

FIRSTENERGY CORP
Form 10-Q
August 07, 2006

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, 2006

OR

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

For the transition
period from

to

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

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Indicate by check mark whether each of the registrants (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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer FirstEnergy Corp.

Accelerated Filer N/A

Non-accelerated Filer Ohio Edison Company, Pennsylvania Power 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 shell company (as defined in Rule 12b-2 of the Act).

Yes No

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

CLASS	OUTSTANDING AS OF AUGUST 7, 2006
FirstEnergy Corp., \$.10 par value	329,836,276
Ohio Edison Company, no par value	80
The Cleveland Electric Illuminating Company, no par value	79,590,689
The Toledo Edison Company, \$5 par value	39,133,887
Pennsylvania Power Company, \$30 par value	6,290,000
Jersey Central Power & Light Company, \$10 par value	15,371,270
Metropolitan Edison Company, no par value	859,500
Pennsylvania Electric Company, \$20 par value	5,290,596

FirstEnergy Corp. is the sole holder of 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. Ohio Edison Company is the sole holder of Pennsylvania Power Company common stock.

This combined Form 10-Q is separately filed by FirstEnergy Corp., Ohio Edison Company, Pennsylvania Power 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.

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 typically contain, but are not limited to, the terms "anticipate," "potential," "expect," "believe," "estimate" and similar words. Actual results may differ materially due to the speed and nature of increased competition and deregulation in the electric utility industry, economic or weather conditions affecting future sales and margins, changes in markets for energy services, changing energy and commodity market prices, replacement power costs being higher than anticipated or inadequately hedged, the continued ability of FirstEnergy Corp.'s regulated utilities to collect transition and other charges or to recover increased transmission costs, maintenance costs being higher than anticipated, legislative and regulatory changes (including revised environmental requirements), and the legal and regulatory changes resulting from the implementation of the Energy Policy Act of 2005 (including, but not limited to, the repeal of the Public Utility Holding Company Act of 1935), the uncertainty of the timing and amounts of the capital expenditures needed to, among other things, implement the Air Quality Compliance Plan (including that such amounts could be higher than anticipated) or levels of emission reductions related to the Consent Decree resolving the New Source Review litigation, adverse regulatory or legal decisions and outcomes (including, but not limited to, the revocation of necessary licenses or operating permits, fines or other enforcement actions and remedies) of governmental investigations and oversight, including by the Securities and Exchange Commission, the United States Attorney's Office, the Nuclear Regulatory Commission and the various state public utility commissions as disclosed in the registrants' Securities and Exchange Commission filings, generally, and with respect to the Davis-Besse Nuclear Power Station outage and heightened scrutiny at the Perry Nuclear Power Plant in particular, the timing and outcome of various proceedings before the Public Utilities Commission of Ohio (including, but not limited to, the successful resolution of the issues remanded to the PUCO by the Ohio Supreme Court regarding the RSP) and the Pennsylvania Public Utility Commission, including the transition rate plan filings for Met-Ed and Penelec, the continuing availability and operation of generating units, the ability of generating units to continue to operate at, or near full capacity, the inability to accomplish or realize anticipated benefits from strategic goals (including employee workforce initiatives), the anticipated benefits from voluntary pension plan contributions, the ability to improve electric commodity margins and to experience growth in the distribution business, the ability to access the public securities and other capital markets and the cost of such capital, the outcome, cost and other effects of present and potential legal and administrative proceedings and claims related to the August 14, 2003 regional power outages, the successful implementation of the share repurchase program approved by the Board of Directors in June 2006, the risks and other factors discussed from time to time in the registrants' Securities and Exchange Commission filings, including their annual report on Form 10-K for the year ended December 31, 2005, and other similar factors. A security rating is not a recommendation to buy, sell or hold securities and it may be subject to revision or withdrawal at any time by the credit rating agency. 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:

ATSI	American Transmission Systems, Inc., owns and operates transmission facilities
CEI	The Cleveland Electric Illuminating Company, an Ohio electric utility operating subsidiary
Centerior	Centerior Energy Corporation, former parent of CEI and TE, which merged with OE to form FirstEnergy on November 8, 1997
CFC	Centerior Funding Corporation, a wholly owned finance subsidiary of CEI
Companies	OE, CEI, TE, Penn, JCP&L, Met-Ed and Penelec
FENOC	FirstEnergy Nuclear Operating Company, operates nuclear generating facilities
FES	FirstEnergy Solutions Corp., provides energy-related products and services
FESC	FirstEnergy Service Company, provides legal, financial, and other corporate support services
FGCO	FirstEnergy Generation Corp., owns and operates non-nuclear generating facilities
FirstCom	First Communications, LLC, provides local and long-distance telephone service
FirstEnergy	FirstEnergy Corp., a public utility holding company
FSG	FirstEnergy Facilities Services Group, LLC, the parent company of several heating, ventilation, air conditioning and energy management companies
GPU	GPU, Inc., former parent of JCP&L, Met-Ed and Penelec, which merged with FirstEnergy on November 7, 2001
JCP&L	Jersey Central Power & Light Company, a New Jersey electric utility operating subsidiary
JCP&L Transition	JCP&L Transition Funding LLC, a Delaware limited liability company and issuer of transition bonds
JCP&L Transition Funding II	JCP&L Transition Funding II LLC, a Delaware limited liability company and issuer of transition bonds
Met-Ed	Metropolitan Edison Company, a Pennsylvania electric utility operating subsidiary
MYR	MYR Group, Inc., a utility infrastructure construction service company
NGC	FirstEnergy Nuclear Generation Corp., owns nuclear generating facilities
OE	Ohio Edison Company, an Ohio electric utility operating subsidiary
OE Companies	OE and Penn
Ohio Companies	CEI, OE and TE
Penelec	Pennsylvania Electric Company, a Pennsylvania electric utility operating subsidiary
Penn	Pennsylvania Power Company, a Pennsylvania electric utility operating subsidiary of OE
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

TE The Toledo Edison Company, an Ohio electric utility operating subsidiary

TEBSA Termobarranquilla S.A., Empresa de Servicios Publicos

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

ALJ	Administrative Law Judge
AOCL	Accumulated Other Comprehensive Loss
APB	Accounting Principles Board
APB 25	APB Opinion No. 25, "Accounting for Stock Issued to Employees"
APB 29	APB Opinion No. 29, "Accounting for Nonmonetary Transactions"
ARB	Accounting Research Bulletin
ARB 43	ARB No. 43, "Restatement and Revision of Accounting Research Bulletins"
ARO	Asset Retirement Obligation
B&W	Babcock & Wilcox Company
BGS	Basic Generation Service
BTU	British Thermal Unit
CAIDI	Customer Average Interruption Duration Index
CAIR	Clean Air Interstate Rule
CAL	Confirmatory Action Letter
CAMR	Clean Air Mercury Rule
CBP	Competitive Bid Process
CIEP	Commercial Industrial Energy Price
CO ₂	Carbon Dioxide
CTC	Competitive Transition Charge
DCPD	Deferred Compensation Plan for Outside Directors
DIG C20	Derivatives Implementation Group Issue No. C20, "Scope Exceptions: Interpretations of the Meaning of Not Clearly and Closely Related in Paragraph 10(b) regarding Contracts with a Price Adjustment Feature"
DOJ	United States Department of Justice

GLOSSARY OF TERMS, Cont'd.

DRA	Division of the Ratepayer Advocate
ECAR	East Central Area Reliability Coordination Agreement
EDCP	Executive Deferred Compensation Plan
EITF	Emerging Issues Task Force
EITF 04-13	EITF Issue No. 04-13, "Accounting for Purchases and Sales of Inventory with the Same Counterparty"
EPA	Environmental Protection Agency
EPACT	Energy Policy Act of 2005
ERO	Electric Reliability Organization
ESOP	Employee Stock Ownership Plan
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIN	FASB Interpretation
FIN 46(R)	FIN 46 (revised December 2003), "Consolidation of Variable Interest Entities"
FIN 46(R)-6	FIN 46(R)-6, "Determining the Variability to be Considered in Applying FASB interpretation No. 46(R)"
FIN 47	FIN 47, "Accounting for Conditional Asset Retirement Obligations - an interpretation of FASB Statement No. 143"
FIN 48	FIN 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No.109"
FMB	First Mortgage Bonds
FSP	FASB Staff Position
GAAP	Accounting Principles Generally Accepted in the United States
GCAF	Generation Charge Adjustment Factor
GHG	Greenhouse Gases
KWH	Kilowatt-hours
LOC	Letter of Credit
LTIP	Long-Term Incentive Program
MEIUG	Met-Ed Industrial Users Group
MISO	Midwest Independent Transmission System Operator, Inc.
Moody's	Moody's Investors Service
MOU	Memorandum of Understanding
MTC	Market Transition Charge
MW	Megawatts
NAAQS	National Ambient Air Quality Standards
NERC	North American Electric Reliability Council
NJBPU	New Jersey Board of Public Utilities
NOAC	Northwest Ohio Aggregation Coalition
NOPR	Notice of Proposed Rulemaking
NOV	Notices of Violation
NO ^x	Nitrogen Oxide
NRC	Nuclear Regulatory Commission
NUG	Non-Utility Generation
NUGC	Non-Utility Generation Charge

OCA	Office of Consumer Advocate
OCC	Office of the Ohio Consumers' Counsel
OCI	Other Comprehensive Income
OPEB	Other Post-Employment Benefits
OSBA	Office of Small Business Advocate
OTS	Office of Trial Staff
PaDEP	Pennsylvania Department of Environmental Protection
PCAOB	Public Company Accounting Oversight Board
PICA	Penelec Industrial Customer Association
PJM	PJM Interconnection L. L. C.
PLR	Provider of Last Resort
PPUC	Pennsylvania Public Utility Commission
PRP	Potentially Responsible Party
PUCO	Public Utilities Commission of Ohio
PUHCA	Public Utility Holding Company Act of 1935
RCP	Rate Certainty Plan
RFP	Request for Proposal
RSP	Rate Stabilization Plan
RTC	Regulatory Transition Charge
RTO	Regional Transmission Organization
RTOR	Through and Out Rates
S&P	Standard & Poor's Ratings Service
SAIFI	System Average Interruption Frequency Index
SBC	Societal Benefits Charge
SEC	U.S. Securities and Exchange Commission
SECA	Seams Elimination Cost Adjustment
SFAS	Statement of Financial Accounting Standards
	SFAS No. 123, "Accounting for Stock-Based
SFAS 123	Compensation"
SFAS 123(R)	SFAS No. 123(R), "Share-Based Payment"
SFAS 133	SFAS No. 133, "Accounting for Derivative Instruments and
	Hedging Activities"
SFAS 140	SFAS No. 140, "Accounting for Transfers and Servicing of
	Financial Assets and
	Extinguishment of Liabilities"
SFAS 143	SFAS No. 143, "Accounting for Asset Retirement
	Obligations"
SFAS 144	SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets"
SO ²	Sulfur Dioxide
SRM	Special Reliability Master
TBC	Transition Bond Charge
TMI-2	Three Mile Island Unit 2
VIE	Variable Interest Entity
VMEP	Vegetation Management Enhancement Project

PART I. FINANCIAL INFORMATION

**FIRSTENERGY CORP. AND SUBSIDIARIES
OHIO EDISON COMPANY AND SUBSIDIARIES
THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES
THE TOLEDO EDISON COMPANY AND SUBSIDIARY
PENNSYLVANIA POWER COMPANY AND SUBSIDIARY
JERSEY CENTRAL POWER & LIGHT COMPANY AND SUBSIDIARIES
METROPOLITAN EDISON COMPANY AND SUBSIDIARIES
PENNSYLVANIA ELECTRIC COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

1. - ORGANIZATION AND BASIS OF PRESENTATION

FirstEnergy's principal business is the holding, directly or indirectly, of all of the outstanding common stock of its eight principal electric utility operating subsidiaries: OE, CEI, TE, Penn, ATSI, JCP&L, Met-Ed and Penelec. Penn is a wholly owned subsidiary of OE. FirstEnergy's consolidated financial statements also include its other principal subsidiaries: FENOC, FES and its subsidiary FGCO, NGC, FESC and FSG.

FirstEnergy and its subsidiaries follow GAAP and comply with the regulations, orders, policies and practices prescribed by the SEC, FERC and, as applicable, PUCO, PPUC and NJBPU. 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 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, 2005 for FirstEnergy and the Companies. The consolidated unaudited financial statements of FirstEnergy and each of the Companies reflect all normal recurring adjustments that, in the opinion of management, are necessary to fairly present results of operations for the interim periods. Certain businesses divested in the first and second quarters of 2005 have been classified as discontinued operations on the Consolidated Statements of Income (see Note 4). As discussed in Note 13, interim period segment reporting in 2005 was reclassified to conform with the current year business segment organizations and operations.

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 (see Note 9) when it is determined to be the VIE's primary beneficiary. Investments in nonconsolidated affiliates over which FirstEnergy and its subsidiaries have the ability to exercise significant influence, but not control, (20-50 percent owned companies, joint ventures and partnerships) are accounted for under the equity method. Under the equity method, the interest in the entity is reported as an investment in the Consolidated Balance Sheet and the percentage share of the entity's earnings is reported in the Consolidated Statement of Income. Certain prior year amounts have been reclassified to conform to the current presentation.

FirstEnergy's and the Companies' independent registered public accounting firm has performed reviews of, and issued reports on, these consolidated interim financial statements in accordance with standards established by the PCAOB. Pursuant to Rule 436(c) under the Securities Act of 1933, their reports of those reviews should not be considered a report within the meaning of Section 7 and 11 of that Act, and the independent registered public accounting firm's liability under Section 11 does not extend to them.

2. - EARNINGS PER SHARE

Basic earnings per share are computed using the weighted average of actual common shares outstanding during the respective period as the denominator. The denominator for diluted earnings per share reflects the weighted average of common shares outstanding plus the potential additional common shares that could result if dilutive securities and other agreements to issue common stock were exercised. The following table reconciles the computation of basic and diluted earnings per share of common stock before discontinued operations:

1

Reconciliation of Basic and Diluted Earnings per Share	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	<i>(In millions, except per share amounts)</i>			
Income Before Discontinued Operations	\$ 304	\$ 179	\$ 525	\$ 320
Less: Redemption premium on subsidiary preferred stock	(3)	-	(3)	-
Earnings on Common Stock Before Discontinued Operations	\$ 301	\$ 179	\$ 522	\$ 320
Weighted Average Shares of Common Stock Outstanding:				
Denominator for basic earnings per share	328	328	328	328
Assumed exercise of dilutive stock options and awards	2	2	2	2
Denominator for diluted earnings per share	330	330	330	330
Earnings Before Discontinued Operations per Common Share:				
Basic	\$ 0.92	\$ 0.54	\$ 1.59	\$ 0.98
Diluted	\$ 0.91	\$ 0.54	\$ 1.58	\$ 0.97

3. - GOODWILL

FirstEnergy's goodwill primarily relates to its regulated services segment. In the six months ended June 30, 2006, FirstEnergy adjusted goodwill related to the divestiture of a non-core asset (62% interest in MYR), a successful tax claim relating to the former Centerior companies, and an adjustment to the former GPU companies due to the realization of a tax benefit that had been reserved in purchase accounting. Adjustments to goodwill in the second quarter of 2006 were immaterial. The following table reconciles changes to goodwill for the six months ended June 30, 2006.

Goodwill Reconciliation	FirstEnergy	CEI	TE	JCP&L	Met-Ed	Penelec
<i>(In millions)</i>						
Balance as of January 1, 2006	\$ 6,010	\$ 1,689	\$ 501	\$ 1,986	\$ 864	\$ 882
Non-core assets sale	(53)					
Adjustments related to Centerior acquisition	(1)	(1)				
Adjustments related to GPU acquisition	(16)			(8)	(4)	(4)
Balance as of June 30, 2006	\$ 5,940	\$ 1,688	\$ 501	\$ 1,978	\$ 860	\$ 878

4. - DIVESTITURES AND DISCONTINUED OPERATIONS

In March 2006, FirstEnergy sold 60% of its interest in MYR for an after-tax gain of \$0.2 million. In June 2006, FirstEnergy sold an additional 1.67% interest. As a result of the March sale, FirstEnergy deconsolidated MYR in the first quarter of 2006 and accounts for its remaining 38.33% interest under the equity method.

In March 2005, FirstEnergy sold 51% of its interest in FirstCom for an after-tax gain of \$4 million. FirstEnergy accounts for its remaining 31.85% interest in FirstCom under the equity method.

During the first six months of 2005, FirstEnergy sold three FSG subsidiaries (Cranston, Elliott-Lewis and Spectrum), an MYR subsidiary (Power Piping) and FES' retail natural gas business, resulting in aggregate after-tax gains of \$17 million. The remaining FSG subsidiaries continue to be actively marketed and qualify as assets held for sale in accordance with SFAS 144 because FirstEnergy anticipates that the transfer of these remaining FSG assets, with a net carrying value of \$48 million as of June 30, 2006, will qualify for recognition as completed sales within one year. As of June 30, 2006, the FSG subsidiaries classified as held for sale did not meet the criteria for discontinued operations. The carrying amounts of FSG's assets and liabilities held for sale are not material and have not been classified as assets held for sale on FirstEnergy's Consolidated Balance Sheets. See Note 13 for FSG's segment financial information.

Net results (including the gains on sales of assets discussed above) for Cranston, Elliott-Lewis, Power Piping and FES' retail natural gas business of \$(1) million and \$18 million for the three months and six months ended June 30, 2005, respectively, are reported as discontinued operations on FirstEnergy's Consolidated Statements of Income. Pre-tax operating results for these entities were \$(2) million and \$2 million for the three months and six months ended June 30, 2005, respectively. Revenues associated with discontinued operations for the three months and six months ended June 30, 2005 were \$11 million and \$206 million, respectively. The following table summarizes the sources of income from discontinued operations for the three months and six months ended June 30, 2005:

	Three Months		Six Months	
	<i>(In millions)</i>			
Discontinued Operations (Net of tax)				
Gain on sale:				
Natural gas business	\$	-	\$	5
FSG and MYR subsidiaries		-		12
Reclassification of operating income (loss)		(1)		1
Total	\$	(1)	\$	18

5. - DERIVATIVE INSTRUMENTS

FirstEnergy is exposed to financial risks resulting from the fluctuation of interest rates and commodity prices, including prices for electricity, natural gas, coal and energy transmission. To manage the volatility relating to these exposures, FirstEnergy uses a variety of non-derivative and derivative instruments, including forward contracts, options, futures contracts and swaps. The derivatives are used principally for hedging purposes. FirstEnergy's Risk Policy Committee, comprised of members of senior management, provides general management oversight to risk management activities. 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 practices.

FirstEnergy accounts for derivative instruments on its Consolidated Balance Sheet at their fair value unless they meet the normal purchase and normal sales exception criterion. Derivatives that meet that criterion are accounted for on the accrual basis. The changes in the fair value of derivative instruments that do not meet the normal purchase and sales criterion are recorded in current earnings, in AOCL, or as part of the value of the hedged item, depending on whether or not it is designated as part of a hedge transaction, the nature of the hedge transaction and hedge effectiveness.

FirstEnergy hedges anticipated transactions using cash flow hedges. Such transactions include hedges of anticipated electricity and natural gas purchases and anticipated interest payments associated with future debt issues. The effective portion of such hedges are initially recorded in equity as other comprehensive income or loss and are subsequently included in net income as the underlying hedged commodities are delivered or interest payments are made. Gains and losses from any ineffective portion of cash flow hedges are included directly in earnings.

The net deferred losses of \$30 million included in AOCL as of June 30, 2006, for derivative hedging activity, as compared to the December 31, 2005 balance of \$78 million of net deferred losses, resulted from a net \$35 million decrease related to current hedging activity and a \$13 million decrease due to net hedge losses included in earnings during the six months ended June 30, 2006. Approximately \$9 million (after tax) of the net deferred losses on derivative instruments in AOCL as of June 30, 2006 is expected to be reclassified to earnings during the next twelve months as hedged transactions occur. The fair value of these derivative instruments fluctuate from period to period based on various market factors.

FirstEnergy has entered into swaps that have been designated as fair value hedges of fixed-rate, long-term debt issues to protect against the risk of changes in the fair value of fixed-rate debt instruments due to lower interest rates. Swap maturities, call options, fixed interest rates received, and interest payment dates match those of the underlying debt obligations. During the first six months of 2006, FirstEnergy unwound swaps with a total notional amount of \$350 million for which it paid \$1 million in cash. The losses will be recognized in earnings over the remaining maturity of each respective hedged security as increased interest expense. As of June 30, 2006, the aggregate notional value of interest rate swap agreements outstanding was \$750 million.

During 2005 and the first six months of 2006, FirstEnergy entered into several forward starting swap agreements (forward swaps) in order to hedge a portion of the consolidated interest rate risk associated with the anticipated issuances of fixed-rate, long-term debt securities for one or more of its subsidiaries during 2006 - 2008 as outstanding debt matures. These derivatives are 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. FirstEnergy revised the tenor and timing of its financing plan during the first six months of 2006. FirstEnergy terminated and revised its forward swaps, ultimately terminating swaps with an aggregate notional value of \$600 million as its subsidiaries issued long term debt in the second quarter. As required by SFAS 133, FirstEnergy assessed the amount of ineffectiveness of the hedges at each termination. FirstEnergy received cash gains of \$41 million, of which approximately \$6 million (\$4 million net of tax) was deemed ineffective and recognized in earnings in the first six months of 2006. The remaining gain deemed effective in the amount of approximately \$35 million (\$22 million net of tax) was recorded in other comprehensive income and will subsequently be recognized in earnings over the terms of the respective forward swaps. As of June 30, 2006, FirstEnergy had forward swaps with an aggregate notional amount of \$550million and a long-term debt securities fair value of \$29 million.

6. - STOCK BASED COMPENSATION

Effective January 1, 2006, FirstEnergy adopted SFAS 123(R), which requires the expensing of stock-based compensation. Under SFAS 123(R), all share-based compensation cost is measured at the grant date based on the fair value of the award, and is recognized as an expense over the employee's requisite service period. FirstEnergy adopted the modified prospective method, under which compensation expense recognized in the second quarter and six months ended June 30, 2006 included the expense for all share-based payments granted prior to but not yet vested as of January 1, 2006. Results for prior periods were not restated.

Prior to the adoption of SFAS 123(R) on January, 1, 2006, FirstEnergy's LTIP, EDCP, ESOP, and DCPD stock-based compensation programs were accounted for under the recognition and measurement principles of APB 25 and related interpretations. The LTIP includes four stock-based compensation programs - restricted stock, restricted stock units, stock options and performance shares.

Under APB 25, no compensation expense was reflected in net income for stock options as all options granted under those plans have exercise prices equal to the market value of the underlying common stock on the respective grant dates, resulting in substantially no intrinsic value. The pro forma effects on net income for stock options were instead disclosed in a footnote to the financial statements. Under APB 25 and SFAS 123(R) expense was recorded in the income statement for restricted stock, restricted stock units, performance shares and the EDCP and DCPD programs. No stock options have been granted since the third quarter of 2004. Consequently, the impact of adopting SFAS 123(R) was not material to FirstEnergy's net income and earnings per share in the second quarter and six months ended June 30, 2006. In the year of adoption, all disclosures prescribed by SFAS 123(R) are required to be included in both the quarterly Form 10-Q filings as well as the annual Form 10-K filing. However, due to the immaterial impact of the adoption of SFAS 123(R) on FirstEnergy's financial results, only condensed disclosure has been provided. Reference is made to FirstEnergy's annual report on Form 10-K for the year ended December 31, 2005 for expanded annual disclosure.

The following table illustrates the effect on net income and earnings per share for the three months and six months ended June 30, 2005, as if FirstEnergy had adopted SFAS 123(R) as of January 1, 2005:

	Three Months	Six Months
	<i>(In millions, except per share amounts)</i>	
Net Income, as reported	\$ 178	\$ 338
Add back compensation expense reported in net income, net of tax (based on APB 25)*	14	22
Deduct compensation		

expense based			
upon estimated			
fair value, net of			
tax*	(17)		(28)
Pro forma net			
income	\$ 175	\$	332
Earnings Per			
Share of			
Common Stock -			
Basic			
As Reported	\$ 0.54	\$	1.03
ProForma	\$ 0.53	\$	1.01
Diluted			
As Reported	\$ 0.54	\$	1.02
Pro Forma	\$ 0.53	\$	1.01

* Includes restricted stock, restricted stock units, stock options, performance shares, ESOP, EDCP and DCPD.

7. - ASSET RETIREMENT OBLIGATIONS

FirstEnergy has recognized applicable legal obligations under SFAS 143 for nuclear power plant decommissioning, reclamation of a sludge disposal pond and closure of two coal ash disposal sites. In addition, FirstEnergy has recognized conditional retirement obligations (primarily for asbestos remediation) in accordance with FIN 47, which was implemented on December 31, 2005. Had FIN 47 been applied in the six months ended June 30, 2005, the impact on earnings would have been immaterial.

The ARO liability of \$1.2 billion as of June 30, 2006 primarily relates to the nuclear decommissioning of the Beaver Valley, Davis-Besse, Perry and TMI-2 nuclear generating facilities. The obligation to decommission these units was developed based on site specific studies performed by an independent engineer. FirstEnergy uses an expected cash flow approach to measure the fair value of the nuclear decommissioning ARO.

FirstEnergy maintains nuclear decommissioning trust funds that are legally restricted for purposes of settling the nuclear decommissioning ARO. As of June 30, 2006, the fair value of the decommissioning trust assets was \$1.8 billion.

The following tables analyze changes to the ARO balances during the three months and six months ended June 30, 2006 and 2005, respectively.

Three Months Ended	FirstEnergy	OE	CEI	TE	Penn	JCP&L	Met-Ed	Penelec
<i>(In millions)</i>								
A R O Reconciliation								
Balance, April 1, 2006	\$ 1,148	\$ 84	\$ 8	\$ 25	\$ -	\$ 81	\$ 144	\$ 73
Liabilities incurred	-	-	-	-	-	-	-	-
Liabilities settled	(6)	-	(6)	-	-	-	-	-
Accretion	18	1	-	1	-	1	2	1
Revisions in estimated cashflows	-	-	-	-	-	-	-	-
Balance, June 30, 2006	\$ 1,160	\$ 85	\$ 2	\$ 26	\$ -	\$ 82	\$ 146	\$ 74
Balance, April 1, 2005	\$ 1,095	\$ 204	\$ 276	\$ 198	\$ 141	\$ 74	\$ 135	\$ 67
Liabilities incurred	-	-	-	-	-	-	-	-
Liabilities settled	-	-	-	-	-	-	-	-
Accretion	18	4	5	3	2	1	2	1
Revisions in estimated cashflows	-	-	-	-	-	-	-	-
Balance, June 30, 2005	\$ 1,113	\$ 208	\$ 281	\$ 201	\$ 143	\$ 75	\$ 137	\$ 68

Six Months Ended	FirstEnergy	OE	CEI	TE	Penn	JCP&L	Met-Ed	Penelec
<i>(In millions)</i>								
A R O Reconciliation								
	\$ 1,126	\$ 83	\$ 8	\$ 25	\$ -	\$ 80	\$ 142	\$ 72

Balance, January 1, 2006													
L i a b i l i t i e s													
incurred	-	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities settled	(6)	-	(6)	-	-	-	-	-	-	-	-	-	-
Accretion	36	2	-	1	-	-	2	4	2				
R e v i s i o n s i n													
estimated													
cashflows	4	-	-	-	-	-	-	-	-	-	-	-	-
Balance, June 30, 2006	\$ 1,160	\$ 85	\$ 2	\$ 26	\$ -	\$ 82	\$ 146	\$ 74					
Balance, January 1, 2005	\$ 1,078	\$ 201	\$ 272	\$ 195	\$ 138	\$ 72	\$ 133	\$ 67					
L i a b i l i t i e s													
incurred	-	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities settled	-	-	-	-	-	-	-	-	-	-	-	-	-
Accretion	35	7	9	6	5	3	4	1					
R e v i s i o n s i n													
estimated													
cashflows	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance, June 30, 2005	\$ 1,113	\$ 208	\$ 281	\$ 201	\$ 143	\$ 75	\$ 137	\$ 68					

8. - PENSION AND OTHER POSTRETIREMENT BENEFITS

FirstEnergy provides noncontributory defined benefit pension plans that cover substantially all of its employees. The trustee plans provide defined benefits based on years of service and compensation levels. FirstEnergy also provides a minimum amount of noncontributory life insurance to retired employees in addition to optional contributory insurance. Health care benefits, which include certain employee contributions, deductibles and co-payments, are available upon retirement to employees hired prior to January 1, 2005, their dependents and, under certain circumstances, their survivors. FirstEnergy recognizes the expected cost of providing other postretirement benefits to employees, their beneficiaries and covered dependents from the time employees are hired until they become eligible to receive those benefits.

The components of FirstEnergy's net periodic pension and other postretirement benefit costs (including amounts capitalized) for the three months and six months ended June 30, 2006 and 2005 consisted of the following:

Pension Benefits	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	<i>(In millions)</i>			
Service cost	\$ 21	\$ 19	\$ 41	\$ 38
Interest cost	66	64	133	128
Expected return on plan assets	(99)	(86)	(198)	(173)
Amortization of prior service cost	2	2	5	4
Recognized net actuarial loss	15	9	29	18
Net periodic cost	\$ 5	\$ 8	\$ 10	\$ 15

Other Postretirement Benefits	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	<i>(In millions)</i>			
Service cost	\$ 9	\$ 10	\$ 17	\$ 20
Interest cost	26	27	52	55
Expected return on plan assets	(12)			