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CLEVELAND ELECTRIC ILLUMINATING CO
 Form 10-Q
 November 14, 2003

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 September 30, 2003

OR

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

For the transition period from _____ to _____

Commission File Number	Registrant; State of Incorporation; Address; and Telephone Number	I.R.S. Employer Identification No.
333-21011	FIRSTENERGY CORP. (An Ohio Corporation) 76 South Main Street Akron, OH 44308 Telephone (800)736-3402	34-1843785
1-2578	OHIO EDISON COMPANY (An Ohio Corporation) 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) c/o FirstEnergy Corp. 76 South Main Street Akron, OH 44308 Telephone (800)736-3402	34-4375005
1-3491	PENNSYLVANIA POWER COMPANY (A Pennsylvania Corporation) c/o FirstEnergy Corp. 76 South Main Street Akron, OH 44308 Telephone (800)736-3402	25-0718810
1-3141	JERSEY CENTRAL POWER & LIGHT COMPANY (A New Jersey Corporation) c/o FirstEnergy Corp.	21-0485010

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76 South Main Street
Akron, OH 44308
Telephone (800)736-3402

1-446	METROPOLITAN EDISON COMPANY (A Pennsylvania Corporation) c/o FirstEnergy Corp. 76 South Main Street Akron, OH 44308 Telephone (800)736-3402	23-0870160
1-3522	PENNSYLVANIA ELECTRIC COMPANY (A Pennsylvania Corporation) c/o FirstEnergy Corp. 76 South Main Street Akron, OH 44308 Telephone (800)736-3402	25-0718085

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 each registrant is an accelerated filer (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 NOVEMBER 13, 2003 -----
FirstEnergy Corp., \$.10 par value	329,836,276
Ohio Edison Company, no par value	100
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

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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, maintenance costs being higher than anticipated, legislative and regulatory changes (including revised environmental requirements), availability and cost of capital, inability of the Davis-Besse Nuclear Power Station to restart (including because of an inability to obtain a favorable final determination from the Nuclear Regulatory Commission) in the fall of 2003, inability to accomplish or realize anticipated benefits from strategic goals, the ability to access the public securities markets, further investigation into the causes of the August 14, 2003 power outage and the outcome, cost and other effects of present and potential legal and administrative proceedings and claims related to that outage, a denial of or material change to the Company's Application related to its Rate Stabilization Plan, and other factors discussed from time to time in FirstEnergy's Securities and Exchange Commission filings, including its annual report on Form 10-K (as amended) for the year ended December 31, 2002, and under "Risk Factors" in the Prospectus Supplement dated September 12, 2003 to the Prospectus dated August 29, 2003 (which was part of the Registration Statement-File No. 333-103865) and other similar factors.

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PART I. FINANCIAL INFORMATION

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

NOTES TO FINANCIAL STATEMENTS
(UNAUDITED)

1 - FINANCIAL STATEMENTS:

The principal business of FirstEnergy Corp. (FirstEnergy) is the holding, directly or indirectly, of all of the outstanding common stock of its eight principal electric utility operating subsidiaries, Ohio Edison Company (OE), The Cleveland Electric Illuminating Company (CEI), The Toledo Edison Company (TE), Pennsylvania Power Company (Penn), American Transmission Systems, Inc. (ATSI), Jersey Central Power & Light Company (JCP&L), Metropolitan Edison Company (Met-Ed) and Pennsylvania Electric Company (Penelec). These utility subsidiaries are referred to throughout as "Companies." Penn is a wholly owned subsidiary of OE. JCP&L, Met-Ed and Penelec were acquired in a merger (which was effective November 7, 2001) with GPU, Inc., the former parent company of JCP&L, Met-Ed and Penelec. The merger was accounted for by the purchase method of accounting and the applicable effects were reflected on the financial statements of JCP&L, Met-Ed and Penelec as of the merger date. FirstEnergy's consolidated financial statements also include its other principal subsidiaries: FirstEnergy Solutions Corp. (FES); FirstEnergy Facilities Services Group, LLC (FSG); MYR Group, Inc.; MARBEL Energy Corporation; FirstEnergy Nuclear Operating Company (FENOC); GPU Capital, Inc.; GPU Power, Inc.; and FirstEnergy Service Company (FESC). FES provides energy-related products and services and, through its FirstEnergy Generation Corp. (FGCO) subsidiary, operates FirstEnergy's nonnuclear generation business. FENOC operates the Companies' nuclear generating facilities. FSG is the parent company of several heating, ventilating, air conditioning and energy management companies, and MYR is a utility infrastructure construction service company. MARBEL holds FirstEnergy's interest in Great Lakes Energy Partners, LLC. GPU Capital owns and operates electric distribution systems in foreign countries (see Note 3) and GPU Power owns and operates generation facilities in foreign countries. FESC provides legal, financial and other corporate support services to affiliated FirstEnergy companies. Significant intercompany transactions have been eliminated.

The Companies follow the accounting policies and practices prescribed by the Securities and Exchange Commission (SEC), the Public Utilities Commission

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of Ohio (PUCO), the Pennsylvania Public Utility Commission (PPUC), the New Jersey Board of Public Utilities (NJBPUC) and the Federal Energy Regulatory Commission (FERC). The condensed 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. These statements should be read in conjunction with the financial statements and notes included in the combined Annual Report on Form 10-K, as amended where applicable, for the year ended December 31, 2002 for FirstEnergy and the Companies. The preparation of financial statements in conformity with accounting principles generally accepted in the United States (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 those estimates. The reported results of operations are not indicative of results of operations for any future period. Certain prior year amounts have been reclassified to conform with the current year presentation, as discussed further in Note 5, and restated as discussed below.

FirstEnergy's and the Companies' independent accountants have performed reviews of, and issued reports on, these consolidated interim financial statements in accordance with standards established by the American Institute of Certified Public Accountants. 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 accountant's liability under Section 11 does not extend to them.

Preferred Securities

The sole assets of the CEI subsidiary trust that is the obligor on the preferred securities included in FirstEnergy's and CEI's Capitalizations are \$103.1 million aggregate principal amount of 9% junior subordinated debentures of CEI due December 31, 2006. CEI has effectively provided a full and unconditional guarantee of the trust's obligations under the preferred securities.

1

Met-Ed and Penelec each formed statutory business trusts for the issuance of \$100 million each of preferred securities due 2039 and are included in FirstEnergy's, Met-Ed's and Penelec's respective capitalizations. Ownership of the respective Met-Ed and Penelec trusts is through separate wholly owned limited partnerships, of which a wholly owned subsidiary of each company is the sole general partner. In these transactions, the sole assets and sources of revenues of each trust are the preferred securities of the applicable limited partnership, whose sole assets are the 7.35% and 7.34% subordinated debentures (aggregate principal amount of \$103.1 million each) of Met-Ed and Penelec, respectively. In each case, the applicable parent company has effectively provided a full and unconditional guarantee of the trust's obligations under the preferred securities.

The continued consolidation of the issuer trusts and the appropriate balance sheet classification of trust preferred securities is currently under review pursuant to FIN 46, "Consolidation of Variable Interest Entities - an interpretation of ARB 51." Upon the implementation of FIN 46 effective December 31, 2003, these trusts would be deconsolidated if CEI, Met-Ed and Penelec were not the primary beneficiaries of the related trusts. Such a deconsolidation would result in FirstEnergy, CEI, Met-Ed and Penelec reflecting liabilities for the subordinated notes payable to the respective trusts, which are currently eliminated in consolidation. We currently classify the trust preferred securities as long-term debt in our consolidated balance sheets. The deconsolidation of the issuer trusts would result in an increase to total assets

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and liabilities of \$9.3 million (\$3.1 million for each of CEI, Met-Ed and Penelec) for the investment in the trusts.

Securitized Transition Bonds

In June 2002, JCP&L Transition Funding LLC (Issuer), a wholly owned limited liability company of JCP&L, sold \$320 million of transition bonds to securitize the recovery of JCP&L's bondable stranded costs associated with the previously divested Oyster Creek Nuclear Generating Station.

JCP&L did not purchase and does not own any of the transition bonds, which are included as long-term debt on each of FirstEnergy's and JCP&L's Consolidated Balance Sheets. The transition bonds represent obligations only of the Issuer and are collateralized solely by the equity and assets of the Issuer, which consist primarily of bondable transition property. The bondable transition property is solely the property of the Issuer.

Bondable transition property represents the irrevocable right under New Jersey law of a utility company to charge, collect and receive from its customers, through a non-bypassable transition bond charge, the principal amount and interest on the transition bonds and other fees and expenses associated with their issuance. JCP&L sold the bondable transition property to the Issuer and as servicer, manages and administers the bondable transition property, including the billing, collection and remittance of the transition bond charge, pursuant to a servicing agreement with the Issuer. JCP&L is entitled to a quarterly servicing fee of \$100,000 that is payable from transition bond charge collections.

Pension and Other Postretirement Benefits

As a result of GPU Service Inc. merging with FESC in the second quarter of 2003, operating company employees of GPU Service were transferred to JCP&L, Met-Ed and Penelec. Due to the significance of the transfers, FirstEnergy engaged its actuary to evaluate how to allocate the pension and other post-employment benefit (OPEB) assets and liabilities for each of its subsidiaries. Based on the actuary's report, the accrued pension and OPEB costs for FirstEnergy and its subsidiaries as of June 30, 2003 increased (decreased) by the following amounts:

	Pension -----	OPEB ----
	(In thousands)	
OE.....	\$ 50,937	\$ 48,775
CEI.....	(16,699)	(49,526)
TE.....	(3,439)	(24,476)
Penn.....	15,851	9,751
JCP&L.....	78,549	86,333
Met-Ed.....	47,219	59,405
Penelec.....	70,693	87,314
Other subsidiaries.....	(243,111)	(217,576)
	-----	-----
Total FirstEnergy.....	\$ --	\$ --
	=====	=====

The corresponding adjustment related to these changes increased (decreased) other comprehensive income, deferred income taxes and receivables from/to associated companies in the respective operating company's financial statements.

Derivative Accounting

FirstEnergy is exposed to financial risks resulting from the fluctuation of interest rates and commodity prices, including electricity, natural gas and coal. 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, and to a lesser extent, for trading purposes. FirstEnergy's Risk Policy Committee, comprised of executive officers, exercises an independent risk oversight function to ensure compliance with corporate risk management policies and prudent risk management practices.

FirstEnergy uses derivatives to hedge the risk of price and interest rate fluctuations. FirstEnergy's primary ongoing hedging activity involves cash flow hedges of electricity and natural gas purchases. The maximum periods over which the variability of electricity and natural gas cash flows are hedged are two and three years, respectively. Gains and losses from hedges of commodity price risks are included in net income when the underlying hedged commodities are delivered. Also, gains and losses are included in net income when ineffectiveness occurs on certain natural gas hedges. FirstEnergy entered into interest rate derivative transactions during 2001 to hedge a portion of the anticipated interest payments on debt related to the GPU acquisition. Gains and losses from hedges of anticipated interest payments on acquisition debt are included in net income over the periods that hedged interest payments are made - 5, 10 and 30 years. Gains and losses from derivative contracts are included in other operating expenses. The net deferred loss of \$115.1 million included in Accumulated Other Comprehensive Loss (AOCL) as of September 30, 2003, for derivative hedging activity, as compared to the June 30, 2003 balance of \$110.8 million in net deferred losses, resulted from an \$8.2 million reduction related to current hedging activity and a \$12.5 million increase due to net hedge gains included in earnings during the three months ended September 30, 2003. Approximately \$22.1 million (after tax) of the net deferred loss on derivative instruments in AOCL as of September 30, 2003, is expected to be reclassified to earnings during the next twelve months as hedged transactions occur. The fair value of these derivative instruments will fluctuate from period to period based on various market factors.

FirstEnergy periodically enters into fixed-to-floating interest rate swap agreements to increase the variable-rate component of its debt portfolio. These derivatives are 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. Swap maturities, call options and interest payment dates match those of the underlying obligations resulting in no ineffectiveness in these hedge positions. The swap agreement consummated in the third quarter of 2003 is based on a notional principal amount of \$50 million. As of September 30, 2003, the notional amount of FirstEnergy's fixed-for-floating rate interest rate swaps totaled \$600 million.

Goodwill

In a business combination, the excess of the purchase price over the estimated fair values of the assets acquired and liabilities assumed is recognized as goodwill. Based on the guidance provided by Statement of Financial Accounting Standards (SFAS) 142, FirstEnergy evaluates its goodwill for impairment at least annually and would make such an evaluation more frequently if indicators of impairment should arise. In accordance with the accounting standard, if the fair value of a reporting unit is less than its carrying value

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(including goodwill), the goodwill is tested for impairment. When impairment is indicated, FirstEnergy recognizes a loss - calculated as the difference between the implied fair value of a reporting unit's goodwill and the carrying value of the goodwill. FirstEnergy's annual review was completed in the third quarter of 2003. As a result of that review, a non-cash goodwill impairment charge of \$121.5 million was recognized in the third quarter of 2003, reducing the carrying value of FSG. That charge reflects the continued slow down in the development of competitive retail markets and depressed economic conditions that affect the value of FSG. The fair value of FSG was estimated using primarily the expected discounted future cash flows. The forecasts used in FirstEnergy's evaluations of goodwill reflect operations consistent with its general business assumptions. Unanticipated changes in those assumptions could have a significant effect on FirstEnergy's future evaluations of goodwill. As of September 30, 2003, FirstEnergy had \$6.1 billion of goodwill that primarily relates to its regulated services segment. A summary of the changes in FirstEnergy's goodwill for the nine months ended September 30, 2003 (which affected only the Competitive Services Segment) is shown below:

	In millions)
Balance at December 31, 2003.....	\$6,278.1
Impairment charges.....	(121.5)
FSG divestitures.....	(40.8)
Other.....	12.1

Balance at September 30, 2003.....	\$6,127.9
	=====

Comprehensive Income

Comprehensive income includes net income as reported on the Consolidated Statements of Income and all other changes in common stockholders' equity, except those resulting from transactions with common stockholders. As

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of September 30, 2003, FirstEnergy's AOCL was approximately \$532.6 million as compared to the December 31, 2002 balance of \$656.1 million. A reconciliation of net income to comprehensive income for the three months and nine months ended September 30, 2003 and 2002, is shown below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
		Restated (see Note 1)		Restated (see Note 1)
	(In thousands)		(In thousands)	
Net income.....	\$152,719	\$284,845	\$313,333	\$611,011

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Other comprehensive income, net of tax:				
Derivative hedge transactions.....	(4,346)	16,373	(4,922)	52,752
Currency translations (1).....	(11)	--	91,450	1
Available for sale securities.....	5,880	(1,068)	44,148	(2,479)
	-----	-----	-----	-----
Comprehensive income.....	\$154,242	\$300,150	\$444,009	\$661,285
	=====	=====	=====	=====

Stock-Based Compensation

FirstEnergy applies the recognition and measurement principles of Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees" and related Interpretations in accounting for its stock-based compensation plans. No material stock-based employee compensation expense is reflected in net income 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.

If FirstEnergy had accounted for employee stock options under the fair value method, a higher value would have been assigned to the options granted. The effects of applying fair value accounting to FirstEnergy's stock options would be reductions to net income and earnings per share. The following table summarizes those effects.

	Three Months Ended September 30,		Nine Months September
	2003	2002	2003
	Restated (see Note 1)		(
	(In thousands)		(In thou
Net income, as reported.....	\$152,719	\$284,845	\$313,333
Add back compensation expense reported in net income, net of tax (based on APB 25).....	40	39	131
Deduct compensation expense based upon estimated fair value, net of tax...	(3,138)	(2,491)	(9,314)
	-----	-----	-----
Adjusted net income.....	\$149,621	\$282,393	\$304,150
	-----	-----	-----
Earnings Per Share of Common Stock -			
Basic			
As Reported.....	\$0.51	\$0.97	\$1.06
Adjusted.....	\$0.50	\$0.96	\$1.03
Diluted			
As Reported.....	\$0.51	\$0.97	\$1.05

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Adjusted..... \$0.50 \$0.96 \$1.02

Changes in Previously Reported Income Statement Classifications

FirstEnergy recorded an increase to income during the first quarter of 2002 of \$31.7 million (net of income taxes of \$13.6 million) relative to a decision to retain an interest in the Avon Energy Partners Holdings (Avon) business previously classified as held for sale - see Note 3. This amount represents the aggregate results of operations of Avon for the period this business was held for sale. It was previously reported on the Consolidated Statement of Income as the cumulative effect of a change in accounting. In April 2003, it was determined that this amount should instead have been classified in operations. As further discussed in Note 3, the decision to retain Avon was made in the first quarter of 2002 and Avon's results of operations for that quarter have been classified in their respective revenue and expense captions

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on the Consolidated Statement of Income. This change in classification had no effect on previously reported net income. The effects of this change on the Consolidated Statement of Income previously reported for the nine months ended September 30, 2002 are reflected in the restatements shown below.

As a result of FirstEnergy's divestiture of its ownership in GPU Empresa Distribuidora Electrica Regional S.A. and affiliates (Emdersa) in April 2003 through the abandonment of its shares in the parent company of the Argentina operation (as further described in Note 3), FirstEnergy recorded a \$67.4 million charge in the second quarter of 2003 on the Consolidated Statement of Income as "Discontinued Operations". This divestiture caused Emdersa's first quarter 2003 net income of approximately \$6.9 million, which had been previously classified in its respective revenues and expense captions on the Consolidated Statement of Income, to be also reclassified as Discontinued Operations. Accordingly, Emdersa's Discontinued Operations reflect a \$60.5 million net loss for the nine months ended September 30, 2003 which included \$6.9 million of after-tax earnings from the Argentina operation from the first quarter of 2003 - previously reported as \$10.7 million of revenue, \$0.1 million of expenses and \$3.7 million of income taxes.

The following table summarizes Emdersa's major assets and liabilities included in FirstEnergy's Consolidated Balance Sheet as of December 31, 2002:

(In thousands)

Assets Abandoned:	
Current Assets.....	\$ 17,344
Property, plant and equipment.....	61,980
Other.....	8,737

Total Assets.....	\$ 88,061
=====	
Liabilities Related to Assets Abandoned:	
Current Liabilities.....	\$ 12,777
Long-term debt.....	100,202

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Other.....	10,548

Total Liabilities.....	\$123,527
=====	

RESTATEMENTS OF PREVIOUSLY REPORTED RESULTS

FirstEnergy, OE, CEI and TE have restated their financial statements for the year ended December 31, 2002, for the three months ended March 31, 2003 and 2002, the six months ended June 30, 2003, the three and six months ended June 30, 2002 and the three and nine months ended September 30, 2002. The primary modifications include revisions to reflect a change in the method of amortizing costs being recovered through the Ohio transition plan and recognition of above-market values of certain leased generation facilities. In addition, certain other immaterial adjustments recorded in the first quarter of 2003 that related to 2002 are now reported in results for the earlier periods. The net impact of these adjustments decreased net income by \$6.2 million in the first quarter of 2003. Included in the adjustments are the impact in the first and second quarters of 2002 of ceasing deferral accounting for certain energy costs incurred in Pennsylvania (see Note 4). The impact of this restatement increased net income in the first quarter of 2002 by \$12 million and decreased net income in the second quarter of 2002 by \$8 million.

Transition Cost Amortization

As discussed under Regulatory Matters in Note 4, FirstEnergy, OE, CEI and TE amortize transition costs using the effective interest method. The amortization schedules originally developed at the beginning of the transition plan in 2001 in applying this method were based on total transition revenues, including revenues designed to recover allowed transition costs not in the financial statements prepared under GAAP. The Ohio electric utilities have revised the amortization schedules to consider only revenues relating to transition regulatory assets recognized on the GAAP balance sheet. This change results in higher amortization of these regulatory assets in the first several years of the transition cost recovery period, compared with the method previously applied (see summary by years included after the Above-Market Lease Costs discussion). The following table summarizes the previously reported transition cost amortization and the restated amounts under the revised method for the three months and nine months ended September 30, 2002:

	Three Months Ended September 30, 2002		Nine Months Ended September 30, 2002	
	As Previously Reported	As Restated	As Previously Reported	Res

(In thousands)				
OE.....	\$76,019	\$ 85,419	\$227,221	\$23
CEI.....	7,967	37,907	32,763	11
TE.....	11,632	29,812	25,848	7
	-----	-----	-----	-----
Total FirstEnergy.....	\$95,618	\$153,138	\$285,832	\$42
	=====	=====	=====	=====

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Above-Market Lease Costs

In 1997, FirstEnergy was formed through a merger between OE and Centerior Energy Corp. The merger was accounted for as an acquisition of Centerior, the parent company of CEI and TE, under the purchase accounting rules of APB 16. In connection with the reassessment of the accounting for the transition plan, FirstEnergy reassessed its accounting for the Centerior purchase and determined that above market lease liabilities should have been recorded at the time of the merger. Accordingly, as of 2002, FirstEnergy recorded additional adjustments associated with the 1997 merger between OE and Centerior to reflect certain above market lease liabilities for Beaver Valley Unit 2 and the Bruce Mansfield Plant, for which CEI and TE had previously entered into sale-leaseback arrangements. CEI and TE recorded an increase in goodwill related to the above market lease costs for Beaver Valley Unit 2 since regulatory accounting for nuclear generating assets had been discontinued prior to the merger date and it was determined that this additional liability would have increased goodwill at the date of the merger. The corresponding impact of the above market lease liabilities for the Bruce Mansfield Plant were recorded as regulatory assets because SFAS 71 had not been discontinued at that time for the fossil generating assets and recovery of these liabilities was provided for under the transition plan.

The total above market lease obligation of \$722 million (CEI-\$611 million; TE-\$111 million) associated with Beaver Valley Unit 2 will be amortized through the end of the lease term in 2017. The additional goodwill has been recorded on a net basis, reflecting amortization that would have been recorded through 2001 when goodwill amortization ceased with the adoption of SFAS 142. The total above market lease obligation of \$755 million (CEI-\$457 million, TE-\$298 million) associated with the Bruce Mansfield Plant is being amortized through the end of 2016. Before the start of the transition plan in 2001, the regulatory asset would have been amortized at the same rate as the lease obligation. Beginning in 2001, the remaining unamortized regulatory asset would have been included in CEI's and TE's amortization schedules for regulatory assets and amortized through the end of the recovery period - approximately 2009 for CEI and 2007 for TE.

FirstEnergy reflected the net impact of the accounting for these items for the period from the merger in 1997 through 2001 in the 2002 financial statements. The cumulative impact to net income recorded in 2002 related to these prior periods increased net income by \$5.9 million in the restated 2002 financial statements and was reflected as a reduction in other operating expenses. In addition, the impact changed the following balances in the consolidated balance sheet as of January 1, 2002:

Increase (Decrease)	(In Thousands)
Goodwill.....	\$ 381,780
Regulatory assets.....	636,100

Total assets.....	\$1,017,880
	=====
Other current liabilities.....	84,600
Deferred income taxes.....	(262,580)
Deferred investment tax credits.....	(828)
Other deferred credits.....	1,190,800

Total liabilities.....	\$1,011,992

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Retained earnings.....	\$ 5,888
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The adjustments described above are anticipated to result in a decrease in reported net income through 2005 and an increase in net income for the period 2006 through 2017, the end of the lease term for Beaver Valley Unit 2. The schedule below shows the estimated impact on pre-tax income of these adjustments for 2001 through 2009.

Year	Transition Cost Amortization			Above-Market Leases		Goodwill Amortization
	Original	Revised	Change	Amortization (a)	Reversal	
2001-2002	\$ 792	\$ 947	\$ (155)	\$ (170)	\$287	\$ (44)
2003	514	582	(68)	(103)	85	
2004	628	668	(40)	(118)	85	
2005	813	777	36	(136)	85	
2006	328	295	33	(83)	85	
2007	200	136	64	(77)	85	
2008	213	107	106	(56)	85	
2009	55	31	24	(12)	85	
	<u>\$3,543</u>	<u>\$3,543</u>	<u>\$ --</u>			

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The effects of these changes on the Consolidated Statements of Income previously reported for the three months ended March 31, 2003, were disclosed in Amendment No. 1 to FirstEnergy's, OE's, CEI's and TE's Quarterly Report on Form 10-Q/A for the quarter ended March 31, 2003. The effects of these changes on the respective Consolidated Statements of Income previously reported for the three months and nine months ended September 30, 2002 are as follows:

FirstEnergy

Three Months Ended
September 30, 2002

Nine Mo
Septemb

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	As Previously Reported	As Restated	As Previously Reported
	(In thousands, except per share amount)		
Revenues.....	\$3,451,184	\$3,451,184	\$9,203,035
Expenses	2,681,668	2,724,018	7,275,711
Income before interest and income taxes .	769,516	727,166	1,927,324
Net interest charges.....	220,397	220,397	749,401
Income taxes.....	238,864	221,924	517,865
Net income.....	\$ 310,255	\$ 284,845	\$ 660,058
Basic earnings per share of common stock.	\$1.06	\$.97	\$2.25
Diluted earnings per share of common stock	\$1.05	\$.97	\$2.24

OE
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	Three Months Ended September 30, 2002		Nine Mo Septemb
	As Previously Reported	As Restated	As Previously Reported
	(In thousands)		
Operating revenues.....	\$ 813,296	\$ 813,296	\$2,265,645
Operating expenses and taxes.....	658,794	664,518	1,875,475
Operating income	154,502	148,778	390,170
Other income.....	14,212	14,212	29,811
Net interest charges.....	33,695	33,695	110,776
Net income.....	135,019	129,295	309,205
Preferred stock dividend requirements....	658	658	5,851
Earnings on common stock.....	\$ 134,361	\$ 128,637	\$ 303,354

CEI

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	Three Months Ended September 30, 2002		Nine Mo Septemb
	As Previously Reported	As Restated	As Previously Reported
	(In thousands)		
Operating revenues.....	\$ 538,879	\$ 538,879	\$1,426,730
Operating expenses and taxes.....	410,387	418,967	1,130,162
Operating income	128,492	119,912	296,568
Other income.....	5,562	5,562	14,159
Net interest charges.....	47,263	47,263	141,880
Net income.....	86,791	78,211	168,847
Preferred stock dividend requirements....	3,149	3,149	14,459
Earnings on common stock.....	\$ 83,642	\$ 75,062	\$ 154,388

TE

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	Three Months Ended September 30, 2002		Nine Mo Septemb
	As Previously Reported	As Restated	As Previously Reported
	(In thousands)		
Operating revenues.....	\$ 269,857	\$ 269,857	\$ 764,331
Operating expenses and taxes.....	244,815	251,670	695,472
Operating income	25,042	18,187	68,859
Other income.....	4,033	4,033	12,119
Net interest charges.....	14,463	14,463	44,031
Net income.....	14,612	7,757	36,947
Preferred stock dividend requirements....	2,211	2,211	9,145
Earnings on common stock.....	\$ 12,401	\$ 5,546	\$ 27,802

The effects of these changes on the respective Consolidated Statements of Cash Flows previously reported for the three months and nine

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months ended September 30, 2002 are as follows:

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	Three Months Ended September 30, 2002		Nine Mo Septemb
	As Previously Reported	As Restated (1)	As Previously Reported
	(In thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income.....	\$ 310,255	\$ 284,845	\$ 660,058
Adjustments to reconcile net income to net cash from operating activities:			
Provision for depreciation and amortization.....	253,917	310,417	767,450
Nuclear fuel and lease amortization.....	20,191	20,191	60,754
Other amortization.....	(5,381)	(5,381)	(13,304)
Deferred costs recoverable as regulatory assets	(152,336)	(145,336)	(291,406)
Deferred income taxes.....	37,831	20,891	81,252
Investment tax credits.....	(6,767)	(6,767)	(20,480)
Cumulative effect of accounting change (Note 5)	--	--	(45,300)
Receivables.....	(67,608)	(67,608)	(151,175)
Materials and supplies.....	(18,388)	(18,388)	(21,967)
Accounts payable.....	47,888	47,888	85,662
Accrued taxes.....	16,687	16,687	103,407
Accrued interest.....	79,063	79,063	59,507
Other.....	153,065	131,915	120,166
Net cash provided from operating activities	\$ 668,417	\$ 668,417	\$1,394,624

OE

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	Three Months Ended September 30, 2002		Nine Mon Septemb
	As Previously Reported	As Restated (1)	As Previously Reported
	(In thousands)		
CASH FLOWS FROM OPERATING			

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ACTIVITIES			
Net income.....	\$ 135,019	\$ 129,295	\$ 309,205
Adjustments to reconcile net income to net cash from operating activities:			
Provision for depreciation and amortization	82,691	90,991	266,342
Nuclear fuel and lease amortization.....	12,389	12,389	35,924
Deferred income taxes.....	(9,782)	(12,682)	(31,838)
Investment tax credits.....	(3,751)	(3,427)	(11,286)
Receivables.....	(18,352)	(18,352)	14,451
Materials and supplies.....	(3,699)	(3,699)	(8,499)
Accounts payable.....	18,690	18,690	(771)
Accrued taxes.....	16,302	16,302	222,562
Other.....	44,883	44,883	39,240
	-----	-----	-----
Net cash provided from operating activities	\$ 274,390	\$ 274,390	\$ 835,330
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CEI

	Three Months Ended September 30, 2002		Nine Mo Septemb
	As Previously Reported	As Restated (1)	As Previously Reported

(In thousands)			
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income.....	\$ 86,791	\$ 78,211	\$ 168,847
Adjustments to reconcile net income to net cash from operating activities:			
Provision for depreciation and amortization	17,846	47,646	74,650
Nuclear fuel and lease amortization.....	5,037	5,037	15,821
Other amortization.....	(3,937)	(3,937)	(12,104)
Deferred income taxes.....	6,812	736	19,912
Investment tax credits.....	(1,015)	(1,159)	(3,046)
Receivables.....	3,274	3,274	(28,383)
Materials and supplies.....	(1,786)	(1,786)	(4,992)
Accounts payable.....	(23,141)	(23,141)	3,238
Other.....	23,518	8,518	9,930
	-----	-----	-----
Net cash provided from operating activities	\$ 113,399	\$ 113,399	\$ 243,873
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TE
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	Three Months Ended September 30, 2002		Nine Mo Septemb
	As Previously Reported	As Restated (1)	As Previously Reported
(In thousands)			
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income.....	\$ 14,612	\$ 7,757	\$ 36,947
Adjustments to reconcile net income to net cash from operating activities:			
Provision for depreciation and amortization	23,413	41,813	64,529
Nuclear fuel and lease amortization.....	2,765	2,765	9,009
Deferred income taxes.....	(5,911)	(11,266)	(19)
Investment tax credits.....	(414)	(454)	(1,387)
Receivables.....	22,359	22,359	23,619
Materials and supplies.....	(2,150)	(2,150)	(3,970)
Accounts payable.....	26,894	26,894	20,545
Accrued sale leaseback costs.....	8,905	2,755	(19,549)
Other.....	7,556	7,556	9,597
	-----	-----	-----
Net cash provided from operating activities	\$ 98,029	\$ 98,029	\$ 139,321
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2 - COMMITMENTS, GUARANTEES AND CONTINGENCIES:

Capital Expenditures

FirstEnergy's current forecast reflects expenditures of approximately \$3.1 billion (OE-\$268 million, CEI-\$312 million, TE-\$169 million, Penn-\$123 million, JCP&L-\$462 million, Met-Ed-\$288 million, Penelec-\$328 million, ATSI-\$131 million, FES-\$823 million and other subsidiaries-\$147 million) for property additions and improvements from 2003-2007, of which approximately \$732 million (OE-\$80 million, CEI-\$102 million, TE-\$62 million, Penn-\$43 million, JCP&L-\$103 million, Met-Ed-\$37 million, Penelec-\$40 million, ATSI-\$17 million, FES-\$163 million and other subsidiaries-\$85 million) is applicable to 2003. Investments for additional nuclear fuel during the 2003-2007 period are estimated to be approximately \$481 million (OE-\$57 million, CEI-\$42 million, TE-\$21 million, Penn-\$38 million and FES-\$323 million), of which approximately \$65 million (OE-\$25 million, CEI-\$14 million, TE-\$9 million and Penn-\$17 million) applies to 2003.

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. Such agreements include contract guarantees, surety bonds and ratings contingent collateralization provisions. As of September 30, 2003, outstanding guarantees and other assurances aggregated \$1.036 billion.

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FirstEnergy guarantees energy and energy-related payments of its subsidiaries involved in energy marketing activities - principally to facilitate normal physical transactions involving electricity, gas, emission allowances and coal. FirstEnergy also provides guarantees to various providers of subsidiary financing principally for the acquisition of property, plant and equipment. These agreements legally obligate FirstEnergy and its subsidiaries 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. The likelihood that such parental guarantees of \$956.0 million as of September 30, 2003 will increase amounts otherwise to be paid by FirstEnergy to meet its obligations incurred in connection with financings and ongoing energy and energy-related activities is remote.

Most of FirstEnergy's surety bonds are backed by various indemnities common within the insurance industry. Surety bonds and related FirstEnergy guarantees of \$15.6 million provide additional assurance to outside parties that contractual and statutory obligations will be met in a number of areas including construction jobs, environmental commitments and various retail transactions.

Various energy supply contracts contain credit enhancement provisions in the form of cash collateral or letters of credit in the event of a reduction in credit rating below investment grade. These provisions vary and typically require more than one rating reduction to fall below investment grade by Standard & Poor's or Moody's Investors Service to trigger additional collateralization by FirstEnergy. As of September 30, 2003, rating-contingent collateralization totaled \$64.2 million. FirstEnergy monitors these collateralization provisions and updates its total exposure monthly.

Environmental Matters

Various federal, state and local authorities regulate the Companies with regard to air and water quality and other environmental matters. FirstEnergy estimates additional capital expenditures for environmental compliance of approximately \$159 million, which is included in the construction forecast provided under "Capital Expenditures" for 2003 through 2007.

The Companies are required to meet federally approved sulfur dioxide (SO₂) regulations. Violations of such regulations can result in shutdown of the generating unit involved and/or civil or criminal penalties of up to \$31,500 for each day the unit is in violation. The Environmental Protection Agency (EPA) has an interim enforcement policy for SO₂ regulations in Ohio that allows for compliance based on a 30-day averaging period. The Companies cannot predict what action the EPA may take in the future with respect to the interim enforcement policy.

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The Companies believe they are in compliance with the current SO₂ and nitrogen oxides (NO_x) reduction requirements under the Clean Air Act Amendments of 1990. SO₂ reductions are being achieved by burning lower-sulfur fuel, generating more electricity from lower-emitting plants, and/or using emission allowances. NO_x reductions are being achieved through combustion controls and the generation of more electricity at lower-emitting plants. In September 1998, the EPA finalized regulations requiring additional NO_x reductions from the Companies' Ohio and Pennsylvania facilities. The EPA's NO_x Transport Rule imposes uniform reductions of NO_x emissions (an approximate 85% reduction in utility plant NO_x emissions from projected 2007 emissions) across a region of nineteen states and the District of Columbia, including New Jersey, Ohio and Pennsylvania, based on a conclusion that such NO_x emissions are contributing significantly to ozone pollution in the eastern United States. State Implementation Plans (SIP) must comply by May 31, 2004 with individual state NO_x budgets established by the EPA. Pennsylvania submitted a SIP that required compliance with the NO_x budgets at the Companies' Pennsylvania facilities by May 1, 2003 and Ohio submitted a SIP that requires compliance with the NO_x budgets at the Companies' Ohio facilities by May 31, 2004.

In July 1997, the EPA promulgated changes in the National Ambient Air Quality Standard (NAAQS) for ozone emissions and proposed a new NAAQS for previously unregulated ultra-fine particulate matter. In May 1999, the U.S. Court of Appeals for the D.C. Circuit found constitutional and other defects in the new NAAQS rules. In February 2001, the U.S. Supreme Court upheld the new NAAQS rules regulating ultra-fine particulates but found defects in the new NAAQS rules for ozone and decided that the EPA must revise those rules. The future cost of compliance with these regulations may be substantial and will depend if and how they are ultimately implemented by the states in which the Companies operate affected facilities.

In 1999 and 2000, the EPA issued Notices of Violation (NOV) or a Compliance Order to nine utilities covering 44 power plants, including the W. H. Sammis Plant. In addition, the U.S. Department of Justice filed eight civil complaints against various investor-owned utilities, which included a complaint against OE and Penn in the U.S. District Court for the Southern District of Ohio. The NOV and complaint allege violations of the Clean Air Act based on operation and maintenance of the Sammis Plant dating back to 1984. The complaint requests permanent injunctive relief to require the installation of "best available control technology" and civil penalties of up to \$27,500 per day of violation. On August 7, 2003, the United States District Court for the Southern District of Ohio ruled that 11 projects undertaken at the Sammis Plant between 1984 and 1998 required pre-construction permits under the Clean Air Act. The ruling concludes the liability

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phase of the case, which deals with applicability of Prevention of Significant Deterioration provisions of the Clean Air Act. The remedy phase, which is currently scheduled to be ready for trial beginning April 19, 2004, will address civil penalties and what, if any, actions should be taken to further reduce emissions at the plant. In the ruling, the Court indicated that the remedies it "may consider and impose involved a much broader, equitable analysis, requiring the Court to consider air quality, public health, economic impact, and employment consequences. The Court may also consider the less than consistent efforts of the EPA to apply and further enforce the Clean Air Act." The potential penalties that may be imposed, as well as the capital expenditures necessary to comply with substantive remedial measures that may be required, could have a material adverse impact on the Company's financial condition and results of operations. Management is unable to predict the ultimate outcome of

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this matter and no liability has been recorded as of September 30, 2003.

In December 2000, the EPA announced it would proceed with the development of regulations regarding hazardous air pollutants from electric power plants. The EPA identified mercury as the hazardous air pollutant of greatest concern. The EPA established a schedule to propose regulations by December 2003 and issue final regulations by December 2004. The future cost of compliance with these regulations may be substantial.

As a result of the Resource Conservation and Recovery Act of 1976, as amended, and the Toxic Substances Control Act of 1976, federal and state hazardous waste regulations have been promulgated. Certain fossil-fuel combustion waste products, such as coal ash, were exempted from hazardous waste disposal requirements pending the EPA's evaluation of the need for future regulation. The EPA has issued its final regulatory determination that regulation of coal ash as a hazardous waste is unnecessary. In April 2000, the EPA announced that it will develop national standards regulating disposal of coal ash under its authority to regulate nonhazardous waste.

The Companies have been named as "potentially responsible parties" (PRPs) 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 PRPs for a particular site be held liable on a joint and several basis. Therefore, environmental liabilities that are considered probable have been recognized on the Consolidated Balance Sheet as of September 30, 2003, based on estimates of the total costs of cleanup, the Companies' proportionate responsibility for such costs and the financial ability of other nonaffiliated entities to pay. In addition, JCP&L has accrued liabilities for environmental remediation of former manufactured gas plants in New Jersey; those costs are being recovered by JCP&L through a non-bypassable societal benefits charge. The Companies have total accrued liabilities aggregating approximately \$50.4 million (JCP&L-\$47.9 million, CEI-\$2.5 million, TE-\$0.2 million, Met-Ed-\$0.2 million and Penelec-\$0.2 million) as of September 30, 2003.

The effects of compliance on the Companies with regard to environmental matters could have a material adverse effect on FirstEnergy's earnings and competitive position. These environmental regulations affect FirstEnergy's earnings and competitive position to the extent it 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. FirstEnergy believes it is in material compliance with existing regulations but is unable to predict whether environmental regulations will change and what, if any, the effects of such change would be.

Other Commitments and Contingencies

GPU made significant investments in foreign businesses and facilities through its GPU Capital and GPU Power subsidiaries. Although FirstEnergy attempts to mitigate its risks related to foreign investments, it faces additional risks inherent in operating in such locations, including foreign currency fluctuations.

EI Barranquilla, a wholly owned subsidiary of GPU Power, is a 28.67% equity investor in Termobarranquilla S.A., Empresa de Servicios Publicos (TEBSA), which owns a Colombian independent power generation project. GPU Power was committed through September 30, 2003, under certain circumstances, to make additional standby equity contributions to TEBSA of \$21.3 million, which FirstEnergy has guaranteed. The total outstanding senior debt of the TEBSA project is \$215 million as of September 30, 2003. FirstEnergy believes it has met the obligation and has requested release from lenders. The banks' decision

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is pending. The lenders include the Overseas Private Investment Corporation, US Export Import Bank and a commercial bank syndicate. FirstEnergy has also guaranteed the obligations of the operators of the TEBSA project, up to a maximum of \$6.0 million (subject to escalation) under the project's operations and maintenance agreement. FirstEnergy provided the TEBSA project lenders a \$50 million letter of credit (LOC) (under FirstEnergy's existing \$250 million LOC capacity available as part of a \$1.5 billion FirstEnergy credit facility) to obtain TEBSA lender consent as substitute collateral for the release of the assets for FirstEnergy to abandon its Argentina operations, Emdersa (see Note 3 below).

Power Outage

On August 14, 2003, eight states and southern Canada experienced a widespread power outage. That outage affected approximately 1.4 million customers in FirstEnergy's service area. The cause of the outage has not been

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determined. FirstEnergy continues to accumulate data and evaluate the status of its electrical system prior to and during the outage event. On September 12, 2003, the U.S./Canada Power Outage Task Force (Task Force) investigating the August 14 outage released a timeline of events. The timeline presented the sequence of events that occurred on major transmission lines (230 kilovolts or greater) and at large power plants beginning at approximately noon through approximately 4:00 PM, preceding the outage. This timeline did not attempt to present or explain the linkages between the sequence of events. Determining the specific causes of the events and their relation to the outage will require more time to analyze by the Task Force. The Task Force is expected to release its interim report on November 18, 2003.

Legal Matters

As of October 14, 2003, ten individual shareholder-plaintiffs have filed separate complaints against FirstEnergy alleging various securities law violations. The bases for these complaints vary but include alleged violations arising out of the power outage, the extended outage at Davis-Besse, and the restatement of earnings, all described herein. FirstEnergy is reviewing the suits that have been served in preparation for a responsive pleading. FirstEnergy is, however, aware that in each case, the plaintiffs are seeking certification from the court to represent a class of similarly situated shareholders. In addition, four shareholder-plaintiffs have filed "shareholder derivative" actions against the members of the Board of Directors, and FirstEnergy as a nominal defendant, asserting rights of the corporation itself. The complaints allege violations of fiduciary duties as a result of, generally, the same events described in the securities lawsuits described herein. Furthermore, five lawsuits - three in Ohio state courts, two in New York state courts - have been filed seeking damages relating to the August 14, 2003 power outage. The two New York actions name FirstEnergy as one of several defendants and have been noticed but not served. Additionally, a complaint has been filed with the PUCO by United States Congressman Dennis Kucinich, alleging that as a result of several events, including the August 14, 2003 power outage and the extended outage at Davis-Besse, both described herein, the Company has failed to provide adequate and reasonable service to its customers. That complaint asks, among other things, that another electric supplier be authorized to provide service within the Ohio Utilities' certified territories. FirstEnergy believes that in each instance, the legal actions are without merit. FirstEnergy intends to defend these actions vigorously, but cannot predict the outcome of any of these proceedings or whether any further regulatory proceedings or legal actions

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may be instituted against it. In particular, if FirstEnergy were ultimately determined to have legal liability in connection with the outage, it could have a material adverse effect on FirstEnergy's financial condition and results of operations.

Various lawsuits, claims and proceedings related to FirstEnergy's normal business operations are pending against it, the most significant of which are described herein.

3 - DIVESTITURES:

INTERNATIONAL OPERATIONS-

FirstEnergy had identified certain former GPU international operations for divestiture within one year of the merger. These operations constitute individual "lines of business" as defined in APB Opinion (APB) No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," with physically and operationally separable activities. Application of Emerging Issues Task Force (EITF) Issue No. 87-11, "Allocation of Purchase Price to Assets to Be Sold," required that expected, pre-sale cash flows, including incremental interest costs on related acquisition debt, of these operations be considered part of the purchase price allocation. Accordingly, subsequent to the merger date, results of operations and incremental interest costs related to these international subsidiaries were not included in FirstEnergy's 2001 Consolidated Statement of Income. Additionally, assets and liabilities of these international operations had been segregated under separate captions on the Consolidated Balance Sheet as of December 31, 2001 as "Assets Pending Sale" and "Liabilities Related to Assets Pending Sale."

Upon completion of its merger with GPU, FirstEnergy accepted an October 2001 offer from Aquila, Inc. (formerly UtiliCorp United) to purchase Avon, FirstEnergy's wholly owned holding company for Midlands Electricity plc, for \$2.1 billion (including the assumption of \$1.7 billion of debt). The transaction closed on May 8, 2002 and reflected the March 2002 modification of Aquila's initial offer such that Aquila acquired a 79.9 percent equity interest in Avon for approximately \$1.9 billion (including the assumption of \$1.7 billion of debt). Proceeds to FirstEnergy included \$155 million in cash and a note receivable for approximately \$87 million (representing the present value of \$19 million per year to be received over six years beginning in 2003) from Aquila for its 79.9 percent interest. FirstEnergy and Aquila together own all of the outstanding shares of Avon through a jointly owned subsidiary, with each company having an ownership voting interest. Originally, in accordance with applicable accounting guidance, the earnings of those foreign operations were not recognized in current earnings from the date of the GPU acquisition. However, as a result of the decision to retain an ownership interest in Avon in the quarter ended March 31, 2002, EITF Issue No. 90-6, "Accounting for Certain Events Not Addressed in Issue No. 87-11 relating to an Acquired Operating Unit to be Sold" required FirstEnergy to reallocate the purchase price of GPU based on amounts as of the purchase date as if Avon had never been held for sale, including reversal of the effects of having applied EITF Issue No. 87-11, to the transaction. The effect of reallocating the purchase price and reversal of the effects of EITF Issue No. 87-11, including the allocation of capitalized interest, has been reflected in the Consolidated Statement of Income

for the nine months ended September 30, 2002 by reclassifying certain revenue

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and expense amounts related to activity during the quarter ended March 31, 2002 to their respective income statement classifications for the nine-month 2002 period. See Note 1 for the effects of the change in classification. In the fourth quarter of 2002, FirstEnergy recorded a \$50 million charge to reduce the carrying value of its remaining 20.1 percent interest.

In the second quarter of 2003, FirstEnergy recognized an impairment of \$12.6 million (\$8.2 million net of tax) related to the carrying value of the note FirstEnergy had with Aquila from the initial sale of a 79.9 percent interest in Avon that occurred in May 2002. After receiving the first annual installment payment of \$19 million in May 2003, FirstEnergy sold the remaining balance of its note receivable in the secondary market and received \$63.2 million in proceeds on July 28, 2003.

In May 2003, FirstEnergy reached an agreement to sell its 20.1 percent interest in Avon to Scottish and Southern Energy plc; subsequently, the agreement was terminated when the parties were unable to agree to terms with representatives of certain bondholders. On October 21, 2003, FirstEnergy announced it reached an agreement to sell its 20.1 percent interest in Avon to a subsidiary of Powergen UK plc, as part of a transaction to include Aquila's 79.9 percent interest. Under terms of the agreement, FirstEnergy would receive approximately \$8 million. The sale is contingent upon regulatory approval and reaching agreement with bondholders representing 95% of the aggregate principal amount of the bonds. The holders of approximately half of the outstanding bonds have given their approval.

GPU's former Argentina operations were also identified by FirstEnergy for divestiture within one year of the merger. FirstEnergy determined the fair value of Emdersa, based on the best available information as of the date of the merger. Subsequent to that date, a number of economic events occurred in Argentina which affected FirstEnergy's ability to realize Emdersa's estimated fair value. These events included currency devaluation, restrictions on repatriation of cash, and the anticipation of future asset sales in that region by competitors. FirstEnergy did not reach a definitive agreement to sell Emdersa as of December 31, 2002. Therefore, these assets were no longer classified as "Assets Pending Sale" on the Consolidated Balance Sheet as of December 31, 2002. Additionally, under EITF Issue No. 90-6, FirstEnergy recorded in the fourth quarter of 2002 a one-time, non-cash charge included as a "Cumulative Adjustment for Retained Businesses Previously Held for Sale" on its 2002 Consolidated Statement of Income related to Emdersa's cumulative results of operations from November 7, 2001 through September 30, 2002. The amount of this one-time, after-tax charge was \$93.7 million, or \$0.32 per share of common stock (comprised of \$108.9 million in currency transaction losses arising principally from U.S. dollar denominated debt, offset by \$15.2 million of operating income).

In October 2002, FirstEnergy began consolidating the results of Emdersa's operations in its financial statements. In addition to the currency transaction losses of \$108.9 million, FirstEnergy also recognized a currency translation adjustment (CTA) in other comprehensive income (OCI) of \$91.5 million as of December 31, 2002, which reduced FirstEnergy's common stockholders' equity. This adjustment represented the impact of translating Emdersa's financial statements from its functional currency to the U.S. dollar for GAAP financial reporting.

On April 18, 2003, FirstEnergy divested its ownership in Emdersa through the abandonment of its shares in Emdersa's parent company, GPU Argentina Holdings, Inc. The abandonment was accomplished by relinquishing FirstEnergy's shares to the independent Board of Directors of GPU Argentina Holdings, relieving FirstEnergy of all rights and obligations relative to this business. As a result of the abandonment, FirstEnergy recognized a one-time, non-cash charge of \$67.4 million, or \$0.23 per share of common stock in the second quarter of 2003. This charge is the result of realizing the CTA losses through

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current period earnings (\$89.8 million, or \$0.30 per share), partially offset by the gain recognized from abandoning FirstEnergy's investment in Emdersa (\$22.4 million, or \$0.07 per share). Since FirstEnergy had previously recorded \$89.8 million of CTA adjustments in OCI, the net effect of the \$67.4 million charge was an increase in common stockholders' equity of \$22.4 million.

The \$67.4 million charge does not include the anticipated income tax benefits related to the abandonment, which were fully reserved during the second quarter of 2003. FirstEnergy anticipates tax benefits of approximately \$129 million, of which \$50 million would increase net income in the period that it becomes probable those benefits will be realized. The remaining \$79 million of tax benefits would reduce goodwill recognized in connection with the acquisition of GPU.

SALE OF GENERATING ASSETS-

In November 2001, FirstEnergy reached an agreement to sell four coal-fired power plants totaling 2,535 megawatts (MW) to NRG Energy Inc. On August 8, 2002, FirstEnergy notified NRG that it was canceling the agreement because NRG stated that it could not complete the transaction under the original terms of the agreement. FirstEnergy also notified NRG that FirstEnergy reserves the right to pursue legal action against NRG, its affiliate and its parent, Xcel Energy for damages, based on the anticipatory breach of the agreement. In May 2003, NRG filed voluntary bankruptcy petitions in U.S. Bankruptcy Court in the Southern District of New York. On November 13, 2003, FirstEnergy announced it had reached an agreement for settlement of its claim against NRG, subject to U.S. Bankruptcy Court approval and required authorization from the FERC. Under NRG's proposed Plan of Reorganization, FirstEnergy, as an unsecured

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creditor, could receive an estimated settlement of approximately \$198 million, with payment in the form of cash (12%), notes (15.2%) and new NRG common stock (72.8%).

In December 2002, FirstEnergy decided to retain ownership of these plants after reviewing other bids it subsequently received from other parties who had expressed interest in purchasing the plants. Since FirstEnergy did not execute a sales agreement by year-end, it reflected approximately \$74 million (\$43 million net of tax) of previously unrecognized depreciation and other transaction costs in the fourth quarter of 2002 related to these plants from November 2001 through December 2002 on its Consolidated Statement of Income.

4 - REGULATORY MATTERS:

In Ohio, New Jersey and Pennsylvania, laws applicable to electric industry deregulation included similar provisions which are reflected in the Companies' respective state regulatory plans:

- o allowing the Companies' electric customers to select their generation suppliers;
- o establishing provider of last resort (PLR) obligations to customers in the Companies' service areas;
- o allowing recovery of potentially stranded investment (sometimes referred to as transition costs);

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- o itemizing (unbundling) the current price of electricity into its component elements - including generation, transmission, distribution and stranded costs recovery charges;
- o deregulating the Companies' electric generation businesses; and
- o continuing regulation of the Companies' transmission and distribution systems.

Ohio

In July 1999, Ohio's electric utility restructuring legislation, which allowed Ohio electric customers to select their generation suppliers beginning January 1, 2001, was signed into law. Among other things, the legislation provided for a 5% reduction on the generation portion of residential customers' bills and the opportunity to recover transition costs, including regulatory assets, from January 1, 2001 through December 31, 2005 (market development period). The period for the recovery of regulatory assets only can be extended up to December 31, 2010. The PUCO was authorized to determine the level of transition cost recovery, as well as the recovery period for the regulatory assets portion of those costs, in considering each Ohio electric utility's transition plan application.

In July 2000, the PUCO approved FirstEnergy's transition plan for OE, CEI and TE (Ohio Companies) as modified by a settlement agreement with major parties to the transition plan. The application of SFAS 71, "Accounting for the Effects of Certain Types of Regulation" to OE's generation business and the nonnuclear generation businesses of CEI and TE was discontinued with the issuance of the PUCO transition plan order, as described further below. Major provisions of the settlement agreement consisted of approval of recovery of generation-related transition costs as filed of \$4.0 billion net of deferred income taxes (OE-\$1.6 billion, CEI-\$1.6 billion and TE-\$0.8 billion) and transition costs related to regulatory assets as filed of \$2.9 billion net of deferred income taxes (OE-\$1.0 billion, CEI-\$1.4 billion and TE-\$0.5 billion), with recovery through no later than 2006 for OE, mid-2007 for TE and 2008 for CEI, except where a longer period of recovery is provided for in the settlement agreement. The generation-related transition costs include \$1.4 billion, net of deferred income taxes, (OE-\$1.0 billion, CEI-\$0.2 billion and TE-\$0.2 billion) of impaired generating assets recognized as regulatory assets as described further below, \$2.4 billion, net of deferred income taxes, (OE-\$1.2 billion, CEI-\$0.4 billion and TE-\$0.8 billion) of above market operating lease costs and \$0.8 billion, net of deferred income taxes, (CEI-\$0.5 billion and TE-\$0.3 billion) of additional plant costs that were reflected on CEI's and TE's regulatory financial statements.

Also as part of the settlement agreement, FirstEnergy is giving preferred access over its subsidiaries to nonaffiliated marketers, brokers and aggregators to 1,120 MW of generation capacity through 2005 at established prices for sales to the Ohio Companies' retail customers. Customer prices are frozen through the five-year market development period, which runs through the end of 2005, except for certain limited statutory exceptions, including the 5% reduction referred to above. In February 2003, the Ohio Companies were authorized increases in annual revenues aggregating approximately \$50 million (OE-\$41 million, CEI-\$4 million and TE-\$5 million) to recover their higher tax costs resulting from the Ohio deregulation legislation.

FirstEnergy's Ohio customers choosing alternative suppliers receive an additional incentive applied to the shopping credit (generation component) of 45% for residential customers, 30% for commercial customers and 15% for industrial customers. The amount of the incentive is deferred for future recovery from customers - recovery will be

accomplished by extending the respective transition cost recovery period. If the customer shopping goals established in the agreement had not been achieved by the end of 2005, the transition cost recovery periods could have been shortened for OE, CEI and TE to reduce recovery by as much as \$500 million (OE-\$250 million, CEI-\$170 million and TE-\$80 million). The Ohio Companies achieved all of their required 20% customer shopping goals in 2002. Accordingly, FirstEnergy believes that there will be no regulatory action reducing the recoverable transition costs.

On October 21, 2003, the Ohio Companies filed an application with the PUCO to establish generation service rates beginning January 1, 2006, in response to expressed concerns by the PUCO about price and supply uncertainty following the end of the market development period. The filing included two options:

- o A competitive auction, which would establish a price for generation that customers would be charged during the period covered by the auction, or
- o A Rate Stabilization Plan, which would extend current generation prices through 2008, ensuring adequate supply and continuing FirstEnergy's support of energy efficiency and economic development efforts.

Under the first option, an auction would be conducted to secure generation service, including PLR responsibility, for FirstEnergy's Ohio customers. Beginning in 2006, customers would pay market prices for generation as determined by the auction.

Under the Rate Stabilization Plan option, customers would have price and supply stability through 2008 - three years beyond the end of the market development period - as well as the benefits of a competitive market. Customer benefits would include: customer savings by extending the current five percent discount on generation costs and other customer credits; maintaining current distribution base rates through 2007; market-based auctions that may be conducted annually to ensure that customers pay the lowest available prices; extension of FirstEnergy's support of energy-efficiency programs and the potential for continuing the program to give preferred access to nonaffiliated entities to generation capacity as discussed above. In order to facilitate supply planning, FirstEnergy has requested that the PUCO rule on this proposal by December 31, 2003. Under the proposed plan, FirstEnergy is requesting:

- o Extension of the transition cost amortization period for OE from 2006 to 2007; for CEI from 2008 to 2009 and for TE from mid-2007 to 2008;
- o Deferral of new regulatory assets and deferral of interest costs on the shopping incentive and other new deferrals;
- o Ability to initiate a request to increase generation rates only under certain limited conditions.

As a result of the Ohio Companies' October 21 filing, the PUCO entered an order on October 28, 2003 setting forth the discovery schedule related to the application with hearings scheduled to begin December 3, 2003.

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New Jersey

JCP&L's 2001 Final Decision and Order (Final Order) with respect to its rate unbundling, stranded cost and restructuring filings confirmed rate reductions set forth in its 1999 Summary Order, which had been in effect at increasing levels through July 2003. The Final Order also confirmed the establishment of a non-bypassable societal benefits charge (SBC) to recover costs which include nuclear plant decommissioning and manufactured gas plant remediation, as well as a non-bypassable market transition charge (MTC) primarily to recover stranded costs. The NJBPU has deferred making a final determination of the net proceeds and stranded costs related to prior generating asset divestitures until JCP&L's request for an Internal Revenue Service (IRS) ruling regarding the treatment of associated federal income tax benefits is acted upon. Should the IRS ruling support the return of the tax benefits to customers, there would be no effect to FirstEnergy's or JCP&L's net income since the contingency existed prior to the merger.

In addition, the Final Order provided for the ability to securitize stranded costs associated with the divested Oyster Creek Nuclear Generating Station. In 2002, JCP&L received NJBPU authorization to issue \$320 million of transition bonds to securitize the recovery of these costs and which provided for a usage-based non-bypassable transition bond charge (TBC) and for the transfer of the bondable transition property to another entity. JCP&L sold the transition bonds through its wholly owned subsidiary, JCP&L Transition Funding LLC, in June 2002 - those bonds are recognized on the Consolidated Balance Sheet.

JCP&L's PLR obligation to provide basic generation service (BGS) to non-shopping customers is supplied almost entirely from contracted and open market purchases. JCP&L is permitted to defer for future collection from customers the amounts by which its costs of supplying BGS to non-shopping customers and costs incurred under nonutility generation (NUG) agreements exceed amounts collected through BGS and MTC rates. As of September 30,

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2003, the accumulated deferred cost balance totaled approximately \$440 million, after the charge discussed below. The NJBPU also allowed securitization of JCP&L's deferred balance to the extent permitted by law upon application by JCP&L and a determination by the NJBPU that the conditions of the New Jersey restructuring legislation are met. There can be no assurance as to the extent, if any, that the NJBPU will permit such securitization.

Under New Jersey transition legislation, all electric distribution companies were required to file rate cases to determine the level of unbundled rate components to become effective August 1, 2003. JCP&L submitted two rate filings with the NJBPU in August 2002. The first filing requested increases in base electric rates of approximately \$98 million annually. The second filing was a request to recover deferred costs that exceeded amounts being recovered under the current MTC and SBC rates; one proposed method of recovery of these costs is the securitization of the deferred balance. This securitization methodology is similar to the Oyster Creek securitization discussed above. On July 25, 2003, the NJBPU announced its JCP&L base electric rate proceeding decision, which reduced JCP&L's annual revenues by approximately \$62 million effective August 1, 2003. The NJBPU decision also provided for an interim return on equity of 9.5 percent on JCP&L's rate base for 6 to 12 months. During that period, JCP&L will initiate another proceeding to request recovery of additional costs incurred to enhance system reliability. In that proceeding, the NJBPU could increase the

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return on equity to 9.75 percent or decrease it to 9.25 percent, depending on its assessment of the reliability of JCP&L's service. Any reduction would be retroactive to August 1, 2003. The net revenue decrease from the NJBPU's decision consists of a \$223 million decrease in the electricity delivery charge, a \$111 million increase due to the August 1, 2003 expiration of annual customer credits previously mandated by the New Jersey transition legislation, a \$49 million increase in the MTC tariff component, and a net \$1 million increase in the SBC charge. The MTC allows for the recovery of \$465 million in deferred energy costs over the next ten years on an interim basis, thus disallowing \$153 million of the \$618 million provided for in a preliminary settlement agreement between certain parties. As a result, JCP&L recorded charges to net income for the nine months ended September 30, 2003, aggregating \$172 million (\$103 million net of tax) consisting of the \$153 million deferred energy costs and other regulatory assets. JCP&L filed a motion for rehearing and reconsideration with the NJBPU on August 15, 2003 with respect to the following issues: (1) the disallowance of the \$153 million deferred energy costs; (2) the reduced rate of return on equity; and (3) \$42.7 million of disallowed costs to achieve merger savings. On October 10, 2003, the NJBPU held the motion in abeyance until the final NJBPU decision and order which is expected to be issued in the fourth quarter of 2003.

In February 2003, the NJBPU approved the BGS auction results for the period beginning August 1, 2003. The auction covered a fixed price bid (applicable to all residential and smaller commercial and industrial customers) and an hourly price bid (applicable to all large industrial customers) process. JCP&L sells all self-supplied energy (NUGs and owned generation) to the wholesale market with offsetting credits to its deferred energy balances.

Pennsylvania

The PPUC authorized 1998 rate restructuring plans for Penn, Met-Ed and Penelec. In 2000, the PPUC disallowed a portion of the requested additional stranded costs above those amounts granted in Met-Ed's and Penelec's 1998 rate restructuring plan orders. The PPUC required Met-Ed and Penelec to seek an IRS ruling regarding the return of certain unamortized investment tax credits and excess deferred income tax benefits to customers. Similar to JCP&L's situation, if the IRS ruling ultimately supports returning these tax benefits to customers, there would be no effect to FirstEnergy's, Met-Ed's or Penelec's net income since the contingency existed prior to the merger.

In June 2001, the PPUC approved the Settlement Stipulation with all of the major parties in the combined merger and rate relief proceedings which approved the merger and provided PLR deferred accounting treatment for energy costs, permitting Met-Ed and Penelec to defer, for future recovery, energy costs in excess of amounts reflected in their capped generation rates retroactive to January 1, 2001. This PLR deferral accounting procedure was later denied in a February 2002 Commonwealth Court of Pennsylvania decision. The court decision also affirmed the PPUC decision regarding the merger, remanding the decision to the PPUC only with respect to the issue of merger savings. FirstEnergy established reserves in 2002 for Met-Ed's and Penelec's PLR deferred energy costs which aggregated \$287.1 million, reflecting the potential adverse impact of the then pending Pennsylvania Supreme Court decision whether to review the Commonwealth Court decision.

On April 2, 2003, the PPUC remanded the issue relating to merger savings to the Office of Administrative Law for hearings, directed Met-Ed and Penelec to file a position paper on the effect of the Commonwealth Court order on the Settlement Stipulation and allowed other parties to file responses to the position paper. Met-Ed and Penelec filed a letter with the Administrative Law Judge on June 11, 2003, voiding the Stipulation in its entirety and reinstating Met-Ed's and Penelec's restructuring settlement previously approved by the PPUC.

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On October 2, 2003, the PPUC issued an order concluding that the Commonwealth Court reversed the PPUC's June 20, 2001 order in its entirety. The PPUC directed Met-Ed and Penelec to file tariffs within thirty days of the order to reflect the competitive transition charge (CTC) rates and shopping credits that were in effect prior to the June 21, 2001 order to be effective upon one day's notice. In response to that order, Met-Ed and Penelec filed these supplements to their tariffs to become effective October 24, 2003.

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On October 8, 2003, Met-Ed and Penelec filed a petition for clarification relating to the October 2, 2003 order on two issues: to establish June 30, 2004 as the date to fully refund the NUG trust fund and to clarify that the ordered accounting treatment regarding the CTC rate/shopping credit swap should follow the ratemaking, and that the PPUC's findings would not impair their rights to recover all of their stranded costs. On October 9, 2003, ARIPPA (an intervenor in the proceedings) petitioned the PPUC to direct Met-Ed and Penelec to reinstate accounting for the CTC rate/shopping credit swap retroactive to January 1, 2002. Several other parties also filed petitions. On October 16, 2003, the PPUC issued a reconsideration order granting the date requested by Met-Ed and Penelec for the NUG trust fund refund; and, denying Met-Ed's and Penelec's other clarification requests and granting ARIPPA's petition with respect to the accounting treatment of the changes to the CTC rate/shopping credit swap. On October 22, 2003, Met-Ed and Penelec filed an Objection with the Commonwealth Court asking that the Court reverse the PPUC's finding that requires Met-Ed and Penelec to treat the stipulated CTC rates that were in effect from January 1, 2002 on a retroactive basis. Met-Ed and Penelec are considering filing an appeal to the Commonwealth Court on the PPUC orders as well.

On October 27, 2003, one Commonwealth Court judge issued an Order denying Met-Ed's and Penelec's objection without explanation. Due to the vagueness of the Order, Met-Ed and Penelec, on October 31, 2003, filed an Application for Clarification with the judge. Concurrent with this filing, Met-Ed and Penelec, in order to preserve their rights, also filed with the Commonwealth Court both a Petition for Review of the PPUC's October 16 and 22 Orders, and an application for reargument, if the judge, in his clarification order, indicates that Met-Ed's and Penelec's objection was intended to be denied on the merits. In addition to these findings, Met-Ed and Penelec, in compliance with the PPUC's Orders, filed revised quarterly reports for the twelve months ended December 31, 2001 and 2002, and for the first two quarters of 2003, reflecting balances consistent with the PPUC's findings in their Orders.

Effective September 1, 2002, Met-Ed and Penelec assigned their PLR responsibility to their FES affiliate through a wholesale power sale agreement. The PLR sale currently runs through December 2003 and will be automatically extended for each successive calendar year unless any party elects to cancel the agreement by November 1 of the preceding year. Under the terms of the wholesale agreement, FES assumed the supply obligation and the supply profit and loss risk, for the portion of power supply requirements not self-supplied by Met-Ed and Penelec under their NUG contracts and other power contracts with nonaffiliated third party suppliers. This arrangement reduces Met-Ed's and Penelec's exposure to high wholesale power prices by providing power at a fixed price for their uncommitted PLR energy costs during the term of the agreement with FES. FES has hedged most of Met-Ed's and Penelec's unfilled PLR on-peak obligation through 2004 and a portion of 2005, the period during which deferred accounting was previously allowed under the PPUC's order. Met-Ed and Penelec are authorized to continue deferring differences between NUG contract costs and current market prices.

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5 - NEW ACCOUNTING STANDARDS ADOPTED:

SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity"

In May 2003, the FASB issued SFAS 150, which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. In accordance with the standard, certain financial instruments that embody obligations for the issuer are required to be classified as liabilities. SFAS 150 was effective immediately for financial instruments entered into or modified after May 31, 2003 and effective at the beginning of the first interim period beginning after June 15, 2003 (FirstEnergy's third quarter of 2003) for all other financial instruments.

Upon adoption of SFAS 150, effective July 1, 2003, FirstEnergy reclassified as debt the preferred stock of consolidated subsidiaries subject to mandatory redemptions with a carrying value of approximately \$17.5 million (\$4.0 million for CEI and \$13.5 million for Penn) as of September 30, 2003. Subsidiary-obligated mandatorily redeemable preferred securities of \$285 million (\$100 million for CEI, \$93 million for Met-Ed and \$92 million for Penelec) were also reclassified and included in long-term debt as of September 30, 2003. As required by SFAS 150, the preferred securities subject to mandatory redemption were not restated as long-term debt on the December 31, 2002 balance sheet.

Adoption of SFAS 150 had no impact on FirstEnergy's Consolidated Statements of Income because the preferred dividends were previously included in net interest charges and required no reclassification. Dividends on preferred stock subject to mandatory redemption on CEI and Penn's respective Consolidated Statements of Income, which were not included in net interest charges prior to the adoption of SFAS 150, were included in net interest charges for the three months ended September 30, 2003.

CEI, Met-Ed and Penelec created statutory business trusts to issue the preferred securities of \$285 million discussed above. The continued consolidation of the issuer trusts and the appropriate balance sheet classification of the trust preferred securities is currently under review pursuant to FIN 46 (see Note 6). Upon the implementation of FIN 46 effective December 31, 2003, these trusts would be deconsolidated if CEI, Met-Ed and Penelec were not the primary beneficiaries of the related trusts. Rather than recording a liability for the trust preferred securities as discussed above, FirstEnergy, CEI, Met-Ed and Penelec would reflect liabilities for the notes payable to the respective trusts, which are

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currently eliminated in consolidation. The deconsolidation of the trusts would result in an increase to total assets and liabilities of \$9.3 million (\$3.1 million for each of CEI, Met-Ed and Penelec) for the investment in the trusts.

SFAS 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities"

Issued by the FASB in April 2003, SFAS 149 further clarifies and amends accounting and reporting for derivative instruments. The statement amends SFAS 133 for decisions made by the Derivative Implementation Group (DIG), as well as issues raised in connection with other FASB projects and implementation issues. The statement is effective for contracts entered into or modified after June 30, 2003 except for implementation issues that have been effective for reporting periods beginning before June 15, 2003, that continue to be applied

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based on their original effective dates. Adoption of SFAS 149 did not have a material impact on the Companies' financial statements.

SFAS 143, "Accounting for Asset Retirement Obligations"

In January 2003, FirstEnergy implemented SFAS 143 which provides accounting standards for retirement obligations associated with tangible long-lived assets. This statement requires that the fair value of a liability for an asset retirement obligation (ARO) be recorded in the period in which it is incurred. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. Over time the capitalized costs are depreciated and the present value of the asset retirement liability increases, resulting in a period expense. However, rate-regulated entities may recognize a regulatory asset or liability instead if the criteria for such treatment are met. Upon retirement, a gain or loss would be recorded if the cost to settle the retirement obligation differs from the carrying amount.

FirstEnergy identified applicable legal obligations as defined under the new standard for nuclear power plant decommissioning, reclamation of a sludge disposal pond related to the Bruce Mansfield plant, and closure of two coal ash disposal sites. As a result of adopting SFAS 143 in January 2003 asset retirement costs were recorded in the amount of \$602 million as part of the carrying amount of the related long-lived asset, offset by accumulated depreciation of \$415 million. The ARO liability at the date of adoption was \$1.107 billion, including accumulated accretion for the period from the date the liability was incurred to the date of adoption. As of December 31, 2002, FirstEnergy had recorded decommissioning liabilities of \$1.244 billion. FirstEnergy expects substantially all nuclear decommissioning costs for Met-Ed, Penelec, JCP&L and Penn would be recoverable in rates over time. Therefore, FirstEnergy recognized a regulatory liability of \$185 million upon adoption of SFAS 143 for the transition amounts related to establishing the ARO for nuclear decommissioning for these operating companies. The remaining cumulative effect adjustment for unrecognized depreciation and accretion offset by the reduction in the existing decommissioning liabilities and ceasing the accounting practice of depreciating non-regulated generation assets using a cost of removal component was a \$174.7 million increase to income, \$102.1 million net of tax, or \$0.35 per share of common stock (basic and diluted).

FirstEnergy recorded an ARO for nuclear decommissioning (\$1.096 billion) of the Beaver Valley 1, Beaver Valley 2, Davis-Besse, Perry, and TMI-2 nuclear generating facilities with the remaining ARO related to the Bruce Mansfield Plant's sludge impoundment facilities and two coal ash disposal sites. The Companies maintain nuclear decommissioning trust funds, which had balances as of September 30, 2003 of \$1.230 billion. This amount represents the fair value of the assets that are legally restricted for purposes of settling the nuclear decommissioning ARO. The following table provides the beginning and ending aggregate carrying amount of the total ARO and the changes to the balance during the third quarter and the first nine months of 2003.

ARO Reconciliation	Periods Ended September 30, 2003	
	Three Months	Nine Months
	(In millions)	
Balance at beginning of period	\$1,143	\$1,107
Liabilities incurred in the current period.....	--	--
Liabilities settled in the current period.....	--	--
Accretion expense.....	18	54

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Revisions in estimated cash flows.....	--	--

Balance at end of period.....	\$1,161	\$1,161

The following table provides the year-end balance of the ARO related to nuclear decommissioning and sludge impoundment for 2002, as if SFAS 143 had been adopted on January 1, 2002.

Adjusted ARO Reconciliation

(In millions)		
Beginning balance as of January 1, 2002.....		\$1,042
Accretion 2002.....		65

Ending balance as of December 31, 2002.....		\$1,107

In accordance with SFAS 143, FirstEnergy ceased the accounting practice of depreciating non-regulated generation assets using a cost of removal component in the depreciation rates. This practice recognizes accumulated depreciation in excess of the historical cost of an asset, because the removal cost exceeds the estimated salvage value. The change in accounting resulted in a \$60 million credit to income as part of the SFAS 143 cumulative effect adjustment. Beginning in 2003 cost of removal related to non-regulated generation assets is charged to expense rather than charged to the accumulated provision for depreciation. In accordance with SFAS 71, the regulated plant assets will continue the accounting practice of depreciating assets using a cost of removal component in the depreciation rates. The net removal cost credit balance included in the accumulated provision for depreciation as of September 30, 2003 was approximately \$314 million.

The following table provides the effect on income as if the accounting for SFAS 143 had been applied during the third quarter and first nine months of 2002.

Effect of the Change in Accounting Principle Applied Retroactively to 2002 -----	Period Ended September 30, 2002 -----	
	Three Months -----	Nine Months -----
	(Restated - see Note 1) (In millions)	
Reported net income.....	\$ 285	\$ 611

Increase (Decrease) :		
Elimination of decommissioning expense.....	26	78
Depreciation of asset retirement cost.....	(1)	(2)
Accretion of ARO liability.....	(10)	(28)
Income tax effect.....	(6)	(20)

Net earnings increase.....	9	28

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Net income adjusted.....	\$ 294	\$ 639
=====		
Basic earnings per share of common stock:		
Net income as previously reported.....	\$0.97	\$2.08
Adjustment for effect of change in accounting principle applied retroactively....	.03	0.10

Net income adjusted.....	\$1.00	\$2.18
=====		
Diluted earnings per share of common stock:		
Net income as previously reported.....	\$0.97	\$2.08
Adjustment for effect of change in accounting principle applied retroactively....	0.03	0.09

Net income adjusted.....	\$1.00	\$2.17
=====		

EITF Issue No. 01-8, "Determining Whether an Arrangement Contains a Lease"

In May 2003, the EITF reached a consensus regarding when arrangements contain a lease. Based on the EITF consensus, an arrangement contains a lease if: (1) it identifies specific property, plant or equipment (explicitly or implicitly); and (2) the arrangement transfers the right to the purchaser to control the use of the property, plant or equipment. The consensus is to be applied prospectively to arrangements committed to, modified or acquired through a business combination. The adoption of this consensus as of July 1, 2003 did not impact FirstEnergy's financial statements.

EITF Issue No. 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities"

In October 2002, the EITF reached a consensus that for periods after July 15, 2002, mark-to-market revenues and expenses and their related kilowatt-hour (KWH) sales and purchases on energy trading contracts must be shown on a net basis in the Consolidated Statements of Income. Prior to its adoption for 2002 year end reporting, FirstEnergy had previously reported such contracts as gross revenues and purchased power costs. Comparative quarterly disclosures and the Consolidated Statements of Income for revenues and expenses have been reclassified for 2002 to conform with the revised presentation. In addition, the related KWH sales and purchases statistics described under Management's Discussion and Analysis of Results of Operations and Financial Condition were reclassified. The following table displays the impact of changing to a net presentation for FirstEnergy's energy trading operations.

2002 Impact of Recording Energy Trading Net	Three Months Ended September 30, 2002		Nine Months Ended September 30, 2002	
	Revenues	Expenses	Revenues	Expenses
	-----	-----	-----	-----

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		Restated (See Note 1) (In millions)	Restated (See Note 1) (In millions)	
Total as originally reported.....	\$3,572	\$2,845	\$9,414	\$7,570
Adjustment.....	(121)	(121)	(211)	(211)
<hr/>				
Total as currently reported.....	\$3,451	\$2,724	\$9,203	\$7,359
<hr/>				

6 - NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED:

FIN 46, "Consolidation of Variable Interest Entities - an interpretation of ARB 51"

In January 2003, the FASB issued this interpretation of ARB No. 51, "Consolidated Financial Statements". This Interpretation requires the consolidation of a variable interest entity (VIE) by an enterprise if that enterprise either absorbs a majority of the VIE's expected losses or receives a majority of the VIE's expected residual returns as a result of ownership, contractual or other financial interests in the VIE. Currently, entities are generally consolidated by an enterprise that has a controlling financial interest through ownership of a majority voting interest in the entity.

FIN 46 defines a VIE as an entity in which equity investors do not have the characteristics of a controlling financial interest nor have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIE's created after January 31, 2003, are immediately subject to the provisions of FIN 46. The FASB recently deferred implementation of FIN 46 for VIE's created before February 1, 2003, until the first reporting period ending after December 15, 2003 (FirstEnergy's quarter ending December 31, 2003.)

FirstEnergy currently has transactions with entities in connection with sale and leaseback arrangements which fall within the scope of this interpretation and which meet the definition of a VIE in accordance with FIN 46. In addition to the two entities created to refinance debt discussed below, the Company is evaluating its interest in the owner trusts that acquired certain interests in the Perry Plant, Beaver Valley Unit 2 and the Bruce Mansfield Plant. The leases are accounted for as operating leases in accordance with GAAP. The combined purchase price of \$3.1 billion for all of the interests acquired by the owner trusts in 1987 was funded with debt of \$2.5 billion and equity of \$600 million.

FirstEnergy is exposed to losses under the sale-leaseback agreements upon the occurrence of certain contingent events that we consider unlikely to occur. The Company's maximum exposure to loss is currently estimated to be \$2.0 billion, which represents the net amount of casualty value payments upon the occurrence of specified casualty events that render the plants worthless. Under the sale and leaseback agreements, FirstEnergy has minimum undiscounted net lease payments of \$2.6 billion that would not be payable if the casualty value payments are made. In addition, the Company has recorded above market lease obligations of \$1.1 billion related to the Bruce Mansfield Plant and Beaver Valley Unit 2 as of September 30, 2003 (see Note 1) related to the acquisition by FirstEnergy of CEI and TE.

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FirstEnergy currently believes that it will consolidate two VIE's created in 1996 and 1997 to refinance debt in connection with the above sale and leaseback transactions. In 1996, the PNBV Capital Trust issued equity and notes to fund the acquisition of a portion of the collateralized lease bonds that had been issued by certain owner trusts in connection with the sale and leaseback in 1987 of a portion of OE's interest in the Perry Plant and Beaver Valley Unit 2. OE used debt and available funds to purchase the notes issued by the PNBV Trust. Ownership of the trust includes a three-percent equity interest by a nonaffiliated third party and a three-percent equity interest held by OES Ventures, a wholly owned subsidiary of OE. Consolidation of the trust as of December 31, 2002 would have changed the PNBV trust investment of \$389 million to an investment in collateralized lease bonds of \$401 million. The increase in \$12 million would have represented the minority interest in the total assets of the trust.

In 1997, CEI and TE established the Shippingport Capital Trust to purchase all of the lease obligation bonds issued by the owner trusts in the Bruce Mansfield Plant sale and leaseback transactions. CEI and TE acquired all of the notes issued by Shippingport Capital Trust. The equity ownership of this trust includes a 0.34% interest held by Toledo Edison Capital Corporation (TECC), a wholly owned subsidiary of TE, and a 2.25% interest and a 2.60% interest held by unaffiliated third parties. The assets and liabilities of the trust are currently included on a proportionate basis in the financial statements of CEI and TE. Adoption of FIN 46 will not impact FirstEnergy with respect to this trust, but may result in reporting all of the trust assets and liabilities on the books of CEI.

As described in Note 1, the consolidated financial statements of FirstEnergy, CEI, Met-Ed and Penelec currently include several trusts that have sold trust preferred securities in which FirstEnergy is not the primary beneficiary. Pending further guidance from the FASB that would indicate otherwise, these entities may not be consolidated in FirstEnergy's financial statements as of December 31, 2003. The deconsolidation would result in an

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increase to total assets and liabilities of \$9.3 million (\$3.1 million for each of CEI, Met-Ed and Penelec) for the investment in the trusts.

The FASB continues to provide additional guidance on implementing FIN 46 and recently proposed modifications and clarifications with a comment period ending December 1, 2003. As this guidance is finalized, the Company will continue to assess the accounting and disclosure impact of FIN 46 with respect to the VIE's discussed above as well as other potential VIE's.

DIG Implementation Issue No. C20 for SFAS 133, "Scope Exceptions: Interpretation of the Meaning of Not Clearly and Closely Related in Paragraph 10(b) Regarding Contracts with a Price Adjustment Feature"

In June 2003, the FASB cleared DIG Issue C20 for implementation in fiscal quarters beginning after July 10, 2003, which would correspond to FirstEnergy's fourth quarter of 2003. The issue supersedes earlier DIG Issue C11, "Interpretation of Clearly and Closely Related in Contracts That Qualify for the Normal Purchases and Normal Sales Exception." DIG Issue C20 provides guidance regarding when the presence of a general index, such as the Consumer Price Index, in a contract would prevent that contract from qualifying for the normal purchases and normal sales (NPNS) exception under SFAS 133, as amended, and therefore exempt from the mark-to-market treatment of certain contracts. DIG Issue C20 is to be applied prospectively to all existing contracts as of its

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effective date and for all future transactions. If it is determined under DIG Issue C20 guidance that the NPNS exception was claimed for an existing contract that was not eligible for this exception, the contract will be recorded at fair value, with a corresponding adjustment of net income as the cumulative effect of a change in accounting principle in the fourth quarter of 2003. FirstEnergy is currently assessing the new guidance but does not anticipate any material impact on its financial statements.

7 - SEGMENT INFORMATION:

FirstEnergy operates under two reportable segments: regulated services and competitive services. The aggregate "Other" segments do not individually meet the criteria to be considered a reportable segment. "Other" consists of interest expense related to holding company debt; corporate support services and the international businesses acquired in the 2001 merger. FirstEnergy's primary segment is its regulated services segment, which includes eight electric utility operating companies in Ohio, Pennsylvania and New Jersey that provide electric transmission and distribution services. Its other material business segment consists of the subsidiaries that operate unregulated energy and energy-related businesses.

The regulated services segment designs, constructs, operates and maintains FirstEnergy's regulated transmission and distribution systems. It also provides generation services to regulated franchise customers who have not chosen an alternative, competitive generation supplier. The regulated services segment obtains a portion of its required generation through power supply agreements with the competitive services segment.

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Segment Financial Information

	Regulated Services -----	Competitive Services -----	Other -----	
				(In millions)
Three Months Ended:				

September 30, 2003				

External revenues.....	\$ 2,532	\$ 889	\$ 24	
Internal revenues.....	296	578	135	
Total revenues.....	2,828	1,467	159	
Depreciation and amortization.....	312	9	11	
Net interest charges.....	117	12	54	
Income taxes.....	206	(38)	(36)	
Income before discontinued operations and cumulative effect of accounting change	284	(77)	(54)	
Net income (loss).....	284	(77)	(54)	
Total assets.....	29,794	2,324	1,377	
Total goodwill.....	5,993	135	--	
Property additions.....	63	88	5	

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September 30, 2002 (Restated - see Note 1)

External revenues.....	\$ 2,718	\$ 712	\$ 19
Internal revenues.....	261	662	116
Total revenues.....	2,979	1,374	135
Depreciation and amortization.....	294	8	8
Net interest charges.....	141	17	76
Income taxes.....	265	(10)	(33)
Net income (loss).....	358	(15)	(58)
Total assets.....	30,776	2,174	2,077
Total goodwill.....	5,878	280	(4)
Property additions.....	150	69	56

Nine Months Ended:

September 30, 2003

External revenues.....	\$ 6,931	\$2,494	\$ 86
Internal revenues.....	794	1,650	406
Total revenues.....	7,725	4,144	492
Depreciation and amortization.....	909	25	32
Net interest charges.....	374	33	263
Income taxes.....	440	(99)	(97)
Income before discontinued operations and cumulative effect of accounting change ...	607	(177)	(158)
Net income (loss).....	708	(176)	(219)
Total assets.....	29,794	2,324	1,377
Total goodwill.....	5,993	135	--
Property additions.....	218	302	60

September 30, 2002 (Restated - see Note 1)

External revenues.....	\$ 6,982	\$1,887	\$ 320
Internal revenues.....	793	1,489	358
Total revenues.....	7,775	3,376	678
Depreciation and amortization.....	867	21	32
Net interest charges.....	458	34	300
Income taxes.....	623	(47)	(92)
Net income (loss).....	805	(68)	(126)
Total assets.....	30,776	2,174	2,077
Total goodwill.....	5,878	280	(4)
Property additions.....	414	179	102

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	Three Months Ended September 30,		
	2003	2002	
		Restated (See Note 1)	
	(In thousands, except per		
REVENUES:			
Electric utilities.....	\$2,531,639	\$2,717,461	\$6
Unregulated businesses.....	911,746	733,723	2
Total revenues.....	3,443,385	3,451,184	9
EXPENSES:			
Fuel and purchased power.....	1,324,297	1,274,679	3
Purchased gas.....	103,000	95,799	
Other operating expenses.....	898,507	866,273	2
Provision for depreciation and amortization.....	332,125	310,417	
Goodwill impairment (Note 1).....	121,523	--	
General taxes.....	177,499	176,850	
Total expenses.....	2,956,951	2,724,018	8
INCOME BEFORE INTEREST AND INCOME TAXES.....	486,434	727,166	1
NET INTEREST CHARGES:			
Interest expense.....	199,418	212,477	
Capitalized interest.....	(6,513)	(6,303)	
Subsidiaries' preferred stock dividends.....	8,021	14,223	
Net interest charges.....	200,926	220,397	
INCOME TAXES.....	132,789	221,924	
INCOME BEFORE DISCONTINUED OPERATIONS AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE.....	152,719	284,845	
Discontinued operations (net of income taxes of \$3,700,000) (Note 3).....	--	--	
Cumulative effect of accounting change (net of income taxes of \$72,516,000) (Note 5).....	--	--	
NET INCOME.....	\$ 152,719	\$ 284,845	\$
BASIC EARNINGS PER SHARE OF COMMON STOCK:			
Income before discontinued operations and cumulative effect of accounting change.....	\$.51	\$.97	
Discontinued operations (net of income taxes) (Note 3).....	--	--	
Cumulative effect of accounting change (net of income taxes) (Note 5).....	--	--	
Net income.....	\$.51	\$.97	

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	=====	=====
WEIGHTED AVERAGE NUMBER OF BASIC SHARES		
OUTSTANDING.....	299,422	293,328
	=====	=====
DILUTED EARNINGS PER SHARE OF COMMON STOCK:		
Income before discontinued operations and cumulative effect of accounting change.....	\$.51	\$.97
Discontinued operations (net of income taxes) (Note 3).	--	--
Cumulative effect of accounting change (net of income taxes) (Note 5).....	--	--
	-----	-----
Net income.....	\$.51	\$.97
	=====	=====
WEIGHTED AVERAGE NUMBER OF DILUTED SHARES		
OUTSTANDING.....	300,751	294,277
	=====	=====
DIVIDENDS DECLARED PER SHARE OF COMMON STOCK.....	\$.375	\$.375
	=====	=====

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FIRSTENERGY CORP.

CONSOLIDATED BALANCE SHEETS

(Unaudited)
September 30,
2003

(In th

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents.....	\$ 178,911
Receivables-	
Customers (less accumulated provisions of \$57,509,000 and \$52,514,000 respectively, for uncollectible accounts).....	1,126,111
Other (less accumulated provisions of \$7,651,000 and \$12,851,000, respectively, for uncollectible accounts).....	406,995
Materials and supplies, at average cost-	
Owned.....	282,403
Under consignment.....	158,506
Prepayments and other.....	203,078

	2,356,004

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PROPERTY, PLANT AND EQUIPMENT:	
In service.....	21,497,981
Less--Accumulated provision for depreciation.....	9,286,506

	12,211,475
Construction work in progress.....	699,180

	12,910,655

INVESTMENTS:	
Capital trust investments.....	993,688
Nuclear plant decommissioning trusts.....	1,230,356
Letter of credit collateralization.....	277,763
Other.....	939,974

	3,441,781

DEFERRED CHARGES:	
Regulatory assets.....	7,798,768
Goodwill.....	6,127,853
Other.....	859,930

	14,786,551

	\$33,494,991
	=====

FIRSTENERGY CORP.

CONSOLIDATED BALANCE SHEETS

(Unaudited)
September 30,
2003

CAPITALIZATION AND LIABILITIES

CURRENT LIABILITIES:	
Currently payable long-term debt and preferred stock.....	\$ 1,576,882
Short-term borrowings.....	246,084
Accounts payable.....	722,156

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Accrued taxes.....	667,938
Lease market valuation liability.....	84,600
Other.....	834,454
	<u>4,132,114</u>

CAPITALIZATION:

Common stockholders' equity-	
Common stock, \$.10 par value, authorized 375,000,000 shares -	
329,836,276 and 297,636,276, shares outstanding, respectively.....	32,984
Other paid-in capital.....	7,055,651
Accumulated other comprehensive loss.....	(532,560)
Retained earnings.....	1,617,499
Unallocated employee stock ownership plan common stock -	
3,106,709 and 3,966,269 shares, respectively.....	(62,142)
	<u>8,111,432</u>
Preferred stock of consolidated subsidiaries-	
Not subject to mandatory redemption.....	335,123
Subject to mandatory redemption (Note 5).....	--
Subsidiary-obligated mandatorily redeemable preferred securities	
(Note 5).....	--
Long-term debt and other long-term obligations-	
Preferred stock of consolidated subsidiaries subject to mandatory	
redemption (Note 5)	17,516
Subsidiary-obligated mandatorily redeemable preferred securities	
(Note 5).....	284,940
Other.....	10,396,512
	<u>19,145,523</u>

DEFERRED CREDITS:

Accumulated deferred income taxes.....	1,986,721
Accumulated deferred investment tax credits.....	217,934
Asset retirement obligations.....	1,161,145
Nuclear plant decommissioning costs.....	--
Power purchase contract loss liability.....	2,905,347
Retirement benefits.....	1,806,632
Lease market valuation liability.....	1,042,450
Other.....	1,097,125
	<u>10,217,354</u>

COMMITMENTS, GUARANTEES AND CONTINGENCIES (Note 2).....

\$33,494,991

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CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended September 30,		
	2003	2002	
		Restated (See Note 1)	(In thousand)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income.....	\$ 152,719	\$ 284,845	\$
Adjustments to reconcile net income to net cash from operating activities-			
Provision for depreciation and amortization.....	332,125	310,417	
Nuclear fuel and capital lease amortization.....	16,902	20,191	
Deferred costs recoverable as regulatory assets....	(32,650)	(145,336)	
Goodwill impairment.....	121,523	--	
Deferred operating lease costs, net.....	(6,401)	10,443	
Deferred income taxes, net.....	(42,433)	34,491	
Amortization of investment tax credits.....	(7,349)	(6,767)	
Accrued retirement benefit obligations.....	81,819	24,941	
Accrued compensation, net.....	(1,812)	(14,070)	
Revenue credits to customers.....	(19,583)	(17,434)	
Disallowed purchased power costs.....	--	--	
Discontinued operations.....	--	--	
Cumulative effect of accounting change.....	--	--	
Other amortization and accruals, net.....	(9,540)	(3,937)	
Tax refund related to pre-merger period.....	--	--	
Energy derivative transactions, net.....	(34,939)	(19,105)	
Receivables.....	104,516	(61,113)	
Materials and supplies.....	19,708	(18,388)	
Accounts payable.....	(136,271)	40,900	
Accrued taxes.....	188,261	16,687	
Accrued interest.....	68,669	79,063	
Prepayments and other current assets.....	109,687	113,841	
Other.....	(9,224)	18,748	
Net cash provided from operating activities.....	895,727	668,417	1
CASH FLOWS FROM FINANCING ACTIVITIES:			
New Financing-			
Common stock.....	934,605	--	
Long-term debt.....	--	317,890	
Short-term borrowings, net.....	--	508,720	
Redemptions and Repayments-			
Preferred stock.....	(1,000)	(313,517)	
Long-term debt.....	(569,273)	(871,608)	(1
Short-term borrowings, net.....	(798,985)	--	
Common stock dividend payments.....	(110,373)	(109,963)	
Net cash used for financing activities.....	(545,026)	(468,478)	
CASH FLOWS FROM INVESTING ACTIVITIES:			
Property additions.....	(155,908)	(274,923)	
Proceeds from sale of assets.....	1,081	--	
Proceeds from note receivable.....	--	--	

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Avon cash and cash equivalents (Note 3).....	--	--	
Proceeds from nonutility generation trusts.....	--	--	
Cash investments.....	31,696	(4,310)	
Contributions to nuclear decommissioning trusts.....	(47,622)	(24,951)	
Debt remarketing investments	(73,231)	--	
Other.....	7,990	25,742	
	-----	-----	-----
Net cash used for investing activities.....	(235,994)	(278,442)	
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents.....	114,707	(78,503)	
Cash and cash equivalents at beginning of period.....	64,204	359,050	
	-----	-----	-----
Cash and cash equivalents at end of period.....	\$ 178,911	\$ 280,547	\$
	=====	=====	=====

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders and Board of
Directors of FirstEnergy Corp.:

We have reviewed the accompanying consolidated balance sheet of FirstEnergy Corp. and its subsidiaries as of September 30, 2003, and the related consolidated statements of income and cash flows for each of the three-month and nine-month periods ended September 30, 2003 and 2002. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated interim financial statements, the Company has restated its previously issued consolidated interim financial statements for each of the three-month and nine-month periods ended September 30, 2002.

We previously audited in accordance with auditing standards generally accepted

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in the United States of America, the consolidated balance sheet and the consolidated statement of capitalization as of December 31, 2002, and the related consolidated statements of income, common stockholders' equity, preferred stock, cash flows and taxes for the year then ended (not presented herein), and in our report (which contained references to the Company's change in its method of accounting for goodwill in 2002 as discussed in Note 2(E) to those consolidated financial statements and the Company's restatement of its previously issued consolidated financial statements for the year ended December 31, 2002 as discussed in Note 2(L) and Note 2(M) to those consolidated financial statements) dated February 28, 2003, except as to Note 2(L), which is as of May 9, 2003, and Notes 2(M) and 8, which are as of August 18, 2003, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2002, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

PricewaterhouseCoopers LLP
Cleveland, Ohio
November 13, 2003

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FIRSTENERGY CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

FirstEnergy Corp. is a registered public utility holding company that provides regulated and competitive energy services (see Results of Operations - Business Segments). International assets were acquired as part of FirstEnergy's acquisition of GPU, Inc. in November 2001. GPU Capital, Inc. and its subsidiaries provided electric distribution services in foreign countries (see Results of Operations - Discontinued Operations). GPU Power, Inc. and its subsidiaries develop, own and operate generation facilities in foreign countries. Sales are planned but not pending for the remaining international assets (see Capital Resources and Liquidity). Regulated electric distribution services are provided in Ohio by wholly owned subsidiaries (Ohio electric utilities) - Ohio Edison Company (OE), The Cleveland Electric Illuminating Company (CEI), and The Toledo Edison Company (TE). Regulated services are provided in Pennsylvania through wholly owned subsidiaries (Pennsylvania electric utilities) - Metropolitan Edison Company (Met-Ed), Pennsylvania Electric Company (Penelec) and Pennsylvania Power Company (Penn) - a wholly owned subsidiary of OE. Jersey Central Power & Light Company (JCP&L) provides electric distribution services in New Jersey. Transmission services are provided in the franchise areas of the Ohio electric utilities and Penn by wholly owned subsidiary American Transmission Systems, Inc. Transmission services are provided by Met-Ed, Penelec and JCP&L in their respective franchise areas. The coordinated delivery of energy and energy-related products, including electricity, natural gas and energy management services, to customers in competitive markets is provided through a number of subsidiaries. Subsidiaries providing competitive services include FirstEnergy Solutions Corp. (FES), FirstEnergy Facilities Services Group, LLC (FSG), MARBEL Energy Corporation and MYR Group, Inc (MYR).

RESTATEMENTS AND RECLASSIFICATIONS

As further discussed in Note 1 to the Consolidated Financial Statements, FirstEnergy restated its consolidated financial statements for the

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year ended December 31, 2002 and the three months ended March 31, 2003 to reflect a change in the method of amortizing the costs being recovered under the Ohio transition plan and recognition of above-market values of certain leased generation facilities. These restatements were completed and reported in the second quarter of 2003 together with reclassifications discussed in Note 3 to the Consolidated Financial Statements. Financial comparisons described below for the three-month and nine-month periods reflect the effect of these restatements and reclassifications of 2002 financial results.

RESULTS OF OPERATIONS

FirstEnergy reported net income in the third quarter of 2003 of \$152.7 million, or \$0.51 per share of common stock (basic and diluted), compared to net income of \$284.8 million, or \$0.97 per share of common stock (basic and diluted) in the third quarter of 2002. During the first nine months of 2003, net income was \$313.3 million, or basic earnings of \$1.06 per share of common stock (\$1.05 diluted), compared to net income of \$611.0 million, or \$2.08 per share of common stock (basic and diluted) in the first nine months of 2002. Income before discontinued operations and the cumulative effect of an accounting change was \$152.7 million, or \$0.51 per share of common stock (basic and diluted) in the third quarter of 2003 and \$271.7 million, or basic earnings of \$0.92 per share of common stock (\$0.91 diluted) in the first nine months of 2003.

Results for the third quarter and nine-month period in 2003 included an after-tax goodwill impairment of \$80.9 million, or \$0.27 per share of common stock (basic and diluted) for both periods. Net income for the first nine months of 2003 also included a \$60.5 million after-tax charge for discontinued operations in Argentina and an after-tax credit of \$102.1 million resulting from the cumulative effect of an accounting change due to the adoption of SFAS No. 143, "Accounting for Asset Retirement Obligations."

Results for the third quarter of 2003 compared to the third quarter of 2002 were adversely affected by milder weather which reduced revenues. Purchased power costs, storm damage, employee benefit expenses and nuclear refueling costs all contributed to increased third quarter expenses, compared to the same quarter last year. In addition, FirstEnergy recorded a non-cash charge of \$121.5 million (\$80.9 million, net of tax) for goodwill impairment in the third quarter of 2003. In the first nine months of 2003, expenses increased compared to the same period of 2002 due to: purchased power costs, nuclear expenses related to the extended outage at the Davis-Besse Nuclear Power Station (see Outlook-Davis-Besse Restoration), additional unplanned work performed during two scheduled nuclear refueling outages in the second quarter of 2003 and increased employee benefit expenses. However, the absence in the first nine months of 2003 of unusual charges incurred in the corresponding period of 2002 partially offset the cost increases in 2003. The 2003 year-to-date period included \$171.6 million of pre-tax charges for costs disallowed in the JCP&L rate case decision (see State Regulatory Matters - New Jersey).

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Revenues

Total revenues decreased \$7.8 million in the third quarter of 2003, compared to the same period last year, due to lower retail and wholesale regulated electric sales. Increased revenues from competitive services, primarily electric sales to wholesale customers, partially offset the decrease in regulated electric retail revenues in the third quarter of 2003. In the first nine months of 2003, revenues increased \$337.3 million compared to the same

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period of 2002 from increased competitive sales, offset in part by reduced regulated revenues and lower international sales reflecting the partial sale of Avon Energy Partners Holdings. Sources of changes in revenues during the third quarter and first nine months of 2003 compared to the corresponding periods of 2002 are summarized in the following table:

Sources of Revenue Changes	Three Months	Nine Months

Increase (Decrease)	(In millions)	
Electric Utilities (Regulated Services):		
Retail electric sales.....	\$(118.9)	\$(161.9)
Wholesale electric sales	(75.8)	105.1
All other revenues.....	8.9	5.7

Total Electric Utilities.....	(185.8)	(51.1)

Unregulated Businesses (Competitive Services):		
Retail electric sales.....	62.4	177.4
Wholesale electric sales.....	184.5	612.0
Gas sales.....	9.7	21.5
FSG.....	(57.4)	(151.3)
MYR.....	(20.1)	(73.3)
Other.....	(2.7)	21.1

Total Unregulated Businesses.....	176.4	607.4

International.....	2.3	(241.1)
Other.....	(0.7)	22.1

Net Change in Revenue.....	\$ (7.8)	\$ 337.3
=====		

Electric Sales

Retail sales by FirstEnergy's electric utility operating companies (EUOC) decreased by \$118.9 million in the third quarter of 2003 and by \$161.9 million in the first nine months of 2003 from the corresponding periods of 2002.

Changes in electric generation kilowatt-hour sales and distribution deliveries in the third quarter and first nine months of 2003 from the same periods of 2002 are summarized in the following table:

Changes in Kilowatt-hour Sales	Three Months	Nine Months

Increase (Decrease)		
Electric Generation Sales:		
Retail -		
Regulated services.....	(11.4)%	(6.9)%
Competitive services.....	37.6%	66.0%
Wholesale.....	17.9%	71.2%

Total Electric Generation Sales.....	0.5%	14.0%
=====		

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EUOC Distribution Deliveries:

Residential.....	(7.1)%	0.6%
Commercial.....	(4.1)%	1.9%
Industrial.....	(2.7)%	(1.4)%

Total Distribution Deliveries.....	(4.7)%	0.3%
=====		

Reduced air-conditioning load due to cooler summer temperatures in 2003 from the prior year, a sluggish but improving economy and increased sales by alternative suppliers all combined to decrease regulated retail generation sales revenue by \$55.5 million in the third quarter of 2003 compared to the same quarter of 2002. These factors also accounted for most of the \$168.2 million decrease in retail generation sales revenue in the first nine months of 2003 compared to the same period last year. Kilowatt-hour sales of electricity by alternative suppliers in FirstEnergy's franchise areas increased by approximately six percentage points in the three months and nine months ended September 30, 2003, from the corresponding periods last year.

Revenues from distribution deliveries decreased by \$56.5 million or 3.8% in the third quarter of 2003 compared to the third quarter of 2002 due in part to mild weather in the third quarter of 2003 after unusually hot weather in the same period last year which reduced the air-conditioning load of residential and commercial customers. Weather also contributed to the \$38.0 million, or 1.0% increase in distribution deliveries to residential and commercial customers in the first nine months of 2003 from the same period last year due to colder temperatures in the first three months of 2003 from same period last year, adding to heating-related loads. Sluggish economic conditions in the third quarter and first nine months of 2003 contributed to reduced distribution deliveries to industrial customers from the corresponding periods last year.

Further contributing to the decrease in retail electric revenues were Ohio transition plan incentives provided to customers to promote customer shopping for alternative suppliers - \$6.9 million of additional credits in the third quarter and \$31.7 million of additional credits in the first nine months of 2003 compared to the same periods in 2002. These additional credits in revenue are deferred for future recovery under the Ohio transition plan and do not materially affect current period earnings.

EUOC sales to wholesale customers decreased by \$75.8 million in the third quarter of 2003 from the same period last year due to milder summer weather in 2003. Sales to the wholesale market increased \$105.1 million in the first nine months of 2003 compared to the first nine months of 2002 primarily due to the auction of JCP&L's basic generation service (BGS) responsibility to alternative suppliers. At the direction of the New Jersey Board of Public Utilities (NJBPU), JCP&L is selling power under contracts existing as of August 2002, including energy provided by non-utility generation (NUG) contracts, into the wholesale market.

Electric generation sales by FirstEnergy's competitive segment increased \$246.9 million in the third quarter and \$789.4 million in the first nine months of 2003 from the corresponding periods of 2002, primarily from additional sales to the wholesale market (\$184.5 million in the third quarter and \$612.0 million in the first nine months of 2003). The increases resulted in part from sales in New Jersey as FES began supplying a portion of that state's

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BGS in September 2002. Retail sales by FirstEnergy's competitive services segment increased by \$62.4 million in the third quarter and \$177.4 million in the first nine months of 2003 from the same periods of 2002. The increases primarily resulted from retail customers within FirstEnergy's Ohio franchise areas switching to FES under Ohio's electricity choice program and from growth in competitive retail sales outside FirstEnergy's franchise areas.

FirstEnergy's regulated and unregulated subsidiaries record purchase and sale transactions with PJM Interconnection ISO, an independent system operator, on a gross basis in accordance with EITF 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent." This gross basis classification of revenues and costs may not be comparable to other energy companies that operate in regions that have not established ISOs and do not meet EITF 99-19 criteria. The aggregate purchase and sales transactions for the three and nine months ended September 30, 2003 and 2002 are summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002

	(In millions)			
Sales.....	\$465	\$189	\$1,009	\$256
Purchases.....	288	382	866	579

FirstEnergy's revenues on its Consolidated Statements of Income include wholesale electricity sales revenues from the PJM ISO from power sales (as reflected in the table above) during periods when it had additional available power capacity. Revenues also include sales by FirstEnergy of power sourced from the PJM ISO (reflected as purchases in the table above) during periods when it required additional power to meet FirstEnergy's retail load requirements and, secondarily, to sell in the wholesale market.

Nonelectric Sales

Nonelectric sales revenues of the competitive services segment declined by \$70.5 million in the third quarter and \$182.0 million in the first nine months of 2003 from the corresponding periods of 2002. The reduced revenues from FSG reflected the divestiture in early 2003 of its Colonial Mechanical and Webb Technologies subsidiaries (accounting for the majority of the decreases), as well as declines associated with weak economic conditions. MYR also experienced revenue reductions resulting from the sluggish economic environment. Natural gas sales were \$9.7 million and \$21.5 million higher in the third quarter and year-to-date periods compared to the corresponding periods last year. The increase in gas sales in the third quarter and first nine month of 2003 reflected increased prices which more than offset lower gas volumes delivered as FES focused its operations in a narrower geographic area and on higher-margin gas customers.

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International Revenues

International revenues declined \$241.1 million in the first nine months of 2003 from the same period last year due to the sale of a 79.9% interest in Avon during the second quarter of 2002 and abandonment of Emdersa in the second quarter of 2003 (see Discontinued Operations below). As a result of

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these transactions, FirstEnergy has substantially divested all of GPU Capital's international operations acquired in the 2001 GPU merger.

Expenses

Total expenses increased \$232.9 million in the third quarter and \$1,052.5 million in the first nine months of 2003 from the same periods of 2002. Sources of changes in expenses in the third quarter and first nine months of 2003 compared to the corresponding periods of 2002 are summarized in the following table:

Sources of Expense Changes	Three Months	Nine Months

Increase (Decrease)	(In millions)	
Fuel and purchased power.....	\$ 49.6	\$ 937.9
Purchased gas.....	7.2	8.9
Other operating expenses.....	32.2	(86.5)
Depreciation and amortization.....	21.7	45.8
Goodwill Impairment.....	121.5	121.5
General taxes.....	0.7	24.9

Net Increase in Expenses.....	\$232.9	\$1,052.5
=====		

Higher purchased power costs accounted for \$58.2 of the increase in expenses in the third quarter of 2003 and most of the increase (\$968.6 million) in the first nine months of 2003 compared to the same periods of 2002. Higher unit costs contributed to increased purchased power costs in the third quarter and first nine months of 2003 from the corresponding periods last year. Additional quantities purchased also contributed significantly to the increased purchase power costs in the first nine months of 2003 from the prior year. Increased volumes were required to supply obligations assumed by FES for BGS sales, as well as other wholesale commitments, and additional supplies required to replace reduced nuclear generation. Results for the nine-month period include \$152.5 million of purchased power costs disallowed in the JCP&L rate case decision (see State Regulatory Matters - New Jersey). The combined effect of one additional refueling outage in 2003 compared to 2002, additional work performed in 2003 during the refueling outages at the Perry Plant and Beaver Valley Unit 1 and the extended Davis-Besse outage, reduced nuclear generation by 5.7% in the third quarter and 18.4% in the first nine months of 2003 from the corresponding periods last year. Fuel expenses were \$8.6 million and \$30.7 million lower in the third quarter and first nine months of 2003, respectively, from the same periods of 2002, primarily reflecting reduced generation. Purchased gas costs increased by \$7.2 million in the third quarter and \$8.9 million in the first nine months of 2003 compared to the same periods of 2002 due to higher unit costs, partially offset by lower volumes purchased to meet reduced gas deliveries.

Other operating expenses increased \$32.2 million in the third quarter of 2003, compared to the same period of 2002, due to higher energy delivery costs of \$52.5 million (primarily due to storm restoration expenses and an accelerated reliability plan within JCP&L's service territory), increased pension and benefit costs (see Employee Benefit Plan Costs below) and additional nuclear operating costs (\$27.2 million) associated with a refueling outage at Beaver Valley Unit 2 - completed on October 12, 2003. There were no nuclear refueling outages in the third quarter of 2002. Partially offsetting these increases were reduced costs from domestic energy-related businesses (\$69.1 million) and reduced costs at the Davis-Besse nuclear plant related to its extended outage as the plant approaches a return to operation (see

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Outlook-Davis-Besse Restoration below). The reduced volume of energy-related business reflects the sale in early 2003 of Colonial Mechanical and Webb Technologies businesses and lower business volumes associated with weak economic conditions.

In the first nine months of 2003, other operating expenses decreased \$86.5 million from the same period last year as a result of several factors. Reduced business volumes and the sale of Colonial and Webb reduced expenses from domestic energy-related businesses by \$212.0 million, while the sale of Avon and divestiture of Emdersa resulted in a \$95.3 million reduction in expense from international operations. The absence of unusual charges recognized in the first nine months of 2002 resulted in a further net reduction of other operating expenses (\$70.7 million) from the corresponding period last year. Offsetting a portion of these lower expenses in the first nine months of 2003 were increased nuclear costs (\$93.0 million) resulting from the extended Davis-Besse outage, additional work performed during refueling outages in the second quarter of 2003 and three refueling outages in the first nine months of 2003 versus two in 2002. Administrative and general costs increased \$172.6 million principally reflecting increased employee benefit costs. Energy delivery costs increased \$51.5 million primarily as a result of storm damage and an accelerated reliability plan within JCP&L's service territory.

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Charges for depreciation and amortization increased by \$21.7 million in the third quarter of 2003 compared to the corresponding three-month period of 2002. The higher charges primarily resulted from three factors - increased amortization of the Ohio transition regulatory assets (\$22.7 million), recognition of depreciation on four power plants (\$11.7 million) which had been held pending sale in the third quarter of 2002, but were subsequently retained by FirstEnergy in the fourth quarter of 2002, and reduced regulatory asset deferrals in 2003 (\$12.2 million). Partially offsetting these increases in depreciation and amortization were higher shopping incentive deferrals in Ohio (\$6.9 million), lower charges resulting from the implementation of SFAS 143 (\$12.7 million) and revised service life assumptions for generating plants (\$7.4 million).

In the first nine months of 2003, depreciation and amortization increased \$45.8 million primarily as a result of the same factors which influenced the third quarter comparison - increased amortization of the Ohio transition regulatory assets (\$64.8 million), recognition of depreciation on four power plants (\$31.2 million) previously held pending sale in the first nine months of 2002, reduced regulatory asset deferrals in 2003 (\$27.2 million) and costs of \$19.1 million disallowed in the JCP&L rate case decision. Partially offsetting these increases in depreciation and amortization were higher shopping incentive deferrals in Ohio (\$31.7 million), lower charges resulting from the implementation of SFAS 143 (\$41.1 million) and revised service life assumptions for generating plants (\$20.0 million).

A non-cash goodwill impairment charge of \$121.5 million (\$80.9 million, net of tax) was recognized in the third quarter of 2003 reducing the carrying value of FSG. This charge reflects the continued slow down in the development of competitive retail markets and depressed economic conditions that affect the value of FSG.

General taxes increased \$24.9 million in the first nine months of 2003 compared to the same period last year. Higher payroll and kilowatt-hour taxes in 2003 and a \$9 million energy assessment credit adjustment that reduced general taxes in the first nine months of 2002 were the principal factors contributing to the increase.

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Net Interest Charges

Net interest charges decreased \$19.5 million in the third quarter and \$136.5 million in the first nine months of 2003 compared to the same periods of 2002, due to previous debt and preferred stock redemptions and refinancing activities and the sale of a 79.9% interest in Avon in 2002. Redemption and refinancing activities during the first nine months of 2003 totaled \$656 million and \$850 million (including \$227 million of pollution control note repricings), respectively, and are expected to result in annualized interest charge savings of approximately \$68 million. Partially offsetting these savings are interest charges on additional borrowings under revolving bank credit facilities.

FirstEnergy also exchanged existing fixed-rate interest payments on outstanding debt (principal amount of \$600 million as of September 30, 2003) for short-term variable rate interest payments through interest rate swap transactions (see Market Risk Information - Interest Rate Swap Agreements below). Net interest charges were reduced by \$5.2 million in the third quarter and \$19.8 million in the first nine months of 2003, compared to the corresponding periods of 2002 as a result of the lower variable rates paid under these agreements.

Discontinued Operations

On April 18, 2003, FirstEnergy divested its ownership in Emdersa. The abandonment was accomplished by relinquishing FirstEnergy's shares of Emdersa's parent company, GPU Argentina Holdings, to that company's independent Board of Directors, relieving FirstEnergy of all rights and obligations relative to this business. As a result of this action, FirstEnergy's gains and losses related to discontinuing these operations have been presented as a separate item on the Consolidated Statements of Income - "Discontinued operations" - in accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Due to the abandonment, FirstEnergy recognized a one-time, non-cash charge of \$67.4 million in the second quarter of 2003. This charge resulted from realizing \$89.8 million of currency translation losses through current period earnings, partially offset by a \$22.4 million gain recognized from eliminating FirstEnergy's investment in Emdersa. Discontinued operations for the nine-month period reflected a net after-tax charge of \$60.5 million, which included \$6.9 million of earnings from Emdersa in the first quarter of 2003. As a result of the abandonment, FirstEnergy has substantially divested all of GPU Capital's international operations acquired in the 2001 GPU merger.

Cumulative Effect of Accounting Change

Results for the first nine months of 2003 include an after-tax credit to net income of \$102.1 million recorded upon the adoption of SFAS 143 in January 2003 (see discussion below). FirstEnergy identified applicable legal obligations as defined under the new standard for nuclear power plant decommissioning, reclamation of a sludge disposal pond at the Bruce Mansfield Plant and two coal ash disposal sites. As a result of adopting SFAS 143 in January 2003, asset retirement costs of \$602 million were recorded as part of the carrying amount of the related long-lived asset, offset by accumulated depreciation of \$415 million. The asset retirement obligation (ARO) liability at the date of adoption was \$1.107 billion, including accumulated accretion for the period from the date the liability was incurred to the date of

adoption. As of December 31, 2002, FirstEnergy had recorded decommissioning liabilities of \$1.244 billion. FirstEnergy expects substantially all of its

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nuclear decommissioning costs for Met-Ed, Penelec, JCP&L and Penn to be recoverable in rates over time. Therefore, FirstEnergy recognized a regulatory liability of \$185 million upon adoption of SFAS 143 for the transition amounts related to establishing the ARO for nuclear decommissioning for those companies. The remaining cumulative effect adjustment for unrecognized depreciation and accretion offset by the reduction in the liabilities was a \$174.7 million increase to income, or \$102.1 million net of income taxes.

Earnings Effect of SFAS 143

In June 2001, the FASB issued SFAS 143. That statement provides accounting standards for retirement obligations associated with tangible long-lived assets, with adoption required by January 1, 2003. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recorded in the period in which it is incurred. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. Over time the capitalized costs are depreciated and the present value of the asset retirement liability increases, resulting in a period expense. However, rate-regulated entities may recognize a regulatory asset or liability instead if the criteria for such treatment are met. Upon retirement, a gain or loss would be recorded if the cost to settle the retirement obligation differs from the carrying amount.

In the third quarter and first nine months of 2003, application of SFAS 143 (excluding the cumulative adjustment recorded upon adoption - see Note 5) resulted in the following changes to income and expense categories:

	Ended September 30, 2003	
Effect of SFAS 143	Three Months	Nine Months
Increase (Decrease)	(In millions)	
Other operating expense		
Cost of removal (previously included in depreciation)...	\$ 0.1	\$ 4.4
Depreciation		
Elimination of decommissioning expense.....	(22.3)	(67.0)
Depreciation of asset retirement cost.....	0.4	1.5
Accretion of asset retirement liability.....	10.5	30.9
Reclassification of cost of removal to expense	(1.3)	(6.5)
Net decrease to depreciation.....	(12.7)	(41.1)
Other Income		
Earnings on decommissioning trust balances.....	7.3	10.5
Income taxes.....	8.2	19.4
Net income effect.....	\$ 11.7	\$ 27.8

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Employee Benefit Plan Costs

Sharp declines in equity markets since the second quarter of 2000 and a reduction in FirstEnergy's assumed discount rate for pensions and other post-employment benefit (OPEB) obligations have combined to produce a significant increase in those costs. Also, increases in health care payments and a related increase in projected trend rates have led to higher health care costs. Combined, these employee benefit expenses increased by \$45.4 million in the third quarter and \$139.1 million in the first nine months of 2003 compared to the same periods in 2002. The following table summarizes the net pension and OPEB expense (excluding amounts capitalized) for the three months and nine months ended September 30, 2003 and 2002.

Pension and OPEB Expense (Income)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
	(In millions)			
Pension.....	\$32.7	\$ (6.0)	\$ 91.3	\$ (10.5)
OPEB.....	39.3	32.6	118.3	81.0
Total.....	\$72.0	\$26.6	\$209.6	\$ 70.5

The pension and OPEB expense increases are included in various cost categories and have contributed to other cost increases discussed above. See "Significant Accounting Policies - Pension and Other Postretirement Benefits Accounting" for a discussion of the impact of underlying assumptions on postretirement expenses.

RESULTS OF OPERATIONS - BUSINESS SEGMENTS

FirstEnergy manages its business as two separate major business segments - regulated services and competitive services. The regulated services segment designs, constructs, operates and maintains FirstEnergy's regulated domestic transmission and distribution systems. It also provides generation services to franchise customers who have not chosen an alternative generation supplier. The Ohio electric utilities and Penn obtain generation through a power supply agreement with the competitive services segment (see Outlook - Business Organization). The competitive services segment also supplies a substantial portion of the "provider of last resort" (PLR) requirements for Met-Ed and Penelec through a wholesale contract. The competitive services segment includes all competitive energy and energy-related services including commodity sales (both electricity and natural gas) in the retail and wholesale markets,

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marketing, generation, trading and sourcing of commodity requirements, as well as other competitive energy services such as heating, ventilation and air-conditioning. Financial results discussed below include intersegment revenues. A reconciliation of segment financial results to consolidated financial results is provided in Note 7 to the consolidated financial statements.

Regulated Services

Net income decreased to \$283.5 million in the third quarter of 2003, compared to \$357.5 million in the third quarter of 2002. In the first nine months of 2003, net income decreased to \$707.7 million from \$804.7 million in the first nine months of 2002. The factors contributing to the changes in net income are summarized in the following table:

Regulated Services	Three Months	Nine Months
Increase (Decrease)	(In millions)	
Revenues.....	\$ (151.1)	\$ (50.1)
Expenses.....	6.9	415.2
Income Before Interest and Income Taxes.....	(158.0)	(465.3)
Net interest charges.....	(24.0)	(83.5)
Income taxes.....	(60.0)	(183.8)
Decrease in Income Before Cumulative Effect of a Change in Accounting.....	(74.0)	(198.0)
Cumulative effect of a change in accounting.....	--	101.0
Net Income Decrease.....	\$ (74.0)	\$ (97.0)

Lower generation sales and distribution deliveries combined to decrease external electric revenues by \$192.7 million in the third quarter of 2003 compared to the same quarter of 2002. Cooler summer temperatures than the prior year and a continued sluggish economy contributed to reduced sales in the third quarter. Retail generation sales were also adversely affected by additional kilowatt-hour sales by alternative suppliers in the FirstEnergy franchise area. This decrease was partially offset by a \$34.7 million increase in revenues from sales to FES. The remaining offset to lower revenues resulted from an increase in energy-related revenues. Revenues in the first nine months of 2003 decreased \$50.1 million from the same period last year due to lower retail sales revenue partially offset by increased sales to wholesale customers. The decrease in retail revenues resulted from additional kilowatt-hour sales by alternative suppliers, the cooler summer temperatures and sluggish economy noted above but offset in part by colder-than-normal first quarter weather.

Expenses increased in the third quarter and first nine months of 2003 from the corresponding periods of 2002. The increase in expenses in the third quarter of 2003 resulted principally from a \$58.5 million increase in other operating costs primarily due to increased energy delivery costs and employee benefit costs and a \$17.2 million increase in depreciation and amortization expenses. Offsetting factors included reduced purchased power costs of \$57.2 million and lower general taxes of \$9.7 million. In the first nine months of 2003, expenses increased \$415.2 million from the same period of 2002. The increase in expenses resulted principally from a \$287.2 million increase in purchased power costs due in large part to higher sales to wholesale customers.

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Purchased power costs in 2003 were further increased by a \$152.5 million charge in the second quarter resulting from the JCP&L rate case. The other expense factors in the first nine months of 2003 compared to the first nine months of 2002 include a \$90.8 million increase in other operating expense and a \$41.9 million increase in depreciation and amortization expense. Other operating expenses increased in part due to storm damage and additional employee benefit costs from the corresponding period of 2002. Depreciation and amortization expenses increased from the same periods last year due principally to three factors - increased amortization of the Ohio transition regulatory assets, recognition of depreciation on four power plants which had been pending sale in the third quarter of 2002, but were subsequently retained by FirstEnergy in the fourth quarter of 2002, and the termination of regulatory asset deferrals in February 2003. A write-off of disallowed costs in the JCP&L rate case also contributed to the increase in the year-to-date period. Partially offsetting these increases in depreciation and

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amortization were higher shopping incentive deferrals in Ohio and lower charges resulting from the implementation of SFAS 143, including revised service life assumptions for generating plants.

Competitive Services

Net losses increased to \$77.0 million in the third quarter of 2003 from a net loss of \$14.1 million in the third quarter of 2002. Net losses increased to \$175.7 million in the first nine months of 2003 from a net loss of \$67.3 million in the first nine months of last year. A non-cash impairment charge in the third quarter of 2003, discussed below, accounted for all of the net loss in that period and a majority of the loss in the first nine months of 2003. Factors contributing to the changes in earnings are summarized in the following table:

Competitive Services	Three Months	Nine Months
Increase (Decrease)	(In millions)	
Revenues.....	\$ 93.6	\$ 768.3
Expenses.....	188.9	930.4
Income Before Interest and Income Taxes.....	(95.3)	(162.1)
Net interest charges.....	(5.2)	(1.2)
Income taxes.....	(27.2)	(51.3)
Decrease in Income Before Cumulative Effect of a Change in Accounting.....	(62.9)	(109.6)
Cumulative effect of a change in accounting.	--	1.2
Net income change.....	\$ (62.9)	\$ (108.4)

The increase in revenues in the third quarter and first nine months of 2003, compared to the corresponding periods of 2002, includes the net effect of several factors. Revenues from the electric wholesale market increased \$184.5 million in the third quarter and \$612.0 million in the first nine months of 2003

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from the same periods last year. The large increase in year-to-date sales to the wholesale market reflects in large part sales as an alternative supplier for a portion of New Jersey's BGS requirements and sales to Met-Ed and Penelec in supplying a substantial portion of their PLR requirements in Pennsylvania. Retail kilowatt-hour sales revenues increased \$62.4 million in the third quarter and \$177.4 million in the first nine months of 2003 from the same periods last year. The increases primarily resulted from expanding the FES business in Ohio under Ohio's electricity choice program. Internal sales to the regulated services segment decreased \$84.0 million in the third quarter but increased \$161.0 million in the first nine months of 2003 compared to the same periods of 2002.

Energy-related services such as heating, ventilation and air-conditioning work reflected the divestiture in early 2003 of Colonial and Webb, as well as continued declines associated with weak economic conditions. Revenues from energy-related services decreased \$77.5 million in the third quarter and \$224.6 million in the first nine months of 2003 from the corresponding periods of 2002.

Natural gas sales increased \$9.7 million in the third quarter and \$21.5 million in the first nine months of 2003 from the corresponding periods last year. The increase in gas sales in the third quarter and first nine months of 2003 reflected increased prices which more than offset lower gas volumes delivered as FES focused its operations in a narrower geographic area and on higher-margin gas customers.

Expenses increased \$188.9 million in the third quarter and \$930.4 million in the first nine months of 2003 from the same periods of 2002. Higher other operating expenses (\$95.8 million) and purchased power costs (\$31.5 million) accounted for the increase in third quarter expenses in 2003 compared to the prior year. Higher pension and benefit costs and additional nuclear operating costs associated with a refueling outage at Beaver Valley Unit 2 - there were no refueling outages in the third quarter of 2002 - contributed to the increase in other operating expenses. The increased purchased power costs reflect higher unit costs. Partially offsetting the increase in third quarter expenses were reduced expenses (excluding an impairment charge) from energy-related businesses which declined \$70.1 million in the third quarter of 2003 from the same period last year as a result of the divestiture of Colonial and Webb, and declines associated with weak economic conditions. For the first nine months of 2003, expenses increased \$930.4 million from the first nine months of 2002 due to increased purchased power costs (\$842.4 million) and additional other operating costs (\$169.3 million). Higher unit costs and additional quantities purchased resulted in the large increase in purchase power costs in the first nine months of 2003 from the prior year. Increased volumes resulted from supply obligations assumed by FES for BGS sales, sales to Met-Ed and Penelec in supplying a substantial portion of their PLR requirements, as well as other wholesale commitments, and additional supplies required to replace reduced nuclear generation. Additional costs resulting from the Davis-Besse extended outage, unplanned work performed during two nuclear refueling outages in the second quarter of 2003 and higher employee benefit costs contributed to the increase in other operating expenses. The absence of unusual charges recorded in 2002 moderated the increase in operating expenses by \$64.9 million

in the 2003 year-to-date period compared to the corresponding period of 2002. Partially offsetting the increase in year-to-date expenses were reduced expenses from energy-related businesses, which declined \$212.0 million in the first nine

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increase in cash earnings. The change in funds used for working capital primarily represents offsetting changes for receivables, payables and accrued taxes.

Cash Flows From Financing Activities

The following table provides details regarding security issuances and redemptions during the third quarter and first nine months of 2003:

Securities Issued or Redeemed	Three Months	Nine Months

(In millions)		
New Issues		
Common Stock.....	\$ 935	\$ 935
Secured Debt.....	--	650
Unsecured Notes.....	--	331

	\$ 935	\$1,916
Redemptions		
First Mortgage Bonds.....	\$ 302	\$1,002
Pollution Control Notes.....	4	54
Secured Notes.....	263	491

	\$ 569	\$1,547
Short-term Borrowings, Net.....	\$(799)	\$ (847)

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Net cash used for financing activities increased by \$76 million in the third quarter of 2003 from the third quarter of 2002. The increase in funds used for financing activities resulted from increased financing of \$108 million that was exceeded by \$184 million of additional redemptions and repayments during the third quarter of 2003 compared to the same period of 2002.

FirstEnergy had approximately \$246.1 million of short-term indebtedness as of September 30, 2003 compared to \$1.093 billion at the end of 2002. Available borrowing capability included \$1.173 billion under its then existing \$1.5 billion revolving lines of credit and \$73 million under bilateral bank facilities. As of September 30, 2003, OE, CEI, TE and Penn had the aggregate capability to issue \$2.4 billion of additional first mortgage bonds (FMB) on the basis of property additions and retired bonds. JCP&L, Met-Ed and Penelec no longer issue FMB other than as collateral for senior notes, since their senior note indentures prohibit them (subject to certain exceptions) from issuing any debt which is senior to the senior notes. As of September 30, 2003, JCP&L, Met-Ed and Penelec had the aggregate capability to issue \$833 million of additional senior notes based upon FMB collateral. Based upon applicable earnings coverage tests and their respective charters, OE, Penn, TE and JCP&L could issue a total of \$2.4 billion of preferred stock. CEI, Met-Ed and Penelec have no restrictions on the issuance of preferred stock.

On March 17, 2003, FirstEnergy filed a registration statement with the U.S. Securities and Exchange Commission covering securities in the aggregate of up to \$2 billion. The shelf registration provides the flexibility to issue and sell various types of securities, including common stock, debt securities, or share purchase contracts and related share purchase units.

On September 17, 2003, FirstEnergy completed issuance of 32.2 million

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shares of common stock at \$30 per share, receiving net proceeds of approximately \$935 million which were used to reduce bank debt. The issuance used approximately half of the aggregate \$2 billion available under the prior shelf registration.

In July of 2003, FirstEnergy executed a fixed-for-floating interest rate swap agreement with a notional value of \$50 million (see Interest Rate Swap Agreements below) on an underlying JCP&L Senior Note with a fixed interest rate of 4.80%. In October of 2003, FirstEnergy executed two fixed-for-floating interest rate swap agreements with notional values of \$50 million each on underlying JCP&L and FE senior notes with an average fixed interest rate of 5.6%.

In October 2003, FirstEnergy renewed \$1 billion of credit facilities. Combined with an existing \$500 million three-year facility for FirstEnergy and an existing \$250 million two-year facility for OE, the renewal brings FirstEnergy's primary credit facilities to \$1.75 billion. The \$1 billion renewal of credit facilities is comprised of components with varying maturities - a 364-day, \$375 million facility and three-year, \$375 million facility for FirstEnergy; and a 364-day, \$125 million facility and three-year \$125 million facility for OE.

Cash Flows From Investing Activities

Net cash used for investing activities totaled \$236 million in the third quarter and \$462 million in the first nine months of 2003, compared to net cash of \$278 million and \$475 million, respectively, used for investing activities for the same periods of 2002. The \$42 million change in the third quarter of 2003 resulted from the cash investments proceeds in the third quarter of 2003 and decreased capital expenditures.

In May 2003, FirstEnergy had reached an agreement to sell its 20.1 percent interest in Avon to Scottish and Southern Energy plc.; subsequently, the agreement was terminated when the parties were unable to agree to terms with representatives of certain bondholders. On October 21, 2003, FirstEnergy announced it reached an agreement to sell its 20.1 percent interest in Avon to a subsidiary of Powergen UK plc, as part of a transaction to include Aquila's 79.9 percent interest. Under terms of the agreement, FirstEnergy would receive approximately \$8 million. The sale is contingent upon regulatory approval and reaching agreement with bondholders representing 95% of the aggregate principal amount of the bonds. The holders of approximately half of the outstanding bonds have given their approval.

On November 13, 2003, FirstEnergy announced that it had reached an agreement with NRG covering the settlement of its claims resulting from the uncompleted sale of four FirstEnergy power plants to NRG (see Note 3 - Divestitures: Sale of Generating Assets). Under the agreement FirstEnergy would receive an estimated settlement of approximately \$198 million in the form of cash (12%), notes (15.2%) and common stock (72.8%). The agreement is subject to FERC authorization and U.S. Bankruptcy Court approval since NRG and certain of its subsidiaries filed for voluntary bankruptcy in May 2003.

The following table summarizes investments made in the third quarter and first nine months of 2003 by FirstEnergy's regulated services and competitive services segments:

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Summary of Cash Used for Investing Activities	Property Additions	Investments	Other	Total

Sources (Uses)	(In millions)			

Three Months Ended September 30, 2003				
Regulated Services.....	\$ (63) (1)	\$ (84)	\$ 2	\$ (145)
Competitive Services.....	(88) (2)	(37)	16	(109)
Other.....	(5)	30	(7)	18
Eliminations.....	--	--	--	--

Total.....	\$ (156)	\$ (91)	\$ 11	\$ (236)
=====				
Nine Months Ended September 30, 2003				
Regulated Services.....	\$ (218) (1)	\$ (17) (3)	\$ 26	\$ (209)
Competitive Services.....	(302) (2)	27 (4)	(77)	(352)
Other.....	(60)	--	99 (5)	39
Eliminations.....	--	--	60	60

Total.....	\$ (580)	\$ 10	\$108	\$ (462)
=====				

During the fourth quarter of 2003, capital requirements for property additions and capital leases are expected to be approximately \$209 million. FirstEnergy has additional requirements of approximately \$21 million to meet sinking fund requirements for preferred stock and maturing long-term debt during the remainder of 2003. These cash requirements are expected to be satisfied from internal cash and short-term credit arrangements.

On August 14, 2003, Moody's Investors Service placed the debt ratings of FirstEnergy and all of its subsidiaries under review for possible downgrade. Moody's stated that the review was prompted by: (1) weaker than expected operating performance and cash flow generation; (2) less progress than expected in reducing debt; (3) continuing high leverage relative to its peer group; and (4) negative impact on cash flow and earnings from the continuing nuclear plant outage at Davis-Besse. Moody's further stated that, in anticipation of Davis-Besse returning to service in the near future and FirstEnergy's continuing to significantly reduce debt and improve its financial profile, "Moody's does not expect that the outcome of the review will result in FirstEnergy's senior unsecured debt rating falling below investment-grade."

On September 30, 2003, Fitch Ratings lowered the senior unsecured ratings of FirstEnergy to "BBB-" from "BBB." Fitch also lowered the senior secured, senior unsecured, and preferred stock ratings of Met-Ed, Penelec, CEI, and TE. In addition, Fitch affirmed the ratings of OE, Penn and JCP&L. Fitch announced that the Rating Outlook is Stable for the securities of FirstEnergy, and all of the securities of its electric utility operating companies. Fitch stated that the changes to the long-term ratings were "driven by the high debt leverage of the parent FE. Despite management's commitment to reduce debt related to the GPU merger, subsequent cash flows have been vulnerable to unfavorable events, slowing the pace of FE's debt reduction efforts. The Stable

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Outlook reflects the success of FE's recent common equity offering and management's focus on a relatively conservative integrated utility strategy."

On October 27, 2003, Standard & Poors (S&P) stated that the `BBB` corporate credit and the `BBB-` senior unsecured ratings for FirstEnergy and its utility subsidiaries remain on CreditWatch with negative implications. The ratings were placed on CreditWatch on August 18, 2003, and reflect S&P's concerns regarding the potential impact of the August 14, 2003 blackout investigation on FirstEnergy's deleveraging strategy and its overall efforts to improve its credit profile.

At that time, S&P also noted other challenges facing FirstEnergy, including the extended Davis-Besse outage; the recent U.S. District Court ruling regarding the Sammis Plant (see Outlook-Environmental Matters below); reliability concerns in subsidiary JCP&L's service territory; and FirstEnergy's credibility with regulators and federal officials.

S&P further noted several factors that could aid FirstEnergy in resolution of the CreditWatch, including strengthening its balance sheet. FirstEnergy directly addressed this concern through its recently completed common equity offering that raised approximately \$935 million in net proceeds, which was used to reduce bank debt. See Cash Flows from Financing Activities above. S&P described the equity offering as a "positive credit development" and also noted the recent renewal of FirstEnergy's \$1 billion revolver facilities as a "favorable development, as it mitigates liquidity

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concerns." S&P also indicated that should various ongoing investigations into the causal factors of the August 14, 2003 blackout establish that the blackout resulted from no negligence or breach of compliance standards on FirstEnergy's part, the CreditWatch could be removed and the outlook returned to negative. S&P deemed a "stable" credit outlook unlikely until issues such as the restart of Davis-Besse are resolved and the potential effect of the litigation relating to the Sammis plant (the second trial is scheduled for April 2004) are known. Extension of the Ohio transition plan will be viewed as a positive development and will support an outlook revision to stable.

On October 27, 2003, S&P also noted that the ratings on FirstEnergy and its subsidiaries incorporate such strengths as the ability to generate free cash flow, power generation contracted to its transmission and distribution subsidiaries through 2005, and the hedging of its short power position arising from its PLR obligation in Pennsylvania. S&P said that these strengths are offset by slower than anticipated reduction of FirstEnergy debt, remaining volume risks of PLR obligations, the extended outage at Davis-Besse, the unfavorable outcome of the New Jersey rate proceeding and regulatory uncertainty in Ohio. S&P also said that it now views FirstEnergy's liquidity position as average, following FirstEnergy's renewal of its \$1 billion credit facilities.

OTHER OBLIGATIONS

Obligations not included on FirstEnergy's Consolidated Balance Sheet primarily consist of sale and leaseback arrangements involving Perry Unit 1, Beaver Valley Unit 2 and the Bruce Mansfield Plant. As of September 30, 2003, the present value of these sale and leaseback operating lease commitments, net of trust investments, total \$1.4 billion. Also, CEI and TE continue to sell substantially all of their retail customer receivables, which provided \$200 million of financing not included on the Consolidated Balance Sheet as of

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September 30, 2003.

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. Such agreements include contract guarantees, surety bonds, and ratings contingent collateralization provisions.

As of September 30, 2003, the maximum potential future payments under outstanding guarantees and other assurances totaled approximately \$1.0 billion as summarized below:

Guarantees and Other Assurances	Maximum Exposure
	(In millions)
FirstEnergy Guarantees of Subsidiaries(1)	
Energy and Energy-Related Contracts(2).....	\$ 793.3
Other (3).....	162.7
	956.0
Surety Bonds.....	15.6
Rating-Contingent Collateralization (3).....	64.2
	\$1,035.8

- (1) Estimated net liabilities under contracts subject to rating-contingent collateralization provisions that total \$185.7 million.
- (2) Issued for a one-year term, with a 10-day termination right by FirstEnergy.
- (3) Issued for various terms.

FirstEnergy guarantees energy and energy-related payments of its subsidiaries involved in energy marketing activities - principally to facilitate normal physical transactions involving electricity, gas, emission allowances and coal. FirstEnergy also provides guarantees to various providers of subsidiary financing principally for the acquisition of property, plant and equipment. These agreements legally obligate FirstEnergy and its subsidiaries to fulfill the obligations 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 FirstEnergy's other assets. The likelihood that such parental guarantees will increase amounts otherwise paid by FirstEnergy to meet its obligations incurred in connection with energy-related activities is remote.

Most of FirstEnergy's surety bonds are backed by various indemnities common within the insurance industry. Surety bonds and related guarantees 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.

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Various contracts include credit enhancements in the form of cash collateral, letters of credit or other security in the event of a reduction in credit rating. Requirements of these provisions vary and typically require more than one rating reduction to below investment grade by S&P or Moody's to trigger additional collateralization.

MARKET RISK INFORMATION

FirstEnergy uses various market risk sensitive instruments, including derivative contracts, primarily to manage the risk of price and interest rate fluctuations. FirstEnergy's Risk Policy Committee, comprised of executive officers, exercises an independent risk oversight function to ensure compliance with corporate risk management policies and prudent risk management practices.

Commodity Price Risk

FirstEnergy is exposed to market risk primarily due to fluctuations in electricity, natural gas and coal prices. To manage the volatility relating to these exposures, it 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 and, to a much lesser extent, for trading purposes. Most of FirstEnergy's non-hedge derivative contracts represent non-trading positions that do not qualify for hedge treatment under SFAS 133.

The change in the fair value of commodity derivative contracts related to energy production during the third quarter and first nine months of 2003 is summarized in the following table:

INCREASE (DECREASE) IN THE FAIR VALUE OF COMMODITY DERIVATIVE CONTRACTS

	Three Months Ended September 30, 2003			Non-He
	Non-Hedge	Hedge	Total	Non-He
	(In millions)			
Change in the Fair Value of Commodity Derivative Contracts				
Net asset at beginning of period.....	\$66.0	\$ 35.5	\$101.5	\$53.
New contract value when entered.....	--	--	--	--
Change in value of existing contracts.....	(4.7)	(9.7)	(14.4)	11.
Change in techniques/assumptions.....	9.4	--	9.4	9.
Settled contracts.....	16.0	(19.3)	(3.3)	12.
Net asset at end of period (1).....	86.7	6.5	93.2	86.
Non-commodity net assets at end of period:				
Interest Rate Swaps (2).....	--	5.9	5.9	--
Net Assets - Derivative Contracts at end of period (3).	\$86.7	\$ 12.4	\$ 99.1	\$86.

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Impact of Changes in Commodity Derivative Contracts (4)				
Income Statement Effects (Pre-Tax).....	\$20.2	\$ --	\$ 20.2	\$ 7.
Balance Sheet Effects:				
Other Comprehensive Income (Pre-Tax).....	\$ --	\$ (29.0)	\$ (29.0)	\$ --
Regulatory Liability.....	\$ 0.5	\$ --	\$ 0.5	\$25.

Derivatives are included on the Consolidated Balance Sheet as of September 30, 2003 as follows:

	Non-Hedge	Hedge	Total

(In millions)			
Current-			
Other Assets.....	\$ 6.8	\$ 3.4	\$ 10.2
Other Liabilities.....	(8.2)	(1.1)	(9.3)
Non-Current-			
Other Deferred Charges.....	88.8	15.2	104.0
Other Deferred Credits.....	(0.7)	(5.1)	(5.8)

Net assets.....	\$86.7	\$12.4	\$ 99.1
=====			

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The valuation of derivative contracts is based on observable market information to the extent that such information is available. In cases where such information is not available, FirstEnergy relies on model-based information. The model provides estimates of future regional prices for electricity and an estimate of related price volatility. FirstEnergy uses these results to develop estimates of fair value for financial reporting purposes and for internal management decision making. Sources of information for the valuation of commodity derivative contracts by year are summarized in the following table:

Source of Information - Fair Value by Contract Year	2003(1)	2004	2005	2006	Thereafter

(In millions)					
Prices actively quoted(2).....	\$0.8	\$ 4.4	\$ (0.4)	\$--	\$--
Other external sources(3).....	0.7	20.6	10.5	--	--
Prices based on models.....	--	--	--	13.1	43.5

Total(4).....	\$1.5	\$25.0	\$10.1	\$13.1	\$43.5
=====					

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FirstEnergy performs sensitivity analyses to estimate its exposure to the market risk of its commodity positions. A hypothetical 10% adverse shift (an increase or decrease depending on the derivative position) in quoted market prices in the near term on both FirstEnergy's trading and nontrading derivative instruments would not have had a material effect on its consolidated financial position (assets, liabilities and equity) or cash flows as of September 30, 2003. Based on derivative contracts held as of September 30, 2003, an adverse 10% change in commodity prices would decrease net income by approximately \$4.7 million during the next twelve months.

Interest Rate Swap Agreements

During the third quarter of 2003, FirstEnergy entered into a fixed-to-floating interest rate swap agreement, as part of its ongoing effort to manage the interest rate risk of its debt portfolio. These derivatives are 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. Swap maturities, fixed interest rates and interest payment dates match those of the underlying obligations. The swap agreement consummated in the third quarter of 2003 is based on a notional principal amount of \$50 million.

As of September 30, 2003, the debt underlying FirstEnergy's \$600 million notional amount of outstanding fixed-for-floating interest rate swaps had a weighted average fixed interest rate of 5.62%, which the swaps have effectively converted to a current weighted average variable interest rate of 2.24%. GPU Power (through a subsidiary) used existing dollar-denominated interest rate swap agreements in the first nine months of 2003. The GPU Power agreements convert variable-rate debt to fixed-rate debt to manage the risk of increases in variable interest rates. GPU Power's swaps had a weighted average fixed interest rate of 6.68% as of September 30, 2003 and December 31, 2002. The following summarizes the principal characteristics of the swap agreements:

Interest Rate Swaps	September 30, 2003			December 31, 2002		
	Notional Amount	Maturity Date	Fair Value	Notional Amount	Maturity Date	Fair Value
	(Dollars in millions)					
Fixed to Floating Rate (Fair value hedges)	\$200	2006	\$ 4.7			
	50	2008	0.5			
	150	2015	(5.8)	\$444	2023	\$15.5
	50	2018	0.7	--	--	--
	150	2025	6.3	150	2025	5.9
Floating to Fixed Rate (Cash flow hedges)	\$ 8	2005	\$(0.5)	\$ 16	2005	\$(0.9)

Equity Price Risk

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Included in FirstEnergy's nuclear decommissioning trust investments are marketable equity securities carried at their market value of approximately \$669 million and \$532 million as of September 30, 2003 and December 31, 2002, respectively. A hypothetical 10% decrease in prices quoted by stock exchanges would result in a \$67 million reduction in fair value as of September 30, 2003.

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OUTLOOK

FirstEnergy continues to pursue its goal of being the leading regional supplier of energy and related services in the northeastern quadrant of the United States, where it sees the best opportunities for growth. Its fundamental business strategy remains stable and unchanged. While FirstEnergy continues to build toward a strong regional presence, key elements for its strategy are in place and management's focus continues to be on execution. FirstEnergy intends to provide competitively priced, high-quality products and value-added services - energy sales and services, energy delivery, power supply and supplemental services related to its core business. As FirstEnergy's industry changes to a more competitive environment, FirstEnergy has taken and expects to take actions designed to create a larger, stronger regional enterprise that will be positioned to compete in the changing energy marketplace.

FirstEnergy's current focus includes: 1) returning Davis-Besse to safe and reliable operation; 2) optimizing FirstEnergy's generation portfolio; 3) effectively managing commodity supplies and risks; 4) reducing FirstEnergy's cost structure; and 5) enhancing its credit profile and financial flexibility.

Business Organization

FirstEnergy's business is managed as two distinct operating segments - a competitive services segment and a regulated services segment. FES provides competitive retail energy services while the EUOC provide regulated transmission and distribution services. FirstEnergy Generation Corp. (FGCO), a wholly owned subsidiary of FES, leases fossil and hydroelectric plants from the EUOC and operates those plants. FirstEnergy expects the transfer of ownership of EUOC non-nuclear generating assets to FGCO will be substantially completed by the end of the Ohio market development period. All of the EUOC power supply requirements for the Ohio Companies and Penn are provided by FES to satisfy their PLR obligations, as well as grandfathered wholesale contracts.

State Regulatory Matters

In Ohio, New Jersey and Pennsylvania, laws applicable to electric industry deregulation included similar provisions which are reflected in the EUOCs' respective state regulatory plans. However, despite these similarities, the specific approach taken by each state and for each of the EUOCs varies. Those provisions include:

- o allowing the EUOCs' electric customers to select their generation suppliers;
- o establishing PLR obligations to non-shopping customers in the EUOCs' service areas;
- o allowing recovery of potentially stranded investment (or transition costs) not otherwise recoverable in a competitive generation market;

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- o itemizing (unbundling) the price of electricity into its component elements - including generation, transmission, distribution and stranded costs recovery charges;
- o deregulating the EUOCs' electric generation businesses; and
- o continuing regulation of the EUOCs' transmission and distribution systems.

Regulatory assets are costs that the respective regulatory agencies have authorized for recovery from customers in future periods and, without such authorization, would have been charged to income when incurred. All of the regulatory assets are expected to continue to be recovered under the provisions of the respective transition and regulatory plans discussed below. Regulatory assets declined by \$954.6 million for the first nine months of 2003, to \$7.8 billion as of September 30, 2003. Over one-half of the reduction in regulatory assets resulted from the costs disallowed in the JCP&L rate case decision and adoption of SFAS 143 by JCP&L, Met-Ed, Penelec and Penn. The regulatory assets of the individual companies are as follows:

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Regulatory Assets

Company	September 30, 2003	December 31, 2002
	(In millions)	
OE.....	\$1,594.0	\$1,848.7
CEI.....	1,138.2	1,191.8
TE.....	516.3	578.2
Penn.....	50.1	156.9
JCP&L.....	2,926.7	3,199.0
Met-Ed.....	1,059.8	1,179.1
Penelec.....	513.7	599.7
Total.....	\$7,798.8	\$8,753.4

Ohio

FirstEnergy's transition plan (which FirstEnergy filed on behalf of its Ohio electric utilities) included approval for recovery of transition costs, including regulatory assets, as filed in the transition plan through no later than 2006 for OE, mid-2007 for TE and 2008 for CEI, except where a longer period of recovery is provided for in the settlement agreement. The approved plan also granted preferred access over FirstEnergy's subsidiaries to nonaffiliated marketers, brokers and aggregators to 1,120 megawatts of generation capacity through 2005 at established prices for sales to the Ohio Companies' retail customers. Customer prices are frozen through a five-year market development period (2001-2005), except for certain limited statutory exceptions including a 5% reduction in the price of generation for residential customers. In February 2003, the Ohio electric utilities were authorized increases in revenues aggregating approximately \$50 million (OE-\$41 million, CEI-\$4 million and TE-\$5 million) to recover their higher tax costs resulting from the Ohio deregulation legislation. FirstEnergy's Ohio customers choosing alternative suppliers receive an additional incentive applied to the shopping credit (generation component) of 45% for residential customers, 30% for commercial customers and 15% for

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industrial customers. The amount of the incentive is deferred for future recovery from customers - recovery will be accomplished by extending the respective transition cost recovery periods.

On October 21, 2003, the Ohio Companies filed an application with the PUCO to establish generation service rates beginning January 1, 2006, in response to expressed concerns by the PUCO about price and supply uncertainty following the end of the market development period. The filing included two options:

- o A competitive auction, which would establish a price for generation that customers would be charged during the period covered by the auction, or
- o A Rate Stabilization Plan, which would extend current generation prices through 2008, ensuring adequate supply and continuing FirstEnergy's support of energy efficiency and economic development efforts.

Under the first option, an auction would be conducted to secure generation service, including PLR responsibility, for FirstEnergy's Ohio customers. Beginning in 2006, customers would pay market prices for generation as determined by the auction.

Under the Rate Stabilization Plan option, customers would have price and supply stability through 2008 - three years beyond the end of the market development period - as well as the benefits of a competitive market. Customer benefits would include: customer savings by extending the current five percent discount on generation costs and other customer credits; maintaining current distribution base rates through 2007; market-based auctions that may be conducted annually to ensure that customers pay the lowest available prices; extension of FirstEnergy's support of energy-efficiency programs and the potential for continuing the program to give preferred access to nonaffiliated entities to generation capacity as discussed above. In order to facilitate supply planning, FirstEnergy has requested that the PUCO rule on this proposal by December 31, 2003. Under the proposed plan, FirstEnergy is requesting:

- o Extension of the transition cost amortization period for OE from 2006 to 2007; for CEI from 2008 to 2009 and for TE from mid-2007 to 2008;
- o Deferral of new regulatory assets and deferral of interest costs on the shopping incentive and other new deferrals;
- o Ability to initiate a request to increase generation rates only under certain limited conditions.

As a result of the Ohio Companies' October 21 filing, the PUCO entered an order on October 28, 2003 setting forth the discovery schedule related to the application with hearings scheduled to begin December 3, 2003.

New Jersey

Under New Jersey transition legislation, all electric distribution companies were required to file rate cases to determine the level of unbundled rate components to become effective August 1, 2003. JCP&L submitted two rate filings with the NJBPU in August 2002. The first filing requested increases in

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base electric rates of approximately \$98 million annually. The second filing was a request to recover deferred costs that exceeded amounts being recovered under the current MTC and SBC rates; one proposed method of recovery of these costs is the securitization of the deferred balance. This securitization methodology is similar to the Oyster Creek securitization discussed above. On July 25, 2003, the NJBPU announced its JCP&L base electric rate proceeding decision, which reduced JCP&L's annual revenues by approximately \$62 million effective August 1, 2003. The NJBPU decision also provided for an interim return on equity of 9.5 percent on JCP&L's rate base for 6 to 12 months. During that period, JCP&L will initiate another proceeding to request recovery of additional costs incurred to enhance system reliability. In that proceeding, the NJBPU could increase the return on equity to 9.75 percent or decrease it to 9.25 percent, depending on its assessment of the reliability of JCP&L's service. Any reduction would be retroactive to August 1, 2003. The net revenue decrease from the NJBPU's decision consists of a \$223 million decrease in the electricity delivery charge, a \$111 million increase due to the August 1, 2003 expiration of annual customer credits previously mandated by the New Jersey transition legislation, a \$49 million increase in the MTC tariff component, and a net \$1 million increase in the SBC charge. The MTC allows for the recovery of \$465 million in deferred energy costs over the next ten years on an interim basis, thus disallowing \$153 million of the \$618 million provided for in a preliminary settlement agreement between certain parties. As a result, JCP&L recorded charges to net income for the nine months ended September 30, 2003, aggregating \$172 million (\$103 million net of tax) consisting of the \$153 million deferred energy costs and other regulatory assets. JCP&L filed a motion for rehearing and reconsideration with the NJBPU on August 15, 2003 with respect to the following issues: (1) the disallowance of the \$153 million deferred energy costs; (2) the reduced rate of return on equity; and (3) \$42.7 million of disallowed costs to achieve merger savings. On October 10, 2003, the NJBPU held the motion in abeyance until the final NJBPU decision and order which is expected to be issued in the fourth quarter of 2003.

Pennsylvania

Effective September 1, 2002, Met-Ed and Penelec assigned their PLR responsibility to FES through a wholesale power sale which expires in December 2003 and may be extended for each successive calendar year. Under the terms of the wholesale agreement, FES assumed the supply obligation and the supply profit and loss risk, for the portion of power supply requirements not self-supplied by Met-Ed and Penelec under their NUG contracts and other power contracts with nonaffiliated third party suppliers. This arrangement reduces Met-Ed's and Penelec's exposure to high wholesale power prices by providing power at a fixed price for their uncommitted PLR energy costs during the term of the agreement to FES. FES has hedged most of Met-Ed's and Penelec's unfilled on-peak PLR obligation through 2004 and a portion of 2005. Met-Ed and Penelec are authorized to continue deferring differences between NUG contract costs and current market prices.

On April 2, 2003, the PPUC remanded the issue relating to merger savings to the Office of Administrative Law for hearings, directed Met-Ed and Penelec to file a position paper on the effect of the Commonwealth Court order on the Settlement Stipulation and allowed other parties to file responses to the position paper. Met-Ed and Penelec filed a letter with the Administrative Law Judge on June 11, 2003, voiding the Stipulation in its entirety and reinstating Met-Ed's and Penelec's restructuring settlement previously approved by the PPUC.

On October 2, 2003, the PPUC issued an order concluding that the Commonwealth Court reversed the PPUC's June 20, 2001 order in its entirety. The PPUC directed Met-Ed and Penelec to file tariffs within thirty days of the order to reflect the competitive transition charge (CTC) rates and shopping credits that were in effect prior to the June 21, 2001 order to be effective upon one day's notice. In response to that order, Met-Ed and Penelec filed these

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supplements to their tariffs to become effective October 24, 2003.

On October 8, 2003, Met-Ed and Penelec filed a petition for clarification relating to the October 2 order on two issues: to establish the end of June 2004 as the date to fully refund the NUG trust fund and to clarify that the ordered accounting treatment regarding the CTC rate/shopping credit swap should follow the ratemaking, and that the PPUC's findings would not impair their rights to recover all of their stranded costs. On October 9, 2003, ARIPPA (an intervenor in the proceedings) petitioned the PPUC to direct Met-Ed and Penelec to reinstate accounting for the CTC rate/shopping credit swap retroactive to January 1, 2002. Several other parties also filed petitions. On October 16, 2003, the PPUC issued a reconsideration order granting the date requested by Met-Ed and Penelec for the NUG trust fund refund; and, denying Met-Ed's and Penelec's other clarification requests and granting ARIPPA's petition with respect to the accounting treatment of the changes to the CTC rate/shopping credit swap. On October 22, 2003, Met-Ed and Penelec filed an Objection with the Commonwealth Court asking that the Court reverse the PPUC's finding that requires Met-Ed and Penelec to treat the stipulated CTC rates that were in effect from January 1, 2002 on a retroactive basis. Met-Ed and Penelec are considering filing an appeal to the Commonwealth Court on the PPUC orders as well.

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On October 27, 2003, one Commonwealth Court judge issued an order denying Met-Ed's and Penelec's objections without explanation. Due to the vagueness of the Order, Met-Ed and Penelec, on October 31, 2003, filed an Application for Clarification with the Judge. Concurrent with this filing, Met-Ed and Penelec, in order to preserve their rights, also filed with the Commonwealth Court both a Petition for Review of the PPUC's October 16 and 22 Orders, and an application for reargument, if the Judge, in his clarification order, indicates that Met-Ed's and Penelec's objection was intended to be denied on the merits. In addition to these findings, Met-Ed and Penelec, in compliance with the PPUC's Orders, filed revised quarterly reports for the twelve months ended December 31, 2001 and 2002, and for the first two quarters of 2003, reflecting balances consistent with the PPUC's findings in their Orders.

Davis-Besse Restoration

On April 30, 2002, the Nuclear Regulatory Commission (NRC) initiated a formal inspection process at the Davis-Besse nuclear plant. This action was taken in response to corrosion found by FENOC in the reactor vessel head near the nozzle penetration hole during a refueling outage in the first quarter of 2002. The purpose of the formal inspection process is to establish criteria for NRC oversight of the licensee's performance and to provide a record of the major regulatory and licensee actions taken, and technical issues resolved, leading to the NRC's approval of restart of the plant.

Restart activities include both hardware and management issues. In addition to refurbishment and installation work at the plant, FirstEnergy has made significant management and human performance changes with the intent of establishing the proper safety culture throughout the workforce. Work was completed on the reactor head during 2002 and is continuing on efforts designed to enhance the unit's reliability and performance. FirstEnergy is also accelerating maintenance work that had been planned for future refueling and maintenance outages. Testing of the bottom of the reactor for leaks was completed in October 2003 and no indication of leakage was discovered. FirstEnergy is installing a state-of-the-art leak-detection system around the reactor. The additional maintenance work being performed has expanded the

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previous estimates of restoration work. FirstEnergy anticipates that the unit will be ready for restart in the fall of 2003. The NRC must authorize restart of the plant following its formal inspection process before the unit can be returned to service. While the additional maintenance work has delayed FirstEnergy's plans to reduce post-merger debt levels FirstEnergy believes such investments in the unit's future safety, reliability and performance to be essential. Significant delays in Davis-Besse's return to service, which depends on the successful resolution of the management and technical issues as well as NRC approval, could trigger an evaluation for impairment of the nuclear plant (see Significant Accounting Policies below).

Incremental costs associated with the extended Davis-Besse outage for the third quarter and first nine months of 2003 and 2002 were as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30	
	2003	2002	2003	2002
	----	----	----	----
(In millions)				
Incremental Pre-Tax Expense				
Replacement power.....	\$54.9	\$50.9	\$148.4	\$ 84.5
Maintenance.....	17.5	39.8	75.7	54.1
Total.....	\$72.4	\$90.7	\$224.1	\$138.6
=====				
Capital Expenditures.....	\$10.9	\$27.4	\$ 13.3	\$ 39.4
=====				

It is anticipated that an additional \$14 million in maintenance costs will be expended over the remainder of the Davis-Besse outage. Replacement power costs are expected to be \$15 million per month during the remaining period of the outage. FirstEnergy has hedged the on-peak replacement energy supply for Davis-Besse for the expected length of the outage. If there are significant delays in the NRC approval process, substantial replacement power costs will continue to be incurred, which will continue to have an adverse effect on FirstEnergy's, CEI's and TE's respective cash flows and results of operations.

Environmental Matters

Various federal, state and local authorities regulate the Companies with regard to air and water quality and other environmental matters. FirstEnergy estimates additional capital expenditures for environmental compliance of approximately \$159 million, which is included in the construction forecast provided under "Capital Expenditures" for 2003 through 2007.

The Companies are required to meet federally approved sulfur dioxide (SO₂) regulations. Violations of such regulations can result in shutdown of the generating unit involved and/or civil or criminal penalties of up to \$31,500 for each day the unit is in violation. The Environmental Protection Agency (EPA) has an interim enforcement policy for SO₂ regulations in Ohio that allows for compliance based on a 30-day averaging period. The Companies cannot predict what action the EPA may take in the future with respect to the interim enforcement policy.

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The Companies believe they are in compliance with the current SO₂ and nitrogen oxides (NO_x) reduction requirements under the Clean Air Act Amendments of 1990. SO₂ reductions are being achieved by burning lower-sulfur fuel, generating more electricity from lower-emitting plants, and/or using emission allowances. NO_x reductions are being achieved through combustion controls and the generation of more electricity at lower-emitting plants. In September 1998, the EPA finalized regulations requiring additional NO_x reductions from the Companies' Ohio and Pennsylvania facilities. The EPA's NO_x Transport Rule imposes uniform reductions of NO_x emissions (an approximate 85% reduction in utility plant NO_x emissions from projected 2007 emissions) across a region of nineteen states and the District of Columbia, including New Jersey, Ohio and Pennsylvania, based on a conclusion that such NO_x emissions are contributing significantly to ozone pollution in the eastern United States. State Implementation Plans (SIP) must comply by May 31, 2004 with individual state NO_x budgets established by the EPA. Pennsylvania submitted a SIP that required compliance with the NO_x budgets at the Companies' Pennsylvania facilities by May 1, 2003 and Ohio submitted a SIP that requires compliance with the NO_x budgets at the Companies' Ohio facilities by May 31, 2004.

In July 1997, the EPA promulgated changes in the National Ambient Air Quality Standard (NAAQS) for ozone emissions and proposed a new NAAQS for previously unregulated ultra-fine particulate matter. In May 1999, the U.S. Court of Appeals for the D.C. Circuit found constitutional and other defects in the new NAAQS rules. In February 2001, the U.S. Supreme Court upheld the new NAAQS rules regulating ultra-fine particulates but found defects in the new NAAQS rules for ozone and decided that the EPA must revise those rules. The future cost of compliance with these regulations may be substantial and will depend if and how they are ultimately implemented by the states in which the Companies operate affected facilities.

In 1999 and 2000, the EPA issued Notices of Violation (NOV) or a Compliance Order to nine utilities covering 44 power plants, including the W. H. Sammis Plant. In addition, the U.S. Department of Justice filed eight civil complaints against various investor-owned utilities, which included a complaint against OE and Penn in the U.S. District Court for the Southern District of Ohio. The NOV and complaint allege violations of the Clean Air Act based on operation and maintenance of the Sammis Plant dating back to 1984. The civil complaint requests permanent injunctive relief to require the installation of "best available control technology" and civil penalties of up to \$27,500 per day of violation. On August 7, 2003, the United States District Court for the Southern District of Ohio ruled that 11 projects undertaken at the Sammis Plant between 1984 and 1998 required pre-construction permits under the Clean Air Act. The ruling concludes the liability phase of the case, which deals with applicability of Prevention of Significant Deterioration provisions of the Clean Air Act. The remedy phase, which is currently scheduled to be ready for trial beginning April 19, 2004, will address civil penalties and what, if any, actions should be taken to further reduce emissions at the plant. In the ruling, the Court indicated that the remedies it "may consider and impose involved a much broader, equitable analysis, requiring the Court to consider air quality, public health, economic impact, and employment consequences. The Court may also consider the less than consistent efforts of the EPA to apply and further enforce the Clean Air Act." The potential penalties that may be imposed, as well as the capital expenditures necessary to comply with substantive remedial measures that may be required, could have a material adverse impact on the Company's financial condition and results of operations. Management is unable to predict the ultimate outcome of this matter and no liability has been recorded as of September 30, 2003.

In December 2000, the EPA announced it would proceed with the development of regulations regarding hazardous air pollutants from electric power plants. The EPA identified mercury as the hazardous air pollutant of

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greatest concern. The EPA established a schedule to propose regulations by December 2003 and issue final regulations by December 2004. The future cost of compliance with these regulations may be substantial.

As a result of the Resource Conservation and Recovery Act of 1976, as amended, and the Toxic Substances Control Act of 1976, federal and state hazardous waste regulations have been promulgated. Certain fossil-fuel combustion waste products, such as coal ash, were exempted from hazardous waste disposal requirements pending the EPA's evaluation of the need for future regulation. The EPA has issued its final regulatory determination that regulation of coal ash as a hazardous waste is unnecessary. In April 2000, the EPA announced that it will develop national standards regulating disposal of coal ash under its authority to regulate nonhazardous waste.

Several EUOCs have been named as "potentially responsible parties" (PRPs) 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 PRPs for a particular site be held liable on a joint and several basis. Therefore, environmental liabilities that are considered probable have been recognized on the Consolidated Balance Sheet as of September 30, 2003, based on estimates of the total costs of cleanup, the Companies' proportionate responsibility for such costs and the financial ability of other nonaffiliated entities to pay. In addition, JCP&L has accrued liabilities for environmental remediation of former manufactured gas plants in New Jersey; those costs are being recovered by JCP&L through the SBC. The Companies have total accrued liabilities aggregating approximately \$50.4 million as of September 30, 2003.

The effects of compliance on the EUOCs with regard to environmental matters could have a material adverse effect on FirstEnergy's earnings

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and competitive position. These environmental regulations affect FirstEnergy's earnings and competitive position to the extent it 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. FirstEnergy believes it is in material compliance with existing regulations, but is unable to predict how and when applicable environmental regulations may change and what, if any, the effects of any such change would be.

Power Outage

On August 14, 2003, eight states and southern Canada experienced a widespread power outage. That outage affected approximately 1.4 million customers in FirstEnergy's service area. The cause of the outage has not been determined. FirstEnergy continues to accumulate data and evaluate the status of its electrical system prior to and during the outage event. On September 12, 2003, the U.S./Canada Power Outage Task Force (Task Force) investigating the August 14 outage released a timeline of events. The timeline presented the sequence of events that occurred on major transmission lines (230 kilovolts or greater) and at large power plants beginning at approximately noon through approximately 4:00 PM, preceding the outage. This timeline did not attempt to present or explain the linkages between the sequence of events. Determining the specific causes of the events and their relation to the outage will require more time to analyze by the Task Force. The Task Force is expected to release its interim report on November 18, 2003.

Legal Matters

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As of October 14, 2003, ten individual shareholder-plaintiffs have filed separate complaints against FirstEnergy alleging various securities law violations. The bases for these complaints vary but include alleged violations arising out of the power outage, described herein, the extended outage at Davis-Besse, and the restatement of earnings, described herein. FirstEnergy is reviewing the suits that have been served in preparation for a responsive pleading. FirstEnergy is, however, aware that in each case, the plaintiffs are seeking certification from the court to represent a class of similarly situated shareholders. In addition, four shareholder-plaintiffs have filed "shareholder derivative" actions against the members of the Board of Directors, and the Company as a nominal defendant, asserting rights of the corporation itself. The complaints allege violations of fiduciary duties as a result of, generally, the same events described in the securities lawsuits described herein. Furthermore, five lawsuits - three in Ohio state courts, two in New York state courts - have been filed seeking damages relating to the August 14, 2003 power outage. The two New York actions name FirstEnergy as one of several defendants and have been noticed but not served. Additionally, a complaint has been filed with the PUCO by United States Congressman Dennis Kucinich, alleging that as a result of several events, including the August 14, 2003 power outage and the extended outage at Davis-Besse, both described herein, the Company has failed to provide adequate and reasonable service to its customers. That complaint asks, among other things, that another electric supplier be authorized to provide service within the Ohio Utilities' certified territories. FirstEnergy believes that in each instance, the legal actions are without merit. FirstEnergy intends to defend these actions vigorously, but cannot predict the outcome of any of these proceedings or whether any further regulatory proceedings or legal actions may be instituted against it. In particular, if FirstEnergy were ultimately determined to have legal liability in connection with the outage, it could have a material adverse effect on FirstEnergy's financial condition and results of operations.

Various lawsuits, claims and proceedings related to FirstEnergy's normal business operations are pending against it, the most significant of which are described herein.

SIGNIFICANT ACCOUNTING POLICIES

FirstEnergy prepares its consolidated financial statements in accordance with accounting principles that are generally accepted in the United States. Application of these principles often requires a high degree of judgment, estimates and assumptions that affect financial results. All of FirstEnergy's assets are subject to their own specific risks and uncertainties and are regularly reviewed for impairment. Assets related to the application of the policies discussed below are similarly reviewed with their risks and uncertainties reflecting these specific factors. FirstEnergy's more significant accounting policies are described below.

Regulatory Accounting

FirstEnergy's regulated services segment is subject to regulation that sets the prices (rates) it is permitted to charge its customers based on costs that the regulatory agencies determine FirstEnergy is permitted to recover. At times, regulators permit the future recovery through rates of costs that would be currently charged to expense by an unregulated company. This rate-making process results in the recording of regulatory assets based on anticipated future cash inflows. As a result of the changing regulatory framework in each state in which FirstEnergy operates, a significant amount of regulatory assets have been recorded - \$7.8 billion as of September 30, 2003. FirstEnergy regularly reviews these assets to assess their ultimate recoverability within the approved regulatory guidelines. Impairment risk associated with these assets relates to potentially adverse legislative,

judicial or regulatory actions in the future.

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Derivative Accounting

Determination of appropriate accounting for derivative transactions requires the involvement of management representing operations, finance and risk assessment. In order to determine the appropriate accounting for derivative transactions, the provisions of the contract need to be carefully assessed in accordance with the authoritative accounting literature and management's intended use of the derivative. New authoritative guidance continues to shape the application of derivative accounting. Management's expectations and intentions are key factors in determining the appropriate accounting for a derivative transaction and, as a result, such expectations and intentions are documented. Derivative contracts that are determined to fall within the scope of SFAS 133, as amended, must be recorded at their fair value. Active market prices are not always available to determine the fair value of the later years of a contract, requiring that various assumptions and estimates be used in their valuation. FirstEnergy continually monitors its derivative contracts to determine if its activities, expectations, intentions, assumptions and estimates remain valid. As part of its normal operations, FirstEnergy enters into significant commodity contracts, as well as interest rate and currency swaps, which increase the impact of derivative accounting judgments.

Revenue Recognition

FirstEnergy follows the accrual method of accounting for revenues, recognizing revenue for kilowatt-hours that have been delivered but not yet billed through the end of the accounting period. The determination of unbilled revenues requires management to make various estimates including:

- o Net energy generated or purchased for retail load
- o Losses of energy over transmission and distribution lines
- o Mix of kilowatt-hour usage by residential, commercial and industrial customers
- o Kilowatt-hour usage of customers receiving electricity from alternative suppliers

Pension and Other Postretirement Benefits Accounting

FirstEnergy's reported costs of providing non-contributory defined pension and OPEB benefits are dependent upon numerous factors resulting from actual plan experience and certain assumptions.

Pension and OPEB costs are affected by employee demographics (including age, compensation levels, and employment periods), the level of contributions FirstEnergy makes to the plans, and earnings on plan assets. Such factors may be further affected by business combinations (such as FirstEnergy's merger with GPU, Inc. in November 2001), which impacts employee demographics, plan experience and other factors. Pension and OPEB costs may also be affected by changes to key assumptions, including anticipated rates of return on plan assets, the discount rates and health care trend rates used in determining the projected benefit obligations for pension and OPEB costs.

In accordance with SFAS 87, "Employers' Accounting for Pensions" and SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," changes in pension and OPEB obligations associated with these factors may not be immediately recognized as costs on the income statement, but generally are recognized in future years over the remaining average service

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period of plan participants. SFAS 87 and SFAS 106 delay recognition of changes due to the long-term nature of pension and OPEB obligations and the varying market conditions likely to occur over long periods of time. As such, significant portions of pension and OPEB costs recorded in any period may not reflect the actual level of cash benefits provided to plan participants and are significantly influenced by assumptions about future market conditions and plan participants' experience.

In selecting an assumed discount rate, FirstEnergy considers currently available rates of return on high-quality fixed income investments expected to be available during the period to maturity of the pension and other postretirement benefit obligations. Due to the significant decline in corporate bond yields and interest rates in general during 2002, FirstEnergy reduced the assumed discount rate as of December 31, 2002 to 6.75% from 7.25% used at the end of 2001.

FirstEnergy's assumed rate of return on pension plan assets considers historical market returns and economic forecasts for the types of investments held by its pension trusts. The market values of FirstEnergy's pension assets have been affected by sharp declines in the equity markets since mid-2000. In 2002 and 2001 plan assets earned (11.3)% and (5.5)%, respectively. FirstEnergy's pension costs in 2002 were computed assuming a 10.25% rate of return on plan assets. Beginning in 2003, the assumed return on plan assets was reduced to 9.00% based upon FirstEnergy's projection of future returns and pension trust investment allocation of approximately 60% large cap equities, 10% small cap equities and 30% bonds.

Based on pension assumptions and pension plan assets as of December 31, 2002, FirstEnergy is not required to fund its pension plans in 2003. While OPEB plan assets have also been affected by sharp declines in the equity market, the impact is not as significant due to the relative size of the plan assets. However, health care cost trends

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have significantly increased and will affect future OPEB costs. The 2003 composite health care trend rate assumption is approximately 10%-12% gradually decreasing to 5% in later years, compared to the 2002 assumption of approximately 10% in 2002, gradually decreasing to 4%-6% in later years. In determining its trend rate assumptions, FirstEnergy included the specific provisions of its health care plans, the demographics and utilization rates of plan participants, actual cost increases experienced in its health care plans, and projections of future medical trend rates.

Ohio Transition Cost Amortization

In connection with FirstEnergy's restructuring plan, the PUCO determined allowable transition costs based on amounts recorded on the regulatory books of the Ohio electric utilities. These costs exceeded those deferred or capitalized on FirstEnergy's balance sheet prepared under GAAP since they included certain costs which have not yet been incurred or that were recognized on the regulatory financial statements (fair value purchase accounting adjustments). FirstEnergy uses an effective interest method for amortizing its transition costs, often referred to as a "mortgage-style" amortization. The interest rate under this method is equal to the rate of return authorized by the PUCO in the transition plan for each respective company. In computing the transition cost amortization, FirstEnergy includes only the portion of the transition revenues associated with transition costs included on the balance sheet prepared under GAAP. Revenues collected for the off balance sheet costs and the return associated with these costs are recognized as income when received.

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Long-Lived Assets

In accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," FirstEnergy periodically evaluates its long-lived assets to determine whether conditions exist that would indicate that the carrying value of an asset may not be fully recoverable. The accounting standard requires that if the sum of future cash flows (undiscounted) expected to result from an asset is less than the carrying value of the asset, an asset impairment must be recognized in the financial statements. If impairment other than of a temporary nature has occurred, FirstEnergy recognizes a loss - calculated as the difference between the carrying value and the estimated fair value of the asset (discounted future net cash flows).

Goodwill

In a business combination, the excess of the purchase price over the estimated fair values of the assets acquired and liabilities assumed is recognized as goodwill. Based on the guidance provided by SFAS 142, FirstEnergy evaluates its goodwill for impairment at least annually and would make such an evaluation more frequently if indicators of impairment should arise. In accordance with the accounting standard, if the fair value of a reporting unit is less than its carrying value (including goodwill), the goodwill is tested for impairment. When impairment is indicated FirstEnergy recognizes a loss - calculated as the difference between the implied fair value of a reporting unit's goodwill and the carrying value of the goodwill. FirstEnergy's annual review was completed in the third quarter of 2003. As a result of that review, a non-cash goodwill impairment charge of \$121.5 million was recognized in the third quarter of 2003, reducing the carrying value of FSG. That charge reflects the continued slow down in the development of competitive retail markets and depressed economic conditions that affect the value of FSG. The forecasts used in FirstEnergy's evaluations of goodwill reflect operations consistent with its general business assumptions. Unanticipated changes in those assumptions could have a significant effect on FirstEnergy's future evaluations of goodwill. As of September 30, 2003, FirstEnergy had \$6.1 billion of goodwill that primarily relates to its regulated services segment. A summary of the changes in FirstEnergy's goodwill for the nine months ended September 30, 2003 (which affected only the Competitive Services Segment) is shown below:

	(In millions)
Balance at December 31, 2003.....	\$6,278.1
Impairment charges.....	(121.5)
FSG divestitures.....	(40.8)
Other.....	12.1

Balance at September 30, 2003.....	\$6,127.9
	=====

NEW ACCOUNTING STANDARDS ADOPTED

SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity"

In May 2003, the FASB issued SFAS 150, which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. In accordance with the standard, certain financial instruments that embody obligations for the issuer are required to be classified as liabilities. SFAS 150 was effective immediately for financial instruments entered into or modified after May 31, 2003 and effective at the

beginning of the first interim period beginning after June 15, 2003 (FirstEnergy's third quarter of 2003) for all other financial instruments.

Upon adoption of SFAS 150, effective July 1, 2003, FirstEnergy reclassified as debt the preferred stock of consolidated subsidiaries subject to mandatory redemptions with a carrying value of approximately \$17.5 million (\$4.0 million for CEI and \$13.5 million for Penn) as of September 30, 2003. Subsidiary-obligated mandatorily redeemable preferred securities of \$285 million (\$100 million for CEI, \$93 million for Met-Ed and \$92 for Penelec) were also reclassified and included in long-term debt as of September 30, 2003. As required by SFAS 150, the preferred securities subject to mandatory redemption were not restated as long-term debt on the December 31, 2002 balance sheet.

Adoption of SFAS 150 had no impact on FirstEnergy's Consolidated Statements of Income because the preferred dividends were previously included in net interest charges and required no reclassification. Dividends on preferred stock subject to mandatory redemption on CEI and Penn's respective Consolidated Statements of Income, which were not included in net interest charges prior to the adoption of SFAS 150, were included in net interest charges for the three months ended September 30, 2003.

CEI, Met-Ed and Penelec created statutory business trusts to issue the preferred securities of \$285 million discussed above. The continued consolidation of the issuer trusts and the appropriate balance sheet classification of the trust preferred securities is currently under review pursuant to FIN 46 (see Note 6). Upon the implementation of FIN 46 effective December 31, 2003, these trusts would be deconsolidated if CEI, Met-Ed and Penelec were not the primary beneficiaries of the related trusts. Rather than recording a liability for the trust preferred securities as discussed above, FirstEnergy, CEI, Met-Ed and Penelec would reflect liabilities for the notes payable to the respective trusts, which are currently eliminated in consolidation. The deconsolidation of the trusts would result in an increase to total assets and liabilities of \$9.3 million (\$3.1 million for each of CEI, Met-Ed and Penelec) for the investment in the trusts.

SFAS 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities"

Issued by the FASB in April 2003, SFAS 149 further clarifies and amends accounting and reporting for derivative instruments. The statement amends SFAS 133 for decisions made by the Derivative Implementation Group (DIG), as well as issues raised in connection with other FASB projects and implementation issues. The statement is effective for contracts entered into or modified after June 30, 2003 except for implementation issues that have been effective for reporting periods beginning before June 15, 2003, that continue to be applied based on their original effective dates. Adoption of SFAS 149 did not have a material impact on the Company's financial statements.

SFAS 143, "Accounting for Asset-Retirement Obligations"

The Company adopted SFAS 143 effective January 1, 2003. The impact of this new accounting standard is discussed above under Results of Operations.

EITF Issue No. 01-8, "Determining whether an Arrangement Contains a Lease"

In May 2003, the EITF reached a consensus on Issue No. 01-8, regarding when arrangements contain a lease. Based on the EITF consensus, an

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arrangement contains a lease if (1) it identifies specific property, plant or equipment (explicitly or implicitly), and (2) the arrangement transfers the right to the purchaser to control the use of the property, plant or equipment. The consensus is to be applied prospectively to arrangements committed to, modified or acquired through a business combination, beginning in the third quarter of 2003. The adoption of this consensus as of July 1, 2003 did not impact FirstEnergy's financial statements.

EITF Issue No. 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities"

In October 2002, the EITF reached a consensus that for periods after July 15, 2002, mark-to-market revenues and expenses and their related kilowatt-hour sales and purchases on energy trading contracts must be shown on a net basis on the Consolidated Statements of Income. FirstEnergy had previously reported such contracts as gross revenues and purchased power costs. Comparative quarterly disclosures and the Consolidated Statements of Income for revenues and expenses have been reclassified for 2002 to conform with the revised presentation. In addition, the related kilowatt-hour sales and purchases statistics described above under Results of Operations were reclassified (2.7 billion kilowatt-hours in the third quarter and 5.3 billion kilowatt-hours in the first nine months of 2002). The following table displays the impact of changing to a net presentation for FirstEnergy's energy trading operations.

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	Three Months Ended September 30, 2002		Nine Months Ended September 30, 2002	
Impact of Recording Energy Trading Net	Revenues	Expenses	Revenues	Expenses
	(In millions)			
Total as originally reported.....	\$3,572	\$2,845	\$9,414	\$7,500
Adjustment.....	(121)	(121)	(211)	(200)
Total as currently reported.....	\$3,451	\$2,724	\$9,203	\$7,300

NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

FIN 46, "Consolidation of Variable Interest Entities - an interpretation of ARB 51"

In January 2003, the FASB issued this interpretation of ARB No. 51, "Consolidated Financial Statements". This Interpretation requires the consolidation of a variable interest entity (VIE) by an enterprise if that enterprise either absorbs a majority of the VIE's expected losses or receives a majority of the VIE's expected residual returns as a result of ownership, contractual or other financial interests in the VIE. Currently, entities are generally consolidated by an enterprise that has a controlling financial

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interest through ownership of a majority voting interest in the entity.

FIN 46 defines a VIE as an entity in which equity investors do not have the characteristics of a controlling financial interest nor have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIE's created after January 31, 2003, are immediately subject to the provisions of FIN 46. The FASB recently deferred implementation of FIN 46 for VIE's created before February 1, 2003, until the first reporting period ending after December 15, 2003 (FirstEnergy's quarter ending December 31, 2003.)

FirstEnergy currently has transactions with entities in connection with sale and leaseback arrangements which fall within the scope of this interpretation and which meet the definition of a VIE in accordance with FIN 46. In addition to the two entities created to refinance debt discussed below, the Company is evaluating its interest in the owner trusts that acquired certain interests in the Perry Plant, Beaver Valley Unit 2 and the Bruce Mansfield Plant. The leases are accounted for as operating leases in accordance with GAAP. The combined purchase price of \$3.1 billion for all of the interests acquired by the owner trusts in 1987 was funded with debt of \$2.5 billion and equity of \$600 million.

FirstEnergy is exposed to losses under the sale-leaseback agreements upon the occurrence of certain contingent events that we consider unlikely to occur. The Company's maximum exposure to loss is currently estimated to be \$2.0 billion, which represents the net amount of casualty value payments upon the occurrence of specified casualty events that render the plants worthless. Under the sale and leaseback agreements, FirstEnergy has minimum undiscounted net lease payments of \$2.6 billion that would not be payable if the casualty value payments are made. In addition, the Company has recorded above market lease obligations of \$1.1 billion related to the Bruce Mansfield Plant and Beaver Valley Unit 2 as of September 30, 2003 (see Note 1) related to the acquisition by FirstEnergy of CEI and TE.

FirstEnergy currently believes that it will consolidate two VIE's created in 1996 and 1997 to refinance debt in connection with the above sale and leaseback transactions. In 1996, the PNBV Capital Trust issued equity and notes to fund the acquisition of a portion of the collateralized lease bonds that had been issued by certain owner trusts in connection with the sale and leaseback in 1987 of a portion of OE's interest in the Perry Plant and Beaver Valley Unit 2. OE used debt and available funds to purchase the notes issued by the PNBV Trust. Ownership of the trust includes a three-percent equity interest by a nonaffiliated third party and a three-percent equity interest held by OES Ventures, a wholly owned subsidiary of OE. Consolidation of the trust as of December 31, 2002 would have changed the PNBV trust investment of \$389 million to an investment in collateralized lease bonds of \$401 million. The increase in \$12 million would have represented the minority interest in the total assets of the trust.

In 1997, CEI and TE established the Shippingport Capital Trust to purchase all of the lease obligation bonds issued by the owner trusts in the Bruce Mansfield Plant sale and leaseback transactions. CEI and TE acquired all of the notes issued by Shippingport Capital Trust. The equity ownership of this trust includes a 0.34% interest held by Toledo Edison Capital Corporation (TECC), a wholly owned subsidiary of TE, and a 2.25% interest and a 2.60% interest held by unaffiliated third parties. The assets and liabilities of the trust are currently included on a proportionate basis in the financial statements of CEI and TE. Adoption of FIN 46 will not impact FirstEnergy with respect to this trust, but may result in reporting all of the trust assets and liabilities on the books of CEI.

As described in Note 1, the consolidated financial statements of

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FirstEnergy, CEI, Met-Ed and Penelec currently include several trusts that have sold trust preferred securities in which FirstEnergy is not the primary beneficiary. Pending further guidance from the FASB that would indicate otherwise, these entities may not be consolidated in FirstEnergy's financial statements as of December 31, 2003. The deconsolidation would result in an increase to total assets and liabilities of \$9.3 million (\$3.1 million for each of CEI, Met-Ed and Penelec) for the investment in the trusts.

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The FASB continues to provide additional guidance on implementing FIN 46 and recently proposed modifications and clarifications with a comment period ending December 1, 2003. As this guidance is finalized, the Company will continue to assess the accounting and disclosure impact of FIN 46 with respect to the VIE's discussed above as well as other potential VIE's.

DIG Implementation Issue No. C20 for SFAS 133, "Scope Exceptions: Interpretation of the Meaning of Not Clearly and Closely Related in Paragraph 10(b) Regarding Contracts with a Price Adjustment Feature"

In June 2003, the FASB cleared DIG Issue C20 for implementation in fiscal quarters beginning after July 10, 2003, which would correspond to FirstEnergy's fourth quarter of 2003. The issue supersedes earlier DIG Issue C11, "Interpretation of Clearly and Closely Related in Contracts That Qualify for the Normal Purchases and Normal Sales Exception." DIG Issue C20 provides guidance regarding when the presence of a general index, such as the Consumer Price Index, in a contract would prevent that contract from qualifying for the normal purchases and normal sales (NPNS) exception under SFAS 133, as amended, and therefore exempt from the mark-to-market treatment of certain contracts. DIG Issue C20 is to be applied prospectively to all existing contracts as of its effective date and for all future transactions. If it is determined under DIG Issue C20 guidance that the NPNS exception was claimed for an existing contract that was not eligible for this exception, the contract will be recorded at fair value, with a corresponding adjustment of net income as the cumulative effect of a change in accounting principle in the fourth quarter of 2003. FirstEnergy is currently assessing the new guidance but does not anticipate any material impact on its financial statements.

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OHIO EDISON COMPANY

CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

Three Months Ended September 30,	
2003	2002
-----	-----
	Restated

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(See Note 1)
(In thousands)

OPERATING REVENUES.....	\$774,859	\$813,296	\$2
	-----	-----	
OPERATING EXPENSES AND TAXES:			
Fuel.....	13,978	15,649	
Purchased power.....	231,619	243,475	
Nuclear operating costs.....	98,742	79,388	
Other operating costs.....	107,509	94,820	
	-----	-----	
Total operation and maintenance expenses.....	451,848	433,332	1
Provision for depreciation and amortization.....	121,734	90,991	
General taxes.....	46,863	47,254	
Income taxes.....	66,453	92,941	
	-----	-----	
Total operating expenses and taxes.....	686,898	664,518	1
	-----	-----	
OPERATING INCOME.....	87,961	148,778	
OTHER INCOME.....	16,439	14,212	
	-----	-----	
INCOME BEFORE NET INTEREST CHARGES.....	104,400	162,990	
	-----	-----	
NET INTEREST CHARGES:			
Interest on long-term debt.....	21,241	29,548	
Allowance for borrowed funds used during construction and capitalized interest.....	(1,668)	(1,018)	
Other interest expense.....	3,144	2,889	
Subsidiaries' preferred stock dividend requirements....	911	2,276	
	-----	-----	
Net interest charges.....	23,628	33,695	
	-----	-----	
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE.....	80,772	129,295	
Cumulative effect of accounting change (net of income taxes of \$22,389,000) (Note 5).....	--	--	
	-----	-----	
NET INCOME.....	80,772	129,295	
PREFERRED STOCK DIVIDEND REQUIREMENTS.....	659	658	
	-----	-----	
EARNINGS ON COMMON STOCK.....	\$ 80,113	\$128,637	\$
	=====	=====	==

OHIO EDISON COMPANY
 CONSOLIDATED BALANCE SHEETS

(Unaudited)
 September 30,
 2003

(In th

ASSETS

UTILITY PLANT:

In service.....	\$5,220,708
Less-Accumulated provision for depreciation.....	2,620,419

	2,600,289

Construction work in progress-

Electric plant.....	136,075
Nuclear fuel.....	16,390

	152,465

	2,752,754

OTHER PROPERTY AND INVESTMENTS:

PNBV Capital Trust.....	387,770
Letter of credit collateralization.....	277,763
Nuclear plant decommissioning trusts.....	346,378
Long-term notes receivable from associated companies.....	509,684
Other.....	65,678

	1,587,273

CURRENT ASSETS:

Cash and cash equivalents.....	1,792
Receivables-	
Customers (less accumulated provisions of \$8,635,000 and \$5,240,000, respectively for uncollectible accounts).....	281,801
Associated companies.....	668,273
Other (less accumulated provisions of \$1,000,000 for uncollectible accounts at both dates).....	29,169
Notes receivable from associated companies.....	577,822
Materials and supplies, at average cost-	
Owned.....	58,799
Under consignment.....	14,261

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Prepayments and other.....	18,089

	1,650,006

DEFERRED CHARGES:	
Regulatory assets.....	1,644,158
Property taxes.....	59,035
Unamortized sale and leaseback costs.....	66,978
Other.....	59,223

	1,829,394

	\$7,819,427
	=====

OHIO EDISON COMPANY
CONSOLIDATED BALANCE SHEETS

(Unaudited)
September 30,
2003

(In t

CAPITALIZATION AND LIABILITIES

CAPITALIZATION:	
Common stockholder's equity	
Common stock, without par value, authorized 175,000,000 shares-	
100 shares outstanding.....	\$2,098,729
Accumulated other comprehensive loss.....	(98,638)
Retained earnings.....	633,951

Total common stockholder's equity.....	2,634,042
Preferred stock not subject to mandatory redemption.....	60,965
Preferred stock of consolidated subsidiary-	
Not subject to mandatory redemption.....	39,105
Subject to mandatory redemption (Note 5).....	--
Long-term debt and other long-term obligations-	
Preferred stock of consolidated subsidiary subject to mandatory	
redemption (Note 5)	13,500
Other.....	1,477,530

	4,225,142

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CURRENT LIABILITIES:	
Currently payable long-term debt and preferred stock.....	417,216
Short-term borrowings-	
Associated companies.....	9,947
Other.....	174,578
Accounts payable-	
Associated companies.....	268,214
Other.....	3,537
Accrued taxes.....	646,668
Accrued interest.....	22,686
Other.....	107,596

	1,650,442

DEFERRED CREDITS:	
Accumulated deferred income taxes.....	864,355
Accumulated deferred investment tax credits.....	78,977
Asset retirement obligation.....	312,560
Nuclear plant decommissioning costs.....	--
Retirement benefits.....	405,088
Other.....	282,863

	1,943,843

COMMITMENTS, GUARANTEES AND CONTINGENCIES (Note 2).....	

	\$7,819,427
	=====

OHIO EDISON COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended September 30,		
	2003	2002	
	-----	-----	
		Restated (See Note 1)	
		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income.....	\$ 80,772	\$ 129,295	\$

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Adjustments to reconcile net income to net cash from operating activities-

Provision for depreciation and amortization.....	121,734	90,991
Nuclear fuel and capital lease amortization.....	10,542	12,389
Deferred operating lease costs, net.....	33,977	32,908
Deferred income taxes, net.....	(30,010)	(12,682)
Amortization of investment tax credits.....	(3,681)	(3,427)
Accrued retirement benefit obligations.....	20,471	6,325
Accrued compensation, net.....	366	5,651
Cumulative effect of accounting change (Note 5)....	--	--
Receivables.....	329,852	(18,352)
Materials and supplies.....	(956)	(3,699)
Accounts payable.....	(141,910)	18,690
Accrued taxes.....	131,470	16,302
Accrued interest.....	(417)	1,926
Prepayments and other current assets.....	3,514	1,791
Other.....	(1,238)	(3,718)
	-----	-----
Net cash provided from operating activities.....	554,486	274,390
	-----	-----

CASH FLOWS FROM FINANCING ACTIVITIES:

New Financing-		
Long-term debt.....	--	14,500
Short-term borrowings, net.....	--	348,132
Redemptions and Repayments-		
Preferred stock.....	--	(220,000)
Long-term debt.....	(209,111)	(182,595)
Short-term borrowings, net.....	(4,547)	--
Dividend Payments-		
Common stock.....	(94,000)	(20,700)
Preferred stock.....	(659)	(658)
	-----	-----
Net cash used for financing activities	(308,317)	(61,321)
	-----	-----

CASH FLOWS FROM INVESTING ACTIVITIES:

Property additions.....	(39,432)	(32,130)
Notes receivable from associated companies, net.....	(197,289)	(165,340)
Other.....	(10,020)	6,047
	-----	-----
Net cash used for investing activities.....	(246,741)	(191,423)
	-----	-----

Net increase (decrease) in cash and cash equivalents.....	(572)	21,646
Cash and cash equivalents at beginning of period.....	2,364	24,139
	-----	-----
Cash and cash equivalents at end of period.....	\$ 1,792	\$ 45,785
	=====	=====

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders and Board of
Directors of Ohio Edison Company:

We have reviewed the accompanying consolidated balance sheet of Ohio Edison Company and its subsidiaries as of September 30, 2003, and the related consolidated statements of income and cash flows for each of the three-month and nine-month periods ended September 30, 2003 and 2002. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated interim financial statements, the Company has restated its previously issued consolidated interim financial statements for each of the three-month and nine-month periods ended September 30, 2002.

We previously audited in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet and the consolidated statement of capitalization as of December 31, 2002, and the related consolidated statements of income, common stockholder's equity, preferred stock, cash flows and taxes for the year then ended (not presented herein), and in our report (which contained a reference to the Company's restatement of its previously issued consolidated financial statements for the year ended December 31, 2002 as discussed in Note 1(M) to those consolidated financial statements) dated February 28, 2003, except as to Note 1(M), which is as of August 18, 2003, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2002, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

PricewaterhouseCoopers LLP
Cleveland, Ohio

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November 13, 2003

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OHIO EDISON COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

OE is a wholly owned, electric utility subsidiary of FirstEnergy. OE and its wholly owned subsidiary, Penn, conduct business in portions of Ohio and Pennsylvania, providing regulated electric distribution services. OE and Penn (OE Companies) also provide generation services to those customers electing to retain them as their power supplier. The OE Companies provide power directly to wholesale customers under previously negotiated contracts, as well as to alternative energy suppliers under OE's transition plan. The OE Companies have unbundled the price of electricity into its component elements - including generation, transmission, distribution and transition charges. Power supply requirements of the OE Companies are provided by FES - an affiliated company.

RESTATEMENTS

As further discussed in Note 1 to the Consolidated Financial Statements, OE restated its consolidated financial statements for the year ended December 31, 2002 and the three months ended March 31, 2003. The revisions reflect a change in the method of amortizing the costs being recovered under the Ohio transition plan. These restatements were completed and reported in the second quarter of 2003. Financial comparisons described below for the three-month and nine month-periods reflect the effect of these restatements.

RESULTS OF OPERATIONS

Earnings on common stock in the third quarter of 2003 decreased to \$80.1 million from \$128.6 million in the third quarter of 2002. During the first nine months of 2003, earnings on common stock decreased to \$212.9 million from \$302.8 million in the same period of 2002. In the first nine months of 2003 earnings on common stock included an after tax credit of \$31.7 million from the cumulative effect of an accounting change due to the adoption of SFAS 143, "Accounting for Asset Retirement Obligations." Income before the cumulative effect was \$183.2 million in the first nine months of 2003, compared to \$308.6 million for the same period of 2002.

Results in the third quarter of 2003 were adversely affected by lower revenues due to milder weather and higher operating expenses (principally from additional outage-related work at the nuclear generating plants and increased amortization of the Ohio transition regulatory assets) compared to the same quarter of last year. These adverse effects were partially offset by reduced nuclear fuel expenses as a result of the additional nuclear outage in 2003 and reduced financing costs compared to the third quarter of 2002.

In the first nine months of 2003, results were negatively affected by lower revenues from mild weather in the second and third quarters of 2003, which moderated the effect of unusually cold weather earlier in the year. Additional nuclear outage-related work and increased amortization of the Ohio transition regulatory assets were also primary factors contributing to an increase in operating expenses in the first nine months of 2003 from the same period in 2002. Partially offsetting these factors were reduced fuel expense resulting from lower nuclear production and the absence in 2003 of an adjustment recorded in the first quarter of 2002 for low income housing investments.

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Operating revenues decreased by \$38.4 million or 4.7% in the third quarter and \$74.3 million or 3.3% in the first nine months of 2003 compared with the same periods in 2002 due to cooler-than-normal temperatures in the second and third quarters, continued sluggishness in the regional economy and increased sales by alternative suppliers. The lower revenues primarily resulted from reduced generation sales revenues, which included all retail customer categories - residential, commercial and industrial. Kilowatt-hour sales to retail customers declined by 12.9% in the third quarter and 10.5% in the first nine months of 2003 from the same periods of 2002, reducing generation sales revenue by \$36.4 million and \$97.1 million, respectively. Electric generation services provided to retail customers by alternative suppliers as a percent of total kilowatt-hours delivered in OE's franchise area increased 6.0 percentage points in the third quarter and 7.5 percentage points in the first nine months of 2003 from the corresponding periods last year.

Distribution deliveries decreased 5.6% and 1.2% in the third quarter and the first nine months of 2003, respectively, compared with the corresponding periods of 2002. The lower distribution deliveries in the third quarter of 2003 reflected the milder weather in that period compared to the same period last year which reduced residential and commercial usage - the customer groups accounting for most of a \$23.1 million reduction in revenues from electricity throughput. In the nine months of 2003, unusually cold weather in early 2003 increased distribution deliveries to commercial customers, providing most of the increase in revenues from distribution throughput compared to the same period in 2002. The third quarter and first nine months of 2003 were both adversely impacted by the continued effects of a sluggish regional economy reducing demand by industrial customers in OE's franchise area.

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Operating revenues were further reduced in 2003 as a result of the Ohio transition plan incentives provided to customers to promote customer shopping for alternative suppliers - \$1.9 million of additional credits in the first nine months of 2003 from the corresponding period of 2002. These reductions in revenues are deferred for future recovery under OE's transition plan and do not materially affect current period earnings.

Sales revenues from wholesale customers increased by \$12.0 million and \$24.5 million in the third quarter and the first nine months of 2003, respectively, compared to the same periods of 2002. These results reflect the effect of higher unit prices, partially offset by lower kilowatt-hour sales to the wholesale market due to reduced nuclear generation available for sale to FES.

Changes in electric generation sales and distribution deliveries in the third quarter and first nine months of 2003 from the corresponding periods of 2002 are summarized in the following table:

Changes in Kilowatt-Hour Sales	Three Months	Nine Months

Increase (Decrease)		
Electric Generation:		
Retail.....	(12.9)%	(10.5)%
Wholesale.....	(9.2)%	(14.6)%

Total Electric Generation Sales.....	(11.1)%	(12.4)%
=====		
Distribution Deliveries:		
Residential.....	(11.2)%	(3.2)%
Commercial.....	(1.4)%	0.8%

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Industrial.....	(3.1)%	(1.0)%

Total Distribution Deliveries.....	(5.6)%	(1.2)%
=====		

Operating Expenses and Taxes

Total operating expenses and taxes increased \$22.4 million and \$93.2 million in the third quarter and the first nine months of 2003, respectively, from the same periods last year. The following table presents changes from the prior year by expense category.

Operating Expenses and Taxes - Changes	Three Months	Nine Months

Increase (Decrease)	(In millions)	
Fuel.....	\$ (1.7)	\$ (7.9)
Purchased power costs.....	(11.8)	(6.3)
Nuclear operating costs.....	19.3	87.0
Other operating costs.....	12.7	25.1

Total operation and maintenance expenses.....	18.5	97.9
Provision for depreciation and amortization.....	30.8	61.9
General taxes.....	(0.4)	4.4
Income taxes.....	(26.5)	(71.0)

Net increase in operating expenses and taxes..	\$ 22.4	\$ 93.2
=====		

Lower fuel costs in the third quarter and first nine months of 2003, compared with the same periods of 2002, resulted from reduced nuclear generation - down 4.7% and 15.1%, respectively. In the third quarter and first nine months of 2003, the kilowatt-hour purchase requirements were lower than the same periods in 2002 because of reduced electric generation sales - those cost reductions were partially offset by the effect of higher unit costs. Higher nuclear operating costs in the 2003 periods were driven by three nuclear refueling outages in 2003 - Beaver Valley Unit 1 (100% ownership), Beaver Valley Unit 2 (55.62% interest) and the Perry Plant (35.24% ownership) in 2003 compared with one refueling outage at Beaver Valley Unit 2 in 2002. The Beaver Valley Unit 1 and Perry refueling outages earlier in 2003 included additional unplanned work which extended the length of the outages and increased their cost. The increase in other operating costs in the third quarter and first nine months of 2003, compared to the same periods of 2002, primarily reflects higher employee benefit costs and energy delivery costs as a result of storm damage.

Charges for depreciation and amortization increased by \$30.8 million in the third quarter of 2003 compared to the third quarter of 2002 primarily from three factors - increased amortization of the Ohio transition regulatory assets (\$16.6 million), reduced shopping incentive deferrals (\$9.0 million) and reduced transition plan regulatory asset deferrals in 2003 (\$10.3 million). Partially offsetting these increases were lower charges resulting from the implementation of SFAS 143 (\$4.6 million).

In the first nine months of 2003, depreciation and amortization increased by \$61.9 million compared to the corresponding period of 2002 as a result of the same factors which impacted the third quarter comparison - increased

amortization of the Ohio transition regulatory assets (\$58.3 million) and reduced transition plan regulatory asset deferrals (\$22.5 million) in 2003. Partially offsetting these increases in depreciation and amortization were higher shopping incentive deferrals (\$1.9 million) and lower charges resulting from the implementation of SFAS 143 (\$15.5 million).

General taxes increased in the first nine months of 2003 from the same periods of 2002 principally due to higher kilowatt-hour excise taxes in Ohio.

Other Income

Other income increased by \$15.5 million in the first nine months of 2003 from the same period last year, primarily due to the absence in 2003 of adjustments recorded in the first nine months of 2002 related to OE's low income housing investments.

Net Interest Charges

Net interest charges continued to trend lower, decreasing by \$10.1 million in the third quarter and \$26.6 million in the first nine months of 2003 from the same periods last year, reflecting redemptions and refinancings since the third quarter of last year. OE's mandatory debt redemptions totaled \$230.2 million during the first nine months of 2003, are expected to result in annualized savings of \$19.0 million.

Cumulative Effect of Accounting Change

Results for the first nine months of 2003 include an after-tax credit to net income of \$31.7 million recorded upon the adoption of SFAS 143 in January 2003. OE identified applicable legal obligations as defined under the new standard for nuclear power plant decommissioning and reclamation of a sludge disposal pond at the Bruce Mansfield Plant. As a result of adopting SFAS 143 in January 2003, asset retirement costs of \$133.7 million were recorded as part of the carrying amount of the related long-lived asset, offset by accumulated depreciation of \$25.2 million. The asset retirement obligation (ARO) liability at the date of adoption was \$297.6 million, including accumulated accretion for the period from the date the liability was incurred to the date of adoption. As of December 31, 2002, OE had recorded decommissioning liabilities of \$281 million. Penn expects substantially all of its nuclear decommissioning costs to be recoverable in rates over time. Therefore, Penn recognized a regulatory liability of \$10.6 million upon adoption of SFAS 143 for the transition amounts related to establishing the ARO for nuclear decommissioning. The remaining cumulative effect adjustment for unrecognized depreciation, accretion offset by the reduction in the existing decommissioning liabilities and ceasing the accounting practice of depreciating non-regulated generation assets using a cost of removal component was a \$54.1 million increase to income, or \$31.7 million net of income taxes.

CAPITAL RESOURCES AND LIQUIDITY

OE's cash requirements in 2003 for operating expenses, construction expenditures, scheduled debt maturities and preferred stock redemptions are expected to be met without significantly increasing its net debt and preferred stock outstanding. Available borrowing capacity under short-term credit facilities will be used to manage working capital requirements. Over the next

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three years, OE expects to meet its contractual obligations with cash from operations. Thereafter, OE expects to use a combination of cash from operations and funds from the capital markets.

Changes in Cash Position

As of September 30, 2003, OE had \$1.8 million of cash and cash equivalents, compared with \$20.5 million as of December 31, 2002. The major sources for changes in these balances are summarized below.

Cash Flows From Operating Activities

Cash provided by operating activities during the third quarter and first nine months of 2003, compared with the corresponding periods in 2002 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Operating Cash Flows	2003	2002	2003	2002
	(In millions)			
Cash earnings (1).....	\$234	\$261	\$519	\$611
Working capital and other.....	320	13	264	224
Total.....	\$554	\$274	\$783	\$835

(1) Includes net income, depreciation and amortization, deferred income taxes, investment tax credits and major noncash charges.

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Net cash from operating activities increased \$280 million in the third quarter of 2003 due to a \$307 million increase in funds from working capital, partially offset by a \$27 million decrease in cash earnings. The change in working capital and other primarily reflects lower accounts receivable in the third quarter of 2003 compared with the corresponding change in the third quarter of 2002 (\$348 million). A higher tax accrual in the third quarter of 2003, compared to 2002, also contributed \$115 million to the increase in working capital.

Cash Flows From Financing Activities

In the third quarter of 2003, net cash used for financing activities increased to \$308 million from \$61 million used in the same period last year. The increase resulted from the absence of new financing in 2003 and increased dividends to FirstEnergy.

OE had approximately \$579.6 million of cash and temporary investments and approximately \$184.5 million of short-term indebtedness as of September 30, 2003. Available borrowing capability under bilateral bank facilities totaled \$34.0 million as of September 30, 2003. OE had the capability to issue \$1.8 billion of additional first mortgage bonds on the basis of property additions and retired bonds. Based upon applicable earnings coverage tests OE could issue up to \$1.6 billion of preferred stock (assuming no additional debt was issued) as of September 30, 2003. In October 2003, FirstEnergy renewed \$1 billion of credit facilities (including OE's 364-day \$125 million facility and 3-year \$125 million facility).

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Cash Flows From Investing Activities

Net cash used for investing activities totaled \$247 million in the third quarter of 2003, compared to \$191 million for the same period of 2002. The \$56 million increase in funds used for investing activities resulted from increases in short-term loans to associated companies.

During the fourth quarter of 2003, capital requirements for property additions and capital leases are expected to be about \$32 million, including \$1 million for nuclear fuel. OE has additional requirements of approximately \$17 million to meet sinking fund requirements for preferred stock and maturing long-term debt during the remainder of 2003. These cash requirements are expected to be satisfied from internal cash and short-term credit arrangements.

On August 14, 2003, Moody's Investors Service placed the debt ratings of FirstEnergy and all of its subsidiaries under review for possible downgrade. Moody's stated that the review was prompted by: (1) weaker than expected operating performance and cash flow generation; (2) less progress than expected in reducing debt; (3) continuing high leverage relative to its peer group; and (4) negative impact on cash flow and earnings from the continuing nuclear plant outage at Davis-Besse (OE has no ownership interest in this facility). Moody's further stated that, in anticipation of Davis-Besse returning to service in the near future and FirstEnergy's continuing to significantly reduce debt and improve its financial profile, "Moody's does not expect that the outcome of the review will result in FirstEnergy's senior unsecured debt rating falling below investment-grade."

On September 30, 2003, Fitch Ratings lowered the senior unsecured ratings of FirstEnergy to "BBB-" from "BBB." Fitch also lowered the senior secured, senior unsecured, and preferred stock ratings of Met-Ed, Penelec, CEI, and TE. In addition, Fitch affirmed the ratings of OE, Penn and JCP&L. Fitch announced that the Rating Outlook is Stable for the securities of FirstEnergy, and all of the securities of its electric utility operating companies. Fitch stated that the changes to the long-term ratings were "driven by the high debt leverage of the parent FE. Despite management's commitment to reduce debt related to the GPU merger, subsequent cash flows have been vulnerable to unfavorable events, slowing the pace of FE's debt reduction efforts. The Stable Outlook reflects the success of FE's recent common equity offering and management's focus on a relatively conservative integrated utility strategy."

On October 27, 2003, Standard & Poors (S&P) stated that the `BBB' corporate credit and the `BBB-` senior unsecured ratings for FirstEnergy and its utility subsidiaries remain on CreditWatch with negative implications. The ratings were placed on CreditWatch on August 18, 2003, and reflect S&P's concerns regarding the potential impact of the August 14, 2003 blackout investigation on FirstEnergy's deleveraging strategy and its overall efforts to improve its credit profile.

At that time, S&P also noted other challenges facing FirstEnergy, including the extended Davis-Besse outage; the recent U.S. District Court ruling regarding the Sammis Plant (see Environmental Matters below); reliability concerns in subsidiary JCP&L's service territory; and FirstEnergy's credibility with regulators and federal officials.

S&P further noted several factors that could aid FirstEnergy in resolution of the CreditWatch, including strengthening its balance sheet. FirstEnergy directly addressed this concern through its recently completed common equity offering that raised approximately \$935 million in net proceeds, which was used to reduce bank debt. S&P described the equity offering as a "positive credit development" and also noted the recent renewal of FirstEnergy's \$1 billion revolver facilities as a "favorable development, as it mitigates

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liquidity concerns." S&P also indicated that should various ongoing investigations into the causal factors of the August 14, 2003 blackout establish that the blackout resulted

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from no negligence or breach of compliance standards on FirstEnergy's part, the CreditWatch could be removed and the outlook returned to negative. S&P deemed a "stable" credit outlook unlikely until issues such as the restart of Davis-Besse are resolved and the potential effect of the litigation relating to the Sammis plant (the second trial is scheduled for April 2004) are known. Extension of the Ohio transition plan will be viewed as a positive development and will support an outlook revision to stable.

On October 27, 2003, S&P also noted that the ratings on FirstEnergy and its subsidiaries incorporate such strengths as the ability to generate free cash flow, power generation contracted to its transmission and distribution subsidiaries through 2005, and the hedging of its short power position arising from its PLR obligation in Pennsylvania. S&P said that these strengths are offset by slower than anticipated reduction of FirstEnergy debt, remaining volume risks of PLR obligations, the extended outage at Davis-Besse, the unfavorable outcome of the New Jersey rate proceeding and regulatory uncertainty in Ohio. S&P also said that it now views FirstEnergy's liquidity position as average, following FirstEnergy's renewal of its \$1 billion credit facilities.

Other Obligations

Obligations not included on OE's Consolidated Balance Sheet primarily consist of sale and leaseback arrangements involving Perry Unit 1 and Beaver Valley Unit 2. As of September 30, 2003, the present value of these sale and leaseback operating lease commitments, net of trust investments, total \$709 million.

EQUITY PRICE RISK

Included in OE's nuclear decommissioning trust investments are marketable equity securities carried at their market value of approximately \$180 million and \$148 million as of September 30, 2003 and December 31, 2002, respectively. A hypothetical 10% decrease in prices quoted by stock exchanges would result in an \$18 million reduction in fair value as of September 30, 2003.

OUTLOOK

Beginning in 2001, OE's customers were able to select alternative energy suppliers. OE continues to deliver power to residential homes and businesses through its existing distribution system, which remains regulated. Customer rates have been restructured into separate components to support customer choice. In Ohio and Pennsylvania, the OE Companies have a continuing responsibility to provide power to those customers not choosing to receive power from an alternative energy supplier subject to certain limits. Adopting new approaches to regulation and experiencing new forms of competition have created new uncertainties.

Regulatory Matters

In 2001, Ohio customer rates were restructured to establish separate charges for transmission, distribution, transition cost recovery and a generation-related component. When one of OE's Ohio customers elects to obtain power from an alternative supplier, OE reduces the customer's bill with a

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"generation shopping credit," based on the regulated generation component (plus an incentive), and the customer receives a generation charge from the alternative supplier. OE has continuing PLR responsibility to its franchise customers through December 31, 2005.

Regulatory assets are costs which have been authorized by the Public Utilities Commission of Ohio (PUCO), Pennsylvania Public Utility Commission and the Federal Energy Regulatory Commission for recovery from customers in future periods and, without such authorization, would have been charged to income when incurred. Regulatory assets declined by \$361.4 million during the first nine months of 2003, to \$1.6 billion as of September 30, 2003; \$10.6 million of the decrease related to the cumulative adjustment related to the adoption of SFAS 143 at Penn and the balance of the reduction resulting from recovery of transition plan regulatory assets. All of the OE Companies' regulatory assets are expected to continue to be recovered under the provisions of their respective transition plan and rate restructuring plan. The OE Companies' regulatory assets are as follows:

Regulatory Assets	September 30, 2003	December 31, 2002

(In millions)		
OE.....	\$1,594.0	\$1,848.7
Penn.....	50.2	156.9

Consolidated Total.....	\$1,644.2	\$2,005.6
=====		

As part of OE's Ohio transition plan, OE is obligated to supply electricity to customers who do not choose an alternative supplier. OE is also required to provide 560 megawatts (MW) of low cost supply to unaffiliated alternative suppliers who serve customers within its service area. OE's competitive retail sales affiliate, FES, acts as an alternate supplier for a portion of the load in its franchise area.

On October 21, 2003, the Ohio Companies filed an application with the PUCO to establish generation service rates beginning January 1, 2006, in response to expressed concerns by the PUCO about price and supply uncertainty following the end of the market development period. The filing included two options:

- o A competitive auction, which would establish a price for generation that customers would be charged during the period covered by the auction, or
- o A Rate Stabilization Plan, which would extend current generation prices through 2008, ensuring adequate supply and continuing FirstEnergy's support of energy efficiency and economic development efforts.

Under the first option, an auction would be conducted to secure generation service, including PLR responsibility, for FirstEnergy's Ohio customers. Beginning in 2006, customers would pay market prices for generation as determined by the auction.

Under the Rate Stabilization Plan option, customers would have price and supply stability through 2008 - three years beyond the end of the market development period - as well as the benefits of a competitive market. Customer

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benefits would include: customer savings by extending the current five percent discount on generation costs and other customer credits; maintaining current distribution base rates through 2007; market-based auctions that may be conducted annually to ensure that customers pay the lowest available prices; extension of FirstEnergy's support of energy-efficiency programs and the potential for continuing the program to give preferred access to nonaffiliated entities to generation capacity as discussed above. In order to facilitate supply planning, FirstEnergy has requested that the PUCO rule on this proposal by December 31, 2003. Under the proposed plan, OE is requesting:

- o Extension of the transition cost amortization period for OE from 2006 to 2007;
- o Deferral of new regulatory assets and deferral of interest costs on the shopping incentive and other new deferrals;
- o Ability to initiate a request to increase generation rates only under certain limited conditions.

As a result of the Ohio Companies' October 21 filing, the PUCO entered an order on October 28, 2003 setting forth the discovery schedule related to the application with hearings scheduled to begin December 3, 2003.

Environmental Matters

OE believes it is in compliance with the current sulfur dioxide (SO₂) and nitrogen oxide (NO_x) reduction requirements under the Clean Air Act Amendments of 1990. In 1998, the Environmental Protection Agency (EPA) finalized regulations requiring additional NO_x reductions in the future from OE's Ohio and Pennsylvania facilities. Various regulatory and judicial actions have since sought to further define NO_x reduction requirements (see Note 2 - Environmental Matters). OE continues to evaluate its compliance plans and other compliance options.

Violations of federally approved SO₂ regulations can result in shutdown of the generating unit involved and/or civil or criminal penalties of up to \$31,500 for each day a unit is in violation. The EPA has an interim enforcement policy for SO₂ regulations in Ohio that allows for compliance based on a 30-day averaging period. OE cannot predict what action the EPA may take in the future with respect to the interim enforcement policy.

In 1999 and 2000, the EPA issued Notices of Violation (NOV) or a Compliance Order to nine utilities covering 44 power plants, including the W. H. Sammis Plant. In addition, the U. S. Department of Justice filed eight civil complaints against various investor-owned utilities, which included a complaint against OE and Penn in the U.S. District Court for the Southern District of Ohio. The NOV and complaint allege violations of the Clean Air Act (CAA). The civil complaint against OE and Penn requests installation of "best available control technology" as well as civil penalties of up to \$27,500 per day of violation. On August 7, 2003, the United States District Court for the Southern District of Ohio ruled that 11 projects undertaken at the W. H. Sammis Plant between 1984 and 1998 required pre-construction permits under the Clean Air Act. The ruling concludes the liability phase of the case, which deals with applicability of Prevention of Significant Deterioration provisions of the Clean Air Act. The remedy phase, which is currently scheduled to be ready for trial beginning April 19, 2004, will address civil penalties and what, if any, actions should be taken to further reduce emissions at the plant. In the ruling, the Court indicated that the remedies it "may consider and impose involved a much broader, equitable analysis, requiring the Court to consider air quality, public health, economic impact and employment consequences. The Court may also consider the less than consistent efforts of the EPA to apply and further enforce the Clean Air Act." The potential penalties that may be imposed, as well as the

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capital expenditures necessary to comply with substantive remedial measures that may be required, could have a material adverse impact on the Company's financial condition and results of operations. Management is unable to predict the ultimate outcome of this matter and no liability has been recorded as of September 30, 2003.

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In December 2000, the EPA announced it would proceed with the development of regulations regarding hazardous air pollutants from electric power plants. The EPA identified mercury as the hazardous air pollutant of greatest concern. The EPA established a schedule to propose regulations by December 2003 and issue final regulations by December 2004. The future cost of compliance with these regulations may be substantial.

As a result of the Resource Conservation and Recovery Act of 1976, as amended, and the Toxic Substances Control Act of 1976, federal and state hazardous waste regulations have been promulgated. Certain fossil-fuel combustion waste products, such as coal ash, were exempted from hazardous waste disposal requirements pending the EPA's evaluation of the need for future regulation. The EPA has issued its final regulatory determination that regulation of coal ash as a hazardous waste is unnecessary. In April 2000, the EPA announced that it will develop national standards regulating disposal of coal ash under its authority to regulate nonhazardous waste.

OE believes it is in compliance with the current SO₂ and NO_x reduction requirements under the Clean Air Act Amendments of 1990. SO₂ reductions are being achieved by burning lower-sulfur fuel, generating more electricity from lower-emitting plants, and/or using emission allowances. NO_x reductions are being achieved through combustion controls and the generation of more electricity at lower-emitting plants. In September 1998, the EPA finalized regulations requiring additional NO_x reductions from the Companies' Ohio and Pennsylvania facilities. The EPA's NO_x Transport Rule imposes uniform reductions of NO_x emissions (an approximate 85% reduction in utility plant NO_x emissions from projected 2007 emissions) across a region of nineteen states and the District of Columbia, including New Jersey, Ohio and Pennsylvania, based on a conclusion that such NO_x emissions are contributing significantly to ozone pollution in the eastern United States. State Implementation Plans (SIP) must comply by May 31, 2004 with individual state NO_x budgets established by the EPA. Pennsylvania submitted a SIP that required compliance with the NO_x budgets at the Companies' Pennsylvania facilities by May 1, 2003 and Ohio submitted a SIP that requires compliance with the NO_x budgets at the Companies' Ohio facilities by May 31, 2004.

The effects of compliance on OE with regard to environmental matters could have a material adverse effect on its earnings and competitive position. These environmental regulations affect our earnings and competitive position to the extent OE 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. OE believes it is in material compliance with existing regulations, but is unable to predict how and when applicable environmental regulations may change and what, if any, the effects of any such change would be.

Legal Matters

Various lawsuits, claims and proceedings related to OE's normal business operations are pending against it, the most significant of which are described above.

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SIGNIFICANT ACCOUNTING POLICIES

OE prepares its consolidated financial statements in accordance with accounting principles that are generally accepted in the United States. Application of these principles often requires a high degree of judgment, estimates and assumptions that affect OE's financial results. All of the OE Companies' assets are subject to their own specific risks and uncertainties and are regularly reviewed for impairment. Assets related to the application of the policies discussed below are similarly reviewed with their risks and uncertainties reflecting those specific factors. The OE Companies' more significant accounting policies are described below.

Regulatory Accounting

The OE Companies are subject to regulation that sets the prices (rates) they are permitted to charge their customers based on the costs that the regulatory agencies determine the OE Companies are permitted to recover. At times, regulators permit the future recovery through rates of costs that would be currently charged to expense by an unregulated company. This rate-making process results in the recording of regulatory assets based on anticipated future cash inflows. As a result of the changing regulatory framework in Ohio and Pennsylvania, a significant amount of regulatory assets have been recorded - \$1.6 billion as of September 30, 2003. OE regularly reviews these assets to assess their ultimate recoverability within the approved regulatory guidelines. Impairment risk associated with these assets relates to potentially adverse legislative, judicial or regulatory actions in the future.

Revenue Recognition

The OE Companies follow the accrual method of accounting for revenues, recognizing revenue for kilowatt-hours that have been delivered but not yet billed through the end of the accounting period. The determination of unbilled revenues requires management to make various estimates including:

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- o Net energy generated or purchased for retail load
- o Losses of energy over distribution lines
- o Allocations to distribution companies within the FirstEnergy system
- o Mix of kilowatt-hour usage by residential, commercial and industrial customers
- o Kilowatt-hour usage of customers receiving electricity from alternative suppliers

Pension and Other Postretirement Benefits Accounting

FirstEnergy's reported costs of providing non-contributory defined pension benefits and OPEB are dependent upon numerous factors resulting from actual plan experience and certain assumptions.

Pension and OPEB costs are affected by employee demographics (including age, compensation levels, and employment periods), the level of contributions FirstEnergy makes to the plans, and earnings on plan assets. Pension and OPEB costs may also be affected by changes to key assumptions, including anticipated rates of return on plan assets, the discount rates and health care trend rates used in determining the projected benefit obligations for pension and OPEB costs.

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In accordance with SFAS 87, "Employers' Accounting for Pensions" and SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," changes in pension and OPEB obligations associated with these factors may not be immediately recognized as costs on the income statement, but generally are recognized in future years over the remaining average service period of plan participants. SFAS 87 and SFAS 106 delay recognition of changes due to the long-term nature of pension and OPEB obligations and the varying market conditions likely to occur over long periods of time. As such, significant portions of pension and OPEB costs recorded in any period may not reflect the actual level of cash benefits provided to plan participants and are significantly influenced by assumptions about future market conditions and plan participants' experience.

In selecting an assumed discount rate, FirstEnergy considers currently available rates of return on high-quality fixed income investments expected to be available during the period to maturity of the pension and other postretirement benefit obligations. Due to the significant decline in corporate bond yields and interest rates in general during 2002, FirstEnergy reduced the assumed discount rate as of December 31, 2002 to 6.75% from 7.25% used in 2001.

FirstEnergy's assumed rate of return on pension plan assets considers historical market returns and economic forecasts for the types of investments held by its pension trusts. The market values of FirstEnergy's pension assets have been affected by sharp declines in the equity markets since mid-2000. In 2002 and 2001 plan assets earned (11.3)% and (5.5)%, respectively. FirstEnergy's pension costs in 2002 were computed assuming a 10.25% rate of return on plan assets. As of December 31, 2002 the assumed return on plan assets was reduced to 9.00% based upon FirstEnergy's projection of future returns and pension trust investment allocation of approximately 60% large cap equities, 10% small cap equities and 30% bonds.

Based on pension assumptions and pension plan assets as of December 31, 2002, FirstEnergy is not required to fund its pension plans in 2003. While OPEB plan assets have also been affected by sharp declines in the equity market, the impact is not as significant due to the relative size of the plan assets. However, health care cost trends have significantly increased and will affect future OPEB costs. The 2003 composite health care trend rate assumption is approximately 10%-12% gradually decreasing to 5% in later years, compared to the 2002 assumption of approximately 10% in 2002, gradually decreasing to 4%-6% in later years. In determining its trend rate assumptions, FirstEnergy included the specific provisions of its health care plans, the demographics and utilization rates of plan participants, actual cost increases experienced in its health care plans, and projections of future medical trend rates.

Ohio Transition Cost Amortization

In connection with FirstEnergy's restructuring plan, the PUCO determined allowable transition costs based on amounts recorded on OE's regulatory books. These costs exceeded those deferred or capitalized on OE's balance sheet prepared under GAAP since they included certain costs which have not yet been incurred. OE uses an effective interest method for amortizing its transition costs, often referred to as a "mortgage-style" amortization. The interest rate under this method is equal to the rate of return authorized by the PUCO in the transition plan for OE. In computing the transition cost amortization, OE includes only the portion of the transition revenues associated with transition costs included on the balance sheet prepared under GAAP. Revenues collected for the off balance sheet costs and the return associated with these costs are recognized as income when received.

Long-Lived Assets

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In accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the OE Companies periodically evaluate their long-lived assets to determine whether conditions exist that would indicate that the carrying value of an asset may not be fully recoverable. The accounting standard requires that if the sum of future cash flows (undiscounted) expected to result from an asset is less than the carrying value of the asset, an asset impairment must

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be recognized in the financial statements. If impairment other than of a temporary nature has occurred, the OE Companies recognize a loss - calculated as the difference between the carrying value and the estimated fair value of the asset (discounted future net cash flows).

RECENTLY ISSUED ACCOUNTING STANDARDS

FIN 46, "Consolidation of Variable Interest Entities - an interpretation of ARB 51"

In January 2003, the FASB issued this interpretation of ARB No. 51, "Consolidated Financial Statements". This Interpretation requires the consolidation of a variable interest entity (VIE) by an enterprise if that enterprise either absorbs a majority of the VIE's expected losses or receives a majority of the VIE's expected residual returns as a result of ownership, contractual or other financial interests in the VIE. Currently, entities are generally consolidated by an enterprise that has a controlling financial interest through ownership of a majority voting interest in the entity.

FIN 46 defines a VIE as an entity in which equity investors do not have the characteristics of a controlling financial interest nor have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIE's created after January 31, 2003, are immediately subject to the provisions of FIN 46. The FASB recently deferred implementation of FIN 46 for VIE's created before February 1, 2003, until the first reporting period ending after December 15, 2003 (OE's quarter ending December 31, 2003.)

OE currently has transactions with entities in connection with sale and leaseback arrangements which may fall within the scope of this interpretation and which meet the definition of a VIE in accordance with FIN 46. The Company currently believes that it will consolidate the PNBV Capital Trust, which issued equity and notes to fund the acquisition of a portion of the collateralized lease bonds that had been issued in connection with the sale and leaseback in 1987 of a portion of OE's interest in the Perry Plant and Beaver Valley Unit 2. OE used debt and available funds to purchase the notes issued by the PNBV Trust. Ownership of the trust includes a three-percent equity interest by a nonaffiliated third party and a three-percent equity interest by OES Ventures, a wholly owned subsidiary of OE. Consolidation of the trust as of December 31, 2002 would have changed the PNBV trust investment of \$389 million to an investment in collateralized lease bonds of \$401 million. The increase in \$12 million would have represented the minority interest in the total assets of the trust.

In addition to the PNBV Capital Trust discussed above, the Company is evaluating its interest in the owner trusts that acquired certain interests in the Perry Plant and Beaver Valley Unit 2. OE has not completed its evaluation to determine if it would be the primary beneficiary and therefore required to consolidate these trusts.

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The FASB continues to provide additional guidance on implementing FIN 46 and recently proposed modifications and clarifications with a comment period ending December 1, 2003. As this guidance is finalized, OE will continue to assess the accounting and disclosure impact of FIN 46 with respect to the VIE's discussed above as well as other potential VIE's.

SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity"

In May 2003, the FASB issued SFAS 150, which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. In accordance with the standard, certain financial instruments that embody obligations for the issuer are required to be classified as liabilities.

Upon adoption of SFAS 150, on July 1, 2003, OE reclassified as debt the preferred stock of consolidated subsidiaries subject to mandatory redemption having carrying values of approximately \$13.5 million as of September 30, 2003. Prior to the adoption of SFAS 150, subsidiary preferred dividends on OE's Consolidated Statements of Income were included in net interest charges. Therefore, the application of SFAS 150 did not require the reclassification of such preferred dividends to net interest charges.

EITF Issue No. 01-08, "Determining whether an Arrangement Contains a Lease"

In May 2003, the EITF reached a consensus on Issue No. 01-08, regarding when arrangements contain a lease. Based on the EITF consensus, an arrangement contains a lease if: (1) it identifies specific property, plant or equipment (explicitly or implicitly); and (2) the arrangement transfers the right to the purchaser to control the use of the property, plant or equipment. The consensus is to be applied prospectively to arrangements committed to, modified or acquired through a business combination. The adoption of this consensus as of July 1, 2003 did not impact OE's financial statements.

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY

CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

Three Months Ended September 30,	
2003	2002
	Restated (See Note 1)
	(In thousands)

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OPERATING REVENUES.....	\$496,699	\$538,879	\$1
	-----	-----	---
OPERATING EXPENSES AND TAXES:			
Fuel.....	5,536	15,809	
Purchased power.....	139,661	140,357	
Nuclear operating costs.....	67,449	49,093	
Other operating costs.....	65,230	73,586	
	-----	-----	---
Total operation and maintenance expenses.....	277,876	278,845	
Provision for depreciation and amortization.....	42,443	47,646	
General taxes.....	37,689	40,771	
Income taxes.....	38,719	51,705	
	-----	-----	---
Total operating expenses and taxes.....	396,727	418,967	1
	-----	-----	---
OPERATING INCOME.....	99,972	119,912	
OTHER INCOME.....	6,467	5,562	
	-----	-----	---
INCOME BEFORE NET INTEREST CHARGES.....	106,439	125,474	
	-----	-----	---
NET INTEREST CHARGES:			
Interest on long-term debt.....	38,130	44,441	
Allowance for borrowed funds used during construction..	(1,920)	(1,155)	
Other interest expense.....	163	1,727	
Subsidiaries' preferred stock dividend requirements....	2,250	2,250	
	-----	-----	---
Net interest charges.....	38,623	47,263	
	-----	-----	---
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	67,816	78,211	
Cumulative effect of accounting change (net of income taxes of \$30,168,000) (Note 5).....	--	--	
	-----	-----	---
NET INCOME.....	67,816	78,211	
PREFERRED STOCK DIVIDEND REQUIREMENTS.....	1,865	3,149	
	-----	-----	---
EARNINGS ON COMMON STOCK.....	\$ 65,951	\$ 75,062	\$
	=====	=====	==

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY

CONSOLIDATED BALANCE SHEETS

(Unaudited)
September 30,
2003

(In thou

ASSETS

UTILITY PLANT:

In service.....	\$4,208,873
Less-Accumulated provision for depreciation.....	1,892,945

	2,315,928

Construction work in progress-

Electric plant.....	137,096
Nuclear fuel.....	28,554

	165,650

	2,481,578

OTHER PROPERTY AND INVESTMENTS:

Shippingport Capital Trust.....	385,945
Nuclear plant decommissioning trusts.....	279,074
Long-term notes receivable from associated companies.....	108,192
Other.....	20,805

	794,016

CURRENT ASSETS:

Cash and cash equivalents.....	159
Receivables-	
Customers.....	9,977
Associated companies.....	39,680
Other (less accumulated provisions of \$1,000,000 and \$1,015,000, respectively, for uncollectible accounts).....	83,577
Notes receivable from associated companies.....	587
Materials and supplies, at average cost-	
Owned.....	16,724
Under consignment.....	31,016
Prepayments and other.....	3,503

	185,223

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DEFERRED CHARGES:

Regulatory assets.....	1,138,236
Goodwill.....	1,693,629
Property taxes.....	79,430
Other.....	23,980

	2,935,275

	\$6,396,092
	=====

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THE CLEVELAND ELECTRIC ILLUMINATING COMPANY

CONSOLIDATED BALANCE SHEETS

(Unaudited)
September 30,
2003

(In tho

CAPITALIZATION AND LIABILITIES

CAPITALIZATION:

Common stockholder's equity-	
Common stock, without par value, authorized 105,000,000 shares-	
79,590,689 shares outstanding.....	\$ 981,962
Accumulated other comprehensive loss.....	(17,061)
Retained earnings.....	394,162

Total common stockholder's equity.....	1,359,063
Preferred stock-	
Not subject to mandatory redemption.....	96,404
Subject to mandatory redemption (Note 5).....	--
Company obligated mandatorily redeemable preferred securities of	
subsidiary trust holding solely Company subordinated debentures	
(Note 5)	--
Long-term debt and other long-term obligations-	
Preferred stock subject to mandatory redemption (Note 5).....	4,016
Company-obligated mandatorily redeemable preferred securities of	
subsidiary trust holding solely Company subordinated debentures	
(Note 5).....	100,000
Other.....	1,773,797

	3,333,280

CURRENT LIABILITIES:

Currently payable long-term debt and preferred stock.....	438,289
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Nuclear fuel and capital lease amortization.....	4,178	5,037	
Other amortization.....	(7,911)	(3,937)	
Deferred operating lease costs, net.....	(36,167)	(25,220)	
Deferred income taxes, net.....	14,847	676	
Amortization of investment tax credits.....	(1,202)	(1,159)	
Accrued retirement benefit obligations.....	26,453	2,437	
Accrued compensation, net.....	257	3,386	
Cumulative effect of accounting charge (Note 5)....	--	--	
Receivables.....	234,672	3,274	
Materials and supplies.....	(2,164)	(1,786)	
Accounts payable.....	(235,048)	(23,141)	
Accrued taxes.....	46,327	30,546	
Accrued interest.....	7,996	2,726	
Prepayments and other current assets.....	(479)	(1,466)	
Other.....	(9,831)	(3,831)	
	-----	-----	
Net cash provided from operating activities.....	152,187	113,399	
	-----	-----	
CASH FLOWS FROM FINANCING ACTIVITIES:			
New Financing-			
Long-term debt.....	--	77,505	
Short-term borrowings, net.....	--	162,858	
Equity contributions from parent.....	--	50,000	
Redemptions and Repayments-			
Preferred stock.....	(1,000)	(47,017)	
Long-term debt.....	(256)	(309,189)	
Short-term borrowings, net.....	(123,711)	--	
Dividend Payments-			
Preferred stock.....	(1,864)	(2,283)	
	-----	-----	
Net cash used for financing activities.....	(126,831)	(68,126)	
	-----	-----	
CASH FLOWS FROM INVESTING ACTIVITIES:			
Property additions.....	(29,620)	(40,545)	
Notes receivable from associated companies, net.....	(5,574)	--	
Capital trust investments.....	30,891	10,325	
Contributions to nuclear decommissioning trusts	(14,512)	(7,256)	
Other.....	(6,541)	119	
	-----	-----	
Net cash used for investing activities.....	(25,356)	(37,357)	
	-----	-----	
Net increase (decrease) in cash and cash equivalents.....	--	7,916	
Cash and cash equivalents at beginning of period.....	159	290	
	-----	-----	
Cash and cash equivalents at end of period.....	\$ 159	\$ 8,206	\$
	=====	=====	=====

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders and Board of
Directors of The Cleveland
Electric Illuminating Company

We have reviewed the accompanying consolidated balance sheet of The Cleveland Electric Illuminating Company and its subsidiaries as of September 30, 2003, and the related consolidated statements of income and cash flows for each of the three-month and nine-month periods ended September 30, 2003 and 2002. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated interim financial statements, the Company has restated its previously issued consolidated interim financial statements for each of the three-month and nine-month periods ended September 30, 2002.

We previously audited in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet and the consolidated statement of capitalization as of December 31, 2002, and the related consolidated statements of income, common stockholder's equity, preferred stock, cash flows and taxes for the year then ended (not presented herein), and in our report (which contained references to the Company's change in its method of accounting for goodwill in 2002 as discussed in Note 1(D) to those consolidated financial statements and the Company's restatement of its previously issued consolidated financial statements as of December 31, 2002 and 2001 and for each of the three years in the period ended December 31, 2002 as discussed in Note 1(M) to those consolidated financial statements) dated August 18, 2003 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2002, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

PricewaterhouseCoopers LLP
Cleveland, Ohio
November 13, 2003

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION

CEI is a wholly owned, electric utility subsidiary of FirstEnergy. CEI conducts business in portions of Ohio, providing regulated electric distribution services. CEI also provides generation services to those customers electing to retain them as their power supplier. CEI provides power directly to alternative energy suppliers under CEI's transition plan. CEI has unbundled the price of electricity into its component elements - including generation, transmission, distribution and transition charges. Power supply requirements of CEI are provided by FES - an affiliated company.

RESTATEMENTS

As further discussed in Note 1 to the Consolidated Financial Statements, CEI restated its consolidated financial statements for the three years ended December 31, 2002 and the three months ended March 31, 2003 to reflect a change in the method of amortizing the costs being recovered under the Ohio transition plan and recognition of above-market values of certain leased generation facilities. These restatements were completed and reported in the second quarter of 2003. Financial comparisons described below for the three-month and nine month-periods reflect the effect of these restatements.

RESULTS OF OPERATIONS

Earnings on common stock in the third quarter of 2003 decreased to \$66.0 million from \$75.1 million in the third quarter of 2002. Earnings on common stock in the first nine months of 2003 included an after-tax credit of \$42.4 million from the cumulative effect of an accounting change due to the adoption of SFAS 143, "Accounting for Asset Retirement Obligations." Income before the cumulative effect was \$92.4 million in the first nine months of 2003, compared to \$156.8 million for the same period of 2002. Reduced earnings in both periods resulted principally from lower revenues in 2003 compared to 2002 due to milder weather.

Operating revenues decreased by \$42.2 million or 7.8% in the third quarter and \$106.4 million or 7.4% in the first nine months of 2003 from the same periods of 2002 reflecting milder weather in the third quarter and increased sales by alternative suppliers. Kilowatt-hour sales to retail customers declined 28.8% in the third quarter and 17.2% in the first nine months of 2003 from the corresponding periods of 2002, reducing generation sales revenue by \$21.5 million and \$50.1 million, respectively. Milder weather in the third quarter of 2003 reduced sales to residential and commercial customers. Kilowatt-hour sales of electricity by alternative suppliers in CEI's franchise area increased by 12.5 percentage points in the third quarter and 11.2 percentage points in the first nine months of 2003 from the corresponding periods last year.

Distribution deliveries were lower by 12.6% in the third quarter and 1.4% in the first nine months of 2003 compared to the corresponding periods of 2002. The reduction in distribution deliveries, partially offset by the effect of higher unit prices, resulted in a \$7.4 million and \$3.2 million reduction in

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revenues from electricity throughput in the third quarter and first nine months of 2003, respectively, compared to the same periods last year. Lower temperatures in the third quarter of 2003 reduced air-conditioning loads of residential and commercial customers for that period while residential and commercial loads benefited from cooler temperatures in the first quarter of 2003 which moderated the distribution delivery reductions in the first nine months of 2003 as compared to 2002.

Further decreasing operating revenues were Ohio transition plan incentives, provided to customers to encourage switching to alternative energy providers - \$13.7 million of additional credits in the third quarter and \$24.2 million of additional credits in the first nine months of 2003 compared with the corresponding periods of 2002. These revenue reductions are deferred for future recovery under CEI's transition plan and do not materially affect current period earnings.

Sales revenues from wholesale customers (primarily FES) decreased by \$1.1 million in the third quarter and \$22.6 million in the first nine months of 2003 compared with the same periods of 2002. The lower sales resulted from reductions in available nuclear generation of 6.6% in the third quarter and 22.3% in the first nine months of 2003 compared to the corresponding periods of 2002. Available generation decreased due to the extended outage of Davis-Besse and generating capacity removed from service due to additional nuclear refueling activities in 2003 compared to 2002.

Changes in electric generation sales and distribution deliveries in the third quarter and first nine months of 2003 from the corresponding periods of 2002 are summarized in the following table:

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Changes in Kilowatt-hour Sales	Three Months	Nine Months
Increase (Decrease)		
Electric Generation:		
Retail.....	(28.8)%	(17.2)%
Wholesale.....	(4.4)%	(13.7)%
Total Electric Generation Sales.....	(17.8)%	(15.5)%
Distribution Deliveries:		
Residential.....	(10.4)%	(1.1)%
Commercial.....	(1.5)%	1.2%
Industrial.....	(19.9)%	(3.1)%
Total Distribution Deliveries	(12.6)%	(1.4)%

Operating Expenses and Taxes

Total operating expenses and taxes decreased by \$22.2 million in the third quarter and \$20.4 million in the first nine months of 2003 from the same periods of 2002. The following table presents changes from the prior year by expense category.

Operating Expenses and Taxes - Changes	Three Months	Nine Months
Increase (Decrease)	(In millions)	

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Fuel.....	\$(10.3)	\$(16.6)
Purchased power costs.....	(0.7)	9.0
Nuclear operating costs.....	18.4	46.3
Other operating costs.....	(8.4)	(1.1)
Total operation and maintenance expenses.....	(1.0)	37.6
Provision for depreciation and amortization.....	(5.2)	(6.1)
General taxes.....	(3.0)	(1.3)
Income taxes.....	(13.0)	(50.6)
Net decrease in operating expenses and taxes..	\$(22.2)	\$(20.4)

Lower fuel costs in the third quarter and first nine months of 2003, compared with the same periods of 2002 resulted from reduced nuclear generation. Higher purchased power costs primarily reflect increased unit costs in the first nine months of 2003 compared to the corresponding period of 2002. Increased nuclear costs resulted from incremental costs associated with the extended Davis-Besse outage, unplanned work performed during the Perry Plant 56-day nuclear refueling outage (44.85% ownership) in the second quarter of 2003, and the Beaver Valley Unit 2 28-day refueling outage (24.47% ownership) in the third quarter of 2003, compared with the 24-day refueling outage at Beaver Valley Unit 2 in the first quarter of 2002.

The decrease in depreciation and amortization charges in the third quarter of 2003, compared with the third quarter of 2002 was primarily attributable to several factors - increased amortization of regulatory assets being recovered under CEI's transition plan (\$5.5 million) and recognition of depreciation on three fossil plants (\$7.2 million) which had been held pending sale in the second quarter of 2002 but were subsequently retained by FirstEnergy in the fourth quarter of 2002. Substantially offsetting these factors were higher shopping incentive deferrals (\$13.7 million) and lower charges resulting from the implementation of SFAS 143 (\$2.9 million).

The decrease of \$6.1 million in depreciation and amortization charges in the first nine months of 2003, compared with the same period of 2002 reflected the same factors affecting the third quarter of 2003 - decreases due to higher shopping incentive deferrals (\$24.2 million) and lower charges from the SFAS 143 implementation (\$10.7 million) being partially offset by increases in CEI's transition plan amortization (\$13.6 million) and recognition of depreciation on the fossil plants (\$21 million).

Net Interest Charges

Net interest charges continued to trend lower, decreasing by \$8.6 million in the third quarter and \$19.9 million in the first nine months of 2003 from the same periods last year, reflecting redemption and refinancing activities. CEI's redemption and repricing activities during the first nine months of 2003 totaled \$116 million and \$113 million, respectively, and are expected to result in annualized savings of approximately \$9 million.

Cumulative Effect of Accounting Changes

Results for the first nine months of 2003 include an after-tax credit to net income of \$42.4 million recorded by CEI upon adoption of SFAS 143 in January of 2003. CEI identified applicable legal obligations as defined under the new accounting standard for nuclear power plant decommissioning, reclamation of a sludge disposal pond at the Bruce Mansfield Plant, and closure of two coal ash disposal sites. As a result of adopting SFAS 143 in January 2003, asset retirement costs of \$49.9 million were recorded as part of the carrying amount of the related long-lived asset, offset by

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The increase in working capital and other reflected increases of \$231 million and \$16 million in changes in accounts receivable and accrued tax liabilities, respectively, for the third quarter 2003 as compared to the third quarter of 2002 changes which were partially offset by a \$212 million decrease in accounts payable for those periods. Net cash from operating activities increased \$37 million in the first nine months of 2003 compared to the same period in 2002 as a result of a \$100 million working capital and other increase partially offset by a \$63 million reduction in cash earnings. The largest factor contributing to the working capital and other increase was a \$123 million change in accounts receivable while the cash earnings decrease was primarily attributable to higher nuclear operating costs.

Cash Flows From Financing Activities

In the third quarter and first nine months of 2003, net cash used for financing activities increased \$59 million and \$76 million, respectively from the corresponding periods of 2002. The increase in funds used for financing activities primarily reflected higher repayments of short-term borrowings with no new financings in 2003 compared to lower net repayments on long-term debt in 2002.

CEI had about \$0.7 million of cash and temporary investments and approximately \$215.1 million of short-term indebtedness as of September 30, 2003. CEI had the capability to issue \$588.0 million of additional first mortgage bonds on the basis of property additions and retired bonds. CEI has no restrictions on the issuance of preferred stock.

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Cash Flows From Investing Activities

Net cash used for investing activities decreased \$12 million in the third quarter of 2003 from the same quarter of 2002 due to a change in the Shippingport Capital Trust investment and lower capital expenditures in 2003.

During the fourth quarter of 2003, capital requirements for property additions and capital leases are expected to be about \$26 million. CEI has no sinking fund requirements for preferred stock and maturing long-term debt during the remainder of 2003.

On November 13, 2003, FirstEnergy announced that it had reached an agreement with NRG covering the settlement of its claims resulting from the uncompleted sale of four power plants to NRG, three of which were CEI generating plants (Ashtabula, Eastlake and Lakeshore). Under the agreement FirstEnergy would receive an estimated settlement for the four plants of approximately \$198 million in the form of cash (12%), notes (15.2%) and common stock (72.8%). The agreement is subject to FERC authorization and U.S. Bankruptcy Court approval since NRG and certain of its subsidiaries filed for voluntary bankruptcy in May 2003.

On August 14, 2003, Moody's Investors Service placed the debt ratings of FirstEnergy and all of its subsidiaries under review for possible downgrade. Moody's stated that the review was prompted by: (1) weaker than expected operating performance and cash flow generation; (2) less progress than expected in reducing debt; (3) continuing high leverage relative to its peer group; and (4) negative impact on cash flow and earnings from the continuing nuclear plant outage at Davis-Besse. Moody's further stated that, in anticipation of Davis-Besse returning to service in the near future and FirstEnergy's continuing to significantly reduce debt and improve its financial profile, "Moody's does not expect that the outcome of the review will result in FirstEnergy's senior

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unsecured debt rating falling below investment-grade."

On September 30, 2003, Fitch Ratings lowered the senior unsecured ratings of FirstEnergy to "BBB-" from "BBB." Fitch also lowered the senior secured, senior unsecured, and preferred stock ratings of Met-Ed, Penelec, CEI, and TE. In addition, Fitch affirmed the ratings of OE, Penn and JCP&L. Fitch announced that the Rating Outlook is Stable for the securities of FirstEnergy, and all of the securities of its electric utility operating companies. Fitch stated that the changes to the long-term debt ratings were "driven by the high debt leverage of the parent FE. Despite management's commitment to reduce debt related to the GPU merger, subsequent cash flows have been vulnerable to unfavorable events, slowing the pace of FE's debt reduction efforts. The Stable Outlook reflects the success of FE's recent common equity offering and management's focus on a relatively conservative integrated utility strategy."

On October 27, 2003, Standard & Poors (S&P) stated that the `BBB` corporate credit and the `BBB-` senior unsecured ratings for FirstEnergy and its utility subsidiaries remain on CreditWatch with negative implications. The ratings were placed on CreditWatch on August 18, 2003, and reflect the S&P's concerns regarding the potential impact of the August 14, 2003 blackout investigation on FirstEnergy's deleveraging strategy and its overall efforts to improve its credit profile.

At that time, S&P also noted other challenges facing FirstEnergy, including the extended Davis-Besse outage; the recent U.S. District Court ruling regarding the Sammis Plant; reliability concerns in subsidiary JCP&L's service territory; and FirstEnergy's credibility with regulators and federal officials.

S&P further noted several factors that could aid FirstEnergy in resolution of the CreditWatch, including strengthening its balance sheet. FirstEnergy directly addressed this concern through its recently completed common equity offering that raised approximately \$935 million in net proceeds, which was used to reduce bank debt. S&P described the equity offering as a "positive credit development" and also noted the recent renewal of FirstEnergy's \$1 billion revolver facilities as a "favorable development, as it mitigates liquidity concerns." S&P also indicated that should various ongoing investigations into the causal factors of the August 14, 2003 blackout establish that the blackout resulted from no negligence or breach of compliance standards on FirstEnergy's part, the CreditWatch could be removed and the outlook returned to negative. S&P deemed a "stable" credit outlook unlikely until issues such as the restart of Davis-Besse are resolved and the potential effect of the litigation relating to the Sammis plant (the second trial is scheduled for April 2004) are known. Extension of the Ohio transition plan will be viewed as a positive development and will support an outlook revision to stable.

On October 27, 2003, S&P also noted that the ratings on FirstEnergy and its subsidiaries incorporate such strengths as the ability to generate free cash flow, power generation contracted to its transmission and distribution subsidiaries through 2005, and the hedging of its short power position arising from its PLR obligation in Pennsylvania. S&P said that these strengths are offset by slower than anticipated reduction of FirstEnergy debt, remaining volume risks of PLR obligations, the extended outage at Davis-Besse, the unfavorable outcome of the New Jersey rate proceeding and regulatory uncertainty in Ohio. S&P also said that it now views FirstEnergy's liquidity position as average, following FirstEnergy's renewal of its \$1 billion credit facilities.

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Obligations not included on CEI's Consolidated Balance Sheet primarily consist of sale and leaseback arrangements involving the Bruce Mansfield Plant. As of September 30, 2003, the present value of these sale and leaseback operating lease commitments, net of trust investments, total \$131 million. CEI sells substantially all of its retail customer receivables, which provided \$133 million of off-balance sheet financing as of September 30, 2003.

EQUITY PRICE RISK

Included in CEI's nuclear decommissioning trust investments are marketable equity securities carried at their market value of approximately \$158 million and \$119 million as of September 30, 2003 and December 31, 2002, respectively. A hypothetical 10% decrease in prices quoted by stock exchanges would result in a \$16 million reduction in fair value as of September 30, 2003.

OUTLOOK

Beginning in 2001, CEI's customers were able to select alternative energy suppliers. CEI continues to deliver power to residential homes and businesses through its existing distribution systems, which remain regulated. Customer rates have been restructured into separate components to support customer choice. In Ohio CEI has a continuing responsibility to provide power to those customers not choosing to receive power from an alternative energy supplier subject to certain limits. Adopting new approaches to regulation and experiencing new forms of competition have created new uncertainties.

Regulatory Matters

In 2001, Ohio customer rates were restructured to establish separate charges for transmission, distribution, transition cost recovery and a generation-related component. When one of CEI's customers elects to obtain power from an alternative supplier, CEI reduces the customer's bill with a "generation shopping credit," based on the regulated generation component (plus an incentive), and the customer receives a generation charge from the alternative supplier. CEI has continuing PLR responsibility to its franchise customers through December 31, 2005.

Regulatory assets are costs which have been authorized by the PUCO and the Federal Energy Regulatory Commission for recovery from customers in future periods and, without such authorization, would have been charged to income when incurred. Regulatory assets decreased by \$53.6 million for the first nine months of 2003, to \$1,138.2 million as of September 30, 2003. All of CEI's regulatory assets are expected to continue to be recovered under the provisions of its transition plan.

As part of CEI's Ohio transition plan CEI is obligated to supply electricity to customers who do not choose an alternative supplier. CEI is also required to provide 400 megawatts (MW) of low cost supply to unaffiliated alternative suppliers who serve customers within its service area. CEI's competitive retail sales affiliate, FES, acts as an alternate supplier for a portion of the load in its franchise area.

On October 21, 2003, the Ohio Companies filed an application with the PUCO to establish generation service rates beginning January 1, 2006, in response to expressed concerns by the PUCO about price and supply uncertainty following the end of the market development period. The filing included two options:

- o A competitive auction, which would establish a price for generation that customers would be charged during the period covered by the auction, or

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- o A Rate Stabilization Plan, which would extend current generation prices through 2008, ensuring adequate supply and continuing FirstEnergy's support of energy efficiency and economic development efforts.

Under the first option, an auction would be conducted to secure generation service, including PLR responsibility, for FirstEnergy's Ohio customers. Beginning in 2006, customers would pay market prices for generation as determined by the auction.

Under the Rate Stabilization Plan option, customers would have price and supply stability through 2008 - three years beyond the end of the market development period - as well as the benefits of a competitive market. Customer benefits would include: customer savings by extending the current five percent discount on generation costs and other customer credits; maintaining current distribution base rates through 2007; market-based auctions that may be conducted annually to ensure that customers pay the lowest available prices; extension of FirstEnergy's support of energy-efficiency programs and the potential for continuing the program to give preferred access to nonaffiliated entities to generation capacity as discussed above. In order to facilitate supply planning, FirstEnergy has requested that the PUCO rule on this proposal by December 31, 2003. Under the proposed plan, CEI is requesting:

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- o Extension of the transition cost amortization period for CEI from 2008 to 2009;
- o Deferral of new regulatory assets and deferral of interest costs on the shopping incentive and other new deferrals;
- o Ability to initiate a request to increase generation rates only under certain limited conditions.

As a result of the Ohio Companies' October 21 filing, the PUCO entered an order on October 28, 2003 setting forth the discovery schedule related to the application with hearings scheduled to begin December 3, 2003.

Davis-Besse Restoration

On April 30, 2002, the Nuclear Regulatory Commission (NRC) initiated a formal inspection process at the Davis-Besse nuclear plant. This action was taken in response to corrosion found by FENOC in the reactor vessel head near the nozzle penetration hole during a refueling outage in the first quarter of 2002. The purpose of the formal inspection process is to establish criteria for NRC oversight of the licensee's performance and to provide a record of the major regulatory and licensee actions taken, and technical issues resolved, leading to the NRC's approval of restart of the plant.

Restart activities include both hardware and management issues. In addition to refurbishment and installation work at the plant, FirstEnergy has made significant management and human performance changes with the intent of establishing the proper safety culture throughout the workforce. Work was completed on the reactor head during 2002 and is continuing on efforts designed to enhance the unit's reliability and performance. FirstEnergy is also accelerating maintenance work that had been planned for future refueling and maintenance outages. Testing of the bottom of the reactor for leaks was completed in October 2003 and no indication of leakage was discovered. FirstEnergy is installing a state-of-the-art leak-detection system around the reactor. The additional maintenance work being performed has expanded the

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previous estimates of restoration work. FirstEnergy anticipates that the unit will be ready for restart in the fall of 2003. The NRC must authorize restart of the plant following its formal inspection process before the unit can be returned to service. While the additional maintenance work has delayed FirstEnergy's plans to reduce post-merger debt levels FirstEnergy believes such investments in the unit's future safety, reliability and performance to be essential. Significant delays in Davis-Besse's return to service, which depends on the successful resolution of the management and technical issues as well as NRC approval, could trigger an evaluation for impairment of the nuclear plant (see Significant Accounting Policies below).

Incremental costs associated with the extended Davis-Besse outage (CEI's share - 51.38%) for the third quarter and first nine months of 2003 and 2002 were as follows:

Costs of Davis-Besse Extended Outage	Three Months Ended September 30,		Nine Months Ended September 30	
	2003	2002	2003	2002
	----	----	----	----
	(In millions)			
Incremental Pre-Tax Expense				
Replacement power.....	\$54.9	\$50.9	\$148.4	\$ 84.5
Maintenance.....	17.5	39.8	75.7	54.1
Total.....	\$72.4	\$90.7	\$224.1	\$138.6
Capital Expenditures.....	\$10.9	\$27.4	\$ 13.3	\$ 39.4

It is anticipated that an additional \$14 million in maintenance costs will be expended over the remainder of the Davis-Besse outage. Replacement power costs are expected to be \$15 million per month during the remaining period of the outage. FirstEnergy has hedged the on-peak replacement energy supply for Davis-Besse for the expected length of the outage. If there are significant delays in the NRC approval process, substantial replacement power costs will continue to be incurred, which will continue to have an adverse effect on CEI's cash flows and results of operations.

Environmental Matters

CEI believes it is in compliance with the current sulfur dioxide (SO₂) and nitrogen oxide (NO_x) reduction requirements under the Clean Air Act Amendments of 1990. In 1998, the Environmental Protection Agency (EPA) finalized regulations requiring additional NO_x reductions in the future from its generating facilities. Various regulatory and judicial actions have since sought to further define NO_x reduction requirements (see Note 2 - Environmental Matters). CEI continues to evaluate its compliance plans and other compliance options.

Violations of federally approved SO₂ regulations can result in shutdown of the generating unit involved and/or civil or criminal penalties of up to \$31,500 for each day a unit is in violation. The EPA has an interim enforcement policy for SO₂ regulations in Ohio that allows for compliance based on a 30-day averaging period. CEI cannot predict what action the EPA may take in

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the future with respect to the interim enforcement policy.

In December 2000, the EPA announced it would proceed with the development of regulations regarding hazardous air pollutants from electric power plants. The EPA identified mercury as the hazardous air pollutant of greatest concern. The EPA established a schedule to propose regulations by December 2003 and issue final regulations by December 2004. The future cost of compliance with these regulations may be substantial.

As a result of the Resource Conservation and Recovery Act of 1976, as amended, and the Toxic Substances Control Act of 1976, federal and state hazardous waste regulations have been promulgated. Certain fossil-fuel combustion waste products, such as coal ash, were exempted from hazardous waste disposal requirements pending the EPA's evaluation of the need for future regulation. The EPA has issued its final regulatory determination that regulation of coal ash as a hazardous waste is unnecessary. In April 2000, the EPA announced that it will develop national standards regulating disposal of coal ash under its authority to regulate nonhazardous waste.

CEI believes it is in compliance with the current SO₂ and NO_x reduction requirements under the Clean Air Act Amendments of 1990. SO₂ reductions are being achieved by burning lower-sulfur fuel, generating more electricity from lower-emitting plants, and/or using emission allowances. NO_x reductions are being achieved through combustion controls and the generation of more electricity at lower-emitting plants. In September 1998, the EPA finalized regulations requiring additional NO_x reductions from the Companies' Ohio and Pennsylvania facilities. The EPA's NO_x Transport Rule imposes uniform reductions of NO_x emissions (an approximate 85% reduction in utility plant NO_x emissions from projected 2007 emissions) across a region of nineteen states and the District of Columbia, including New Jersey, Ohio and Pennsylvania, based on a conclusion that such NO_x emissions are contributing significantly to ozone pollution in the eastern United States. State Implementation Plans (SIP) must comply by May 31, 2004 with individual state NO_x budgets established by the EPA. Pennsylvania submitted a SIP that required compliance with the NO_x budgets at the Companies' Pennsylvania facilities by May 1, 2003 and Ohio submitted a SIP that requires compliance with the NO_x budgets at CEI's Ohio facilities by May 31, 2004.

CEI has been named as a "potentially responsible party" (PRP) 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 PRPs for a particular site be held liable on a joint and several basis. Therefore, environmental liabilities that are considered probable have been recognized on the Consolidated Balance Sheet as of September 30, 2003, based on estimates of the total costs of cleanup, CEI's proportionate responsibility for such costs and the financial ability of other nonaffiliated entities to pay. CEI's total accrued liabilities were approximately \$2.5 million as of September 30, 2003.

The effects of compliance on CEI with regard to environmental matters could have a material adverse effect on its earnings and competitive position. These environmental regulations affect its earnings and competitive position to the extent CEI 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. CEI believes it is in material compliance with existing regulations, but is unable to predict how and when applicable environmental regulations may change and what, if any, the effects of any such change would be.

Legal Matters

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Various lawsuits, claims and proceedings related to CEI's normal business operations are pending against CEI, the most significant of which are described above.

SIGNIFICANT ACCOUNTING POLICIES

CEI prepares its consolidated financial statements in accordance with accounting principles that are generally accepted in the United States. Application of these principles often requires a high degree of judgment, estimates and assumptions that affect CEI's financial results. All of CEI's assets are subject to their own specific risks and uncertainties and are regularly reviewed for impairment. Assets related to the application of the policies discussed below are similarly reviewed with their risks and uncertainties reflecting those specific factors. CEI's more significant accounting policies are described below.

Regulatory Accounting

CEI is subject to regulation that sets the prices (rates) it is permitted to charge its customers based on the costs that the regulatory agencies determine CEI is permitted to recover. At times, regulators permit the future recovery through

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rates of costs that would be currently charged to expense by an unregulated company. This rate-making process results in the recording of regulatory assets based on anticipated future cash inflows. As a result of the changing regulatory framework in Ohio a significant amount of regulatory assets have been recorded - \$1,138.2 million as of September 30, 2003. CEI regularly reviews these assets to assess their ultimate recoverability within the approved regulatory guidelines. Impairment risk associated with these assets relates to potentially adverse legislative, judicial or regulatory actions in the future.

Revenue Recognition

CEI follows the accrual method of accounting for revenues, recognizing revenue for kilowatt-hours that have been delivered but not yet billed through the end of the accounting period. The determination of unbilled revenues requires management to make various estimates including:

- o Net energy generated or purchased for retail load
- o Losses of energy over distribution lines
- o Allocations to distribution companies within the FirstEnergy system
- o Mix of kilowatt-hour usage by residential, commercial and industrial customers
- o Kilowatt-hour usage of customers receiving electricity from alternative suppliers

Pension and Other Postretirement Benefits Accounting

FirstEnergy's reported costs of providing non-contributory defined pension and OPEB benefits are dependent upon numerous factors resulting from actual plan experience and certain assumptions.

Pension and OPEB costs are affected by employee demographics (including age, compensation levels, and employment periods), the level of contributions FirstEnergy makes to the plans, and earnings on plan assets. Pension and OPEB costs may also be affected by changes to key assumptions,

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including anticipated rates of return on plan assets, the discount rates and health care trend rates used in determining the projected benefit obligations for pension and OPEB costs.

In accordance with SFAS 87, "Employers' Accounting for Pensions" and SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," changes in pension and OPEB obligations associated with these factors may not be immediately recognized as costs on the income statement, but generally are recognized in future years over the remaining average service period of plan participants. SFAS 87 and SFAS 106 delay recognition of changes due to the long-term nature of pension and OPEB obligations and the varying market conditions likely to occur over long periods of time. As such, significant portions of pension and OPEB costs recorded in any period may not reflect the actual level of cash benefits provided to plan participants and are significantly influenced by assumptions about future market conditions and plan participants' experience.

In selecting an assumed discount rate, FirstEnergy considers currently available rates of return on high-quality fixed income investments expected to be available during the period to maturity of the pension and other postretirement benefit obligations. Due to the significant decline in corporate bond yields and interest rates in general during 2002, FirstEnergy reduced the assumed discount rate as of December 31, 2002 to 6.75% from 7.25% used in 2001. FirstEnergy's assumed rate of return on pension plan assets considers historical market returns and economic forecasts for the types of investments held by its pension trusts. The market values of FirstEnergy's pension assets have been affected by sharp declines in the equity markets since mid-2000. In 2002 and 2001, plan assets earned (11.3)% and (5.5)%, respectively. FirstEnergy's pension costs in 2002 were computed assuming a 10.25% rate of return on plan assets. As of December 31, 2002 the assumed return on plan assets was reduced to 9.00% based upon FirstEnergy's projection of future returns and pension trust investment allocation of approximately 60% large cap equities, 10% small cap equities and 30% bonds.

Based on pension assumptions and pension plan assets as of December 31, 2002, FirstEnergy is not required to fund its pension plans in 2003. While OPEB plan assets have also been affected by sharp declines in the equity market, the impact is not as significant due to the relative size of the plan assets. However, health care cost trends have significantly increased and will affect future OPEB costs. The 2003 composite health care trend rate assumption is approximately 10%-12% gradually decreasing to 5% in later years, compared to FirstEnergy's 2002 assumption of approximately 10% in 2002, gradually decreasing to 4%-6% in later years. In determining its trend rate assumptions, FirstEnergy included the specific provisions of its health care plans, the demographics and utilization rates of plan participants, actual cost increases experienced in its health care plans, and projections of future medical trend rates.

Ohio Transition Cost Amortization

In connection with FirstEnergy's restructuring plan, the PUCO determined allowable transition costs based on amounts recorded on CEI's regulatory books. These costs exceeded those deferred or capitalized on CEI's balance sheet prepared under GAAP since they included certain costs which have not yet been incurred or that were recognized on the regulatory financial statements (fair value purchase accounting adjustments). CEI uses an effective interest method for amortizing its transition costs, often referred to as a "mortgage-style" amortization.

The interest rate under this method is equal to the rate of return

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authorized by the PUCO in the transition plan for CEI. In computing the transition cost amortization, CEI includes only the portion of the transition revenues associated with transition costs included on the balance sheet prepared under GAAP. Revenues collected for the off balance sheet costs and the return associated with these costs are recognized as income when received.

Long-Lived Assets

In accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," CEI periodically evaluates its long-lived assets to determine whether conditions exist that would indicate that the carrying value of an asset may not be fully recoverable. The accounting standard requires that if the sum of future cash flows (undiscounted) expected to result from an asset, is less than the carrying value of the asset, an asset impairment must be recognized in the financial statements. If impairment, other than of a temporary nature, has occurred, CEI recognizes a loss - calculated as the difference between the carrying value and the estimated fair value of the asset (discounted future net cash flows).

Goodwill

In a business combination, the excess of the purchase price over the estimated fair values of the assets acquired and liabilities assumed is recognized as goodwill. Based on the guidance provided by SFAS 142, CEI evaluates its goodwill for impairment at least annually and would make such an evaluation more frequently if indicators of impairment should arise. In accordance with the accounting standard, if the fair value of a reporting unit is less than its carrying value (including goodwill), the goodwill is tested for impairment. If impairment were indicated, CEI would recognize a loss - calculated as the difference between the implied fair value of its goodwill and the carrying value of the goodwill. CEI's annual review was completed in the third quarter of 2003, with no impairment of goodwill indicated. The forecasts used in CEI's evaluation of goodwill reflect operations consistent with its general business assumptions. Unanticipated changes in those assumptions could have a significant effect on its future evaluations of goodwill. As of September 30, 2003, CEI had approximately \$1.7 billion of goodwill.

RECENTLY ISSUED ACCOUNTING STANDARDS

FIN 46, "Consolidation of Variable Interest Entities - an interpretation of ARB 51"

In January 2003, the FASB issued this interpretation of ARB No. 51, "Consolidated Financial Statements". This Interpretation requires the consolidation of a variable interest entity (VIE) by an enterprise if that enterprise either absorbs a majority of the VIE's expected losses or receives a majority of the VIE's expected residual returns as a result of ownership, contractual or other financial interests in the VIE. Currently, entities are generally consolidated by an enterprise that has a controlling financial interest through ownership of a majority voting interest in the entity.

FIN 46 defines a VIE as an entity in which equity investors do not have the characteristics of a controlling financial interest nor have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIE's created after January 31, 2003, are immediately subject to the provisions of FIN 46. The FASB recently deferred implementation of FIN 46 for VIE's created before February 1, 2003, until the first reporting period ending after December 15, 2003 (CEI's quarter ending December 31, 2003.)

CEI currently has transactions with entities in connection with sale and leaseback arrangements which may fall within the scope of this

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interpretation and which meet the definition of a VIE in accordance with FIN 46. One such entity is the Shippingport Capital Trust which acquired all of the lease obligation bonds issued in connection with the sale and leaseback in 1987 of interests in the Bruce Mansfield Plant held by CEI and TE, an affiliated company. The equity ownership of this trust includes a 0.34% interest held by Toledo Edison Capital Corporation, an affiliated company, and a 4.85% interest held by unaffiliated third parties. The assets and liabilities of the trust are currently included on a proportionate basis in the financial statements of CEI and TE. Adoption of FIN 46 may result in reporting all of the trust assets and liabilities on the books of CEI. CEI is also evaluating its interests in the owner trusts that acquired the interests in the Bruce Mansfield Plant and Beaver Valley Unit 2. CEI has not completed its evaluation to determine if it would be the primary beneficiary and therefore required to consolidate these trusts.

As described in Note 1, CEI's consolidated financial statements include a subsidiary trust that sold trust-preferred securities in which CEI is not the primary beneficiary. Pending further guidance from the FASB that would indicate otherwise, this entity may not be consolidated in CEI's financial statements as of December 31, 2003. The deconsolidation would result in an increase in total assets and liabilities of approximately \$3.1 million for the investment in the trust.

The FASB continues to provide additional guidance on implementing FIN 46 and recently proposed modifications and clarifications with a comment period ending December 1, 2003. As this guidance is finalized, CEI will

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continue to assess the accounting and disclosure impact of FIN 46 with respect to the VIE's discussed above as well as other potential VIE's.

SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity"

In May 2003, the FASB issued SFAS 150, which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. In accordance with the standard, certain financial instruments that embody obligations for the issuer are required to be classified as liabilities. SFAS 150 was effective immediately for financial instruments entered into or modified after May 31, 2003 and effective at the beginning of the first interim period beginning after June 15, 2003 (CEI's third quarter of 2003) for all other financial instruments.

Upon adoption of SFAS 150, effective July 1, 2003, CEI reclassified as debt the preferred stock subject to mandatory redemption with a carrying value of approximately \$4.0 million as of September 30, 2003. Company-obligated mandatorily redeemable preferred securities of \$100 million were also reclassified and included in long-term debt as of September 30, 2003. As required by SFAS 150, the preferred securities subject to mandatory redemption were not restated as long-term debt on the December 31, 2002 balance sheet.

Dividends on preferred stock subject to mandatory redemption on CEI's Consolidated Statements of Income, which were not included in net interest charges prior to the adoption of SFAS 150, are now included in net interest charges for the three months ended September 30, 2003.

EITF Issue No. 01-08, "Determining whether an Arrangement Contains a Lease"

In May 2003, the EITF reached a consensus on Issue No. 01-08, regarding when arrangements contain a lease. Based on the EITF consensus, an

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arrangement contains a lease if (1) it identifies specific property, plant or equipment (explicitly or implicitly), and (2) the arrangement transfers the right to the purchaser to control the use of the property, plant or equipment. The consensus is to be applied prospectively to arrangements committed to, modified or acquired through a business combination, beginning in the third quarter of 2003. The adoption of this consensus as of July 1, 2003 did not impact CEI's financial statements.

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THE TOLEDO EDISON COMPANY

CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended September 30,	
	2003	2002
		Restated (See Note 1)
		(In thousands)
OPERATING REVENUES.....	\$260,190	\$269,857
OPERATING EXPENSES AND TAXES:		
Fuel.....	2,940	9,524
Purchased power.....	81,795	85,329
Nuclear operating costs.....	64,681	61,149
Other operating costs.....	39,692	38,902
Total operation and maintenance expenses.....	189,108	194,904
Provision for depreciation and amortization.....	36,142	41,813
General taxes.....	14,305	14,061
Income taxes (benefit).....	2,432	892
Total operating expenses and taxes.....	241,987	251,670
OPERATING INCOME.....	18,203	18,187
OTHER INCOME.....	5,768	4,033
INCOME BEFORE NET INTEREST CHARGES.....	23,971	22,220

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NET INTEREST CHARGES:		
Interest on long-term debt.....	9,039	14,611
Allowance for borrowed funds used during construction..	(1,458)	(611)
Other interest expense (credit).....	639	463
	-----	-----
Net interest charges.....	8,220	14,463
	-----	-----
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING		
CHANGE	15,751	7,757
Cumulative effect of accounting change (net of income		
taxes of \$18,201,000) (Note 5).....	--	--
	-----	-----
NET INCOME.....	15,751	7,757
PREFERRED STOCK DIVIDEND REQUIREMENTS.....		
	2,211	2,211
	-----	-----
EARNINGS ON COMMON STOCK.....	\$ 13,540	\$ 5,546
	=====	=====

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THE TOLEDO EDISON COMPANY
CONSOLIDATED BALANCE SHEETS

(Unaudited)
September 30,
2003

(In th

ASSETS

UTILITY PLANT:	
In service.....	\$1,697,909
Less--Accumulated provision for depreciation.....	747,456

	950,453

Construction work in progress-	

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Electric plant.....	106,471
Nuclear fuel.....	26,057

	132,528

	1,082,981

OTHER PROPERTY AND INVESTMENTS:	
Shippingport Capital Trust.....	219,973
Nuclear plant decommissioning trusts.....	214,395
Long-term notes receivable from associated companies.....	163,638
Other.....	75,281

	673,287

CURRENT ASSETS:	
Cash and cash equivalents.....	11,275
Receivables-	
Customers.....	4,339
Associated companies.....	33,496
Other.....	20,842
Notes receivable from associated companies.....	9,079
Materials and supplies, at average cost-	
Owned.....	12,563
Under consignment.....	20,232
Prepayments and other.....	9,172

	120,998

DEFERRED CHARGES:	
Regulatory assets.....	516,284
Goodwill.....	504,522
Property taxes.....	23,429
Other.....	16,106

	1,060,341

	\$2,937,607
	=====

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CAPITALIZATION AND LIABILITIES

CAPITALIZATION:

Common stockholder's equity-	
Common stock, \$5 par value, authorized 60,000,000 shares -	
39,133,887 shares outstanding.....	\$ 195,670
Other paid-in capital.....	428,559
Accumulated other comprehensive loss.....	(4,453)
Retained earnings.....	100,539

Total common stockholder's equity.....	720,315
Preferred stock not subject to mandatory redemption.....	126,000
Long-term debt.....	285,565

	1,131,880

CURRENT LIABILITIES:

Currently payable long-term debt.....	341,650
Accounts payable-	
Associated companies.....	120,256
Other.....	3,212
Notes payable-	
Associated companies.....	333,695
Banks.....	70,000
Accrued taxes.....	50,958
Accrued interest.....	14,012
Lease market valuation liability.....	24,600
Other.....	26,543

	984,926

DEFERRED CREDITS:

Accumulated deferred income taxes.....	188,651
Accumulated deferred investment tax credits.....	27,714
Nuclear plant decommissioning costs.....	--
Asset retirement obligation.....	178,847
Retirement benefits.....	60,105
Lease market valuation liability.....	298,750
Other.....	66,734

	820,801

COMMITMENTS, GUARANTEES AND CONTINGENCIES (Note 2).....

\$2,937,607
=====

THE TOLEDO EDISON COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended September 30,	
	2003	2002
		Restated (See Note 1)
		(In thousands)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income.....	\$ 15,751	\$ 7,757
Adjustments to reconcile net income to net cash from operating activities-		
Provision for depreciation and amortization.....	36,142	41,813
Nuclear fuel and capital lease amortization.....	2,182	2,765
Deferred operating lease costs, net.....	(4,212)	2,755
Deferred income taxes, net.....	(11,570)	(11,266)
Amortization of investment tax credits.....	(514)	(454)
Accrued retirement benefit obligation.....	7,800	928
Accrued compensation, net.....	(608)	912
Cumulative effect of accounting change.....	--	--
Receivables.....	25,437	22,359
Materials and supplies.....	(1,317)	(2,150)
Accounts payable.....	(54,140)	26,894
Accrued taxes.....	15,801	3,313
Accrued interest.....	(3,514)	(3,988)
Prepayment and other current assets.....	3,263	1,740
Other.....	(6,039)	4,651
	-----	-----
Net cash provided from operating activities.....	24,462	98,029
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
New Financing-		
Short-term borrowings, net.....	122,451	13,279
Equity contributions from parent.....	--	100,000
Redemptions and Repayments-		
Preferred stock.....	--	--
Long-term debt.....	(34,981)	(167,705)
Dividend Payments-		
Common stock.....	--	--
Preferred stock.....	(2,205)	(2,211)
	-----	-----
Net cash provided from (used for) financing activities	85,265	(56,637)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions.....	(20,043)	(26,636)
Notes receivable from associated companies, net.....	138	(10,798)
Capital trust investments.....	3,399	3,207

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Contributions to nuclear decommissioning trust	(14,271)	(7,135)
Debt remarketing investments	(73,231)	--
Other.....	(4,752)	36
	-----	-----
Net cash used for investing activities.....	(108,760)	(41,326)
	-----	-----
Net increase (decrease) in cash and cash equivalents.....	967	66
Cash and cash equivalents at beginning of period.....	10,308	453
	-----	-----
Cash and cash equivalents at end of period.....	\$ 11,275	\$ 519
	=====	=====

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders and Board
of Directors of The Toledo
Edison Company:

We have reviewed the accompanying consolidated balance sheet of The Toledo Edison Company and its subsidiary as of September 30, 2003, and the related consolidated statements of income and cash flows for each of the three-month and nine-month periods ended September 30, 2003 and 2002. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated interim financial statements, the Company has restated its previously issued consolidated interim financial statements for each of the three-month and nine-month periods ended September 30, 2002.

We previously audited in accordance with auditing standards generally accepted

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in the United States of America, the consolidated balance sheet and the consolidated statement of capitalization as of December 31, 2002, and the related consolidated statements of income, common stockholder's equity, preferred stock, cash flows and taxes for the year then ended (not presented herein), and in our report (which contained references to the Company's change in its method of accounting for goodwill in 2002 as discussed in Note 1(D) to those consolidated financial statements and the Company's restatement of its previously issued consolidated financial statements as of December 31, 2002 and 2001 and for each of the three years in the period ended December 31, 2002 as discussed in Note 1(M) to those consolidated financial statements) dated August 18, 2003 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2002, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

PricewaterhouseCoopers LLP
Cleveland, Ohio
November 13, 2003

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THE TOLEDO EDISON COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

TE is a wholly owned, electric utility subsidiary of FirstEnergy. TE conducts business in portions of Ohio, providing regulated electric distribution services. TE also provides generation services to those customers electing to retain them as their power supplier. TE provides power directly to wholesale customers under previously negotiated contracts, as well as to alternative energy suppliers under TE's transition plan. TE has unbundled the price of electricity into its component elements - including generation, transmission, distribution and transition charges. Power supply requirements of TE are provided by FES - an affiliated company.

RESTATEMENTS

As further discussed in Note 1 to the Consolidated Financial Statements, TE restated its consolidated financial statements for the three years ended December 31, 2002 and the three months ended March 31, 2003 to reflect a change in the method of amortizing the costs being recovered under the Ohio transition plan and recognition of above-market values of certain leased generation facilities. These restatements were completed and reported in the second quarter of 2003. Financial comparisons described below for the three-month and nine month-periods reflect the effect of these restatements.

RESULTS OF OPERATIONS

Earnings on common stock in the third quarter of 2003 increased to \$13.5 million from earnings of \$5.5 million in the third quarter of 2002. Earnings on common stock in the first nine months of 2003 included an after-tax credit of \$25.6 million from the cumulative effect of an accounting change due to the adoption of SFAS 143, "Accounting for Asset Retirement Obligations." Income before the cumulative effect was \$4.6 million in the first nine months of 2003, compared to \$24.6 million for the same period of 2002. The increase in the third quarter 2003 reflected lower fuel and purchased power costs, depreciation

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and amortization and financing costs partially offset by lower operating revenues and higher nuclear operating costs. In the first nine months of 2003, results were adversely affected by lower operating revenues and higher nuclear operating costs partially offset by lower fuel and purchased power costs and reduced financing costs.

Operating revenues decreased by \$9.7 million or 3.6% in the third quarter and \$64.7 million or 8.4% in the first nine months of 2003 from the same periods in 2002. Reduced revenues resulted from lower kilowatt-hour sales due to milder weather in the second and third quarters, continued sluggishness in the regional economy and increased sales by alternative suppliers. The decline in revenues primarily resulted from lower generation sales revenues from all retail customer sectors. Kilowatt-hour sales to retail customers declined by 9.9% in the third quarter and 10.1% in the first nine months of 2003 from the same periods of 2002, which reduced generation retail sales revenues by \$16.4 million and \$43.5 million, respectively. Electric generation services provided to retail customers by alternative suppliers as a percent of total sales delivered in TE's service area increased 6.0 percentage points in the third quarter and 7.0 percentage points during the first nine months of 2003 from the corresponding periods last year.

Distribution deliveries decreased 2.7% in the third quarter and 1.9% in the first nine months of 2003 compared to the corresponding periods of 2002. However, higher unit prices resulted in overall revenue increases from electricity throughput of \$2.7 million and \$12.5 million in the third quarter and first nine months of 2003, respectively, compared to 2002.

Transition plan incentives, provided to customers to encourage switching to alternative energy providers, reduced revenues by \$2.2 million in the third quarter and \$5.6 million in the first nine months of 2003 compared to the same periods last year. These revenue reductions are deferred for future recovery under TE's transition plan and do not materially affect current period earnings.

Sales revenues from wholesale customers increased by \$4.9 million in the third quarter and decreased by \$22.3 million in the first nine months of 2003 compared with the same periods of 2002. Both periods reflected lower kilowatt-hour sales to the wholesale market due to reduced nuclear generation available for sale to FES. The third quarter increase in revenues reflected the effect of higher unit prices partially offset by lower sales volume.

Changes in electric generation sales and distribution deliveries in the third quarter and the first nine months of 2003 from the third quarter and first nine months of 2002 are summarized in the following table:

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Changes in Kilowatt-Hour Sales	Three Months	Nine Months

Increase (Decrease)		
Electric Generation:		
Retail	(9.9)%	(10.1)%
Wholesale.....	(4.1)%	(17.2)%

Total Electric Generation Sales.....	(7.5)%	(13.2)%
=====		
Distribution Deliveries:		
Residential	(13.0)%	(4.3)%
Commercial	9.3%	2.5%
Industrial.....	(3.9)%	(3.4)%

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 Total Distribution Deliveries..... (2.7)% (1.9)%
 =====

Operating Expenses and Taxes

Total operating expenses and taxes decreased by \$9.7 million in the third quarter and \$29.8 million in the first nine months of 2003 from the same periods in 2002. The following table presents changes from the prior year by expense category.

Operating Expenses and Taxes - Changes	Three Months	Nine Months
Increase (Decrease)	(In millions)	
Fuel.....	\$ (6.6)	\$ (12.0)
Purchased power costs.....	(3.5)	(16.8)
Nuclear operating costs.....	3.5	16.9
Other operating costs.....	0.8	8.8
Total operation and maintenance expenses...	(5.8)	(3.1)
Provision for depreciation and amortization..	(5.7)	(10.5)
General taxes.....	0.3	2.0
Income taxes.....	1.5	(18.2)
Net decrease in operating expenses and taxes	\$ (9.7)	\$ (29.8)

Lower fuel costs in the third quarter and first nine months of 2003, compared with the same quarter and nine months of 2002, resulted from reduced nuclear generation (down 9.7% and 24.6%, respectively). The lower purchased power costs reflect reduced kilowatt-hours required for customer needs which more than offset an increase in unit costs. Increased nuclear costs resulted from incremental costs associated with the extended Davis-Besse outage, unplanned work performed during the Perry Plant's 56-day nuclear refueling outage (19.91% ownership) in the second quarter of 2003, and the 28-day refueling outage at Beaver Valley Unit 2 (19.91% interest) in the third quarter of 2003 compared with a 24-day refueling outage at Beaver Valley Unit 2, in the first quarter of 2002. The increase in other operating costs resulted in part from higher employee benefit costs and energy delivery costs as a result of storm damage.

Charges for depreciation and amortization decreased by \$5.7 million in the third quarter of 2003, compared with the third quarter of 2002 primarily from four factors - higher shopping incentive deferrals (\$2.2 million), lower charges resulting from the implementation of SFAS 143 (\$3.9 million), revised service life assumptions for generating plants (\$3.0 million) and a slight decline in amortization of regulatory assets being recovered under TE's transition plan (\$0.4 million). Partially offsetting these decreases were the recognition of depreciation on the Bay Shore generating plant (\$1.4 million) which had been held pending sale in the second quarter of 2002 but was subsequently retained by FirstEnergy in the fourth quarter of 2002 and reduced regulatory asset deferrals (\$0.9 million).

In the first nine months of 2003, depreciation and amortization decreased by \$10.5 million compared to the corresponding period of 2002 as a result of the same factors which impacted the third quarter comparison - higher shopping incentive deferrals (\$5.6 million), lower charges resulting from implementation of SFAS 143 (\$12.1 million) and revised service life assumptions (\$8.0 million). Partially offsetting these decreases were increased amortization of regulatory assets being recovered under TE's transition plan (\$5.0 million), recognition of depreciation on the Bay Shore generating plant (\$4.1 million) and

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reduced regulatory asset deferrals (\$2.5 million).

Net Interest Charges

Net interest charges continued to trend lower, decreasing by \$6.2 million in the third quarter and \$14.4 million in the first nine months of 2003 from the same periods last year, reflecting security redemptions and refinancings since the beginning of the third quarter of 2002.

Cumulative Effect of Accounting Change

Upon adoption of SFAS 143 in the first quarter of 2003, TE recorded an after-tax credit to net income of \$25.6 million. TE identified applicable legal

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obligations as defined under the new accounting standard for nuclear power plant decommissioning and reclamation of a sludge disposal pond at the Bruce Mansfield Plant. As a result of adopting SFAS 143 in January 2003, asset retirement costs of \$41.1 million were recorded as part of the carrying amount of the related long-lived asset, offset by accumulated depreciation of \$5.5 million. The asset retirement obligation liability at the date of adoption was \$172 million, including accumulated accretion for the period from the date the liability was incurred to the date of adoption. As of December 31, 2002, TE had recorded decommissioning liabilities of \$179.6 million. The cumulative effect adjustment for unrecognized depreciation, accretion offset by the reduction in the existing decommissioning liabilities and ceasing the accounting practice of depreciating non-regulated generation assets using a cost of removal component was a \$43.8 million increase to income, or \$25.6 million net of income taxes.

CAPITAL RESOURCES AND LIQUIDITY

TE's cash requirements in 2003 for operating expenses, construction expenditures, scheduled debt maturities and preferred stock redemptions are expected to be met without significantly increasing its net debt and preferred stock outstanding. Available borrowing capacity under short-term credit facilities will be used to manage working capital requirements. Over the next three years, TE expects to meet its contractual obligations with cash from operations. Thereafter, TE expects to use a combination of cash from operations and funds from the capital markets.

Changes in Cash Position

As of September 30, 2003, TE had \$11.3 million of cash and cash equivalents, compared with \$20.7 million as of December 31, 2002. The major sources for changes in these balances are summarized below.

Cash Flows From Operating Activities

Cash provided by operating activities during the third quarter and first nine months of 2003, compared with the corresponding periods in 2002 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Operating Cash Flows				

	(In millions)			
Cash earnings (1).....	\$ 45	\$45	\$ 66	\$ 99

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Working capital and other	(21)	53	(57)	40

Total.....	\$ 24	\$98	\$ 9	\$139
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(1) Includes net income, depreciation and amortization, deferred income taxes, investment tax credits and major noncash charges.

Net cash provided from operating activities decreased by \$74 million in the third quarter and \$130 million in the first nine months of 2003 compared to the same periods of 2002. The third quarter decrease in funds from operating activities resulted from the decrease in cash provided from working capital. The change in working capital and other primarily reflected an \$81 million decrease from accounts payable changes in the third quarter of 2003 compared to the third quarter of 2002. The decrease in the first nine months of 2003 consisted of a \$97 million decrease in working capital and other, and a \$33 million decrease in cash earnings. The largest factor contributing to the working capital and other decrease was an \$85 million change in accounts payable while the cash earnings decrease was attributable to lower electric sales revenues and higher nuclear operating costs.

Cash Flows From Financing Activities

In the third quarter of 2003, net cash provided from financing activities increased to \$85 million from \$57 million of net cash used in the third quarter of 2002. This increase in cash provided from financing activities primarily resulted from lower security redemptions and repayments. In the first nine months of 2003, net cash provided from financing activities increased to \$130 million from \$48 million of net cash used in financing activities in the same period of 2002. This change was due to a \$147 million decrease in redemptions in 2003 compared to 2002.

TE had approximately \$20.4 million of cash and temporary investments and approximately \$403.7 million of short-term indebtedness as of September 30, 2003. TE is currently precluded from issuing first mortgage bonds or preferred stock based upon applicable earnings coverage tests as of September 30, 2003.

Cash Flows From Investing Activities

Net cash used for investing activities increased \$67 million between the third quarter of 2003 and the same quarter of 2002 due to changes in nuclear decommissioning trust investments.

During the fourth quarter of 2003, capital requirements for property additions and capital leases are expected to be about \$18 million. TE has no requirements to meet sinking fund requirements for preferred stock and maturing long-term debt during the remainder of 2003.

On November 13, 2003, FirstEnergy announced that it had reached an agreement with NRG covering the settlement of its claims resulting from the uncompleted sale of four power plants to NRG, one of which was a TE generating plant (Bay Shore). Under the agreement FirstEnergy would receive an estimated settlement for the four plants of approximately \$198 million in the form of cash (12%), notes (15.2%) and common stock (72.8%). The agreement is subject to FERC authorization and U.S. Bankruptcy Court approval since NRG and certain of its

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subsidiaries filed for voluntary bankruptcy in May 2003.

On August 14, 2003, Moody's Investors Service placed the debt ratings of FirstEnergy and all of its subsidiaries under review for possible downgrade. Moody's stated that the review was prompted by: (1) weaker than expected operating performance and cash flow generation; (2) less progress than expected in reducing debt; (3) continuing high leverage relative to its peer group; and (4) negative impact on cash flow and earnings from the continuing nuclear plant outage at Davis-Besse. Moody's further stated that, in anticipation of Davis-Besse returning to service in the near future and FirstEnergy's continuing to significantly reduce debt and improve its financial profile, "Moody's does not expect that the outcome of the review will result in FirstEnergy's senior unsecured debt rating falling below investment-grade."

On September 30, 2003, Fitch Ratings lowered the senior unsecured ratings of FirstEnergy to "BBB-" from "BBB." Fitch also lowered the senior secured, senior unsecured, and preferred stock ratings of Met-Ed, Penelec, CEI, and TE. In addition, Fitch affirmed the ratings of OE, Penn and JCP&L. Fitch announced that the Rating Outlook is Stable for the securities of FirstEnergy, and all of the securities of its electric utility operating companies. Fitch stated that the changes to the long-term ratings were "driven by the high debt leverage of the parent FE. Despite management's commitment to reduce debt related to the GPU merger, subsequent cash flows have been vulnerable to unfavorable events, slowing the pace of FE's debt reduction efforts. The Stable Outlook reflects the success of FE's recent common equity offering and management's focus on a relatively conservative integrated utility strategy."

On October 27, 2003, Standard & Poors (S&P) stated that the 'BBB' corporate credit and the 'BBB-' senior unsecured ratings for FirstEnergy and its utility subsidiaries remain on CreditWatch with negative implications. The ratings were placed on CreditWatch on August 18, 2003, and reflect S&P's concerns regarding the potential impact of the August 14, 2003 blackout investigation on FirstEnergy's deleveraging strategy and its overall efforts to improve its credit profile.

At that time, S&P also noted other challenges facing FirstEnergy, including the extended Davis-Besse outage; the recent U.S. District Court ruling regarding the Sammis Plant; reliability concerns in subsidiary JCP&L's service territory; and FirstEnergy's credibility with regulators and federal officials.

S&P further noted several factors that could aid FirstEnergy in resolution of the CreditWatch, including strengthening its balance sheet. FirstEnergy directly addressed this concern through its recently completed common equity offering that raised approximately \$935 million in net proceeds, which was used to reduce bank debt. S&P described the equity offering as a "positive credit development" and also noted the recent renewal of FirstEnergy's \$1 billion revolver facilities as a "favorable development, as it mitigates liquidity concerns." S&P also indicated that should various ongoing investigations into the causal factors of the August 14, 2003 blackout establish that the blackout resulted from no negligence or breach of compliance standards on FirstEnergy's part, the CreditWatch could be removed and the outlook returned to negative. S&P deemed a "stable" credit outlook unlikely until issues such as the restart of Davis-Besse are resolved and the potential effect of the litigation relating to the Sammis plant (the second trial is scheduled for April 2004) are known. Extension of the Ohio transition plan will be viewed as a positive development and will support an outlook revision to stable.

On October 27, 2003, S&P also noted that the ratings on FirstEnergy and its subsidiaries incorporate such strengths as the ability to generate free cash flow, power generation contracted to its transmission and distribution subsidiaries through 2005, and the hedging of its short power position arising from its PLR obligation in Pennsylvania. S&P said that these strengths are

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offset by slower than anticipated reduction of FirstEnergy debt, remaining volume risks of PLR obligations, the extended outage at Davis-Besse, the unfavorable outcome of the New Jersey rate proceeding and regulatory uncertainty in Ohio. S&P also said that it now views FirstEnergy's liquidity position as average, following FirstEnergy's renewal of its \$1 billion credit facilities.

Other Obligations

Obligations not included on TE's Consolidated Balance Sheet primarily consist of sale and leaseback arrangements involving the Bruce Mansfield Plant and Beaver Valley Unit 2. As of September 30, 2003, the present value of these

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sale and leaseback operating lease commitments, net of trust investments, totaled \$595 million. TE also sells substantially all of its retail customer receivables, which provided \$67 million of off-balance sheet financing as of September 30, 2003.

EQUITY PRICE RISK

Included in TE's nuclear decommissioning trust investments are marketable equity securities carried at their market value of approximately \$122 million and \$90 million as of September 30, 2003 and December 31, 2002, respectively. A hypothetical 10% decrease in prices quoted by stock exchanges would result in a \$12 million reduction in fair value as of September 30, 2003.

OUTLOOK

Beginning in 2001, TE's customers were able to select alternative energy suppliers. TE continues to deliver power to residential homes and businesses through its existing distribution system, which remains regulated. Customer rates have been restructured into separate components to support customer choice. TE has a continuing responsibility to provide power to those customers not choosing to receive power from an alternative energy supplier subject to certain limits. Adopting new approaches to regulation and experiencing new forms of competition have created new uncertainties.

Regulatory Matters

In 2001, Ohio customer rates were restructured to establish separate charges for transmission, distribution, transition cost recovery and a generation-related component. When one of TE's Ohio customers elects to obtain power from an alternative supplier, TE reduces the customer's bill with a "generation shopping credit," based on the regulated generation component (plus an incentive), and the customer receives a generation charge from the alternative supplier. TE has continuing PLR responsibility to its franchise customers through December 31, 2005.

Regulatory assets are costs which have been authorized by The Public Utilities Commission of Ohio (PUCO) and the Federal Energy Regulatory Commission for recovery from customers in future periods and, without such authorization, would have been charged to income when incurred. Regulatory assets declined by \$62.0 million for the first nine months of 2003, to \$516.3 million as of September 30, 2003 resulting from recovery of transition plan regulatory assets.

As part of TE's transition plan it is obligated to supply electricity to customers who do not choose an alternative supplier. TE is also required to provide 160 megawatts (MW) of low cost supply to unaffiliated alternative suppliers that serve customers within its service area. TE's competitive retail

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sales affiliate, FES, acts as an alternate supplier for a portion of the load in its franchise area.

On October 21, 2003, the Ohio Companies filed an application with the PUCO to establish generation service rates beginning January 1, 2006, in response to expressed concerns by the PUCO about price and supply uncertainty following the end of the market development period. The filing included two options:

- o A competitive auction, which would establish a price for generation that customers would be charged during the period covered by the auction, or
- o A Rate Stabilization Plan, which would extend current generation prices through 2008, ensuring adequate supply and continuing FirstEnergy's support of energy efficiency and economic development efforts.

Under the first option, an auction would be conducted to secure generation service, including PLR responsibility, for FirstEnergy's Ohio customers. Beginning in 2006, customers would pay market prices for generation as determined by the auction.

Under the Rate Stabilization Plan option, customers would have price and supply stability through 2008 - three years beyond the end of the market development period - as well as the benefits of a competitive market. Customer benefits would include: customer savings by extending the current five percent discount on generation costs and other customer credits; maintaining current distribution base rates through 2007; market-based auctions that may be conducted annually to ensure that customers pay the lowest available prices; extension of FirstEnergy's support of energy-efficiency programs and the potential for continuing the program to give preferred access to nonaffiliated entities to generation capacity as discussed above. In order to facilitate supply planning, FirstEnergy has requested that the PUCO rule on this proposal by December 31, 2003. Under the proposed plan, TE is requesting:

- o Extension of the transition cost amortization period for TE from mid-2007 to 2008;
- o Deferral of new regulatory assets and deferral of interest costs on the shopping incentive and other new deferrals;

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- o Ability to initiate a request to increase generation rates only under certain limited conditions.

As a result of the Ohio Companies' October 21 filing, the PUCO entered an order on October 28, 2003 setting forth the discovery schedule related to the application with hearings scheduled to begin December 3, 2003.

Davis-Besse Restoration

On April 30, 2002, the Nuclear Regulatory Commission (NRC) initiated a formal inspection process at the Davis-Besse nuclear plant. This action was taken in response to corrosion found by FENOC in the reactor vessel head near the nozzle penetration hole during a refueling outage in the first quarter of 2002. The purpose of the formal inspection process is to establish criteria for NRC oversight of the licensee's performance and to provide a record of the major regulatory and licensee actions taken, and technical issues resolved, leading to

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sought to further define NOx reduction requirements (see Note 2C - Environmental Matters). TE continues to evaluate its compliance plans and other compliance options.

Violations of federally approved SO2 regulations can result in shutdown of the generating unit involved and/or civil or criminal penalties of up to \$31,500 for each day a unit is in violation. The EPA has an interim enforcement policy for SO2 regulations in Ohio that allows for compliance based on a 30-day averaging period. We cannot predict what action the EPA may take in the future with respect to the interim enforcement policy.

In December 2000, the EPA announced it would proceed with the development of regulations regarding hazardous air pollutants from electric

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power plants. The EPA identified mercury as the hazardous air pollutant of greatest concern. The EPA established a schedule to propose regulations by December 2003 and issue final regulations by December 2004. The future cost of compliance with these regulations may be substantial.

As a result of the Resource Conservation and Recovery Act of 1976, as amended, and the Toxic Substances Control Act of 1976, federal and state hazardous waste regulations have been promulgated. Certain fossil-fuel combustion waste products, such as coal ash, were exempted from hazardous waste disposal requirements pending the EPA's evaluation of the need for future regulation. The EPA has issued its final regulatory determination that regulation of coal ash as a hazardous waste is unnecessary. In April 2000, the EPA announced that it will develop national standards regulating disposal of coal ash under its authority to regulate nonhazardous waste.

TE believes it is in compliance with the current SO2 and NOx reduction requirements under the Clean Air Act Amendments of 1990. SO2 reductions are being achieved by burning lower-sulfur fuel, generating more electricity from lower-emitting plants, and/or using emission allowances. NOx reductions are being achieved through combustion controls and the generation of more electricity at lower-emitting plants. In September 1998, the EPA finalized regulations requiring additional NOx reductions from the Companies' Ohio and Pennsylvania facilities. The EPA's NOx Transport Rule imposes uniform reductions of NOx emissions (an approximate 85% reduction in utility plant NOx emissions from projected 2007 emissions) across a region of nineteen states and the District of Columbia, including New Jersey, Ohio and Pennsylvania, based on a conclusion that such NOx emissions are contributing significantly to ozone pollution in the eastern United States. State Implementation Plans (SIP) must comply by May 31, 2004 with individual state NOx budgets established by the EPA. Pennsylvania submitted a SIP that required compliance with the NOx budgets at the Companies' Pennsylvania facilities by May 1, 2003 and Ohio submitted a SIP that requires compliance with the NOx budgets at TE's Ohio facilities by May 31, 2004.

TE has been named as a "potentially responsible party" (PRP) 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 PRPs for a particular site be held liable on a joint and several basis. Therefore, environmental liabilities that are considered probable have been recognized on the Consolidated Balance Sheet as of September 30, 2003, based on estimates of the total costs of cleanup, TE's proportionate responsibility for such costs and the financial ability of other nonaffiliated entities to pay. TE

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has total accrued liabilities of approximately \$0.2 million as of September 30, 2003.

The effects of compliance on TE with regard to environmental matters could have a material adverse effect on its earnings and competitive position. These environmental regulations affect its earnings and competitive position to the extent TE 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. TE believes it is in material compliance with existing regulations, but is unable to predict how and when applicable environmental regulations may change and what, if any, the effects of any such change would be.

Legal Matters

Various lawsuits, claims and proceedings related to TE's normal business operations are pending against TE, the most significant of which are described above.

SIGNIFICANT ACCOUNTING POLICIES

TE prepares its consolidated financial statements in accordance with accounting principles that are generally accepted in the United States. Application of these principles often requires a high degree of judgment, estimates and assumptions that affect TE's financial results. All of TE's assets are subject to their own specific risks and uncertainties and are regularly reviewed for impairment. Assets related to the application of the policies discussed below are similarly reviewed with their risks and uncertainties reflecting those specific factors. TE's more significant accounting policies are described below.

Regulatory Accounting

TE is subject to regulation that sets the prices (rates) it is permitted to charge its customers based on the costs that the regulatory agencies determine TE is permitted to recover. At times, regulators permit the future recovery through rates of costs that would be currently charged to expense by an unregulated company. This rate-making process results in the recording of regulatory assets based on anticipated future cash inflows. As a result of the changing regulatory framework in Ohio, a significant amount of regulatory assets have been recorded - \$516.3 million as of September 30, 2003. TE regularly reviews these assets to assess their ultimate recoverability within the approved regulatory guidelines. Impairment risk associated with these assets relates to potentially adverse legislative, judicial or regulatory actions in the future.

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Revenue Recognition

TE follows the accrual method of accounting for revenues, recognizing revenue for kilowatt-hours that have been delivered but not yet billed through the end of the accounting period. The determination of unbilled revenues requires management to make various estimates including:

- o Net energy generated or purchased for retail load
- o Losses of energy over distribution lines
- o Allocations to distribution companies within the FirstEnergy system
- o Mix of kilowatt-hour usage by residential, commercial and

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- o industrial customers
- o Kilowatt-hour usage of customers receiving electricity from alternative suppliers

Pension and Other Postretirement Benefits Accounting

FirstEnergy's reported costs of providing non-contributory defined pension and OPEB benefits are dependent upon numerous factors resulting from actual plan experience and certain assumptions.

Pension and OPEB costs are affected by employee demographics (including age, compensation levels, and employment periods), the level of contributions FirstEnergy makes to the plans, and earnings on plan assets. Pension and OPEB costs may also be affected by changes to key assumptions, including anticipated rates of return on plan assets, the discount rates and health care trend rates used in determining the projected benefit obligations for pension and OPEB costs.

In accordance with SFAS 87, "Employers' Accounting for Pensions" and SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," changes in pension and OPEB obligations associated with these factors may not be immediately recognized as costs on the income statement, but generally are recognized in future years over the remaining average service period of plan participants. SFAS 87 and SFAS 106 delay recognition of changes due to the long-term nature of pension and OPEB obligations and the varying market conditions likely to occur over long periods of time. As such, significant portions of pension and OPEB costs recorded in any period may not reflect the actual level of cash benefits provided to plan participants and are significantly influenced by assumptions about future market conditions and plan participants' experience.

In selecting an assumed discount rate, FirstEnergy considers currently available rates of return on high-quality fixed income investments expected to be available during the period to maturity of the pension and other postretirement benefit obligations. Due to the significant decline in corporate bond yields and interest rates in general during 2002, FirstEnergy reduced the assumed discount rate as of December 31, 2002 to 6.75% from 7.25% used in 2001.

FirstEnergy's assumed rate of return on pension plan assets considers historical market returns and economic forecasts for the types of investments held by its pension trusts. The market values of FirstEnergy's pension assets have been affected by sharp declines in the equity markets since mid-2000. In 2002 and 2001, plan assets earned (11.3)% and (5.5)%, respectively. FirstEnergy's pension costs in 2002 were computed assuming a 10.25% rate of return on plan assets. As of December 31, 2002 the assumed return on plan assets was reduced to 9.00% based upon FirstEnergy's projection of future returns and pension trust investment allocation of approximately 60% large cap equities, 10% small cap equities and 30% bonds.

Based on pension assumptions and pension plan assets as of December 31, 2002, FirstEnergy is not required to fund its pension plans in 2003. While OPEB plan assets have also been affected by sharp declines in the equity market, the impact is not as significant due to the relative size of the plan assets. However, health care cost trends have significantly increased and will affect future OPEB costs. The 2003 composite health care trend rate assumption is approximately 10%-12% gradually decreasing to 5% in later years, compared to the 2002 assumption of approximately 10% in 2002, gradually decreasing to 4%-6% in later years. In determining its trend rate assumptions, FirstEnergy included the specific provisions of its health care plans, the demographics and utilization rates of plan participants, actual cost increases experienced in its health care plans, and projections of future medical trend rates.

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Ohio Transition Cost Amortization

In connection with FirstEnergy's restructuring plan, the PUCO determined allowable transition costs based on amounts recorded on TE's regulatory books. These costs exceeded those deferred or capitalized on TE's balance sheet prepared under GAAP since they included certain costs which have not yet been incurred or that were recognized on the regulatory financial statements (fair value purchase accounting adjustments). TE uses an effective interest method for amortizing its transition costs, often referred to as a "mortgage-style" amortization. The interest rate under this method is equal to the rate of return authorized by the PUCO in the transition plan for TE. In computing the transition cost amortization, TE includes only the portion of the transition revenues associated with transition costs included on the balance sheet prepared under GAAP. Revenues collected for the off balance sheet costs and the return associated with these costs are recognized as income when received.

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Long-Lived Assets

In accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," TE periodically evaluates its long-lived assets to determine whether conditions exist that would indicate that the carrying value of an asset may not be fully recoverable. The accounting standard requires that if the sum of future cash flows (undiscounted) expected to result from an asset is less than the carrying value of the asset, an asset impairment must be recognized in the financial statements. If impairment other than of a temporary nature has occurred, TE recognizes a loss - calculated as the difference between the carrying value and the estimated fair value of the asset (discounted future net cash flows).

Goodwill

In a business combination, the excess of the purchase price over the estimated fair values of the assets acquired and liabilities assumed is recognized as goodwill. Based on the guidance provided by SFAS 142, TE evaluates its goodwill for impairment at least annually and would make such an evaluation more frequently if indicators of impairment should arise. In accordance with the accounting standard, if the fair value of a reporting unit is less than its carrying value (including goodwill), the goodwill is tested for impairment. If impairment were indicated, TE would recognize a loss - calculated as the difference between the implied fair value of its goodwill and the carrying value of the goodwill. TE's annual review was completed in the third quarter of 2003, with no impairment of goodwill indicated. The forecasts used in TE's evaluation of goodwill reflect operations consistent with its general business assumptions. Unanticipated changes in those assumptions could have a significant effect on its future evaluations of goodwill. As of September 30, 2003, TE had approximately \$505 million of goodwill.

RECENTLY ISSUED ACCOUNTING STANDARDS

FIN 46, "Consolidation of Variable Interest Entities - an interpretation of ARB 51"

In January 2003, the FASB issued this interpretation of ARB No. 51, "Consolidated Financial Statements". This Interpretation requires the consolidation of a variable interest entity (VIE) by an enterprise if that enterprise either absorbs a majority of the VIE's expected losses or receives a majority of the VIE's expected residual returns as a result of ownership,

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contractual or other financial interests in the VIE. Currently, entities are generally consolidated by an enterprise that has a controlling financial interest through ownership of a majority voting interest in the entity.

FIN 46 defines a VIE as an entity in which equity investors do not have the characteristics of a controlling financial interest nor have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIE's created after January 31, 2003, are immediately subject to the provisions of FIN 46. The FASB recently deferred implementation of FIN 46 for VIE's created before February 1, 2003, until the first reporting period ending after December 15, 2003 (TE's quarter ending December 31, 2003.)

TE currently has transactions with entities in connection with sale and leaseback arrangements which may fall within the scope of this interpretation and which meet the definition of a VIE in accordance with FIN 46. One such entity is the Shippingport Capital Trust which acquired all of the lease obligation bonds issued in connection with the sale and leaseback in 1987 of interests in the Bruce Mansfield Plant held by TE and CEI, an affiliated company. The equity ownership of this trust includes a 0.34% interest held by Toledo Edison Capital Corporation, a majority owned subsidiary, and 4.85% interests held by unaffiliated third parties. The assets and liabilities of the trust are currently included on a proportionate basis in the financial statements of TE and CEI. Adoption of FIN 46 may result in reporting all of the trust assets and liabilities on the books of CEI. TE is also evaluating its interests in the owner trusts that acquired the interests in the Bruce Mansfield Plant and Beaver Valley Unit 2. TE has not completed its evaluation to determine if it would be the primary beneficiary and therefore required to consolidate these trusts.

The FASB continues to provide additional guidance on implementing FIN 46 and recently proposed modifications and clarifications with a comment period ending December 1, 2003. As this guidance is finalized, TE will continue to assess the accounting and disclosure impact of FIN 46 with respect to the VIE's discussed above as well as other potential VIE's.

EITF Issue No. 01-08, "Determining whether an Arrangement Contains a Lease"

In May 2003, the EITF reached a consensus on Issue No. 01-08, regarding when arrangements contain a lease. Based on the EITF consensus, an arrangement contains a lease if (1) it identifies specific property, plant or equipment (explicitly or implicitly), and (2) the arrangement transfers the right to the purchaser to control the use of the property, plant or equipment. The consensus is to be applied prospectively to arrangements committed to, modified or acquired through a business combination, beginning in the third quarter of 2003. The adoption of this consensus as of July 1, 2003 did not impact TE's financial statements.

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	Three Months Ended September 30,	
	2003	2002
		(In thousands)
OPERATING REVENUES.....	\$145,904	\$131,917
OPERATING EXPENSES AND TAXES:		
Fuel.....	6,142	6,568
Purchased power.....	44,761	40,057
Nuclear operating costs.....	25,448	19,155
Other operating costs.....	15,141	13,365
Total operation and maintenance expenses.....	91,492	79,145
Provision for depreciation and amortization.....	13,461	14,203
General taxes.....	6,093	6,720
Income taxes.....	14,990	13,044
Total operating expenses and taxes.....	126,036	113,112
OPERATING INCOME.....	19,868	18,805
OTHER INCOME.....	465	739
INCOME BEFORE NET INTEREST CHARGES.....	20,333	19,544
NET INTEREST CHARGES:		
Interest expense.....	3,788	4,188
Allowance for borrowed funds used during construction..	(844)	(447)
Net interest charges.....	2,944	3,741
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	17,389	15,803
Cumulative effect of accounting change (net of income taxes of \$7,532,000) (Note 5).....	--	--
NET INCOME.....	17,389	15,803
PREFERRED STOCK DIVIDEND REQUIREMENTS.....	639	926
EARNINGS ON COMMON STOCK.....	\$ 16,750	\$ 14,877

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PENNSYLVANIA POWER COMPANY

BALANCE SHEETS

(Unaudited)
September 30,
2003

(In thou

ASSETS

UTILITY PLANT:

In service.....	\$793,153
Less--Accumulated provision for depreciation.....	323,714

	469,439

Construction work in progress-

Electric plant.....	63,054
Nuclear fuel.....	4,050

	67,104

	536,543

OTHER PROPERTY AND INVESTMENTS:

Nuclear plant decommissioning trusts.....	127,212
Long-term notes receivable from associated companies.....	39,493
Other.....	2,131

	168,836

CURRENT ASSETS:

Cash and cash equivalents.....	41
Receivables-	
Customers (less accumulated provisions of \$747,000 and \$702,000, respectively, for uncollectible accounts).....	45,511
Associated companies.....	27,540
Other.....	1,681
Notes receivable from associated companies.....	486
Materials and supplies, at average cost.....	30,874
Prepayments.....	12,321

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	118,454

DEFERRED CHARGES:	
Regulatory assets.....	50,157
Other.....	7,447

	57,604

	\$881,437
	=====

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PENNSYLVANIA POWER COMPANY

BALANCE SHEETS

(Unaudited)
September 30,
2003

(In thou)

CAPITALIZATION AND LIABILITIES

CAPITALIZATION:

Common stockholder's equity-	
Common stock, \$30 par value, authorized 6,500,000 shares -	
6,290,000 shares outstanding.....	\$188,700
Other paid-in capital.....	(310)
Accumulated other comprehensive loss.....	(22,259)
Retained earnings.....	38,129

Total common stockholder's equity.....	204,260
Preferred stock-	
Not subject to mandatory redemption.....	39,105
Subject to mandatory redemption (Note 5).....	--
Long-term debt and other long-term obligations-	
Preferred stock subject to mandatory redemption (Note 5).....	13,500
Other.....	150,538

	407,403

CURRENT LIABILITIES:

Currently payable long-term debt and preferred stock (Note 5).....	61,024
Accounts payable-	
Associated companies.....	51,352
Other.....	360
Notes payable to associated companies.....	8,290
Accrued taxes.....	35,332
Accrued interest.....	3,086
Other.....	9,091

	168,535

DEFERRED CREDITS:	
Accumulated deferred income taxes.....	97,513
Accumulated deferred investment tax credits.....	3,590
Asset retirement obligation.....	127,450
Nuclear plant decommissioning costs.....	--
Other.....	76,946

	305,499

COMMITMENTS, GUARANTEES AND CONTINGENCIES (Note 2).....	

	\$881,437
	=====

PENNSYLVANIA POWER COMPANY

STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended September 30,	
	2003	2002
	-----	-----
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income.....	\$ 17,389	\$ 15,803
Adjustments to reconcile net income to net cash from operating activities-		
Provision for depreciation and amortization.....	13,461	14,203
Nuclear fuel and lease amortization.....	4,607	5,054
Deferred income taxes, net.....	(2,378)	(1,731)
Amortization of investment tax credits.....	(598)	(643)
Cumulative effect of accounting change (Note 5)....	--	--
Receivables.....	(9,122)	376
Materials and supplies.....	(45)	(1,766)
Accounts payable.....	1,244	161
Accrued taxes.....	14,024	(18,063)
Accrued interest.....	(2,496)	(1,849)
Prepayments and other current assets.....	5,503	4,886
Other.....	4,026	1,461
	-----	-----
Net cash provided from operating activities.....	45,615	17,892
	-----	-----

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CASH FLOWS FROM FINANCING ACTIVITIES:

New Financing-		
Long-term debt.....	--	14,500
Short-term borrowings, net.....	8,290	--
Redemptions and Repayments-		
Long-term debt.....	(40,052)	(15,031)
Dividend Payments-		
Common stock.....	(11,000)	(20,700)
Preferred stock.....	(911)	(926)
	-----	-----
Net cash used for financing activities.....	(43,673)	(22,157)
	-----	-----

CASH FLOWS FROM INVESTING ACTIVITIES:

Property additions.....	(12,017)	(8,210)
Contributions to nuclear decommissioning trusts.....	(797)	(399)
Notes receivable from associated companies, net.....	9,646	14,982
Other.....	1,226	(1,244)
	-----	-----
Net cash provided from (used for) investing activities	(1,942)	5,129
	-----	-----

Net increase (decrease) in cash and cash equivalents.....	--	864
Cash and cash equivalents at beginning of period.....	41	590
	-----	-----
Cash and cash equivalents at end of period.....	\$ 41	\$ 1,454
	=====	=====

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders and Board
of Directors of Pennsylvania
Power Company:

We have reviewed the accompanying balance sheet of Pennsylvania Power Company as of September 30, 2003, and the related statements of income and cash flows for each of the three-month and nine-month periods ended September 30, 2003 and 2002. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American

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Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited in accordance with auditing standards generally accepted in the United States of America, the balance sheet and the statement of capitalization as of December 31, 2002, and the related statements of income, common stockholder's equity, preferred stock, cash flows and taxes for the year then ended (not presented herein), and in our report dated February 28, 2003 we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying balance sheet as of December 31, 2002, is fairly stated in all material respects in relation to the balance sheet from which it has been derived.

PricewaterhouseCoopers LLP
Cleveland, Ohio
November 13, 2003

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PENNSYLVANIA POWER COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Penn is a wholly owned, electric utility subsidiary of OE. Penn conducts business in western Pennsylvania, providing regulated electric distribution services. Penn also provides generation services to those customers electing to retain it as their power supplier. Penn provides power directly to wholesale customers under previously negotiated contracts. Penn has unbundled the price of electricity into its component elements - including generation, transmission, distribution and transition charges. Its power supply requirements are provided by FES - an affiliated company.

RESULTS OF OPERATIONS

Earnings on common stock in the third quarter of 2003 increased to \$16.8 million from \$14.9 million in the third quarter of 2002. In the first nine months of 2003, earnings on common stock decreased to \$24.2 million from \$43.0 million in the first nine months of 2002. Earnings in the first nine months of 2003 included an after-tax credit of \$10.6 million from the cumulative effect of an accounting change due to the adoption of SFAS 143, "Accounting for Asset Retirement Obligations." Income before the cumulative effect was \$16.1 million in the first nine months of 2003 compared to income of \$45.8 million for the same period of 2002. The increased earnings in the third quarter of 2003 reflected higher operating revenues, but were partially offset by higher operating costs - primarily nuclear operating costs, purchased power and employee benefit costs. The lower results for the first nine months of 2003 were primarily due to higher nuclear operating costs, purchased power costs and

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employee benefit costs. These increased costs were partially offset by higher operating revenues, lower fuel costs and reduced financing costs.

Operating revenues increased by \$14.0 million, or 10.6%, in the third quarter and \$6.8 million, or 1.8%, in the first nine months of 2003 compared with the same periods of 2002. The higher revenues primarily resulted from increased wholesale revenues of \$10.1 million and \$10.5 million in the third quarter and first nine months of 2003, respectively, as compared to the same periods of 2002. In addition, higher retail generation sales revenues contributed \$3.5 million and \$0.9 million in the third quarter and first nine months, respectively.

Distribution deliveries increased 2.9% in the third quarter of 2003 compared with the same quarter in 2002. This increase reflected increases in commercial and industrial sales of 6.9% and 6.0%, respectively, partially offset by a residential customer sales decrease of 3.1% caused by the milder weather in the third quarter of 2003 which reduced air conditioning demands. This weather-related effect resulted in a nearly flat change in distribution delivery revenues in the third quarter of 2003 from the same quarter of 2002. In the first nine months of 2003, distribution deliveries decreased 1.2% compared with the corresponding period of 2002, principally reflecting decreases in the residential and industrial customer sectors. The residential customer sales decreases were caused by the milder weather in the second and third quarters of 2003 which also reduced air conditioning demands and was the primary cause of lower electricity throughput revenues of \$4.6 million in the first nine months of 2003 from the same period of the prior year.

Wholesale revenues from sales to FES increased by \$11.0 million in the third quarter and \$9.2 million in the first nine months of 2003. These increases reflected higher unit prices, which were partially offset by lower kilowatt-hour sales due to reduced nuclear generation available for sale to FES.

Changes in electric generation sales and distribution deliveries in the third quarter and first nine months of 2003 from the same periods of 2002 are summarized in the following table:

Changes in Kilowatt-Hour Sales	Three Months	Nine Months
Increase (Decrease)		
Electric Generation:		
Retail.....	3.0%	(0.9)%
Wholesale.....	(2.3)%	(17.3)%
Total Electric Generation Sales.....	(0.2)%	(10.8)%
Distribution Deliveries:		
Residential.....	(3.1)%	(1.9)%
Commercial.....	6.9%	2.0%
Industrial.....	6.0%	(3.1)%
Total Distribution Deliveries.....	2.9%	(1.2)%

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Operating Expenses and Taxes

Total operating expenses and taxes increased by \$12.9 million in the third quarter and \$38.0 million in the first nine months of 2003 from the third quarter and first nine months of 2002. The following table presents changes from

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the prior year by expense category.

Operating Expenses and Taxes - Changes	Three Months	Nine Months
Increase (Decrease)	(In millions)	
Fuel.....	\$(0.4)	\$ (4.2)
Purchased power costs.....	4.7	10.1
Nuclear operating costs.....	6.3	46.9
Other operating costs.....	1.7	8.7
Total operation and maintenance expenses..	12.3	61.5
Provision for depreciation and amortization..	(0.7)	(2.4)
General taxes.....	(0.6)	(0.6)
Income taxes.....	1.9	(20.5)
Total increase in operating expenses and taxes	\$12.9	\$ 38.0

Lower fuel costs in the third quarter and first nine months of 2003, compared with the same periods of 2002, resulted from reduced nuclear generation. The increased purchased power costs in both periods of 2003 reflected higher units costs and increased kilowatt-hour purchases. Higher nuclear operating costs occurred, in large part, due to the refueling outages at Beaver Valley Unit 1 (65.00% ownership) in the first quarter of 2003; at Perry (5.24% ownership) in the second quarter of 2003; and at Beaver Valley Unit 2 (13.74% ownership) in the third quarter of 2003, compared with one refueling outage at Beaver Valley Unit 2 in the first quarter of 2002. The increase in other operating costs reflects higher employee benefit costs and increased uncollectible customer accounts.

Charges for depreciation and amortization decreased by \$0.7 million in the third quarter and \$2.4 million in the first nine months of 2003 compared to the third quarter and first nine months of 2002 primarily from lower charges resulting from the implementation of SFAS 143 (\$0.3 million for the third quarter and \$1.2 million for the first nine months of 2003) and revised service life assumptions for generating plants (\$0.3 million for the third quarter and \$0.9 million for the first nine months of 2003).

Net Interest Charges

Net interest charges continued to trend lower, decreasing by approximately \$0.8 million in the third quarter and \$1.7 million in the first nine months of 2003 from the same periods last year, reflecting redemptions and refinancings since the beginning of the third quarter of 2002.

Cumulative Effect of Accounting Change

Upon adoption of SFAS 143 in the first quarter of 2003, Penn recorded an after-tax credit to net income of \$10.6 million. Penn identified applicable legal obligations as defined under the new standard for nuclear power plant decommissioning and reclamation of a sludge disposal pond at the Bruce Mansfield Plant. As a result of adopting SFAS 143 in January 2003, asset retirement costs of \$78 million were recorded as part of the carrying amount of the related long-lived asset, offset by accumulated depreciation of \$9 million. The asset retirement obligation (ARO) liability at the date of adoption was \$121 million, including accumulated accretion for the period from the date the liability was incurred to the date of adoption. As of December 31, 2002, Penn had recorded decommissioning liabilities of \$120 million. Penn expects substantially all of its nuclear decommissioning costs to be recoverable in rates over time. Therefore, it recognized a regulatory liability of \$69 million upon adoption of SFAS 143 for the transition amounts related to establishing the ARO for nuclear

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decommissioning. The remaining cumulative effect adjustment for unrecognized depreciation, offset by the reduction in the liabilities and ceasing the accounting practice of depreciating non-regulated generation assets using a cost of removal component, was an \$18.2 million increase to income, or \$10.6 million net of income taxes (see Note 5).

CAPITAL RESOURCES AND LIQUIDITY

Penn's cash requirements in 2003 for operating expenses, construction expenditures, scheduled debt maturities and preferred stock redemptions are expected to be met without materially increasing its net debt and preferred stock outstanding. Available borrowing capacity under short-term credit facilities will be used to manage working capital requirements. Over the next three years, Penn expects to meet its contractual obligations with cash from operations. Thereafter, Penn expects to use a combination of cash from operations and funds from the capital markets.

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Changes in Cash Position

As of September 30, 2003, Penn had \$41,000 of cash and cash equivalents, compared with \$1.2 million as of December 31, 2002. The major sources for changes in these balances are summarized below.

Cash Flows From Operating Activities

Cash provided from operating activities during the third quarter and first nine months of 2003, compared with the corresponding periods in 2002 were as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2003	2002	2003	2002
Operating Cash Flows				
				(In millions)
Cash earnings (1).....	\$36	\$ 34	\$63	\$ 96
Working capital and other	10	(16)	32	(26)
Total	\$46	\$ 18	\$95	\$ 70

(1) Includes net income, depreciation and amortization, deferred income taxes, investment tax credits and major noncash charges.

Net cash from operating activities increased to \$46 million in the third quarter and \$95 million in the first nine months of 2003 compared with \$18 million and \$70 million, respectively, in the same periods of 2002. The increase in working capital and other primarily was due to an increase of \$32 million in accrued tax liabilities partially offset by a decrease in accounts receivable of \$9 million in the third quarter of 2003 compared with corresponding changes in the third quarter of 2002.

Cash Flows From Financing Activities

In the third quarter of 2003, net cash used for financing activities

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increased to \$44 million from \$22 million in the same period last year. The increase resulted from an increase in redemptions in 2003 compared to 2002.

Penn had approximately \$0.5 million of cash and temporary investments, primarily composed of notes receivable from associated companies and approximately \$8.3 million of short-term indebtedness as of September 30, 2003. Penn may borrow from its affiliates on a short-term basis. Penn had the capability to issue \$230 million of additional first mortgage bonds on the basis of property additions and retired bonds. Based upon applicable earnings coverage tests, Penn could not issue preferred stock as of September 30, 2003.

Cash Flows From Investing Activities

Net cash used for investing activities totaled \$2 million in the third quarter and \$24 million in the first nine months of 2003, compared to net cash provided from investing activities of \$5 million and \$4 million for the same periods of 2002, respectively. The \$7 million change in funds for the third quarter resulted from lower payments received on notes from associated companies and higher property additions as compared to 2002.

During the fourth quarter of 2003, capital requirements for property additions and capital leases are expected to be about \$13 million. Penn has additional requirements of approximately \$1.2 million to meet sinking fund requirements for preferred stock and maturing long-term debt during the fourth quarter of 2003. These requirements are expected to be satisfied from internal cash and short-term credit arrangements.

On August 14, 2003, Moody's Investors Service placed the debt ratings of FirstEnergy and all of its subsidiaries under review for possible downgrade. Moody's stated that the review was prompted by: (1) weaker than expected operating performance and cash flow generation; (2) less progress than expected in reducing debt; (3) continuing high leverage relative to its peer group; and (4) negative impact on cash flow and earnings from the continuing nuclear plant outage at Davis-Besse (Penn has no ownership interest in this facility). Moody's further stated that, in anticipation of Davis-Besse returning to service in the near future and FirstEnergy's continuing to significantly reduce debt and improve its financial profile, "Moody's does not expect that the outcome of the review will result in FirstEnergy's senior unsecured debt rating falling below investment-grade."

On September 30, 2003, Fitch Ratings lowered the senior unsecured ratings of FirstEnergy to "BBB-" from "BBB." Fitch also lowered the senior secured, senior unsecured, and preferred stock ratings of Met-Ed, Penelec, CEI, and TE. In addition, Fitch affirmed the ratings of OE, Penn and JCP&L. Fitch announced that the Rating Outlook is Stable for the securities of FirstEnergy, and all of the securities of its electric utility operating companies. Fitch stated that the changes to the long-term debt ratings were "driven by the high debt leverage of the parent FirstEnergy. Despite management's commitment to reduce debt related to the GPU merger, subsequent cash flows have been

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vulnerable to unfavorable events, slowing the pace of FirstEnergy's debt reduction efforts. The Stable Outlook reflects the success of FirstEnergy's recent common equity offering and management's focus on a relatively conservative integrated utility strategy."

On October 27, 2003, Standard & Poors (S&P) stated that the `BBB' corporate credit and the `BBB-' senior unsecured ratings for FirstEnergy and its utility subsidiaries remain on CreditWatch with negative implications. The ratings were placed on CreditWatch on August 18, 2003, and reflect S&P's

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concerns regarding the potential impact of the August 14, 2003 blackout investigation on FirstEnergy's deleveraging strategy and its overall efforts to improve its credit profile.

At that time, S&P also noted other challenges facing FirstEnergy, including the extended Davis-Besse outage; the recent U.S. District Court ruling regarding the Sammis Plant (see Environmental Matters below); reliability concerns in subsidiary JCP&L's service territory; and FirstEnergy's credibility with regulators and federal officials.

S&P further noted several factors that could aid FirstEnergy in resolution of the CreditWatch, including strengthening its balance sheet. FirstEnergy directly addressed this concern through its recently completed common equity offering that raised approximately \$935 million in net proceeds, which was used to reduce bank debt. S&P described the equity offering as a "positive credit development" and also noted the recent renewal of FirstEnergy's \$1 billion revolver facilities as a "favorable development, as it mitigates liquidity concerns." S&P also indicated that should various ongoing investigations into the causal factors of the August 14, 2003 blackout establish that the blackout resulted from no negligence or breach of compliance standards on FirstEnergy's part, the CreditWatch could be removed and the outlook returned to negative. S&P deemed a "stable" credit outlook unlikely until issues such as the restart of Davis-Besse are resolved and the potential effect of the litigation relating to the Sammis plant (the second trial is scheduled for April 2004) are known. Extension of the Ohio transition plan will be viewed as a positive development and will support an outlook revision to stable.

On October 27, 2003, S&P also noted that the ratings on FirstEnergy and its subsidiaries incorporate such strengths as the ability to generate free cash flow, power generation contracted to its transmission and distribution subsidiaries through 2005, and the hedging of its short power position arising from its PLR obligation in Pennsylvania. S&P said that these strengths are offset by slower than anticipated reduction of FirstEnergy debt, remaining volume risks of PLR obligations, the extended outage at Davis-Besse, the unfavorable outcome of the New Jersey rate proceeding and regulatory uncertainty in Ohio. S&P also said that it now views FirstEnergy's liquidity position as average, following FirstEnergy's renewal of its \$1 billion credit facilities.

EQUITY PRICE RISK

Included in Penn's nuclear decommissioning trust investments are marketable equity securities carried at their market value of approximately \$45 million and \$38 million as of September 30, 2003 and December 31, 2002, respectively. A hypothetical 10% decrease in prices quoted by stock exchanges would result in a \$4 million reduction in fair value as of September 30, 2003.

OUTLOOK

Beginning in 1999, Penn's customers were able to select alternative energy suppliers and customer rates have been restructured into separate components to support customer choice. A number of customers previously served by alternative energy providers have returned to Penn for their energy needs. Penn has a continuing responsibility to provide power to those customers not choosing to receive power from an alternative energy supplier subject to certain limits. Adopting new approaches to regulation and experiencing new forms of competition have created new uncertainties. Penn continues to deliver power to residential homes and businesses through its existing distribution system, which remains regulated.

Regulatory Matters

Regulatory assets are costs which have been authorized by the PPUC and

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the Federal Energy Regulatory Commission for recovery from customers in future periods and, without such authorization, would have been charged to income when incurred. Regulatory assets declined by \$106.7 million during the first nine months of 2003, to \$50.2 million as of September 30, 2003; \$69.2 million of the decrease related to the cumulative adjustment related to the adoption of SFAS 143. All of Penn's regulatory assets are expected to continue to be recovered under the provisions of its regulatory plan.

As part of Penn's transition plan it is obligated to supply electricity to customers who do not choose an alternative supplier. Penn's competitive retail sales affiliate, FES, acts as an alternate supplier for a portion of the load in Penn's franchise area.

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Environmental Matters

Penn believes it is in compliance with the current sulfur dioxide (SO₂) and nitrogen oxide (NO_x) reduction requirements under the Clean Air Act Amendments of 1990. In 1998, the Environmental Protection Agency (EPA) finalized regulations requiring additional NO_x reductions in the future from Penn's Ohio and Pennsylvania facilities. Various regulatory and judicial actions have since sought to further define NO_x reduction requirements (see Note 2 - Environmental Matters). Penn continues to evaluate its compliance plans and other compliance options.

Violations of federally approved SO₂ regulations can result in shutdown of the generating unit involved and/or civil or criminal penalties of up to \$31,500 for each day a unit is in violation. The EPA has an interim enforcement policy for SO₂ regulations in Ohio that allows for compliance based on a 30-day averaging period. Penn cannot predict what action the EPA may take in the future with respect to the interim enforcement policy.

In 1999 and 2000, the EPA issued Notices of Violation (NOV) or a Compliance Order to nine utilities covering 44 power plants, including the W.H. Sammis Plant. In addition, the U.S. Department of Justice filed eight civil complaints against various investor-owned utilities, which included a complaint against OE and Penn in the U.S. District Court for the Southern District of Ohio. The NOV and complaint allege violations of the Clean Air Act (CAA). The civil complaint against OE and Penn requests installation of "best available control technology" as well as civil penalties of up to \$27,500 per day of violation. On August 7, the United States District Court for the Southern District of Ohio ruled that 11 projects undertaken at the Sammis Plant between 1984 and 1998 required pre-construction permits under the Clean Air Act. The ruling concludes the liability phase of the case, which deals with applicability of Prevention of Significant Deterioration provisions of the Clean Air Act. The remedy phase, which is currently scheduled to be ready for trial beginning April 19, 2004, will address civil penalties and what, if any, actions should be taken to further reduce emissions at the plant. In the ruling, the Court indicated that the remedies it "may consider and impose involved a much broader, equitable analysis, requiring the Court to consider air quality, public health, economic impact and employment consequences. The Court may also consider the less than consistent efforts of the EPA to apply and further enforce the Clean Air Act." The potential penalties that may be imposed, as well as the capital expenditures necessary to comply with substantive remedial measures that may be required, could have a material adverse impact on the Company's financial condition and results of operations. Management is unable to predict the ultimate outcome of this matter and no liability has been recorded as of September 30, 2003.

In December 2000, the EPA announced it would proceed with the

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development of regulations regarding hazardous air pollutants from electric power plants. The EPA identified mercury as the hazardous air pollutant of greatest concern. The EPA established a schedule to propose regulations by December 2003 and issue final regulations by December 2004. The future cost of compliance with these regulations may be substantial.

As a result of the Resource Conservation and Recovery Act of 1976, as amended, and the Toxic Substances Control Act of 1976, federal and state hazardous waste regulations have been promulgated. Certain fossil-fuel combustion waste products, such as coal ash, were exempted from hazardous waste disposal requirements pending the EPA's evaluation of the need for future regulation. The EPA has issued its final regulatory determination that regulation of coal ash as a hazardous waste is unnecessary. In April 2000, the EPA announced that it will develop national standards regulating disposal of coal ash under its authority to regulate nonhazardous waste.

Penn believes it is in compliance with the current SO₂ and NO_x reduction requirements under the Clean Air Act Amendments of 1990. SO₂ reductions are being achieved by burning lower-sulfur fuel, generating more electricity from lower-emitting plants, and/or using emission allowances. NO_x reductions are being achieved through combustion controls and the generation of more electricity at lower-emitting plants. In September 1998, the EPA finalized regulations requiring additional NO_x reductions from its Pennsylvania facilities. The EPA's NO_x Transport Rule imposes uniform reductions of NO_x emissions (an approximate 85% reduction in utility plant NO_x emissions from projected 2007 emissions) across a region of nineteen states and the District of Columbia, including New Jersey, Ohio and Pennsylvania, based on a conclusion that such NO_x emissions are contributing significantly to ozone pollution in the eastern United States. State Implementation Plans (SIP) must comply by May 31, 2004 with individual state NO_x budgets established by the EPA. Pennsylvania submitted a SIP that required compliance with the NO_x budgets at Penn's Pennsylvania facilities by May 1, 2003.

The effects of compliance on Penn with regard to environmental matters could have a material adverse effect on its earnings and competitive position. These environmental regulations affect Penn's earnings and competitive position to the extent it 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. Penn believes it is in material compliance with existing regulations, but are unable to predict how and when applicable environmental regulations may change and what, if any, the effects of any such change would be.

Legal Matters

Various lawsuits, claims and proceedings related to Penn's normal business operations are pending against Penn, the most significant of which are described above.

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SIGNIFICANT ACCOUNTING POLICIES

Penn prepares its consolidated financial statements in accordance with accounting principles that are generally accepted in the United States. Application of these principles often requires a high degree of judgment, estimates and assumptions that affect Penn's financial results. All of Penn's assets are subject to their own specific risks and uncertainties and are regularly reviewed for impairment. Penn's more significant accounting policies are described below.

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Regulatory Accounting

Penn is subject to regulation that sets the prices (rates) it is permitted to charge its customers based on the costs that the regulatory agencies determine Penn is permitted to recover. At times, regulators permit the future recovery through rates of costs that would be currently charged to expense by an unregulated company. This rate-making process results in the recording of regulatory assets based on anticipated future cash inflows. As a result of the changing regulatory framework in Pennsylvania, a significant amount of regulatory assets have been recorded - \$50 million as of September 30, 2003. Penn regularly reviews these assets to assess their ultimate recoverability within the approved regulatory guidelines. Impairment risk associated with these assets relates to potentially adverse legislative, judicial or regulatory actions in the future.

Revenue Recognition

Penn follows the accrual method of accounting for revenues, recognizing revenue for kilowatt-hours that have been delivered but not yet billed through the end of the accounting period. The determination of unbilled revenues requires management to make various estimates including:

- o Net energy generated or purchased for retail load
- o Losses of energy over distribution lines
- o Allocations to distribution companies within the FirstEnergy system
- o Mix of kilowatt-hour usage by residential, commercial and industrial customers
- o Kilowatt-hour usage of customers receiving electricity from alternative suppliers

Pension and Other Postretirement Benefits Accounting

FirstEnergy's reported costs of providing non-contributory defined pension benefits and OPEB are dependent upon numerous factors resulting from actual plan experience and certain assumptions.

Pension and OPEB costs are affected by employee demographics (including age, compensation levels, and employment periods), the level of contributions FirstEnergy makes to the plans, and earnings on plan assets. Pension and OPEB costs may also be affected by changes to key assumptions, including anticipated rates of return on plan assets, the discount rates and health care trend rates used in determining the projected benefit obligations for pension and OPEB costs.

In accordance with SFAS 87, "Employers' Accounting for Pensions" and SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," changes in pension and OPEB obligations associated with these factors may not be immediately recognized as costs on the income statement, but generally are recognized in future years over the remaining average service period of plan participants. SFAS 87 and SFAS 106 delay recognition of changes due to the long-term nature of pension and OPEB obligations and the varying market conditions likely to occur over long periods of time. As such, significant portions of pension and OPEB costs recorded in any period may not reflect the actual level of cash benefits provided to plan participants and are significantly influenced by assumptions about future market conditions and plan participants' experience.

In selecting an assumed discount rate, FirstEnergy considers currently available rates of return on high-quality fixed income investments expected to be available during the period to maturity of the pension and other postretirement benefit obligations. Due to the significant decline in corporate bond yields and interest rates in general during 2002, FirstEnergy reduced the

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assumed discount rate as of December 31, 2002 to 6.75% from 7.25% used in 2001.

FirstEnergy's assumed rate of return on pension plan assets considers historical market returns and economic forecasts for the types of investments held by its pension trusts. The market values of FirstEnergy's pension assets have been affected by sharp declines in the equity markets since mid-2000. In 2002 and 2001, plan assets earned (11.3)% and (5.5)%, respectively. FirstEnergy's pension costs in 2002 were computed assuming a 10.25% rate of return on plan assets. As of December 31, 2002 the assumed return on plan assets was reduced to 9.00% based upon FirstEnergy's projection of future returns and pension trust investment allocation of approximately 60% large cap equities, 10% small cap equities and 30% bonds.

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Based on pension assumptions and pension plan assets as of December 31, 2002, FirstEnergy is not required to fund its pension plans in 2003. While OPEB plan assets have also been affected by sharp declines in the equity market, the impact is not as significant due to the relative size of the plan assets. However, health care cost trends have significantly increased and will affect future OPEB costs. The 2003 composite health care trend rate assumption is approximately 10%-12% gradually decreasing to 5% in later years, compared to the 2002 assumption of approximately 10% in 2002, gradually decreasing to 4%-6% in later years. In determining its trend rate assumptions, FirstEnergy included the specific provisions of its health care plans, the demographics and utilization rates of plan participants, actual cost increases experienced in its health care plans, and projections of future medical trend rates.

Long-Lived Assets

In accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," Penn periodically evaluates its long-lived assets to determine whether conditions exist that would indicate that the carrying value of an asset may not be fully recoverable. The accounting standard requires that if the sum of future cash flows (undiscounted) expected to result from an asset is less than the carrying value of the asset, an asset impairment must be recognized in the financial statements. If impairment other than of a temporary nature has occurred, Penn recognizes a loss - calculated as the difference between the carrying value and the estimated fair value of the asset (discounted future net cash flows).

RECENTLY ISSUED ACCOUNTING STANDARDS

FIN 46, "Consolidation of Variable Interest Entities - an interpretation of ARB 51"

In January 2003, the FASB issued this interpretation of ARB No. 51, "Consolidated Financial Statements". This Interpretation requires the consolidation of a variable interest entity (VIE) by an enterprise if that enterprise either absorbs a majority of the VIE's expected losses or receives a majority of the VIE's expected residual returns as a result of ownership, contractual or other financial interests in the VIE. Currently, entities are generally consolidated by an enterprise that has a controlling financial interest through ownership of a majority voting interest in the entity.

FIN 46 defines a VIE as an entity in which equity investors do not have the characteristics of a controlling financial interest nor have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIE's created after January 31, 2003, are immediately subject to the provisions of FIN 46. The FASB recently deferred

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implementation of FIN 46 for VIE's created before February 1, 2003, until the first reporting period ending after December 15, 2003 (Penn's quarter ending December 31, 2003.)

The adoption of FIN 46 for variable interests created after January 31, 2003 did not have an impact on Penn's financial statements. We are continuing to review the provisions of FIN 46 to determine its impact, if any, on future reporting periods with respect to interests in VIE's created prior to February 1, 2003, and do not currently anticipate that adoption will result in any material accounting or disclosure requirements.

SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity"

In May 2003, the FASB issued SFAS 150, which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. In accordance with the standard, certain financial instruments that embody obligations for the issuer are required to be classified as liabilities

Upon adoption of SFAS 150, on July 1, 2003, Penn reclassified as debt its preferred stock subject to mandatory redemption having carrying values of approximately \$13.5 million as of September 30, 2003. Prior to the adoption of SFAS 150, dividends on preferred stock subject to mandatory redemption in Penn's Statements of Income were not included in net interest charges. Therefore, the application of SFAS 150 required the reclassification of such preferred dividends to net interest charges.

EITF Issue No. 01-08, "Determining whether an Arrangement Contains a Lease"

In May 2003, the EITF reached a consensus on Issue No. 01-08, regarding when arrangements contain a lease. Based on the EITF consensus, an arrangement contains a lease if (1) it identifies specific property, plant or equipment (explicitly or implicitly), and (2) the arrangement transfers the right to the purchaser to control the use of the property, plant or equipment. The consensus is to be applied prospectively to arrangements committed to, modified or acquired through a business combination, beginning in the third quarter of 2003. The adoption of this consensus as of July 1, 2003 did not impact Penn's financial statements.

JERSEY CENTRAL POWER & LIGHT COMPANY

CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended September 30,		
	----- 2003 -----	2002 -----	
	(In thousands)		
OPERATING REVENUES.....	\$743,145	\$779,955	\$1

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	-----	-----	-----
OPERATING EXPENSES AND TAXES:			
Fuel.....	524	1,873	
Purchased power.....	416,308	453,081	1
Other operating costs.....	111,204	50,587	
	-----	-----	
Total operation and maintenance expenses.....	528,036	505,541	1
Provision for depreciation and amortization.....	68,523	67,645	
General taxes.....	18,506	17,740	
Income taxes.....	44,461	67,689	
	-----	-----	
Total operating expenses and taxes.....	659,526	658,615	1
	-----	-----	
OPERATING INCOME.....	83,619	121,340	
OTHER INCOME.....	1,061	1,269	
	-----	-----	
INCOME BEFORE NET INTEREST CHARGES.....	84,680	122,609	
	-----	-----	
NET INTEREST CHARGES:			
Interest on long-term debt.....	20,888	23,721	
Allowance for borrowed funds used during construction..	39	(301)	
Deferred interest.....	(1,541)	(3,722)	
Other interest expense.....	1,131	(538)	
Subsidiary's preferred stock dividend requirements.....	--	2,674	
	-----	-----	
Net interest charges.....	20,517	21,834	
	-----	-----	
NET INCOME.....	64,163	100,775	
PREFERRED STOCK DIVIDEND REQUIREMENTS.....	125	(2,773)	
	-----	-----	
EARNINGS ON COMMON STOCK.....	\$ 64,038	\$103,548	\$
	=====	=====	=====

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(Unaudited)
September 30,
2003

(In thou

ASSETS

UTILITY PLANT:

In service.....	\$3,603,705
Less--Accumulated provision for depreciation.....	1,500,171

	2,103,534
Construction work in progress - electric plant.....	41,320

	2,144,854

OTHER PROPERTY AND INVESTMENTS:

Nuclear plant decommissioning trusts.....	117,768
Nuclear fuel disposal trust.....	152,341
Long-term notes receivable from associated companies.....	21,317
Other.....	24,206

	315,632

CURRENT ASSETS:

Cash and cash equivalents.....	1,270
Receivables-	
Customers (less accumulated provisions of \$4,998,000 and \$4,216,000 respectively, for uncollectible accounts).....	287,062
Associated companies.....	88,807
Other	41,716
Notes receivable from associated companies.....	--
Materials and supplies, at average cost.....	2,076
Prepayments and other.....	58,278

	479,209

DEFERRED CHARGES:

Regulatory assets.....	2,926,669
Goodwill.....	2,000,875
Other.....	12,558

	4,940,102

	\$7,879,797
	=====

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JERSEY CENTRAL POWER & LIGHT COMPANY

CONSOLIDATED BALANCE SHEETS

(Unaudited)
September 30,
2003

(In thousands)

CAPITALIZATION AND LIABILITIES

CAPITALIZATION:

Common stockholder's equity-	
Common stock, \$10 par value, authorized 16,000,000 shares - 15,371,270 shares outstanding.....	\$ 153,713
Other paid-in capital.....	3,029,218
Accumulated other comprehensive loss.....	(64,740)
Retained earnings.....	38,641

Total common stockholder's equity.....	3,156,832
Preferred stock not subject to mandatory redemption.....	12,649
Company-obligated mandatorily redeemable preferred securities.....	--
Long-term debt.....	1,261,690

	4,431,171

CURRENT LIABILITIES:

Currently payable long-term debt.....	15,600
Accounts payable-	
Associated companies.....	87,553
Other.....	121,833
Notes payable to associated companies.....	287,867
Accrued taxes.....	29,932
Accrued interest.....	26,124
Other.....	64,736

	633,645

DEFERRED CREDITS:

Accumulated deferred income taxes.....	619,506
Accumulated deferred investment tax credits.....	8,232
Power purchase contract loss liability.....	1,599,904
Nuclear fuel disposal costs.....	167,537
Asset retirement obligation.....	108,343
Retirement benefits.....	192,492
Nuclear decommissioning costs.....	--
Other.....	118,967

	2,814,981

COMMITMENTS, GUARANTEES AND CONTINGENCIES (Note 2).....

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

	Three Months Ended September 30,		
	2003	2002	
			(In thousands)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income.....	\$ 64,163	\$ 100,775	\$
Adjustments to reconcile net income to net cash from operating activities-			
Provision for depreciation and amortization.....	68,523	67,645	
Deferred costs, net.....	(34,004)	(122,338)	
Deferred income taxes, net.....	7,362	48,583	
Amortization of investment tax credits.....	(557)	(899)	
Accrued retirement benefit obligation.....	22,739	--	
Accrued compensation, net.....	(829)	--	
Revenue credits to customers.....	(19,583)	(17,434)	
Disallowed purchased power costs (see Note 4).....	--	--	
Receivables.....	(30,971)	(14,584)	
Materials and supplies.....	37	(1)	
Accounts payable.....	(105,130)	(21,250)	
Prepayments and other current assets.....	49,888	41,706	
Accrued taxes.....	11,279	7,761	
Accrued interest.....	7,391	8,570	
Other.....	(32,954)	(2,096)	
	-----	-----	
Net cash provided from operating activities	7,354	96,438	
	-----	-----	
CASH FLOWS FROM FINANCING ACTIVITIES:			
New Financing-			
Long-term debt.....	--	--	
Short-term borrowings, net.....	91,741	--	
Redemptions and Repayments-			
Preferred stock.....	--	(46,500)	
Long-term debt.....	(82,388)	(146,033)	
Short-term borrowings, net.....	--	--	
Dividend Payments-			
Common stock.....	--	(57,700)	

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Preferred stock.....	--	(256)	
	-----	-----	
Net cash provided from (used for) financing activities	9,353	(250,489)	
	-----	-----	
CASH FLOWS FROM INVESTING ACTIVITIES:			
Property additions.....	(19,891)	(23,567)	
Decommissioning trust investments.....	(742)	(304)	
Associated companies loans, net.....	(984)	--	
Other.....	153	(7,782)	
	-----	-----	
Net cash provided from (used for) investing activities	(21,464)	(31,653)	
	-----	-----	
Net increase (decrease) in cash and cash equivalents.....	(4,757)	(185,704)	
Cash and cash equivalents at beginning of period.....	6,027	247,296	
	-----	-----	
Cash and cash equivalents at end of period.....	\$ 1,270	\$ 61,592	\$
	=====	=====	=====

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders and Board
of Directors of Jersey Central
Power & Light Company:

We have reviewed the accompanying consolidated balance sheet of Jersey Central Power & Light Company and its subsidiaries as of September 30, 2003, and the related consolidated statements of income and cash flows for each of the three-month and nine-month periods ended September 30, 2003 and 2002. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

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We previously audited in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet and the consolidated statement of capitalization as of December 31, 2002, and the related consolidated statements of income, common stockholder's equity, preferred stock, cash flows and taxes for the year then ended (not presented herein), and in our report dated February 28, 2003 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2002, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

PricewaterhouseCoopers LLP
Cleveland, Ohio
November 13, 2003

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JERSEY CENTRAL POWER & LIGHT COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

JCP&L provides regulated transmission and distribution services in northern, western and east central New Jersey. New Jersey customers are able to choose their electricity suppliers as a result of legislation which restructured the electric utility industry. JCP&L's regulatory plan required unbundling the price for electricity into its component elements - including generation, transmission, distribution and transition charges. Also under the regulatory plan, JCP&L continues to deliver power to homes and businesses through its existing distribution system. The "provider of last resort" (PLR) obligation known as Basic Generation Services (BGS) for customers who have not selected an alternative supplier had been removed from JCP&L as the result of the NJBPU approved auctions of those obligations.

RESULTS OF OPERATIONS

Earnings on common stock in the third quarter of 2003 decreased to \$64.0 million from \$103.5 million in the third quarter of 2002. For the first nine months of 2003, earnings on common stock were \$74.6 million as compared to \$199.7 million for the same period of 2002, as a result of non-cash charges aggregating \$171.6 million (\$103 million after tax) due to a rate case decision disallowing recovery of certain regulatory assets (see Regulatory Matters). Excluding the impact of those non-cash charges earnings on common stock were \$167.2 million for the first nine months of 2003.

Operating revenues decreased \$36.8 million or 4.7% in the third quarter but increased \$211.0 million or 12.2% in the first nine months of 2003, respectively, compared with the same periods in 2002. The lower revenues in the third quarter of 2003 compared to the previous year resulted from decreased wholesale revenues of \$54.5 million. The milder summer weather adversely impacted the opportunities to sell in the wholesale market. The increase in revenues for the first nine months of the year was due to a \$124.4 million increase in wholesale revenues and higher distribution deliveries. JCP&L's BGS obligation was transferred to external parties through a February 2002 auction process authorized by the New Jersey Board of Public Utilities (NJBPU). The auction removed JCP&L's BGS obligation for the period August 1, 2002 through July 31, 2003, and as a result, JCP&L has been selling all of its self-supplied energy (from non-utility generation power contracts and owned generation) into

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the wholesale market. The NJBPU subsequently approved the February 2003 BGS auction results for the period beginning August 1, 2003. The operating revenue changes also included increased retail generation sales revenue of \$28.1 million and \$39.4 million in the third quarter and first nine months of 2003, respectively, as compared to those periods in 2002. These revenue increases reflected higher unit prices which were partially offset by the effect of lower retail sales of 9.2% and 0.3%, respectively, in the third quarter and first nine months of 2003.

Distribution deliveries increased by 1.6% in the third quarter of 2003 from the corresponding quarter of 2002. Lower unit prices in 2003 more than offset the impact of the increased volume and reduced revenues by \$14.2 million. In addition, revenues reflect the impact of the net revenue decrease effective August 1, 2003, from the NJBPU's decision (see Regulatory Matters). Weather contributed to the \$26.5 million (3.2%) increase in revenue from higher distribution deliveries to retail customers in the first nine months of 2003 compared to the same period last year. Colder temperatures early in the year resulted, in large part, in higher residential and commercial demand, which was partially offset by a decrease in industrial demand. Changes in distribution deliveries in the third quarter and the first nine months of 2003 compared with the same periods of 2002 are summarized in the following table:

Changes in Kilowatt-Hour Deliveries	Three Months	Nine Months

Increase (Decrease)		
Residential.....	4.1%	5.5%
Commercial.....	(2.6)%	5.2%
Industrial.....	3.7%	(2.0)%

Total Distribution Deliveries.....	1.6%	4.3%
=====		

Operating Expenses and Taxes

Total operating expenses and taxes increased by \$0.9 million in the third quarter and \$336.4 million in the first nine months of 2003 compared to the same periods of 2002. These increases include the non-cash charges in the first nine months of 2003 for amounts disallowed in the JCP&L rate case decision (see Regulatory Matters), (\$152.5 million charged to purchased power and \$19.1 million charged to depreciation and amortization). The following table presents changes from the prior year by expense category.

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Operating Expenses and Taxes - Changes	Three Months	Nine Months

Increase (Decrease)	(In millions)	
Fuel.....	\$ (1.3)	\$ (1.0)
Purchased power costs.....	(36.8)	346.8
Other operating costs.....	60.6	70.0

Total operation and maintenance expenses.....	22.5	415.8
Provision for depreciation and amortization.....	0.8	(5.2)
General taxes.....	0.8	8.2
Income taxes.....	(23.2)	(82.4)

Net increase in operating expenses and taxes...	\$ 0.9	\$336.4
=====		

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Purchased power costs decreased by \$36.8 million in the third quarter compared to the prior year due to reduced energy requirements. Excluding the disallowed deferred energy costs of \$152.5 million, purchased power increased \$194.3 million in the first nine months of 2003 compared to the corresponding period of 2002. Increased kilowatt-hours purchased through two-party agreements and changes in the deferred energy and capacity costs were the primary contributors to the increase. Other operating expenses increased \$60.6 million in the third quarter of 2003 and \$70.0 million for the first nine months of 2003, compared to the same periods in 2002, due to higher pension and benefits costs, storm restoration expense and costs associated with an accelerated reliability plan within JCP&L's service territory.

Excluding the disallowed costs discussed above, depreciation and amortization charges decreased by \$12.2 million in the third quarter and \$24.4 million in the first nine months of 2003, due to the cessation of amortization of regulatory assets related to the previously divested Oyster Creek Nuclear Generating Station, demand side management program deferrals and the reduction of depreciation rates on August 1, 2003 resulting from the NJBPU decision (see Regulatory Matters). General taxes increased \$8.2 million in the first nine months of 2003, compared to the corresponding period in 2002, principally due to the absence of a \$9 million energy assessment accrual reduction in the second quarter of 2002.

Net Interest Charges

Net interest charges decreased by \$1.3 million in the third quarter of 2003 and \$3.5 million in the first nine months compared with the same periods of 2002, reflecting debt redemptions since the beginning of the fourth quarter of 2002. Those decreases were partially offset by interest on \$320 million of transition bonds issued in June 2002 (see Note 1) and \$150 million of senior notes issued in May 2003 which were used for redeeming outstanding securities in the second and third quarters of 2003.

CAPITAL RESOURCES AND LIQUIDITY

JCP&L's cash requirements in 2003 for operating expenses, construction expenditures and scheduled debt maturities are expected to be met without materially increasing its net debt and preferred stock outstanding. Available borrowing capacity under short-term credit facilities with affiliates will be used to manage working capital requirements. Over the next three years, JCP&L expects to meet its contractual obligations with cash from operations. Thereafter, JCP&L expects to use a combination of cash from operations and funds from the capital markets.

Changes in Cash Position

As of September 30, 2003, JCP&L had \$1.3 million of cash and cash equivalents, compared with \$4.8 million as of December 31, 2002. The major sources of changes in these balances are summarized below.

Cash Flows From Operating Activities

Cash provided from operating activities during the third quarter and first nine months of 2003 compared to the corresponding periods of 2002 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	-----	-----	-----	-----
	2003	2002	2003	2002
Operating Cash Flows				

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(In millions)				
Cash earnings (1).....	\$ 108	\$75	\$ 256	\$219
Working capital and other	(101)	21	(199)	(33)

Total	\$ 7	\$96	\$ 57	\$186
=====				

(1) Includes net income, depreciation and amortization, deferred income taxes, investment tax credits and major noncash charges.

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Net cash provided from operating activities decreased by \$89 million in the third quarter of 2003 and \$129 million in the first nine months of 2003 compared to the same periods of 2002. The third quarter decrease was due to a \$122 million increase in funds used for working capital and other, partially offset by a \$33 million increase in cash earnings. The change in working capital primarily reflects an \$84 million change in accounts payable.

Cash Flows From Financing Activities

In the third quarter of 2003, net cash provided from financing activities of \$9 million primarily reflected the issuance of \$92 million of short-term debt and an \$83 million repayment of long-term debt. In the third quarter of 2002, net cash used for financing activities totaled \$250 million, due to redemptions (\$192.5 million) and dividend payments of \$57.7 million to FirstEnergy.

As of September 30, 2003, JCP&L had approximately \$1.3 million of cash and temporary investments and \$287.9 million of short-term indebtedness. JCP&L may borrow from its affiliates on a short-term basis. JCP&L will not issue first mortgage bonds (FMB) other than as collateral for senior notes, since its senior note indentures prohibit (subject to certain exceptions) it from issuing any debt which is senior to the senior notes. As of September 30, 2003, JCP&L had the capability to issue \$666 million of additional senior notes based upon FMB collateral. Based upon applicable earnings coverage tests, JCP&L could issue a total of \$783 million of preferred stock (assuming no additional debt was issued) as of September 30, 2003.

Cash Flows From Investing Activities

Net cash used for investing activities totaled \$22 million in the third quarter and \$2 million provided from investing activities in the first nine months of 2003, compared with net cash used of \$32 million and \$82 million in the third quarter and first nine months of 2002. Net cash used for investing in 2003 represented loan repayments from associated companies offset by expenditures for property additions. Net cash used in investing activities in 2002 were principally for property additions.

During the fourth quarter of 2003, capital requirements for property additions are expected to be about \$25 million. JCP&L has additional requirements of approximately \$4 million for maturing long-term debt during the fourth quarter of 2003. These cash requirements are expected to be satisfied from internal cash and short-term credit arrangements.

On August 14, 2003, Moody's Investors Service placed the debt ratings of FirstEnergy and all of its subsidiaries under review for possible downgrade. Moody's stated that the review was prompted by: (1) weaker than expected

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operating performance and cash flow generation; (2) less progress than expected in reducing debt; (3) continuing high leverage relative to its peer group; and (4) negative impact on cash flow and earnings from the continuing nuclear plant outage at Davis-Besse. Moody's further stated that, in anticipation of Davis-Besse returning to service in the near future and FirstEnergy's continuing to significantly reduce debt and improve its financial profile, "Moody's does not expect that the outcome of the review will result in FirstEnergy's senior unsecured debt rating falling below investment-grade."

On September 30, 2003, Fitch Ratings lowered the senior unsecured ratings of FirstEnergy to "BBB-" from "BBB." Fitch also lowered the senior secured, senior unsecured, and preferred stock ratings of Met-Ed, Penelec, CEI, and TE. In addition, Fitch affirmed the ratings of OE, Penn and JCP&L. Fitch announced that the Rating Outlook is Stable for the securities of FirstEnergy, and all of the securities of its electric utility operating companies. Fitch stated that the changes to the long-term ratings were "driven by the high debt leverage of the parent FE. Despite management's commitment to reduce debt related to the GPU merger, subsequent cash flows have been vulnerable to unfavorable events, slowing the pace of FE's debt reduction efforts. The Stable Outlook reflects the success of FE's recent common equity offering and management's focus on a relatively conservative integrated utility strategy."

On October 27, 2003, Standard & Poors (S&P) stated that the 'BBB' corporate credit and the 'BBB-' senior unsecured ratings for FirstEnergy and its utility subsidiaries remain on CreditWatch with negative implications. The ratings were placed on CreditWatch on August 18, 2003, and reflect S&P's concerns regarding the potential impact of the August 14, 2003 blackout investigation on FirstEnergy's deleveraging strategy and its overall efforts to improve its credit profile.

At that time, S&P also noted other challenges facing FirstEnergy, including the extended Davis-Besse outage; the recent U.S. District Court ruling regarding the Sammis Plant; reliability concerns in subsidiary JCP&L's service territory; and FirstEnergy's credibility with regulators and federal officials.

S&P further noted several factors that could aid FirstEnergy in resolution of the CreditWatch, including strengthening its balance sheet. FirstEnergy directly addressed this concern through its recently completed common equity offering that raised approximately \$935 million in net proceeds,

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which was used to reduce bank debt. S&P described the equity offering as a "positive credit development" and also noted the recent renewal of FirstEnergy's \$1 billion revolver facilities as a "favorable development, as it mitigates liquidity concerns." S&P also indicated that should various ongoing investigations into the causal factors of the August 14, 2003 blackout establish that the blackout resulted from no negligence or breach of compliance standards on FirstEnergy's part, the CreditWatch could be removed and the outlook returned to negative. S&P deemed a "stable" credit outlook unlikely until issues such as the restart of Davis-Besse are resolved and the potential effect of the litigation relating to the Sammis plant (the second trial is scheduled for April 2004) are known. Extension of the Ohio transition plan will be viewed as a positive development and will support an outlook revision to stable.

On October 27, 2003, S&P also noted that the ratings on FirstEnergy and its subsidiaries incorporate such strengths as the ability to generate free cash flow, power generation contracted to its transmission and distribution subsidiaries through 2005, and the hedging of its short power position arising from its PLR obligation in Pennsylvania. S&P said that these strengths are

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offset by slower than anticipated reduction of FirstEnergy debt, remaining volume risks of PLR obligations, the extended outage at Davis-Besse, the unfavorable outcome of the New Jersey rate proceeding and regulatory uncertainty in Ohio. S&P also said that it now views FirstEnergy's liquidity position as average, following FirstEnergy's renewal of its \$1 billion credit facilities.

MARKET RISK INFORMATION

JCP&L uses various market risk sensitive instruments, including derivative contracts, primarily to manage the risk of price fluctuations. FirstEnergy's Risk Policy Committee, comprised of executive officers, exercises an independent risk oversight function to ensure compliance with corporate risk management policies and prudent risk management practices.

Commodity Price Risk

JCP&L is exposed to market risk primarily due to fluctuations in electricity and natural gas prices. To manage the volatility relating to these exposures, it uses a variety of non-derivative and derivative instruments, including forward contracts, options and future contracts. The derivatives are used for hedging purposes. Most of JCP&L's non-hedge derivative contracts represent non-trading positions that do not qualify for hedge treatment under SFAS 133. The change in the fair value of commodity derivative contracts related to energy production during the third quarter and first nine months of 2003 is summarized in the following table:

Increase (Decrease) in the Fair Value of Commodity Derivative Contracts	Three Months Ended September 30, 2003			Non-H
	Non-Hedge	Hedge	Total	
(In millions)				
Change in the Fair Value of Commodity Derivative Contracts				
Net asset at beginning of period.....	\$12.9	\$ (0.1)	\$12.8	\$ 8
New contract value when entered.....	--	--	--	--
Changes in value of existing contracts.....	(0.1)	--	(0.1)	4
Change in techniques/assumptions.....	2.3	--	2.3	2
Settled contracts.....	--	0.1	0.1	0
-----	-----	-----	-----	-----
Net Assets - Derivative Contracts at end of period (1).	\$15.1	\$ --	\$15.1	\$15
=====	=====	=====	=====	=====
Impact of Changes in Commodity Derivative Contracts (2)				
Income Statement Effects (Pre-Tax).....	\$--	\$ --	\$ --	\$ --
Balance Sheet Effects:				
Other Comprehensive Income (Pre-Tax).....	\$--	\$ 0.1	\$ 0.1	\$ --
Regulatory Liability.....	\$ 2.2	\$ --	\$ 2.2	\$ 6

Derivatives included on the Consolidated Balance Sheet as of
September 30, 2003:

	Non-Hedge	Hedge	Total
-----	-----	-----	-----

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and additional non-bypassable charges to recover stranded costs.

Regulatory assets are costs which have been authorized by the NJBPU and the Federal Energy Regulatory Commission for recovery from customers in future periods and, without such authorization, would have been charged to income when incurred. All of JCP&L's regulatory assets are expected to continue to be recovered under the provisions of the regulatory proceedings discussed below. JCP&L's regulatory assets totaled \$2.9 billion and \$3.2 billion as of September 30, 2003 and December 31, 2002, respectively.

Regulatory Matters

Under New Jersey transition legislation, all electric distribution companies were required to file rate cases to determine the level of unbundled rate components to become effective August 1, 2003. JCP&L submitted two rate filings with the NJBPU in August 2002. The first filing requested increases in base electric rates of approximately \$98 million annually. The second filing was a request to recover deferred costs that exceeded amounts being recovered under the current market transition charge (MTC) and societal benefits charge (SBC) rates; one proposed method of recovery of these costs is the securitization of the deferred balance. This securitization methodology is similar to the Oyster Creek securitization discussed above. On July 25, 2003, the NJBPU announced its JCP&L base electric rate proceeding decision, which reduced JCP&L's annual revenues by approximately \$62 million effective August 1, 2003. The NJBPU decision also provided for an interim return on equity of 9.5 percent on JCP&L's rate base for 6 to 12 months. During that period, JCP&L will initiate another proceeding to request recovery of additional costs incurred to enhance system reliability. In that proceeding, the NJBPU could increase the return on equity to 9.75 percent or decrease it to 9.25 percent, depending on its assessment of the reliability of JCP&L's service. Any reduction would be retroactive to August 1, 2003.

The net revenue decrease from the NJBPU's decision consists of a \$223 million decrease in the electricity delivery charge, a \$111 million increase due to the August 1, 2003 expiration of annual customer credits previously mandated by the New Jersey transition legislation, a \$49 million increase in the MTC tariff component, and a net \$1 million increase in the SBC charge. The MTC allows for the recovery of \$465 million in deferred energy costs over the next ten years on an interim basis, thus disallowing \$153 million of the \$618 million provided for in a preliminary settlement agreement between certain parties. As a result, JCP&L recorded charges to net income for the nine months ended September 30, 2003, aggregating \$172 million (\$103 million net of tax) consisting of the \$153 million deferred energy costs and other regulatory assets. JCP&L filed a

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motion for rehearing and reconsideration with the NJBPU on August 15, 2003 with respect to the following issues: (1) the disallowance of the \$153 million deferred energy costs; (2) the reduced rate of return on equity; and (3) \$42.7 million of disallowed costs to achieve merger savings. On October 10, 2003, the NJBPU held the motion in abeyance until the final NJBPU decision and order is issued, which is expected in the fourth quarter of 2003.

Environmental Matters

JCP&L has been named as a "potentially responsible party" (PRP) 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

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that all PRPs for a particular site be held liable on a joint and several basis. Therefore, environmental liabilities that are considered probable have been recognized on the Consolidated Balance Sheet as of September 30, 2003, based on estimates of the total costs of cleanup, JCP&L's proportionate responsibility for such costs and the financial ability of other nonaffiliated entities to pay. In addition, JCP&L has accrued liabilities for environmental remediation of former manufactured gas plants in New Jersey; those costs are being recovered through the SBC. JCP&L has accrued liabilities aggregating approximately \$47.9 million as of September 30, 2003. JCP&L does not believe environmental remediation costs will have a material adverse effect on its financial condition, cash flows or results of operations.

Legal Matters

Various lawsuits, claims and proceedings related to our normal business operations are pending against us, the most significant of which are described above and below.

In July 1999, the Mid-Atlantic states experienced a severe heat storm which resulted in power outages throughout the service territories of many electric utilities, including JCP&L. In an investigation into the causes of the outages and the reliability of the transmission and distribution systems of all four New Jersey electric utilities, the NJBPU concluded that there was not a prima facie case demonstrating that, overall, JCP&L provided unsafe, inadequate or improper service to its customers. In July 1999, two class action lawsuits (subsequently consolidated into a single proceeding) were filed in New Jersey Superior Court against JCP&L and other GPU companies, seeking compensatory and punitive damages arising from the July 1999 service interruptions in its service territory. In May 2001, the court denied without prejudice JCP&L's motion seeking decertification of the class. Discovery continues in the class action, but no trial date has been set. In October 2001, the court held argument on the plaintiffs' motion for partial summary judgment, which contends that JCP&L is bound to several findings of the NJBPU investigation. The plaintiffs' motion was denied by the Court in November 2001 and the plaintiffs' motion to file an appeal of this decision was denied by the New Jersey Appellate Division. JCP&L has also filed a motion for partial summary judgment that is currently pending before the Superior Court. JCP&L is unable to predict the outcome of these matters.

A series of unexpected faults in the three transmission lines triggered a series of outages for approximately 34,000 customers from July 5-8, 2003. The NJBPU has launched an investigation into the causes of the outages, and JCP&L has filed an incident report with the NJBPU, detailing the timeline and causes for the outages. JCP&L has committed to accelerate \$60 million in transmission system improvements. Additionally, JCP&L sited ten emergency generators at strategic locations within a few days of the outage. Without admitting liability, JCP&L has established a streamlined procedure to address customers' damage claims.

SIGNIFICANT ACCOUNTING POLICIES

JCP&L prepares its consolidated financial statements in accordance with accounting principles that are generally accepted in the United States. Application of these principles often requires a high degree of judgment, estimates and assumptions that affect financial results. All of JCP&L's assets are subject to their own specific risks and uncertainties and are regularly reviewed for impairment. Assets related to the application of the policies discussed below are similarly reviewed with their risks and uncertainties reflecting those specific factors. JCP&L's more significant accounting policies are described below.

Purchase Accounting

The merger between FirstEnergy and GPU was accounted for by the purchase method of accounting, which requires judgment regarding the allocation of the purchase price based on the fair values of the assets acquired (including intangible assets) and the liabilities assumed. The fair values of the acquired assets and assumed liabilities were based primarily on estimates. The adjustments reflected in JCP&L's records, which were finalized in the fourth quarter of 2002, primarily consist of: (1) revaluation of certain property, plant and equipment; (2) adjusting preferred stock subject to mandatory

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redemption and long-term debt to estimated fair value; (3) recognizing additional obligations related to retirement benefits; and (4) recognizing estimated severance and other compensation liabilities. The excess of the purchase price over the estimated fair values of the assets acquired and liabilities assumed was recognized as goodwill. Based on the guidance provided by SFAS 142, "Goodwill and Other Intangible Assets," JCP&L evaluates its goodwill for impairment at least annually and would make such an evaluation more frequently if indicators of impairment should arise. In accordance with the accounting standard, if the fair value of a reporting unit is less than its carrying value (including goodwill), the goodwill is tested for impairment. If impairment were indicated, JCP&L would recognize a loss - calculated as the difference between the implied fair value of its goodwill and the carrying value of the goodwill indicated. JCP&L's annual review was completed in the third quarter of 2003, with no impairment of goodwill indicated. The forecasts used in JCP&L's evaluation of goodwill reflect operations consistent with its general business assumptions. Unanticipated changes in those assumptions could have a significant effect on JCP&L's future evaluations of goodwill. As of September 30, 2003, JCP&L had recorded goodwill of approximately \$2.0 billion related to the merger.

Regulatory Accounting

JCP&L is subject to regulation that sets the prices (rates) it is permitted to charge its customers based on the costs that the regulatory agencies determine JCP&L is permitted to recover. At times, regulators permit the future recovery through rates of costs that would be currently charged to expense by an unregulated company. This rate-making process results in the recording of regulatory assets based on anticipated future cash inflows. As a result of the changing regulatory framework in New Jersey, a significant amount of regulatory assets have been recorded - \$2.9 billion as of September 30, 2003. JCP&L regularly reviews these assets to assess their ultimate recoverability within the approved regulatory guidelines. Impairment risk associated with these assets relates to potentially adverse legislative, judicial or regulatory actions in the future.

Derivative Accounting

Determination of appropriate accounting for derivative transactions requires the involvement of management representing operations, finance and risk assessment. In order to determine the appropriate accounting for derivative transactions, the provisions of the contract need to be carefully assessed in accordance with the authoritative accounting literature and management's intended use of the derivative. New authoritative guidance continues to shape the application of derivative accounting. Management's expectations and intentions are key factors in determining the appropriate accounting for a derivative transaction and, as a result, such expectations and intentions are documented. Derivative contracts that are determined to fall within the scope of SFAS 133, as amended, must be recorded at their fair value. Active market prices

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are not always available to determine the fair value of the later years of a contract, requiring that various assumptions and estimates be used in their valuation. JCP&L continually monitors its derivative contracts to determine if its activities, expectations, intentions, assumptions and estimates remain valid. As part of JCP&L's normal operations, it enters into commodity contracts which increase the impact of derivative accounting judgments.

Revenue Recognition

JCP&L follows the accrual method of accounting for revenues, recognizing revenue for kilowatt-hours that have been delivered but not yet billed through the end of the accounting period. The determination of unbilled revenues requires management to make various estimates including:

- o Net energy generated or purchased for retail load
- o Losses of energy over distribution lines
- o Allocations to distribution companies within the FirstEnergy system
- o Mix of kilowatt-hour usage by residential, commercial and industrial customers
- o Kilowatt-hour usage of customers receiving electricity from alternative suppliers

Pension and Other Postretirement Benefits Accounting

FirstEnergy's reported costs of providing non-contributory defined pension benefits and OPEB are dependent upon numerous factors resulting from actual plan experience and certain assumptions.

Pension and OPEB costs are affected by employee demographics (including age, compensation levels, and employment periods), the level of contributions FirstEnergy makes to the plans, and earnings on plan assets. Pension and OPEB costs may also be affected by changes to key assumptions, including anticipated rates of return on plan assets, the discount rates and health care trend rates used in determining the projected benefit obligations for pension and OPEB costs.

In accordance with SFAS 87, "Employers' Accounting for Pensions" and SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," changes in pension and OPEB obligations associated with these factors may not be immediately recognized as costs on the income statement, but generally are recognized in future years over the remaining average service period of plan participants. SFAS 87 and SFAS 106 delay recognition of changes due to the long-term nature of pension and OPEB obligations and the varying market conditions likely to occur over long periods of time. As such, significant portions of pension and OPEB costs recorded in any period may not

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reflect the actual level of cash benefits provided to plan participants and are significantly influenced by assumptions about future market conditions and plan participants' experience.

In selecting an assumed discount rate, FirstEnergy considers currently available rates of return on high-quality fixed income investments expected to be available during the period to maturity of the pension and other postretirement benefit obligations. Due to the significant decline in corporate bond yields and interest rates in general during 2002, FirstEnergy reduced the assumed discount rate as of December 31, 2002 to 6.75% from 7.25% used in 2001.

FirstEnergy's assumed rate of return on pension plan assets considers

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historical market returns and economic forecasts for the types of investments held by its pension trusts. The market values of FirstEnergy's pension assets have been affected by sharp declines in the equity markets since mid-2000. In 2002 and 2001, plan assets earned (11.3)% and (5.5)%, respectively. FirstEnergy's pension costs in 2002 were computed assuming a 10.25% rate of return on plan assets. As of December 31, 2002 the assumed return on plan assets was reduced to 9.00% based upon FirstEnergy's projection of future returns and pension trust investment allocation of approximately 60% large cap equities, 10% small cap equities and 30% bonds.

Based on pension assumptions and pension plan assets as of December 31, 2002, FirstEnergy is not required to fund its pension plans in 2003. While OPEB plan assets have also been affected by sharp declines in the equity market, the impact is not as significant due to the relative size of the plan assets. However, health care cost trends have significantly increased and will affect future OPEB costs. The 2003 composite health care trend rate assumption is approximately 10%-12% gradually decreasing to 5% in later years, compared to the 2002 assumption of approximately 10% in 2002, gradually decreasing to 4%-6% in later years. In determining its trend rate assumptions, FirstEnergy included the specific provisions of its health care plans, the demographics and utilization rates of plan participants, actual cost increases experienced in its health care plans, and projections of future medical trend rates.

Long-Lived Assets

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," JCP&L periodically evaluates its long-lived assets to determine whether conditions exist that would indicate that the carrying value of an asset may not be fully recoverable. The accounting standard requires that if the sum of future cash flows (undiscounted) expected to result from an asset is less than the carrying value of the asset, an asset impairment must be recognized in the financial statements. If impairment other than of a temporary nature has occurred, JCP&L recognizes a loss - calculated as the difference between the carrying value and the estimated fair value of the asset (discounted future net cash flows).

RECENTLY ISSUED ACCOUNTING STANDARDS

FIN 46, "Consolidation of Variable Interest Entities - an interpretation of ARB 51"

In January 2003, the FASB issued this interpretation of ARB No. 51, "Consolidated Financial Statements". This Interpretation requires the consolidation of a variable interest entity (VIE) by an enterprise if that enterprise either absorbs a majority of the VIE's expected losses or receives a majority of the VIE's expected residual returns as a result of ownership, contractual or other financial interests in the VIE. Currently, entities are generally consolidated by an enterprise that has a controlling financial interest through ownership of a majority voting interest in the entity.

FIN 46 defines a VIE as an entity in which equity investors do not have the characteristics of a controlling financial interest nor have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIE's created after January 31, 2003, are immediately subject to the provisions of FIN 46. The FASB recently deferred implementation of FIN 46 for VIE's created before February 1, 2003, until the first reporting period ending after December 15, 2003 (JCP&L's quarter ending December 31, 2003.)

The adoption of FIN 46 for variable interests created after January 31, 2003 did not have an impact on JCP&L's financial statements. We are continuing to review the provisions of FIN 46 to determine its impact, if any,

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on future reporting periods with respect to interests in VIE's created prior to February 1, 2003, and do not currently anticipate that adoption will result in any material accounting or disclosure requirements.

SFAS 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities"

Issued by the FASB in April 2003, SFAS 149 further clarifies and amends accounting and reporting for derivative instruments. The statement amends SFAS 133 for decisions made by the Derivative Implementation Group, as well as issues raised in connection with other FASB projects and implementation issues. The statement is effective for contracts entered into or modified after June 30, 2003 except for implementation issues that have been effective for quarters which began prior to June 15, 2003, that continue to be applied based on their original effective dates. Adoption of SFAS 149 did not have a material impact on JCP&L's financial statements.

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DIG Implementation Issue No. C20 for SFAS 133, "Scope Exceptions: Interpretation of the Meaning of Not Clearly and Closely Related in Paragraph 10(b) Regarding Contracts with a Price Adjustment Feature"

In June 2003, the FASB cleared DIG Issue C20 for implementation in fiscal quarters beginning after July 10, 2003 which would correspond to JCP&L's fourth quarter of 2003. The issue supersedes earlier DIG Issue C11, "Interpretation of Clearly and Closely Related in Contracts That Qualify for the Normal Purchases and Normal Sales Exception." DIG Issue C20 provides guidance regarding when the presence of a general index, such as the Consumer Price Index, in a contract would prevent that contract from qualifying for the normal purchases and normal sales (NPNS) exception under SFAS 133, as amended, and therefore exempt from the mark-to-market treatment of certain contracts. DIG Issue C20 is to be applied prospectively to all existing contracts as of its effective date and for all future transactions. If it is determined under DIG Issue C20 guidance that the NPNS exception was claimed for an existing contract that was not eligible for this exception, the contract will be recorded at fair value, with a corresponding adjustment of net income as the cumulative effect of a change in accounting principle in the fourth quarter of 2003. JCP&L is currently assessing the new guidance but does not anticipate any material impact on its financial statements.

EITF Issue No. 01-08, "Determining whether an Arrangement Contains a Lease"

In May 2003, the EITF reached a consensus on Issue No. 01-08 regarding when arrangements contain a lease. Based on the EITF consensus, an arrangement contains a lease if (1) it identifies specific property, plant or equipment (explicitly or implicitly), and (2) the arrangement transfers the right to the purchaser to control the use of the property, plant or equipment. The consensus is to be applied prospectively to arrangements committed to, modified or acquired through a business combination, beginning in the third quarter of 2003. The adoption of this consensus as of July 1, 2003 did not impact JCP&L's financial statements.

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CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended September 30,	
	2003	2002
	-----	-----
	(In thousands)	
OPERATING REVENUES.....	\$261,756	\$281,540
	-----	-----
OPERATING EXPENSES AND TAXES:		
Purchased power.....	159,968	201,320
Other operating costs.....	41,660	24,372
	-----	-----
Total operation and maintenance expenses.....	201,628	225,692
Provision for depreciation and amortization.....	18,508	22,022
General taxes.....	18,406	19,237
Income taxes.....	4,153	988
	-----	-----
Total operating expenses and taxes.....	242,695	267,939
	-----	-----
OPERATING INCOME.....	19,061	13,601
OTHER INCOME.....	5,357	5,884
	-----	-----
INCOME BEFORE NET INTEREST CHARGES.....	24,418	19,485
	-----	-----
NET INTEREST CHARGES:		
Interest on long-term debt.....	8,501	10,054
Allowance for borrowed funds used during construction..	(94)	(234)
Deferred interest.....	(192)	(167)
Other interest expense.....	2,521	854
Subsidiary's preferred stock dividend requirements.....	--	1,890
	-----	-----
Net interest charges.....	10,736	12,397
	-----	-----
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	13,682	7,088
Cumulative effect of accounting change (net of income taxes of \$154,000) (Note 5).....	--	--
	-----	-----
NET INCOME.....	\$ 13,682	\$ 7,088
	=====	=====

METROPOLITAN EDISON COMPANY
 CONSOLIDATED BALANCE SHEETS

(Unaudited)
 September 30,
 2003

(In thousands)

ASSETS

UTILITY PLANT:

In service.....	\$1,825,650
Less--Accumulated provision for depreciation.....	762,454

Construction work in progress.....	1,063,196
	20,068

	1,083,264

OTHER PROPERTY AND INVESTMENTS:

Nuclear plant decommissioning trusts.....	176,848
Long-term notes receivable from associated companies.....	9,974
Other.....	31,538

	218,360

CURRENT ASSETS:

Cash and cash equivalents.....	142
Receivables-	
Customers (less accumulated provisions of \$5,061,000 and \$4,810,000 respectively, for uncollectible accounts).....	117,722
Associated companies.....	57,839
Other.....	19,802
Notes receivable from associated companies.....	10,010
Material and supplies, at average cost.....	145
Prepayments and other.....	12,231

	217,891

DEFERRED CHARGES:

Regulatory assets.....	1,059,756
Goodwill.....	885,832
Other.....	38,222

1,983,810

\$3,503,325
=====

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METROPOLITAN EDISON COMPANY

CONSOLIDATED BALANCE SHEETS

(Unaudited)
September 30,
2003

(In tho

CAPITALIZATION AND LIABILITIES

CAPITALIZATION:

Common stockholder's equity-	
Common stock, without par value, authorized 900,000 shares -	
859,500 shares outstanding.....	\$1,297,784
Accumulated other comprehensive loss.....	(36,414)
Retained earnings.....	34,411

Total common stockholder's equity.....	1,295,781
Company-obligated mandatorily redeemable preferred securities (Note 5)....	--
Long-term debt and other long-term obligations-	
Company-obligated mandatorily redeemable preferred securities (Note 5)..	92,566
Other.....	569,105

	1,957,452

CURRENT LIABILITIES:

Currently payable long-term debt.....	40,469
Accounts payable-	
Associated companies.....	60,222
Other.....	34,457
Notes payable to associated companies.....	56,256
Accrued taxes.....	3,636
Accrued interest.....	8,497
Other.....	20,063

	223,600

DEFERRED CREDITS:

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Accumulated deferred income taxes.....	260,123
Accumulated deferred investment tax credits.....	11,903
Power purchase contract loss liability.....	614,608
Nuclear fuel disposal costs.....	37,845
Asset retirement obligation.....	207,139
Nuclear decommissioning costs.....	--
Retirement benefits.....	119,738
Other.....	70,917

	1,322,273

COMMITMENTS, GUARANTEES AND CONTINGENCIES (Note 2).....

\$3,503,325
=====

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METROPOLITAN EDISON COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended September 30,	
	2003	2002
	-----	-----
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income.....	\$ 13,682	\$ 7,088
Adjustments to reconcile net income to net cash from operating activities-		
Provision for depreciation and amortization.....	18,508	22,022
Deferred costs, net.....	5,621	7,678
Deferred income taxes, net.....	(315)	2,111
Amortization of investment tax credits.....	(205)	(212)
Accrued retirement benefit obligation.....	3,620	25
Accrued compensation, net.....	(120)	(352)
Cumulative effect of accounting change (Note 5)....	--	--
Receivables.....	11,953	(3,494)
Materials and supplies.....	(6)	--
Accounts payable.....	(89,944)	(26,567)
Accrued taxes.....	214	5
Accrued interest.....	(4,161)	(7,063)
Prepayments and other current assets.....	16,136	16,088
Other.....	(11,300)	(18,365)
	-----	-----
Net cash provided from (used for) operating activities	(36,317)	(1,036)
	-----	-----

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CASH FLOWS FROM FINANCING ACTIVITIES:

New Financing-		
Long-term debt.....	--	--
Short-term borrowings, net.....	35,591	60,628
Redemptions and Repayments-		
Long-term debt.....	(32)	(30,000)
Short-term borrowings, net.....	--	--
Dividend Payments-		
Common stock.....	(7,000)	--
	-----	-----
Net cash provided from (used for) financing activities	28,559	30,628
	-----	-----

CASH FLOWS FROM INVESTING ACTIVITIES:

Property additions.....	(8,382)	(11,209)
Contributions to nuclear decommissioning trusts.....	(2,371)	(2,371)
Associated companies loans, net.....	17,144	--
Other.....	1,179	(20)
	-----	-----
Net cash provided from (used for) investing activities	7,570	(13,600)
	-----	-----

Net increase (decrease) in cash and cash equivalents.....	(188)	15,992
Cash and cash equivalents at beginning of period.....	330	5,335
	-----	-----
Cash and cash equivalents at end of period.....	\$ 142	\$ 21,327
	=====	=====

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders and Board
of Directors of Metropolitan
Edison Company:

We have reviewed the accompanying consolidated balance sheet of Metropolitan Edison Company and its subsidiaries as of September 30, 2003, and the related consolidated statements of income and cash flows for each of the three-month and nine-month periods ended September 30, 2003 and 2002. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is

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substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet and the consolidated statement of capitalization as of December 31, 2002, and the related consolidated statements of income, common stockholder's equity, preferred stock, cash flows and taxes for the year then ended (not presented herein), and in our report dated February 28, 2003 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2002, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

PricewaterhouseCoopers LLP
Cleveland, Ohio
November 13, 2003

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METROPOLITAN EDISON COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Met-Ed provides regulated transmission and distribution services in eastern and south central Pennsylvania. Pennsylvania customers are able to choose their electricity suppliers as a result of legislation which restructured the electric utility industry. Met-Ed's regulatory plan required unbundling the price for electricity into its component elements - including generation, transmission, distribution and transition charges. Met-Ed continues to deliver power to homes and businesses through its existing distribution system and maintains provider of last resort (PLR) obligations to customers who elect to retain Met-Ed as their power supplier.

RESULTS OF OPERATIONS

Net income in the third quarter of 2003 increased to \$13.7 million from \$7.1 million in the third quarter of 2002. During the first nine months of 2003, net income decreased to \$43.6 million from \$49.7 million in the first nine months of 2002. Net income in the first nine months of 2003 included an after-tax credit of \$0.2 million from the cumulative effect of an accounting change due to the adoption of SFAS No. 143, "Accounting for Asset Retirement Obligations." Income before the cumulative effect was \$43.4 million in the first nine months of 2003 compared with \$49.7 million in the corresponding period of 2002. The higher earnings in the third quarter of 2003 reflected lower depreciation and amortization charges and reduced purchased power costs that were partially offset by lower operating revenues and higher other operating costs. Comparing the first nine month periods, the effect of higher depreciation and amortization charges and lower operating revenues, were partially offset by lower purchased power costs in the first nine months of 2003.

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Operating revenues decreased by \$19.8 million or 7.0% in the third quarter of 2003 compared with the same period of 2002 due to decreased distribution deliveries, as well as reduced sales to the wholesale market. Retail distribution deliveries decreased by 4.0% and reduced revenues by \$6.4 million, as a result of cooler temperatures in the third quarter of 2003 compared to the same period last year. Wholesale revenue decreased by \$10.3 million, which reflected lower sales to affiliated companies and to the wholesale market.

Operating revenues decreased by \$36.7 million or 4.8% in the first nine months of 2003 compared with the first nine months of 2002. Retail generation kilowatt-hour sales decreased by 2.2%, which consisted of lower commercial (4.0%) and industrial (10.0%) sales, and higher residential sales (3.3%) - producing decreased revenues of \$9.0 million. Wholesale sales revenues decreased \$25.7 million principally due to a reduction in kilowatt-hour sales to affiliated companies and to the wholesale market. Distribution deliveries were nearly flat in the first nine months of 2003 compared with the same period of 2002. Distribution deliveries benefited from higher residential demand (3.2%), due in large part to colder temperatures in the first quarter of 2003, which were partially offset by decreases in commercial (1.3%) and industrial (0.3%) demand from the continued effect of a sluggish, but improving, economy.

Changes in electric generation sales and distribution deliveries in the third quarter and first nine months of 2003 from the same periods of 2002 are summarized in the following table:

Changes in Kilowatt-Hour Sales	Three Months	Nine Months

Increase (Decrease)		
Electric Generation:		
Retail.....	0.6%	(2.2)%
Wholesale.....	(100.0)%	(100.9)%

Total Electric Generation Sales.....	(7.6)%	(11.1)%
=====		
Distribution Deliveries:		
Residential.....	(8.0)%	3.2%
Commercial.....	(12.1)%	(1.3)%
Industrial.....	14.0%	(0.3)%

Total Distribution Deliveries.....	(4.0)%	0.7%

Operating Expenses and Taxes

Total operating expenses and taxes decreased \$25.2 million in the third quarter and \$27.9 million in the first nine months of 2003 compared to the same periods of 2002, primarily due to lower purchased power costs for both periods. Lower depreciation and amortization charges that were partially offset by higher other operating costs also contributed to the decrease in operating expenses in the third quarter of 2003. The lower purchased power costs during the first nine months of 2003 were partially offset by higher depreciation and amortization costs, as well as higher other operating costs. The following table presents changes from the prior year by expense category.

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Operating Expenses and Taxes - Changes	Three Months	Nine Months
Increase (Decrease)	(In millions)	

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Purchased power costs.....	\$ (41.4)	\$ (58.6)
Other operating costs.....	17.3	22.3
Total operation and maintenance expenses..	(24.1)	(36.3)
Provision for depreciation and amortization..	(3.5)	15.4
General taxes.....	(0.8)	(0.2)
Income taxes.....	3.2	(6.8)
Net decrease in operating expenses and taxes	\$ (25.2)	\$ (27.9)

Lower purchased power costs in the third quarter and first nine months of 2003, compared with the same periods of 2002, were primarily attributed to lower unit costs in the third quarter of 2003 and fewer kilowatt-hours required for customer needs during the first nine months of 2003. Lower depreciation and amortization charges in the third quarter of 2003 compared to the same period in 2002, reflected lower depreciation expense on a reduced asset base and lower amortization of regulatory assets being recovered through the competitive transition charge (CTC). The increase in depreciation and amortization charges for the first nine months of 2003 compared to the same period in 2002, reflected increases in amortization of regulatory assets being recovered through the competitive transition charge (CTC). Other operating costs increased by \$17.3 million in the three months and \$22.3 million in the nine months ended September 30, 2003, compared with the same periods of 2002, primarily due to higher employee benefit costs and costs to restore customer service resulting from significant storm activity.

Net Interest Charges

Net interest charges decreased by \$1.7 million in the third quarter of 2003 and \$3.1 million in the first nine months of 2003 from the same periods last year. The decreases reflect the refinancing of higher rate debt in the second quarter of 2003 through the issuance of \$250 million of new senior notes in March 2003 and the redemption of \$40 million and \$20 million of notes in the first and second quarters of 2003, respectively.

Cumulative Effect of Accounting Change

Upon adoption of SFAS 143 in the first quarter of 2003, Met-Ed recorded an after-tax credit to net income of approximately \$0.2 million. Met-Ed identified applicable legal obligations as defined under the new accounting standard for nuclear power plant decommissioning. As a result of adopting SFAS 143 in January 2003, asset retirement costs of \$186 million were recorded as part of the carrying amount of the related long-lived asset, offset by accumulated depreciation of \$186 million. The asset retirement obligation (ARO) liability at the date of adoption was \$198 million, including accumulated accretion for the period from the date the liability was incurred to the date of adoption. As of December 31, 2002, Met-Ed had recorded decommissioning liabilities of \$260 million. Met-Ed expects substantially all of its nuclear decommissioning costs to be recoverable in rates over time. Therefore, Met-Ed recognized a regulatory liability of \$61 million upon adoption of SFAS 143 for the transition amounts related to establishing the ARO for nuclear decommissioning. The remaining cumulative effect adjustment for unrecognized depreciation and accretion offset by the reduction in the liabilities was a \$0.4 million increase to income, or \$0.2 million net of income taxes.

CAPITAL RESOURCES AND LIQUIDITY

Met-Ed's cash requirements in 2003 for operating expenses, construction expenditures, scheduled debt maturities and optional debt

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Met-Ed may borrow from its affiliates on a short-term basis. Met-Ed will not issue first mortgage bonds (FMB) other than as collateral for senior notes, since its senior note indentures prohibit (subject to certain exceptions) it from issuing any debt which is senior to the senior notes. As of September 30, 2003, Met-Ed had the capability to issue \$152 million of additional senior notes based upon FMB collateral. Met-Ed had no restrictions on the issuance of preferred stock.

Cash Flows From Investing Activities

Net cash provided from investing activities totaled \$8 million in the third quarter, and net cash used for investing activities totaled \$42 in the first nine months of 2003. The net cash flows provided from investing activities in the third quarter of 2003 resulted from the repayment of borrowings by associated companies, partially offset by property additions and decommissioning trust investments. The net cash flows used for investing activities during the first nine months of 2003 resulted from property additions, decommissioning trust investments, and loans to associated companies. Expenditures for property additions primarily support Met-Ed's energy delivery operations. In the third quarter and first nine months of 2002, net cash flows used for investing activities totaled \$14 million and \$43 million, respectively, principally due to property additions.

During the fourth quarter of 2003, capital requirements for property additions are expected to be about \$9 million. Met-Ed has no additional requirements for maturing long-term debt during the remainder of 2003. The capital requirements are expected to be satisfied from internal cash and short-term credit arrangements.

On August 14, 2003, Moody's Investors Service placed the debt ratings of FirstEnergy and all of its subsidiaries under review for possible downgrade. Moody's stated that the review was prompted by: (1) weaker than expected operating performance and cash flow generation; (2) less progress than expected in reducing debt; (3) continuing high leverage relative to its peer group; and (4) negative impact on cash flow and earnings from the continuing nuclear plant outage at Davis-Besse. Moody's further stated that, in anticipation of Davis-Besse returning to service in the near future and FirstEnergy's continuing to significantly reduce debt and improve its financial profile, "Moody's does not expect that the outcome of the review will result in FirstEnergy's senior unsecured debt rating falling below investment-grade."

On September 30, 2003, Fitch Ratings lowered the senior unsecured ratings of FirstEnergy to "BBB-" from "BBB." Fitch also lowered the senior secured, senior unsecured, and preferred stock ratings of Met-Ed. Fitch announced that the Rating Outlook is Stable for the securities of FirstEnergy, and all of the securities of its electric utility operating companies. Fitch stated that the changes to the long-term ratings were "driven by the high debt leverage of the parent FE. Despite management's commitment to reduce debt related to the GPU merger, subsequent cash flows have been vulnerable to unfavorable events, slowing the pace of FE's debt reduction efforts. The Stable Outlook reflects the success of FE's recent common equity offering and management's focus on a relatively conservative integrated utility strategy."

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On October 27, 2003, Standard & Poors (S&P) stated that the `BBB' corporate credit and the `BBB-' senior unsecured ratings for FirstEnergy's and its utility subsidiaries remain on CreditWatch with negative implications. The ratings were placed on CreditWatch on August 18, 2003, and reflect S&P's concerns regarding the potential impact of August 14, 2003 blackout

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investigation on FirstEnergy's deleveraging strategy and its overall efforts to improve its credit profile.

At that time, S&P also noted other challenges facing FirstEnergy, including the extended Davis-Besse outage; the recent U.S. District Court ruling regarding the Sammis Plant; reliability concerns in subsidiary JCP&L's service territory; and FirstEnergy's credibility with regulators and federal officials.

S&P further noted several factors that could aid FirstEnergy in resolution of the CreditWatch, including strengthening its balance sheet. FirstEnergy directly addressed this concern through its recently completed common equity offering that raised approximately \$935 million in net proceeds, which was used to reduce bank debt. S&P described the equity offering as a "positive credit development" and also noted the recent renewal of FirstEnergy's \$1 billion revolver facilities as a "favorable development, as it mitigates liquidity concerns." S&P also indicated that should various ongoing investigations into the causal factors of the August 14, 2003 blackout establish that the blackout resulted from no negligence or breach of compliance standards on FirstEnergy's part, the CreditWatch could be removed and the outlook returned to negative. S&P deemed a "stable" credit outlook unlikely until issues such as the restart of Davis-Besse are resolved and the potential effect of the litigation relating to the Sammis plant (the second trial is scheduled for April 2004) are known. Extension of the Ohio transition plan will be viewed as a positive development and will support an outlook revision to stable.

In its October 27, 2003, comments, S&P also noted that the ratings on FirstEnergy and its subsidiaries incorporate such strengths as the ability to generate free cash flow, power generation contracted to its transmission and distribution subsidiaries through 2005, and the hedging of its short power position arising from its PLR obligation in Pennsylvania. S&P said that these strengths are offset by slower than anticipated reduction of FirstEnergy debt, remaining volume risks of PLR obligations, the extended outage at Davis-Besse, the unfavorable outcome of the New Jersey rate proceeding and regulatory uncertainty in Ohio. S&P also said that it now views FirstEnergy's liquidity position as average, following FirstEnergy's renewal of its \$1 billion credit facilities.

MARKET RISK INFORMATION

Met-Ed uses various market risk sensitive instruments, including derivative contracts, primarily to manage the risk of price fluctuations. FirstEnergy's Risk Policy Committee, comprised of executive officers, exercises an independent risk oversight function to ensure compliance with corporate risk management policies and prudent risk management practices.

Commodity Price Risk

Met-Ed is exposed to market risk primarily due to fluctuations in electricity and natural gas prices. To manage the volatility relating to these exposures, it uses a variety of non-derivative and derivative instruments, including options and future contracts. The derivatives are used for hedging purposes. Most of Met-Ed's non-hedge derivative contracts represent non-trading positions that do not qualify for hedge treatment under SFAS 133. The change in the fair value of commodity derivative contracts related to energy production during the third quarter and the first nine months of 2003 is summarized in the following table:

Increase (Decrease) in the Fair Value
of Commodity Derivative Contracts

Three Months Ended
September 30, 2003

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Source of Information - Fair Value by Contract Year	2003(1)	2004	2005	2006	Thereafter

(In millions)					
Prices based on external sources(2)...	\$0.6	\$4.1	\$4.5	\$--	\$ --
Prices based on models.....	--	--	--	4.9	16.0

Total(3).....	\$0.6	\$4.1	\$4.5	\$4.9	\$16.0
=====					

(1) For the last quarter of 2003.

(2) Broker quote sheets.

(3) Includes \$29.9 million from an embedded option that is offset by a regulatory liability and does not affect earnings.

Met-Ed performs sensitivity analyses to estimate its exposure to the market risk of its commodity positions. A hypothetical 10% adverse shift in quoted market prices in the near term on derivative instruments would not have had a material effect on its consolidated financial position or cash flows as of September 30, 2003.

Equity Price Risk

Included in Met-Ed's nuclear decommissioning trust investments are marketable equity securities carried at their market value of approximately \$101 million and \$81 million as of September 30, 2003 and December 31, 2002, respectively. A hypothetical 10% decrease in prices quoted by stock exchanges would result in a \$10 million reduction in fair value as of June 30, 2003.

OUTLOOK

Beginning in 1999, all of Met-Ed's customers were able to select alternative energy suppliers. Met-Ed continues to deliver power to homes and businesses through its existing distribution system, which remains regulated. The Pennsylvania Public Utility Commission (PPUC) authorized Met-Ed's rate restructuring plan, establishing separate charges for transmission, distribution, generation and stranded cost recovery, which is recovered through a CTC. Customers electing to obtain power from an alternative supplier have their bills reduced based on the regulated generation component, and the customers receive a generation charge from the alternative supplier. Met-Ed has a continuing responsibility to provide power to those customers not choosing to receive power from an alternative energy supplier, subject to certain limits, which is referred to as its PLR obligation.

Regulatory assets are costs which have been authorized by the PPUC and the Federal Energy Regulatory Commission for recovery from customers in future periods and, without such authorization, would have been charged to income when incurred. All of Met-Ed's regulatory assets are expected to continue to be recovered under the provisions of the regulatory plan as discussed below. Met-Ed's regulatory assets totaled \$1.1 billion and \$1.2 billion as of September 30, 2003 and December 31, 2002, respectively.

Regulatory Matters

Effective September 1, 2002, Met-Ed assigned its PLR responsibility to its unregulated supply affiliate, FirstEnergy Solutions Corp. (FES), through a wholesale power sale agreement which expires in December 2003 and may be

extended for each successive calendar year. Under the terms of the wholesale agreement, FES assumed the supply obligation, and the energy supply profit and loss risk, for the portion of power supply requirements that Met-Ed does not self-supply under its non-utility generation (NUG) contracts and other power contracts with nonaffiliated third party suppliers. This arrangement reduces its exposure to high wholesale power prices by providing power at a fixed price for its uncommitted PLR energy costs during the term of the agreement to FES. Met-Ed is authorized to continue deferring differences between NUG contract costs and current market prices.

On April 2, 2003, the PPUC remanded the issue relating to merger savings to the Office of Administrative Law for hearings, directed Met-Ed to file a position paper on the effect of the Commonwealth Court order on the Settlement Stipulation and allowed other parties to file responses to the position paper. Met-Ed filed a letter with the Administrative Law Judge on June 11, 2003, voiding the Stipulation in its entirety and reinstating Met-Ed's restructuring settlement previously approved by the PPUC.

On October 2, 2003, the PPUC issued an order concluding that the Commonwealth Court reversed the PPUC's June 20, 2001 order in its entirety. The PPUC directed Met-Ed to file tariffs within thirty days of the order to reflect the CTC rates and shopping credits that were in effect prior to the June 21, 2001 order to be effective upon one day's notice. In response to that order, Met-Ed filed these supplements to their tariffs to become effective October 24, 2003.

On October 8, 2003, Met-Ed filed a petition for clarification relating to the October 2 order on two issues: to establish the end of June 2004 as the date to fully refund the NUG trust fund and to clarify that the ordered accounting treatment regarding the CTC rate/shopping credit swap should follow the ratemaking, and that the PPUC findings would not impair Met-Ed's rights to recover all of its stranded costs. On October 9, 2003, ARIPPA (an intervenor in the proceeding) petitioned the PPUC to direct Met-Ed to reinstate accounting for the CTC rate/shopping credit swap retroactive to January 1, 2002. Several other parties also filed petitions. On October 16, 2003, the PPUC issued a reconsideration order granting the date requested by Met-Ed for the NUG trust fund refund; and, denying Met-Ed's other clarification request and granting ARIPPA's petition with respect to the accounting treatment of the changes to the CTC rate/shopping credit swap. On October 22, 2003, Met-Ed filed an Objection with the Commonwealth Court asking that the Court reverse the PPUC's finding that requires Met-Ed to treat the stipulated CTC rates that were in effect from January 1, 2002 on a retroactive basis. Met-Ed is considering filing an appeal to the Commonwealth Court on the PPUC orders as well.

Environmental Matters

Met-Ed has been named as a "potentially responsible party" (PRP) 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 PRPs for a particular site be held liable on a joint and several basis. Therefore, environmental liabilities that are considered probable have been recognized on the Consolidated Balance Sheet as of September 30, 2003, based on estimates of the total costs of cleanup, Met-Ed's proportionate responsibility for such costs and the financial ability of other nonaffiliated entities to pay. Met-Ed has accrued liabilities aggregating approximately \$0.2 million as of

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September 30, 2003. Met-Ed does not believe environmental remediation costs will have a material adverse effect on its financial condition, cash flows or results of operations.

Legal Matters

Various lawsuits, claims and proceedings related to our normal business operations are pending against Met-Ed, the most significant of which are described above.

SIGNIFICANT ACCOUNTING POLICIES

Met-Ed prepares its consolidated financial statements in accordance with accounting principles that are generally accepted in the United States. Application of these principles often requires a high degree of judgment, estimates and assumptions that affect its financial results. All of its assets are subject to their own specific risks and uncertainties and are regularly reviewed for impairment. Assets related to the application of the policies discussed below are similarly reviewed with their risks and uncertainties reflecting those specific factors. Met-Ed's more significant accounting policies are described below.

Purchase Accounting

The merger between FirstEnergy and GPU was accounted for by the purchase method of accounting, which requires judgment regarding the allocation of the purchase price based on the fair values of the assets acquired (including intangible assets) and the liabilities assumed. The fair values of the acquired

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assets and assumed liabilities were based primarily on estimates. The adjustments reflected in Met-Ed's records, which were finalized in the fourth quarter of 2002, primarily consist of: (1) revaluation of certain property, plant and equipment; (2) adjusting preferred stock subject to mandatory redemption and long-term debt to estimated fair value; (3) recognizing additional obligations related to retirement benefits; and (4) recognizing estimated severance and other compensation liabilities. The excess of the purchase price over the estimated fair values of the assets acquired and liabilities assumed was recognized as goodwill. Based on the guidance provided by SFAS 142, "Goodwill and Other Intangible Assets," Met-Ed evaluates its goodwill for impairment at least annually and would make such an evaluation more frequently if indicators of impairment should arise. In accordance with the accounting standard, if the fair value of a reporting unit is less than its carrying value (including goodwill), the goodwill is tested for impairment. If impairment were indicated, Met-Ed would recognize a loss - calculated as the difference between the implied fair value of its goodwill and the carrying value of the goodwill. Met-Ed's annual review was completed in the third quarter of 2003, with no impairment of goodwill indicated. The forecasts used in Met-Ed's evaluation of goodwill reflect operations consistent with its general business assumptions. Unanticipated changes in those assumptions could have a significant effect on its future evaluations of goodwill of September 30, 2003, Met-Ed had recorded goodwill of approximately \$885.8 million related to the merger.

Regulatory Accounting

Met-Ed is subject to regulation that sets the prices (rates) it is permitted to charge its customers based on the costs that the regulatory agencies determine it is permitted to recover. At times, regulators permit the future recovery through rates of costs that would be currently charged to

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expense by an unregulated company. This rate-making process results in the recording of regulatory assets based on anticipated future cash inflows. As a result of the changing regulatory framework in Pennsylvania, a significant amount of regulatory assets have been recorded - \$1.1 billion as of September 30, 2003. Met-Ed regularly reviews these assets to assess their ultimate recoverability within the approved regulatory guidelines. Impairment risk associated with these assets relates to potentially adverse legislative, judicial or regulatory actions in the future.

Derivative Accounting

Determination of appropriate accounting for derivative transactions requires the involvement of management representing operations, finance and risk assessment. In order to determine the appropriate accounting for derivative transactions, the provisions of the contract need to be carefully assessed in accordance with the authoritative accounting literature and management's intended use of the derivative. New authoritative guidance continues to shape the application of derivative accounting. Management's expectations and intentions are key factors in determining the appropriate accounting for a derivative transaction and, as a result, such expectations and intentions are documented. Derivative contracts that are determined to fall within the scope of SFAS 133, as amended, must be recorded at their fair value. Active market prices are not always available to determine the fair value of the later years of a contract, requiring that various assumptions and estimates be used in their valuation. Met-Ed continually monitors its derivative contracts to determine if its activities, expectations, intentions, assumptions and estimates remain valid. As part of Met-Ed's normal operations, it enters into commodity contracts which increase the impact of derivative accounting judgments.

Revenue Recognition

Met-Ed follows the accrual method of accounting for revenues, recognizing revenue for kilowatt-hours that have been delivered but not yet billed through the end of the accounting period. The determination of unbilled revenues requires management to make various estimates including:

- o Net energy generated or purchased for retail load
- o Losses of energy over distribution lines
- o Allocations to distribution companies within the FirstEnergy system
- o Mix of kilowatt-hour usage by residential, commercial and industrial customers
- o Kilowatt-hour usage of customers receiving electricity from alternative suppliers

Pension and Other Postretirement Benefits Accounting

FirstEnergy's reported costs of providing non-contributory defined pension benefits and OPEB are dependent upon numerous factors resulting from actual plan experience and certain assumptions.

Pension and OPEB costs are affected by employee demographics (including age, compensation levels, and employment periods), the level of contributions FirstEnergy makes to the plans, and earnings on plan assets. Pension and OPEB costs may also be affected by changes to key assumptions, including anticipated rates of return on plan assets, the discount rates and health care trend rates used in determining the projected benefit obligations for pension and OPEB costs.

In accordance with SFAS 87, "Employers' Accounting for Pensions" and SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," changes in pension and OPEB obligations associated with these factors

may not be immediately recognized as costs on the income statement, but generally are recognized in future years over the remaining average service period of plan participants. SFAS 87 and SFAS 106 delay recognition of changes due to the long-term nature of pension and OPEB obligations and the varying market conditions likely to occur over long periods of time. As such, significant portions of pension and OPEB costs recorded in any period may not reflect the actual level of cash benefits provided to plan participants and are significantly influenced by assumptions about future market conditions and plan participants' experience.

In selecting an assumed discount rate, FirstEnergy considers currently available rates of return on high-quality fixed income investments expected to be available during the period to maturity of the pension and other postretirement benefit obligations. Due to the significant decline in corporate bond yields and interest rates in general during 2002, FirstEnergy reduced the assumed discount rate as of December 31, 2002 to 6.75% from 7.25% used in 2001.

FirstEnergy's assumed rate of return on pension plan assets considers historical market returns and economic forecasts for the types of investments held by its pension trusts. The market values of FirstEnergy's pension assets have been affected by sharp declines in the equity markets since mid-2000. In 2002 and 2001, plan assets earned (11.3)% and (5.5)%, respectively. FirstEnergy's pension costs in 2002 were computed assuming a 10.25% rate of return on plan assets. As of December 31, 2002 the assumed return on plan assets was reduced to 9.00% based upon FirstEnergy's projection of future returns and pension trust investment allocation of approximately 60% large cap equities, 10% small cap equities and 30% bonds.

Based on pension assumptions and pension plan assets as of December 31, 2002, FirstEnergy is not required to fund its pension plans in 2003. While OPEB plan assets have also been affected by sharp declines in the equity market, the impact is not as significant due to the relative size of the plan assets. However, health care cost trends have significantly increased and will affect future OPEB costs. The 2003 composite health care trend rate assumption is approximately 10%-12% gradually decreasing to 5% in later years, compared to FirstEnergy's 2002 assumption of approximately 10% in 2002, gradually decreasing to 4%-6% in later years. In determining its trend rate assumptions, FirstEnergy included the specific provisions of its health care plans, the demographics and utilization rates of plan participants, actual cost increases experienced in its health care plans, and projections of future medical trend rates.

Long-Lived Assets

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," Met-Ed periodically evaluates its long-lived assets to determine whether conditions exist that would indicate that the carrying value of an asset may not be fully recoverable. The accounting standard requires that if the sum of future cash flows (undiscounted) expected to result from an asset is less than the carrying value of the asset, an asset impairment must be recognized in the financial statements. If impairment other than of a temporary nature has occurred, Met-Ed would recognize a loss - calculated as the difference between the carrying value and the estimated fair value of the asset (discounted future net cash flows).

RECENTLY ISSUED ACCOUNTING STANDARDS

FIN 46, "Consolidation of Variable Interest Entities -
an interpretation of ARB 51"

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In January 2003, the FASB issued this interpretation of ARB No. 51, "Consolidated Financial Statements". This Interpretation requires the consolidation of a variable interest entity (VIE) by an enterprise if that enterprise either absorbs a majority of the VIE's expected losses or receives a majority of the VIE's expected residual returns as a result of ownership, contractual or other financial interests in the VIE. Currently, entities are generally consolidated by an enterprise that has a controlling financial interest through ownership of a majority voting interest in the entity.

FIN 46 defines a VIE as an entity in which equity investors do not have the characteristics of a controlling financial interest nor have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIE's created after January 31, 2003, are immediately subject to the provisions of FIN 46. The FASB recently deferred implementation of FIN 46 for VIE's created before February 1, 2003, until the first reporting period ending after December 15, 2003 (Met-Ed's quarter ending December 31, 2003.)

As described in Note 1, the consolidated financial statements of Met-Ed include a statutory business trust that sold trust-preferred securities in which Met-Ed is not the primary beneficiary. Pending further guidance from the FASB that would indicate otherwise, this entity may not be consolidated in Met-Ed's financial statements as of December 31, 2003. The deconsolidation would result in an increase in total assets and liabilities of approximately \$3.1 million for the investment in the trust.

The FASB continues to provide additional guidance on implementing FIN 46 and recently proposed modifications and clarifications with a comment period ending December 1, 2003. As this guidance is finalized, Met-Ed will continue to assess the accounting and disclosure impact of FIN 46 with respect to potential VIE's.

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SFAS 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities"

Issued by the FASB in April 2003, SFAS 149 further clarifies and amends accounting and reporting for derivative instruments. The statement amends SFAS 133 for decisions made by the Derivative Implementation Group (DIG), as well as issues raised in connection with other FASB projects and implementation issues. The statement is effective for contracts entered into or modified after June 30, 2003 except for implementation issues that have been effective for reporting periods beginning before June 15, 2003, that continue to be applied based on their original effective dates. Adoption of SFAS 149 did not have a material impact on Met-Ed's financial statements.

SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity"

In May 2003, the FASB issued SFAS 150, which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. In accordance with the standard, certain financial instruments that embody obligations for the issuer are required to be classified as liabilities. SFAS 150 was effective immediately for financial instruments entered into or modified after May 31, 2003 and effective at the beginning of the first interim period beginning after June 15, 2003 (Met-Ed's third quarter of 2003) for all other financial instruments.

Upon adoption of SFAS 150, effective July 1, 2003, company-obligated

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mandatorily redeemable preferred securities of \$92.6 million were reclassified and included in long-term debt as of September 30, 2003. As required by SFAS 150, the preferred securities subject to mandatory redemption were not restated as long-term debt on the December 31, 2002 balance sheet.

DIG Implementation Issue No. C20 for SFAS 133, "Scope Exceptions: Interpretation of the Meaning of Not Clearly and Closely Related in Paragraph 10(b) Regarding Contracts with a Price Adjustment Feature"

In June 2003, the FASB cleared DIG Issue C20 for implementation in fiscal quarters beginning after July 10, 2003 which would correspond to Met-Ed's fourth quarter of 2003. The issue supersedes earlier DIG Issue C11, "Interpretation of Clearly and Closely Related in Contracts That Qualify for the Normal Purchases and Normal Sales Exception." DIG Issue C20 provides guidance regarding when the presence of a general index, such as the Consumer Price Index, in a contract would prevent that contract from qualifying for the normal purchases and normal sales (NPNS) exception under SFAS 133, as amended, and therefore exempt from the mark-to-market treatment of certain contracts. DIG Issue C20 is to be applied prospectively to all existing contracts as of its effective date and for all future transactions. If it is determined under DIG Issue C20 guidance that the NPNS exception was claimed for an existing contract that was not eligible for this exception, the contract will be recorded at fair value, with a corresponding adjustment of net income as the cumulative effect of a change in accounting principle in the fourth quarter of 2003. Met-Ed is currently assessing the new guidance but does not anticipate any material impact on its financial statements.

EITF Issue No. 01-08, "Determining whether an Arrangement Contains a Lease"

In May 2003, the EITF reached a consensus on Issue No. 01-08, regarding when arrangements contain a lease. Based on the EITF consensus, an arrangement contains a lease if (1) it identifies specific property, plant or equipment (explicitly or implicitly), and (2) the arrangement transfers the right to the purchaser to control the use of the property, plant or equipment. The consensus is to be applied prospectively to arrangements committed to, modified or acquired through a business combination, beginning in the third quarter of 2003. The adoption of this consensus as of July 1, 2003 did not impact Met-Ed's financial statements.

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PENNSYLVANIA ELECTRIC COMPANY

CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended September 30,		
	----- 2003	2002	
			(In thousands)
OPERATING REVENUES.....	\$242,960	\$269,359	\$
	-----	-----	

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OPERATING EXPENSES AND TAXES:		
Purchased power.....	153,440	191,756
Other operating costs.....	48,168	27,759
	-----	-----
Total operation and maintenance expenses.....	201,608	219,515
Provision for depreciation and amortization.....	10,982	16,098
General taxes.....	17,032	17,744
Income taxes.....	862	3,040
	-----	-----
Total operating expenses and taxes.....	230,484	256,397
	-----	-----
OPERATING INCOME.....	12,476	12,962
OTHER INCOME.....	545	1,067
	-----	-----
INCOME BEFORE NET INTEREST CHARGES.....	13,021	14,029
	-----	-----
NET INTEREST CHARGES:		
Interest on long-term debt.....	7,432	7,796
Allowance for borrowed funds used during construction..	(77)	84
Deferred interest.....	(380)	(869)
Other interest expense.....	2,071	684
Subsidiary's preferred stock dividend requirements.....	--	1,888
	-----	-----
Net interest charges.....	9,046	9,583
	-----	-----
Income before cumulative effect of accounting change.....	3,975	4,446
Cumulative effect of accounting change (net of income taxes of \$777,000) (Note 5).....	--	--
	-----	-----
NET INCOME.....	\$ 3,975	\$ 4,446
	=====	=====

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2003

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ASSETS

UTILITY PLANT:

In service.....	\$1,956,623
Less--Accumulated provision for depreciation.....	773,485

	1,183,138
Construction work in progress-	
Electric plant.....	24,448

	1,207,586

OTHER PROPERTY AND INVESTMENTS:

Non-utility generation trusts.....	3,840
Nuclear plant decommissioning trusts.....	95,894
Long-term notes receivable from associated companies.....	14,905
Other.....	15,497

	130,136

CURRENT ASSETS:

Cash and cash equivalents.....	84
Receivables-	
Customers (less accumulated provisions of \$5,949,000 and \$6,153,000 respectively, for uncollectible accounts).....	114,009
Associated companies.....	100,128
Other.....	17,026
Prepayments and other.....	12,287

	243,534

DEFERRED CHARGES:

Regulatory assets.....	513,664
Goodwill.....	898,086
Accumulated deferred income tax benefits.....	98,694
Other.....	22,765

	1,533,209

	\$3,114,465
	=====

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PENNSYLVANIA ELECTRIC COMPANY

CONSOLIDATED BALANCE SHEETS

(Unaudited)
September 30,
2003

(In thou

CAPITALIZATION AND LIABILITIES

CAPITALIZATION:

Common stockholder's equity-	
Common stock, par value \$20 per share, authorized 5,400,000 shares, 5,290,596 shares outstanding.....	\$ 105,812
Other paid-in capital.....	1,215,256
Accumulated other comprehensive loss.....	(53,881)
Retained earnings.....	24,274

Total common stockholder's equity.....	1,291,461
Company-obligated mandatorily redeemable preferred securities (Note 5)....	--
Long-term debt and other long-term obligations-	
Company-obligated mandatorily redeemable preferred securities (Note 5)..	92,374
Other.....	343,821

	1,727,656

CURRENT LIABILITIES:

Currently payable long-term debt.....	125,860
Accounts payable-	
Associated companies.....	72,537
Other.....	36,340
Notes payable to associated companies.....	65,720
Accrued taxes.....	20,537
Accrued interest.....	18,259
Other.....	21,023

	360,276

DEFERRED CREDITS:

Accumulated deferred investment tax credits.....	10,183
Nuclear fuel disposal costs.....	18,923
Power purchase contract loss liability.....	690,836
Asset retirement obligation.....	103,569
Nuclear plant decommissioning costs.....	--
Retirement benefits.....	177,076
Other.....	25,946

	1,026,533

COMMITMENTS, GUARANTEES AND CONTINGENCIES (Note 2).....

\$3,114,465

=====

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PENNSYLVANIA ELECTRIC COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended September 30,	
	2003	2002
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income.....	\$ 3,975	\$ 4,446
Adjustments to reconcile net income to net cash from operating activities-		
Provision for depreciation and amortization.....	10,982	16,098
Deferred costs recoverable as regulatory assets....	(4,267)	(13,468)
Deferred income taxes, net.....	6,356	4,525
Amortization of investment tax credits.....	(247)	(285)
Accrued retirement benefit obligations.....	6,867	--
Accrued compensation, net.....	(234)	(183)
Cumulative effect of accounting change (Note 5)....	--	--
Receivables.....	1,283	9,186
Accounts payable.....	(93,818)	(16,663)
Accrued taxes.....	(327)	(3,144)
Accrued interest.....	5,450	6,014
Prepayments and other current assets.....	(3,923)	14,793
Other.....	(13,005)	1,194
	-----	-----
Net cash provided from (used for) operating activities	(80,908)	22,513
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
New Financing-		
Short-term borrowings, net.....	38,150	444
Redemptions and Repayments-		
Long-term debt.....	(165)	--
Short-term borrowings, net.....	--	--
Dividend Payments-		
Common stock.....	(10,000)	--
	-----	-----
Net cash provided from (used for) financing activities	27,985	444
	-----	-----

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CASH FLOWS FROM INVESTING ACTIVITIES:

Property additions.....	(10,346)	(10,958)
Proceeds from non-utility generation trusts (Note 4)...	--	--
Associated companies loans, net.....	62,597	--
Other.....	390	--
	-----	-----
Net cash provided from (used for) investing activities	52,641	(10,958)
	-----	-----
Net increase (decrease) in cash and cash equivalents.....	(282)	11,999
Cash and cash equivalents at beginning of period.....	366	20,311
	-----	-----
Cash and cash equivalents at end of period.....	\$ 84	\$ 32,310
	=====	=====

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders and Board
of Directors of Pennsylvania
Electric Company:

We have reviewed the accompanying consolidated balance sheet of Pennsylvania Electric Company and its subsidiaries as of September 30, 2003, and the related consolidated statements of income and cash flows for each of the three-month and nine-month periods ended September 30, 2003 and 2002. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet and the consolidated statement of capitalization as of December 31, 2002, and the related consolidated statements of income, common stockholder's equity, preferred stock, cash flows and taxes for the year then ended (not presented herein), and in our report dated February 28, 2003 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2002, is fairly stated in all material respects in relation to the

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consolidated balance sheet from which it has been derived.

PricewaterhouseCoopers LLP
Cleveland, Ohio
November 13, 2003

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PENNSYLVANIA ELECTRIC COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Penelec provides regulated transmission and distribution services in northern, western and south central Pennsylvania. Pennsylvania customers are able to choose their electricity suppliers as a result of legislation which restructured the electric utility industry. Penelec's regulatory plan required unbundling the price for electricity into its component elements - including generation, transmission, distribution and transition charges. Penelec continues to deliver power to homes and businesses through its existing distribution system and maintains provider of last resort (PLR) obligations to customers who elect to retain Penelec as their power supplier.

RESULTS FROM OPERATIONS

Net income in the third quarter of 2003 decreased to \$4.0 million from \$4.4 million in the third quarter of 2002. Lower operating revenues and higher other operating costs were partially offset by reduced purchase power costs as compared to the third quarter of 2002. During the first nine months of 2003, net income decreased to \$17.6 million compared to \$30.1 million in the first nine months of 2002. Net income in the first nine months of 2003 included an after-tax credit of \$1.1 million from the cumulative effect of an accounting change due to the adoption of SFAS No. 143, "Accounting for Asset Retirement Obligations." Income before the cumulative effect was \$16.5 million in the first nine months of 2003 compared with \$30.1 million for the corresponding period of 2002. In the first nine months of 2003, higher operating costs and lower operating revenues were partially offset by reduced purchase power costs.

Electric Sales

Operating revenues decreased by \$26.4 million, or 9.8% in the third quarter of 2003 compared with the same period of 2002, primarily due to lower wholesale, residential and commercial kilowatt-hour sales, partially offset by increased industrial kilowatt-hour sales. Wholesale sales revenues decreased by \$9.6 million in the third quarter of 2003, which were primarily attributable to lower sales to non-affiliated companies. Retail generation kilowatt-hour sales decreased 5.0% (\$9.4 million decrease in revenue) as a result of a 14.5% decrease in residential sales and a 13.2% decrease in commercial sales offset in part by higher industrial sales (31.9%). The significant decrease in residential and commercial sales were primarily due to milder weather in the third quarter of 2003 compared to 2002 and a sluggish, but improving economy. These factors also contributed to the decrease in distribution deliveries of 3.4% in the third quarter of 2003 from the same quarter of 2002, decreasing revenues from electricity throughput by \$8.1 million. Operating revenues decreased \$20.0 million or 2.7% in the first nine months of 2003 compared to the same period in 2002, reflecting a wholesale sales revenue decrease of \$14.8 million, primarily due to lower affiliated company sales. Generation retail kilowatt-hour sales were also lower by 1.6% with a corresponding decrease in revenues of \$7.9

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million. Lower kilowatt-hour sales to industrial customers were partially offset by higher demand from residential and commercial customers.

Changes in electric generation sales and distribution deliveries in the third quarter and the first nine months of 2003 from the corresponding periods of 2002 are summarized in the following table:

Changes in Kilowatt-Hour Sales	Three Months	Nine Months

Increase (Decrease)		
Electric Generation:		
Retail.....	(5.0)%	(1.6)%
Wholesale.....	(99.9)%	(99.5)%

Total Electric Generation Sales.....	(10.7)%	(6.4)%
=====		
Distribution Deliveries:		
Residential.....	(14.6)%	1.5%
Commercial.....	(13.1)%	1.0%
Industrial.....	28.1%	2.9%

Total Distribution Deliveries.....	(3.4)%	1.8%
=====		

Operating Expenses and Taxes

Total operating expenses and taxes decreased \$25.9 million or 10.1% in the third quarter of 2003 and decreased \$3.6 million or 0.5% in the first nine months of 2003 from the same periods of 2002. The following table presents changes from the prior year by expense category.

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Operating Expenses and Taxes - Changes	Three Months	Nine Months
Increase (Decrease)		(In millions)
Purchased power costs.....	\$(38.3)	\$(13.4)
Other operating costs.....	20.4	25.2

Total operation and maintenance expenses.....	(17.9)	11.8
Provision for depreciation and amortization.....	(5.1)	(7.3)
General taxes.....	(0.7)	1.4
Income taxes.....	(2.2)	(9.5)

Total decrease in operating expenses and taxes.	\$(25.9)	\$ (3.6)
=====		

Reduced purchased power costs in the third quarter of 2003, compared with the same quarter of 2002, were due to lower required kilowatt-hour purchases driven by lower generation sales. In the first nine months, purchased power costs were lower principally due to fewer kilowatt-hour purchases, partially offset by higher average unit costs. The increase in other operating costs in the third quarter and first nine months of 2003 compared to the same periods of 2002 was primarily due to higher employee benefit costs and costs to restore customer service resulting from significant storm activity.

Net Interest Charges

Net interest charges decreased by \$0.5 million in the third quarter of

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2003 and \$4.0 million in the first nine months of 2003 compared with 2002, reflecting debt redemptions since the beginning of the third quarter of 2002.

Cumulative Effect of Accounting Change

Upon adoption of SFAS 143 in the first quarter of 2003, Penelec recorded an after-tax credit to net income of \$1.1 million. Penelec identified applicable legal obligations as defined under the new standard for nuclear power plant decommissioning. As a result of adopting SFAS 143 in January 2003, asset retirement costs of \$93 million were recorded as part of the carrying amount of the related long-lived asset, offset by accumulated depreciation of \$93 million. The asset retirement obligation (ARO) liability at the date of adoption was \$99 million, including accumulated accretion for the period from the date the liability was incurred to the date of adoption. As of December 31, 2002, Penelec had recorded decommissioning liabilities of \$130 million. Penelec expects substantially all of its nuclear decommissioning costs to be recoverable in rates over time. Therefore, Penelec recognized a regulatory liability of \$29 million upon adoption of SFAS 143 for the transition amounts related to establishing the ARO for nuclear decommissioning. The remaining cumulative effect adjustment for unrecognized depreciation and accretion offset by the reduction in the liabilities was a \$1.9 million increase to income, or \$1.1 million net of income taxes.

CAPITAL RESOURCES AND LIQUIDITY

Penelec's cash requirements in 2003 for operating expenses, construction expenditures and scheduled debt maturities are expected to be met without materially increasing its net debt and preferred stock outstanding. Over the next three years, Penelec expects to meet its contractual obligations with cash from operations. Thereafter, Penelec expects to use a combination of cash from operations and funds from the capital markets.

Changes in Cash Position

As of September 30, 2003, Penelec had \$0.1 million of cash and cash equivalents, compared with \$10.3 million as of December 31, 2002. The major sources for changes in these balances are summarized below.

Cash Flows From Operating Activities

Net cash provided from (used for) operating activities during the third quarter and first nine months of 2003 compared with the corresponding periods of 2002 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Operating Cash Flows	2003	2002	2003	2002

(In millions)				
Cash earnings (1).....	\$ 23	\$11	\$ 34	\$ 36
Working capital and other....	(104)	12	(71)	(30)

Total.....	\$ (81)	\$23	\$ (37)	\$ 6
=====				

(1) Includes net income, depreciation and amortization, deferred income taxes, investment tax credits and major noncash charges.

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Net cash used for operating activities decreased \$104 million in the third quarter of 2003 compared to the same period of 2002, due to a \$116 million increase in working capital and other requirements (primarily from changes in accounts payable). Net cash used for operating activities decreased \$43 million in the first nine months of 2003 compared to the same period of 2002. This decrease resulted from a \$41 million increase in working capital and other requirements primarily attributable to a \$56 million change in accounts payable.

Cash Flows From Financing Activities

In the third quarter of 2003, the increase in net cash provided from financing activities of \$28 million as compared to \$0.4 million in the same period of 2002 resulted from an increase in net short-term borrowings.

As of September 30, 2003, Penelec had about \$0.1 million of cash and temporary cash investments and approximately \$65.7 million of short-term indebtedness. Penelec may borrow from its affiliates on a short-term basis. Penelec will not issue first mortgage bonds (FMB) other than as collateral for senior notes, since its senior note indentures prohibit (subject to certain exceptions) it from issuing any debt which is senior to the senior notes. As of September 30, 2003, Penelec had the capability to issue \$15 million of additional senior notes based upon FMB collateral. Penelec had no restrictions on the issuance of preferred stock.

Cash Flows From Investing Activities

Net cash provided from investing activities totaled \$53 million in the third quarter of 2003 compared to a use of \$11 million in the third quarter of 2002. Net cash provided from investing activities was \$78 million in the first nine months of 2003, compared with \$0.2 million in the same period of 2002. The net cash in 2003 provided from investing activities resulted from proceeds from loans to associated companies in the third quarter and proceeds from nonutility generation (NUG) trusts in the first nine months, slightly offset by expenditures for property additions in both periods. Refunds to the NUG trusts are expected to be made in 2004 (see Regulatory Matters). Expenditures for property additions primarily support Penelec's energy delivery operations.

During the last quarter of 2003, capital requirements for property additions are expected to be about \$10 million. Penelec has additional requirements of approximately \$0.2 million for maturing long-term debt during the remainder of 2003. These cash requirements are expected to be satisfied from internal cash and short-term credit arrangements.

On August 14, 2003, Moody's Investors Service placed the debt ratings of FirstEnergy and all of its subsidiaries under review for possible downgrade. Moody's stated that the review was prompted by: (1) weaker than expected operating performance and cash flow generation; (2) less progress than expected in reducing debt; (3) continuing high leverage relative to its peer group; and (4) negative impact on cash flow and earnings from the continuing nuclear plant outage at Davis-Besse. Moody's further stated that, in anticipation of Davis-Besse returning to service in the near future and FirstEnergy's continuing to significantly reduce debt and improve its financial profile, "Moody's does not expect that the outcome of the review will result in FirstEnergy's senior unsecured debt rating falling below investment-grade."

On September 30, 2003, Fitch Ratings lowered the senior unsecured ratings of FirstEnergy to "BBB-" from "BBB." Fitch also lowered the senior secured, senior unsecured, and preferred stock ratings of Met-Ed, Penelec, CEI, and TE. In addition, Fitch affirmed the ratings of OE, Penn and JCP&L. Fitch announced that the Rating Outlook is Stable for the securities of FirstEnergy,

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and all of the securities of its electric utility operating companies. Fitch stated that the changes to the long-term ratings were "driven by the high debt leverage of the parent FE. Despite management's commitment to reduce debt related to the GPU merger, subsequent cash flows have been vulnerable to unfavorable events, slowing the pace of FE's debt reduction efforts. The Stable Outlook reflects the success of FE's recent common equity offering and management's focus on a relatively conservative integrated utility strategy."

On October 27, 2003, Standard & Poors (S&P) stated that the `BBB` corporate credit and the `BBB-` senior unsecured ratings for FirstEnergy and its utility subsidiaries remain on CreditWatch with negative implications. The ratings were placed on CreditWatch on August 18, 2003, and reflect S&P's concerns regarding the potential impact of the August 14, 2003 blackout investigation on FirstEnergy's deleveraging strategy and its overall efforts to improve its credit profile.

At that time, S&P also noted other challenges facing FirstEnergy, including the extended Davis-Besse outage; the recent U.S. District Court ruling regarding the Sammis Plant; reliability concerns in subsidiary JCP&L's service territory; and FirstEnergy's credibility with regulators and federal officials.

S&P further noted several factors that could aid FirstEnergy in resolution of the CreditWatch, including strengthening its balance sheet. FirstEnergy directly addressed this concern through its recently completed common equity offering that raised approximately \$935 million in net proceeds, which was used to reduce bank debt. S&P described the equity offering as a "positive credit development" and also noted the recent renewal of FirstEnergy's

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\$1 billion revolver facilities as a "favorable development, as it mitigates liquidity concerns." S&P also indicated that should various ongoing investigations into the causal factors of the August 14, 2003 blackout establish that the blackout resulted from no negligence or breach of compliance standards on FirstEnergy's part, the CreditWatch could be removed and the outlook returned to negative. S&P deemed a "stable" credit outlook unlikely until issues such as the restart of Davis-Besse are resolved and the potential effect of the litigation relating to the Sammis plant (the second trial is scheduled for April 2004) are known. Extension of the Ohio transition plan will be viewed as a positive development and will support an outlook revision to stable.

On October 27, 2003, S&P also noted that the ratings on FirstEnergy and its subsidiaries incorporate such strengths as the ability to generate free cash flow, power generation contracted to its transmission and distribution subsidiaries through 2005, and the hedging of its short power position arising from its PLR obligation in Pennsylvania. S&P said that these strengths are offset by slower than anticipated reduction of FirstEnergy debt, remaining volume risks of PLR obligations, the extended outage at Davis-Besse, the unfavorable outcome of the New Jersey rate proceeding, and regulatory uncertainty in Ohio. S&P also said that it now views FirstEnergy's liquidity position as average, following FirstEnergy's renewal of its \$1 billion credit facilities.

MARKET RISK INFORMATION

Penelec uses various market risk sensitive instruments, including derivative contracts, primarily to manage the risk of price fluctuations. FirstEnergy's Risk Policy Committee, comprised of executive officers, exercises an independent risk oversight function to ensure compliance with corporate risk management policies and prudent risk management practices.

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Commodity Price Risk

Penelec is exposed to market risk primarily due to fluctuations in electricity and natural gas prices. To manage the volatility relating to these exposures, it uses a variety of non-derivative and derivative instruments, including options and future contracts. The derivatives are used for hedging purposes. Most of Penelec's non-hedge derivative contracts represent non-trading positions that do not qualify for hedge treatment under SFAS 133. The change in the fair value of commodity derivative contracts related to energy production during the third quarter and first nine months of 2003 is summarized in the following table:

Increase (Decrease) in the Fair Value of Commodity Derivative Contracts	Three Months Ended September 30, 2003			N
	Non-Hedge	Hedge	Total	S

(In millions)				
Change in the Fair Value of Commodity Derivative Contracts				
Net asset at beginning of period.....	\$12.9	\$ --	\$12.9	\$ 8
New contract value when entered.....	--	--	--	--
Additions/Increase in value of existing contracts.....	(0.1)	--	(0.1)	4
Change in techniques/assumptions.....	2.3	--	2.3	2
Settled contracts.....	--	--	--	--

Net Assets - Derivative Contracts at end of period (1).	\$15.1	\$ --	\$15.1	\$15
=====				
Impact of Changes in Commodity Derivative Contracts (2)				
Income Statement Effects (Pre-Tax).....	\$ 0.2	\$ --	\$ 0.2	\$ 0
Balance Sheet Effects:				
Other Comprehensive Income (Pre-Tax).....	\$ --	\$ --	\$ --	\$ --
Regulatory Liability.....	\$ 2.0	\$ --	\$ 2.0	\$ 6

(1) Includes \$14.2 million in non-hedge commodity derivative contracts which are offset by a regu

(2) Represents the increase in value of existing contracts, settled contracts and changes in tech

Derivatives included on the Consolidated Balance Sheet as of September 30, 2003:

	Non-Hedge	Hedge	Total
	-----	-----	-----
(In millions)			
Current-			
Other Assets.....	\$ --	\$ --	\$ --
Other Liabilities.....	--	--	--
Non-Current-			
Other Deferred Charges.....	15.1	--	15.1
Other Deferred Credits.....	--	--	--

Net Assets.....	\$15.1	\$ --	\$15.1
=====			

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The valuation of derivative contracts is based on observable market information to the extent that such information is available. In cases where such information is not available, Penelec relies on model-based information. The model provides estimates of future regional prices for electricity and an estimate of related price volatility. Penelec uses these results to develop estimates of fair value for financial reporting purposes and for internal management decision making. Sources of information for the valuation of derivative contracts by year are summarized in the following table:

Source of Information - Fair Value by Contract Year	2003(1)	2004	2005	2006	Thereafter
	(In millions)				
Prices based on external sources(2)	\$0.3	\$2.1	\$2.3	\$--	\$--
Prices based on models	--	--	--	2.4	8.0
Total ³	\$0.3	\$2.1	\$2.3	\$2.4	\$8.0

(1) For the last quarter of 2003. (2) Broker quote sheets.

(3) Includes \$14.2 million from an embedded option that is offset by a regulatory liability and does not affect earnings.

Penelec performs sensitivity analyses to estimate its exposure to the market risk of its commodity positions. A hypothetical 10% adverse shift in quoted market prices in the near term on derivative instruments would not have had a material effect on its consolidated financial position or cash flows as of September 30, 2003.

Equity Price Risk

Included in Penelec's nuclear decommissioning trust investments are marketable equity securities carried at their market value of approximately \$48 million and \$42 million as of September 30, 2003 and December 31, 2002, respectively. A hypothetical 10% decrease in prices quoted by stock exchanges would result in a \$5 million reduction in fair value as of September 30, 2003.

OUTLOOK

Beginning in 1999, all of Penelec's customers were able to select alternative energy suppliers. Penelec continues to deliver power to homes and businesses through its existing distribution system, which remains regulated. The Pennsylvania Public Utility Commission (PPUC) authorized Penelec's rate restructuring plan, establishing separate charges for transmission, distribution, generation and stranded cost recovery, which is recovered through a competitive transition charge (CTC). Customers electing to obtain power from an alternative supplier have their bills reduced based on the regulated generation component, and the customers receive a generation charge from the alternative supplier. Penelec has a continuing responsibility to provide power to those customers not choosing to receive power from an alternative energy supplier, subject to certain limits, which is referred to as its PLR obligation.

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Regulatory assets are costs which have been authorized by the PPUC and the Federal Energy Regulatory Commission for recovery from customers in future periods and, without such authorization, would have been charged to income when incurred. All of Penelec's regulatory assets are expected to continue to be recovered under the provisions of the regulatory plan as discussed below. Penelec's regulatory assets totaled \$514 million and \$600 million as of September 30, 2003 and December 31, 2002, respectively.

Regulatory Matters

Effective September 1, 2002, Penelec assigned its provider of last resort (PLR) responsibility to its unregulated supply affiliate, FirstEnergy Solutions Corp. (FES), through a wholesale power sale agreement which expires in December 2003 and may be extended for each successive calendar year. Under the terms of the wholesale agreement, FES assumed the supply obligation, and the energy supply profit and loss risk, for the portion of power supply requirements that Penelec does not self-supply under its NUG contracts and other power contracts with nonaffiliated third party suppliers. This arrangement reduces its exposure to high wholesale power prices by providing power at a fixed price for its uncommitted PLR energy costs during the term of the agreement to FES. Penelec is authorized to continue deferring differences between NUG contract costs and current market prices.

On April 2, 2003, the PPUC remanded the issue relating to merger savings to the Office of Administrative Law for hearings, directed Met-Ed and Penelec to file a position paper on the effect of the Commonwealth Court order on the Settlement Stipulation and allowed other parties to file responses to the position paper. Met-Ed and Penelec filed a letter with the Administrative Law Judge on June 11, 2003, voiding the Stipulation in its entirety and reinstating Met-Ed's and Penelec's restructuring settlement previously approved by the PPUC.

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On October 2, 2003, the PPUC issued an order concluding that the Commonwealth Court reversed the PPUC's June 20, 2001 order in its entirety. The PPUC directed Met-Ed and Penelec to file tariffs within thirty days of the order to reflect the CTC rates and shopping credits that were in effect prior to the June 21, 2001 order to be effective upon one day's notice. In response to that order, Met-Ed and Penelec filed these supplements to their tariffs to become effective October 24, 2003.

On October 8, 2003, Met-Ed and Penelec filed a petition for clarification relating to the October 2 order on two issues: to establish the end of June 2004 as the date to fully refund the NUG trust fund and to clarify that the ordered accounting treatment regarding the CTC rate/shopping credit swap should follow the ratemaking, and that the PPUC findings would not impair Penelec's rights to recover all of its stranded costs. On October 9, 2003, ARIPPA (an intervenor in the proceedings) petitioned the PPUC to direct Met-Ed and Penelec to reinstate accounting for the CTC rate/shopping credit swap retroactive to January 1, 2002. Several other parties also filed petitions. On October 16, 2003, the PPUC issued a reconsideration order granting the date requested by Met-Ed and Penelec for the NUG trust fund refunds; and, denying Met-Ed's and Penelec's other clarification requests and granting ARIPPA's petition with respect to the accounting treatment of the changes to the CTC rate/shopping credit swap. On October 22, 2003, Met-Ed and Penelec filed an Objection with the Commonwealth Court asking that the Court reverse the PPUC's finding that requires Met-Ed and Penelec to treat the stipulated CTC rates that were in effect from January 1, 2002 on a retroactive basis. Met-Ed and Penelec are considering filing an appeal to the Commonwealth Court on the PPUC orders as well.

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Environmental Matters

Penelec has been named as a "potentially responsible party" (PRP) 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 PRPs for a particular site be held liable on a joint and several basis. Therefore, environmental liabilities that are considered probable have been recognized on the Consolidated Balance Sheet as of September 30, 2003, based on estimates of the total costs of cleanup, Penelec's proportionate responsibility for such costs and the financial ability of other nonaffiliated entities to pay. Penelec has total accrued liabilities aggregating approximately \$0.2 million as of September 30, 2003. Penelec does not believe environmental remediation costs will have a material adverse effect on its financial condition, cash flows or results of operations.

Legal Matters

Various lawsuits, claims and proceedings related to Penelec's normal business operations are pending against it, the most significant of which are described above.

SIGNIFICANT ACCOUNTING POLICIES

Penelec prepares its consolidated financial statements in accordance with accounting principles that are generally accepted in the United States. Application of these principles often requires a high degree of judgment, estimates and assumptions that affect its financial results. All of its assets are subject to their own specific risks and uncertainties and are regularly reviewed for impairment. Assets related to the application of the policies discussed below are similarly reviewed with their risks and uncertainties reflecting those specific factors. Penelec's more significant accounting policies are described below.

Purchase Accounting

The merger between FirstEnergy and GPU was accounted for by the purchase method of accounting, which requires judgment regarding the allocation of the purchase price based on the fair values of the assets acquired (including intangible assets) and the liabilities assumed. The fair values of the acquired assets and assumed liabilities were based primarily on estimates. The adjustments reflected in Penelec's records, which were finalized in the fourth quarter of 2002, primarily consist of: (1) revaluation of certain property, plant and equipment; (2) adjusting preferred stock subject to mandatory redemption and long-term debt to estimated fair value; (3) recognizing additional obligations related to retirement benefits; and (4) recognizing estimated severance and other compensation liabilities. The excess of the purchase price over the estimated fair values of the assets acquired and liabilities assumed was recognized as goodwill. Based on the guidance provided by SFAS 142, "Goodwill and Other Intangible Assets," Penelec evaluates its goodwill for impairment at least annually and would make such an evaluation more frequently if indicators of impairment should arise. In accordance with the accounting standard, if the fair value of a reporting unit is less than its carrying value (including goodwill), the goodwill is tested for impairment. If impairment were indicated, Penelec would recognize a loss - calculated as the difference between the implied fair value of its goodwill and the carrying value of the goodwill. Penelec's annual review was completed in the third quarter of 2003, with no impairment of goodwill indicated. The forecasts used in its evaluation of goodwill reflect operations consistent with its general business assumptions. Unanticipated changes in those assumptions could have a significant effect on Penelec's future evaluation of goodwill. As of September 30, 2003,

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Penelec had recorded goodwill of approximately \$898.1 million related to the merger.

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Regulatory Accounting

Penelec is subject to regulation that sets the prices (rates) it is permitted to charge its customers based on the costs that the regulatory agencies determine it is permitted to recover. At times, regulators permit the future recovery through rates of costs that would be currently charged to expense by an unregulated company. This rate-making process results in the recording of regulatory assets based on anticipated future cash inflows. As a result of the changing regulatory framework in Pennsylvania, a significant amount of regulatory assets have been recorded - \$514 million as of September 30, 2003. Penelec regularly reviews these assets to assess their ultimate recoverability within the approved regulatory guidelines. Impairment risk associated with these assets relates to potentially adverse legislative, judicial or regulatory actions in the future.

Derivative Accounting

Determination of appropriate accounting for derivative transactions requires the involvement of management representing operations, finance and risk assessment. In order to determine the appropriate accounting for derivative transactions, the provisions of the contract need to be carefully assessed in accordance with the authoritative accounting literature and management's intended use of the derivative. New authoritative guidance continues to shape the application of derivative accounting. Management's expectations and intentions are key factors in determining the appropriate accounting for a derivative transaction and, as a result, such expectations and intentions are documented. Derivative contracts that are determined to fall within the scope of SFAS 133, as amended, must be recorded at their fair value. Active market prices are not always available to determine the fair value of the later years of a contract, requiring that various assumptions and estimates be used in their valuation. Penelec continually monitors its derivative contracts to determine if Penelec's activities, expectations, intentions, assumptions and estimates remain valid. As part of Penelec's normal operations, it enters into commodity contracts which increase the impact of derivative accounting judgments.

Revenue Recognition

Penelec follows the accrual method of accounting for revenues, recognizing revenue for kilowatt-hours that have been delivered but not yet been billed through the end of the accounting period. The determination of unbilled revenues requires management to make various estimates including:

- o Net energy generated or purchased for retail load
- o Losses of energy over distribution lines
- o Allocations to distribution companies within the FirstEnergy system
- o Mix of kilowatt-hour usage by residential, commercial and industrial customers
- o Kilowatt-hour usage of customers receiving electricity from alternative suppliers

Pension and Other Postretirement Benefits Accounting

FirstEnergy's reported costs of providing non-contributory defined pension benefits and OPEB are dependent upon numerous factors resulting from actual plan experience and certain assumptions.

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Pension and OPEB costs are affected by employee demographics (including age, compensation levels, and employment periods), the level of contributions FirstEnergy makes to the plans, and earnings on plan assets. Pension and OPEB costs may also be affected by changes to key assumptions, including anticipated rates of return on plan assets, the discount rates and health care trend rates used in determining the projected benefit obligations for pension and OPEB costs.

In accordance with SFAS 87, "Employers' Accounting for Pensions" and SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," changes in pension and OPEB obligations associated with these factors may not be immediately recognized as costs on the income statement, but generally are recognized in future years over the remaining average service period of plan participants. SFAS 87 and SFAS 106 delay recognition of changes due to the long-term nature of pension and OPEB obligations and the varying market conditions likely to occur over long periods of time. As such, significant portions of pension and OPEB costs recorded in any period may not reflect the actual level of cash benefits provided to plan participants and are significantly influenced by assumptions about future market conditions and plan participants' experience.

In selecting an assumed discount rate, FirstEnergy considers currently available rates of return on high-quality fixed income investments expected to be available during the period to maturity of the pension and other postretirement benefit obligations. Due to the significant decline in corporate bond yields and interest rates in general during 2002, FirstEnergy reduced the assumed discount rate as of December 31, 2002 to 6.75% from 7.25% used in 2001.

FirstEnergy's assumed rate of return on pension plan assets considers historical market returns and economic forecasts for the types of investments held by its pension trusts. The market values of FirstEnergy's pension assets have been affected by sharp declines in the equity markets since mid-2000. In

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2002 and 2001, plan assets have earned (11.3)% and (5.5)%, respectively. FirstEnergy's pension costs in 2002 were computed assuming a 10.25% rate of return on plan assets. As of December 31, 2002 the assumed return on plan assets was reduced to 9.00% based upon FirstEnergy's projection of future returns and pension trust investment allocation of approximately 60% large cap equities, 10% small cap equities and 30% bonds.

Based on pension assumptions and pension plan assets as of December 31, 2002, FirstEnergy is not required to fund its pension plans in 2003. While OPEB plan assets have also been affected by sharp declines in the equity market, the impact is not as significant due to the relative size of the plan assets. However, health care cost trends significantly increased and will affect future OPEB costs. The 2003 composite health care trend rate assumption is approximately 10%-12% gradually decreasing to 5% in later years, compared to FirstEnergy's 2002 assumption of approximately 10% in 2002, gradually decreasing to 4%-6% in later years. In determining its trend rate assumptions, FirstEnergy included the specific provisions of its health care plans, the demographics and utilization rates of plan participants, actual cost increases experienced in its health care plans, and projections of future medical trend rates.

Long-Lived Assets

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," Penelec periodically evaluates its long-lived

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assets to determine whether conditions exist that would indicate that the carrying value of an asset may not be fully recoverable. The accounting standard requires that if the sum of future cash flows (undiscounted) expected to result from an asset is less than the carrying value of the asset, an asset impairment must be recognized in the financial statements. If impairment other than of a temporary nature has occurred, Penelec would recognize a loss - calculated as the difference between the carrying value and the estimated fair value of the asset (discounted future net cash flows).

RECENTLY ISSUED ACCOUNTING STANDARDS

FIN 46, "Consolidation of Variable Interest Entities - an interpretation of ARB 51"

In January 2003, the FASB issued this interpretation of ARB No. 51, "Consolidated Financial Statements". This Interpretation requires the consolidation of a variable interest entity (VIE) by an enterprise if that enterprise either absorbs a majority of the VIE's expected losses or receives a majority of the VIE's expected residual returns as a result of ownership, contractual or other financial interests in the VIE. Currently, entities are generally consolidated by an enterprise that has a controlling financial interest through ownership of a majority voting interest in the entity.

FIN 46 defines a VIE as an entity in which equity investors do not have the characteristics of a controlling financial interest nor have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIE's created after January 31, 2003, are immediately subject to the provisions of FIN 46. The FASB recently deferred implementation of FIN 46 for VIE's created before February 1, 2003, until the first reporting period ending after December 15, 2003 (Penelec's quarter ending December 31, 2003.)

As described in Note 1, the consolidated financial statements of Penelec include a statutory business trust that sold trust-preferred securities in which Penelec is not the primary beneficiary. Pending further guidance from the FASB that would indicate otherwise, this entity may not be consolidated in Penelec's financial statements as of December 31, 2003. The deconsolidation would result in an increase in total assets and liabilities of approximately \$3.1 million for the investment in the trust.

The FASB continues to provide additional guidance on implementing FIN 46 and recently proposed modifications and clarifications with a comment period ending December 1, 2003. As this guidance is finalized, Penelec will continue to assess the accounting and disclosure impact of FIN 46 with respect to potential VIE's.

SFAS 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities"

Issued by the FASB in April 2003, SFAS 149 further clarifies and amends accounting and reporting for derivative instruments. The statement amends SFAS 133 for decisions made by the Derivative Implementation Group (DIG), as well as issues raised in connection with other FASB projects and implementation issues. The statement is effective for contracts entered into or modified after June 30, 2003 except for implementation issues that have been effective for reporting periods which began prior to June 15, 2003, that continue to be applied based on their original effect dates. Adoption of SFAS 149 did not have a material impact on Penelec's financial statements.

SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity"

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In May 2003, the FASB issued SFAS 150, which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. In accordance with the standard,

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certain financial instruments that embody obligations for the issuer are required to be classified as liabilities. SFAS 150 was effective immediately for financial instruments entered into or modified after May 31, 2003 and effective at the beginning of the first interim period beginning after June 15, 2003 (Penelec's third quarter of 2003) for all other financial instruments.

Upon adoption of SFAS 150, effective July 1, 2003, company-obligated mandatorily redeemable preferred securities of \$92.4 million were reclassified and included in long-term debt as of September 30, 2003. As required by SFAS 150, the preferred securities subject to mandatory redemption were not restated as long-term debt on the December 31, 2002 balance sheet.

DIG Implementation Issue No. C20 for SFAS 133, "Scope Exceptions: Interpretation of the Meaning of Not Clearly and Closely Related in Paragraph 10(b) Regarding Contracts with a Price Adjustment Feature"

In June 2003, the FASB cleared DIG Issue C20 for implementation in fiscal quarters beginning after July 10, 2003 which would correspond to Penelec's fourth quarter of 2003. The issue supersedes earlier DIG Issue C11, "Interpretation of Clearly and Closely Related in Contracts That Qualify for the Normal Purchases and Normal Sales Exception." DIG Issue C20 provides guidance regarding when the presence of a general index, such as the Consumer Price Index, in a contract would prevent that contract from qualifying for the normal purchases and normal sales (NPNS) exception under SFAS 133, as amended, and therefore exempt from the mark-to-market treatment of certain contracts. DIG Issue C20 is to be applied prospectively to all existing contracts as of its effective date and for all future transactions. If it is determined under DIG Issue C20 guidance that the NPNS exception was claimed for an existing contract that was not eligible for this exception, the contract will be recorded at fair value, with a corresponding adjustment of net income as the cumulative effect of a change in accounting principle in the fourth quarter of 2003. Penelec is currently assessing the new guidance but does not anticipate any material impact on its financial statements.

EITF Issue No. 01-08, "Determining whether an Arrangement Contains a Lease"

In May 2003, the EITF reached a consensus on Issue No. 01-08, regarding when arrangements contain a lease. Based on the EITF consensus, an arrangement contains a lease if (1) it identifies specific property, plant or equipment (explicitly or implicitly), and (2) the arrangement transfers the right to the purchaser to control the use of the property, plant or equipment. The consensus is to be applied prospectively to arrangements committed to, modified or acquired through a business combination, beginning in the third quarter of 2003. The adoption of this consensus as of July 1, 2003 did not impact Penelec's financial statements.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Management's Discussion and Analysis of Results of Operation and

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Financial Condition - Market Risk Information" in Item 2 above.

ITEM 4. CONTROLS AND PROCEDURES

(a) EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The applicable registrant's chief executive officer and chief financial officer have reviewed and evaluated the registrant's disclosure controls and procedures, as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e), as of the end of the date covered by this report. Based on that evaluation those officers have concluded that the registrant's disclosure controls and procedures are effective and were designed to bring to their attention material information relating to the registrant and its consolidated subsidiaries by others within those entities.

(b) CHANGES IN INTERNAL CONTROLS

During the quarter ended September 30, 2003, there were no changes in the registrants' internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the registrants' internal control over financial reporting.

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Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit
Number

Met-Ed

12	Fixed charge ratios
31.1	Certification of chief executive officer, as adopted pursuant to Rule 13a-15(e)/15d-(e).
31.2	Certification of chief financial officer, as adopted pursuant to Rule 13a-15(e)/15d-(e).
32.1	Certification of chief executive officer and chief financial officer, pursuant to 18 U.S.C. Section 1350.

Penelec

12	Fixed charge ratios
15	Letter from independent auditors
31.1	Certification of chief executive officer, as adopted pursuant to Rule 13a-15(e)/15d-(e).
31.2	Certification of chief financial officer, as adopted pursuant to Rule 13a-15(e)/15d-(e).
32.1	Certification of chief executive officer and chief financial officer, pursuant to 18 U.S.C. Section 1350.

JCP&L

12	Fixed charge ratios
15	Letter from independent auditors
31.2	Certification of chief financial officer, as adopted

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- pursuant to Rule 13a-15(e)/15d-(e).
- 31.3 Certification of chief executive officer, as adopted pursuant to Rule 13a-15(e)/15d-(e).
 - 32.2 Certification of chief executive officer and chief financial officer, pursuant to 18 U.S.C. Section 1350.

FirstEnergy, OE and Penn

- 15 Letter from independent public auditors
- 31.1 Certification of chief executive officer, as adopted pursuant to Rule 13a-15(e)/15d-(e).
- 31.2 Certification of chief financial officer, as adopted pursuant to Rule 13a-15(e)/15d-(e).
- 32.1 Certification of chief executive officer and chief financial officer, pursuant to 18 U.S.C. Section 1350.

CEI and TE

- 31.1 Certification of chief executive officer, as adopted pursuant to Rule 13a-15(e)/15d-(e).
- 31.2 Certification of chief financial officer, as adopted pursuant to Rule 13a-15(e)/15d-(e).
- 32.1 Certification of chief executive officer and chief financial officer, pursuant to 18 U.S.C. Section 1350.

Pursuant to reporting requirements of respective financings, JCP&L, Met-Ed and Penelec are required to file fixed charge ratios as an exhibit to this Form 10-Q. FirstEnergy, OE, CEI, TE and Penn do not have similar financing reporting requirements and have not filed their respective fixed charge ratios.

Pursuant to paragraph (b) (4) (iii) (A) of Item 601 of Regulation S-K, neither FirstEnergy, OE, CEI, TE, Penn, JCP&L, Met-Ed nor Penelec have filed as an exhibit to this Form 10-Q any instrument with respect to long-term debt if the respective total amount of securities authorized thereunder does not exceed 10% of their respective total assets of FirstEnergy and its subsidiaries on a consolidated basis, or respectively, OE, CEI, TE, Penn, JCP&L, Met-Ed or Penelec but hereby agree to furnish to the Commission on request any such documents.

(b) Reports on Form 8-K

FirstEnergy-

FirstEnergy filed thirteen reports on Form 8-K since June 30, 2003. A report dated July 24, 2003 reported an updated Davis-Besse ready for restart schedule and cost estimates. A report dated July 25, 2003 reported the New Jersey Board of Public Utilities decision on JCP&L's rate proceedings. A report dated August 5, 2003 reported FirstEnergy's second quarter 2003 earnings results and other information. A report dated August 5, 2003 reported the pending restatement of 2002 FE, OE, CEI and TE financial statements and restatement and reaudit of 2001 CEI and TE financial statements. A report dated August 7, 2003 reported the pending restatement and reaudit of 2000 CEI and TE financial statements. A report dated August 8, 2003 reported a U.S. District Court ruling

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with respect to the W. H. Sammis Plant under the Clean Air Act. A report dated August 28, 2003 reported FirstEnergy's cash and liquidity position. A report dated September 8, 2003 reported the announcement of a public offering of additional common stock and a Regulation G reconciliation of a non-GAAP financial measure, free cash flow, presented in connection with the offering. A report dated September 12, 2003 reported that FirstEnergy, OE, CEI and TE had received an informal data request from the Securities and Exchange Commission to provide information related to their recent financial statement restatements. A report dated September 24, 2003 reported an underwriting agreement related to its public offering of additional common stock. A report dated October 21, 2003 reported the filing of a proposed rate stabilization plan with the PUCO. A report dated October 23, 2003, reported FirstEnergy's third quarter 2003 results and other information. A report dated November 13, 2003 reported the announcement of a settlement agreement of FirstEnergy's claim against NRG Energy for the cancellation of a generating plants sale.

OE
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OE filed four reports on Form 8-K since June 30, 2003. A report dated August 5, 2003 reported the pending restatement of 2002 FE, OE, CEI and TE financial statements. A report dated August 8, 2003 reported a U.S. District Court ruling with respect to the W. H. Sammis Plant under the Clean Air Act. A report dated September 12, 2003 reported that FirstEnergy, OE, CEI and TE had received an informal data request from the Securities and Exchange Commission to provide information related to their recent financial statement restatements. A report dated October 21, 2003 reported the filing of a proposed rate stabilization plan with the PUCO.

Penn

None

CEI

CEI filed six reports on Form 8-K since June 30, 2003. A report dated July 24, 2003 reported an updated Davis-Besse ready for restart schedule and cost estimates. A report dated August 5, 2003 reported the pending restatement of 2002 FE, OE, CEI and TE financial statements and restatement and reaudit of 2001 CEI and TE financial statements. A report dated August 7, 2003 reported the pending restatement and reaudit of 2000 CEI and TE financial statements. A report dated September 12, 2003 reported that FirstEnergy, OE, CEI and TE had received an informal data request from the Securities and Exchange Commission to provide information related to their recent financial statement restatements. A report dated October 21, 2003 reported the filing of a proposed rate stabilization plan with the PUCO. A report dated November 13, 2003 reported the announcement of a settlement agreement of FirstEnergy's claim against NRG Energy for the cancellation of a generating plants sale.

TE
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TE filed six reports on Form 8-K since June 30, 2003. A report dated July 24, 2003 reported an updated Davis-Besse ready for restart schedule and cost estimates. A report dated August 5, 2003 reported the pending restatement of 2002 FE, OE, CEI and TE financial statements and restatement and reaudit of 2001 CEI and TE financial statements. A report dated August 7, 2003 reported the pending restatement and reaudit of 2000 CEI and TE financial statements. A report dated September 12, 2003 reported that FirstEnergy, OE, CEI and TE had

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received an informal data request from the Securities and Exchange Commission to provide information related to their recent financial statement restatements. A report dated October 21, 2003 reported the filing of a proposed rate stabilization plan with the PUCO. A report dated November 13, 2003 reported the announcement of a settlement agreement of FirstEnergy's claim against NRG Energy for the cancellation of a generating plants sale.

Met-Ed and Penelec

None

JCP&L

JCP&L filed one report on Form 8-K since June 30, 2003. A report dated July 25, 2003 reported the New Jersey Board of Public Utilities decision on JCP&L's rate proceedings.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, each Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

November 14, 2003

FIRSTENERGY CORP.

Registrant

OHIO EDISON COMPANY

Registrant

THE CLEVELAND ELECTRIC

ILLUMINATING COMPANY

Registrant

THE TOLEDO EDISON COMPANY

Registrant

PENNSYLVANIA POWER COMPANY

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Registrant

JERSEY CENTRAL POWER & LIGHT COMPANY

Registrant

METROPOLITAN EDISON COMPANY

Registrant

PENNSYLVANIA ELECTRIC COMPANY

Registrant

/s/ Harvey L. Wagner

Harvey L. Wagner
Vice President, Controller
and Chief Accounting Officer