dismissed complaints alleging damage from GHG emissions on jurisdictional grounds. However, a subsequent ruling from the U.S. Court of Appeals for the Fifth Circuit reinstated the lower court dismissal of a complaint alleging damage from GHG emissions. These cases involve common law tort claims, including public and private nuisance, alleging that GHG emissions contribute to global warming and result in property damages. The U.S. Supreme Court granted a writ of certiorari to review the decision of the Second Circuit. On June 20, 2011, the U. S. Supreme Court reversed the Second Circuit. The Court remanded to the Second Circuit the issue of whether the CAA preempted state common law nuisance actions. The Court's ruling also failed to answer the question of the extent to which actions for damages may remain viable. While FirstEnergy is not a party to this litigation, in June 2011, FirstEnergy received notice of a complaint alleging that the GHG emissions of 87 companies, including FirstEnergy, render them liable for damages to certain residents of Mississippi stemming from Hurricane Katrina. On July 27, 2011, the plaintiff voluntarily dismissed FirstEnergy from this complaint.

FirstEnergy cannot currently estimate the financial impact of climate change policies, although potential legislative or regulatory programs restricting CO<sub>2</sub> emissions, or litigation alleging damages from GHG emissions, could require significant capital and other expenditures or result in changes to its operations. The CO<sub>2</sub> emissions per KWH of electricity generated by FirstEnergy is lower than many of its regional competitors due to its diversified generation sources, which include low or non-CO<sub>2</sub> emitting gas-fired and nuclear generators.

*Clean Water Act*

Various water quality regulations, the majority of which are the result of the federal Clean Water Act and its amendments, apply to FirstEnergy's plants. In addition, the states in which FirstEnergy operates have water quality standards applicable to FirstEnergy's operations.

In 2004, the EPA established new performance standards under Section 316(b) of the Clean Water Act for reducing impacts on fish and shellfish from cooling water intake structures at certain existing electric generating plants. The regulations call for reductions in impingement mortality (when aquatic organisms are pinned against screens or other parts of a cooling water intake system) and entrainment (which occurs when aquatic life is drawn into a facility's cooling water system). In 2007, the Court of Appeals for the Second Circuit invalidated portions of the Section 316(b) performance standards and the EPA has taken the position that until further rulemaking occurs, permitting authorities should continue the existing practice of applying their best professional judgment to minimize impacts on fish and shellfish from cooling water intake structures. In April 2009, the U.S. Supreme Court reversed one significant aspect of the Second Circuit's opinion and decided that Section 316(b) of the Clean Water Act authorizes the EPA to compare costs with benefits in determining the best technology available for minimizing adverse environmental impact at cooling water intake structures. On March 28, 2011, the EPA released a new proposed regulation under Section 316(b) of the Clean Water Act generally requiring fish impingement to be reduced to a 12% annual average and studies to be conducted at the majority of our existing generating facilities to assist permitting authorities to determine whether and what site-specific controls, if any, would be required to reduce entrainment of aquatic life. On July 19, 2011, the EPA extended the public comment period for the new proposed Section 316(b) regulation by 30 days but stated its schedule for issuing a final rule remains July 27, 2012. FirstEnergy is studying various control options and their costs and effectiveness, including pilot testing of reverse louvers in a portion of the Bay Shore power plant's water intake channel to divert fish away from the plant's water intake system. In November 2010, the Ohio EPA issued a permit for the coal-fired Bay Shore Plant requiring installation of reverse louvers in its entire water intake channel by December 31, 2014. Depending on the results of such studies and the EPA's further rulemaking and any final action taken by the states exercising best professional judgment, the future costs of compliance with these standards may require material capital expenditures.

In April 2011, the U.S. Attorney's Office in Cleveland, Ohio advised FGCO that it is no longer considering prosecution under the Clean Water Act and the Migratory Bird Treaty Act for three petroleum spills at the Edgewater, Lakeshore and Bay Shore plants which occurred on November 1, 2005, January 26, 2007 and February 27, 2007. This matter has been referred back to EPA for civil enforcement and FGCO is unable to predict the outcome of this matter. In May 2011, the West Virginia Highlands Conservancy, the West Virginia Rivers Coalition, and the Sierra Club filed a CWA citizen suit alleging violations of arsenic limits in the NPDES water discharge permit for the fly ash disposal

site at the Albright coal-fired plant seeking unspecified civil penalties and injunctive relief. MP is currently seeking relief from the arsenic limits through WVDEP agency review. In June 2011, the West Virginia Highlands Conservancy, the West Virginia Rivers Coalition, and the Sierra Club served another 60-Day Notice of Intent required prior to filing a citizen suit under the Clean Water Act for alleged failure to obtain a permit to construct the fly ash impoundments at the Albright Station.

FirstEnergy intends to vigorously defend against the CWA matters described above but cannot predict their outcomes.

**Table of Contents***Monongahela River Water Quality*

In late 2008, the PA DEP imposed water quality criteria for certain effluents, including TDS and sulfate concentrations in the Monongahela River, on new and modified sources, including the scrubber project at the Hatfield's Ferry coal-fired plant. These criteria are reflected in the current PA DEP water discharge permit for that project. AE Supply appealed the PA DEP's permitting decision, which would require it to incur significant costs or negatively affect its ability to operate the scrubbers as designed. Preliminary studies indicate an initial capital investment in excess of \$150 million in order to install technology to meet the TDS and sulfate limits in the permit. The permit has been independently appealed by Environmental Integrity Project and Citizens Coal Council, which seeks to impose more stringent technology-based effluent limitations. Those same parties have intervened in the appeal filed by AE Supply, and both appeals have been consolidated for discovery purposes. An order has been entered that stays the permit limits that AE Supply has challenged while the appeal is pending. The hearing is scheduled to begin in September 2011, however the Court stayed all prehearing deadlines on July 15, 2011 to allow the parties additional time to work out a settlement. AE Supply intends to vigorously pursue these issues, but cannot predict the outcome of these appeals.

In a parallel rulemaking, the PA DEP recommended, and in August 2010, the Pennsylvania Environmental Quality Board issued, a final rule imposing end-of-pipe TDS effluent limitations. FirstEnergy could incur significant costs for additional control equipment to meet the requirements of this rule, although its provisions do not apply to electric generating units until the end of 2018, and then only if the EPA has not promulgated TDS effluent limitation guidelines applicable to such units.

In December 2010, PA DEP submitted its Clean Water Act 303(d) list to the EPA with a recommended sulfate impairment designation for an approximately 68 mile stretch of the Monongahela River north of the West Virginia border. In May 2011, the EPA agreed with PA DEP's recommended sulfate impairment designation. PA DEP's goal is to submit a final water quality standards regulation, incorporating the sulfate impairment designation for EPA approval by May, 2013. PA DEP will then need to develop a TMDL limit for the river, a process that will take approximately five years. Based on the stringency of the TMDL, FirstEnergy may incur significant costs to reduce sulfate discharges into the Monongahela River from its Hatfield's Ferry and Mitchell facilities in Pennsylvania and its Fort Martin facility in West Virginia.

In October 2009, the WVDEP issued the water discharge permit for the Fort Martin generation facility. Similar to the Hatfield's Ferry water discharge permit issued for the scrubber project, the Fort Martin permit imposes effluent limitations for TDS and sulfate concentrations. The permit also imposes temperature limitations and other effluent limits for heavy metals that are not contained in the Hatfield's Ferry water permit. Concurrent with the issuance of the Fort Martin permit, WVDEP also issued an administrative order that sets deadlines for MP to meet certain of the effluent limits that are effective immediately under the terms of the permit. MP appealed the Fort Martin permit and the administrative order. The appeal included a request to stay certain of the conditions of the permit and order while the appeal is pending, which was granted pending a final decision on appeal and subject to WVDEP moving to dissolve the stay. The appeals have been consolidated. MP moved to dismiss certain of the permit conditions for the failure of the WVDEP to submit those conditions for public review and comment during the permitting process. An agreed-upon order that suspends further action on this appeal, pending WVDEP's release for public review and comment on those conditions, was entered on August 11, 2010. The stay remains in effect during that process. The current terms of the Fort Martin permit would require MP to incur significant costs or negatively affect operations at Fort Martin. Preliminary information indicates an initial capital investment in excess of the capital investment that may be needed at Hatfield's Ferry in order to install technology to meet the TDS and sulfate limits in the Fort Martin permit, which technology may also meet certain of the other effluent limits in the permit. Additional technology may be needed to meet certain other limits in the permit. MP intends to vigorously pursue these issues but cannot predict the outcome of these appeals.

*Regulation of Waste Disposal*

Federal and state hazardous waste regulations have been promulgated as a result of the Resource Conservation and Recovery Act of 1976, as amended, and the Toxic Substances Control Act of 1976. Certain fossil-fuel combustion residuals, such as coal ash, were exempted from hazardous waste disposal requirements pending the EPA's evaluation

of the need for future regulation. In February 2009, the EPA requested comments from the states on options for regulating coal combustion residuals, including whether they should be regulated as hazardous or non-hazardous waste.

In December 2009, in an advanced notice of public rulemaking, the EPA asserted that the large volumes of coal combustion residuals produced by electric utilities pose significant financial risk to the industry. In May 2010, the EPA proposed two options for additional regulation of coal combustion residuals, including the option of regulation as a special waste under the EPA's hazardous waste management program which could have a significant impact on the management, beneficial use and disposal of coal combustion residuals. FirstEnergy's future cost of compliance with any coal combustion residuals regulations that may be promulgated could be substantial and would depend, in part, on the regulatory action taken by the EPA and implementation by the EPA or the states.

The Little Blue Run (LBR) Coal Combustion By-products (CCB) impoundment is expected to run out of disposal capacity for disposal of CCBs from the Bruce Mansfield Plant between 2016 and 2018. In July 2011, BMP submitted a Phase I permit application to PA DEP for construction of a new dry CCB disposal facility adjacent to LBR. BMP anticipates submitting zoning applications for approval to allow construction of a new dry CCB disposal facility prior to commencing construction.

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The Utility Registrants have been named as potentially responsible parties at waste disposal sites, which may require cleanup under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980. Allegations of disposal of hazardous substances at historical sites and the liability involved are often unsubstantiated and subject to dispute; however, federal law provides that all potentially responsible parties for a particular site may be liable on a joint and several basis. Environmental liabilities that are considered probable have been recognized on the consolidated balance sheet as of June 30, 2011, based on estimates of the total costs of cleanup, the Utility Registrants proportionate responsibility for such costs and the financial ability of other unaffiliated entities to pay. Total liabilities of approximately \$133 million (JCP&L \$69 million, TE \$1 million, CEI \$1 million, FGCO \$1 million and FirstEnergy \$61 million) have been accrued through June 30, 2011. Included in the total are accrued liabilities of approximately \$63 million for environmental remediation of former manufactured gas plants and gas holder facilities in New Jersey, which are being recovered by JCP&L through a non-bypassable SBC. On July 11, 2011, FirstEnergy was found to be a potentially responsible party under CERCLA indirectly liable for a portion of past and future clean-up costs at certain legacy MGP sites, estimated to total approximately \$59 million. FirstEnergy recognized additional expense of \$29 million during the second quarter of 2011; \$30 million had previously been reserved prior to 2011.

**(C) OTHER LEGAL PROCEEDINGS***Power Outages and Related Litigation*

In July 1999, the Mid-Atlantic States experienced a severe heat wave, which resulted in power outages throughout the service territories of many electric utilities, including JCP&L. Two class action lawsuits (subsequently consolidated into a single proceeding) were filed in New Jersey Superior Court in July 1999 against JCP&L, GPU and other GPU companies, seeking compensatory and punitive damages due to the outages. After various motions, rulings and appeals, the Plaintiffs' claims for consumer fraud, common law fraud, negligent misrepresentation, strict product liability and punitive damages were dismissed, leaving only the negligence and breach of contract causes of actions. On July 29, 2010, the Appellate Division upheld the trial court's decision decertifying the class. Plaintiffs have filed, and JCP&L has opposed, a motion for leave to appeal to the New Jersey Supreme Court. In November 2010, the Supreme Court issued an order denying Plaintiffs' motion. The Court's order effectively ends the class action attempt, and leaves only nine (9) plaintiffs to pursue their respective individual claims. The remaining individual plaintiffs have yet to take any affirmative steps to pursue their individual claims.

*Nuclear Plant Matters*

Under NRC regulations, FirstEnergy must ensure that adequate funds will be available to decommission its nuclear facilities. As of June 30, 2011, FirstEnergy had approximately \$2 billion invested in external trusts to be used for the decommissioning and environmental remediation of Davis-Besse, Beaver Valley, Perry and TMI-2. As required by the NRC, FirstEnergy annually recalculates and adjusts the amount of its parental guarantee, as appropriate. The values of FirstEnergy's NDT fluctuate based on market conditions. If the value of the trusts decline by a material amount, FirstEnergy's obligation to fund the trusts may increase. Disruptions in the capital markets and their effects on particular businesses and the economy could also affect the values of the NDT. The NRC issued guidance anticipating an increase in low-level radioactive waste disposal costs associated with the decommissioning of nuclear facilities. On March 28, 2011, FENOC submitted its biennial report on nuclear decommissioning funding to the NRC. This submittal identified a total shortfall in nuclear decommissioning funding for Beaver Valley Unit 1 and Perry of approximately \$92.5 million. On June 24, 2011, FENOC submitted a \$95 million parental guarantee to the NRC for its approval.

In August 2010, FENOC submitted an application to the NRC for renewal of the Davis-Besse Nuclear Power Station operating license for an additional twenty years, until 2037. By an order dated April 26, 2011, a NRC Atomic Safety and Licensing Board (ASLB) granted a hearing on the Davis-Besse license renewal application to a group of petitioners. By this order, the ASLB also admitted two contentions challenging whether FENOC's Environmental Report adequately evaluated (1) a combination of renewable energy sources as alternatives to the renewal of Davis-Besse's operating license, and (2) severe accident mitigation alternatives at Davis-Besse. On May 6, 2011, FENOC filed an appeal with the NRC Commissioners from the order granting a hearing on the Davis-Besse license renewal application.

On April 14, 2011, a group of environmental organizations petitioned the NRC Commissioners to suspend certain pending nuclear licensing proceedings, including the Davis-Besse license renewal proceeding, to ensure that any safety and environmental implications of the accident at the Fukushima Daiichi Nuclear Power Station in Japan are considered. By May 2, 2011, the NRC Staff, FENOC and much of the nuclear industry filed responses opposing the petition. On May 6, 2011, petitioners filed a supplemental reply.

In January 2004, subsidiaries of FirstEnergy filed a lawsuit in the U.S. Court of Federal Claims seeking damages in connection with costs incurred at the Beaver Valley, Davis-Besse and Perry Nuclear facilities as a result of the DOE failure to begin accepting spent nuclear fuel on January 31, 1998. DOE was required to so commence accepting spent nuclear fuel by the Nuclear Waste Policy Act (42 USC 10101 et seq) and the contracts entered into by the DOE and the owners and operators of these facilities pursuant to the Act. On January 18, 2011, the parties, FirstEnergy and DOJ, filed a joint status report that established a schedule for the litigation of these claims. FirstEnergy filed damages schedules and disclosures with the DOJ on February 11, 2011, seeking approximately \$57 million in damages for delay costs incurred through September 30, 2010. The damage claim is subject to review and audit by DOE.



**Table of Contents***ICG Litigation*

On December 28, 2006, AE Supply and MP filed a complaint in the Court of Common Pleas of Allegheny County, Pennsylvania against International Coal Group, Inc. (ICG), Anker West Virginia Mining Company, Inc. (Anker WV), and Anker Coal Group, Inc. (Anker Coal). Anker WV entered into a long term Coal Sales Agreement with AE Supply and MP for the supply of coal to the Harrison generating facility. Prior to the time of trial, ICG was dismissed as a defendant by the Court, which issue can be the subject of a future appeal. As a result of defendants' past and continued failure to supply the contracted coal, AE Supply and MP have incurred and will continue to incur significant additional costs for purchasing replacement coal. A non-jury trial was held from January 10, 2011 through February 1, 2011. At trial, AE Supply and MP presented evidence that they have incurred in excess of \$80 million in damages for replacement coal purchased through the end of 2010 and will incur additional damages in excess of \$150 million for future shortfalls. Defendants primarily claim that their performance is excused under a force majeure clause in the coal sales agreement and presented evidence at trial that they will continue to not provide the contracted yearly tonnage amounts. On May 2, 2011, the court entered a verdict in favor of AE Supply and MP for \$104 million (\$90 million in future damages and \$14 million for replacement coal / interest). Post-trial filings occurred in May 2011, with Oral Argument on June 28, 2011. The parties expect a ruling sometime in the third quarter, at which time the judgment will be final. The parties have 30 days to appeal the final judgment. AE Supply and MP intend to vigorously pursue this matter through appeal if necessary but cannot predict its outcome.

*Other Legal Matters*

In February 2010, a class action lawsuit was filed in Geauga County Court of Common Pleas against FirstEnergy, CEI and OE seeking declaratory judgment and injunctive relief, as well as compensatory, incidental and consequential damages, on behalf of a class of customers related to the reduction of a discount that had previously been in place for residential customers with electric heating, electric water heating, or load management systems. The reduction in the discount was approved by the PUCO. In March 2010, the named-defendant companies filed a motion to dismiss the case due to the lack of jurisdiction of the court of common pleas. The court granted the motion to dismiss on September 7, 2010. The plaintiffs appealed the decision to the Court of Appeals of Ohio, which has not yet rendered an opinion.

There are various lawsuits, claims (including claims for asbestos exposure) and proceedings related to FirstEnergy's normal business operations pending against FirstEnergy and its subsidiaries. The other potentially material items not otherwise discussed above are described below.

FirstEnergy accrues legal liabilities only when it concludes that it is probable that it has an obligation for such costs and can reasonably estimate the amount of such costs. If it were ultimately determined that FirstEnergy or its subsidiaries have legal liability or are otherwise made subject to liability based on the above matters, it could have a material adverse effect on FirstEnergy's or its subsidiaries' financial condition, results of operations and cash flows.

**10. REGULATORY MATTERS****(A) RELIABILITY INITIATIVES**

Federally-enforceable mandatory reliability standards apply to the bulk electric system and impose certain operating, record-keeping and reporting requirements on the Utilities, FES, FGCO, FENOC, ATSI and TrAIL. The NERC is the ERO charged with establishing and enforcing these reliability standards, although it has delegated day-to-day implementation and enforcement of these reliability standards to eight regional entities, including ReliabilityFirst Corporation. All of FirstEnergy's facilities are located within the ReliabilityFirst region. FirstEnergy actively participates in the NERC and ReliabilityFirst stakeholder processes, and otherwise monitors and manages its companies in response to the ongoing development, implementation and enforcement of the reliability standards implemented and enforced by the ReliabilityFirst Corporation.

FirstEnergy believes that it generally is in compliance with all currently-effective and enforceable reliability standards. Nevertheless, in the course of operating its extensive electric utility systems and facilities, FirstEnergy occasionally learns of isolated facts or circumstances that could be interpreted as excursions from the reliability standards. If and when such items are found, FirstEnergy develops information about the item and develops a remedial response to the specific circumstances, including in appropriate cases self-reporting an item to ReliabilityFirst. Moreover, it is clear that the NERC, ReliabilityFirst and FERC will continue to refine existing reliability standards as

well as to develop and adopt new reliability standards. The financial impact of complying with future new or amended standards cannot be determined at this time; however, 2005 amendments to the FPA provide that all prudent costs incurred to comply with the future reliability standards be recovered in rates. Still, any future inability on FirstEnergy's part to comply with the reliability standards for its bulk power system could result in the imposition of financial penalties that could have a material adverse effect on its financial condition, results of operations and cash flows.

On December 9, 2008, a transformer at JCP&L's Oceanview substation failed, resulting in an outage on certain bulk electric system (transmission voltage) lines out of the Oceanview and Atlantic substations resulting in customers losing power for up to eleven hours. On March 31, 2009, the NERC initiated a Compliance Violation Investigation in order to determine JCP&L's contribution to the electrical event and to review any potential violation of NERC Reliability Standards associated with the event. NERC has submitted first and second Requests for Information regarding this and another related matter. JCP&L is complying with these requests. JCP&L is not able to predict what actions, if any, that the NERC may take with respect to this matter.

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On August 23, 2010, FirstEnergy self-reported to ReliabilityFirst a vegetation encroachment event on a Met-Ed 230 kV line. This event did not result in a fault, outage, operation of protective equipment, or any other meaningful electric effect on any FirstEnergy transmission facilities or systems. On August 25, 2010, ReliabilityFirst issued a Notice of Enforcement to investigate the incident. FirstEnergy submitted a data response to ReliabilityFirst on September 27, 2010. In March 2011, ReliabilityFirst submitted its proposed findings and settlement, although a final determination has not yet been made by FERC.

Allegheny has been subject to routine audits with respect to its compliance with applicable reliability standards and has settled certain related issues. In addition, ReliabilityFirst is currently conducting certain investigations with regard to certain matters of compliance by Allegheny.

**(B) MARYLAND**

By statute enacted in 2007, the obligation of Maryland utilities to provide standard offer service (SOS) to residential and small commercial customers, in exchange for recovery of their costs plus a reasonable profit, was extended indefinitely. The legislation also established a five-year cycle (to begin in 2008) for the MDPSC to report to the legislature on the status of SOS. PE now conducts rolling auctions to procure the power supply necessary to serve its customer load pursuant to a plan approved by the MDPSC. However, the terms on which PE will provide SOS to residential customers after the settlement beyond 2012 will depend on developments with respect to SOS in Maryland between now and then, including but not limited to possible MDPSC decisions in the proceedings discussed below.

The MDPSC opened a new docket in August 2007 to consider matters relating to possible managed portfolio approaches to SOS and other matters. Phase II of the case addressed utility purchases or construction of generation, bidding for procurement of demand response resources and possible alternatives if the TrAIL and PATH projects were delayed or defeated. It is unclear when the MDPSC will issue its findings in this and other SOS-related pending proceedings discussed below.

In September 2009, the MDPSC opened a new proceeding to receive and consider proposals for construction of new generation resources in Maryland. In December 2009, Governor Martin O Malley filed a letter in this proceeding in which he characterized the electricity market in Maryland as a failure and urged the MDPSC to use its existing authority to order the construction of new generation in Maryland, vary the means used by utilities to procure generation and include more renewables in the generation mix. In August 2010, the MDPSC opened another new proceeding to solicit comments on the PJM RPM process. Public hearings on the comments were held in October 2010. In December 2010, the MDPSC issued an order soliciting comments on a model request for proposal for solicitation of long-term energy commitments by Maryland electric utilities. PE and numerous other parties filed comments, and at this time no further proceedings have been set by the MDPSC in this matter.

In September 2007, the MDPSC issued an order that required the Maryland utilities to file detailed plans for how they will meet the EmPOWER Maryland proposal that electric consumption be reduced by 10% and electricity demand be reduced by 15%, in each case by 2015.

The Maryland legislature in 2008 adopted a statute codifying the EmPOWER Maryland goals. In 2008, PE filed its comprehensive plans for attempting to achieve those goals, asking the MDPSC to approve programs for residential, commercial, industrial, and governmental customers, as well as a customer education program. The MDPSC ultimately approved the programs in August 2009 after certain modifications had been made as required by the MDPSC, and approved cost recovery for the programs in October 2009. Expenditures were estimated to be approximately \$101 million and would be recovered over the following six years. Meanwhile, extensive meetings with the MDPSC Staff and other stakeholders to discuss details of PE's plans for additional and improved programs for the period 2012-2014 began in April 2011 and those programs are to be filed by September 1, 2011.

In March 2009, the MDPSC issued an order suspending until further notice the right of all electric and gas utilities in the state to terminate service to residential customers for non-payment of bills. The MDPSC subsequently issued an order making various rule changes relating to terminations, payment plans, and customer deposits that make it more difficult for Maryland utilities to collect deposits or to terminate service for non-payment. The MDPSC is continuing to conduct hearings and collect data on payment plan and related issues and has adopted a set of proposed regulations that expand the summer and winter severe weather termination moratoria when temperatures are very high or very low, from one day, as provided by statute, to three days on each occurrence.



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On March 24, 2011, the MDPSC held an initial hearing to discuss possible new regulations relating to service interruptions, storm response, call center metrics, and related reliability standards. The proposed rules included provisions for civil penalties for non-compliance. Numerous parties filed comments on the proposed rules and participated in the hearing, with many noting issues of cost and practicality relating to implementation. The Maryland legislature passed a bill on April 11, 2011, which requires the MDPSC to promulgate rules by July 1, 2012 that address service interruptions, downed wire response, customer communication, vegetation management, equipment inspection, and annual reporting. In crafting the regulations, the legislation directs the MDPSC to consider cost-effectiveness, and provides that the MDPSC may adopt different standards for different utilities based on such factors as system design and existing infrastructure, geography, and customer density. Beginning in July 2013, the MDPSC is to assess each utility's compliance with the standards, and may assess penalties of up to \$25,000 per day per violation. The MDPSC has ordered that a working group of utilities, regulators, and other interested stakeholders meet to address the topics of the proposed rules, with proposed rules to be filed by September 15, 2011. Separately, on April 7, 2011, the MDPSC initiated a rulemaking with respect to issues related to contact voltage. On June 3, 2011, the MDPSC's Staff issued a report and draft regulations. Comments on the draft regulations were submitted on June 17, 2011, and a hearing was held July 7, 2011. Final regulations related to contact voltage have not yet been adopted.

**(C) NEW JERSEY**

In March 2009 and again in February 2010, JCP&L filed annual SBC Petitions with the NJBPU that included a requested zero level of recovery of TMI-2 decommissioning costs based on an updated TMI-2 decommissioning cost analysis dated January 2009 estimated at \$736 million (in 2003 dollars). In its order of June 15, 2011, the NJBPU adopted a Stipulation reached among JCP&L, the NJBPU Staff and the Division of Rate Counsel which resolved both Petitions, resulting in a net reduction in recovery of \$0.8 million annually for all components of the SBC (including, as requested, a zero level of recovery of TMI-2 decommissioning costs).

**(D) OHIO**

The Ohio Companies operate under an ESP, which expires on May 31, 2014. The material terms of the ESP include: generation supplied through a CBP commencing June 1, 2011 (initial auctions held on October 20, 2010 and January 25, 2011); a load cap of no less than 80%, which also applies to tranches assigned post-auction; a 6% generation discount to certain low income customers provided by the Ohio Companies through a bilateral wholesale contract with FES (FES is one of the wholesale suppliers to the Ohio Companies); no increase in base distribution rates through May 31, 2014; and a new distribution rider, Delivery Capital Recovery Rider (Rider DCR), to recover a return of, and on, capital investments in the delivery system. The Ohio Companies also agreed not to recover from retail customers certain costs related to transmission cost allocations by PJM as a result of ATSI's integration into PJM for the longer of the five-year period from June 1, 2011 through May 31, 2015 or when the amount of costs avoided by customers for certain types of products totals \$360 million dependent on the outcome of certain PJM proceedings, agreed to establish a \$12 million fund to assist low income customers over the term of the ESP and agreed to additional matters related to energy efficiency and alternative energy requirements.

Under the provisions of SB221, the Ohio Companies are required to implement energy efficiency programs that will achieve a total annual energy savings equivalent to approximately 166,000 MWH in 2009, 290,000 MWH in 2010, 410,000 MWH in 2011, 470,000 MWH in 2012 and 530,000 MWH in 2013, with additional savings required through 2025. Utilities were also required to reduce peak demand in 2009 by 1%, with an additional 0.75% reduction each year thereafter through 2018.

In December 2009, the Ohio Companies filed the required three year portfolio plan seeking approval for the programs they intend to implement to meet the energy efficiency and peak demand reduction requirements for the 2010-2012 period. The Ohio Companies expect that all costs associated with compliance will be recoverable from customers. The PUCO issued an Opinion and Order generally approving the Ohio Companies' 3-year plan, and the Companies are in the process of implementing those programs included in the Plan. OE fell short of its statutory 2010 energy efficiency and peak demand reduction benchmarks and therefore, on January 11, 2011, it requested that its 2010 energy efficiency and peak demand reduction benchmarks be amended to actual levels achieved in 2010. The PUCO granted this request on May 19, 2011 for OE, finding that the motion was moot for CEI and TE. Moreover, because the PUCO

indicated, when approving the 2009 benchmark request, that it would modify the Companies' 2010 (and 2011 and 2012) energy efficiency benchmarks when addressing the portfolio plan, the Ohio Companies were not certain of their 2010 energy efficiency obligations. Therefore, CEI and TE (each of which achieved its 2010 energy efficiency and peak demand reduction statutory benchmarks) also requested an amendment if and only to the degree one was deemed necessary to bring them into compliance with their yet-to-be-defined modified benchmarks. On June 2, 2011, the Companies filed an application for rehearing to clarify the decision related to CEI and TE. Failure to comply with the benchmarks or to obtain such an amendment may subject the companies to an assessment by the PUCO of a penalty. In addition to approving the programs included in the plan, with only minor modifications, the PUCO authorized the Companies to recover all costs related to the original CFL program that the Ohio Companies had previously suspended at the request of the PUCO. Applications for Rehearing were filed on April 22, 2011, regarding portions of the PUCO's decision, including the method for calculating savings and certain changes made by the PUCO to specific programs. On May 4, 2011, the PUCO granted applications for rehearing for the purpose of further consideration; however, no substantive ruling has been issued.

Additionally under SB221, electric utilities and electric service companies are required to serve part of their load from renewable energy resources equivalent to 0.25% of the KWH they served in 2009 and 0.50% of the KWH they served in 2010. In August and October 2009, the Ohio Companies conducted RFPs to secure RECs. The RECs acquired through these two RFPs were used to help meet the renewable energy requirements established under SB221 for 2009, 2010 and 2011. In March 2010, the PUCO found that there was an insufficient quantity of solar energy resources reasonably available in the market and reduced the Ohio Companies' aggregate 2009 benchmark to the level of solar RECs the Ohio Companies acquired through their 2009 RFP processes, provided the Ohio Companies' 2010 alternative energy

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requirements be increased to include the shortfall for the 2009 solar REC benchmark. FES also applied for a force majeure determination from the PUCO regarding a portion of their compliance with the 2009 solar energy resource benchmark. On February 23, 2011, the PUCO granted FES force majeure request for 2009 and increased its 2010 benchmark by the amount of SRECs that FES was short of in its 2009 benchmark. On April 15, 2011, the Ohio Companies filed an application seeking an amendment to each of their 2010 alternative energy requirements for solar RECs generated in Ohio on the basis that an insufficient quantity of solar resources are available in the market but reflecting solar RECs that they have obtained and providing additional information regarding efforts to secure solar RECs. Other parties to the proceeding filed comments asserting that the force majeure determination should not be granted, and others requesting the PUCO to review the costs the Ohio companies have incurred to comply with the renewable energy requirements. The PUCO has not yet acted on that application.

In February 2010, OE and CEI filed an application with the PUCO to establish a new credit for all-electric customers. In March 2010, the PUCO ordered that rates for the affected customers be set at a level that will provide bill impacts commensurate with charges in place on December 31, 2008 and authorized the Ohio Companies to defer incurred costs equivalent to the difference between what the affected customers would have paid under previously existing rates and what they pay with the new credit in place. Tariffs implementing this new credit went into effect in March 2010. In April 2010, the PUCO issued a Second Entry on Rehearing that expanded the group of customers to which the new credit would apply and authorized deferral for the associated additional amounts. The PUCO also stated that it expected that the new credit would remain in place through at least the 2011 winter season and charged its staff to work with parties to seek a long term solution to the issue. Tariffs implementing this newly expanded credit went into effect in May 2010 and the proceeding remains open. The hearing on the matter was held in February 2011. The PUCO modified and approved the companies application on May 25, 2011, ruling that the new credit be phased out over an eight-year period and granting authority for the companies to recover deferred costs and associated carrying charges. OCC filed applications for rehearing on June 24, 2011 and the Ohio Companies filed their responses on July 5, 2011. The PUCO has not yet acted on the applications for rehearing.

**(E) PENNSYLVANIA**

The PPUC entered an Order on March 3, 2010 that denied the recovery of marginal transmission losses through the TSC rider for the period of June 1, 2007 through March 31, 2008, directed Met-Ed and Penelec to submit a new tariff or tariff supplement reflecting the removal of marginal transmission losses from the TSC, and instructed Met-Ed and Penelec to work with the various intervening parties to file a recommendation to the PPUC regarding the establishment of a separate account for all marginal transmission losses collected from ratepayers plus interest to be used to mitigate future generation rate increases beginning January 1, 2011. In March 2010, Met-Ed and Penelec filed a Petition with the PPUC requesting that it stay the portion of the March 3, 2010 Order requiring the filing of tariff supplements to end collection of costs for marginal transmission losses. The PPUC granted the requested stay until December 31, 2010. Pursuant to the PPUC's order, Met-Ed and Penelec filed plans to establish separate accounts for marginal transmission loss revenues and related interest and carrying charges. Pursuant to the plan approved by the PPUC, Met-Ed and Penelec began to refund those amounts to customers in January 2011, and the refunds will continue over a 29 month period until the full amounts previously recovered for marginal transmission losses are refunded. In April 2010, Met-Ed and Penelec filed a Petition for Review with the Commonwealth Court of Pennsylvania appealing the PPUC's March 3, 2010 Order. On June 14, 2011, the Commonwealth Court issued an opinion and order affirming the PPUC's Order to the extent that it holds that line loss costs are not transmission costs and, therefore, the approximately \$254 million in marginal transmission losses and associated carrying charges for the period prior to January 1, 2011, are not recoverable under Met-Ed's and Penelec's TSC riders. Met-Ed and Penelec filed a Petition for Allowance of Appeal with the Pennsylvania Supreme Court and also a complaint seeking relief in federal district court. Although the ultimate outcome of this matter cannot be determined at this time, Met-Ed and Penelec believe that they should ultimately prevail through the judicial process and therefore expect to fully recover the approximately \$254 million (\$189 million for Met-Ed and \$65 million for Penelec) in marginal transmission losses for the period prior to January 1, 2011.

In May 2008, May 2009 and May 2010, the PPUC approved Met-Ed's and Penelec's annual updates to their TSC rider for the annual periods between June 1, 2008 to December 31, 2010, including marginal transmission losses as

approved by the PPUC, although the recovery of marginal losses will be subject to the outcome of the proceeding related to the 2008 TSC filing as described above. The PPUC's approval in May 2010 authorized an increase to the TSC for Met-Ed's customers to provide for full recovery by December 31, 2010.

In February 2010, Penn filed a Petition for Approval of its Default Service Plan for the period June 1, 2011 through May 31, 2013. In July 2010, the parties to the proceeding filed a Joint Petition for Settlement of all issues. Although the PPUC's Order approving the Joint Petition held that the provisions relating to the recovery of MISO exit fees and one-time PJM integration costs (resulting from Penn's June 1, 2011 exit from MISO and integration into PJM) were approved, it made such provisions subject to the approval of cost recovery by FERC. Therefore, Penn may not put these provisions into effect until FERC has approved the recovery and allocation of MISO exit fees and PJM integration costs.

Pennsylvania adopted Act 129 in 2008 to address issues such as: energy efficiency and peak load reduction; generation procurement; time-of-use rates; smart meters; and alternative energy. Among other things, Act 129 required utilities to file with the PPUC an energy efficiency and peak load reduction plan, or EE&C Plan, by July 1, 2009, setting forth the utilities' plans to reduce energy consumption by a minimum of 1% and 3% by May 31, 2011 and May 31, 2013, respectively, and to reduce peak demand by a minimum of 4.5% by May 31, 2013. Act 129 also required utilities to file with the PPUC a Smart Meter Implementation Plan (SMIP).



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The PPUC entered an Order in February 2010 giving final approval to all aspects of the EE&C Plans of Met-Ed, Penelec and Penn and the tariff rider with rates effective March 1, 2010. On February 18, 2011, the companies filed a petition to approve their First Amended EE&C Plans. On June 28, 2011, a hearing on the petition was held before an administrative law judge.

WP filed its original EE&C Plan in June 2009, which the PPUC approved, in large part, by Opinion and Order entered in October 2009. In November 2009, the Office of Consumer Advocate (OCA) filed an appeal with the Commonwealth Court of the PPUC's October Order. The OCA contends that the PPUC's Order failed to include WP's costs for smart meter implementation in the EE&C Plan, and that inclusion of such costs would cause the EE&C Plan to exceed the statutory cap for EE&C expenditures. The OCA also contends that WP's EE&C plan does not meet the Total Resource Cost Test. The appeal remains pending but has been stayed by the Commonwealth Court pending possible settlement of WP's SMIP. In September 2010, WP filed an amended EE&C Plan that is less reliant on smart meter deployment, which the PPUC approved in January 2011.

Met-Ed, Penelec and Penn jointly filed a SMIP with the PPUC in August 2009. This plan proposed a 24-month assessment period in which Met-Ed, Penelec and Penn will assess their needs, select the necessary technology, secure vendors, train personnel, install and test support equipment, and establish a cost effective and strategic deployment schedule, which currently is expected to be completed in fifteen years. Met-Ed, Penelec and Penn estimate assessment period costs of approximately \$29.5 million, which the Met-Ed, Penelec and Penn, in their plan, proposed to recover through an automatic adjustment clause. The ALJ's Initial Decision approved the SMIP as modified by the ALJ, including: ensuring that the smart meters to be deployed include the capabilities listed in the PPUC's Implementation Order; denying the recovery of interest through the automatic adjustment clause; providing for the recovery of reasonable and prudent costs net of resulting savings from installation and use of smart meters; and requiring that administrative start-up costs be expensed and the costs incurred for research and development in the assessment period be capitalized. The PPUC entered its Order in June 2010, consistent with the Chairman's Motion. Met-Ed, Penelec and Penn filed a Petition for Reconsideration of a single portion of the PPUC's Order regarding the future ability to include smart meter costs in base rates, which the PPUC granted in part by deleting language from its original order that would have precluded Met-Ed, Penelec and Penn from seeking to include smart meter costs in base rates at a later time. The costs to implement the SMIP could be material. However, assuming these costs satisfy a just and reasonable standard, they are expected to be recovered in a rider (Smart Meter Technologies Charge Rider) which was approved when the PPUC approved the SMIP.

In August 2009, WP filed its original SMIP, which provided for extensive deployment of smart meter infrastructure with replacement of all of WP's approximately 725,000 meters by the end of 2014. In December 2009, WP filed a motion to reopen the evidentiary record to submit an alternative smart meter plan proposing, among other things, a less-rapid deployment of smart meters. In an Initial Decision dated April 29, 2010, an ALJ determined that WP's alternative smart meter deployment plan, complied with the requirements of Act 129 and recommended approval of the alternative plan, including WP's proposed cost recovery mechanism.

In light of the significant expenditures that would be associated with its smart meter deployment plans and related infrastructure upgrades, as well as its evaluation of recent PPUC decisions approving less-rapid deployment proposals by other utilities, WP re-evaluated its Act 129 compliance strategy, including both its plans with respect to smart meter deployment and certain smart meter dependent aspects of the EE&C Plan. In October 2010, WP and Pennsylvania's OCA filed a Joint Petition for Settlement addressing WP's smart meter implementation plan with the PPUC. Under the terms of the proposed settlement, WP proposed to decelerate its previously contemplated smart meter deployment schedule and to target the installation of approximately 25,000 smart meters in support of its EE&C Plan, based on customer requests, by mid-2012. The proposed settlement also contemplates that WP take advantage of the 30-month grace period authorized by the PPUC to continue WP's efforts to re-evaluate full-scale smart meter deployment plans. WP currently anticipates filing its plan for full-scale deployment of smart meters in June 2012. Under the terms of the proposed settlement, WP would be permitted to recover certain previously incurred and anticipated smart-meter related expenditures through a levelized customer surcharge, with certain expenditures amortized over a ten-year period. Additionally, WP would be permitted to seek recovery of certain other costs as part of its revised SMIP that it currently intends to file in June 2012, or in a future base distribution rate case.

In December 2010, the PPUC directed that the SMIP proceeding be referred to the ALJ for further proceedings to ensure that the impact of the proposed merger with FirstEnergy is considered and that the Joint Petition for Settlement has adequate support in the record. On March 9, 2011, WP submitted an Amended Joint Petition for Settlement which restates the Joint Petition for Settlement filed in October 2010, adds the PPUC's Office of Trial Staff as a signatory party, and confirms the support or non-opposition of all parties to the settlement. One party retained the ability to challenge the recovery of amounts spent on WP's original smart meter implementation plan. The proposed settlement also obligates OCA to withdraw its November 2009 appeal of the PPUC's Order in WP's EE&C plan proceeding. A Joint Stipulation with the OSBA was also filed on March 9, 2011. On May 3, 2011, the ALJ issued an Initial Decision recommending that the PPUC approve the Amended Joint Petition for Full Settlement. The PPUC approved the Initial Decision by order entered June 30, 2011.

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By Tentative Order entered in September 2009, the PPUC provided for an additional 30-day comment period on whether the 1998 Restructuring Settlement, which addressed how Met-Ed and Penelec were going to implement direct access to a competitive market for the generation of electricity, allows Met-Ed and Penelec to apply over-collection of NUG costs for select and isolated months to reduce non-NUG stranded costs when a cumulative NUG stranded cost balance exists. In response to the Tentative Order, various parties filed comments objecting to the above accounting method utilized by Met-Ed and Penelec. Met-Ed and Penelec are awaiting further action by the PPUC.

In the PPUC Order approving the FirstEnergy and Allegheny merger, the PPUC announced that a separate statewide investigation into Pennsylvania's retail electricity market will be conducted with the goal of making recommendations for improvements to ensure that a properly functioning and workable competitive retail electricity market exists in the state. On April 29, 2011, the PPUC entered an Order initiating the investigation and requesting comments from interested parties on eleven directed questions. Met-Ed, Penelec, Penn Power and West Penn submitted joint comments on June 3, 2011. FES also submitted comments on June 3, 2011. On June 8, 2011, the PPUC conducted an en banc hearing on these issues at which both the Pennsylvania Companies and FES participated and offered testimony.

**(F) VIRGINIA**

In September 2010, PATH-VA filed an application with the VSCC for authorization to construct the Virginia portions of the PATH Project. On February 28, 2011, PATH-VA filed a motion to withdraw the application. On May 24, 2011, the VSCC granted PATH-VA's motion to withdraw its application for authorization to construct the Virginia portions of the PATH Project. See Transmission Expansion in the Federal Regulation and Rate Matters section for further discussion of this matter.

**(G) WEST VIRGINIA**

In August 2009, MP and PE filed with the WVPSC a request to increase retail rates, which was amended through subsequent filings. MP and PE ultimately requested an annual increase in retail rates of approximately \$95 million. In April 2010, MP and PE filed with the WVPSC a Joint Stipulation and Agreement of Settlement reached with the other parties in the proceeding that provided for:

- a \$40 million annualized base rate increase effective June 29, 2010;
- a deferral of February 2010 storm restoration expenses in West Virginia over a maximum five-year period;
- an additional \$20 million annualized base rate increase effective in January 2011;
- a decrease of \$20 million in ENEC rates effective January 2011, which amount is deferred for later recovery in 2012; and
- a moratorium on filing for further increases in base rates before December 1, 2011, except under specified circumstances.

The WVPSC approved the Joint Petition and Agreement of Settlement in June 2010.

In 2009, the West Virginia Legislature enacted the Alternative and Renewable Energy Portfolio Act (Portfolio Act), which generally requires that a specified minimum percentage of electricity sold to retail customers in West Virginia by electric utilities each year be derived from alternative and renewable energy resources according to a predetermined schedule of increasing percentage targets, including ten percent by 2015, fifteen percent by 2020, and twenty-five percent by 2025. In November 2010, the WVPSC issued Rules Governing Alternative and Renewable Energy Portfolio Standard (RPS Rules), which became effective on January 4, 2011. Under the RPS Rules, on or before January 1, 2011, each electric utility subject to the provisions of this rule was required to prepare an alternative and renewable energy portfolio standard compliance plan and file an application with the WVPSC seeking approval of such plan. MP and PE filed their combined compliance plan in December 2010. A hearing was held at the WVPSC on June 13, 2011. An order is expected by late September 2011.

Additionally, in January 2011, MP and PE filed an application with the WVPSC seeking to certify three facilities as Qualified Energy Resource Facilities. If the application is approved, the three facilities would then be capable of generating renewable credits which would assist the companies in meeting their combined requirements under the Portfolio Act. Further, in February 2011, MP and PE filed a petition with the WVPSC seeking an Order declaring that MP is entitled to all alternative and renewable energy resource credits associated with the electric energy, or energy and capacity, that MP is required to purchase pursuant to electric energy purchase agreements between MP and three

non-utility electric generating facilities in WV. The City of New Martinsville and Morgantown Energy Associates, each the owner of one of the contracted resources, has participated in the case in opposition to the Petition.

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**(H) FERC MATTERS**

*Rates for Transmission Service Between MISO and PJM*

In November 2004, FERC issued an order eliminating the through and out rate for transmission service between the MISO and PJM regions. FERC also ordered MISO, PJM and the transmission owners within MISO and PJM to submit compliance filings containing a rate mechanism to recover lost transmission revenues created by elimination of this charge (referred to as SECA) during a 16-month transition period. In 2005, FERC set the SECA for hearing. The presiding ALJ issued an initial decision in August 2006, rejecting the compliance filings made by MISO, PJM and the transmission owners, and directing new compliance filings. This decision was subject to review and approval by FERC. In May 2010, FERC issued an order denying pending rehearing requests and an Order on Initial Decision which reversed the presiding ALJ's rulings in many respects. Most notably, these orders affirmed the right of transmission owners to collect SECA charges with adjustments that modestly reduce the level of such charges, and changes to the entities deemed responsible for payment of the SECA charges. The Ohio Companies were identified as load serving entities responsible for payment of additional SECA charges for a portion of the SECA period (Green Mountain/Quest issue). FirstEnergy executed settlements with AEP, Dayton and the Exelon parties to fix FirstEnergy's liability for SECA charges originally billed to Green Mountain and Quest for load that returned to regulated service during the SECA period. The AEP, Dayton and Exelon settlements were approved by FERC in November 2010, and the relevant payments made. The subsidiaries of Allegheny entered into nine settlements to fix their liability for SECA charges with various parties. All of the settlements were approved by FERC and the relevant payments have been made for eight of the settlements. Payments due under the remaining settlement will be made as a part of the refund obligations of the Utilities that are under review by FERC as part of a compliance filing. Potential refund obligations of FirstEnergy and the Allegheny subsidiaries are not expected to be material. Rehearings remain pending in this proceeding.

*PJM Transmission Rate*

In April 2007, FERC issued an order (Opinion 494) finding that the PJM transmission owners' existing license plate or zonal rate design was just and reasonable and ordered that the current license plate rates for existing transmission facilities be retained. On the issue of rates for new transmission facilities, FERC directed that costs for new transmission facilities that are rated at 500 kV or higher are to be collected from all transmission zones throughout the PJM footprint.