***Reliability Initiatives***

In 2005, Congress amended the Federal Power Act to provide for federally-enforceable mandatory reliability standards. The mandatory reliability standards apply to the bulk power system and impose certain operating, record-keeping and reporting requirements on the Utilities and ATSI. The NERC is charged with establishing and enforcing these reliability standards, although it has delegated day-to-day implementation and enforcement of its responsibilities to eight regional entities, including ReliabilityFirst Corporation. All of FirstEnergy's facilities are located within the ReliabilityFirst region. FirstEnergy actively participates in the NERC and ReliabilityFirst stakeholder processes, and otherwise monitors and manages its companies in response to the ongoing development, implementation and enforcement of the reliability standards.

FirstEnergy believes that it is in compliance with all currently-effective and enforceable reliability standards. Nevertheless, it is clear that the NERC, ReliabilityFirst and the FERC will continue to refine existing reliability standards as well as to develop and adopt new reliability standards. The financial impact of complying with new or amended standards cannot be determined at this time. However, the 2005 amendments to the Federal Power Act provide that all prudent costs incurred to comply with the new reliability standards be recovered in rates. Still, any future inability on FirstEnergy's part to comply with the reliability standards for its bulk power system could result in the imposition of financial penalties that could have a material adverse effect on its financial condition, results of operations and cash flows.

In April 2007, ReliabilityFirst performed a routine compliance audit of FirstEnergy's bulk-power system within the Midwest ISO region and found it to be in full compliance with all audited reliability standards. Similarly, in October 2008, ReliabilityFirst performed a routine compliance audit of FirstEnergy's bulk-power system within the PJM region and a final report is expected in early 2009. FirstEnergy does not expect any material adverse financial impact as a result of these audits.

On December 9, 2008, a transformer at JCP&L's Oceanview substation failed, resulting in an outage on certain bulk electric system (transmission voltage) lines out of the Oceanview and Atlantic substations, with customers in the affected area losing power. Power was restored to most customers within a few hours and to all customers within eleven hours. On December 16, 2008, JCP&L provided preliminary information about the event to certain regulatory agencies, including the NERC. On March 31, 2009, the NERC initiated a Compliance Violation Investigation in order to determine JCP&L's contribution to the electrical event and to review any potential violation of NERC Reliability Standards associated with the event. The initial phase of the investigation required JCP&L to respond to the NERC's request for factual data about the outage. JCP&L submitted its written response on May 1, 2009. The NERC conducted on site interviews with personnel involved in responding to the event on June 16-17, 2009. On July 7, 2009, the NERC issued additional questions regarding the event and JCP&L replied as requested on August 6, 2009. JCP&L is not able at this time to predict what actions, if any, that the NERC may take based on the data submittals or interview results.

On June 5, 2009, FirstEnergy self-reported to Reliability *First* a potential violation of NERC Standard PRC-005 resulting from its inability to validate maintenance records for 20 protection system relays (out of approximately 20,000 reportable relays) in JCP&L's and Penelec's transmission systems. These potential violations were discovered during a comprehensive field review of all FirstEnergy substations to verify equipment and maintenance database accuracy. FirstEnergy has completed all mitigation actions, including calibrations and maintenance records for the relays. Reliability *First* issued an Initial Notice of Alleged Violation on June 22, 2009. The NERC approved FirstEnergy's mitigation plan on August 19, 2009, and submitted it to the FERC for approval on August 19, 2009. FirstEnergy is not able at this time to predict what actions or penalties, if any, that Reliability *First* will propose for this self-reported violation.

## ENVIRONMENTAL MATTERS

Various federal, state and local authorities regulate FirstEnergy with regard to air and water quality and other environmental matters. The effects of compliance on FirstEnergy with regard to environmental matters could have a material adverse effect on FirstEnergy's earnings and competitive position to the extent that 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 accrues environmental liabilities only when it concludes that it is probable that it has an obligation for such costs and can reasonably estimate the amount of such costs. Unasserted claims are reflected in FirstEnergy's determination of environmental liabilities and are accrued in the period that they become both probable and reasonably estimable.

***Clean Air Act Compliance***

FirstEnergy is required to meet federally-approved $SO_2$ emissions regulations. Violations of such regulations can result in the shutdown of the generating unit involved and/or civil or criminal penalties of up to $37,500 for each day the unit is in violation. The EPA has an interim enforcement policy for $SO_2$ regulations in Ohio that allows for compliance based on a 30-day averaging period. FirstEnergy believes it is currently in compliance with this policy, but cannot predict what action the EPA may take in the future with respect to the interim enforcement policy.

FirstEnergy complies with $SO_2$ reduction requirements under the Clean Air Act Amendments of 1990 by burning lower-sulfur fuel, generating more electricity from lower-emitting plants, and/or using emission allowances. $NO_X$ reductions required by the 1990 Amendments are being achieved through combustion controls, the generation of more electricity at lower-emitting plants, and/or using emission allowances. In September 1998, the EPA finalized regulations requiring additional $NO_X$ reductions at FirstEnergy's 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 (including Michigan, New Jersey, Ohio and Pennsylvania) and the District of Columbia based on a conclusion that such $NO_X$ emissions are contributing significantly to ozone levels in the eastern United States. FirstEnergy believes its facilities are also complying with the $NO_X$ budgets established under SIPs through combustion controls and post-combustion controls, including Selective Catalytic Reduction and SNCR systems, and/or using emission allowances.

In 1999 and 2000, the EPA issued an NOV and the DOJ filed a civil complaint against OE and Penn based on operation and maintenance of the W. H. Sammis Plant (Sammis NSR Litigation) and filed similar complaints involving 44 other U.S. power plants. This case and seven other similar cases are referred to as the NSR cases. OE's and Penn's settlement with the EPA, the DOJ and three states (Connecticut, New Jersey and New York) that resolved all issues related to the Sammis NSR litigation was approved by the Court on July 11, 2005. This settlement agreement, in the form of a consent decree, requires reductions of $NO_X$ and $SO_2$ emissions at the Sammis, Burger, Eastlake and Mansfield coal-fired plants through the installation of pollution control devices or repowering and provides for stipulated penalties for failure to install and operate such pollution controls or complete repowering in accordance with that agreement. Capital expenditures necessary to complete requirements of the Sammis NSR Litigation consent decree, including repowering Burger Units 4 and 5 for biomass fuel consumption, are currently estimated to be $399 million for 2010-2012.

In October 2007, PennFuture and three of its members filed a citizen suit under the federal CAA, alleging violations of air pollution laws at the Bruce Mansfield Plant, including opacity limitations, in the United States District Court for the Western District of Pennsylvania. In July 2008, three additional complaints were filed against FGCO in the U.S. District Court for the Western District of Pennsylvania seeking damages based on Bruce Mansfield Plant air emissions. In addition to seeking damages, two of the three complaints seek to enjoin the Bruce Mansfield Plant from operating except in a “safe, responsible, prudent and proper manner”, one being a complaint filed on behalf of twenty-one individuals and the other being a class action complaint, seeking certification as a class action with the eight named plaintiffs as the class representatives. On October 16, 2009, a settlement reached with PennFuture and one of the three individual complainants was approved by the Court, which dismissed the claims of PennFuture and of the settling individual. The other two non-settling individuals are now represented by counsel handling the three cases filed in July 2008. FGCO believes those claims are without merit and intends to defend itself against the allegations made in those three complaints. The Pennsylvania Department of Health, under a Cooperative Agreement with the Agency for Toxic Substances and Disease Registry, completed a Health Consultation regarding the Mansfield Plant and issued a report dated March 31, 2009, which concluded there is insufficient sampling data to determine if any public health threat exists for area residents due to emissions from the Mansfield Plant. The report recommended additional air monitoring and sample analysis in the vicinity of the Mansfield Plant, which the Pennsylvania Department of Environmental Protection has completed.

In December 2007, the state of New Jersey filed a CAA citizen suit alleging NSR violations at the Portland Generation Station against Reliant (the current owner and operator), Sithe Energy (the purchaser of the Portland Station from Met-Ed in 1999), GPU and Met-Ed. On October 30, 2008, the state of Connecticut filed a Motion to Intervene, which the Court granted on March 24, 2009. Specifically, Connecticut and New Jersey allege that "modifications" at Portland Units 1 and 2 occurred between 1980 and 2005 without preconstruction NSR or permitting under the CAA's PSD program, and seek injunctive relief, penalties, attorney fees and mitigation of the harm caused by excess emissions. The scope of Met-Ed's indemnity obligation to and from Sithe Energy is disputed. Met-Ed filed a Motion to Dismiss the claims in New Jersey's Amended Complaint and Connecticut's Complaint in February and September of 2009, respectively. The Court granted Met-Ed's motion to dismiss New Jersey's and Connecticut's claims for injunctive relief against Met-Ed, but denied Met-Ed's motion to dismiss the claims for civil penalties on statute of limitations grounds in order to allow the states to prove either that the application of the discovery rule or the doctrine of equitable tolling bars application of the statute of limitations.

In January 2009, the EPA issued a NOV to Reliant alleging NSR violations at the Portland Generation Station based on “modifications” dating back to 1986. Met-Ed is unable to predict the outcome of this matter. The EPA's January 2009, NOV also alleged NSR violations at the Keystone and Shawville Stations based on “modifications” dating back to 1984. JCP&L, as the former owner of 16.67% of the Keystone Station, and Penelec, as former owner and operator of the Shawville Station, are unable to predict the outcome of this matter.

In June 2008, the EPA issued a Notice and Finding of Violation to Mission Energy Westside, Inc. alleging that "modifications" at the Homer City Power Station occurred since 1988 to the present without preconstruction NSR or permitting under the CAA's PSD program. Mission Energy is seeking indemnification from Penelec, the co-owner (along with New York State Electric and Gas Company) and operator of the Homer City Power Station prior to its sale in 1999. The scope of Penelec's indemnity obligation to and from Mission Energy is disputed. Penelec is unable to predict the outcome of this matter.

In August 2009, the EPA issued a Finding of Violation and NOV alleging violations of the CAA and Ohio regulations, including the PSD, NNSR, and Title V regulations at the Eastlake, Lakeshore, Bay Shore, and Ashtabula generating plants. The EPA's NOV alleges equipment replacements occurring during maintenance outages dating back to 1990 triggered the pre-construction permitting requirements under the PSD and NNSR programs. In September 2009, FGCO received an information request pursuant to Section 114(a) of the CAA requesting certain operating and maintenance information and planning information regarding the Eastlake, Lake Shore, Bay Shore and Ashtabula generating plants. On November 3, 2009, FGCO received a letter providing notification that the EPA is evaluating whether certain scheduled maintenance at the Eastlake generating plant may constitute a major modification under the NSR provision of the CAA. On December 23, 2009, FGCO received another information request regarding emission projections for the Eastlake generating plant pursuant to Section 114(a) of the CAA. FGCO intends to comply with the CAA, including EPA's information requests, but, at this time, is unable to predict the outcome of this matter. A June 2006 finding of violation and NOV in which EPA alleged CAA violations at the Bay Shore Generating Plant remains unresolved and FGCO is unable to predict the outcome of such matter.

In August 2008, FirstEnergy received a request from the EPA for information pursuant to Section 114(a) of the CAA for certain operating and maintenance information regarding its formerly-owned Avon Lake and Niles generating plants, as well as a copy of a nearly identical request directed to the current owner, Reliant Energy, to allow the EPA to determine whether these generating sources are complying with the NSR provisions of the CAA. FirstEnergy intends to fully comply with the EPA's information request, but, at this time, is unable to predict the outcome of this matter.

***National Ambient Air Quality Standards***

In March 2005, the EPA finalized CAIR, covering a total of 28 states (including Michigan, New Jersey, Ohio and Pennsylvania) and the District of Columbia, based on proposed findings that air emissions from 28 eastern states and the District of Columbia significantly contribute to non-attainment of the NAAQS for fine particles and/or the "8-hour" ozone NAAQS in other states. CAIR requires reductions of $NO_X$ and $SO_2$ emissions in two phases (Phase I in 2009 for $NO_X$, 2010 for $SO_2$ and Phase II in 2015 for both $NO_X$ and $SO_2$), ultimately capping $SO_2$ emissions in affected states to 2.5 million tons annually and $NO_X$ emissions to 1.3 million tons annually. CAIR was challenged in the U.S. Court of Appeals for the District of Columbia and on July 11, 2008, the Court vacated CAIR "in its entirety" and directed the EPA to "redo its analysis from the ground up." In September 2008, the EPA, utility, mining and certain environmental advocacy organizations petitioned the Court for a rehearing to reconsider its ruling vacating CAIR. In December 2008, the Court reconsidered its prior ruling and allowed CAIR to remain in effect to "temporarily preserve its environmental values" until the EPA replaces CAIR with a new rule consistent with the Court's July 11, 2008 opinion. On July 10, 2009, the U.S. Court of Appeals for the District of Columbia ruled in a different case that a cap-and-trade program similar to CAIR, called the "$NO_X$ SIP Call," cannot be used to satisfy certain CAA requirements (known as reasonably available control technology) for areas in non-attainment under the "8-hour" ozone NAAQS. FGCO's future cost of compliance with these regulations may be substantial and will depend, in part, on the action taken by the EPA in response to the Court's ruling.

***Mercury Emissions***

In December 2000, the EPA announced it would proceed with the development of regulations regarding hazardous air pollutants from electric power plants, identifying mercury as the hazardous air pollutant of greatest concern. In March 2005, the EPA finalized the CAMR, which provides a cap-and-trade program to reduce mercury emissions from coal-fired power plants in two phases; initially, capping national mercury emissions at 38 tons by 2010 (as a "co-benefit" from implementation of $SO_2$ and $NO_X$ emission caps under the EPA's CAIR program) and 15 tons per year by 2018. Several states and environmental groups appealed the CAMR to the U.S. Court of Appeals for the District of Columbia. On February 8, 2008, the Court vacated the CAMR, ruling that the EPA failed to take the necessary steps to "de-list" coal-fired power plants from its hazardous air pollutant program and, therefore, could not promulgate a cap-and-trade program. The EPA petitioned for rehearing by the entire Court, which denied the petition in May 2008. In October 2008, the EPA (and an industry group) petitioned the U.S. Supreme Court for review of the Court's ruling vacating CAMR. On February 6, 2009, the EPA moved to dismiss its petition for certiorari. On February 23, 2009, the Supreme Court dismissed the EPA's petition and denied the industry group's petition. On October 21, 2009, the EPA opened a 30-day comment period on a proposed consent decree that would obligate the EPA to propose MACT regulations for mercury and other hazardous air pollutants by March 16, 2011, and to finalize the regulations by November 16, 2011. FGCO's future cost of compliance with MACT regulations may be substantial and will depend on the action taken by the EPA and on how any future regulations are ultimately implemented.

Pennsylvania has submitted a new mercury rule for EPA approval that does not provide a cap-and-trade approach as in the CAMR, but rather follows a command-and-control approach imposing emission limits on individual sources. On December 23, 2009, the Supreme Court of Pennsylvania affirmed the Commonwealth Court of Pennsylvania ruling that Pennsylvania's mercury rule is "unlawful, invalid and unenforceable" and enjoined the Commonwealth from continued implementation or enforcement of that rule.

***Climate Change***

In December 1997, delegates to the United Nations' climate summit in Japan adopted an agreement, the Kyoto Protocol, to address global warming by reducing, by 2012, the amount of man-made GHG, including $CO_2$, emitted by developed countries. The United States signed the Kyoto Protocol in 1998 but it was never submitted for ratification by the United States Senate. The EPACT established a Committee on Climate Change Technology to coordinate federal climate change activities and promote the development and deployment of GHG reducing technologies. President Obama has announced his Administration's "New Energy for America Plan" that includes, among other provisions, ensuring that 10% of electricity used in the United States comes from renewable sources by 2012, increasing to 25% by 2025, and implementing an economy-wide cap-and-trade program to reduce GHG emissions by 80% by 2050.

There are a number of initiatives to reduce GHG emissions under consideration at the federal, state and international level. At the international level, the December 2009 U.N. Climate Change Conference in Copenhagen did not reach a consensus on a successor treaty to the Kyoto Protocol, but did take note of the Copenhagen Accord, a non-binding political agreement which recognized the scientific view that the increase in global temperature should be below two degrees Celsius, included a commitment by developed countries to provide funds, approaching $30 billion over the next three years with a goal of increasing to $100 billion by 2020, and established the "Copenhagen Green Climate Fund" to support mitigation, adaptation, and other climate-related activities in developing countries. Once they have become a party to the Copenhagen Accord, developed economies, such as the European Union, Japan, Russia, and the United States, would commit to quantified economy-wide emissions targets from 2020, while developing countries, including Brazil, China, and India, would agree to take mitigation actions, subject to their domestic measurement, reporting, and verification. At the federal level, members of Congress have introduced several bills seeking to reduce emissions of GHG in the United States, and the House of Representatives passed one such bill, the American Clean Energy and Security Act of 2009, on June 26, 2009. The Senate continues to consider a number of measures to regulate GHG emissions. State activities, primarily the northeastern states participating in the Regional Greenhouse Gas Initiative and western states, led by California, have coordinated efforts to develop regional strategies to control emissions of certain GHGs.

On April 2, 2007, the United States Supreme Court found that the EPA has the authority to regulate $CO_2$ emissions from automobiles as "air pollutants" under the CAA. Although this decision did not address $CO_2$ emissions from electric generating plants, the EPA has similar authority under the CAA to regulate "air pollutants" from those and other facilities. In December 2009, the EPA released its final "Endangerment and Cause or Contribute Findings for Greenhouse Gases under the Clean Air Act." The EPA's finding concludes that the atmospheric concentrations of several key GHG threaten the health and welfare of future generations and that the combined emissions of these gases by motor vehicles contribute to the atmospheric concentrations of these key GHG and hence to the threat of climate change. Although the EPA's finding does not establish emission requirements for motor vehicles, such requirements are expected to occur through further rulemakings. Additionally, while the EPA's endangerment findings do not specifically address stationary sources, including electric generating plants EPA's expected establishment of emission requirements for motor vehicles would be expected to support the establishment of future emission requirements by the EPA for stationary sources. In September 2009, the EPA finalized a national GHG emissions collection and reporting rule that will require FirstEnergy to measure GHG emissions commencing in 2010 and submit reports commencing in 2011. Also in September 2009, EPA proposed new thresholds for GHG emissions that define when CAA permits under the NSR and Title V operating permits programs would be required. EPA is proposing a major source emissions applicability threshold of 25,000 tons per year (tpy) of carbon dioxide equivalents (CO2e) for existing facilities under the Title V operating permits program and the Prevention of Significant Determination (PSD) portion of NSR. EPA is also proposing a significance level between 10,000 and 25,000 tpy CO2e to determine if existing major sources making modifications that result in an increase of emissions above the significance level would be required to obtain a PSD permit.

On September 21, 2009, the U.S. Court of Appeals for the Second Circuit and on October 16, 2009, the U.S. Court of Appeals for the Fifth Circuit, reversed and remanded lower court decisions that had dismissed complaints alleging damage from GHG emissions on jurisdictional grounds. These cases involve common law tort claims, including public and private nuisance, alleging that GHG emissions contribute to global warming and result in property damages. While FirstEnergy is not a party to either litigation, should the courts of appeals decisions be affirmed or not subjected to further review, FirstEnergy and/or one or more of its subsidiaries could be named in actions making similar allegations.

FirstEnergy cannot currently estimate the financial impact of climate change policies, although potential legislative or regulatory programs restricting $CO_2$ emissions, or litigation alleging damages from GHG emissions, could require significant capital and other expenditures or result in changes to its operations. The $CO_2$ emissions per KWH of electricity generated by FirstEnergy is lower than many regional competitors due to its diversified generation sources, which include low or non-$CO_2$ emitting gas-fired and nuclear generators.

***Clean Water Act***

Various water quality regulations, the majority of which are the result of the federal Clean Water Act and its amendments, apply to FirstEnergy's plants. In addition, Ohio, New Jersey and Pennsylvania have water quality standards applicable to FirstEnergy's operations. As provided in the Clean Water Act, authority to grant federal National Pollutant Discharge Elimination System water discharge permits can be assumed by a state. Ohio, New Jersey and Pennsylvania have assumed such authority.

On September 7, 2004, the EPA established new performance standards under Section 316(b) of the Clean Water Act for reducing impacts on fish and shellfish from cooling water intake structures at certain existing large electric generating plants. The regulations call for reductions in impingement mortality (when aquatic organisms are pinned against screens or other parts of a cooling water intake system) and entrainment (which occurs when aquatic life is drawn into a facility's cooling water system). On January 26, 2007, the United States Court of Appeals for the Second Circuit remanded portions of the rulemaking dealing with impingement mortality and entrainment back to the EPA for further rulemaking and eliminated the restoration option from the EPA’s regulations. On July 9, 2007, the EPA suspended this rule, noting that until further rulemaking occurs, permitting authorities should continue the existing practice of applying their best professional judgment to minimize impacts on fish and shellfish from cooling water intake structures. On April 1, 2009, the Supreme Court of the United States reversed one significant aspect of the Second Circuit Court’s opinion and decided that Section 316(b) of the Clean Water Act authorizes the EPA to compare costs with benefits in determining the best technology available for minimizing adverse environmental impact at cooling water intake structures. EPA is developing a new regulation under Section 316(b) of the Clean Water Act consistent with the opinions of the Supreme Court and the Court of Appeals which have created significant uncertainty about the specific nature, scope and timing of the final performance standard. FirstEnergy is studying various control options and their costs and effectiveness. Depending on the results of such studies and the EPA’s further rulemaking and any action taken by the states exercising best professional judgment, the future costs of compliance with these standards may require material capital expenditures.

The U.S. Attorney's Office in Cleveland, Ohio has advised FGCO that it is considering prosecution under the Clean Water Act and the Migratory Bird Treaty Act for three petroleum spills at the Edgewater, Lakeshore and Bay Shore plants which occurred on November 1, 2005, January 26, 2007 and February 27, 2007. FGCO is unable to predict the outcome of this matter.

***Regulation of Waste Disposal***

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. In February 2009, the EPA requested comments from the states on options for regulating coal combustion wastes, including regulation as non-hazardous waste or regulation as a hazardous waste. In March and June 2009, the EPA requested information from FGCO’s Bruce Mansfield Plant regarding the management of coal combustion wastes. In December 2009, EPA provided to FGCO the findings of its review of the Bruce Mansfield Plant’s coal combustion waste management practices. EPA observed that the waste management structures and the Plant “appeared to be well maintained and in good working order” and recommended only that FGCO “seal and maintain all asphalt surfaces.” On December 30, 2009, in an advanced notice of public rulemaking, the EPA said that the large volumes of coal combustion residuals produced by electric utilities pose significant financial risk to the industry. Additional regulations of fossil-fuel combustion waste products could have a significant impact on our management, beneficial use, and disposal, of coal ash. FGCO's future cost of compliance with any coal combustion waste regulations which may be promulgated could be substantial and would depend, in part, on the regulatory action taken by the EPA and implementation by the states.

The Utilities have been named as potentially responsible parties at waste disposal sites, which may require cleanup under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980. Allegations of disposal of hazardous substances at historical sites and the liability involved are often unsubstantiated and subject to dispute; however, federal law provides that all potentially responsible parties for a particular site may be liable on a joint and several basis. Environmental liabilities that are considered probable have been recognized on the consolidated balance sheet as of December 31, 2009, based on estimates of the total costs of cleanup, the Utilities' proportionate responsibility for such costs and the financial ability of other unaffiliated entities to pay. Total liabilities of approximately $101 million (JCP&L - $74 million, TE - $1 million, CEI - $1 million, FGCO - $1 million and FirstEnergy - $24 million) have been accrued through December 31, 2009. Included in the total are accrued liabilities of approximately $67 million for environmental remediation of former manufactured gas plants and gas holder facilities in New Jersey, which are being recovered by JCP&L through a non-bypassable SBC.

**OTHER LEGAL PROCEEDINGS**

***Power Outages and Related Litigation***

In July 1999, the Mid-Atlantic States experienced a severe heat wave, which resulted in power outages throughout the service territories of many electric utilities, including JCP&L's territory. Two class action lawsuits (subsequently consolidated into a single proceeding) were filed in New Jersey Superior Court in July 1999 against JCP&L, GPU and other GPU companies, seeking compensatory and punitive damages due to the outages.

After various motions, rulings and appeals, the Plaintiffs' claims for consumer fraud, common law fraud, negligent misrepresentation, strict product liability, and punitive damages were dismissed, leaving only the negligence and breach of contract causes of actions. The class was decertified twice by the trial court, and appealed both times by the Plaintiffs, with the results being that: (1) the Appellate Division limited the class only to those customers directly impacted by the outages of JCP&L transformers in Red Bank, NJ, based on a common incident involving the failure of the bushings of two large transformers in the Red Bank substation which resulted in planned and unplanned outages in the area during a 2-3 day period, and (2) in March 2007, the Appellate Division remanded this matter back to the Trial Court to allow plaintiffs sufficient time to establish a damage model or individual proof of damages. On March 31, 2009, the trial court again granted JCP&L's motion to decertify the class. On April 20, 2009, the Plaintiffs filed a motion for leave to take an interlocutory appeal to the trial court's decision to decertify the class, which was granted by the Appellate Division on June 15, 2009. Plaintiffs filed their appellate brief on August 25, 2009, and JCP&L filed an opposition brief on September 25, 2009. On or about October 13, 2009, Plaintiffs filed their reply brief in further support of their appeal of the trial court's decision decertifying the class. The Appellate Division heard oral argument on January 5, 2010, before a three-judge panel. JCP&L is awaiting the Court's decision.

***Nuclear Plant Matters***

In August 2007, FENOC submitted an application to the NRC to renew the operating licenses for the Beaver Valley Power Station (Units 1 and 2) for an additional 20 years. On November 5, 2009, the NRC issued a renewed operating license for Beaver Valley Power Station, Units 1 and 2. The operating licenses for these facilities were extended until 2036 and 2047 for Units 1 and 2, respectively.

Under NRC regulations, FirstEnergy must ensure that adequate funds will be available to decommission its nuclear facilities. As of December 31, 2009, FirstEnergy had approximately $1.9 billion invested in external trusts to be used for the decommissioning and environmental remediation of Davis-Besse, Beaver Valley, Perry and TMI-2. As part of the application to the NRC to transfer the ownership of Davis-Besse, Beaver Valley and Perry to NGC in 2005, FirstEnergy provided an additional $80 million parental guarantee associated with the funding of decommissioning costs for these units and indicated that it planned to contribute an additional $80 million to these trusts by 2010. As required by the NRC, FirstEnergy annually recalculates and adjusts the amount of its parental guarantee, as appropriate. The values of FirstEnergy's nuclear decommissioning trusts fluctuate based on market conditions. If the value of the trusts decline by a material amount, FirstEnergy's obligation to fund the trusts may increase. Disruptions in the capital markets and its effects on particular businesses and the economy in general also affects the values of the nuclear decommissioning trusts. On June 18, 2009, the NRC informed FENOC that its review tentatively concluded that a shortfall existed in the decommissioning trust fund for Beaver Valley Unit 1. On November 24, 2009, FENOC submitted a revised decommissioning funding calculation using the NRC formula method based on the renewed license for Beaver Valley Unit 1, which extended operations until 2036. FENOC's submittal demonstrated that there was a de minimis shortfall. On December 11, 2009, the NRC's review of FirstEnergy's methodology for the funding of decommissioning of this facility concluded that there was reasonable assurance of adequate decommissioning funding at the time permanent termination of operations is expected. FirstEnergy continues to evaluate the status of its funding obligations for the decommissioning of these nuclear facilities.

***Other Legal Matters***

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

JCP&L's bargaining unit employees filed a grievance challenging JCP&L's 2002 call-out procedure that required bargaining unit employees to respond to emergency power outages. On May 20, 2004, an arbitration panel concluded that the call-out procedure violated the parties' collective bargaining agreement. On September 9, 2005, the arbitration panel issued an opinion to award approximately $16 million to the bargaining unit employees. A final order identifying the individual damage amounts was issued on October 31, 2007 and the award appeal process was initiated. The union filed a motion with the federal Court to confirm the award and JCP&L filed its answer and counterclaim to vacate the award on December 31, 2007. JCP&L and the union filed briefs in June and July of 2008 and oral arguments were held in the fall. On February 25, 2009, the federal district court denied JCP&L's motion to vacate the arbitration decision and granted the union's motion to confirm the award. JCP&L filed a Notice of Appeal to the Third Circuit and a Motion to Stay Enforcement of the Judgment on March 6, 2009. The appeal process could take as long as 24 months. The parties are participating in the federal court's mediation programs and have held private settlement discussions. JCP&L recognized a liability for the potential $16 million award in 2005. Post-judgment interest began to accrue as of February 25, 2009, and the liability will be adjusted accordingly.

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

## CRITICAL ACCOUNTING POLICIES

We prepare our consolidated financial statements in accordance with GAAP. Application of these principles often requires a high degree of judgment, estimates and assumptions that affect financial results. All of our assets are subject to their own specific risks and uncertainties and are regularly reviewed for impairment. Our more significant accounting policies are described below.

### *Revenue Recognition*

We follow the accrual method of accounting for revenues, recognizing revenue for electricity that has been delivered to customers but not yet billed through the end of the accounting period. The determination of electricity sales to individual customers is based on meter readings, which occur on a systematic basis throughout the month. At the end of each month, electricity delivered to customers since the last meter reading is estimated and a corresponding accrual for unbilled sales is recognized. The determination of unbilled sales requires management to make estimates regarding electricity available for retail load, transmission and distribution line losses, demand by customer class, weather-related impacts and prices in effect for each customer class.

### *Regulatory Accounting*

Our energy delivery services segment is subject to regulation that sets the prices (rates) we are permitted to charge our customers based on costs that the regulatory agencies determine we 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 ratemaking process results in the recording of regulatory assets based on anticipated future cash inflows. We regularly review 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.

### *Pension and Other Postretirement Benefits Accounting*

Our reported costs of providing noncontributory qualified and non-qualified defined pension benefits and OPEB benefits other than pensions 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 we make 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 GAAP, 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. GAAP delays 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.

We recognize the overfunded or underfunded status of our defined benefit pension and other postretirement benefit plans on the balance sheet and recognize changes in funded status in the year in which the changes occur through other comprehensive income. The underfunded status of our qualified and non-qualified pension and OPEB plans at December 31, 2009 is $1.3 billion.

In selecting an assumed discount rate, we consider 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. As of December 31, 2009, the assumed discount rates for pension and OPEB were 6.0% and 5.75%, respectively. The assumed discount rates for both pension and OPEB were 7.0% and 6.5% as of December 31, 2008, and 2007, respectively.

Our assumed rate of return on pension plan assets considers historical market returns and economic forecasts for the types of investments held by our pension trusts. In 2009 our qualified pension and OPEB plan assets actually earned $570 million or 13.6% and lost $1.4 billion or 23.8% in 2008. Our qualified pension and OPEB costs in 2009 and 2008 were computed using an assumed 9.0% rate of return on plan assets which generated $379 million and $514 million of expected returns on plan assets, respectively. The expected return of pension and OPEB assets is based on the trusts' asset allocation targets and the historical performance of risk-based and fixed income securities. The gains or losses generated as a result of the difference between expected and actual returns on plan assets are deferred and amortized and will increase or decrease future net periodic pension and OPEB cost, respectively.

Our qualified and non-qualified pension and OPEB net periodic benefit cost was $197 million in 2009 compared to credits of $116 million in 2008 and $73 million in 2007. On September 2, 2009, the Utilities and ATSI made a combined $500 million voluntary contribution to their qualified pension plan. Due to the significance of the voluntary contribution, we elected to remeasure our qualified pension plan as of August 31, 2009. On January 2, 2007, we made a $300 million voluntary contribution to our pension plan. In addition, during 2006, we amended our OPEB plan, effective in 2008, to cap our monthly contribution for many of the retirees and their spouses receiving subsidized health care coverage. On June 2, 2009, we further amended our health care benefits plan for all employees and retirees eligible that participate in that plan. The amendment, which reduces future health care coverage subsidies paid by FirstEnergy on behalf of participants, triggered a remeasurement of FirstEnergy's other postretirement benefit plans as of May 31, 2009. In the third quarter of 2009, FirstEnergy also incurred a $13 million net postretirement benefit cost (including amounts capitalized) related to a liability created by the VERO offered by FirstEnergy to qualified employees. The special termination benefits of the VERO included additional health care coverage subsidies paid by FirstEnergy to those qualified employees who elected to retire. A total of 715 employees accepted the VERO. We expect our 2010 qualified and non-qualified pension and OPEB costs (including amounts capitalized) to be $138 million.

Health care cost trends continue to increase and will affect future OPEB costs. The 2009 and 2008 composite health care trend rate assumptions were approximately 8.5-10% and 9-11%, respectively, gradually decreasing to 5% in later years. In determining our trend rate assumptions, we included the specific provisions of our health care plans, the demographics and utilization rates of plan participants, actual cost increases experienced in our health care plans, and projections of future medical trend rates. The effect on our pension and OPEB costs from changes in key assumptions are as follows:

**Increase in Costs from Adverse Changes in Key Assumptions**

| Assumption | Adverse Change | Pension | OPEB | Total |
|---|---|---|---|---|
| | | | *(In millions)* | |
| Discount rate | Decrease by 0.25% | $ 12 | $ 1 | $ 13 |
| Long-term return on assets | Decrease by 0.25% | $ 11 | $ 1 | $ 12 |
| Health care trend rate | Increase by 1% | N/A | $ 4 | $ 4 |

### *Emission Allowances*

We hold emission allowances for $SO_2$ and $NO_X$ in order to comply with programs implemented by the EPA designed to regulate emissions of $SO_2$ and $NO_X$ produced by power plants. Emission allowances are either granted to us by the EPA at zero cost or are purchased at fair value as needed to meet emission requirements.  Emission allowances are not purchased with the intent of resale. Emission allowances eligible to be used in the current year are recorded in materials and supplies inventory at the lesser of weighted average cost or market value. Emission allowances eligible for use in future years are recorded as other investments. We recognize emission allowance costs as fuel expense during the periods that emissions are produced by our generating facilities.  Excess emission allowances that are not needed to meet emission requirements may be sold and are reported as a reduction to other operating expenses.

### *Long-Lived Assets*

We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such an asset may not be recoverable . The recoverability of a long-lived asset is measured by comparing the asset's carrying value to the sum of undiscounted future cash flows expected to result from the use and eventual disposition of the asset . If the carrying value is greater than the undiscounted future cash flows of the long-lived asset an impairment exists and a loss is recognized for the amount by which the carrying value of the long-lived asset exceeds its estimated fair value . Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

### *Asset Retirement Obligations*

We recognize an ARO for the future decommissioning of our nuclear power plants and future remediation of other environmental liabilities associated with all of our long-lived assets. The ARO liability represents an estimate of the fair value of our current obligation related to nuclear decommissioning and the retirement or remediation of environmental liabilities of other assets. A fair value measurement inherently involves uncertainty in the amount and timing of settlement of the liability. We use an expected cash flow approach to measure the fair value of the nuclear decommissioning and environmental remediation ARO. This approach applies probability weighting to discounted future cash flow scenarios that reflect a range of possible outcomes. The scenarios consider settlement of the ARO at the expiration of the nuclear power plants' current license and settlement based on an extended license term and expected remediation dates.

***Income Taxes***

We record income taxes in accordance with the liability method of accounting. Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts recognized for tax purposes. Investment tax credits, which were deferred when utilized, are being amortized over the recovery period of the related property. Deferred income tax liabilities related to tax and accounting basis differences and tax credit carryforward items are recognized at the statutory income tax rates in effect when the liabilities are expected to be paid. Deferred tax assets are recognized based on income tax rates expected to be in effect when they are settled.

FirstEnergy accounts for uncertainty in income taxes recognized in its financial statements. We account for uncertain income tax positions using a benefit recognition model with a two-step approach, a more-likely-than-not recognition criterion and a measurement attribute that measures the position as the largest amount of tax benefit that is greater than 50% likely of being ultimately realized upon ultimate settlement. If it is not more likely than not that the benefit will be sustained on its technical merits, no benefit will be recorded. Uncertain tax positions that relate only to timing of when an item is included on a tax return are considered to have met the recognition threshold. The Company recognizes interest expense or income related to uncertain tax positions. That amount is computed by applying the applicable statutory interest rate to the difference between the tax position recognized and the amount previously taken or expected to be taken on the tax return. FirstEnergy includes net interest and penalties in the provision for income taxes.

***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 accounting standards for the recognition, subsequent measurement, and subsequent recognition of goodwill, we evaluate goodwill for impairment at least annually and make such evaluations more frequently if indicators of impairment 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 is indicated, we recognize a loss – calculated as the difference between the implied fair value of a reporting unit's goodwill and the carrying value of the goodwill. The forecasts used in our evaluations of goodwill reflect operations consistent with our general business assumptions. Unanticipated changes in those assumptions could have a significant effect on our future evaluations of goodwill.

**NEW ACCOUNTING STANDARDS AND INTERPRETATIONS**

In 2009, the FASB amended the derecognition guidance in the Transfers and Servicing Topic of the FASB Accounting Standards Codification and eliminated the concept of a QSPE. The amended guidance requires an evaluation of all existing QSPEs to determine whether they must be consolidated. This standard is effective for financial asset transfers that occur in fiscal years beginning after November 15, 2009. FirstEnergy does not expect this standard to have a material effect upon its financial statements.

In 2009, the FASB amended the consolidation guidance applied to VIEs. This standard replaces the quantitative approach previously required to determine which entity has a controlling financial interest in a VIE with a qualitative approach. Under the new approach, the primary beneficiary of a VIE is the entity that has both (a) the power to direct the activities of the VIE that most significantly impact the entity's economic performance, and (b) the obligation to absorb losses of the entity, or the right to receive benefits from the entity, that could be significant to the VIE. This standard also requires ongoing reassessments of whether an entity is the primary beneficiary of a VIE and enhanced disclosures about an entity's involvement in VIEs. The standard is effective for fiscal years beginning after November 15, 2009. FirstEnergy does not expect this standard to have a material effect upon its financial statements.

In 2010, the FASB amended the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification to require additional disclosures about 1) transfers of Level 1 and Level 2 fair value measurements, including the reason for transfers, 2) purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements, 3) additional disaggregation to include fair value measurement disclosures for each class of assets and liabilities and 4) disclosure of inputs and valuation techniques used to measure fair value for both recurring and nonrecurring fair value measurements. The amendment is effective for fiscal years beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements, which is effective for fiscal years beginning after December 15, 2010. FirstEnergy does not expect this standard to have a material effect upon its financial statements.

# FIRSTENERGY SOLUTIONS CORP.

## MANAGEMENT'S NARRATIVE
## ANALYSIS OF RESULTS OF OPERATIONS

FES is a wholly owned subsidiary of FirstEnergy. FES provides energy-related products and services, and through its subsidiaries, FGCO and NGC, owns or leases and operates and maintains FirstEnergy's fossil and hydroelectric generation facilities, and owns FirstEnergy's nuclear generation facilities, respectively. FENOC, a wholly owned subsidiary of FirstEnergy, operates and maintains the nuclear generating facilities.
`

FES' revenues have been primarily derived from the sale of electricity (provided from FES' generating facilities and through purchased power arrangements) to affiliated utility companies to meet all or a portion of their PLR and default service requirements. These affiliated power sales included a full-requirements PSA with OE, CEI and TE to supply each of their default service obligations through December 31, 2008, at prices that considered their respective PUCO-authorized billing rates. See Regulatory Matters – Ohio in the Combined Notes to the Consolidated Financial Statements for a discussion of Ohio power supply procurement issues for 2009 and beyond. On November 3, 2009, FES, Met-Ed, Penelec and Waverly restated their partial requirements power purchase agreement for 2010. Under the new agreement, Met-Ed, Penelec, and Waverly assigned 1,300 MW of existing energy purchases to FES to assist it in supplying buyers' power supply requirements and managing congestion expenses. FES can either sell the assigned power from the third party into the market or use it to serve the Met-Ed/Penelec load. FES is responsible for obtaining additional power supplies in the event of failure of supply of the assigned energy purchase contracts. FES also supplied, through May 31, 2009, a portion of Penn's default service requirements at market-based rates as a result of Penn's 2008 competitive solicitations. FES' revenues also include competitive retail and wholesale sales to non-affiliated customers in Ohio, Pennsylvania, New Jersey, Maryland, Michigan and Illinois. These sales may provide a greater portion of revenues in future years, depending upon FES' participation in its Ohio and Pennsylvania utility affiliates' power procurement arrangements.

The demand for electricity produced and sold by FES, along with the price of that electricity, is impacted by conditions in competitive power markets, global economic activity, economic activity in the Midwest and Mid-Atlantic regions, and weather conditions in FirstEnergy's service territories. The 2009 recessionary economic conditions, particularly in the automotive and steel industries, compounded by unusually mild regional summertime temperatures, have adversely affected FES' operations and revenues.

The level of demand for electricity directly impacts FES' generation revenues, the quantity of electricity produced, purchased power expense and fuel expense. FirstEnergy and FES have taken various actions and instituted a number of changes in operating practices to manage the impact of these external influences. These actions include employee severances, wage reductions, employee and retiree benefit changes, reduced levels of overtime and the use of fewer contractors. The continuation of recessionary economic conditions, coupled with unusually mild weather patterns and the resulting impact on electricity prices and demand, could impact FES' future operating performance and financial condition and may require further changes in FES' operations.

For additional information with respect to FES, please see the information contained in FirstEnergy's Management Discussion and Analysis of Financial Condition and Results of Operations above under the following subheadings, which information is incorporated by reference herein: Capital Resources and Liquidity, Guarantees and Other Assurances, Strategy and Outlook, Off-Balance Sheet Arrangements, Regulatory Matters, Environmental Matters, Other Legal Proceedings and New Accounting Standards and Interpretations.

### Results of Operations

Net income increased to $577 million in 2009 from $506 million in 2008 primarily due to higher revenues (principally from the sale of a participation interest in OVEC), lower fuel expense and increased investment income, partially offset by higher purchased power, including a $205 million mark-to-market charge related to certain purchased power contracts, and other operating expenses.

*Revenues*

Revenues increased by $210 million in 2009 compared to 2008 primarily due to increases in revenues from retail generation sales and FGCO's gain from the sale of a 9% participation interest in OVEC, partially offset by lower affiliated wholesale generation sales and decreased transmission revenues. The increase in revenues in 2009 from 2008 is summarized below:

| Revenues by Type of Service | 2009 | 2008 | Increase (Decrease) |
|---|---|---|---|
| | | (In millions) | |
| Non-Affiliated Generation Sales: | | | |
| Retail | $ 778 | $ 615 | $ 163 |
| Wholesale | 669 | 718 | (49) |
| Total Non-Affiliated Generation Sales | 1,447 | 1,333 | 114 |
| Affiliated Wholesale Generation Sales | 2,843 | 2,968 | (125) |
| Transmission | 73 | 150 | (77) |
| Sale of OVEC participation interest | 252 | - | 252 |
| Other | 113 | 67 | 46 |
| Total Revenues | $ 4,728 | $ 4,518 | $ 210 |

The increase in non-affiliated retail revenues of $163 million resulted from increased revenue in both the PJM and MISO markets. The increase in MISO retail revenue is primarily the result of the acquisition of new customers, higher unit prices and the inclusion of the transmission-related component in retail prices in Ohio beginning in June 2009. The increase in PJM retail revenue resulted from the acquisition of new customers, higher sales volumes and unit prices. The acquisition of new customers is primarily due to new government aggregation contracts with 60 area communities in Ohio that will provide discounted generation prices to approximately 580,000 residential and small commercial customers. Lower non-affiliated wholesale revenues of $49 million resulted from decreased sales volumes in PJM partially offset by increased capacity prices, increased sales volumes in MISO, and favorable settlements on hedged transactions.

The lower affiliated company wholesale generation revenues of $125 million were due to lower sales volumes to the Ohio Companies combined with lower unit prices to the Pennsylvania Companies, partially offset by higher unit prices to the Ohio Companies and increased sales volumes to the Pennsylvania Companies. The lower sales volumes and higher unit prices to the Ohio Companies reflected the results of the power procurement processes in the first half of 2009 (see Regulatory Matters – Ohio). The higher sales to the Pennsylvania Companies were due to increased Met-Ed and Penelec generation sales requirements supplied by FES partially offset by lower sales to Penn due to decreased default service requirements in 2009 compared to 2008. Additionally, while unit prices for each of the Pennsylvania Companies did not change, the mix of sales among the companies caused the overall price to decline.

The following tables summarize the price and volume factors contributing to changes in revenues from non-affiliated and affiliated generation sales in 2009 compared to 2008:

| Source of Change in Non-Affiliated Generation Revenues | Increase (Decrease) |
|---|---|
| | (In millions) |
| Retail: | |
| Effect of 8.6% increase in sales volumes | $ 53 |
| Change in prices | 110 |
| | 163 |
| Wholesale: | |
| Effect of 13.9% decrease in sales volumes | (100) |
| Change in prices | 51 |
| | (49) |
| Net Increase in Non-Affiliated Generation Revenues | $ 114 |

| Source of Change in Affiliated Generation Revenues | Increase (Decrease) |
|---|---|
| | (In millions) |
| Ohio Companies: | |
| Effect of 36.3% decrease in sales volumes | $ (837) |
| Change in prices | 645 |
| | (192) |
| Pennsylvania Companies: | |
| Effect of 14.7% increase in sales volumes | 97 |
| Change in prices | (30) |
| | 67 |
| Net Decrease in Affiliated Generation Revenues | $ (125) |

Transmission revenues decreased $77 million due primarily to reduced loads following the expiration of the government aggregation programs in Ohio at the end of 2008. In 2009 FGCO sold a 9% participation interest in OVEC resulting in a $252 million ($158 million, after tax) gain. Other revenue increased $46 million primarily due to rental income associated with NGC's acquisition of equity interests in the Perry and Beaver Valley Unit 2 leases.

*Expenses*

Total expenses increased by $276 million in 2009 compared to 2008. The following tables summarize the factors contributing to the changes in fuel and purchased power costs in 2009 from 2008:

| **Source of Change in Fuel and Purchased Power** | **Increase (Decrease)** |
|---|---|
| | ***(In millions)*** |
| Fossil Fuel: | |
| Change due to increased unit costs | $ 121 |
| Change due to volume consumed | (320) |
| | (199) |
| Nuclear Fuel: | |
| Change due to increased unit costs | 23 |
| Change due to volume consumed | (12) |
| | 11 |
| Non-affiliated Purchased Power: | |
| Power contract mark-to-market adjustment | 205 |
| Change due to increased unit costs | 93 |
| Change due to volume purchased | (80) |
| | 218 |
| Affiliated Purchased Power: | |
| Change due to increased unit costs | 131 |
| Change due to volume purchased | (10) |
| | 121 |
| Net Increase in Fuel and Purchased Power Costs | $ 151 |

Fuel costs decreased $188 million in 2009 compared to 2008 primarily resulting from decreased coal consumption, reflecting lower generation, offset by higher unit prices due to increased fuel costs associated with purchases of eastern coal. Nuclear fuel costs increased slightly due to increased unit prices in 2009 compared to 2008.

Purchased power costs from non-affiliates increased primarily as a result of a mark-to-market charge of $205 million related to certain purchased power contracts (see Note 6) and increased capacity costs, partially offset by reduced volume requirements. Purchases from affiliated companies increased as a result of increased unit costs, partially offset by lower volume requirements.

Other operating expenses increased $99 million in 2009 compared to 2008 primarily due to increased transmission expenses reflecting TSC related to the load serving entity obligations in MISO and increased net congestion and transmission loss expenses in MISO and PJM. Also contributing to the increase was higher employee benefit expenses and higher nuclear operating costs associated with an additional refueling outage in 2009 compared to 2008. These increases were partially offset by increased intercompany billings and lower fossil operating costs primarily due to a reduction in contractor, material, and labor costs, combined with more resources dedicated to capital projects.

Depreciation expense increased by $27 million in 2009 compared to 2008 primarily due to NGC’s increased ownership interest in Beaver Valley Unit 2 and Perry.

*Other Income (Expense)*

Other income of $40 million in 2009 compared to other expense of $119 million in 2008, resulted primarily from a $155 million increase from gains on the sale of nuclear decommissioning trust investments. During 2009, the majority of the nuclear decommissioning trust holdings were converted to more closely align with the liability being funded.

**Market Risk Information**

FES 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 members of senior management, provides general oversight to risk management activities.

*Commodity Price Risk*

FES is exposed to financial and market risks resulting from the fluctuation of interest rates and commodity prices primarily due to fluctuations in electricity, energy transmission, natural gas, coal, nuclear fuel and emission allowance prices. To manage the volatility relating to these exposures, FES 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. Certain derivatives must be recorded at their fair value and marked to market. The majority of FES' derivative contracts qualify for the normal purchase and normal sale exception and are therefore excluded from the table below. Contracts that are not exempt from such treatment include certain purchased power contracts modified to financially settle as FES determined that projected short positions in 2010 and 2011 were not expected to materialize based on reductions in PLR obligations and decreased demand due to economic conditions ($205 million). The change in the fair value of commodity derivative contracts related to energy production during 2009 is summarized in the following table:

| **Increase (Decrease) in the Fair Value of Derivative Contracts** | **Non-Hedge** | **Hedge** | **Total** |
|---|---|---|---|
| | | ***(In millions)*** | |
| **Change in the fair value of commodity derivative contracts:** | | | |
| Outstanding net liability as of January 1, 2009 | $ (1) | $ (41) | $ (42) |
| Additions/change in value of existing contracts | (204) | (1) | (205) |
| Settled contracts | - | 27 | 27 |
| **Outstanding net liability as of December 31, 2009** | $ (205) | $ (15) | $ (220) |
| | | | |
| **Net liabilities – derivative contacts as of December 31, 2009** | $ (205) | $ (15) | $ (220) |
| | | | |
| **Impact of changes in commodity derivative contracts (*)** | | | |
| Income Statement effects (Pre-Tax) | $ (205) | $ - | $ (205) |
| Balance Sheet effects: | | | |
| OCI (Pre-Tax) | $ - | $ 26 | $ 26 |

(*) Represents the change in value of existing contracts, settled contracts and changes in techniques/assumptions.

Derivatives are included on the Consolidated Balance Sheet as of December 31, 2009 as follows:

| **Balance Sheet Classification** | **Non-Hedge** | **Hedge** | **Total** |
|---|---|---|---|
| | | ***(In millions)*** | |
| **Current-** | | | |
| Other assets | $ - | $ 3 | $ 3 |
| Other liabilities | (108) | (17) | (125) |
| | | | |
| **Non-Current-** | | | |
| Other deferred charges | - | 11 | 11 |
| Other noncurrent liabilities | (97) | (12) | (109) |
| **Net liabilities** | $ (205) | $ (15) | $ (220) |

The valuation of derivative contracts is based on observable market information to the extent that such information is available. FES 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** | **2010** | **2011** | **2012** | **2013** | **2014** | **Thereafter** | **Total** |
|---|---|---|---|---|---|---|---|
| | | | | ***(In millions)*** | | | |
| Prices actively quoted (1) | $ (11) | $ - | $ - | $ - | $ - | $ - | $ (11) |
| Other external sources (2) | (111) | (98) | - | - | - | - | (209) |
| **Total** | $ (122) | $ (98) | $ - | $ - | $ | $ - | $ (220) |

(1) Exchange traded.

(2) Broker quote sheets.

FES 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 FES' derivative instruments would not have had a material effect on its consolidated financial position (assets, liabilities and equity) or cash flows as of December 31, 2009. Based on derivative contracts held as of December 31, 2009, an adverse 10% change in commodity prices would decrease net income by approximately $9 million for the next 12 months.

*Interest Rate Risk*

The table below presents principal amounts and related weighted average interest rates by year of maturity for FES' investment portfolio and debt obligations.

**Comparison of Carrying Value to Fair Value**

| Year of Maturity | 2010 | 2011 | 2012 | 2013 | 2014 | There-after | Total | Fair Value |
|---|---|---|---|---|---|---|---|---|
| | | | | *(Dollars in millions)* | | | | |
| Assets | | | | | | | | |
| Investments Other Than Cash and Cash Equivalents: | | | | | | | | |
| Fixed Income | $ 11 | | | | | $ 1,043 | $ 1,054 | $ 1,057 |
| Average interest rate | 2.8% | | | | | 4.4% | 4.4% | |
| | | | | | | | | |
| Liabilities | | | | | | | | |
| Long-term Debt: | | | | | | | | |
| Fixed rate | $ 53 | $ 58 | $ 68 | $ 75 | $ 99 | $ 1,888 | $ 2,241 | $ 2,290 |
| Average interest rate | 9.0% | 8.9% | 9.0% | 9.0% | 7.3% | 6.0% | 6.4% | |
| Variable rate | | | | | | $ 1,983 | $ 1,983 | $ 2,016 |
| Average interest rate | | | | | | 1.8% | 1.8% | |
| Short-term Borrowings: | $ 109 | | | | | | $ 109 | $ 109 |
| Average interest rate | 1.8% | | | | | | 1.8% | |

Fluctuations in the fair value of NGC's decommissioning trust balances will eventually affect earnings (immediately for other-than-temporary impairments and affecting OCI initially for unrealized gains) based on authoritative guidance. As of December 31, 2009, NGC's decommissioning trust balance totaled $1.1 billion, comprised primarily of debt instruments.

## Credit Risk

Credit risk is the risk of an obligor's failure to meet the terms of any investment contract, loan agreement or otherwise perform as agreed. Credit risk arises from all activities in which success depends on issuer, borrower or counterparty performance, whether reflected on or off the balance sheet. FES engages in transactions for the purchase and sale of commodities including gas, electricity, coal and emission allowances. These transactions are often with major energy companies within the industry.

FES maintains credit policies with respect to our counterparties to manage overall credit risk. This includes performing independent risk evaluations, actively monitoring portfolio trends and using collateral and contract provisions to mitigate exposure. As part of its credit program, FES aggressively manages the quality of its portfolio of energy contracts, evidenced by a current weighted average risk rating for energy contract counterparties of BBB (S&P). As of December 31, 2009, the largest credit concentration was with AEP, which is currently rated investment grade, representing 8.9% of FES' total approved credit risk.

# OHIO EDISON COMPANY

## MANAGEMENT'S NARRATIVE
## ANALYSIS OF RESULTS OF OPERATIONS

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. They provide generation services to those franchise customers electing to retain OE and Penn as their power supplier. Until December 31, 2008, OE purchased power for delivery and resale from a full requirements power sale agreement with its affiliate FES at a fixed price that was reflected in rates approved by the PUCO. See Regulatory Matters – Ohio in the Combined Notes to the Consolidated Financial Statements for a discussion of Ohio power supply procurement issues for 2009 and beyond.

For additional information with respect to OE, please see the information contained in FirstEnergy's Management Discussion and Analysis of Financial Condition and Results of Operations above under the following subheadings, which information is incorporated by reference herein: Capital Resources and Liquidity, Guarantees and Other Assurances, Strategy and Outlook, Off-Balance Sheet Arrangements, Regulatory Matters, Environmental Matters, Other Legal Proceedings and New Accounting Standards and Interpretations.

### Results of Operations

Earnings available to parent decreased to $122 million in 2009 from $212 million in 2008. The decrease primarily resulted from lower electric sales revenues and higher purchased power costs, partially offset by a decrease in other operating costs.

*Revenues*

Revenues decreased by $85 million, or 3.3%, in 2009 compared to 2008, primarily due to decreases in distribution throughput and transmission revenues, partially offset by increases in generation revenues.

Revenues from distribution throughput decreased by $262 million in 2009 compared to 2008 due to lower average unit prices and lower KWH deliveries to all customer classes. Milder weather-influenced usage in 2009 contributed to the decreased KWH sales to residential customers (heating degree days decreased 3.3% and 1.4% and cooling degree days decreased by 16.5% and 6.1% in OE's and Penn's service territories, respectively). Reduced deliveries to commercial and industrial customers reflect the weakened economy. Transition charges that ceased effective January 1, 2009, with the full recovery of related costs, were partially offset by a July 2008 increase to a PUCO-approved transmission rider and a January 2009 distribution rate increase (see Regulatory Matters – Ohio).

Changes in distribution KWH deliveries and revenues in 2009 compared to 2008 are summarized in the following tables.

| Distribution KWH Deliveries | Decrease |
|---|---|
| Residential | (2.8)% |
| Commercial | (4.2)% |
| Industrial | (21.4)% |
| **Decrease in Distribution Deliveries** | **(9.6)%** |

| Distribution Revenues | Decrease |
|---|---|
| | *(In millions)* |
| Residential | $ (45) |
| Commercial | (98) |
| Industrial | (119) |
| **Decrease in Distribution Revenues** | **$ (262)** |

Transmission revenues decreased $27 million in 2009 as compared to 2008 due to the elimination of transmission revenues as part of the generation rate established under OE's CBP, effective June 1, 2009.

Retail generation revenues increased $92 million due to higher average prices. The higher prices were partially offset by decreases in KWH sales, reflecting the impact of increased customer shopping in the fourth quarter of 2009. Reduced industrial and commercial KWH sales also reflected weakened economic conditions. Average prices increased primarily due to an increase in OE's fuel cost recovery rider that was effective from January through May 2009. Effective June 1, 2009, the transmission tariff ended and the recovery of transmission costs is included in the generation rate established under OE's CBP.

Changes in retail generation sales and revenues in 2009 compared to 2008 are summarized in the following tables:

| **Retail Generation KWH Sales** | **Decrease** |
|---|---|
| Residential | (0.1)% |
| Commercial | (1.5)% |
| Industrial | (27.9)% |
| **Decrease in Generation Sales** | **(9.2)%** |

| **Retail Generation Revenues - Changes** | **Increase (Decrease)** |
|---|---|
| | ***(In millions)*** |
| Residential | $ 56 |
| Commercial | 49 |
| Industrial | (13) |
| **Net Increase in Generation Revenues** | **$ 92** |

Wholesale revenues increased by $116 million, primarily due to higher average unit prices that were partially offset by a slight decrease in sales volume.

*Expenses*

Total expenses increased by $20 million in 2009 compared to 2008. The following table presents changes from the prior year by expense category.

| **Expenses – Changes** | **Increase (Decrease)** |
|---|---|
| | ***(In millions)*** |
| Purchased power costs | $ 154 |
| Other operating costs | (105) |
| Provision for depreciation | 10 |
| Amortization of regulatory assets, net | (24) |
| General taxes | (15) |
| **Net Increase in Expenses** | **$ 20** |

Higher purchased power costs reflect the results of OE's power procurement process for retail customers in 2009 (see Regulatory Matters – Ohio). The decrease in other operating costs for 2009 was primarily due to lower transmission expenses (included in the cost of power purchased from others beginning June 1, 2009), partially offset by costs associated with regulatory obligations for economic development and energy efficiency programs under OE's ESP. Higher depreciation expense in 2009 reflected capital additions since the end of 2008. Lower amortization of net regulatory assets was primarily due to the conclusion of transition cost amortization and distribution reliability deferrals in 2008, partially offset by lower MISO transmission cost deferrals in 2009. The decrease in general taxes was primarily due to lower Ohio KWH taxes in 2009 as compared to 2008 and a $7.1 million adjustment recognized in 2009 related to prior periods.

*Other Expenses*

Other expenses increased by $17 million in 2009 compared to 2008 primarily due to higher interest expense associated with the issuance of $300 million of FMBs by OE in October 2008.

**Interest Rate Risk**

OE's exposure to fluctuations in market interest rates is reduced since a significant portion of its debt has fixed interest rates. The table below presents principal amounts and related weighted average interest rates by year of maturity for OE's investment portfolio and debt obligations.

**Comparison of Carrying Value to Fair Value**

| Year of Maturity | 2010 | 2011 | 2012 | 2013 | 2014 | There-after | Total | Fair Value |
|---|---|---|---|---|---|---|---|---|
| | | | | *(Dollars in millions)* | | | | |
| Assets | | | | | | | | |
| Investments Other Than Cash and Cash Equivalents: | | | | | | | | |
| Fixed Income | $ 27 | $ 29 | $ 31 | $ 37 | $ 42 | $ 106 | $ 272 | $ 301 |
| Average interest rate | 8.6% | 8.7% | 8.7% | 8.7% | 8.8% | 6.7% | 8.0% | |
| Liabilities | | | | | | | | |
| Long-term Debt: | | | | | | | | |
| Fixed rate | $ 1 | | | $ 1 | | $ 1,167 | $ 1,169 | $ 1,299 |
| Average interest rate | 7.2% | | | 5.4% | | 6.9% | 6.9% | |
| Short-term Borrowings: | $ 94 | | | | | | $ 94 | $ 94 |
| Average interest rate | 0.7% | | | | | | 0.7% | |

# THE CLEVELAND ELECTRIC ILLUMINATING COMPANY

## MANAGEMENT'S NARRATIVE
## ANALYSIS OF RESULTS OF OPERATIONS

CEI is a wholly owned, electric utility subsidiary of FirstEnergy. CEI conducts business in northeastern Ohio, providing regulated electric distribution services. CEI also provides generation services to those customers electing to retain CEI as their power supplier. Until December 31, 2008, CEI purchased power for delivery and resale from a full requirements power sale agreement with its affiliate FES at a fixed price that was reflected in rates approved by the PUCO. See Regulatory Matters – Ohio in the Combined Notes to the Consolidated Financial Statements for a discussion of Ohio power supply procurement issues for 2009 and beyond.

For additional information with respect to CEI, please see the information contained in FirstEnergy's Management Discussion and Analysis of Financial Condition and Results of Operations above under the following subheadings, which information is incorporated by reference herein: Capital Resources and Liquidity, Guarantees and Other Assurances, Strategy and Outlook, Off-Balance Sheet Arrangements, Regulatory Matters, Environmental Matters, Other Legal Proceedings and New Accounting Standards and Interpretations.

**Results of Operations**

CEI experienced a loss applicable to parent of $13 million in 2009 compared to earnings available to parent of $285 million in 2008. The loss in 2009 resulted primarily from regulatory charges related to the implementation of CEI's ESP, decreased revenues, and increased purchased power costs, partially offset by higher deferrals of regulatory assets and lower operating costs.

*Revenues*

Revenues decreased by $140 million, or 7.7%, in 2009 compared to 2008, due primarily to decreases in distribution and transmission revenues, partially offset by increases in retail generation revenues.

Revenues from distribution throughput decreased by $154 million in 2009, compared to 2008 due to a decrease in KWH deliveries and lower average unit prices for all customer classes. The lower KWH deliveries in 2009 were due primarily to weaker economic conditions, a decrease in cooling degree days of 14.5% and a decrease in heating degree days of 3.9%. The lower average unit price was the result of lower transition rates in 2009 (see Regulatory Matters – Ohio), partially offset by a PUCO-approved distribution rate increase effective May 1, 2009.

Changes in distribution KWH deliveries and revenues in 2009 compared to 2008 are summarized in the following tables.

| Distribution KWH Deliveries | Decrease |
|---|---|
| Residential | (3.2)% |
| Commercial | (4.0)% |
| Industrial | (14.7)% |
| **Decrease in Distribution Deliveries** | **(8.6)%** |

| Distribution Revenues | Decrease |
|---|---|
| | *(In millions)* |
| Residential | $ (56) |
| Commercial | (36) |
| Industrial | (62) |
| **Decrease in Distribution Revenues** | **$ (154)** |

Transmission revenues decreased $21 million in 2009 as compared to 2008 due to the elimination of transmission revenues as part of the generation rate established under CEI's CBP, effective June 1, 2009.

Retail generation revenues increased $48 million in 2009 as compared to 2008 due to higher average unit prices across all customer classes, partially offset by decreased sales volume to all customer classes. Average prices increased due to an increase in CEI's fuel cost recovery rider that was effective from January through May 2009. In addition, effective June 1, 2009, the transmission tariff ended and the recovery of transmission costs is included in the generation rate established under CEI's CBP. Reduced industrial KWH sales, principally to major automotive and steel customers, reflected weakened economic conditions. Reduced sales due to increased customer shopping was experienced in all sectors in the fourth quarter of 2009.

Changes in retail generation sales and revenues in 2009 compared to 2008 are summarized in the following tables:

| **Retail KWH Sales** | **Decrease** |
|---|---|
| Residential | (14.1)% |
| Commercial | (9.4)% |
| Industrial | (20.5)% |
| Other | (7.3)% |
| **Decrease in Retail Sales** | **(15.8)%** |

| **Retail Generation Revenues** | **Increase** |
|---|---|
| | ***(In millions)*** |
| Residential | $ 14 |
| Commercial | 17 |
| Industrial | 15 |
| Other | 2 |
| **Increase in Generation Revenues** | **$ 48** |

*Expenses*

Total expenses increased by $294 million in 2009 compared to 2008. The following table presents the change from the prior year by expense category:

| **Expenses - Changes** | **Increase (Decrease)** |
|---|---|
| | ***(In millions)*** |
| Purchased power costs | $ 210 |
| Other operating costs | (98) |
| Amortization of regulatory assets | 207 |
| Deferral of new regulatory assets | (27) |
| General taxes | 2 |
| **Net Increase in Expenses** | $ **294** |

Higher purchased power costs reflect the results of CEI's power procurement process for retail customers in 2009 (see Regulatory Matters – Ohio). Other operating costs decreased due to lower transmission expenses (included in the cost of purchased power beginning June 1, 2009) and reduced labor and contractor costs, partially offset by costs associated with regulatory obligations for economic development and energy efficiency programs under CEI's ESP, higher pension expense and restructuring costs. Increased amortization of regulatory assets was due primarily to the impairment of CEI's Extended RTC regulatory asset of $216 million in accordance with the PUCO-approved ESP. Decreased costs from the increase in the deferral of new regulatory assets were due to CEI's deferral of purchased power costs as approved by the PUCO, partially offset by lower deferrals of MISO transmission expenses and the absence of RCP distribution deferrals that ceased at the end of 2008. The increase in general taxes was primarily due to higher property taxes.

## Interest Rate Risk

CEI has little exposure to fluctuations in market interest rates because most of its debt has fixed interest rates. The table below presents principal amounts and related weighted average interest rates by year of maturity for CEI's investment portfolio and debt obligations.

**Comparison of Carrying Value to Fair Value**

| **Year of Maturity** | **2010** | **2011** | **2012** | **2013** | **2014** | **There-after** | **Total** | **Fair Value** |
|---|---|---|---|---|---|---|---|---|
| | | | | ***(Dollars in millions)*** | | | | |
| Assets | | | | | | | | |
| Investments Other Than Cash and Cash Equivalents: | | | | | | | | |
| Fixed Income | $ 49 | $ 53 | $ 66 | $ 75 | $ 80 | $ 66 | $ 389 | $ 432 |
| Average interest rate | 7.7% | 7.7% | 7.7% | 7.7% | 7.7% | 7.8% | 7.7% | |
| Liabilities | | | | | | | | |
| Long-term Debt: | | | | | | | | |
| Fixed rate | | $ 20 | $ 22 | $ 325 | $ 26 | $ 1,480 | $ 1,873 | $ 2,032 |
| Average interest rate | | 7.7% | 7.7% | 5.8% | 7.7% | 6.8% | 6.7% | |
| Short-term Borrowings: | $ 340 | | | | | | $ 340 | $ 340 |
| Average interest rate | 1.1% | | | | | | 1.1% | |

# THE TOLEDO EDISON COMPANY

## MANAGEMENT'S NARRATIVE
## ANALYSIS OF RESULTS OF OPERATIONS

TE is a wholly owned electric utility subsidiary of FirstEnergy. TE conducts business in northwestern Ohio, providing regulated electric distribution services. TE also provides generation services to those customers electing to retain TE as their power supplier. Until December 31, 2008, TE purchased power for delivery and resale from a full requirements power sale agreement with its affiliate FES at a fixed price that was reflected in rates approved by the PUCO. See Regulatory Matters – Ohio in the Combined Notes to the Consolidated Financial Statements for a discussion of Ohio power supply procurement issues for 2009 and beyond.

For additional information with respect to TE, please see the information contained in FirstEnergy's Management Discussion and Analysis of Financial Condition and Results of Operations above under the following subheadings, which information is incorporated by reference herein: Capital Resources and Liquidity, Guarantees and Other Assurances, Strategy and Outlook, Off-Balance Sheet Arrangements, Regulatory Matters, Environmental Matters, Other Legal Proceedings and New Accounting Standards and Interpretations.

**Results of Operations**

Earnings available to parent in 2009 decreased to $24 million from $75 million in 2008. The decrease resulted primarily from lower electric sales revenues and higher purchased power costs, partially offset by a decrease in the amortization of net regulatory assets and lower other operating costs.

*Revenues*

Revenues decreased $62 million, or 6.9%, in 2009 compared to 2008 due primarily to lower distribution and wholesale generation revenues, partially offset by increased retail generation revenues.

Revenues from distribution throughput decreased $173 million in 2009 compared to 2008 due to lower average unit prices and lower KWH sales in all customer classes that resulted primarily from adverse economic conditions. The effect of transition charges that ceased effective January 1, 2009, with the full recovery of related costs, was partially offset by a PUCO-approved distribution rate increase (see Regulatory Matters – Ohio).

Changes in distribution KWH deliveries and revenues in 2009 from 2008 are summarized in the following tables.

| Distribution KWH Deliveries | Decrease |
|---|---|
| Residential | (4.7)% |
| Commercial | (9.4)% |
| Industrial | (7.9)% |
| **Decrease in Distribution Deliveries** | **(7.6)%** |

| Distribution Revenues | Decrease |
|---|---|
| | *(In millions)* |
| Residential | $ (39) |
| Commercial | (79) |
| Industrial | (55) |
| **Decrease in Distribution Revenues** | **$ (173)** |

Wholesale revenues decreased $6 million in 2009 as compared to 2008 primarily due to the expiration of a sales agreement with AMP-Ohio at the end of 2008, partially offset by higher revenues from associated sales to NGC from TE's leasehold interest in Beaver Valley Unit 2.

Retail generation revenues increased $113 million in 2009 compared to 2008 due to higher average prices across all customer classes and increased KWH sales to commercial customers, partially offset by a decrease in KWH sales to residential and industrial customers reflecting the impact of increased customer shopping in the fourth quarter of 2009. Average prices increased primarily due to an increase in TE's fuel cost recovery rider that was effective from January through May 2009. In addition, effective June 1, 2009, the transmission tariff ended and the recovery of transmission costs is included in the generation rate established under TE's CBP. Reduced industrial KWH sales, principally to major automotive and steel customers, reflected weakened economic conditions. Most of TE's customers returned to PLR service in December 2008, following the termination of certain government aggregation programs in TE's service territory, resulting in an increase in sales volume for commercial customers.

Changes in retail electric generation KWH sales and revenues in 2009 from 2008 are summarized in the following tables.

| **Retail KWH Sales** | **Increase (Decrease)** |
|---|---|
| Residential | (10.0)% |
| Commercial | 10.2 % |
| Industrial | (24.4)% |
| **Net Decrease in Retail KWH Sales** | **(13.2)%** |

| **Retail Generation Revenues** | **Increase** |
|---|---|
| | ***(In millions )*** |
| Residential | $ 25 |
| Commercial | 58 |
| Industrial | 30 |
| **Increase in Retail Generation Revenues** | **$ 113** |

*Expenses*

Total expenses increased $5 million in 2009 from 2008. The following table presents changes from the prior year by expense category.

| **Expenses – Changes** | **Increase (Decrease)** |
|---|---|
| | ***(In millions)*** |
| Purchased power costs | $ 116 |
| Other operating costs | (48) |
| Provision for depreciation | (2) |
| Amortization of regulatory assets, net | (56) |
| General taxes | (5) |
| **Net Increase in Expenses** | **$ 5** |

Higher purchased power costs reflect the results of TE's power procurement process for retail customers in 2009 (see Regulatory Matters – Ohio). Other operating costs decreased primarily due to reduced transmission expenses (included in the cost of power purchased from others beginning June 1, 2009), partially offset by costs associated with regulatory obligations for economic development and energy efficiency programs under TE's ESP. The decrease in net amortization of regulatory assets is primarily due to the completion of transition cost recovery, partially offset by lower MISO transmission cost deferrals in 2009. The decrease in general taxes was primarily due to lower Ohio KWH taxes in 2009 as compared to 2008 resulting from lower KWH sales and a $3.5 million adjustment recognized in 2009 related to prior periods, partially offset by increased property taxes.

*Other Expense*

Other expense increased $6 million in 2009 compared to 2008, primarily due to higher interest expense associated with the April 2009 issuance of $300 million senior secured notes, partially offset by increased nuclear decommissioning trust investment income.

**Interest Rate Risk**

TE has little exposure to fluctuations in market interest rates because most of its debt has fixed interest rates. The table below presents principal amounts and related weighted average interest rates by year of maturity for TE's investment portfolio and debt obligations.

**Comparison of Carrying Value to Fair Value**

| Year of Maturity | 2010 | 2011 | 2012 | 2013 | 2014 | There-after | Total | Fair Value |
|---|---|---|---|---|---|---|---|---|
| | | | | *(Dollars in millions)* | | | | |
| Assets | | | | | | | | |
| Investments Other Than Cash and Cash Equivalents: | | | | | | | | |
| Fixed Income | $ 18 | $ 20 | $ 22 | $ 25 | $ 26 | $ 102 | $ 213 | $ 231 |
| Average interest rate | 7.7% | 7.7% | 7.7% | 7.7% | 7.7% | 5.4% | 6.6% | |
| Liabilities | | | | | | | | |
| Long-term Debt: | | | | | | | | |
| Fixed rate | | | | | | $ 600 | $ 600 | $ 638 |
| Average interest rate | | | | | | 6.7% | 6.7% | |
| Short-term Borrowings: | $ 226 | | | | | | $ 226 | $ 226 |
| Average interest rate | 0.7% | | | | | | 0.7% | |

# JERSE Y CENTRAL POWER & LIGHT COMPANY

## MANAGEMENT'S NARRATIVE
## ANALYSIS OF RESULTS OF OPERATIONS

JCP&L is a wholly owned, electric utility subsidiary of FirstEnergy. JCP&L conducts business in New Jersey, providing regulated electric transmission and distribution services. JCP&L also provides generation services to franchise customers electing to retain JCP&L as their power supplier. JCP&L procures electric supply to serve its BGS customers through a statewide auction process approved by the NJBPU.

For additional information with respect to JCP&L, please see the information contained in FirstEnergy's Management Discussion and Analysis of Financial Condition and Results of Operations above under the following subheadings, which information is incorporated by reference herein: Capital Resources and Liquidity, Guarantees and Other Assurances, Strategy and Outlook, Regulatory Matters, Environmental Matters, Other Legal Proceedings and New Accounting Standards and Interpretations.

**Results of Operations**

Net income decreased to $170 million from $187 million in 2009. The decrease was primarily due to lower revenues, partially offset by lower purchased power costs and reduced amortization of regulatory assets.

*Revenues*

Revenues decreased by $480 million, or 14% in 2009, compared with 2008. The decrease in revenues is primarily due to a decrease in wholesale generation revenues, retail generation revenues, and distribution revenues.

Wholesale generation revenues decreased $232 million in 2009 compared to 2008 due to lower market prices ($174 million) and a decrease in sales volume ($58 million) primarily resulting from the termination of a NUG contract in October 2008.

Retail generation revenues decreased $193 million in 2009 compared to 2008 due to lower retail generation KWH sales in all sectors, partially offset by higher unit prices in the residential and commercial sectors. Lower sales to the residential sector reflected milder weather in JCP&L's service territory, while the decrease in sales to the commercial sector was primarily due to an increase in the number of shopping customers. Industrial sales were lower as a result of weakened economic conditions.

Changes in retail generation KWH sales and revenues by customer class in 2009 compared to 2008 are summarized in the following tables:

| Retail Generation KWH Sales | Decrease |
|---|---|
| Residential | (4.7)% |
| Commercial | (23.9)% |
| Industrial | (16.0)% |
| **Decrease in Generation Sales** | **(13.0)%** |

| Retail Generation Revenues | Decrease |
|---|---|
| | *(In millions)* |
| Residential | $ (11) |
| Commercial | (165) |
| Industrial | (17) |
| **Decrease in Generation Revenues** | **$ (193)** |

Distribution revenues decreased $51 million in 2009 compared to 2008 due to lower KWH deliveries, reflecting milder weather and weakened economic conditions in JCP&L's service territory, partially offset by an increase in composite unit prices.

Changes in distribution KWH deliveries and revenues by customer class in 2009 compared to 2008 are summarized in the following tables:

| **Distribution KWH Deliveries** | **Decrease** |
| --- | --- |
| Residential | (4.7)% |
| Commercial | (4.0)% |
| Industrial | (11.8)% |
| **Decrease in Distribution Deliveries** | **(5.2)%** |

| **Distribution Revenues** | **Decrease** |
| --- | --- |
| | ***(In millions)*** |
| Residential | $ (28) |
| Commercial | (18) |
| Industrial | (5) |
| **Decrease in Distribution Revenues** | **$ (51)** |

*Expenses*

Total expenses decreased by $435 million in 2009 compared to 2008. The following table presents changes from the prior year by expense category:

| **Expenses - Changes** | **Increase (Decrease)** |
| --- | --- |
| | ***(In millions)*** |
| Purchased power costs | $ (424) |
| Other operating costs | 8 |
| Provision for depreciation | 6 |
| Amortization of regulatory assets | (21) |
| General taxes | (4) |
| **Net decrease in expenses** | **$ (435)** |

Purchased power costs decreased in 2009 primarily due to the lower KWH sales requirements discussed above, partially offset by higher retail unit prices. Other operating costs increased in 2009 primarily due to higher expenses related to employee benefits. Depreciation expense increased due to an increase in depreciable property since 2008. Amortization of regulatory assets decreased in 2009 primarily due to the full recovery of certain regulatory assets in June 2008. General taxes decreased principally as the result of lower Transitional Energy Facility Assessment and sales taxes.

*Other Expenses*

Other expenses increased by $12 million in 2009 compared to 2008 primarily due to higher interest expense associated with JCP&L's $300 million Senior Notes issuance in January 2009.

*Sale of Investment*

On April 17, 2008, JCP&L closed on the sale of its 86-MW Forked River Power Plant to Maxim Power Corp. for $20 million, as approved by an earlier order from the NJBPU. The New Jersey Rate Counsel appealed the sale to the Appellate Division of the Superior Court of New Jersey. On July 10, 2009, the Court upheld the NJBPU’s order and the sale of the plant.

**Market Risk Information**

JCP&L 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 members of senior management, provides general oversight to risk management activities.

*Commodity Price Risk*

JCP&L is exposed to market risk primarily due to fluctuations in electricity, energy transmission and natural gas prices. To manage the volatility relating to these exposures, JCP&L 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. The majority of JCP&L's derivative contracts must be recorded at their fair value and marked to market. Power purchase agreements with NUG entities that were structured pursuant to the Public Utility Regulatory Policies Act of 1978 are non-trading contracts and are adjusted to fair value at the end of each quarter, with a corresponding regulatory asset recognized for above-market costs or regulatory liability for below-market costs. The change in the fair value of commodity derivative contracts related to energy production during 2009 is summarized in the following table:

| **Increase (Decrease) in the Fair Value of Derivative Contracts** | **Non-Hedge** | **Hedge** | **Total** |
|---|---|---|---|
| | | ***(In millions)*** | |
| **Change in the fair value of commodity derivative contracts:** | | | |
| Outstanding net liability as of January 1, 2009 | $ (510) | $ - | $ (510) |
| Additions/change in value of existing contracts | (43) | - | (43) |
| Settled contracts | 167 | - | 167 |
| **Outstanding net liability as of December 31, 2009 (1)** | $ (386) | $ - | $ (386) |
| | | | |
| **Impact of changes in commodity derivative contracts (2)** | | | |
| Income Statement effects (Pre-Tax) | $ - | $ - | $ - |
| Balance Sheet effects: | | | |
| OCI (Pre-Tax) | $ - | $ - | $ - |
| Regulatory Asset (net) | $ (124) | $ - | $ (124) |

(1) Includes $386 million in non-hedge commodity derivative contracts (primarily with NUGs) that are subject to regulatory accounting and do not impact earnings.

(2) Represents the change in value of existing contracts, settled contracts and changes in techniques/assumptions.

Derivatives are included on the Consolidated Balance Sheet as of December 31, 2009 as follows:

| Balance Sheet Classification | **Non-Hedge** | **Hedge** | **Total** |
|---|---|---|---|
| | | ***(In millions)*** | |
| **Non-Current-** | | | |
| Other deferred charges | $ 13 | $ - | $ 13 |
| Other noncurrent liabilities | (399) | - | (399) |
| **Net liabilities** | $ (386) | $ - | $ (386) |

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, JCP&L relies on model-based information. The model provides estimates of future regional prices for electricity and an estimate of related price volatility. JCP&L 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 as of December 31, 2009 are summarized by year in the following table:

| **Source of Information - Fair Value by Contract Year** | **2010** | **2011** | **2012** | **2013** | **2014** | **Thereafter** | **Total** |
|---|---|---|---|---|---|---|---|
| | | | | ***(In millions)*** | | | |
| Other external sources (1) | $ (157) | $ (110) | $ (45) | $ (41) | $ - | **$ -** | $ (353) |
| Prices based on models | - | - | - | - | (27) | (6) | (33) |
| **Total (2)** | $ (157) | $ (110) | $ (45) | $ (41) | $ (27) | $ (6) | $ (386) |

(1) Broker quote sheets.

(2) Includes $386 million in non-hedge commodity derivative contracts (primarily with NUGs) that are subject to regulatory accounting and do not impact earnings.

JCP&L 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 JCP&L's consolidated financial position or cash flows as of December 31, 2009. Based on derivative contracts held as of December 31, 2009, an adverse 10% change in commodity prices would not have a material effect on JCP&L's net income for the next 12 months.

*Interest Rate Risk*

JCP&L's exposure to fluctuations in market interest rates is reduced since a significant portion of its debt has fixed interest rates. The table below presents principal amounts and related weighted average interest rates by year of maturity for JCP&L's investment portfolio and debt obligations.

**Comparison of Carrying Value to Fair Value**

| Year of Maturity | 2010 | 2011 | 2012 | 2013 | 2014 | There-after | Total | Fair Value |
|---|---|---|---|---|---|---|---|---|
| Assets | | | | *(Dollars in millions)* | | | | |
| Investments Other Than Cash and Cash Equivalents: | | | | | | | | |
| Fixed Income | | | | | | $ 270 | $ 270 | $ 280 |
| Average interest rate | | | | | | 3.8% | 3.8% | |
| | | | | | | | | |
| Liabilities | | | | | | | | |
| Long-term Debt: | | | | | | | | |
| Fixed rate | $ 31 | $ 32 | $ 34 | $ 36 | $ 38 | $ 1,669 | $ 1,840 | $ 1,950 |
| Average interest rate | 5.4% | 5.6% | 5.7% | 5.7% | 5.9% | 6.1% | 6.0% | |

*Equity Price Risk*

Included in JCP&L's nuclear decommissioning trusts are marketable equity securities carried at their market value of approximately $85 million as of December 31, 2009. A hypothetical 10% decrease in prices quoted by stock exchanges would result in a $9 million reduction in fair value as of December 31, 2009 (see Note 5).

# METROPOLITAN EDISON COMPANY

## MANAGEMENT'S NARRATIVE
## ANALYSIS OF RESULTS OF OPERATIONS

Met-Ed is a wholly owned electric utility subsidiary of FirstEnergy. Met-Ed conducts business in eastern Pennsylvania, providing regulated electric transmission and distribution services. Met-Ed also provides generation service to those customers electing to retain Met-Ed as their power supplier. On November 3, 2009, FES, Met-Ed, Penelec and Waverly restated their partial requirements power purchase agreement for 2010. Under the new agreement, Met-Ed, Penelec, and Waverly assigned 1,300 MW of existing energy purchases to FES to assist it in supplying Met-Ed's power supply requirements and managing congestion expenses.

For additional information with respect to Met-Ed, please see the information contained in FirstEnergy's Management Discussion and Analysis of Financial Condition and Results of Operations above under the following subheadings, which information is incorporated by reference herein: Capital Resources and Liquidity, Guarantees and Other Assurances, Strategy and Outlook, Regulatory Matters, Environmental Matters, Other Legal Proceedings and New Accounting Standards and Interpretations.

**Results of Operations**

In 2009, Met-Ed reported net income of $56 million compared to $88 million 2008. The decrease was primarily due to decreased distribution throughput and generation sales, and increased interest expense, partially offset by lower other operating costs and higher transmission rates.

*Revenues*

Revenues increased by $36 million, or 2.2%, in 2009 compared to 2008 principally due to higher distribution and wholesale generation revenues, partially offset by a decrease in retail generation and PJM transmission revenues.

Revenues from distribution increased $88 million in 2009 compared to 2008 primarily due to higher transmission rates, resulting from the annual update of Met-Ed's TSC rider effective June 1, 2009. Decreased KWH deliveries to commercial and industrial customers reflecting the weakened economy, while decreased deliveries to residential customers were the result of weather-related usage variations from a 14.2% decrease in cooling degree days for 2009 compared to 2008.

Changes in distribution KWH deliveries and revenues in 2009 compared to 2008 are summarized in the following tables:

| Distribution KWH Deliveries | (Decrease) |
|---|---|
| Residential | (2.7)% |
| Commercial | (4.4)% |
| Industrial | (10.3)% |
| **Decrease in Distribution Deliveries** | **(5.3)%** |

| Distribution Revenues | Increase |
|---|---|
| | *(In millions)* |
| Residential | $ 43 |
| Commercial | 28 |
| Industrial | 17 |
| **Increase in Distribution Revenues** | **$ 88** |

Wholesale revenues increased by $15 million in 2009 compared to 2008, primarily reflecting higher PJM spot market prices.

In 2009, retail generation revenues decreased $35 million due to lower KWH sales in all customer classes with composite unit prices increased slightly for residential and commercial customer classes and decreased slightly for industrial customers. Lower KWH sales to commercial and industrial customers were principally due to economic conditions in Met-Ed's service territory. Lower KWH sales in the residential sector were due to decreased weather-related usage as discussed above.

Changes in retail generation sales and revenues in 2009 compared to 2008 are summarized in the following tables:

| Retail Generation KWH Sales | (Decrease) |
|---|---|
| Residential | (2.7)% |
| Commercial | (4.4)% |
| Industrial | (10.4)% |
| **Decrease in Retail Generation Sales** | **(5.3)%** |

| Retail Generation Revenues | (Decrease) |
|---|---|
| | *(In millions)* |
| Residential | $ (7) |
| Commercial | (10) |
| Industrial | (18) |
| **Decrease in Retail Generation Revenues** | **$ (35)** |

Transmission service revenues decreased by $31 million in 2009 compared to 2008 primarily due to decreased revenues related to Met-Ed's Financial Transmission Rights. Met-Ed defers the difference between transmission revenues and net transmission costs incurred, resulting in no material effect to current period earnings.

*Expenses*

Total operating expenses increased by $84 million in 2009 compared to 2008. The following table presents changes from the prior year by expense category:

| Expenses – Changes | Increase (Decrease) |
|---|---|
| | *(In millions)* |
| Purchased power costs | $ 4 |
| Other operating costs | (152) |
| Provision for depreciation | 7 |
| Amortization of regulatory assets, net | 223 |
| General taxes | 2 |
| **Net increase in expenses** | **$ 84** |

Purchased power costs increased by $4 million in 2009 compared to 2008 due to an increase in unit costs, partially offset by reduced volumes purchased as a result of lower KWH sales requirements. Other operating costs decreased $152 million in 2009 due primarily to lower transmission expenses as a result of decreased congestion costs and transmission loss expenses, partially offset by higher employee benefit expenses. Depreciation expense increased generally due to an increase in depreciable property since the end of 2008. The net amortization of regulatory assets increased by $223 million in 2009 resulting from increased transmission cost recovery. In 2009, general taxes increased due to higher gross receipts taxes resulting from increased sales revenues.

*Other Expense*

Other expense increased $17 million in 2009 resulting from to an increase in interest expense from Met-Ed's $300 million Senior Notes issuance in January 2009. In addition, less interest income was earned in 2009 on stranded regulatory assets, reflecting lower regulatory asset balances.

*Commodity Price Risk*

Met-Ed is exposed to market risk primarily due to fluctuations in electricity, energy transmission and natural gas prices. To manage the volatility relating to these exposures, Met-Ed 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. The majority of Met-Ed's derivative contracts must be recorded at their fair value and marked to market. Certain derivative hedging contracts qualify for the normal purchase and normal sale exception and are therefore excluded from the table below. Contracts that are not exempt from such treatment include power purchase agreements with NUG entities that were structured pursuant to the Public Utility Regulatory Policies Act of 1978. These non-trading contracts are adjusted to fair value at the end of each quarter, with a corresponding regulatory asset recognized for above-market costs or regulatory liability for below-market costs. The change in the fair value of commodity derivative contracts related to energy production during 2009 is summarized in the following table:

| Increase (Decrease) in the Fair Value of Derivative Contracts | Non-Hedge | Hedge | Total |
|---|---|---|---|
| | | (In millions) | |
| **Change in the Fair Value of Commodity Derivative Contracts** | | | |
| Outstanding net liabilities as of January 1, 2009 | $ 164 | $ - | $ 164 |
| Additions/Changes in value of existing contracts | (205) | - | (205) |
| Settled contracts | 83 | - | 83 |
| **Net Assets - Derivative Contracts as of December 31, 2009 (1)** | $ 42 | $ - | $ 42 |
| | | | |
| **Impact of Changes in Commodity Derivative Contracts (2)** | | | |
| Income Statement Effects (Pre-Tax) | $ - | $ - | $ - |
| Balance Sheet Effects: | | | |
| Regulatory Liability (net) | $ 122 | $ - | $ 122 |

(1) Includes $42 million in non-hedge commodity derivative contracts (primarily with NUGs) that are subject to regulatory accounting and do not impact earnings.
(2) Represents the change in value of existing contracts, settled contracts and changes in techniques/assumptions.

Derivatives are included on the Consolidated Balance Sheet as of December 31, 2009 as follows:

| | Non-Hedge | Hedge | Total |
|---|---|---|---|
| | | (In millions) | |
| **Non-Current-** | | | |
| Other deferred charges | $ 185 | $ - | $ 185 |
| Other noncurrent liabilities | (143) | - | (143) |
| | | | |
| **Net assets** | $ 42 | $ - | $ 42 |

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, Met-Ed relies on model-based information. The model provides estimates of future regional prices for electricity and an estimate of related price volatility. Met-Ed 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 as of December 31, 2009 are summarized by year in the following table:

| Source of Information - Fair Value by Contract Year | 2010 | 2011 | 2012 | 2013 | 2014 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| | | | | (In millions) | | | |
| Other external sources (1) | $ (50) | $ (42) | $ (38) | $ 2 | $ - | $ - | $ (128) |
| Prices based on models | - | - | - | - | 25 | 145 | 170 |
| **Total (2)** | $ (50) | $ (42) | $ (38) | $ 2 | $ 25 | $ 145 | $ 42 |

(1) Broker quote sheets.
(2) Includes $42 million in non-hedge commodity derivative contracts (primarily with NUGs) that are subject to regulatory accounting and do not impact 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 Met-Ed's consolidated financial position or cash flows as of December 31, 2009. Based on derivative contracts held as of December 31, 2009, an adverse 10% change in commodity prices would not have a material effect on Met-Ed's net income for the next 12 months.

*Interest Rate Risk*

Met-Ed's exposure to fluctuations in market interest rates is reduced since a significant portion of its debt has fixed interest rates. The table below presents principal amounts and related weighted average interest rates by year of maturity for Met-Ed's investment portfolio and debt obligations.

**Comparison of Carrying Value to Fair Value**

| **Year of Maturity** | **2010** | **2011** | **2012** | **2013** | **2014** | **There after** | **Total** | **Fair Value** |
|---|---|---|---|---|---|---|---|---|
| | | | | ***(Dollars in millions)*** | | | | |
| Assets | | | | | | | | |
| Investments Other Than Cash and Cash Equivalents: | | | | | | | | |
| Fixed Income | | | | | | $ 120 | $ 120 | $ 125 |
| Average interest rate | | | | | | 2.1% | 2.1% | |
| | | | | | | | | |
| Liabilities | | | | | | | | |
| Long-term Debt: | | | | | | | | |
| Fixed rate | $ 100 | | | $ 150 | $ 250 | $ 314 | $ 814 | $ 881 |
| Average interest rate | 4.5% | | | 5.0% | 4.9% | 7.6% | 5.9% | |
| Variable rate | | | | | | $ 28 | $ 28 | $ 28 |
| Average interest rate | | | | | | 0.2% | 0.2% | |

*Equity Price Risk*

Included in Met-Ed’s nuclear decommissioning trusts are marketable equity securities carried at their market value of approximately $140 million as if December 31, 2009. A hypothetical 10% decrease in prices quoted by stock exchanges would result in an $14 million reduction in fair value as of December 31, 2009 (see Note 5).

# PENNSYLVANIA ELECTRIC COMPANY

## MANAGEMENT'S NARRATIVE
## ANALYSIS OF RESULTS OF OPERATIONS

Penelec is a wholly owned electric utility subsidiary of FirstEnergy. Penelec conducts business in northern and south central Pennsylvania, providing regulated transmission and distribution services. Penelec also provides generation services to those customers electing to retain Penelec as their power supplier. On November 3, 2009, Penelec, Met-Ed and Waverly restated their partial requirements power purchase agreement for 2010. Under the new agreement, Penelec, Met-Ed, and Waverly assigned 1,300 MW of existing energy purchases to FES to assist it in supplying Buyers' power supply requirements and managing congestion expenses.

For additional information with respect to Penelec, please see the information contained in FirstEnergy's Management Discussion and Analysis of Financial Condition and Results of Operations above under the following subheadings, which information is incorporated by reference herein: Capital Resources and Liquidity, Guarantees and Other Assurances and Outlook: Capital Resources and Liquidity, Guarantees and Other Assurances, Strategy and Outlook, Regulatory Matters, Environmental Matters, Other Legal Proceedings and New Accounting Standards and Interpretations.

**Results of Operations**

Net income decreased to $65 million in 2009, compared to $88 million in 2008. The decrease was primarily due lower revenues and higher purchased power costs, partially offset by lower other operating costs and decreased amortization of regulatory assets.

*Revenues*

Revenues decreased by $65 million, or 4.3%, in 2009 compared to 2008 primarily due to lower transmission, retail generation and distribution revenues, partially offset by higher wholesale generation revenues.

Transmission revenues decreased by $44 million in 2009 compared to 2008, primarily due to lower revenues related to Penelec's Financial Transmission Rights. Penelec defers the difference between transmission revenues and transmission costs incurred, resulting in no material effect to current period earnings.

In 2009, retail generation revenues decreased $37 million primarily due to lower KWH sales in all customer classes. Lower KWH sales to the commercial and industrial customer classes were primarily due to weakened economic conditions in Penelec's service territory. Lower KWH sales to the residential customer class were due to decreased weather-related usage, reflecting a 28.5% decrease in cooling degree days in 2009 compared to 2008.

Changes in retail generation sales and revenues in 2009 as compared to 2008 are summarized in the following tables:

| Retail Generation KWH Sales | Decrease |
|---|---|
| Residential | (1.9)% |
| Commercial | (3.2)% |
| Industrial | (13.7)% |
| **Decrease in Retail Generation Sales** | **(5.9)%** |

| Retail Generation Revenues | Decrease |
|---|---|
| | *(In millions)* |
| Residential | $ (4) |
| Commercial | (8) |
| Industrial | (25) |
| **Decrease in Retail Generation Revenues** | **$ (37)** |

Revenues from distribution throughput decreased $7 million in 2009 compared to 2008, primarily due to decreased deliveries to the commercial and industrial sectors reflecting the economic conditions in Penelec's service area. Offsetting this decrease was an increase in residential unit prices due to an increase in transmission rates, resulting from the annual update of Penelec's TSC rider effective June 1, 2009.

Changes in distribution KWH deliveries and revenues in 2009 as compared to 2008 are summarized in the following tables:

| Distribution KWH Deliveries | Decrease |
|---|---|
| Residential | (1.9)% |
| Commercial | (3.2)% |
| Industrial | (12.0)% |
| **Decrease in Distribution Deliveries** | **(5.6)%** |

| Distribution Revenues | Increase (Decrease) |
|---|---|
| | *(In millions)* |
| Residential | $ 2 |
| Commercial | (4) |
| Industrial | (5) |
| **Net Decrease in Distribution Revenues** | **$ (7)** |

Wholesale revenues increased $19 million in 2009 compared to the same period in 2008, primarily reflecting higher KWH sales.

*Expenses*

Total operating expenses decreased by $22 million in 2009 compared to 2008. The following table presents changes from the prior year by expense category:

| Expenses - Changes | Increase (Decrease) |
|---|---|
| | *(In millions)* |
| Purchased power costs | $ 11 |
| Other operating costs | (19) |
| Provision for depreciation | 7 |
| Amortization of regulatory assets, net | (15) |
| General taxes | (6) |
| **Net Decrease in expenses** | **$ (22)** |

Purchased power costs increased by $11 million in 2009 compared to 2008, primarily due to higher unit costs, partially offset by reduced volume as a result of lower KWH sales requirements. Other operating costs decreased by $19 million in 2009 compared to 2008, principally due to reduced transmission and labor costs, partially offset by higher pension and OPEB expenses. Depreciation expense increased primarily due to an increase in depreciable property since December 31, 2008. The net amortization of regulatory assets decreased by $15 million in 2009 compared to 2008 primarily due to increased transmission cost deferrals as a result of increased net congestion costs. General taxes decreased in 2009 primarily due to lower gross receipts tax as a result of the reduced KWH sales discussed above.

Other Expense

In 2009, other expense decreased by $8 million primarily due to lower interest expense on borrowings from the regulated money pool and the Revolving Credit Facility, partially offset by an increase in interest expense on long-term debt due to the $500 million debt issuance on September 30, 2009.

**Market Risk Information**

Penelec uses various market risk sensitive instruments, including derivative contracts, to manage the risk of price and interest rate fluctuations. FirstEnergy's Risk Policy Committee, comprised of members of senior management, provides general oversight to risk management activities.

*Commodity Price Risk*

Penelec is exposed to market risk primarily due to fluctuations in electricity, energy transmission and natural gas prices. To manage the volatility relating to these exposures, Penelec 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. The majority of Penelec's derivative contracts must be recorded at their fair value and marked to market. Power purchase agreements with NUG entities that were structured pursuant to the Public Utility Regulatory Policies Act of 1978 are non-trading contracts and are adjusted to fair value at the end of each quarter, with a corresponding regulatory asset recognized for above-market costs or regulatory liability for below-market costs. The change in the fair value of commodity derivative contracts related to energy production during 2009 is summarized in the following table:

| **Increase (Decrease) in the Fair Value of Derivative Contracts** | **Non-Hedge** | **Hedge** | **Total** |
|---|---|---|---|
| | | ***(In millions)*** | |
| **Change in the Fair Value of Commodity Derivative Contracts** | | | |
| Outstanding net liabilities as of January 1, 2009 | $ 43 | $ - | $ 43 |
| Additions/Changes in value of existing contracts | (223) | - | (223) |
| Settled contracts | 99 | - | 99 |
| **Net Assets - Derivative Contracts as of December 31, 2009** (1) | $ (81) | $ - | $ (81) |
| | | | |
| **Impact of Changes in Commodity Derivative Contracts** (2) | | | |
| Income Statement Effects (Pre-Tax) | $ - | $ - | $ - |
| Balance Sheet Effects: | | | |
| Regulatory Liability (net) | $ 124 | $ - | $ 124 |

(1) Includes $81 million in non-hedge commodity derivative contracts (primarily with NUGs) that are subject to regulatory accounting and do not impact earnings.
(2) Represents the change in value of existing contracts, settled contracts and changes in techniques/assumptions.

Derivatives are included on the Consolidated Balance Sheet as of December 31, 2009 as follows:

| | **Non-Hedge** | **Hedge** | **Total** |
|---|---|---|---|
| | | ***(In millions)*** | |
| **Non-Current-** | | | |
| Other deferred charges | $ 20 | $ - | $ 20 |
| Other noncurrent liabilities | (101) | - | (101) |
| **Net assets** | $ (81) | $ - | $ (81) |

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 commodity derivative contracts as of December 31, 2009 are summarized by year in the following table:

| **Source of Information - Fair Value by Contract Year** | **2010** | **2011** | **2012** | **2013** | **2014** | **Thereafter** | **Total** |
|---|---|---|---|---|---|---|---|
| | | | | ***(In millions)*** | | | |
| Other external sources (1) | $ (51) | $ (55) | $ (56) | $ (5) | $ - | **$ -** | $ (167) |
| Prices based on models | - | - | - | - | 13 | 73 | 86 |
| **Total** (2) | $ (51) | $ (55) | $ (56) | $ (5) | $ 13 | $ 73 | $ (81) |

(1) Broker quote sheet.
(2) Includes $81 m **i** llion in non-hedge commodity derivative contracts (primarily with NUGs) that are subject to regulatory accounting and do not impact 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 Penelec's consolidated financial position or cash flows as of December 31, 2009. Based on derivative contracts held as of December 31, 2009, an adverse 10% change in commodity prices would not have a material effect on Penelec's net income for the next 12 months.

*Interest Rate Risk*

Penelec's exposure to fluctuations in market interest rates is reduced since a significant portion of its debt has fixed interest rates. The table below presents principal amounts and related weighted average interest rates by year of maturity for Penelec's investment portfolio and debt obligations.

**Comparison of Carrying Value to Fair Value**

| **Year of Maturity** | **2010** | **2011** | **2012** | **2013** | **2014** | **There-after** | **Total** | **Fair Value** |
|---|---|---|---|---|---|---|---|---|
| | | | | ***(Dollars in millions)*** | | | | |
| Assets | | | | | | | | |
| Investments Other Than Cash and Cash Equivalents: | | | | | | | | |
| Fixed Income | | | | | | $ 166 | $ 166 | $ 171 |
| Average interest rate | | | | | | 3.0% | 3.0% | |
| | | | | | | | | |
| Liabilities | | | | | | | | |
| Long-term Debt: | | | | | | | | |
| Fixed rate | $ 24 | | | | $ 150 | $ 925 | $ 1,099 | $ 1,132 |
| Average interest rate | 5.4% | | | | 5.1% | 5.9% | 5.8% | |
| Variable rate | | | | | | $ 45 | $ 45 | $ 45 |
| Average interest rate | | | | | | 0.3% | 0.3% | |
| Short-term Borrowings: | $ 41 | | | | | | $ 41 | $ 41 |
| Average interest rate | 0.7% | | | | | | 0.7% | |

*Equity Price Risk*

Included in Penelec's nuclear decommissioning trusts are marketable equity securities carried at their market value of approximately $70 million as of December 31, 2008. A hypothetical 10% decrease in prices quoted by stock exchanges would result in a $7 million reduction in fair value as of December 31, 2008 (see Note 5).

## ITEM 7A.   QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by ITEM 7A relating to market risk is set forth in ITEM 7. Management Discussion and Analysis of Financial Condition and Results of Operations .

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

## MANAGEMENT REPORTS

*Management's Responsibility for Financial Statements*

The consolidated financial statements of FirstEnergy Corp. (Company) were prepared by management, who takes responsibility for their integrity and objectivity. The statements were prepared in conformity with accounting principles generally accepted in the United States and are consistent with other financial information appearing elsewhere in this report. PricewaterhouseCoopers LLP, an independent registered public accounting firm, has expressed an unqualified opinion on the Company's 2009 consolidated financial statements.

The Company's internal auditors, who are responsible to the Audit Committee of the Company's Board of Directors, review the results and performance of operating units within the Company for adequacy, effectiveness and reliability of accounting and reporting systems, as well as managerial and operating controls.

The Company's Audit Committee consists of four independent directors whose duties include: consideration of the adequacy of the internal controls of the Company and the objectivity of financial reporting; inquiry into the number, extent, adequacy and validity of regular and special audits conducted by independent auditors and the internal auditors; and reporting to the Board of Directors the Committee's findings and any recommendation for changes in scope, methods or procedures of the auditing functions. The Committee is directly responsible for appointing the Company's independent registered public accounting firm and is charged with reviewing and approving all services performed for the Company by the independent registered public accounting firm and for reviewing and approving the related fees. The Committee reviews the independent registered public accounting firm's report on internal quality control and reviews all relationships between the independent registered public accounting firm and the Company, in order to assess the independent registered public accounting firm's independence. The Committee also reviews management's programs to monitor compliance with the Company's policies on business ethics and risk management. The Committee establishes procedures to receive and respond to complaints received by the Company regarding accounting, internal accounting controls, or auditing matters and allows for the confidential, anonymous submission of concerns by employees. The Audit Committee held nine meetings in 2009.

*Management's Report on Internal Control Over Financial Reporting*

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934. Using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework* , management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting under the supervision of the chief executive officer and the chief financial officer. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2009 . The effectiveness of the Company's internal control over financial reporting, as of December 31, 2009, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears on page 142.

## MANAGEMENT REPORTS

*Management's Responsibility for Financial Statements*

The consolidated financial statements of FirstEnergy Solutions Corp. (Company) were prepared by management, who takes responsibility for their integrity and objectivity. The statements were prepared in conformity with accounting principles generally accepted in the United States and are consistent with other financial information appearing elsewhere in this report. PricewaterhouseCoopers LLP, an independent registered public accounting firm, has expressed an unqualified opinion on the Company's 2009 consolidated financial statements.

FirstEnergy Corp.'s internal auditors, who are responsible to the Audit Committee of FirstEnergy's Board of Directors, review the results and performance of the Company for adequacy, effectiveness and reliability of accounting and reporting systems, as well as managerial and operating controls.

FirstEnergy's Audit Committee consists of four independent directors whose duties include: consideration of the adequacy of the internal controls of the Company and the objectivity of financial reporting; inquiry into the number, extent, adequacy and validity of regular and special audits conducted by independent auditors and the internal auditors; and reporting to the Board of Directors the Committee's findings and any recommendation for changes in scope, methods or procedures of the auditing functions. The Committee is directly responsible for appointing the Company's independent registered public accounting firm and is charged with reviewing and approving all services performed for the Company by the independent registered public accounting firm and for reviewing and approving the related fees. The Committee reviews the independent registered public accounting firm's report on internal quality control and reviews all relationships between the independent registered public accounting firm and the Company, in order to assess the independent registered public accounting firm's independence. The Committee also reviews management's programs to monitor compliance with the Company's policies on business ethics and risk management. The Committee establishes procedures to receive and respond to complaints received by the Company regarding accounting, internal accounting controls, or auditing matters and allows for the confidential, anonymous submission of concerns by employees. The Audit Committee held nine meetings in 2009.

*Management's Report on Internal Control Over Financial Reporting*

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934. Using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework* , management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting under the supervision of the chief executive officer and the chief financial officer. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2009 .

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting.

## MANAGEMENT REPORTS

*Management's Responsibility for Financial Statements*

The consolidated financial statements of Ohio Edison Company (Company) were prepared by management, who takes responsibility for their integrity and objectivity. The statements were prepared in conformity with accounting principles generally accepted in the United States and are consistent with other financial information appearing elsewhere in this report. PricewaterhouseCoopers LLP, an independent registered public accounting firm, has expressed an unqualified opinion on the Company's 2009 consolidated financial statements.

FirstEnergy Corp.'s internal auditors, who are responsible to the Audit Committee of FirstEnergy's Board of Directors, review the results and performance of the Company for adequacy, effectiveness and reliability of accounting and reporting systems, as well as managerial and operating controls.

FirstEnergy's Audit Committee consists of four independent directors whose duties include: consideration of the adequacy of the internal controls of the Company and the objectivity of financial reporting; inquiry into the number, extent, adequacy and validity of regular and special audits conducted by independent auditors and the internal auditors; and reporting to the Board of Directors the Committee's findings and any recommendation for changes in scope, methods or procedures of the auditing functions. The Committee is directly responsible for appointing the Company's independent registered public accounting firm and is charged with reviewing and approving all services performed for the Company by the independent registered public accounting firm and for reviewing and approving the related fees. The Committee reviews the independent registered public accounting firm's report on internal quality control and reviews all relationships between the independent registered public accounting firm and the Company, in order to assess the independent registered public accounting firm's independence. The Committee also reviews management's programs to monitor compliance with the Company's policies on business ethics and risk management. The Committee establishes procedures to receive and respond to complaints received by the Company regarding accounting, internal accounting controls, or auditing matters and allows for the confidential, anonymous submission of concerns by employees. The Audit Committee held nine meetings in 2009.

*Management's Report on Internal Control Over Financial Reporting*

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934. Using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework* , management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting under the supervision of the chief executive officer and the chief financial officer. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2009 .

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting.

**MANAGEMENT REPORTS**

*Management's Responsibility for Financial Statements*

The consolidated financial statements of The Cleveland Electric Illuminating Company (Company) were prepared by management, who takes responsibility for their integrity and objectivity. The statements were prepared in conformity with accounting principles generally accepted in the United States and are consistent with other financial information appearing elsewhere in this report. PricewaterhouseCoopers LLP, an independent registered public accounting firm, has expressed an unqualified opinion on the Company's 2009 consolidated financial statements.

FirstEnergy Corp.'s internal auditors, who are responsible to the Audit Committee of FirstEnergy's Board of Directors, review the results and performance of the Company for adequacy, effectiveness and reliability of accounting and reporting systems, as well as managerial and operating controls.

FirstEnergy's Audit Committee consists of four independent directors whose duties include: consideration of the adequacy of the internal controls of the Company and the objectivity of financial reporting; inquiry into the number, extent, adequacy and validity of regular and special audits conducted by independent auditors and the internal auditors; and reporting to the Board of Directors the Committee's findings and any recommendation for changes in scope, methods or procedures of the auditing functions. The Committee is directly responsible for appointing the Company's independent registered public accounting firm and is charged with reviewing and approving all services performed for the Company by the independent registered public accounting firm and for reviewing and approving the related fees. The Committee reviews the independent registered public accounting firm's report on internal quality control and reviews all relationships between the independent registered public accounting firm and the Company, in order to assess the independent registered public accounting firm's independence. The Committee also reviews management's programs to monitor compliance with the Company's policies on business ethics and risk management. The Committee establishes procedures to receive and respond to complaints received by the Company regarding accounting, internal accounting controls, or auditing matters and allows for the confidential, anonymous submission of concerns by employees. The Audit Committee held nine meetings in 2009.

*Management's Report on Internal Control Over Financial Reporting*

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934. Using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework* , management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting under the supervision of the chief executive officer and the chief financial officer. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2009 .

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting.

## MANAGEMENT REPORTS

*Management's Responsibility for Financial Statements*

The consolidated financial statements of The Toledo Edison Company (Company) were prepared by management, who takes responsibility for their integrity and objectivity. The statements were prepared in conformity with accounting principles generally accepted in the United States and are consistent with other financial information appearing elsewhere in this report. PricewaterhouseCoopers LLP, an independent registered public accounting firm, has expressed an unqualified opinion on the Company's 2009 consolidated financial statements.

FirstEnergy Corp.'s internal auditors, who are responsible to the Audit Committee of FirstEnergy's Board of Directors, review the results and performance of the Company for adequacy, effectiveness and reliability of accounting and reporting systems, as well as managerial and operating controls.

FirstEnergy's Audit Committee consists of four independent directors whose duties include: consideration of the adequacy of the internal controls of the Company and the objectivity of financial reporting; inquiry into the number, extent, adequacy and validity of regular and special audits conducted by independent auditors and the internal auditors; and reporting to the Board of Directors the Committee's findings and any recommendation for changes in scope, methods or procedures of the auditing functions. The Committee is directly responsible for appointing the Company's independent registered public accounting firm and is charged with reviewing and approving all services performed for the Company by the independent registered public accounting firm and for reviewing and approving the related fees. The Committee reviews the independent registered public accounting firm's report on internal quality control and reviews all relationships between the independent registered public accounting firm and the Company, in order to assess the independent registered public accounting firm's independence. The Committee also reviews management's programs to monitor compliance with the Company's policies on business ethics and risk management. The Committee establishes procedures to receive and respond to complaints received by the Company regarding accounting, internal accounting controls, or auditing matters and allows for the confidential, anonymous submission of concerns by employees. The Audit Committee held nine meetings in 2009.

*Management's Report on Internal Control Over Financial Reporting*

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934. Using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework* , management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting under the supervision of the chief executive officer and the chief financial officer. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2009 .

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting.

## MANAGEMENT REPORTS

*Management's Responsibility for Financial Statements*

The consolidated financial statements of Jersey Central Power & Light Company (Company) were prepared by management, who takes responsibility for their integrity and objectivity. The statements were prepared in conformity with accounting principles generally accepted in the United States and are consistent with other financial information appearing elsewhere in this report. PricewaterhouseCoopers LLP, an independent registered public accounting firm, has expressed an unqualified opinion on the Company's 2009 consolidated financial statements.

FirstEnergy Corp.'s internal auditors, who are responsible to the Audit Committee of FirstEnergy's Board of Directors, review the results and performance of the Company for adequacy, effectiveness and reliability of accounting and reporting systems, as well as managerial and operating controls.

FirstEnergy's Audit Committee consists of four independent directors whose duties include: consideration of the adequacy of the internal controls of the Company and the objectivity of financial reporting; inquiry into the number, extent, adequacy and validity of regular and special audits conducted by independent auditors and the internal auditors; and reporting to the Board of Directors the Committee's findings and any recommendation for changes in scope, methods or procedures of the auditing functions. The Committee is directly responsible for appointing the Company's independent registered public accounting firm and is charged with reviewing and approving all services performed for the Company by the independent registered public accounting firm and for reviewing and approving the related fees. The Committee reviews the independent registered public accounting firm's report on internal quality control and reviews all relationships between the independent registered public accounting firm and the Company, in order to assess the independent registered public accounting firm's independence. The Committee also reviews management's programs to monitor compliance with the Company's policies on business ethics and risk management. The Committee establishes procedures to receive and respond to complaints received by the Company regarding accounting, internal accounting controls, or auditing matters and allows for the confidential, anonymous submission of concerns by employees. The Audit Committee held nine meetings in 2009.

*Management's Report on Internal Control Over Financial Reporting*

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934. Using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework* , management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting under the supervision of the chief executive officer and the chief financial officer. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2009 .

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting.

**MANAGEMENT REPORTS**

*Management's Responsibility for Financial Statements*

The consolidated financial statements of Metropolitan Edison Company (Company) were prepared by management, who takes responsibility for their integrity and objectivity. The statements were prepared in conformity with accounting principles generally accepted in the United States and are consistent with other financial information appearing elsewhere in this report. PricewaterhouseCoopers LLP, an independent registered public accounting firm, has expressed an unqualified opinion on the Company's 2009 consolidated financial statements.

FirstEnergy Corp.'s internal auditors, who are responsible to the Audit Committee of FirstEnergy's Board of Directors, review the results and performance of the Company for adequacy, effectiveness and reliability of accounting and reporting systems, as well as managerial and operating controls.

FirstEnergy's Audit Committee consists of four independent directors whose duties include: consideration of the adequacy of the internal controls of the Company and the objectivity of financial reporting; inquiry into the number, extent, adequacy and validity of regular and special audits conducted by independent auditors and the internal auditors; and reporting to the Board of Directors the Committee's findings and any recommendation for changes in scope, methods or procedures of the auditing functions. The Committee is directly responsible for appointing the Company's independent registered public accounting firm and is charged with reviewing and approving all services performed for the Company by the independent registered public accounting firm and for reviewing and approving the related fees. The Committee reviews the independent registered public accounting firm's report on internal quality control and reviews all relationships between the independent registered public accounting firm and the Company, in order to assess the independent registered public accounting firm's independence. The Committee also reviews management's programs to monitor compliance with the Company's policies on business ethics and risk management. The Committee establishes procedures to receive and respond to complaints received by the Company regarding accounting, internal accounting controls, or auditing matters and allows for the confidential, anonymous submission of concerns by employees. The Audit Committee held nine meetings in 2009.

*Management's Report on Internal Control Over Financial Reporting*

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934. Using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework* , management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting under the supervision of the chief executive officer and the chief financial officer. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2009 .

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting.

## MANAGEMENT REPORTS

*Management's Responsibility for Financial Statements*

The consolidated financial statements of Pennsylvania Electric Company (Company) were prepared by management, who takes responsibility for their integrity and objectivity. The statements were prepared in conformity with accounting principles generally accepted in the United States and are consistent with other financial information appearing elsewhere in this report. PricewaterhouseCoopers LLP, an independent registered public accounting firm, has expressed an unqualified opinion on the Company's 2009 consolidated financial statements.

FirstEnergy Corp.'s internal auditors, who are responsible to the Audit Committee of FirstEnergy's Board of Directors, review the results and performance of the Company for adequacy, effectiveness and reliability of accounting and reporting systems, as well as managerial and operating controls.

FirstEnergy's Audit Committee consists of four independent directors whose duties include: consideration of the adequacy of the internal controls of the Company and the objectivity of financial reporting; inquiry into the number, extent, adequacy and validity of regular and special audits conducted by independent auditors and the internal auditors; and reporting to the Board of Directors the Committee's findings and any recommendation for changes in scope, methods or procedures of the auditing functions. The Committee is directly responsible for appointing the Company's independent registered public accounting firm and is charged with reviewing and approving all services performed for the Company by the independent registered public accounting firm and for reviewing and approving the related fees. The Committee reviews the independent registered public accounting firm's report on internal quality control and reviews all relationships between the independent registered public accounting firm and the Company, in order to assess the independent registered public accounting firm's independence. The Committee also reviews management's programs to monitor compliance with the Company's policies on business ethics and risk management. The Committee establishes procedures to receive and respond to complaints received by the Company regarding accounting, internal accounting controls, or auditing matters and allows for the confidential, anonymous submission of concerns by employees. The Audit Committee held nine meetings in 2009.

*Management's Report on Internal Control Over Financial Reporting*

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934. Using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework* , management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting under the supervision of the chief executive officer and the chief financial officer. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2009 .

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting.

**Report of Independent Registered Public Accounting Firm**

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, common stockholders' equity, and cash flows present fairly, in all material respects, the financial position of FirstEnergy Corp. and its subsidiaries at December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP
Cleveland, Ohio
February 18, 2010

**Report of Independent Registered Public Accounting Firm**

To the Stockholder and Board of
Directors of FirstEnergy Solutions Corp.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, capitalization, common stockholder's equity, and cash flows present fairly, in all material respects, the financial position of FirstEnergy Solutions Corp. and its subsidiaries at December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Cleveland, Ohio
February 18, 2010

**Report of Independent Registered Public Accounting Firm**

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, capitalization, common stockholder's equity, and cash flows present fairly, in all material respects, the financial position of Ohio Edison Company and its subsidiaries at December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Cleveland, Ohio
February 18, 2010

**Report of Independent Registered Public Accounting Firm**

To the Stockholder and Board of Directors of
The Cleveland Electric Illuminating Company:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, capitalization, common stockholder's equity, and cash flows present fairly, in all material respects, the financial position of The Cleveland Electric Illuminating Company and its subsidiaries at December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Cleveland, Ohio
February 18, 2010

**Report of Independent Registered Public Accounting Firm**

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, capitalization, common stockholder's equity, and cash flows present fairly, in all material respects, the financial position of The Toledo Edison Company and its subsidiary at December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Cleveland, Ohio
February 18, 2010

**Report of Independent Registered Public Accounting Firm**

To the Stockholder and Board of Directors of
Jersey Central Power & Light Company:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, capitalization, common stockholder's equity, and cash flows present fairly, in all material respects, the financial position of Jersey Central Power & Light Company and its subsidiaries at December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Cleveland, Ohio
February 18, 2010

**Report of Independent Registered Public Accounting Firm**

To the Stockholder and Board of
Directors of Metropolitan Edison Company:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, capitalization, common stockholder's equity, and cash flows present fairly, in all material respects, the financial position of Metropolitan Edison Company and its subsidiaries at December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Cleveland, Ohio
February 18, 2010

**Report of Independent Registered Public Accounting Firm**

To the Stockholder and Board of
Directors of Pennsylvania Electric Company:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, capitalization, common stockholder's equity, and cash flows present fairly, in all material respects, the financial position of Pennsylvania Electric Company and its subsidiaries at December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Cleveland, Ohio
February 18, 2010

**FIRSTENERGY CORP.**

**CONSOLIDATED STATEMENTS OF INCOME**

| For the Years Ended December 31, | 2009 | 2008 | 2007 |
|---|---|---|---|
| | *(In millions, except per share amounts)* | | |
| **REVENUES:** | | | |
| Electric utilities | $ 11,139 | $ 12,061 | $ 11,305 |
| Unregulated businesses | 1,828 | 1,566 | 1,497 |
| Total revenues* | 12,967 | 13,627 | 12,802 |
| **EXPENSES:** | | | |
| Fuel | 1,153 | 1,340 | 1,178 |
| Purchased power | 4,730 | 4,291 | 3,836 |
| Other operating expenses | 2,697 | 3,045 | 3,083 |
| Provision for depreciation | 736 | 677 | 638 |
| Amortization of regulatory assets | 1,155 | 1,053 | 1,019 |
| Deferral of regulatory assets | (136) | (316) | (524) |
| General taxes | 753 | 778 | 754 |
| Total expenses | 11,088 | 10,868 | 9,984 |
| **OPERATING INCOME** | 1,879 | 2,759 | 2,818 |
| **OTHER INCOME (EXPENSE):** | | | |
| Investment income, net | 204 | 59 | 120 |
| Interest expense | (978) | (754) | (775) |
| Capitalized interest | 130 | 52 | 32 |
| Total other expense | (644) | (643) | (623) |
| **INCOME BEFORE INCOME TAXES** | 1,235 | 2,116 | 2,195 |
| **INCOME TAXES** | 245 | 777 | 883 |
| **NET INCOME** | 990 | 1,339 | 1,312 |
| Noncontrolling interest income (loss) | (16) | (3) | 3 |
| **EARNINGS AVAILABLE TO FIRSTENERGY CORP.** | $ 1,006 | $ 1,342 | $ 1,309 |
| **BASIC EARNINGS PER SHARE OF COMMON STOCK** | $ 3.31 | $ 4.41 | $ 4.27 |
| **WEIGHTED AVERAGE NUMBER OF BASIC SHARES OUTSTANDING** | 304 | 304 | 306 |
| **DILUTED EARNINGS PER SHARE OF COMMON STOCK** | $ 3.29 | $ 4.38 | $ 4.22 |
| **WEIGHTED AVERAGE NUMBER OF DILUTED SHARES OUTSTANDING** | 306 | 307 | 310 |

* Includes $395 million, $432 million and $425 million of excise tax collections in 2009, 2008 and 2007, respectively.

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

# FIRSTENERGY CORP.

## CONSOLIDATED BALANCE SHEETS

| As of December 31, | 2009 | 2008 |
|---|---|---|
| | (In millions) | |
| **ASSETS** | | |
| **CURRENT ASSETS:** | | |
| Cash and cash equivalents | $ 874 | $ 545 |
| Receivables- | | |
| Customers (less accumulated provisions of $33 million and $28 million, respectively, for uncollectible accounts) | 1,244 | 1,304 |
| Other (less accumulated provisions of $7 million and $9 million, respectively, for uncollectible accounts) | 153 | 167 |
| Materials and supplies, at average cost | 647 | 605 |
| Prepaid taxes | 248 | 283 |
| Other | 154 | 149 |
| | 3,320 | 3,053 |
| **PROPERTY, PLANT AND EQUIPMENT:** | | |
| In service | 27,826 | 26,482 |
| Less - Accumulated provision for depreciation | 11,397 | 10,821 |
| | 16,429 | 15,661 |
| Construction work in progress | 2,735 | 2,062 |
| | 19,164 | 17,723 |
| **INVESTMENTS:** | | |
| Nuclear plant decommissioning trusts | 1,859 | 1,708 |
| Investments in lease obligation bonds (Note 7) | 543 | 598 |
| Other | 621 | 711 |
| | 3,023 | 3,017 |
| **DEFERRED CHARGES AND OTHER ASSETS:** | | |
| Goodwill | 5,575 | 5,575 |
| Regulatory assets | 2,356 | 3,140 |
| Power purchase contract asset | 200 | 434 |
| Other | 666 | 579 |
| | 8,797 | 9,728 |
| | $ 34,304 | $ 33,521 |
| **LIABILITIES AND CAPITALIZATION** | | |
| **CURRENT LIABILITIES:** | | |
| Currently payable long-term debt | $ 1,834 | $ 2,476 |
| Short-term borrowings (Note 14) | 1,181 | 2,397 |
| Accounts payable | 829 | 794 |
| Accrued taxes | 314 | 333 |
| Other | 1,130 | 1,098 |
| | 5,288 | 7,098 |
| **CAPITALIZATION:** | | |
| Common stockholders' equity- | | |
| Common stock, $0.10 par value, authorized 375,000,000 shares- 304,835,407 outstanding | 31 | 31 |
| Other paid-in capital | 5,448 | 5,473 |
| Accumulated other comprehensive loss | (1,415) | (1,380) |
| Retained earnings | 4,495 | 4,159 |
| Total common stockholders' equity | 8,559 | 8,283 |
| Noncontrolling interest | (2) | 32 |
| Total equity | 8,557 | 8,315 |
| Long- term debt and other long-term obligations (Note 12(C)) | 11,908 | 9,100 |
| | 20,465 | 17,415 |
| **NONCURRENT LIABILITIES:** | | |
| Accumulated deferred income taxes | 2,468 | 2,163 |
| Asset retirement obligations | 1,425 | 1,335 |
| Deferred gain on sale and leaseback transaction | 993 | 1,027 |
| Power purchase contract liability | 643 | 766 |
| Retirement benefits | 1,534 | 1,884 |
| Lease market valuation liability | 262 | 308 |
| Other | 1,226 | 1,525 |
| | 8,551 | 9,008 |
| **COMMITMENTS, GUARANTEES AND CONTINGENCIES (Notes 7 and 15)** | | |
| | $ 34,304 | $ 33,521 |

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

**FIRSTENERGY CORP.**

**CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY**

| | Comprehensive Income | Common Stock: Number of Shares | Common Stock: Par Value | Other Paid-In Capital | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Unallocated ESOP Common Stock |
|---|---|---|---|---|---|---|---|
| | | | | *(Dollars in millions)* | | | |
| Balance, January 1, 2007 | | 319,205,517 | $ 32 | $ 6,466 | $ (259) | $ 2,806 | $ (10) |
| Earnings available to FirstEnergy Corp. | $ 1,309 | | | | | 1,309 | |
| Unrealized loss on derivative hedges, net of $8 million of income tax benefits | (17) | | | | (17) | | |
| Unrealized gain on investments, net of $31 million of income taxes | 47 | | | | 47 | | |
| Pension and other postretirement benefits, net of $169 million of income taxes (Note 3) | 179 | | | | 179 | | |
| Comprehensive income | $ 1,518 | | | | | | |
| Stock options exercised | | | | (40) | | | |
| Allocation of ESOP shares | | | | 26 | | | 10 |
| Restricted stock units | | | | 23 | | | |
| Stock-based compensation | | | | 2 | | | |
| Accounting for uncertainty in income taxes cumulative effect adjustment | | | | | | (3) | |
| Repurchase of common stock | | (14,370,110) | (1) | (968) | | | |
| Cash dividends declared on common stock | | | | | | (625) | |
| Balance, December 31, 2007 | | 304,835,407 | 31 | 5,509 | (50) | 3,487 | - |
| Earnings available to FirstEnergy Corp. | $ 1,342 | | | | | 1,342 | |
| Unrealized loss on derivative hedges, net of $16 million of income tax benefits | (28) | | | | (28) | | |
| Change in unrealized gain on investments, net of $86 million of income tax benefits | (146) | | | | (146) | | |
| Pension and other postretirement benefits, net of $697 million of income tax benefits (Note 3) | (1,156) | | | | (1,156) | | |
| Comprehensive income | $ 12 | | | | | | |
| Stock options exercised | | | | (36) | | | |
| Restricted stock units | | | | (1) | | | |
| Stock-based compensation | | | | 1 | | | |
| Cash dividends declared on common stock | | | | | | (670) | |
| Balance, December 31, 2008 | | 304,835,407 | 31 | 5,473 | (1,380) | 4,159 | - |
| Earnings available to FirstEnergy Corp. | $ 1,006 | | | | | 1,006 | |
| Unrealized gain on derivative hedges, net of $24 million of income taxes | 27 | | | | 27 | | |
| Change in unrealized gain on investments, net of $31 million of income tax benefits | (43) | | | | (43) | | |
| Pension and other postretirement benefits, net of $34 million of income taxes (Note 3) | (19) | | | | (19) | | |
| Comprehensive income | $ 971 | | | | | | |
| Stock options exercised | | | | (3) | | | |
| Restricted stock units | | | | 7 | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Stock-based compensation | | | 1 | | | |
| Acquisition adjustment of non-controlling interest (Note 8) | | | (30) | | | |
| Cash dividends declared on common stock | | | | | (670) | |
| Balance, December 31, 2009 | 304,835,407 | $ 31 | $ 5,448 | $ (1,415) | $ 4,495 | $ - |

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

**FIRSTENERGY CORP.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| For the Years Ended December 31, | 2009 | 2008 | 2007 |
|---|---|---|---|
| | | *(In millions)* | |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Net income | $ 990 | $ 1,339 | $ 1,312 |
| Adjustments to reconcile net income to net cash from operating activities- | | | |
| Provision for depreciation | 736 | 677 | 638 |
| Amortization of regulatory assets | 1,155 | 1,053 | 1,019 |
| Deferral of regulatory assets | (136) | (316) | (524) |
| Nuclear fuel and lease amortization | 128 | 112 | 101 |
| Deferred purchased power and other costs | (338) | (226) | (350) |
| Deferred income taxes and investment tax credits, net | 384 | 366 | (9) |
| Investment impairment | 62 | 123 | 26 |
| Deferred rents and lease market valuation liability | (52) | (95) | (99) |
| Stock based compensation | 20 | (64) | (39) |
| Accrued compensation and retirement benefits | 22 | (140) | (37) |
| Gain on asset sales | (27) | (72) | (30) |
| Electric service prepayment programs | (10) | (77) | (75) |
| Cash collateral, net | 30 | (31) | (68) |
| Gain on sales of investment securities held in trusts, net | (176) | (63) | (10) |
| Loss on debt redemption | 146 | - | - |
| Commodity derivative transactions, net (Note 6) | 229 | 5 | 6 |
| Pension trust contributions | (500) | - | (300) |
| Uncertain tax positions | (210) | (5) | 19 |
| Decrease (increase) in operating assets- | | | |
| Receivables | 75 | (29) | (136) |
| Materials and supplies | (11) | (52) | 79 |
| Prepayments and other current assets | (19) | (263) | 10 |
| Increase (decrease) in operating liabilities- | | | |
| Accounts payable | 50 | 10 | 51 |
| Accrued taxes | (103) | (39) | 48 |
| Accrued interest | 67 | 4 | (8) |
| Other | (47) | 7 | 75 |
| Net cash provided from operating activities | 2,465 | 2,224 | 1,699 |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| New Financing- | | | |
| Long-term debt | 4,632 | 1,367 | 1,520 |
| Short-term borrowings, net | - | 1,494 | - |
| Redemptions and Repayments- | | | |
| Common stock | - | - | (969) |
| Long-term debt | (2,610) | (1,034) | (1,070) |
| Short-term borrowings, net | (1,246) | - | (205) |
| Common stock dividend payments | (670) | (671) | (616) |
| Other | (57) | 19 | (7) |
| Net cash provided from (used for) financing activities | 49 | 1,175 | (1,347) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Property additions | (2,203) | (2,888) | (1,633) |
| Proceeds from asset sales | 21 | 72 | 42 |
| Proceeds from sale and leaseback transaction | - | - | 1,329 |
| Sales of investment securities held in trusts | 2,229 | 1,656 | 1,294 |
| Purchases of investment securities held in trusts | (2,306) | (1,749) | (1,397) |
| Cash investments (Note 5) | 60 | 60 | 72 |
| Other | 14 | (134) | (20) |
| Net cash used for investing activities | (2,185) | (2,983) | (313) |
| Net increase in cash and cash equivalents | 329 | 416 | 39 |
| Cash and cash equivalents at beginning of year | 545 | 129 | 90 |
| Cash and cash equivalents at end of year | $ 874 | $ 545 | $ 129 |
| **SUPPLEMENTAL CASH FLOW INFORMATION:** | | | |
| Cash Paid During the Year- | | | |
| Interest (net of amounts capitalized) | $ 718 | $ 667 | $ 744 |
| Income taxes | $ 173 | $ 685 | $ 710 |

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

**FIRSTENERGY SOLUTIONS CORP.**

**CONSOLIDATED STATEMENTS OF INCOME**

| For the Years Ended December 31, | 2009 | 2008 | 2007 |
|---|---|---|---|
| | | *(In thousands)* | |
| **REVENUES:** | | | |
| Electric sales to affiliates (Note 18) | $ 2,825,959 | $ 2,968,323 | $ 2,901,154 |
| Electric sales to non-affiliates | 1,447,482 | 1,332,364 | 1,315,141 |
| Other | 454,896 | 217,666 | 108,732 |
| Total revenues | 4,728,337 | 4,518,353 | 4,325,027 |
| **EXPENSES:** | | | |
| Fuel | 1,127,463 | 1,315,293 | 1,087,010 |
| Purchased power from affiliates (Note 18) | 222,406 | 101,409 | 234,090 |
| Purchased power from non-affiliates | 996,383 | 778,882 | 764,090 |
| Other operating expenses | 1,183,225 | 1,084,548 | 1,041,039 |
| Provision for depreciation | 259,393 | 231,899 | 192,912 |
| General taxes | 86,915 | 88,004 | 87,098 |
| Total expenses | 3,875,785 | 3,600,035 | 3,406,239 |
| **OPERATING INCOME** | 852,552 | 918,318 | 918,788 |
| **OTHER INCOME (EXPENSE):** | | | |
| Investment income (loss) | 125,226 | (22,678) | 41,438 |
| Miscellaneous income | 6,670 | 1,698 | 11,438 |
| Interest expense to affiliates (Note 18) | (10,106) | (29,829) | (65,501) |
| Interest expense - other | (142,120) | (111,682) | (92,199) |
| Capitalized interest | 60,152 | 43,764 | 19,508 |
| Total other income (expense) | 39,822 | (118,727) | (85,316) |
| **INCOME BEFORE INCOME TAXES** | 892,374 | 799,591 | 833,472 |
| **INCOME TAXES** | 315,290 | 293,181 | 304,608 |
| **NET INCOME** | $ 577,084 | $ 506,410 | $ 528,864 |

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

**FIRSTENERGY SOLUTIONS CORP.**

**CONSOLIDATED BALANCE SHEETS**

| As of December 31, | 2009 | 2008 |
|---|---|---|
| | *(In thousands)* | |
| **ASSETS** | | |
| **CURRENT ASSETS:** | | |
| Cash and cash equivalents | $ 12 | $ 39 |
| Receivables- | | |
| Customers (less accumulated provisions of $12,041,000 and $5,899,000, respectively, for uncollectible accounts) | 195,107 | 86,123 |
| Associated companies | 318,561 | 378,100 |
| Other (less accumulated provisions of $6,702,000 and $6,815,000 respectively, for uncollectible accounts) | 51,872 | 24,626 |
| Notes receivable from associated companies | 805,103 | 129,175 |
| Materials and supplies, at average cost | 539,541 | 521,761 |
| Prepayments and other | 107,782 | 112,535 |
| | 2,017,978 | 1,252,359 |
| **PROPERTY, PLANT AND EQUIPMENT:** | | |
| In service | 10,357,632 | 9,871,904 |
| Less - Accumulated provision for depreciation | 4,531,158 | 4,254,721 |
| | 5,826,474 | 5,617,183 |
| Construction work in progress | 2,423,446 | 1,747,435 |
| | 8,249,920 | 7,364,618 |
| **INVESTMENTS:** | | |
| Nuclear plant decommissioning trusts | 1,088,641 | 1,033,717 |
| Long-term notes receivable from associated companies | - | 62,900 |
| Other | 22,466 | 61,591 |
| | 1,111,107 | 1,158,208 |
| **DEFERRED CHARGES AND OTHER ASSETS:** | | |
| Accumulated deferred income tax benefits | 86,626 | 267,762 |
| Lease assignment receivable from associated companies | - | 71,356 |
| Goodwill | 24,248 | 24,248 |
| Property taxes | 50,125 | 50,104 |
| Unamortized sale and leaseback costs | 72,553 | 69,932 |
| Other | 138,231 | 96,434 |
| | 371,783 | 579,836 |
| | $ 11,750,788 | $ 10,355,021 |
| **LIABILITIES AND CAPITALIZATION** | | |
| **CURRENT LIABILITIES:** | | |
| Currently payable long-term debt | $ 1,550,927 | $ 2,024,898 |
| Short-term borrowings- | | |
| Associated companies | 9,237 | 264,823 |
| Other | 100,000 | 1,000,000 |
| Accounts payable- | | |
| Associated companies | 466,078 | 472,338 |
| Other | 245,363 | 154,593 |
| Accrued taxes | 83,158 | 79,766 |
| Other | 359,057 | 248,439 |
| | 2,813,820 | 4,244,857 |
| **CAPITALIZATION (See Consolidated Statements of Capitalization):** | | |
| Common stockholder's equity | 3,514,571 | 2,944,423 |
| Long-term debt and other long-term obligations | 2,711,652 | 571,448 |
| | 6,226,223 | 3,515,871 |
| **NONCURRENT LIABILITIES:** | | |
| Deferred gain on sale and leaseback transaction | 992,869 | 1,026,584 |
| Accumulated deferred investment tax credits | 58,396 | 62,728 |
| Asset retirement obligations | 921,448 | 863,085 |
| Retirement benefits | 204,035 | 194,177 |
| Property taxes | 50,125 | 50,104 |
| Lease market valuation liability | 262,200 | 307,705 |
| Other | 221,672 | 89,910 |
| | 2,710,745 | 2,594,293 |
| **COMMITMENTS AND CONTINGENCIES (Notes 7 & 15)** | | |
| | $ 11,750,788 | $ 10,355,021 |

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

**FIRSTENERGY SOLUTIONS CORP.**

**CONSOLIDATED STATEMENTS OF CAPITALIZATION**

| As of December 31, | 2009 | 2008 |
|---|---|---|
| | *(In thousands)* | |
| **COMMON STOCKHOLDER'S EQUITY:** | | |
| Common stock, without par value, authorized 750 shares, | | |
| 7 shares outstanding | $ 1,468,423 | $ 1,464,229 |
| Accumulated other comprehensive loss (Note 2(F)) | (103,001) | (91,871) |
| Retained earnings (Note 12(A)) | 2,149,149 | 1,572,065 |
| Total | 3,514,571 | 2,944,423 |
| | | |
| **LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS (Note 12(C)):** | | |
| **Secured notes:** | | |
| **FirstEnergy Solutions Corp.** | | |
| 5.150% due 2009-2015 | 21,950 | 22,868 |
| | | |
| **FirstEnergy Generation Corp.** | | |
| 5.700% due 2014 | 50,000 | - |
| * 0.220% due 2017 | 28,525 | 28,525 |
| ** 5.625% due 2018 | 141,260 | 141,260 |
| * 0.230% due 2019 | 90,140 | 90,140 |
| * 5.250% due 2023 | 50,000 | - |
| ** 4.750% due 2029 | 100,000 | 100,000 |
| ** 4.750% due 2029 | 6,450 | 6,450 |
| * 0.220% due 2041 | 56,600 | 56,600 |
| | 522,975 | 422,975 |
| | | |
| **FirstEnergy Nuclear Generation Corp.** | | |
| 8.830% due 2009-2016 | 4,514 | 5,007 |
| 8.890% due 2009-2016 | 77,445 | 82,680 |
| 9.000% due 2009-2017 | 206,453 | 234,635 |
| 9.120% due 2009-2016 | 61,455 | 68,311 |
| 12.000% due 2009-2017 | 1,072 | 1,174 |
| * 0.330% due 2033 | 46,500 | 46,500 |
| * 0.320% due 2033 | 54,600 | 54,600 |
| * 0.350% due 2033 | 26,000 | 26,000 |
| * 0.280% due 2033 | 99,100 | 99,100 |
| * 0.280% due 2033 | 8,000 | 8,000 |
| ** 5.750% due 2033 | 62,500 | 62,500 |
| ** 5.875% due 2033 | 107,500 | 107,500 |
| * 0.220% due 2034 | 7,200 | 7,200 |
| * 0.230% due 2034 | 82,800 | 82,800 |
| * 0.220% due 2035 | 72,650 | 72,650 |
| * 0.270% due 2035 | 98,900 | 98,900 |
| * 0.230% due 2035 | 60,000 | 60,000 |
| | 1,076,689 | 1,117,557 |
| Total secured notes | 1,621,614 | 1,563,400 |
| | | |
| **Unsecured notes:** | | |
| **FirstEnergy Solutions Corp.** | | |
| 4.800% due 2015 | 400,000 | - |
| 6.050% due 2021 | 600,000 | - |
| 6.800% due 2039 | 500,000 | - |
| | 1,500,000 | - |
| **FirstEnergy Generation Corp.** | | |
| ** 3.000% due 2018 | 2,805 | 2,805 |
| ** 3.000% due 2018 | 2,985 | 2,985 |
| 5.700% due 2020 | 177,000 | - |
| * 0.400% due 2023 | 234,520 | 234,520 |
| * 4.350% due 2028 | 15,000 | 15,000 |
| * 7.125% due 2028 | 25,000 | 25,000 |
| * 0.280% due 2040 | 43,000 | 43,000 |
| * 0.230% due 2041 | 129,610 | 129,610 |
| * 0.280% due 2041 | 26,000 | 26,000 |
| ** 3.000% due 2047 | 46,300 | 46,300 |
| | 702,220 | 525,220 |
| **FirstEnergy Nuclear Generation Corp.** | | |
| 5.390% due to associated companies 2025 | - | 62,900 |
| * 7.250% due 2032 | 23,000 | 23,000 |
| * 7.250% due 2032 | 33,000 | 33,000 |
| * 0.210% due 2033 | 135,550 | 135,550 |
| * 0.240% due 2033 | 15,500 | 15,500 |
| ** 3.000% due 2033 | 20,450 | 20,450 |
| ** 3.000% due 2033 | 9,100 | 9,100 |
| ** 0.220% due 2035 | 163,965 | 163,965 |
| | 400,565 | 463,465 |
| Total unsecured notes | 2,602,785 | 988,685 |

| | | |
|---|---|---|
| Capital lease obligations (Note 7) | 40,110 | 44,319 |
| Net unamortized discount on debt | (1,936) | (58) |
| Long-term debt due within one year | (1,550,927) | (2,024,898) |
| Total long-term debt and other long-term obligations | 2,711,652 | 571,448 |
| | | |
| **TOTAL CAPITALIZATION** | $ 6,226,223 | $ 3,515,871 |

* Denotes variable rate issue with applicable year-end interest rate shown.
** Denotes remarketed notes in 2009.

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

**FIRSTENERGY SOLUTIONS CORP.**
**CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY**

| | Comprehensive Income | Common Stock Number of Shares | Common Stock Carrying Value | Accumulated Other Comprehensive Income (Loss) | Retained Earnings |
|---|---|---|---|---|---|
| | | | *(Dollars in thousands)* | | |
| Balance, January 1, 2007 | | 8 | 1,050,302 | 111,723 | 697,338 |
| Net income | $ 528,864 | | | | 528,864 |
| Net unrealized loss on derivative instruments, net of $3,337,000 of income tax benefits | (5,640) | | | (5,640) | |
| Unrealized gain on investments, net of $26,645,000 of income taxes | 41,707 | | | 41,707 | |
| Pension and other postretirement benefits, net of $604,000 of income taxes (Note 3) | (7,136) | | | (7,136) | |
| Comprehensive income | $ 557,795 | | | | |
| Repurchase of common stock | | (1) | (600,000) | | |
| Equity contribution from parent | | | 700,000 | | |
| Stock options exercised, restricted stock units and other adjustments | | | 4,141 | | |
| Consolidated tax benefit allocation | | | 10,479 | | |
| Accounting for uncertainty in income taxes cumulative effect adjustment | | | | | (547) |
| Cash dividends declared on common stock | | | | | (117,000) |
| Balance, December 31, 2007 | | 7 | 1,164,922 | 140,654 | 1,108,655 |
| Net income | $ 506,410 | | | | 506,410 |
| Net unrealized loss on derivative instruments, net of $5,512,000 of income tax benefits | (9,200) | | | (9,200) | |
| Change in unrealized gain on investments, net of $82,014,000 of income tax benefits | (137,689) | | | (137,689) | |
| Pension and other postretirement benefits, net of $47,853,000 of income tax benefits (Note 3) | (85,636) | | | (85,636) | |
| Comprehensive income | $ 273,885 | | | | |
| Equity contribution from parent | | | 280,000 | | |
| Stock options exercised, restricted stock units and other adjustments | | | 13,262 | | |
| Consolidated tax benefit allocation | | | 6,045 | | |
| Cash dividends declared on common stock | | | | | (43,000) |
| Balance, December 31, 2008 | | 7 | 1,464,229 | (91,871) | 1,572,065 |
| Net income | $ 577,084 | | | | 577,084 |
| Net unrealized gain on derivative instruments, net of $6,766,000 of income taxes | 11,329 | | | 11,329 | |
| Change in unrealized gain on investments, net of $20,937,000 of income tax benefits | (28,306) | | | (28,306) | |
| Pension and other postretirement benefits, net of $8,472,000 of income taxes (Note 3) | 5,847 | | | 5,847 | |
| Comprehensive income | $ 565,954 | | | | |
| Restricted stock units | | | 866 | | |
| Consolidated tax benefit allocation | | | 3,328 | | - |
| Balance, December 31, 2009 | | 7 | $ 1,468,423 | $ (103,001) | $ 2,149,149 |

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

**FIRSTENERGY SOLUTIONS CORP.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| For the Years Ended December 31, | 2009 | 2008 | 2007 |
|---|---|---|---|
| | | *(In thousands)* | |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Net Income | $ 577,084 | $ 506,410 | $ 528,864 |
| Adjustments to reconcile net income to net cash from | | | |
| operating activities- | | | |
| Provision for depreciation | 259,393 | 231,899 | 192,912 |
| Nuclear fuel and lease amortization | 130,486 | 111,978 | 100,720 |
| Deferred rents and lease market valuation liability | (46,384) | (43,263) | 69 |
| Deferred income taxes and investment tax credits, net | 219,962 | 116,626 | (334,545) |
| Investment impairment (Note 2(E)) | 57,073 | 115,207 | 22,817 |
| Accrued compensation and retirement benefits | 6,162 | 16,011 | 6,419 |
| Commodity derivative transactions, net (Note 6) | 228,705 | 5,100 | 5,930 |
| Gain on asset sales | (10,649) | (38,858) | (12,105) |
| Gain on sales of investment securities held in trusts, net | (158,112) | (53,290) | (9,883) |
| Cash collateral, net | 20,208 | (60,621) | (31,059) |
| Pension trust contributions | - | - | (64,020) |
| Associated company lease assignment | 71,356 | - | - |
| Decrease (increase) in operating assets- | | | |
| Receivables | (34,429) | 59,782 | (99,048) |
| Materials and supplies | 12,513 | (59,983) | 56,407 |
| Prepayments and other current assets | (26,046) | (12,302) | (13,812) |
| Increase (decrease) in operating liabilities- | | | |
| Accounts payable | 67,855 | 34,467 | (104,599) |
| Accrued taxes | 6,059 | (90,568) | 61,119 |
| Accrued interest | 46,441 | 1,398 | 1,143 |
| Other | (53,388) | 12,935 | (13,012) |
| Net cash provided from operating activities | 1,374,289 | 852,928 | 294,317 |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| New Financing- | | | |
| Long-term debt | 2,438,402 | 618,375 | 427,210 |
| Equity contributions from parent | - | 280,000 | 700,000 |
| Short-term borrowings, net | - | 700,759 | - |
| Redemptions and Repayments- | | | |
| Common stock | - | - | (600,000) |
| Long-term debt | (709,156) | (462,540) | (1,536,411) |
| Short-term borrowings, net | (1,155,586) | - | (458,321) |
| Common stock dividend payments | - | (43,000) | (117,000) |
| Other | (21,790) | (5,147) | (5,199) |
| Net cash provided from (used for) financing activities | 551,870 | 1,088,447 | (1,589,721) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Property additions | (1,222,933) | (1,835,629) | (738,709) |
| Proceeds from asset sales | 18,371 | 23,077 | 12,990 |
| Proceeds from sale and leaseback transaction | - | - | 1,328,919 |
| Sales of investment securities held in trusts | 1,379,154 | 950,688 | 655,541 |
| Purchases of investment securities held in trusts | (1,405,996) | (987,304) | (697,763) |
| Loan repayments from (loans to) associated companies | (675,928) | (36,391) | 734,862 |
| Other | (18,854) | (55,779) | (436) |
| Net cash provided from (used for) investing activities | (1,926,186) | (1,941,338) | 1,295,404 |
| Net change in cash and cash equivalents | (27) | 37 | - |
| Cash and cash equivalents at beginning of year | 39 | 2 | 2 |
| Cash and cash equivalents at end of year | $ 12 | $ 39 | $ 2 |
| **SUPPLEMENTAL CASH FLOW INFORMATION:** | | | |
| Cash Paid During the Year- | | | |
| Interest (net of amounts capitalized) | $ 38,446 | $ 92,103 | $ 136,121 |
| Income taxes | $ 96,045 | $ 196,963 | $ 613,814 |

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

**OHIO EDISON COMPANY**

**CONSOLIDATED STATEMENTS OF INCOME**

| For the Years Ended December 31, | 2009 | 2008 | 2007 |
|---|---|---|---|
| | | *(In thousands)* | |
| **REVENUES (Note 18):** | | | |
| Electric sales | $ 2,418,292 | $ 2,487,956 | $ 2,375,306 |
| Excise and gross receipts tax collections | 98,630 | 113,805 | 116,223 |
| Total revenues | 2,516,922 | 2,601,761 | 2,491,529 |
| **EXPENSES (Note 18):** | | | |
| Purchased power from affiliates | 991,405 | 1,203,314 | 1,261,439 |
| Purchased power from non-affiliates | 481,406 | 114,972 | 98,344 |
| Other operating costs | 461,142 | 565,893 | 567,726 |
| Provision for depreciation | 89,289 | 79,444 | 77,405 |
| Amortization of regulatory assets, net | 93,694 | 117,733 | 14,252 |
| General taxes | 171,082 | 186,396 | 181,104 |
| Total expenses | 2,288,018 | 2,267,752 | 2,200,270 |
| **OPERATING INCOME** | 228,904 | 334,009 | 291,259 |
| **OTHER INCOME (EXPENSE) (Note 18):** | | | |
| Investment income | 46,887 | 56,103 | 85,848 |
| Miscellaneous income (expense) | 2,654 | (4,525) | 5,073 |
| Interest expense | (90,669) | (75,058) | (83,343) |
| Capitalized interest | 844 | 414 | 266 |
| Total other income (expense) | (40,284) | (23,066) | 7,844 |
| **INCOME BEFORE INCOME TAXES** | 188,620 | 310,943 | 299,103 |
| **INCOME TAXES** | 66,186 | 98,584 | 101,273 |
| **NET INCOME** | 122,434 | 212,359 | 197,830 |
| Noncontrolling interest income | 567 | 613 | 664 |
| **EARNINGS AVAILABLE TO PARENT** | $ 121,867 | $ 211,746 | $ 197,166 |

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

**OHIO EDISON COMPANY**

**CONSOLIDATED BALANCE SHEETS**

| As of December 31, | 2009 | 2008 |
|---|---|---|
| | *(In thousands)* | |
| **ASSETS** | | |
| **CURRENT ASSETS:** | | |
| Cash and cash equivalents | $ 324,175 | $ 146,343 |
| Receivables- | | |
| Customers (less accumulated provisions of $5,119,000 and $6,065,000, respectively, for uncollectible accounts) | 209,384 | 277,377 |
| Associated companies | 98,874 | 234,960 |
| Other (less accumulated provisions of $18,000 and $7,000, respectively, for uncollectible accounts) | 14,155 | 14,492 |
| Notes receivable from associated companies | 118,651 | 222,861 |
| Prepayments and other | 15,964 | 5,452 |
| | 781,203 | 901,485 |
| **UTILITY PLANT:** | | |
| In service | 3,036,467 | 2,903,290 |
| Less - Accumulated provision for depreciation | 1,165,394 | 1,113,357 |
| | 1,871,073 | 1,789,933 |
| Construction work in progress | 31,171 | 37,766 |
| | 1,902,244 | 1,827,699 |
| **OTHER PROPERTY AND INVESTMENTS:** | | |
| Long-term notes receivable from associated companies | - | 256,974 |
| Investment in lease obligation bonds (Note 7) | 216,600 | 239,625 |
| Nuclear plant decommissioning trusts | 120,812 | 116,682 |
| Other | 96,861 | 100,792 |
| | 434,273 | 714,073 |
| **DEFERRED CHARGES AND OTHER ASSETS:** | | |
| Regulatory assets | 465,331 | 575,076 |
| Pension assets (Note 3) | 19,881 | - |
| Property taxes | 67,037 | 60,542 |
| Unamortized sale and leaseback costs | 35,127 | 40,130 |
| Other | 39,881 | 33,710 |
| | 627,257 | 709,458 |
| | $ 3,744,977 | $ 4,152,715 |
| **LIABILITIES AND CAPITALIZATION** | | |
| **CURRENT LIABILITIES:** | | |
| Currently payable long-term debt | $ 2,723 | $ 101,354 |
| Short-term borrowings- | | |
| Associated companies | 92,863 | - |
| Other | 807 | 1,540 |
| Accounts payable- | | |
| Associated companies | 102,763 | 131,725 |
| Other | 40,423 | 26,410 |
| Accrued taxes | 81,868 | 77,592 |
| Accrued interest | 25,749 | 25,673 |
| Other | 81,424 | 85,209 |
| | 428,620 | 449,503 |
| **CAPITALIZATION** (See Consolidated Statements of Capitalization): | | |
| Common stockholder's equity | 1,021,110 | 1,294,054 |
| Noncontrolling interest | 6,442 | 7,106 |
| Total equity | 1,027,552 | 1,301,160 |
| Long-term debt and other long-term obligations | 1,160,208 | 1,122,247 |
| | 2,187,760 | 2,423,407 |
| **NONCURRENT LIABILITIES:** | | |
| Accumulated deferred income taxes | 660,114 | 653,475 |
| Accumulated deferred investment tax credits | 11,406 | 13,065 |
| Asset retirement obligations | 85,926 | 80,647 |
| Retirement benefits | 174,925 | 308,450 |
| Other | 196,226 | 224,168 |
| | 1,128,597 | 1,279,805 |
| **COMMITMENTS AND CONTINGENCIES (Notes 7 and 15)** | | |
| | $ 3,744,977 | $ 4,152,715 |

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

**OHIO EDISON COMPANY**

**CONSOLIDATED STATEMENTS OF CAPITALIZATION**

| As of December 31, | 2009 | 2008 |
|---|---|---|
| | (In thousands) | |
| **COMMON STOCKHOLDER'S EQUITY:** | | |
| Common stock, without par value, 175,000,000 shares authorized, 60 shares outstanding | $ 1,154,797 | $ 1,224,416 |
| Accumulated other comprehensive loss (Note 2(F)) | (163,577) | (184,385) |
| Retained earnings (Note 12(A)) | 29,890 | 254,023 |
| Total | 1,021,110 | 1,294,054 |
| | | |
| **NONCONTROLLING INTEREST** | 6,442 | 7,106 |
| | | |
| **LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS (Note 12(C)):** | | |
| **Ohio Edison Company-** | | |
| **First mortgage bonds:** | | |
| 8.250% due 2018 | 25,000 | 25,000 |
| 8.250% due 2038 | 275,000 | 275,000 |
| Total | 300,000 | 300,000 |
| | | |
| **Secured notes:** | | |
| 7.156% weighted average interest rate due 2009-2010 | 1,257 | 1,324 |
| Total | 1,257 | 1,324 |
| | | |
| **Unsecured notes:** | | |
| * 3.000% due 2014 | - | 50,000 |
| 5.450% due 2015 | 150,000 | 150,000 |
| 6.400% due 2016 | 250,000 | 250,000 |
| * 1.500% due 2023 | - | 50,000 |
| 6.875% due 2036 | 350,000 | 350,000 |
| Total | 750,000 | 850,000 |
| | | |
| **Pennsylvania Power Company-** | | |
| **First mortgage bonds:** | | |
| 9.740% due 2009-2019 | 9,773 | 10,747 |
| 6.090% due 2022 | 100,000 | - |
| 7.625% due 2023 | 6,500 | 6,500 |
| Total | 116,273 | 17,247 |
| | | |
| **Secured notes :** | | |
| 5.400% due 2013 | 1,000 | 1,000 |
| Total | 1,000 | 1,000 |
| | | |
| **Unsecured notes:** | | |
| 5.390% due 2010 to associated company | - | 62,900 |
| Total | - | 62,900 |
| | | |
| Capital lease obligations (Note 7) | 6,884 | 4,219 |
| Net unamortized discount on debt | (12,483) | (13,089) |
| Long-term debt due within one year | (2,723) | (101,354) |
| Total long-term debt and other long-term obligations | 1,160,208 | 1,122,247 |
| **TOTAL CAPITALIZATION** | $ 2,187,760 | $ 2,423,407 |

* Denotes variable rate issue with applicable year-end interest rate shown.

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

**OHIO EDISON COMPANY**

**CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY**

| | Comprehensive Income | Common Stock Number of Shares | Common Stock Carrying Value | Accumulated Other Comprehensive Income (Loss) | Retained Earnings |
|---|---|---|---|---|---|
| | | | *(Dollars in thousands)* | | |
| Balance, January 1, 2007 | | 80 | $ 1,708,441 | $ 3,208 | $ 260,736 |
| Earnings available to parent | $ 197,166 | | | | 197,166 |
| Unrealized gain on investments, net of $2,784,000 of income taxes | 3,874 | | | 3,874 | |
| Pension and other postretirement benefits, net of $37,820,000 of income taxes (Note 3) | 41,304 | | | 41,304 | |
| Comprehensive income available to parent | $ 242,344 | | | | |
| Restricted stock units | | | 129 | | |
| Stock-based compensation | | | 17 | | |
| Repurchase of common stock | | (20) | (500,000) | | |
| Consolidated tax benefit allocation | | | 11,925 | | |
| Accounting for uncertainty in income taxes cumulative effect adjustment | | | | | (625) |
| Cash dividends declared on common stock | | | | | (150,000) |
| Balance, December 31, 2007 | | 60 | 1,220,512 | 48,386 | 307,277 |
| Earnings available to parent | $ 211,746 | | | | 211,746 |
| Change in unrealized gain on investments, net of $5,702,000 of income tax benefits | (10,370) | | | (10,370) | |
| Pension and other postretirement benefits, net of $121,425,000 of income tax benefits (Note 3) | (222,401) | | | (222,401) | |
| Comprehensive loss | $ (21,025) | | | | |
| Restricted stock units | | | (16) | | |
| Stock-based compensation | | | 1 | | |
| Consolidated tax benefit allocation | | | 3,919 | | |
| Cash dividends declared on common stock | | | | | (265,000) |
| Balance, December 31, 2008 | | 60 | 1,224,416 | (184,385) | 254,023 |
| Earnings available to parent | $ 121,867 | | | | 121,867 |
| Change in unrealized gain on investments, net of $4,196,000 of income tax benefits | (5,497) | | | (5,497) | |
| Pension and other postretirement benefits, net of $20,257,000 of income taxes (Note 3) | 26,305 | | | 26,305 | |
| Comprehensive income available to parent | $ 142,675 | | | | |
| Restricted stock units | | | 81 | | |
| Consolidated tax benefit allocation | | | 4,300 | | |
| Cash dividends declared on common stock | | | | | (346,000) |
| Cash dividends declared as return of capital | | | (74,000) | | |
| Balance, December 31, 2009 | | 60 | $ 1,154,797 | $ (163,577) | $ 29,890 |

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

**OHIO EDISON COMPANY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| For the Years Ended December 31, | 2009 | 2008 | 2007 |
|---|---|---|---|
| | | *(In thousands)* | |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Net income | $ 122,434 | $ 212,359 | $ 197,830 |
| Adjustments to reconcile net income to net cash from operating activities- | | | |
| Provision for depreciation | 89,289 | 79,444 | 77,405 |
| Amortization of regulatory assets, net | 93,694 | 117,733 | 14,252 |
| Purchased power cost recovery reconciliation | 4,113 | - | - |
| Amortization of lease costs | (8,211) | (7,702) | (7,425) |
| Deferred income taxes and investment tax credits, net | 41,178 | 16,125 | 423 |
| Accrued compensation and retirement benefits | (13,729) | 17,139 | (46,313) |
| Accrued regulatory obligations | 18,635 | - | - |
| Electric service prepayment programs | (4,634) | (42,215) | (39,861) |
| Cash collateral from suppliers | 6,469 | - | - |
| Pension trust contributions | (103,035) | - | (20,261) |
| Decrease (increase) in operating assets- | | | |
| Receivables | 139,679 | (61,926) | (57,461) |
| Prepayments and other current assets | (10,407) | 5,937 | 3,265 |
| Increase (decrease) in operating liabilities- | | | |
| Accounts payable | (14,949) | 14,166 | 15,649 |
| Accrued taxes | (9,142) | (8,983) | (81,079) |
| Accrued interest | 76 | 3,295 | (2,334) |
| Other | 4,811 | 143 | 7,229 |
| Net cash provided from operating activities | 356,271 | 345,515 | 61,319 |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| New Financing- | | | |
| Long-term debt | 100,000 | 292,169 | - |
| Short-term borrowings, net | 92,130 | - | - |
| Redemptions and Repayments- | | | |
| Common stock | - | - | (500,000) |
| Long-term debt | (101,680) | (249,897) | (112,497) |
| Short-term borrowings, net | - | (51,761) | (114,475) |
| Dividend Payments- | | | |
| Common stock | (420,000) | (315,000) | (100,000) |
| Other | (2,839) | (4,435) | (1,764) |
| Net cash used for financing activities | (332,389) | (328,924) | (828,736) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Property additions | (152,817) | (182,512) | (145,311) |
| Sales of investment securities held in trusts | 131,478 | 120,744 | 37,736 |
| Purchases of investment securities held in trusts | (138,925) | (127,680) | (43,758) |
| Loan repayments from (loans to) associated companies, net | 102,314 | 373,138 | (79,115) |
| Collection of principal on long-term notes receivable | 195,970 | 1,756 | 960,327 |
| Cash investments | 20,133 | (57,792) | 37,499 |
| Other | (4,203) | 1,366 | 59 |
| Net cash provided from investing activities | 153,950 | 129,020 | 767,437 |
| Net increase (decrease) in cash and cash equivalents | 177,832 | 145,611 | 20 |
| Cash and cash equivalents at beginning of year | 146,343 | 732 | 712 |
| Cash and cash equivalents at end of year | $ 324,175 | $ 146,343 | $ 732 |
| **SUPPLEMENTAL CASH FLOW INFORMATION:** | | | |
| Cash Paid During the Year- | | | |
| Interest (net of amounts capitalized) | $ 86,523 | $ 67,508 | $ 80,958 |
| Income taxes | $ 20,530 | $ 118,834 | $ 133,170 |

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

**THE CLEVELAND ELECTRIC ILLUMINATING COMPANY**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

| For the Years Ended December 31, | 2009 | 2008 | 2007 |
|---|---|---|---|
| | | *(In thousands)* | |
| **REVENUES (Note 18):** | | | |
| Electric sales | $ 1,609,946 | $ 1,746,309 | $ 1,753,385 |
| Excise tax collections | 66,192 | 69,578 | 69,465 |
| Total revenues | 1,676,138 | 1,815,887 | 1,822,850 |
| **EXPENSES (Note 18):** | | | |
| Purchased power from affiliates | 734,592 | 766,270 | 738,709 |
| Purchased power from non-affiliates | 245,809 | 4,210 | 9,505 |
| Other operating costs | 161,407 | 259,438 | 350,825 |
| Provision for depreciation | 71,908 | 72,383 | 75,238 |
| Amortization of regulatory assets | 370,967 | 163,534 | 144,370 |
| Deferral of new regulatory assets | (134,587) | (107,571) | (149,556) |
| General taxes | 145,324 | 143,058 | 141,551 |
| Total expenses | 1,595,420 | 1,301,322 | 1,310,642 |
| **OPERATING INCOME** | 80,718 | 514,565 | 512,208 |
| **OTHER INCOME (EXPENSE) (Note 18):** | | | |
| Investment income | 31,194 | 34,392 | 57,724 |
| Miscellaneous income (expense) | 3,911 | (495) | 9,773 |
| Interest expense | (137,171) | (125,976) | (138,977) |
| Capitalized interest | 173 | 786 | 918 |
| Total other expense | (101,893) | (91,293) | (70,562) |
| **INCOME (LOSS) BEFORE INCOME TAXES** | (21,175) | 423,272 | 441,646 |
| **INCOME TAX EXPENSE (BENEFIT)** | (10,183) | 136,786 | 163,363 |
| **NET INCOME (LOSS)** | (10,992) | 286,486 | 278,283 |
| Noncontrolling interest income | 1,714 | 1,960 | 1,871 |
| **EARNINGS (LOSS) APPLICABLE TO PARENT** | $ (12,706) | $ 284,526 | $ 276,412 |

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

**THE CLEVELAND ELECTRIC ILLUMINATING COMPANY**

**CONSOLIDATED BALANCE SHEETS**

| As of December 31, | 2009 | 2008 |
|---|---|---|
| | *(In thousands)* | |
| **ASSETS** | | |
| **CURRENT ASSETS:** | | |
| Cash and cash equivalents | $ 86,230 | $ 226 |
| Receivables- | | |
| Customers (less accumulated provisions of $5,239,000 and $5,916,000, respectively, for uncollectible accounts) | 209,335 | 276,400 |
| Associated companies | 98,954 | 113,182 |
| Other | 11,661 | 13,834 |
| Notes receivable from associated companies | 26,802 | 19,060 |
| Prepayments and other | 9,973 | 2,787 |
| | 442,955 | 425,489 |
| **UTILITY PLANT:** | | |
| In service | 2,310,074 | 2,221,660 |
| Less - Accumulated provision for depreciation | 888,169 | 846,233 |
| | 1,421,905 | 1,375,427 |
| Construction work in progress | 36,907 | 40,651 |
| | 1,458,812 | 1,416,078 |
| **OTHER PROPERTY AND INVESTMENTS:** | | |
| Investment in lessor notes (Note 7) | 388,641 | 425,715 |
| Other | 10,220 | 10,249 |
| | 398,861 | 435,964 |
| **DEFERRED CHARGES AND OTHER ASSETS:** | | |
| Goodwill | 1,688,521 | 1,688,521 |
| Regulatory assets | 545,505 | 783,964 |
| Pension assets (Note 3) | 13,380 | - |
| Property taxes | 77,319 | 71,500 |
| Other | 12,777 | 10,818 |
| | 2,337,502 | 2,554,803 |
| | $ 4,638,130 | $ 4,832,334 |
| **LIABILITIES AND CAPITALIZATION** | | |
| **CURRENT LIABILITIES:** | | |
| Currently payable long-term debt | $ 117 | $ 150,688 |
| Short-term borrowings- | | |
| Associated companies | 339,728 | 227,949 |
| Accounts payable- | | |
| Associated companies | 68,634 | 106,074 |
| Other | 17,166 | 7,195 |
| Accrued taxes | 90,511 | 87,810 |
| Accrued interest | 18,466 | 13,932 |
| Other | 45,440 | 40,095 |
| | 580,062 | 633,743 |
| **CAPITALIZATION** (See Consolidated Statements of Capitalization): | | |
| Common stockholder's equity | 1,343,987 | 1,603,882 |
| Noncontrolling interest | 20,592 | 22,555 |
| Total equity | 1,364,579 | 1,626,437 |
| Long-term debt and other long-term obligations | 1,872,750 | 1,591,586 |
| | 3,237,329 | 3,218,023 |
| **NONCURRENT LIABILITIES:** | | |
| Accumulated deferred income taxes | 644,745 | 704,270 |
| Accumulated deferred investment tax credits | 11,836 | 13,030 |
| Retirement benefits | 69,733 | 128,738 |
| Deferred revenues - electric service programs | - | 3,510 |
| Lease assignment payable to associated companies (Note 7) | - | 40,827 |
| Other | 94,425 | 90,193 |
| | 820,739 | 980,568 |
| **COMMITMENTS AND CONTINGENCIES (Notes 7 and 15)** | | |
| | $ 4,638,130 | $ 4,832,334 |

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

**THE CLEVELAND ELECTRIC ILLUMINATING COMPANY**

**CONSOLIDATED STATEMENTS OF CAPITALIZATION**

| **As of December 31,** | **2009** | **2008** |
|---|---|---|
| | *(In thousands)* | |
| **COMMON STOCKHOLDER'S EQUITY:** | | |
| Common stock, without par value, 105,000,000 shares authorized, | | |
| 67,930,743 shares outstanding | $ 884,897 | $ 878,785 |
| Accumulated other comprehensive loss (Note 2(F)) | (138,158) | (134,857) |
| Retained earnings (Note 12(A)) | 597,248 | 859,954 |
| Total | 1,343,987 | 1,603,882 |
| **NONCONTROLLING INTEREST** | 20,592 | 22,555 |
| **LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS (Note 12(C)):** | | |
| First mortgage bonds- | | |
| 8.875% due 2018 | 300,000 | 300,000 |
| 5.500% due 2024 | 300,000 | - |
| Total | 600,000 | 300,000 |
| Secured notes- | | |
| 7.430% due 2009 | - | 150,000 |
| 7.880% due 2017 | 300,000 | 300,000 |
| Total | 300,000 | 450,000 |
| Unsecured notes- | | |
| 5.650% due 2013 | 300,000 | 300,000 |
| 5.700% due 2017 | 250,000 | 250,000 |
| 5.950% due 2036 | 300,000 | 300,000 |
| 7.664% due to associated companies 2009-2016 (Note 8) | 123,008 | 141,210 |
| Total | 973,008 | 991,210 |
| Capital lease obligations (Note 7) | 3,162 | 3,062 |
| Net unamortized discount on debt | (3,303) | (1,998) |
| Long-term debt due within one year | (117) | (150,688) |
| Total long-term debt and other long-term obligations | 1,872,750 | 1,591,586 |
| **TOTAL CAPITALIZATION** | $ 3,237,329 | $ 3,218,023 |

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

**THE CLEVELAND ELECTRIC ILLUMINATING COMPANY**

**CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY**

| | Comprehensive Income | Common Stock Number of Shares | Common Stock Carrying Value | Accumulated Other Comprehensive Income (Loss) | Retained Earnings |
|---|---|---|---|---|---|
| | | *(Dollars in thousands)* | | | |
| Balance, January 1, 2007 | | 67,930,743 | $ 860,133 | $ (104,431) | $ 713,201 |
| Earnings available to parent | $ 276,412 | | | | 276,412 |
| Pension and other postretirement benefits, net of $30,705,000 of income taxes (Note 3) | 35,302 | | | 35,302 | |
| Comprehensive income | $ 311,714 | | | | |
| Restricted stock units | | | 184 | | |
| Stock-based compensation | | | 10 | | |
| Consolidated tax benefit allocation | | | 13,209 | | |
| Accounting for uncertainty in income taxes cumulative effect adjustment | | | | | (185) |
| Cash dividends declared on common stock | | | | | (304,000) |
| Balance, December 31, 2007 | | 67,930,743 | 873,536 | (69,129) | 685,428 |
| Earnings available to parent | $ 284,526 | | | | 284,526 |
| Pension and other postretirement benefits, net of $33,136,000 of income tax benefits (Note 3) | (65,728) | | | (65,728) | |
| Comprehensive income | $ 218,798 | | | | |
| Restricted stock units | | | (1) | | |
| Stock-based compensation | | | 1 | | |
| Consolidated tax benefit allocation | | | 5,249 | | |
| Cash dividends declared on common stock | | | | | (110,000) |
| Balance, December 31, 2008 | | 67,930,743 | 878,785 | (134,857) | 859,954 |
| Loss applicable to parent | $ (12,706) | | | | (12,706) |
| Pension and other postretirement benefits, net of $1,923,000 of income tax benefits (Note 3) | (3,301) | | | (3,301) | |
| Comprehensive loss | $ (16,007) | | | | |
| Restricted stock units | | | 74 | | |
| Consolidated tax benefit allocation | | | 6,038 | | |
| Cash dividends declared on common stock | | | | | (250,000) |
| Balance, December 31, 2009 | | 67,930,743 | $ 884,897 | $ (138,158) | $ 597,248 |

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

**THE CLEVELAND ELECTRIC ILLUMINATING COMPANY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| For the Years Ended December 31, | 2009 | 2008 | 2007 |
|---|---|---|---|
| | | (In thousands) | |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Net income (loss) | $ (10,992) | $ 286,486 | $ 278,283 |
| Adjustments to reconcile net income (loss) to net cash from operating activities- | | | |
| Provision for depreciation | 71,908 | 72,383 | 75,238 |
| Amortization of regulatory assets | 370,967 | 163,534 | 144,370 |
| Deferral of new regulatory assets | (134,587) | (107,571) | (149,556) |
| Deferred rents and lease market valuation liability | - | - | (357,679) |
| Purchased power cost recovery reconciliation | (5,086) | - | - |
| Deferred income taxes and investment tax credits, net | (51,839) | 11,918 | (22,767) |
| Accrued compensation and retirement benefits | 8,514 | 1,563 | 3,196 |
| Electric service prepayment programs | (3,510) | (23,634) | (24,443) |
| Pension trust contributions | (89,789) | - | (24,800) |
| Accrued regulatory obligations | 12,556 | - | - |
| Cash collateral from suppliers | 5,440 | - | - |
| Lease assignment payments to associated company | (40,827) | - | - |
| Decrease (increase) in operating assets- | | | |
| Receivables | 65,603 | 66,963 | 209,426 |
| Prepayments and other current assets | (7,186) | (450) | (152) |
| Increase (decrease) in operating liabilities- | | | |
| Accounts payable | (3,479) | 13,787 | (316,638) |
| Accrued taxes | 2,533 | (3,149) | (33,659) |
| Accrued interest | 4,534 | 37 | (5,138) |
| Other | 12,116 | 8,202 | 2,438 |
| Net cash provided from (used for) operating activities | 206,876 | 490,069 | (221,881) |
| | | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| New Financing- | | | |
| Long-term debt | 298,398 | 300,000 | 249,602 |
| Short-term borrowings, net | 93,577 | - | 277,581 |
| Redemptions and Repayments- | | | |
| Long-term debt | (151,273) | (213,319) | (492,825) |
| Short-term borrowings, net | - | (315,827) | - |
| Dividend Payments- | | | |
| Common stock | (275,000) | (185,000) | (204,000) |
| Other | (6,427) | (6,440) | (6,312) |
| Net cash used for financing activities | (40,725) | (420,586) | (175,954) |
| | | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Property additions | (103,243) | (137,265) | (149,131) |
| Loan repayments from (loans to) associated companies, net | (7,741) | 33,246 | 6,714 |
| Collection of principal on long-term notes receivable | - | - | 486,634 |
| Investments in lessor notes | 37,074 | 37,707 | 56,179 |
| Other | (6,237) | (3,177) | (2,550) |
| Net cash provided from (used for) investing activities | (80,147) | (69,489) | 397,846 |
| | | | |
| Net increase (decrease) in cash and cash equivalents | 86,004 | (6) | 11 |
| Cash and cash equivalents at beginning of year | 226 | 232 | 221 |
| Cash and cash equivalents at end of year | $ 86,230 | $ 226 | $ 232 |
| | | | |
| **SUPPLEMENTAL CASH FLOW INFORMATION:** | | | |
| Cash Paid During the Year- | | | |
| Interest (net of amounts capitalized) | $ 130,689 | $ 122,834 | $ 141,390 |
| Income taxes | $ 29,358 | $ 153,042 | $ 186,874 |

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

**THE TOLEDO EDISON COMPANY**

**CONSOLIDATED STATEMENTS OF INCOME**

| For the Years Ended December 31, | 2009 | 2008 | 2007 |
|---|---|---|---|
| | | (In thousands) | |
| **REVENUES (Note 18):** | | | |
| Electric sales | $ 810,069 | $ 865,016 | $ 934,772 |
| Excise tax collections | 23,839 | 30,489 | 29,173 |
| Total revenues | 833,908 | 895,505 | 963,945 |
| **EXPENSES (Note 18):** | | | |
| Purchased power from affiliates | 392,825 | 410,885 | 392,430 |
| Purchased power from non-affiliates | 136,210 | 2,459 | 5,993 |
| Other operating costs | 142,203 | 190,441 | 279,047 |
| Provision for depreciation | 30,727 | 32,422 | 36,743 |
| Amortization of regulatory assets, net | 37,820 | 94,104 | 41,684 |
| General taxes | 47,815 | 52,324 | 50,640 |
| Total expenses | 787,600 | 782,635 | 806,537 |
| **OPERATING INCOME** | 46,308 | 112,870 | 157,408 |
| **OTHER INCOME (EXPENSE) (Note 18):** | | | |
| Investment income | 24,388 | 22,823 | 27,713 |
| Miscellaneous expense | (2,436) | (7,820) | (6,648) |
| Interest expense | (36,512) | (23,286) | (34,135) |
| Capitalized interest | 169 | 164 | 640 |
| Total other expense | (14,391) | (8,119) | (12,430) |
| **INCOME BEFORE INCOME TAXES** | 31,917 | 104,751 | 144,978 |
| **INCOME TAXES** | 7,939 | 29,824 | 53,736 |
| **NET INCOME** | 23,978 | 74,927 | 91,242 |
| Noncontrolling interest income | 21 | 12 | 3 |
| **EARNINGS AVAILABLE TO PARENT** | $ 23,957 | $ 74,915 | $ 91,239 |

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

## THE TOLEDO EDISON COMPANY

## CONSOLIDATED BALANCE SHEETS

| As of December 31, | 2009 | 2008 |
|---|---|---|
| | *(In thousands)* | |
| **ASSETS** | | |
| **CURRENT ASSETS:** | | |
| Cash and cash equivalents | $ 436,712 | $ 14 |
| Receivables- | | |
| Customers | 75 | 751 |
| Associated companies | 90,191 | 61,854 |
| Other (less accumulated provisions of $208,000 and $203,000, respectively, for uncollectible accounts) | 20,180 | 23,336 |
| Notes receivable from associated companies | 85,101 | 111,579 |
| Prepayments and other | 7,111 | 1,213 |
| | 639,370 | 198,747 |
| **UTILITY PLANT:** | | |
| In service | 912,930 | 870,911 |
| Less - Accumulated provision for depreciation | 427,376 | 407,859 |
| | 485,554 | 463,052 |
| Construction work in progress | 9,069 | 9,007 |
| | 494,623 | 472,059 |
| **OTHER PROPERTY AND INVESTMENTS:** | | |
| Investment in lessor notes (Note 7) | 124,357 | 142,687 |
| Long-term notes receivable from associated companies | - | 37,233 |
| Nuclear plant decommissioning trusts | 73,935 | 73,500 |
| Other | 1,580 | 1,668 |
| | 199,872 | 255,088 |
| **DEFERRED CHARGES AND OTHER ASSETS:** | | |
| Goodwill | 500,576 | 500,576 |
| Regulatory assets | 69,557 | 109,364 |
| Property taxes | 23,658 | 22,970 |
| Other | 55,622 | 51,315 |
| | 649,413 | 684,225 |
| | $ 1,983,278 | $ 1,610,119 |
| **LIABILITIES AND CAPITALIZATION** | | |
| **CURRENT LIABILITIES:** | | |
| Currently payable long-term debt | $ 222 | $ 34 |
| Accounts payable- | | |
| Associated companies | 78,341 | 70,455 |
| Other | 8,312 | 4,812 |
| Notes payable to associated companies | 225,975 | 111,242 |
| Accrued taxes | 25,734 | 24,433 |
| Lease market valuation liability | 36,900 | 36,900 |
| Other | 29,273 | 22,489 |
| | 404,757 | 270,365 |
| **CAPITALIZATION** (See Statements of Capitalization) **:** | | |
| Common stockholder's equity | 489,878 | 480,050 |
| Noncontrolling interest | 2,696 | 2,675 |
| Total equity | 492,574 | 482,725 |
| Long-term debt and other long-term obligations | 600,443 | 299,626 |
| | 1,093,017 | 782,351 |
| **NONCURRENT LIABILITIES:** | | |
| Accumulated deferred income taxes | 80,508 | 78,905 |
| Accumulated deferred investment tax credits | 6,367 | 6,804 |
| Lease market valuation liability (Note 7) | 236,200 | 273,100 |
| Retirement benefits | 65,988 | 73,106 |
| Asset retirement obligations | 32,290 | 30,213 |
| Lease assignment payable to associated companies | - | 30,529 |
| Other | 64,151 | 64,746 |
| | 485,504 | 557,403 |
| **COMMITMENTS AND CONTINGENCIES (Notes 7 and 15)** | | |
| | $ 1,983,278 | $ 1,610,119 |

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

**THE TOLEDO EDISON COMPANY**

**CONSOLIDATED STATEMENTS OF CAPITALIZATION**

| **As of December 31,** | **2009** | **2008** |
|---|---|---|
| | *(In thousands)* | |
| **COMMON STOCKHOLDER'S EQUITY:** | | |
| Common stock, $5 par value, 60,000,000 shares authorized, | | |
| 29,402,054 shares outstanding | $ 147,010 | $ 147,010 |
| Other paid-in capital | 178,181 | 175,879 |
| Accumulated other comprehensive loss (Note 2(F)) | (49,803) | (33,372) |
| Retained earnings (Note 12(A)) | 214,490 | 190,533 |
| Total | 489,878 | 480,050 |
| | | |
| **NONCONTROLLING INTEREST** | 2,696 | 2,675 |
| | | |
| **LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS (Note 12(C)):** | | |
| Secured notes- | | |
| 7.25% due 2020 | 300,000 | - |
| 6.150% due 2037 | 300,000 | 300,000 |
| Total | 600,000 | 300,000 |
| | | |
| Capital lease obligations (Note 7) | 3,492 | 80 |
| Net unamortized discount on debt | (2,827) | (420) |
| Long-term debt due within one year | (222) | (34) |
| Total long-term debt and other long-term obligations | 600,443 | 299,626 |
| **TOTAL CAPITALIZATION** | $ 1,093,017 | $ 782,351 |

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

**THE TOLEDO EDISON COMPANY**

**CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY**

| | Comprehensive Income | Common Stock Number of Shares | Common Stock Par Value | Other Paid-In Capital | Accumulated Other Comprehensive Income (Loss) | Retained Earnings |
|---|---|---|---|---|---|---|
| | | | (Dollars in thousands) | | | |
| Balance, January 1, 2007 | | 29,402,054 | $ 147,010 | $ 166,786 | $ (36,804) | $ 204,423 |
| Earnings available to parent | $ 91,239 | | | | | 91,239 |
| Unrealized gain on investments, net of $1,089,000 of income taxes | 1,901 | | | | 1,901 | |
| Pension and other postretirement benefits, net of $15,077,000 of income taxes (Note 3) | 24,297 | | | | 24,297 | |
| Comprehensive income available to parent | $ 117,437 | | | | | |
| Restricted stock units | | | | 53 | | |
| Stock-based compensation | | | | 2 | | |
| Consolidated tax benefit allocation | | | | 6,328 | | |
| Accounting for uncertainty in income taxes cumulative effect adjustment | | | | | | (44) |
| Cash dividends declared on common stock | | | | | | (120,000) |
| Balance, December 31, 2007 | | 29,402,054 | 147,010 | 173,169 | (10,606) | 175,618 |
| Earnings available to parent | $ 74,915 | | | | | 74,915 |
| Unrealized gain on investments, net of $1,421,000 of income taxes | 2,372 | | | | 2,372 | |
| Pension and other postretirement benefits, net of $11,630,000 of income tax benefits (Note 3) | (25,138) | | | | (25,138) | |
| Comprehensive income available to parent | $ 52,149 | | | | | |
| Restricted stock units | | | | 47 | | |
| Stock-based compensation | | | | 1 | | |
| Consolidated tax benefit allocation | | | | 2,662 | | |
| Cash dividends declared on common stock | | | | | | (60,000) |
| Balance, December 31, 2008 | | 29,402,054 | 147,010 | 175,879 | (33,372) | 190,533 |
| Earnings available to parent | $ 23,957 | | | | | 23,957 |
| Unrealized gain on investments, net of $5,756,000 of income tax benefits | (9,425) | | | | (9,425) | |
| Pension and other postretirement benefits, net of $874,000 of income tax benefits (Note 3) | (7,006) | | | | (7,006) | |
| Comprehensive income available to parent | $ 7,526 | | | | | |
| Restricted stock units | | | | 71 | | |
| Consolidated tax benefit allocation | | | | 2,231 | | |
| Balance, December 31, 2009 | | 29,402,054 | $ 147,010 | $ 178,181 | $ (49,803) | $ 214,490 |

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

**THE TOLEDO EDISON COMPANY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| For the Years Ended December 31, | 2009 | 2008 | 2007 |
|---|---|---|---|
| | | (In thousands) | |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Net income | $ 23,978 | $ 74,927 | $ 91,242 |
| Adjustments to reconcile net income to net cash from operating activities- | | | |
| Provision for depreciation | 30,727 | 32,422 | 36,743 |
| Amortization of regulatory assets, net | 37,820 | 94,104 | 41,684 |
| Purchased power cost recovery reconciliation | 1,544 | - | - |
| Deferred rents and lease market valuation liability | (37,839) | (37,938) | 265,981 |
| Deferred income taxes and investment tax credits, net | 2,003 | (16,869) | (26,318) |
| Accrued compensation and retirement benefits | 3,489 | 1,483 | 5,276 |
| Accrued regulatory obligations | 4,630 | - | - |
| Electric service prepayment programs | (1,458) | (11,181) | (10,907) |
| Pension trust contribution | (21,590) | - | (7,659) |
| Cash collateral from suppliers | 2,794 | - | - |
| Lease assignment payment to associated company | (30,529) | - | - |
| Gain on sales of investment securities held in trusts | (7,130) | (626) | (111) |
| Decrease (increase) in operating assets- | | | |
| Receivables | (18,872) | 20,186 | (64,489) |
| Prepayments and other current assets | (5,898) | (348) | (13) |
| Increase (decrease) in operating liabilities- | | | |
| Accounts payable | 35,192 | (164,397) | 8,722 |
| Accrued taxes | (1,932) | (5,812) | (14,954) |
| Accrued interest | 3,625 | (17) | (1,350) |
| Other | 374 | (2,675) | 5,296 |
| Net cash provided from (used for) operating activities | 20,928 | (16,741) | 329,143 |
| | | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| New Financing- | | | |
| Long-term debt | 297,422 | - | - |
| Short-term borrowings, net | 114,733 | 97,846 | - |
| Redemptions and Repayments- | | | |
| Long-term debt | (347) | (3,860) | (85,797) |
| Short-term borrowings, net | - | - | (153,567) |
| Dividend Payments- | | | |
| Common stock | (25,000) | (70,000) | (85,000) |
| Other | (351) | (131) | - |
| Net cash provided from (used for) financing activities | 386,457 | 23,855 | (324,364) |
| | | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Property additions | (47,028) | (57,385) | (58,871) |
| Loan repayments from associated companies, net | 63,711 | 43,098 | 40,306 |
| Redemption of lessor notes (Note 7) | 18,330 | 11,959 | 14,847 |
| Sales of investment securities held in trusts | 168,580 | 37,931 | 44,682 |
| Purchases of investment securities held in trusts | (170,996) | (40,960) | (47,853) |
| Other | (3,284) | (1,765) | 2,110 |
| Net cash provided from (used for) investing activities | 29,313 | (7,122) | (4,779) |
| | | | |
| Net change in cash and cash equivalents | 436,698 | (8) | - |
| Cash and cash equivalents at beginning of year | 14 | 22 | 22 |
| Cash and cash equivalents at end of year | $ 436,712 | $ 14 | $ 22 |
| | | | |
| **SUPPLEMENTAL CASH FLOW INFORMATION:** | | | |
| Cash Paid During the Year- | | | |
| Interest (net of amounts capitalized) | $ 32,353 | $ 22,203 | $ 33,841 |
| Income taxes | $ 1,350 | $ 62,879 | $ 73,845 |

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

**JERSEY CENTRAL POWER & LIGHT COMPANY**

**CONSOLIDATED STATEMENTS OF INCOME**

| For the Years Ended December 31, | 2009 | 2008 | 2007 |
|---|---|---|---|
| | | *(In thousands)* | |
| **REVENUES (Note 18):** | | | |
| Electric sales | $ 2,943,590 | $ 3,420,772 | $ 3,191,999 |
| Excise tax collections | 49,097 | 51,481 | 51,848 |
| Total revenues | 2,992,687 | 3,472,253 | 3,243,847 |
| **EXPENSES (Note 18):** | | | |
| Purchased power from non-affiliates | 1,782,435 | 2,206,251 | 1,957,975 |
| Other operating costs | 309,791 | 302,894 | 325,814 |
| Provision for depreciation | 102,912 | 96,482 | 85,459 |
| Amortization of regulatory assets | 344,158 | 364,816 | 388,581 |
| General taxes | 63,078 | 67,340 | 66,225 |
| Total expenses | 2,602,374 | 3,037,783 | 2,824,054 |
| **OPERATING INCOME** | 390,313 | 434,470 | 419,793 |
| **OTHER INCOME (EXPENSE):** | | | |
| Miscellaneous income (expense) | 5,272 | (1,037) | 8,570 |
| Interest expense (Note 18) | (116,851) | (99,459) | (96,988) |
| Capitalized interest | 543 | 1,245 | 3,789 |
| Total other expense | (111,036) | (99,251) | (84,629) |
| **INCOME BEFORE INCOME TAXES** | 279,277 | 335,219 | 335,164 |
| **INCOME TAXES** | 108,778 | 148,231 | 149,056 |
| **NET INCOME** | $ 170,499 | $ 186,988 | $ 186,108 |

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

**JERSEY CENTRAL POWER & LIGHT COMPANY**

**CONSOLIDATED BALANCE SHEETS**

| As of December 31, | 2009 | 2008 |
|---|---|---|
| | *(In thousands)* | |
| **ASSETS** | | |
| **CURRENT ASSETS:** | | |
| Cash and cash equivalents | $ 27 | $ 66 |
| Receivables- | | |
| Customers (less accumulated provisions of $3,506,000 and $3,230,000, respectively, for uncollectible accounts) | 300,991 | 340,485 |
| Associated companies | 12,884 | 265 |
| Other | 21,877 | 37,534 |
| Notes receivable - associated companies | 102,932 | 16,254 |
| Prepaid taxes | 34,930 | 10,492 |
| Other | 12,945 | 18,066 |
| | 486,586 | 423,162 |
| **UTILITY PLANT:** | | |
| In service | 4,463,490 | 4,307,556 |
| Less - Accumulated provision for depreciation | 1,617,639 | 1,551,290 |
| | 2,845,851 | 2,756,266 |
| Construction work in progress | 54,251 | 77,317 |
| | 2,900,102 | 2,833,583 |
| **OTHER PROPERTY AND INVESTMENTS:** | | |
| Nuclear fuel disposal trust | 199,677 | 181,468 |
| Nuclear plant decommissioning trusts | 166,768 | 143,027 |
| Other | 2,149 | 2,145 |
| | 368,594 | 326,640 |
| **DEFERRED CHARGES AND OTHER ASSETS:** | | |
| Regulatory assets | 888,143 | 1,228,061 |
| Goodwill | 1,810,936 | 1,810,936 |
| Other | 27,096 | 29,946 |
| | 2,726,175 | 3,068,943 |
| | $ 6,481,457 | $ 6,652,328 |
| **LIABILITIES AND CAPITALIZATION** | | |
| **CURRENT LIABILITIES:** | | |
| Currently payable long-term debt | $ 30,639 | $ 29,094 |
| Short-term borrowings- | | |
| Associated companies | - | 121,380 |
| Accounts payable- | | |
| Associated companies | 26,882 | 12,821 |
| Other | 168,093 | 198,742 |
| Accrued taxes | 12,594 | 20,561 |
| Accrued interest | 18,256 | 9,197 |
| Other | 111,156 | 133,091 |
| | 367,620 | 524,886 |
| **CAPITALIZATION** (See Consolidated Statements of Capitalization): | | |
| Common stockholder's equity | 2,600,396 | 2,729,010 |
| Long-term debt and other long-term obligations | 1,801,589 | 1,531,840 |
| | 4,401,985 | 4,260,850 |
| **NONCURRENT LIABILITIES:** | | |
| Power purchase contract liability | 399,105 | 531,686 |
| Accumulated deferred income taxes | 687,545 | 689,065 |
| Nuclear fuel disposal costs | 196,511 | 196,235 |
| Asset retirement obligations | 101,568 | 95,216 |
| Retirement benefits | 150,603 | 190,182 |
| Other | 176,520 | 164,208 |
| | 1,711,852 | 1,866,592 |
| **COMMITMENTS AND CONTINGENCIES (Notes 7 and 15)** | | |
| | $ 6,481,457 | $ 6,652,328 |

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

**JERSEY CENTRAL POWER & LIGHT COMPANY**

**CONSOLIDATED STATEMENTS OF CAPITALIZATION**

| **As of December 31,** | **2009** | **2008** |
|---|---|---|
| | *(In thousands)* | |
| **COMMON STOCKHOLDER'S EQUITY:** | | |
| Common stock, $10 par value, 16,000,000 shares authorized, | | |
| 13,628,447 and 14,421,637 shares outstanding, respectively | $ 136,284 | $ 144,216 |
| Other paid-in capital | 2,507,049 | 2,644,756 |
| Accumulated other comprehensive loss (Note 2(F)) | (243,012) | (216,538) |
| Retained earnings (Note 12(A)) | 200,075 | 156,576 |
| Total | 2,600,396 | 2,729,010 |
| | | |
| **LONG-TERM DEBT (Note 12(C)):** | | |
| Secured notes- | | |
| 5.390% due 2008-2010 | 13,629 | 33,469 |
| 5.250% due 2008-2012 | 23,974 | 33,229 |
| 5.810% due 2010-2013 | 77,075 | 77,075 |
| 5.410% due 2012-2014 | 25,693 | 25,693 |
| 6.160% due 2013-2017 | 99,517 | 99,517 |
| 5.520% due 2014-2018 | 49,220 | 49,220 |
| 5.610% due 2018-2021 | 51,139 | 51,139 |
| Total | 340,247 | 369,342 |
| | | |
| Unsecured notes- | | |
| 5.625% due 2016 | 300,000 | 300,000 |
| 5.650% due 2017 | 250,000 | 250,000 |
| 4.800% due 2018 | 150,000 | 150,000 |
| 7.350% due 2019 | 300,000 | - |
| 6.400% due 2036 | 200,000 | 200,000 |
| 6.150% due 2037 | 300,000 | 300,000 |
| Total | 1,500,000 | 1,200,000 |
| | | |
| Capital lease obligations (Note 7) | 108 | - |
| Unamortized discount on debt | (8,127) | (8,408) |
| Long-term debt due within one year | (30,639) | (29,094) |
| Total long-term debt | 1,801,589 | 1,531,840 |
| **TOTAL CAPITALIZATION** | $ 4,401,985 | $ 4,260,850 |

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

**JERSEY CENTRAL POWER & LIGHT COMPANY**

**CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY**

| | Comprehensive Income | Common Stock Number of Shares | Common Stock Par Value | Other Paid-In Capital | Accumulated Other Comprehensive Income (Loss) | Retained Earnings |
|---|---|---|---|---|---|---|
| | | | *(Dollars in thousands)* | | | |
| Balance, January 1, 2007 | | 15,009,335 | 150,093 | 2,908,279 | (44,254) | 145,480 |
| Net income | $ 186,108 | | | | | 186,108 |
| Net unrealized gain on derivative instruments, net of $11,000 of income taxes | 293 | | | | 293 | |
| Pension and other postretirement benefits, net of $23,644,000 of income taxes (Note 3) | 24,080 | | | | 24,080 | |
| Comprehensive income | $ 210,481 | | | | | |
| Restricted stock units | | | | 198 | | |
| Stock-based compensation | | | | 3 | | |
| Consolidated tax benefit allocation | | | | 4,637 | | |
| Repurchase of common stock | | (587,698) | (5,877) | (119,123) | | |
| Cash dividends declared on common stock | | | | | | (94,000) |
| Purchase accounting fair value adjustment | | | | (138,053) | | |
| Balance, December 31, 2007 | | 14,421,637 | 144,216 | 2,655,941 | (19,881) | 237,588 |
| Net income | $ 186,988 | | | | | 186,988 |
| Net unrealized gain on derivative instruments | 276 | | | | 276 | |
| Pension and other postretirement benefits, net of $131,317,000 of income tax benefits (Note 3) | (196,933) | | | | (196,933) | |
| Comprehensive loss | $ (9,669) | | | | | |
| Restricted stock units | | | | 3 | | |
| Stock-based compensation | | | | 1 | | |
| Consolidated tax benefit allocation | | | | 4,065 | | |
| Cash dividends declared on common stock | | | | | | (268,000) |
| Purchase accounting fair value adjustment | | | | (15,254) | | |
| Balance, December 31, 2008 | | 14,421,637 | 144,216 | 2,644,756 | (216,538) | 156,576 |
| Net income | $ 170,499 | | | | | 170,499 |
| Net unrealized gain on derivative instruments net of $11,000 of income taxes | 288 | | | | 288 | |
| Pension and other postretirement benefits, net of $13,025,000 of income tax benefits (Note 3) | (26,762) | | | | (26,762) | |
| Comprehensive income | $ 144,025 | | | | | |
| Restricted stock units | | | | 99 | | |
| Cash dividends declared on common stock | | | | | | (127,000) |
| Repurchase of common stock | | (793,190) | (7,932) | (137,806) | | |
| Balance, December 31, 2009 | | 13,628,447 | $ 136,284 | $ 2,507,049 | $ (243,012) | $ 200,075 |

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

**JERSEY CENTRAL POWER & LIGHT COMPANY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| For the Years Ended December 31, | 2009 | 2008 | 2007 |
|---|---|---|---|
| | | *(In thousands)* | |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Net income | $ 170,499 | $ 186,988 | $ 186,108 |
| Adjustments to reconcile net income to net cash from operating activities- | | | |
| Provision for depreciation | 102,912 | 96,482 | 85,459 |
| Amortization of regulatory assets | 344,158 | 364,816 | 388,581 |
| Deferred purchased power and other costs | (148,308) | (165,071) | (203,157) |
| Deferred income taxes and investment tax credits, net | 42,800 | 12,834 | (30,791) |
| Accrued compensation and retirement benefits | 12,915 | (35,791) | (23,441) |
| Cash collateral from (returned to) suppliers | (210) | 23,106 | (31,938) |
| Pension trust contributions | (100,000) | - | (17,800) |
| Decrease (increase) in operating assets- | | | |
| Receivables | 42,532 | 8,042 | (73,259) |
| Materials and supplies | - | 348 | (364) |
| Prepayments and other current assets | (24,333) | (9,600) | 14,417 |
| Increase (decrease) in operating liabilities- | | | |
| Accounts payable | (24,677) | 10,174 | (39,396) |
| Accrued taxes | (14,265) | 2,582 | 11,658 |
| Accrued interest | 9,059 | (121) | (5,140) |
| Other | (11,246) | (13,002) | 5,369 |
| Net cash provided from operating activities | 401,836 | 481,787 | 266,306 |
| | | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| New Financing- | | | |
| Long-term debt | 299,619 | - | 543,807 |
| Redemptions and Repayments- | | | |
| Long-term debt | (29,094) | (27,206) | (325,337) |
| Short-term borrowings, net | (121,380) | (9,001) | (56,159) |
| Common stock | (150,000) | - | (125,000) |
| Dividend Payments- | | | |
| Common stock | (127,000) | (268,000) | (94,000) |
| Other | (2,281) | (80) | (609) |
| Net cash used for financing activities | (130,136) | (304,287) | (57,298) |
| | | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Property additions | (166,409) | (178,358) | (199,856) |
| Proceeds from asset sales | - | 20,000 | - |
| Loan repayments from (loans to) associated companies, net | (86,678) | 2,173 | 6,029 |
| Sales of investment securities held in trusts | 397,333 | 248,185 | 195,973 |
| Purchases of investment securities held in trusts | (413,693) | (265,441) | (212,263) |
| Restricted funds | 5,015 | (689) | 783 |
| Other | (7,307) | (3,398) | 379 |
| Net cash used for investing activities | (271,739) | (177,528) | (208,955) |
| | | | |
| Net increase (decrease) in cash and cash equivalents | (39) | (28) | 53 |
| Cash and cash equivalents at beginning of year | 66 | 94 | 41 |
| Cash and cash equivalents at end of year | $ 27 | $ 66 | $ 94 |
| | | | |
| **SUPPLEMENTAL CASH FLOW INFORMATION:** | | | |
| Cash Paid During the Year- | | | |
| Interest (net of amounts capitalized) | $ 108,650 | $ 99,731 | $ 102,492 |
| Income taxes | $ 95,764 | $ 145,943 | $ 156,073 |

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

**METROPOLITAN EDISON COMPANY**

**CONSOLIDATED STATEMENTS OF INCOME**

| For the Years Ended December 31, | 2009 | 2008 | 2007 |
|---|---|---|---|
| | | (In thousands) | |
| **REVENUES:** | | | |
| Electric sales | $ 1,611,088 | $ 1,573,781 | $ 1,437,498 |
| Gross receipts tax collections | 77,894 | 79,221 | 73,012 |
| Total revenues | 1,688,982 | 1,653,002 | 1,510,510 |
| **EXPENSES (Note 18):** | | | |
| Purchased power from affiliates | 365,491 | 303,779 | 290,205 |
| Purchased power from non-affiliates | 536,054 | 593,203 | 494,284 |
| Other operating costs | 277,024 | 429,745 | 419,512 |
| Provision for depreciation | 51,006 | 44,556 | 42,798 |
| Amortization of regulatory assets | 129,296 | 131,542 | 123,410 |
| Deferral of new regulatory assets | 115,413 | (110,038) | (124,821) |
| General taxes | 87,799 | 85,643 | 80,135 |
| Total expenses | 1,562,083 | 1,478,430 | 1,325,523 |
| **OPERATING INCOME** | 126,899 | 174,572 | 184,987 |
| **OTHER INCOME (EXPENSE) (Note 18):** | | | |
| Interest income | 9,709 | 17,647 | 28,953 |
| Miscellaneous income (expense) | 4,033 | 105 | (339) |
| Interest expense | (56,683) | (43,651) | (51,022) |
| Capitalized interest | 159 | 258 | 1,154 |
| Total other expense | (42,782) | (25,641) | (21,254) |
| **INCOME BEFORE INCOME TAXES** | 84,117 | 148,931 | 163,733 |
| **INCOME TAXES** | 28,594 | 60,898 | 68,270 |
| **NET INCOME** | $ 55,523 | $ 88,033 | $ 95,463 |

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

**METROPOLITAN EDISON COMPANY**

**CONSOLIDATED BALANCE SHEETS**

| As of December 31, | 2009 | 2008 |
|---|---|---|
| | *(In thousands)* | |
| **ASSETS** | | |
| **CURRENT ASSETS:** | | |
| Cash and cash equivalents | $ 120 | $ 144 |
| Receivables- | | |
| Customers (less accumulated provisions of $4,044,000 and $3,616,000, respectively, for uncollectible accounts) | 171,052 | 159,975 |
| Associated companies | 29,413 | 17,034 |
| Other | 11,650 | 19,828 |
| Notes receivable from associated companies | 97,150 | 11,446 |
| Prepaid taxes | 15,229 | 6,121 |
| Other | 1,459 | 1,621 |
| | 326,073 | 216,169 |
| **UTILITY PLANT:** | | |
| In service | 2,162,815 | 2,065,847 |
| Less - Accumulated provision for depreciation | 810,746 | 779,692 |
| | 1,352,069 | 1,286,155 |
| Construction work in progress | 14,901 | 32,305 |
| | 1,366,970 | 1,318,460 |
| **OTHER PROPERTY AND INVESTMENTS:** | | |
| Nuclear plant decommissioning trusts | 266,479 | 226,139 |
| Other | 890 | 976 |
| | 267,369 | 227,115 |
| **DEFERRED CHARGES AND OTHER ASSETS:** | | |
| Goodwill | 416,499 | 416,499 |
| Regulatory assets | 356,754 | 412,994 |
| Power purchase contract asset | 176,111 | 300,141 |
| Other | 36,544 | 31,031 |
| | 985,908 | 1,160,665 |
| | $ 2,946,320 | $ 2,922,409 |
| **LIABILITIES AND CAPITALIZATION** | | |
| **CURRENT LIABILITIES:** | | |
| Currently payable long-term debt | $ 128,500 | $ 28,500 |
| Short-term borrowings- | | |
| Associated companies | - | 15,003 |
| Other | - | 250,000 |
| Accounts payable- | | |
| Associated companies | 40,521 | 28,707 |
| Other | 41,050 | 55,330 |
| Accrued taxes | 11,170 | 16,238 |
| Accrued interest | 17,362 | 6,755 |
| Other | 24,520 | 30,647 |
| | 263,123 | 431,180 |
| **CAPITALIZATION** (See Consolidated Statements of Capitalization) **:** | | |
| Common stockholder's equity | 1,057,918 | 1,004,064 |
| Long-term debt and other long-term obligations | 713,873 | 513,752 |
| | 1,771,791 | 1,517,816 |
| **NONCURRENT LIABILITIES:** | | |
| Accumulated deferred income taxes | 453,462 | 387,757 |
| Accumulated deferred investment tax credits | 7,313 | 7,767 |
| Nuclear fuel disposal costs | 44,391 | 44,328 |
| Asset retirement obligations | 180,297 | 170,999 |
| Retirement benefits | 33,605 | 145,218 |
| Power purchase contract liability | 143,135 | 150,324 |
| Other | 49,203 | 67,020 |
| | 911,406 | 973,413 |
| **COMMITMENTS AND CONTINGENCIES (Notes 7 and 15)** | | |
| | $ 2,946,320 | $ 2,922,409 |

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

**METROPOLITAN EDISON COMPANY**

**CONSOLIDATED STATEMENTS OF CAPITALIZATION**

| **As of December 31,** | **2009** | **2008** |
|---|---|---|
| | ***(In thousands)*** | |
| **COMMON STOCKHOLDER'S EQUITY:** | | |
| Common stock, without par value, 900,000 shares authorized, | | |
| 859,500 shares outstanding | $ 1,197,070 | $ 1,196,172 |
| Accumulated other comprehensive loss (Note 2(F)) | (143,551) | (140,984) |
| Retained earnings (Accumulated deficit) (Note 12(A)) | 4,399 | (51,124) |
| Total | 1,057,918 | 1,004,064 |
| **LONG-TERM DEBT (Note 12(C)):** | | |
| First mortgage bonds- | | |
| 5.950% due 2027 | 13,690 | 13,690 |
| Total | 13,690 | 13,690 |
| Unsecured notes- | | |
| 4.450% due 2010 | 100,000 | 100,000 |
| 4.950% due 2013 | 150,000 | 150,000 |
| 4.875% due 2014 | 250,000 | 250,000 |
| 7.700% due 2019 | 300,000 | - |
| * 0.24% due 2021 | 28,500 | 28,500 |
| Total | 828,500 | 528,500 |
| Unamortized premium on debt | 183 | 62 |
| Long-term debt due within one year | (128,500) | (28,500) |
| Total long-term debt | 713,873 | 513,752 |
| **TOTAL CAPITALIZATION** | $ 1,771,791 | $ 1,517,816 |

* Denotes variable rate issue with applicable year-end interest rate shown.

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

**METROPOLITAN EDISON COMPANY**

**CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY**

| | Comprehensive Income (Loss) | Common Stock Number of Shares | Common Stock Carrying Value | Accumulated Other Comprehensive Income (Loss) | Retained Earnings (Accumulated Deficit) |
|---|---|---|---|---|---|
| | | | *(Dollars in thousands)* | | |
| Balance, January 1, 2007 | | 859,500 | $ 1,276,075 | $ (26,516) | $ (234,620) |
| Net Income | $ 95,463 | | | | 95,463 |
| Net unrealized gain on derivative instruments | 335 | | | 335 | |
| Pension and other postretirement benefits, net of $11,666,000 of income taxes (Note 3) | 10,784 | | | 10,784 | |
| Comprehensive income | $ 106,582 | | | | |
| Restricted stock units | | | 104 | | |
| Stock-based compensation | | | 7 | | |
| Consolidated tax benefit allocation | | | 1,237 | | - |
| Purchase accounting fair value adjustment | | | (74,237) | | |
| Balance, December 31, 2007 | | 859,500 | 1,203,186 | (15,397) | (139,157) |
| Net Income | $ 88,033 | | | | 88,033 |
| Net unrealized gain on derivative instruments | 335 | | | 335 | |
| Pension and other postretirement benefits, net of $86,030,000 of income tax benefits (Note 3) | (125,922) | | | (125,922) | |
| Comprehensive loss | $ (37,554) | | | | |
| Restricted stock units | | | 9 | | |
| Stock-based compensation | | | 1 | | |
| Consolidated tax benefit allocation | | | 791 | | |
| Purchase accounting fair value adjustment | | | (7,815) | | |
| Balance, December 31, 2008 | | 859,500 | 1,196,172 | (140,984) | (51,124) |
| Net Income | $ 55,523 | | | | 55,523 |
| Net unrealized gain on derivative instruments | 335 | | | 335 | |
| Pension and other postretirement benefits, net of $2,784,000 of income taxes (Note 3) | (2,902) | | | (2,902) | |
| Comprehensive income | $ 52,956 | | | | |
| Restricted stock units | | | 55 | | |
| Consolidated tax benefit allocation | | | 843 | | |
| Balance, December 31, 2009 | | 859,500 | $ 1,197,070 | $ (143,551) | $ 4,399 |

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

**METROPOLITAN EDISON COMPANY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| For the Years Ended December 31, | 2009 | 2008 | 2007 |
|---|---|---|---|
| | | *(In thousands)* | |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Net income | $ 55,523 | $ 88,033 | $ 95,463 |
| Adjustments to reconcile net income to net cash from operating activities- | | | |
| Provision for depreciation | 51,006 | 44,556 | 42,798 |
| Amortization (deferral) of regulatory assets | 244,709 | 21,504 | (1,411) |
| Deferred costs recoverable as regulatory assets | (96,304) | (25,132) | (70,778) |
| Deferred income taxes and investment tax credits, net | 66,965 | 49,939 | 35,502 |
| Accrued compensation and retirement benefits | 5,876 | (23,244) | (18,852) |
| Loss on sale of investment | - | - | 5,432 |
| Cash collateral from (to) suppliers | (4,580) | - | 1,600 |
| Pension trust contributions | (123,521) | - | (11,012) |
| Decrease (increase) in operating assets- | | | |
| Receivables | (32,088) | (24,282) | (38,220) |
| Prepayments and other current assets | (8,948) | 8,223 | (926) |
| Increase (decrease) in operating liabilities- | | | |
| Accounts payable | (2,781) | (12,512) | (62,760) |
| Accrued taxes | (5,001) | 470 | 10,128 |
| Accrued interest | 10,607 | (23) | (718) |
| Other | 5,022 | 15,629 | 12,870 |
| Net cash provided from (used for) operating activities | 166,485 | 143,161 | (884) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| New Financing- | | | |
| Long-term debt | 300,000 | 28,500 | - |
| Short-term borrowings, net | - | - | 143,826 |
| Redemptions and Repayments- | | | |
| Long-term debt | - | (28,568) | (50,000) |
| Short-term borrowings, net | (265,003) | (20,324) | - |
| Other | (2,268) | (266) | (35) |
| Net cash provided from (used for) financing activities | 32,729 | (20,658) | 93,791 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Property additions | (100,201) | (110,301) | (103,711) |
| Proceeds from sale of investment | - | - | 4,953 |
| Sales of investment securities held in trusts | 67,973 | 181,007 | 184,619 |
| Purchases of investment securities held in trusts | (77,738) | (193,061) | (196,140) |
| Loan repayments from (loans to) associated companies, net | (85,704) | 1,128 | 18,535 |
| Other | (3,568) | (1,267) | (1,158) |
| Net cash used for investing activities | (199,238) | (122,494) | (92,902) |
| Net (decrease) increase in cash and cash equivalents | (24) | 9 | 5 |
| Cash and cash equivalents at beginning of year | 144 | 135 | 130 |
| Cash and cash equivalents at end of year | $ 120 | $ 144 | $ 135 |
| **SUPPLEMENTAL CASH FLOW INFORMATION:** | | | |
| Cash Paid (Received) During the Year- | | | |
| Interest (net of amounts capitalized) | $ 41,809 | $ 38,627 | $ 44,501 |
| Income taxes | $ (5,801) | $ 16,872 | $ 30,741 |

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

**PENNSYLVANIA ELECTRIC COMPANY**

**CONSOLIDATED STATEMENTS OF INCOME**

| **For the Years Ended December 31,** | **2009** | **2008** | **2007** |
|---|---|---|---|
| | | *(In thousands)* | |
| **REVENUES:** | | | |
| Electric sales | $ 1,385,574 | $ 1,443,461 | $ 1,336,517 |
| Gross receipts tax collections | 63,372 | 70,168 | 65,508 |
| Total revenues | 1,448,946 | 1,513,629 | 1,402,025 |
| **EXPENSES (Note 18):** | | | |
| Purchased power from affiliates | 341,645 | 284,074 | 284,826 |
| Purchased power from non-affiliates | 544,490 | 591,487 | 505,528 |
| Other operating costs | 209,156 | 228,257 | 234,949 |
| Provision for depreciation | 61,317 | 54,643 | 49,558 |
| Amortization of regulatory assets, net | 56,572 | 71,091 | 46,761 |
| General taxes | 73,839 | 79,604 | 76,050 |
| Total expenses | 1,287,019 | 1,309,156 | 1,197,672 |
| **OPERATING INCOME** | 161,927 | 204,473 | 204,353 |
| **OTHER INCOME (EXPENSE):** | | | |
| Miscellaneous income | 3,662 | 1,359 | 6,501 |
| Interest expense (Note 18) | (54,605) | (59,424) | (54,840) |
| Capitalized interest | 98 | (591) | 939 |
| Total other expense | (50,845) | (58,656) | (47,400) |
| **INCOME BEFORE INCOME TAXES** | 111,082 | 145,817 | 156,953 |
| **INCOME TAXES** | 45,694 | 57,647 | 64,015 |
| **NET INCOME** | $ 65,388 | $ 88,170 | $ 92,938 |

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

**PENNSYLVANIA ELECTRIC COMPANY**

**CONSOLIDATED BALANCE SHEETS**

| **As of December 31,** | **2009** | **2008** |
|---|---|---|
| | *(In thousands)* | |
| **ASSETS** | | |
| **CURRENT ASSETS:** | | |
| Cash and cash equivalents | $ 14 | $ 23 |
| Receivables- | | |
| Customers (less accumulated provisions of $3,483,000 and $3,121,000, respectively, for uncollectible accounts) | 139,302 | 146,831 |
| Associated companies | 77,338 | 65,610 |
| Other | 18,320 | 26,766 |
| Notes receivable from associated companies | 14,589 | 14,833 |
| Prepaid taxes | 18,946 | 16,310 |
| Other | 1,400 | 1,517 |
| | 269,909 | 271,890 |
| **UTILITY PLANT:** | | |
| In service | 2,431,737 | 2,324,879 |
| Less - Accumulated provision for depreciation | 901,990 | 868,639 |
| | 1,529,747 | 1,456,240 |
| Construction work in progress | 24,205 | 25,146 |
| | 1,553,952 | 1,481,386 |
| **OTHER PROPERTY AND INVESTMENTS:** | | |
| Nuclear plant decommissioning trusts | 142,603 | 115,292 |
| Non-utility generation trusts | 120,070 | 116,687 |
| Other | 289 | 293 |
| | 262,962 | 232,272 |
| **DEFERRED CHARGES AND OTHER ASSETS:** | | |
| Goodwill | 768,628 | 768,628 |
| Regulatory assets | 9,045 | - |
| Power purchase contract asset | 15,362 | 119,748 |
| Other | 19,143 | 18,658 |
| | 812,178 | 907,034 |
| | $ 2,899,001 | $ 2,892,582 |
| **LIABILITIES AND CAPITALIZATION** | | |
| **CURRENT LIABILITIES:** | | |
| Currently payable long-term debt | $ 69,310 | $ 145,000 |
| Short-term borrowings- | | |
| Associated companies | 41,473 | 31,402 |
| Other | - | 250,000 |
| Accounts payable- | | |
| Associated companies | 39,884 | 63,692 |
| Other | 41,990 | 48,633 |
| Accrued taxes | 6,409 | 13,264 |
| Accrued interest | 17,598 | 13,131 |
| Other | 22,741 | 31,730 |
| | 239,405 | 596,852 |
| **CAPITALIZATION** (See Consolidated Statements of Capitalization): | | |
| Common stockholder's equity | 931,386 | 949,109 |
| Long-term debt and other long-term obligations | 1,072,181 | 633,132 |
| | 2,003,567 | 1,582,241 |
| **NONCURRENT LIABILITIES:** | | |
| Regulatory liabilities | - | 136,579 |
| Accumulated deferred income taxes | 242,040 | 169,807 |
| Retirement benefits | 174,306 | 172,718 |
| Asset retirement obligations | 91,841 | 87,089 |
| Power purchase contract liability | 100,849 | 83,600 |
| Other | 46,993 | 63,696 |
| | 656,029 | 713,489 |
| **COMMITMENTS AND CONTINGENCIES (Notes 7 and 15)** | | |
| | $ 2,899,001 | $ 2,892,582 |

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

**PENNSYLVANIA ELECTRIC COMPANY**

**CONSOLIDATED STATEMENTS OF CAPITALIZATION**

| As of December 31, | 2009 | 2008 |
|---|---|---|
| | *(In thousands)* | |
| **COMMON STOCKHOLDER'S EQUITY:** | | |
| Common stock, $20 par value, 5,400,000 shares authorized, | | |
| 4,427,577 shares outstanding | $ 88,552 | $ 88,552 |
| Other paid-in capital | 913,437 | 912,441 |
| Accumulated other comprehensive income (loss) (Note 2(F)) | (162,104) | (127,997) |
| Retained earnings (Note 12(A)) | 91,501 | 76,113 |
| Total | 931,386 | 949,109 |
| | | |
| **LONG-TERM DEBT (Note 12(C)):** | | |
| First mortgage bonds- | | |
| 5.350% due 2010 | 12,310 | 12,310 |
| 5.350% due 2010 | 12,000 | 12,000 |
| Total | 24,310 | 24,310 |
| | | |
| Unsecured notes- | | |
| 6.125% due 2009 | - | 100,000 |
| 7.770% due 2010 | - | 35,000 |
| 5.125% due 2014 | 150,000 | 150,000 |
| 6.050% due 2017 | 300,000 | 300,000 |
| 6.625% due 2019 | 125,000 | 125,000 |
| * 0.240% due 2020 | 20,000 | 20,000 |
| 5.200% due 2020 | 250,000 | - |
| * 0.340% due 2025 | 25,000 | 25,000 |
| 6.150% due 2038 | 250,000 | - |
| Total | 1,120,000 | 755,000 |
| | | |
| Net unamortized discount on debt | (2,819) | (1,178) |
| Long-term debt due within one year | (69,310) | (145,000) |
| Total long-term debt | 1,072,181 | 633,132 |
| **TOTAL CAPITALIZATION** | $ 2,003,567 | $ 1,582,241 |

* Denotes variable rate issue with applicable year-end interest rate shown.

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

**PENNSYLVANIA ELECTRIC COMPANY**

**CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY**

| | Comprehensive Income (Loss) | Common Stock Number of Shares | Common Stock Par Value | Other Paid-In Capital | Accumulated Other Comprehensive Income (Loss) | Retained Earnings |
|---|---|---|---|---|---|---|
| | | | *(Dollars in thousands)* | | | |
| Balance, January 1, 2007 | | $ 5,290,596 | $ 105,812 | $ 1,189,434 | $ (7,193) | $ 90,005 |
| Net income | $ 92,938 | | | | | 92,938 |
| Net unrealized gain on investments, net of $12,000 of income tax benefits | 21 | | | | 21 | |
| Net unrealized gain on derivative instruments, net of $16,000 of income taxes | 49 | | | | 49 | |
| Pension and other postretirement benefits, net of $15,413,000 of income taxes (Note 3) | 12,069 | | | | 12,069 | |
| Comprehensive income | $ 105,077 | | | | | |
| Restricted stock units | | | | 107 | | |
| Stock-based compensation | | | | 7 | | |
| Consolidated tax benefit allocation | | | | 1,261 | | |
| Repurchase of common stock | | (863,019) | (17,260) | (182,740) | | |
| Cash dividends declared on common stock | | | | | | (125,000) |
| Purchase accounting fair value adjustment | | | | (87,453) | | |
| Balance, December 31, 2007 | | 4,427,577 | 88,552 | 920,616 | 4,946 | 57,943 |
| Net income | $ 88,170 | | | | | 88,170 |
| Net unrealized gain on investments, net of $13,000 of income taxes | 9 | | | | 9 | |
| Net unrealized gain on derivative instruments, net of $4,000 of income tax benefits | 69 | | | | 69 | |
| Pension and other postretirement benefits, net of $90,822,000 of income tax benefits (Note 3) | (133,021) | | | | (133,021) | |
| Comprehensive loss | $ (44,773) | | | | | |
| Restricted stock units | | | | 35 | | |
| Stock-based compensation | | | | 1 | | |
| Consolidated tax benefit allocation | | | | 1,066 | | |
| Cash dividends declared on common stock | | | | | | (70,000) |
| Purchase accounting fair value adjustment | | | | (9,277) | | |
| Balance, December 31, 2008 | | 4,427,577 | $ 88,552 | $ 912,441 | $ (127,997) | $ 76,113 |
| Net income | $ 65,388 | | | | | 65,388 |
| Change in unrealized gain on investments, net of $15,000 of income taxes | (2) | | | | (2) | |
| Net unrealized gain on derivative instruments, net of $7,000 of income tax benefits | 72 | | | | 72 | |
| Pension and other postretirement benefits, net of $17,244,000 of income tax benefits (Note 3) | (34,177) | | | | (34,177) | |
| Comprehensive income | $ 31,281 | | | | | |
| Restricted stock units | | | | 65 | | |
| Consolidated tax benefit allocation | | | | 931 | | |
| Cash dividends declared on common stock | | | | | | (50,000) |
| Balance, December 31, 2009 | | 4,427,577 | $ 88,552 | $ 913,437 | $ (162,104) | $ 91,501 |

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

**PENNSYLVANIA ELECTRIC COMPANY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| For the Years Ended December 31, | 2009 | 2008 | 2007 |
|---|---|---|---|
| | | *(In thousands)* | |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Net income | $ 65,388 | $ 88,170 | $ 92,938 |
| Adjustments to reconcile net income to net cash from operating activities- | | | |
| Provision for depreciation | 61,317 | 54,643 | 49,558 |
| Amortization of regulatory assets, net | 56,572 | 71,091 | 46,761 |
| Deferred costs recoverable as regulatory assets | (100,990) | (35,898) | (71,939) |
| Deferred income taxes and investment tax credits, net | 63,065 | 95,227 | 10,713 |
| Accrued compensation and retirement benefits | 3,866 | (25,661) | (20,830) |
| Pension trust contribution | (60,000) | - | (13,436) |
| Decrease (increase) in operating assets- | | | |
| Receivables | 22,891 | (74,338) | 18,771 |
| Prepayments and other current assets | (2,519) | (16,313) | 1,159 |
| Increase (decrease) in operating liabilities- | | | |
| Accounts payable | 3,114 | (1,966) | (59,513) |
| Accrued taxes | (6,855) | (2,181) | 4,743 |
| Accrued interest | 4,467 | (36) | 5,943 |
| Other | 3,236 | 17,815 | 13,125 |
| Net cash provided from operating activities | 113,552 | 170,553 | 77,993 |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| New Financing- | | | |
| Long-term debt | 498,583 | 45,000 | 299,109 |
| Short-term borrowings, net | - | 66,509 | 15,662 |
| Redemptions and Repayments- | | | |
| Common Stock | - | - | (200,000) |
| Long-term debt | (135,000) | (45,556) | - |
| Short-term borrowings, net | (239,929) | - | - |
| Dividend Payments- | | | |
| Common stock | (85,000) | (90,000) | (70,000) |
| Other | (4,453) | - | (2,210) |
| Net cash provided from (used for) financing activities | 34,201 | (24,047) | 42,561 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Property additions | (124,262) | (126,672) | (94,991) |
| Loan repayments from associated companies, net | 244 | 1,480 | 3,235 |
| Sales of investment securities held in trusts | 84,400 | 117,751 | 175,222 |
| Purchases of investment securities held in trusts | (98,467) | (134,621) | (199,375) |
| Other, net | (9,677) | (4,467) | (4,643) |
| Net cash used for investing activities | (147,762) | (146,529) | (120,552) |
| Net increase (decrease) in cash and cash equivalents | (9) | (23) | 2 |
| Cash and cash equivalents at beginning of year | 23 | 46 | 44 |
| Cash and cash equivalents at end of year | $ 14 | $ 23 | $ 46 |
| **SUPPLEMENTAL CASH FLOW INFORMATION:** | | | |
| Cash Paid (Received) During the Year- | | | |
| Interest (net of amounts capitalized) | $ 48,265 | $ 56,972 | $ 44,503 |
| Income taxes | $ (10,775) | $ 44,197 | $ 2,996 |

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

# COMBINED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. ORGANIZATION AND BASIS OF PRESENTATION

FirstEnergy is a diversified energy company that holds, directly or indirectly, all of the outstanding common stock of its principal subsidiaries: OE, CEI, TE, Penn (a wholly owned subsidiary of OE), ATSI, JCP&L, Met-Ed, Penelec, FENOC, FES and its subsidiaries FGCO and NGC, and FESC.

FirstEnergy and its subsidiaries follow GAAP and comply with the regulations, orders, policies and practices prescribed by the SEC, FERC and, as applicable, the PUCO, PPUC and NJBPU. The preparation of financial statements in conformity with GAAP requires management to make periodic estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. Actual results could differ from these estimates. The reported results of operations are not indicative of results of operations for any future period. In preparing the financial statements, FirstEnergy and its subsidiaries have evaluated events and transactions for potential recognition or disclosure through February 18, 2010, the date the financial statements were issued.

FirstEnergy and its subsidiaries consolidate all majority-owned subsidiaries over which they exercise control and, when applicable, entities for which they have a controlling financial interest. Intercompany transactions and balances are eliminated in consolidation unless otherwise prescribed by GAAP (see Note 16). FirstEnergy consolidates a VIE (see Note 8) when it is determined to be the VIE's primary beneficiary. Investments in non-consolidated affiliates over which FirstEnergy and its subsidiaries have the ability to exercise significant influence, but not control (20-50% owned companies, joint ventures and partnerships) are accounted for under the equity method. Under the equity method, the interest in the entity is reported as an investment in the Consolidated Balance Sheets and the percentage share of the entity’s earnings is reported in the Consolidated Statements of Income. These footnotes combine results of FE, FES, OE, CEI, TE, JCP&L, Met-Ed and Penelec.

Certain prior year amounts have been reclassified to conform to the current year presentation. Unless otherwise indicated, defined terms used herein have the meanings set forth in the accompanying Glossary of Terms.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (A) ACCOUNTING FOR THE EFFECTS OF REGULATION

FirstEnergy accounts for the effects of regulation through the application of regulatory accounting to its operating utilities since their rates:

- are established by a third-party regulator with the authority to set rates that bind customers;
- are cost-based; and
- can be charged to and collected from customers.

An enterprise meeting all of these criteria capitalizes costs that would otherwise be charged to expense (regulatory assets) if the rate actions of its regulator make it probable that those costs will be recovered in future revenue. Regulatory accounting is applied only to the parts of the business that meet the above criteria. If a portion of the business applying regulatory accounting no longer meets those requirements, previously recorded net regulatory assets are removed from the balance sheet in accordance with GAAP.

Regulatory assets on the Balance Sheets are comprised of the following:

| Regulatory Assets | FE | OE | CEI | TE | JCP&L | Met-Ed | Penelec |
|---|---|---|---|---|---|---|---|
| | | | | (In millions) | | | |
| **December 31, 2009** | | | | | | | |
| Regulatory transition costs | $ 1,100 | $ 73 | $ 8 | $ 8 | $ 965 | $ 116 | $ (70) |
| Customer shopping incentives | 154 | - | 154 | - | - | - | - |
| Customer receivables for future income taxes | 329 | 58 | 3 | 1 | 31 | 114 | 122 |
| Loss (Gain) on reacquired debt | 51 | 18 | 1 | (3) | 22 | 8 | 5 |
| Employee postretirement benefit costs | 23 | - | 5 | 2 | 10 | 6 | - |
| Nuclear decommissioning, decontamination and spent fuel disposal costs | (162) | - | - | - | (22) | (83) | (57) |
| Asset removal costs | (231) | (23) | (43) | (17) | (148) | - | - |
| MISO/PJM transmission costs | 148 | (15) | (15) | (3) | - | 187 | (6) |
| Fuel costs | 369 | 115 | 222 | 32 | - | - | - |
| Distribution costs | 482 | 230 | 197 | 55 | - | - | - |
| Other | 93 | 9 | 14 | (5) | 30 | 9 | 15 |
| Total | $ 2,356 | $ 465 | $ 546 | $ 70 | $ 888 | $ 357 | $ 9 |
| **December 31, 2008 *** | | | | | | | |
| Regulatory transition costs | $ 1,452 | $ 112 | $ 80 | $ 12 | $ 1,236 | $ 12 | $ - |
| Customer shopping incentives | 420 | - | 420 | - | - | - | - |
| Customer receivables for future income taxes | 245 | 68 | 4 | 1 | 59 | 113 | - |
| Loss (Gain) on reacquired debt | 51 | 20 | 1 | (3) | 24 | 9 | - |
| Employee postretirement benefit costs | 31 | - | 7 | 3 | 13 | 8 | - |
| Nuclear decommissioning, decontamination and spent fuel disposal costs | (57) | - | - | - | (2) | (55) | - |
| Asset removal costs | (215) | (15) | (36) | (16) | (148) | - | - |
| MISO/PJM transmission costs | 389 | 31 | 19 | 20 | - | 319 | - |
| Fuel costs | 214 | 109 | 75 | 30 | - | - | - |
| Distribution costs | 475 | 222 | 198 | 55 | - | - | - |
| Other | 135 | 28 | 16 | 7 | 46 | 7 | - |
| Total | $ 3,140 | $ 575 | $ 784 | $ 109 | $ 1,228 | $ 413 | $ - |

* Penelec had net regulatory liabilities of approximately $137 million as of December 31, 2008. These net regulatory liabilities are included in Other Non-Current Liabilities on the Consolidated Balance Sheets.

Regulatory assets that do not earn a current return (primarily for certain regulatory transition costs and employee postretirement benefits) totaled approximately $187 million as of December 31, 2009 (JCP&L - $36 million, Met-Ed - $114 million, and Penelec - $37 million). Regulatory assets not earning a current return will be recovered by 2014 for JCP&L and by 2020 for Met-Ed and Penelec.

*Transition Cost Amortization*

JCP&L's and Met-Ed's regulatory transition costs include the deferral of above-market costs for power supplied from NUGs of $369 million for JCP&L (recovered through NGC revenues) and $110 million for Met-Ed (recovered through CTC revenues). Projected above-market NUG costs are adjusted to fair value at the end of each quarter, with a corresponding offset to regulatory assets. Recovery of the remaining regulatory transition costs is expected to continue pursuant to various regulatory proceedings in New Jersey and Pennsylvania (see Note 11).

### (B) REVENUES AND RECEIVABLES

The Utilities' principal business is providing electric service to customers in Ohio, Pennsylvania and New Jersey. The Utilities' retail customers are metered on a cycle basis. Electric revenues are recorded based on energy delivered through the end of the calendar month. An estimate of unbilled revenues is calculated to recognize electric service provided from the last meter reading through the end of the month. This estimate includes many factors, among which are historical customer usage, load profiles, estimated weather impacts, customer shopping activity and prices in effect for each class of customer. In each accounting period, the Utilities accrue the estimated unbilled amount receivable as revenue and reverse the related prior period estimate.

Receivables from customers include sales to residential, commercial and industrial customers and sales to wholesale customers. There was no material concentration of receivables as of December 31, 2009 with respect to any particular segment of FirstEnergy's customers. Billed and unbilled customer receivables as of December 31, 2009 and 2008 are shown below.

| Customer Receivables | FE | FES | OE | CEI | TE [1] | JCP&L | Met-Ed | Penelec |
|---|---|---|---|---|---|---|---|---|
| **December 31, 2009** | | | | | | | | |
| Billed | $ 725 | $ 109 | $ 101 | $ 114 | $ 1 | $ 183 | $ 110 | $ 88 |
| Unbilled | 519 | 86 | 108 | 95 | - | 118 | 61 | 51 |
| Total | $ 1,244 | $ 195 | $ 209 | $ 209 | $ 1 | $ 301 | $ 171 | $ 139 |
| **December 31, 2008** | | | | | | | | |
| Billed | $ 752 | $ 84 | $ 143 | $ 150 | $ 1 | $ 179 | $ 93 | $ 86 |
| Unbilled | 552 | 2 | 134 | 126 | - | 161 | 67 | 61 |
| Total | $ 1,304 | $ 86 | $ 277 | $ 276 | $ 1 | $ 340 | $ 160 | $ 147 |

[1] See Note 14 for a discussion of TE's accounts receivable financing arrangement with Centerior Funding Corporation.

### (C) EARNINGS PER SHARE OF COMMON STOCK

Basic earnings per share of common stock is computed using the weighted average of actual common shares outstanding during the respective period as the denominator. The denominator for diluted earnings per share of common stock reflects the weighted average of common shares outstanding plus the potential additional common shares that could result if dilutive securities and other agreements to issue common stock were exercised. In 2007, FirstEnergy repurchased approximately 14.4 million shares, or 4.5%, of its outstanding common stock for $951 million through an accelerated share repurchase program. The following table reconciles basic and diluted earnings per share of common stock:

| Reconciliation of Basic and Diluted Earnings per Share of Common Stock | 2009 | 2008 | 2007 |
|---|---|---|---|
| | *(In millions, except per share amounts)* | | |
| Earnings available to FirstEnergy Corp. | $ 1,006 | $ 1,342 | $ 1,309 |
| Average shares of common stock outstanding – Basic | 304 | 304 | 306 |
| Assumed exercise of dilutive stock options and awards | 2 | 3 | 4 |
| Average shares of common stock outstanding – Diluted | 306 | 307 | 310 |
| Basic earnings per share of common stock: | $ 3.31 | $ 4.41 | $ 4.27 |
| Diluted earnings per share of common stock: | $ 3.29 | $ 4.38 | $ 4.22 |

### (D) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment reflects original cost (except for nuclear generating assets which were adjusted to fair value), including payroll and related costs such as taxes, employee benefits, administrative and general costs, and interest costs incurred to place the assets in service. The costs of normal maintenance, repairs and minor replacements are expensed as incurred. FirstEnergy's recognizes liabilities for planned major maintenance projects as they are incurred. Property, plant and equipment balances as of December 31, 2009 and 2008 were as follows:

| | December 31, 2009 | | | December 31, 2008 | | |
|---|---|---|---|---|---|---|
| Property, Plant and Equipment | Unregulated | Regulated | Total | Unregulated | Regulated | Total |
| | | | *(In millions)* | | | |
| In service | $ 10,935 | $ 16,891 | $ 27,826 | $ 10,236 | $ 16,246 | $ 26,482 |
| Less accumulated depreciation | (4,699) | (6,698) | (11,397) | (4,403) | (6,418) | (10,821) |
| Net plant in service | $ 6,236 | $ 10,193 | $ 16,429 | $ 5,833 | $ 9,828 | $ 15,661 |

FirstEnergy provides for depreciation on a straight-line basis at various rates over the estimated lives of property included in plant in service. The respective annual composite rates for FirstEnergy's subsidiaries' electric plant in 2009, 2008, and 2007 are shown in the following table:

| | Annual Composite Depreciation Rate | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| OE | 3.1% | 3.1% | 2.9% |
| CEI | 3.3 | 3.5 | 3.6 |
| TE | 3.3 | 3.6 | 3.9 |
| Penn | 2.4 | 2.4 | 2.3 |
| JCP&L | 2.4 | 2.3 | 2.1 |
| Met-Ed | 2.5 | 2.3 | 2.3 |
| Penelec | 2.6 | 2.5 | 2.3 |
| FGCO | 4.6 | 4.7 | 4.0 |
| NGC | 3.0 | 2.8 | 2.8 |

*Asset Retirement Obligations*

FirstEnergy recognizes an ARO for the future decommissioning of its nuclear power plants and future remediation of other environmental liabilities associated with all of its long-lived assets. The fair value of an ARO is recognized in the period in which it is incurred. The associated asset retirement costs are capitalized as part of the carrying value of the long-lived asset and are depreciated over the life of the related asset, as described further in Note 13.

**(E) ASSET IMPAIRMENTS**

*Long-lived Assets*

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

*Goodwill*

In a business combination, the excess of the purchase price over the estimated fair values of assets acquired and liabilities assumed is recognized as goodwill. Based on the guidance provided by accounting standards for the recognition and subsequent measurement of goodwill, we evaluate goodwill for impairment at least annually and make such evaluations more frequently if indicators of impairment arise. If the fair value of a reporting unit is less than its carrying value (including goodwill), the goodwill is tested for impairment. If impairment is indicated a loss is recognized– calculated as the difference between the implied fair value of a reporting unit's goodwill and the carrying value of the goodwill.

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. FirstEnergy's goodwill primarily relates to its energy delivery services segment.

FirstEnergy's 2009 annual review was completed as of July 31, with no impairment indicated.

FirstEnergy's 2008 annual review was completed in the third quarter of 2008 with no impairment indicated. Due to the significant downturn in the U.S. economy during the fourth quarter of 2008, goodwill was tested for impairment as of December 31, 2008. No impairment was indicated for the former GPU companies. As discussed in Note 11(B) on February 19, 2009, the Ohio Companies filed an application for an amended ESP, which substantially reflected terms proposed by the PUCO Staff on February 2, 2009. Goodwill for the Ohio Companies was tested as of December 31, 2008, reflecting the projected results associated with the amended ESP. No impairment was indicated for the Ohio Companies. The PUCO's final decision did not result in an additional impairment charge. During 2008, FirstEnergy adjusted goodwill of the former GPU companies by $32 million due to the realization of tax benefits that had been reserved under purchase accounting.

In 2007, FirstEnergy adjusted goodwill for the former GPU companies by $290 million due to the realization of tax benefits that had been reserved in purchase accounting.

A summary of the changes in goodwill for the three years ended December 31, 2009 is shown below by operating segment, which represent aggregated reporting units (see Note 16 - Segment Information):

| | Energy Delivery Services | Competitive Energy Services | Other | Consolidated |
|---|---|---|---|---|
| | | *(In millions)* | | |
| Balance as of January 1, 2007 | $ 5,873 | $ 24 | $ 1 | $ 5,898 |
| Adjustments related to GPU acquisition | (290) | - | - | (290) |
| Other | - | - | (1) | (1) |
| Balance as of December 31, 2007 | 5,583 | 24 | - | 5,607 |
| Adjustments related to GPU acquisition | (32) | - | - | (32) |
| Balance as of December 31, 2008 and 2009 | $ 5,551 | $ 24 | $ - | $ 5,575 |

A summary of the changes in FES' and the Utilities' goodwill for the three years ended December 31, 2009 is shown below.

| Goodwill | FES | CEI | TE | JCP&L | Met-Ed | Penelec |
|---|---|---|---|---|---|---|
| | | | *(In millions)* | | | |
| Balance as of January 1, 2007 | $ 24 | $ 1,689 | $ 501 | $ 1,962 | $ 496 | $ 861 |
| Adjustments related to GPU acquisition | - | - | - | (136) | (72) | (83) |
| Balance as of December 31, 2007 | 24 | 1,689 | 501 | 1,826 | 424 | 778 |
| Adjustments related to GPU acquisition | - | - | - | (15) | (8) | (9) |
| Balance as of December 31, 2008 and 2009 | $ 24 | $ 1,689 | $ 501 | $ 1,811 | $ 416 | $ 769 |

FirstEnergy, FES and the Utilities, with the exception of Met-Ed as noted below, have no accumulated impairment charge as of December 31, 2009. Met-Ed has an accumulated impairment charge of $355 million, which was recorded in 2006.

*Investments*

At the end of each reporting period, FirstEnergy evaluates its investments for impairment. Investments classified as available-for-sale securities are evaluated to determine whether a decline in fair value below the cost basis is other than temporary. FirstEnergy first considers its intent and ability to hold the investment until recovery and then considers, among other factors, the duration and the extent to which the security's fair value has been less than its cost and the near-term financial prospects of the security issuer when evaluating investments for impairment. If the decline in fair value is determined to be other than temporary, the cost basis of the investment is written down to fair value. FirstEnergy recognizes in earnings the unrealized losses on available-for-sale securities held in its nuclear decommissioning trusts since the trust arrangements, as they are currently defined, do not meet the required ability and intent to hold criteria in consideration of other-than-temporary impairment. In 2009, 2008 and 2007, FirstEnergy recognized $62 million, $123 million and $26 million, respectively, of other-than-temporary impairments. The fair value of FirstEnergy's investments are disclosed in Note 5(B).

**(F) 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 stockholders and adjustments relating to noncontrolling interests. Accumulated other comprehensive income (loss), net of tax, included on FE's, FES' and the Utilities' Consolidated Balance Sheets as of December 31, 2009 and 2008, is comprised of the following:

| Accumulated Other Comprehensive Income (Loss) | FE | FES | OE | CEI | TE | JCP&L | Met-Ed | Penelec |
|---|---|---|---|---|---|---|---|---|
| | | | | *(In millions)* | | | | |
| Net liability for unfunded retirement benefits | $ (1,341) | $ (91) | $ (164) | $ (138) | $ (50) | $ (242) | $ (143) | $ (162) |
| Unrealized gain on investments | 2 | 2 | - | - | - | - | - | - |
| Unrealized loss on derivative hedges | (76) | (14) | - | - | - | (1) | (1) | - |
| AOCL Balance, December 31, 2009 | $ (1,415) | $ (103) | $ (164) | $ (138) | $ (50) | $ (243) | $ (144) | $ (162) |
| | | | | | | | | |
| Net liability for unfunded retirement benefits | $ (1,322) | $ (97) | $ (190) | $ (135) | $ (43) | $ (215) | $ (140) | $ (128) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Unrealized gain on investments | 45 | 30 | 6 | - | 10 | - | - | - |
| Unrealized loss on derivative hedges | (103) | (25) | - | - | - | (2) | (1) | - |
| AOCL Balance, December 31, 2008 | $ (1,380) | $ (92) | $ (184) | $ (135) | $ (33) | $ (217) | $ (141) | $ (128) |

Other comprehensive income (loss) reclassified to net income during the three years ended December 31, 2009, 2008 and 2007 was as follows:

| | FE | FES | OE | CEI | TE | JCP&L | Met-Ed | Penelec |
|---|---|---|---|---|---|---|---|---|
| **2009** | | | | *(In millions)* | | | | |
| Pension and other postretirement benefits | $ (78) | $ (3) | $ (5) | $ (11) | $ (2) | $ (18) | $ (11) | $ (5) |
| Gain on investments | 157 | 139 | 10 | - | 7 | - | - | - |
| Loss on derivative hedges | (67) | (27) | - | - | - | - | - | - |
| | 12 | 109 | 5 | (11) | 5 | (18) | (11) | (5) |
| Income taxes (benefits) related to reclassification to net income | 4 | 41 | 2 | (4) | 2 | (8) | (5) | (2) |
| Reclassification to net income | $ 8 | $ 68 | $ 3 | $ (7) | $ 3 | $ (10) | $ (6) | $ (3) |
| **2008** | | | | | | | | |
| Pension and other postretirement benefits | $ 80 | $ 7 | $ 16 | $ 1 | $ - | $ 14 | $ 9 | $ 14 |
| Gain on investments | 40 | 31 | 9 | - | 1 | - | - | - |
| Loss on derivative hedges | (19) | (3) | - | - | - | - | - | - |
| | 101 | 35 | 25 | 1 | 1 | 14 | 9 | 14 |
| Income taxes related to reclassification to net income | 41 | 14 | 10 | - | - | 6 | 4 | 6 |
| Reclassification to net income | $ 60 | $ 21 | 15 | 1 | 1 | 8 | 5 | 8 |
| **2007** | | | | | | | | |
| Pension and other postretirement benefits | $ 45 | $ 5 | $ 14 | $ (5) | $ (2) | $ 8 | $ 6 | $ 11 |
| Gain on investments | 10 | 10 | - | - | - | - | - | - |
| Loss on derivative hedges | (26) | (12) | - | - | - | - | - | - |
| | 29 | 3 | 14 | (5) | (2) | 8 | 6 | 11 |
| Income taxes (benefits) related to reclassificati to net income | 14 | 1 | 6 | (2) | (1) | 4 | 3 | 5 |
| Reclassification to net income | $ 15 | $ 2 | $ 8 | $ (3) | $ (1) | $ 4 | $ 3 | $ 6 |

## 3. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

FirstEnergy provides a noncontributory qualified defined benefit pension plan that covers substantially all of its employees and non-qualified pension plans that cover certain employees. The plans provide defined benefits based on years of service and compensation levels. FirstEnergy's funding policy is based on actuarial computations using the projected unit credit method. On September 2, 2009, the Utilities and ATSI made a combined $500 million voluntary contribution to their qualified pension plan. Due to the significance of the voluntary contribution, FirstEnergy elected to remeasure its qualified pension plan as of August 31, 2009. FirstEnergy estimates that additional cash contributions will not be required by law before 2012.

FirstEnergy provides a minimum amount of noncontributory life insurance to retired employees in addition to optional contributory insurance. Health care benefits, which include certain employee contributions, deductibles and co-payments, are also available upon retirement to employees hired prior to January 1, 2005, their dependents and, under certain circumstances, their survivors. FirstEnergy recognizes the expected cost of providing other postretirement benefits to employees and their beneficiaries and covered dependents from the time employees are hired until they become eligible to receive those benefits. During 2006, FirstEnergy amended the OPEB plan effective in 2008 to cap the monthly contribution for many of the retirees and their spouses receiving subsidized health care coverage. During 2008, FirstEnergy further amended the OPEB plan effective in 2010 to limit the monthly contribution for pre-1990 retirees. On June 2, 2009, FirstEnergy amended its health care benefits plan for all employees and retirees eligible to participate in that plan. The amendment, which reduces future health care coverage subsidies paid by FirstEnergy on behalf of participants, triggered a remeasurement of FirstEnergy's other postretirement benefit plans as of May

31, 2009. FirstEnergy also has obligations to former or inactive employees after employment, but before retirement, for disability-related benefits.

Pension and OPEB costs are affected by employee demographics (including age, compensation levels, and employment periods), the level of contributions made to the plans and earnings on plan assets. Pension and OPEB costs may also be affected by changes in 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. FirstEnergy uses a December 31 measurement date for its pension and OPEB plans. The fair value of the plan assets represents the actual market value as of the measurement date.

In the third quarter of 2009, FirstEnergy incurred a $13 million net postretirement benefit cost (including amounts capitalized) related to a liability created by the VERO offered by FirstEnergy to qualified employees. The special termination benefits of the VERO included additional health care coverage subsidies paid by FirstEnergy to those qualified employees who elected to retire. A total of 715 employees accepted the VERO.

| Obligations and Funded Status | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| As of December 31 | 2009 | 2008 | 2009 | 2008 |
| | (In millions) | | | |
| **Change in benefit obligation** | | | | |
| Benefit obligation as of January 1 | $ 4,700 | $ 4,750 | $ 1,189 | $ 1,182 |
| Service cost | 91 | 87 | 12 | 19 |
| Interest cost | 317 | 299 | 64 | 74 |
| Plan participants' contributions | - | - | 29 | 25 |
| Plan amendments | 6 | 6 | (408) | (20) |
| Special termination benefits | - | - | 13 | - |
| Medicare retiree drug subsidy | - | - | 20 | 2 |
| Actuarial (gain) loss | 648 | (152) | 23 | 12 |
| Benefits paid | (370) | (290) | (119) | (105) |
| Benefit obligation as of December 31 | $ 5,392 | $ 4,700 | $ 823 | $ 1,189 |
| **Change in fair value of plan assets** | | | | |
| Fair value of plan assets as of January 1 | $ 3,752 | $ 5,285 | $ 440 | $ 618 |
| Actual return on plan assets | 508 | (1,251) | 62 | (152) |
| Company contributions | 509 | 8 | 55 | 54 |
| Plan participants' contributions | - | - | 29 | 25 |
| Benefits paid | (370) | (290) | (119) | (105) |
| Fair value of plan assets as of December 31 | $ 4,399 | $ 3,752 | $ 467 | $ 440 |
| **Funded Status** | | | | |
| Qualified plan | $ (787) | $ (774) | | |
| Non-qualified plans | (206) | (174) | | |
| Funded status | $ (993) | $ (948) | $ (356) | $ (749) |
| **Accumulated benefit obligation** | $ 5,036 | $ 4,367 | | |
| **Amounts Recognized on the Balance Sheet** | | | | |
| Current liabilities | $ (10) | $ (8) | $ - | $ - |
| Noncurrent liabilities | (983) | (940) | (356) | (749) |
| Net liability as of December 31 | $ (993) | $ (948) | $ (356) | $ (749) |
| **Amounts Recognized in Accumulated Other Comprehensive Income** | | | | |
| Prior service cost (credit) | $ 67 | $ 80 | $ (1,145) | $ (912) |
| Actuarial loss | 2,486 | 2,182 | 756 | 801 |
| Net amount recognized | $ 2,553 | $ 2,262 | $ (389) | $ (111) |
| **Assumptions Used to Determine Benefit Obligations as of December 31** | | | | |
| Discount rate | 6.00% | 7.00% | 5.75% | 7.00% |
| Rate of compensation increase | 5.20% | 5.20% | | |
| **Allocation of Plan Assets As of December 31** | | | | |
| Equity securities | 39% | 47% | 51% | 56% |
| Bonds | 49 | 38 | 46 | 38 |
| Real estate | 6 | 9 | 1 | 2 |
| Private equities | 5 | 3 | 1 | 1 |
| Cash | 1 | 3 | 1 | 3 |
| Total | 100% | 100% | 100% | 100% |

| Estimated 2010 Amortization of Net Periodic Pension Cost from Accumulated Other Comprehensive Income | Pension Benefits | Other Benefits |
|---|---|---|
| | (In millions) | |
| Prior service cost (credit) | $ 13 | $ (193) |
| Actuarial loss | $ 188 | $ 60 |

| Components of Net Periodic Benefit Costs | Pension Benefits | | | Other Benefits | | |
|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 |
| | | | (In millions) | | | |
| Service cost | $ 91 | $ 87 | $ 88 | $ 12 | $ 19 | $ 21 |
| Interest cost | 317 | 299 | 294 | 64 | 74 | 69 |
| Expected return on plan assets | (343) | (463) | (449) | (36) | (51) | (50) |
| Amortization of prior service cost | 13 | 13 | 13 | (175) | (149) | (149) |
| Amortization of net actuarial loss | 179 | 8 | 45 | 61 | 47 | 45 |
| Net periodic cost | $ 257 | $ (56) | $ (9) | $ (74) | $ (60) | $ (64) |

FES' and the Utilities' shares of the net pension and OPEB asset (liability) as of December 31, 2009 and 2008 are as follows:

| Net Pension and OPEB Asset (Liability) | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | | (In millions) | | |
| FES | $ (361) | $ (193) | $ (19) | $ (124) |
| OE | 30 | (38) | (74) | (167) |
| CEI | (13) | (27) | (59) | (93) |
| TE | (15) | (12) | (47) | (59) |
| JCP&L | (77) | (128) | (56) | (58) |
| Met-Ed | 6 | (89) | (28) | (52) |
| Penelec | (79) | (64) | (84) | (103) |

FES' and the Utilities' shares of the net periodic pension and OPEB costs for the three years ended December 31, 2009 are as follows:

| Net Periodic Pension and OPEB Costs | Pension Benefits | | | Other Benefits | | |
|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 |
| | | | (In millions) | | | |
| FES | $ 71 | $ 15 | $ 21 | $ (15) | $ (7) | $ (10) |
| OE | 23 | (26) | (16) | (14) | (7) | (11) |
| CEI | 17 | (5) | 1 | - | 2 | 4 |
| TE | 6 | (3) | - | 2 | 4 | 5 |
| JCP&L | 31 | (15) | (9) | (6) | (16) | (16) |
| Met-Ed | 18 | (10) | (7) | (4) | (10) | (10) |
| Penelec | 16 | (13) | (10) | (4) | (13) | (13) |

| Assumptions Used to Determine Net Periodic Benefit Cost for Years Ended December 31 | Pension Benefits | | | Other Benefits | | |
|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 |
| Weighted-average discount rate | 7.00% | 6.50% | 6.00% | 7.00% | 6.50% | 6.00% |
| Expected long-term return on plan assets | 9.00% | 9.00% | 9.00% | 9.00% | 9.00% | 9.00% |
| Rate of compensation increase | 5.20% | 5.20% | 3.50% | | | |

Accounting guidance establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy defined by accounting guidance are as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those where transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 assets include registered investment companies, common stocks, publicly traded real estate investment trusts and certain shorter duration, more liquid fixed income securities. Registered investment companies and common stocks are stated at fair value as quoted on a recognized securities exchange and are valued at the last reported sales price on the last business day of the plan year. Real estate investment trusts' and certain fixed income securities' market values are based on daily quotes available on public exchanges as with other publicly traded equity and fixed income securities.

Level 2 – Pricing inputs are either directly or indirectly observable in the market as of the reporting date, other than quoted prices in active markets included in Level 1. Additionally, Level 2 includes those financial instruments that are valued using models or other valuation methodologies based on assumptions that are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Level 2 investments include common collective trusts, certain real estate investment trusts, and fixed income assets. Common collective trusts are not available in an exchange and active market, however, the fair value is determined based on the underlying investments as traded in an exchange and active market.

Level 3 – Pricing inputs include inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value in addition to the use of independent appraisers' estimates of fair value on a periodic basis typically determined quarterly, but no less than annually. Assets in this category include private equity, limited partnership, certain real estate trusts and fixed income securities. The fixed income securities' market values are based in part on quantitative models and on observing market value ascertained through timely trades for securities' that are similar in nature to the ones being valued.

As of December 31, 2009, the pension investments measured at fair value were as follows:

| | December 31, 2009 | | | | Asset |
|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** | **Allocation** |
| Assets | | *(in millions)* | | | |
| Short-term securities | $ - | $ 337 | $ - | $ 337 | 7% |
| Common and preferred stocks | 578 | 994 | - | 1,572 | 36% |
| Mutual funds | 159 | - | - | 159 | 4% |
| Bonds | - | 1,928 | - | 1,928 | 44% |
| Real estate/other assets | 1 | 4 | 378 | 383 | 9% |
| | $ 738 | $ 3,263 | $ 378 | $ 4,379 | 100% |

The following table provides a reconciliation of changes in the fair value of pension investments classified as Level 3 in the fair value hierarchy during 2009:

| | Real estate / Other assets |
|---|---|
| | *(in millions)* |
| Beginning balance | $ 416 |
| Transfers | 44 |
| Acquisitions/(Dispositions) | 16 |
| Loss | (98) |
| Ending balance | $ 378 |

As of December 31, 2009, the other postretirement benefit investments measured at fair value were as follows:

| | December 31, 2009 | | | | Asset |
|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** | **Allocation** |
| Assets | | *(in millions)* | | | |
| Short-term securities | $ - | $ 19 | $ - | $ 19 | 4% |
| Common and preferred stocks | 172 | 53 | - | 225 | 47% |
| Mutual funds | 10 | 2 | - | 12 | 3% |
| Bonds | - | 208 | - | 208 | 44% |
| Real estate/other assets | - | - | 11 | 11 | 2% |
| | $ 182 | $ 282 | $ 11 | $ 475 | 100% |

The following table provides a reconciliation of changes in the fair value of the other postretirement benefit investments classified as Level 3 in the fair value hierarchy during 2009:

| | Real estate / Other assets |
|---|---|
| | *(in millions)* |
| Beginning balance | $ 12 |
| Transfers | 1 |
| Acquisitions/(Dispositions) | 1 |
| Loss | (3) |
| Ending balance | $ 11 |

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. The assumed rates of return on pension plan assets consider historical market returns and economic forecasts for the types of investments held by FirstEnergy's pension trusts. The long-term rate of return is developed considering the portfolio's asset allocation strategy.

FirstEnergy generally employs a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return on plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status and corporate financial condition. The investment portfolio contains a diversified blend of equity and fixed-income investments. Equity investments are diversified across U.S. and non-U.S. stocks, as well as growth, value, and small and large capitalization funds. Other assets such as real estate and private equity are used to enhance long-term returns while improving portfolio diversification. Derivatives may be used to gain market exposure in an efficient and timely manner; however, derivatives are not used to leverage the portfolio beyond the market value of the underlying investments. Investment risk is measured and monitored on a continuing basis through periodic investment portfolio reviews, annual liability measurements, and periodic asset/liability studies.

FirstEnergy's target asset allocations for its pension and OPEB portfolio for 2009 and 2008 are shown in the following table:

| | **Target Asset Allocations** | |
|---|---|---|
| | **2009** | **2008** |
| Equities | 58% | 58% |
| Fixed income | 30% | 30% |
| Real estate | 8% | 8% |
| Private equity | 4% | 4% |
| Total | 100% | 100% |

| **Assumed Health Care Cost Trend Rates As of December 31** | **2009** | **2008** |
|---|---|---|
| Health care cost trend rate assumed for next year (pre/post-Medicare) | 8.5-10% | 8.5-10% |
| Rate to which the cost trend rate is assumed to decline (the ultimate trend rate) | 5% | 5% |
| Year that the rate reaches the ultimate trend rate (pre/post-Medicare) | 2016-2018 | 2015-2017 |

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

| | **1-Percentage-Point Increase** | **1-Percentage-Point Decrease** |
|---|---|---|
| | ***(In millions)*** | |
| Effect on total of service and interest cost | $ 3 | $ (2) |
| Effect on accumulated postretirement benefit obligation | $ 20 | $ (18) |

Taking into account estimated employee future service, FirstEnergy expects to make the following pension benefit payments from plan assets and other benefit payments, net of the Medicare subsidy and participant contributions:

| | **Pension Benefits** | **Other Benefits** |
|---|---|---|
| | ***(In millions)*** | |
| 2010 | $ 316 | $ 85 |
| 2011 | 324 | 87 |
| 2012 | 336 | 58 |
| 2013 | 346 | 51 |
| 2014 | 364 | 53 |
| Years 2015- 2019 | 1,999 | 273 |

## 4. STOCK-BASED COMPENSATION PLANS

FirstEnergy has four stock-based compensation programs – LTIP, EDCP, ESOP and DCPD. In 2001, FirstEnergy also assumed responsibility for two stock-based plans as a result of its acquisition of GPU. No further stock-based compensation can be awarded under GPU's Stock Option and Restricted Stock Plan for MYR Group Inc. Employees (MYR Plan) or 1990 Stock Plan for Employees of GPU, Inc. and Subsidiaries (GPU Plan). All options and restricted stock under both plans have been converted into FirstEnergy options and restricted stock. Options under the GPU Plan became fully vested on November 7, 2001, and will expire on or before June 1, 2010.

### (A) LTIP

FirstEnergy's LTIP includes four stock-based compensation programs – restricted stock, restricted stock units, stock options and performance shares.

Under FirstEnergy's LTIP, total awards cannot exceed 29.1 million shares of common stock or their equivalent. Only stock options, restricted stock and restricted stock units have currently been designated to pay out in common stock, with vesting periods ranging from two months to ten years. Performance share awards are currently designated to be paid in cash rather than common stock and therefore do not count against the limit on stock-based awards. As of December 31, 2009, 7.9 million shares were available for future awards.

FirstEnergy records the actual tax benefit realized for tax deductions when awards are exercised or distributed. Realized tax benefits during the years ended December 31, 2009, 2008, and 2007 were $9 million, $43 million, and $34 million, respectively. The excess of the deductible amount over the recognized compensation cost is recorded to stockholders' equity and reported as an other financing activity within the Consolidated Statements of Cash Flows.

#### Restricted Stock and Restricted Stock Units

Eligible employees receive awards of FirstEnergy common stock or stock units subject to restrictions. Those restrictions lapse over a defined period of time or based on performance. Dividends are received on the restricted stock and are reinvested in additional shares. Restricted common stock grants under the LTIP were as follows:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Restricted common shares granted | 73,255 | 82,607 | 77,388 |
| Weighted average market price | $ 43.68 | $ 68.98 | $ 67.98 |
| Weighted average vesting period (years) | 4.42 | 5.03 | 4.61 |
| Dividends restricted | Yes | Yes | Yes |

Vesting activity for restricted common stock during the year was as follows (forfeitures were not material):

| Restricted Stock | Number of Shares | Weighted Average Grant-Date Fair Value |
|---|---|---|
| Nonvested as of January 1, 2009 | 667,933 | $ 49.54 |
| Nonvested as of December 31, 2009 | 648,293 | 48.84 |
| Granted in 2009 | 73,255 | 43.68 |
| Vested in 2009 | 85,881 | 42.73 |

FirstEnergy grants two types of restricted stock unit awards: discretionary-based and performance-based. With the discretionary-based, FirstEnergy grants the right to receive, at the end of the period of restriction, a number of shares of common stock equal to the number of restricted stock units set forth in each agreement. With the performance-based, FirstEnergy grants the right to receive, at the end of the period of restriction, a number of shares of common stock equal to the number of restricted stock units set forth in the agreement subject to adjustment based on FirstEnergy's stock performance.

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Restricted common share units granted | 533,399 | 450,683 | 412,426 |
| Weighted average vesting period (years) | 3.00 | 3.14 | 3.22 |

Vesting activity for restricted stock units during the year was as follows (forfeitures were not material):

| Restricted Stock Units | Number of Shares | Weighted Average Grant-Date Fair Value |
|---|---|---|
| Nonvested as of January 1, 2009 | 1,011,054 | $ 62.02 |
| Nonvested as of December 31, 2009 | 1,031,050 | 60.10 |
| Granted in 2009 | 533,399 | 41.40 |
| Vested in 2009 | 457,536 | 42.53 |

Compensation expense recognized in 2009, 2008 and 2007 for restricted stock and restricted stock units, net of amounts capitalized, was approximately $25 million, $29 million and $24 million, respectively.

*Stock Options*

Stock options were granted to eligible employees allowing them to purchase a specified number of common shares at a fixed grant price over a defined period of time. Stock option activities under FirstEnergy stock option programs for 2009 were as follows:

| Stock Option Activities | Number of Options | Weighted Average Exercise Price |
|---|---|---|
| Balance, January 1, 2009 | 3,266,408 | $ 34.56 |
| (3,266,408 options exercisable) | | |
| | | |
| Options granted | - | - |
| Options exercised | 178,133 | 32.53 |
| Options forfeited | 21,075 | 30.50 |
| Balance, December 31, 2009 | 3,067,200 | $ 34.70 |
| (3,067,200 options exercisable) | | |

Options outstanding by plan and range of exercise price as of December 31, 2009 were as follows:

| | | Options Outstanding and Exercisable | | |
|---|---|---|---|---|
| Program | Range of Exercise Prices | Shares | Weighted Average Exercise Price | Remaining Contractual Life |
| **FE Plan** | $ 19.31 - $29.87 | 1,040,749 | $ 29.22 | 2.34 |
| | $ 30.17 - $39.46 | 2,010,104 | $ 37.63 | 3.67 |
| **GPU Plan** | $ 23.75 - $35.92 | 16,347 | $ 23.75 | 0.42 |
| **Total** | | 3,067,200 | $ 34.70 | 3.20 |

FirstEnergy reduced its use of stock options beginning in 2005 and increased its use of performance-based, restricted stock units. As a result, all unvested stock options vested in 2008. No compensation expense was recognized for stock options during 2009, and compensation expense in 2008 and 2007 was not material. Cash received from the exercise of stock options in 2009, 2008 and 2007 was $7 million, $74 million and $88 million, respectively.

*Performance Shares*

Performance shares are share equivalents and do not have voting rights. The shares track the performance of FirstEnergy's common stock over a three-year vesting period. During that time, dividend equivalents are converted into additional shares. The final account value may be adjusted based on the ranking of FirstEnergy stock performance to a composite of peer companies. Compensation expense recognized for performance shares during 2009, 2008 and 2007, net of amounts capitalized, totaled approximately $3 million, $8 million and $20 million, respectively. Cash used to settle performance shares in 2009, 2008 and 2007 was $15 million, $14 million and $10 million, respectively.

**(B) ESOP**

An ESOP Trust funded most of the matching contribution for FirstEnergy's 401(k) savings plan through December 31, 2007. All employees eligible for participation in the 401(k) savings plan are covered by the ESOP. Between 1990 and 1991, the ESOP borrowed $200 million from OE and acquired 10,654,114 shares of OE's common stock (subsequently converted to FirstEnergy common stock) through market purchases. The ESOP loan was paid in full in 2008.

In 2008 and 2009, shares of FirstEnergy common stock were purchased on the market and contributed to participants' accounts. Total ESOP-related compensation expenses in 2009, 2008 and 2007, net of amounts capitalized and dividends on common stock, were $36 million, $40 million and $28 million, respectively.

### (C) EDCP

Under the EDCP, covered employees can direct a portion of their compensation, including annual incentive awards and/or long-term incentive awards, into an unfunded FirstEnergy stock account to receive vested stock units or into an unfunded retirement cash account. An additional 20% premium is received in the form of stock units based on the amount allocated to the FirstEnergy stock account. Dividends are calculated quarterly on stock units outstanding and are paid in the form of additional stock units. Upon withdrawal, stock units are converted to FirstEnergy shares. Payout typically occurs three years from the date of deferral; however, an election can be made in the year prior to payout to further defer shares into a retirement stock account that will pay out in cash upon retirement (see Note 3). Interest is calculated on the cash allocated to the cash account and the total balance will pay out in cash upon retirement. Of the 1.3 million EDCP stock units authorized, 481,028 stock units were available for future awards as of December 31, 2009. Compensation expense (income) recognized on EDCP stock units, net of amounts capitalized, was not material in 2009, ($13) million in 2008 and $7 million in 2007, respectively.

### (D) DCPD

Under the DCPD, directors can elect to allocate all or a portion of their cash retainers, meeting fees and chair fees to deferred stock or deferred cash accounts. If the funds are deferred into the stock account, a 20% match is added to the funds allocated. The 20% match and any appreciation on it are forfeited if the director leaves the Board within three years from the date of deferral for any reason other than retirement, disability, death, upon a change in control, or when a director is ineligible to stand for re-election. Compensation expense is recognized for the 20% match over the three-year vesting period. Directors may also elect to defer their equity retainers into the deferred stock account; however, they do not receive a 20% match on that deferral. DCPD expenses recognized in each of 2009, 2008 and 2007 were approximately $3 million. The net liability recognized for DCPD of approximately $5 million as of December 31, 2009, 2008 and 2007 is included in the caption "Retirement benefits" on the Consolidated Balance Sheets.

## 5. FAIR VALUE OF FINANCIAL INSTRUMENTS

### (A) LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS

All borrowings with initial maturities of less than one year are considered as short-term financial instruments and are reported on the Consolidated Balance Sheets at cost (which approximates their fair market value) under the caption "short-term borrowings." The following table provides the approximate fair value and related carrying amounts of long-term debt and other long-term obligations as of December 31, 2009 and 2008:

| | December 31, 2009 | | December 31, 2008 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| | *(In millions)* | | | |
| FirstEnergy | $ 13,753 | $ 14,502 | $ 11,585 | $ 11,146 |
| FES | 4,224 | 4,306 | 2,552 | 2,528 |
| OE | 1,169 | 1,299 | 1,232 | 1,223 |
| CEI | 1,873 | 2,032 | 1,741 | 1,618 |
| TE | 600 | 638 | 300 | 244 |
| JCP&L | 1,840 | 1,950 | 1,569 | 1,520 |
| Met-Ed | 842 | 909 | 542 | 519 |
| Penelec | 1,144 | 1,177 | 779 | 721 |

The fair values of long-term debt and other long-term obligations reflect the present value of the cash outflows relating to those securities based on the current call price, the yield to maturity or the yield to call, as deemed appropriate at the end of each respective period. The yields assumed were based on securities with similar characteristics offered by corporations with credit ratings similar to those of FES and the Utilities.

### (B) INVESTMENTS

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

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

*Available-For-Sale Securities*

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

The following table summarizes the cost basis, unrealized gains and losses and fair values of investments in available-for-sale securities as of December 31, 2009 and 2008:

| | December 31, 2009 (1) | | | | December 31, 2008 (2) | | | |
|---|---|---|---|---|---|---|---|---|
| | Cost Basis | Unrealized Gains | Unrealized Losses | Fair Value | Cost Basis | Unrealized Gains | Unrealized Losses | Fair Value |
| **Debt securities** | | | | (In millions) | | | | |
| FirstEnergy (3) | $ 1,727 | $ 22 | $ - | $ 1,749 | $ 1,078 | $ 56 | $ - | $ 1,134 |
| FES | 1,043 | 3 | - | 1,046 | 401 | 28 | - | 429 |
| OE | 55 | - | - | 55 | 86 | 9 | - | 95 |
| TE | 72 | - | - | 72 | 66 | 8 | - | 74 |
| JCP&L | 271 | 9 | - | 280 | 249 | 9 | - | 258 |
| Met-Ed | 120 | 5 | - | 125 | 111 | 4 | - | 115 |
| Penelec | 166 | 5 | - | 171 | 164 | 3 | - | 167 |
| **Equity securities** | | | | | | | | |
| FirstEnergy | $ 252 | $ 43 | $ - | $ 295 | $ 589 | $ 39 | $ - | $ 628 |
| FES | - | - | - | - | 355 | 25 | - | 380 |
| OE | - | - | - | - | 17 | 1 | - | 18 |
| JCP&L | 74 | 11 | - | 85 | 64 | 2 | - | 66 |
| Met-Ed | 117 | 23 | - | 140 | 101 | 9 | - | 110 |
| Penelec | 61 | 9 | - | 70 | 51 | 2 | - | 53 |

(1) Excludes cash balances of $137 million at FirstEnergy, $43 million at FES, $3 million at JCP&L, $66 million at OE, $23 million at Penelec and $2 million at TE.

(2) Excludes cash balances of $244 million at FirstEnergy, $225 million at FES, $12 million at Penelec, $4 million at OE and $1 million at Met-Ed.

(3) Includes fair values as of December 31, 2009 and 2008 of $1,224 million and $953 million of government obligations, $523 million and $175 million of corporate debt and $1 million and $6 million of mortgage backed securities.

Proceeds from the sale of investments in available-for-sale securities, realized gains and losses on those sales, and interest and dividend income for the three years ended December 31 were as follows:

| | FirstEnergy | FES | OE | TE | JCP&L | Met-Ed | Penelec |
|---|---|---|---|---|---|---|---|
| **2009** | | | | (In millions) | | | |
| Proceeds from sales | $ 2,229 | $ 1,379 | $ 132 | $ 169 | $ 397 | $ 68 | $ 84 |
| Realized gains | 226 | 199 | 11 | 7 | 6 | 2 | 1 |
| Realized losses | 155 | 117 | 4 | 1 | 12 | 13 | 8 |
| Interest and dividend income | 60 | 27 | 4 | 2 | 14 | 7 | 6 |
| **2008** | | | | | | | |
| Proceeds from sales | $ 1,657 | $ 951 | $ 121 | $ 38 | $ 248 | $ 181 | $ 118 |
| Realized gains | 115 | 99 | 11 | 1 | 1 | 2 | 1 |
| Realized losses | 237 | 184 | 9 | - | 17 | 17 | 10 |
| Interest and dividend income | 76 | 37 | 5 | 3 | 14 | 9 | 8 |
| **2007** | | | | | | | |
| Proceeds from sales | $ 1,295 | $ 656 | $ 38 | $ 45 | $ 196 | $ 185 | $ 175 |
| Realized gains | 103 | 29 | 1 | 1 | 23 | 30 | 19 |
| Realized losses | 53 | 42 | 4 | 1 | 3 | 2 | 1 |
| Interest and dividend income | 80 | 42 | 4 | 3 | 13 | 8 | 10 |

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

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

During 2009, 2008 and 2007, FirstEnergy recognized $176 million, $63 million and $10 million of net realized gains resulting from the sale of securities held in nuclear decommissioning trusts.

*Held-To-Maturity Securities*

The following table provides the amortized cost basis, unrealized gains and losses, and approximate fair values of investments in held-to-maturity securities (excluding emission allowances, employee benefits, and equity method investments of $264 million and $293 million that are not required to be disclosed) as December 31, 2009 and 2008:

| | December 31, 2009 | | | | December 31, 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| | Cost Basis | Unrealized Gains | Unrealized Losses | Fair Value | Cost Basis | Unrealized Gains | Unrealized Losses | Fair Value |
| **Debt securities** | | | | *(In millions)* | | | | |
| FirstEnergy | $ 544 | $ 72 | $ - | $ 616 | $ 673 | $ 14 | $ 13 | $ 674 |
| OE | 217 | 29 | - | 246 | 240 | - | 13 | 227 |
| CEI | 389 | 43 | - | 432 | 426 | 9 | - | 435 |

*Notes Receivable*

The following table provides the approximate fair value and related carrying amounts of notes receivable as of December 31, 2009 and 2008:

| | December 31, 2009 | | December 31, 2008 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| **Notes receivable** | | *(In millions)* | | |
| FirstEnergy | $ 36 | $ 35 | $ 45 | $ 44 |
| FES | 2 | 1 | 75 | 74 |
| OE | - | - | 257 | 294 |
| TE | 124 | 141 | 180 | 189 |

The fair value of notes receivable represents the present value of the cash inflows based on the yield to maturity. The yields assumed were based on financial instruments with similar characteristics and terms. The maturity dates range from 2010 to 2040.

**(C) RECURRING FAIR VALUE MEASUREMENTS**

Fair value is the price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between willing market participants on the measurement date. A fair value hierarchy has been established that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those where transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. FirstEnergy's Level 1 assets and liabilities primarily consist of exchange-traded derivatives and equity securities listed on active exchanges that are held in various trusts.

Level 2 – Pricing inputs are either directly or indirectly observable in the market as of the reporting date, other than quoted prices in active markets included in Level 1. FirstEnergy's Level 2 assets and liabilities consist primarily of investments in debt securities held in various trusts and commodity forwards. Additionally, Level 2 includes those financial instruments that are valued using models or other valuation methodologies based on assumptions that are observable in the marketplace throughout the full term of the instrument and can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Instruments in this category include non-exchange-traded derivatives such as forwards and certain interest rate swaps.

Level 3 – Pricing inputs include inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. FirstEnergy develops its view of the future market price of key commodities through a combination of market observation and assessment (generally for the short term) and fundamental modeling (generally for the long term). Key fundamental electricity model inputs are generally directly observable in the market or derived from publicly available historic and forecast data. Some key inputs reflect forecasts published by industry leading consultants who generally employ similar fundamental modeling approaches. Fundamental model inputs and results, as well as the selection of consultants, reflect the consensus of appropriate FirstEnergy management. Level 3 instruments include those that may be more structured or otherwise tailored to customers' needs. FirstEnergy's Level 3 instruments consist exclusively of NUG contracts.

FirstEnergy utilizes market data and assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. FirstEnergy primarily applies the market approach for recurring fair value measurements using the best information available. Accordingly, FirstEnergy maximizes the use of observable inputs and minimizes the use of unobservable inputs.

The following tables set forth financial assets and financial liabilities that are accounted for at fair value by level within the fair value hierarchy as of December 31, 2009 and 2008. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. FirstEnergy's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the fair valuation of assets and liabilities and their placement within the fair value hierarchy levels. During 2009, there were no significant transfers in or out of Level 1, Level 2, and Level 3.

**Recurring Fair Value Measures as of December 31, 2009**

*(In millions)*

| | **Level 1 – Assets** | | | | **Level 1 - Liabilities** | | |
|---|---|---|---|---|---|---|---|
| | Derivatives | Available-for-Sale Securities (1) | Other Investments | Total | Derivatives | NUG Contracts (2) | Total |
| FirstEnergy | $ - | $ 294 | $ - | $ 294 | $ 11 | $ - | $ 11 |
| FES | - | - | - | - | 11 | - | 11 |
| OE | - | - | - | - | - | - | - |
| JCP&L | - | 87 | - | 87 | - | - | - |
| Met-Ed | - | 133 | - | 133 | - | - | - |
| Penelec | - | 74 | - | 74 | - | - | - |

| | Level 2 - Assets | | | | Level 2 - Liabilities | | |
|---|---|---|---|---|---|---|---|
| | Derivatives | Available-for-Sale Securities (1) | Other Investments | Total | Derivatives | NUG Contracts (2) | Total |
| FirstEnergy | $ 34 | $ 1,864 | $ 11 | $ 1,909 | $ 224 | $ - | $ 224 |
| FES | 15 | 1,072 | - | 1,087 | 224 | - | 224 |
| OE | - | 120 | - | 120 | - | - | - |
| TE | - | 72 | - | 72 | - | - | - |
| JCP&L | 5 | 280 | - | 285 | - | - | - |
| Met-Ed | 9 | 134 | - | 143 | - | - | - |
| Penelec | 5 | 186 | - | 191 | - | - | - |

| | Level 3 - Assets | | | | Level 3 - Liabilities | | |
|---|---|---|---|---|---|---|---|
| | Derivatives | Available-for-Sale Securities (1) | NUG Contracts (2) | Total | Derivatives | NUG Contracts (2) | Total |
| FirstEnergy | $ - | $ - | $ 200 | $ 200 | $ - | $ 643 | $ 643 |
| JCP&L | - | - | 9 | 9 | - | 399 | 399 |
| Met-Ed | - | - | 176 | 176 | - | 143 | 143 |
| Penelec | - | - | 15 | 15 | - | 101 | 101 |

(1) Consists of investments in nuclear decommissioning trusts, spent nuclear fuel trusts and NUG trusts. Excludes $21 million of receivables, payables and accrued income.

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

**Recurring Fair Value Measures as of December 31, 2008**

*(In millions)*

| | Level 1 – Assets | | | | Level 1 - Liabilities | | |
|---|---|---|---|---|---|---|---|
| | Derivatives | Available-for-Sale Securities (1) | Other Investments | Total | Derivatives | NUG Contracts (2) | Total |
| FirstEnergy | $ - | $ 537 | $ - | $ 537 | $ 25 | $ - | $ 25 |
| FES | - | 290 | - | 290 | 25 | - | 25 |
| OE | - | 18 | - | 18 | - | - | - |
| JCP&L | - | 67 | - | 67 | - | - | - |
| Met-Ed | - | 104 | - | 104 | - | - | - |
| Penelec | - | 58 | - | 58 | - | - | - |

| | Level 2 - Assets | | | | Level 2 - Liabilities | | |
|---|---|---|---|---|---|---|---|
| | Derivatives | Available-for-Sale Securities (1) | Other Investments | Total | Derivatives | NUG Contracts (2) | Total |
| FirstEnergy | $ 40 | $ 1,464 | $ 83 | $ 1,587 | $ 31 | $ - | $ 31 |
| FES | 12 | 744 | - | 756 | 28 | - | 28 |
| OE | - | 98 | - | 98 | - | - | - |
| TE | - | 73 | - | 73 | - | - | - |
| JCP&L | 7 | 255 | - | 262 | - | - | - |
| Met-Ed | 14 | 121 | - | 135 | - | - | - |
| Penelec | 7 | 174 | - | 181 | - | - | - |

| | Level 3 - Assets | | | | Level 3 - Liabilities | | |
|---|---|---|---|---|---|---|---|
| | Derivatives | Available-for-Sale Securities (1) | NUG Contracts (2) | Total | Derivatives | NUG Contracts (2) | Total |
| FirstEnergy | $ - | $ - | $ 434 | $ 434 | $ - | $ 766 | $ 766 |
| JCP&L | - | - | 14 | 14 | - | 532 | 532 |
| Met-Ed | - | - | 300 | 300 | - | 150 | 150 |
| Penelec | - | - | 120 | 120 | - | 84 | 84 |

(1) Consists of investments in nuclear decommissioning trusts, spent nuclear fuel trusts and NUG trusts. Excludes $5 million of receivables, payables and accrued income.

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

The determination of the above fair value measures takes into consideration various factors. These factors include nonperformance risk, including counterparty credit risk and the impact of credit enhancements (such as cash deposits, LOCs and priority interests). The impact of nonperformance risk was immaterial in the fair value measurements.

The following is a reconciliation of changes in the fair value of NUG contracts classified as Level 3 in the fair value hierarchy for 2009 and 2008 (in millions):

| | FirstEnergy | JCP&L | Met-Ed | Penelec |
|---|---|---|---|---|
| Balance as of January 1, 2009 | $ (332) | $ (518) | $ 150 | $ 36 |
| Settlements (1) | 358 | 168 | 88 | 102 |
| Purchases | - | - | - | - |
| Issuances | - | - | - | - |
| Sales | - | - | - | - |
| Unrealized losses (1) | (470) | (41) | (205) | (224) |
| Net transfers to Level 3 | - | - | - | - |
| Net transfers from Level 3 | - | - | - | - |
| Balance as of December 31, 2009 | $ (444) | $ (391) | $ 33 | $ (86) |
| | | | | |
| Balance as of January 1, 2008 | $ (803) | $ (750) | $ (28) | $ (25) |
| Settlements (1) | 278 | 232 | 34 | 12 |
| Unrealized gains (1) | 193 | - | 144 | 49 |
| Net transfers to (from) Level 3 | - | - | - | - |
| Balance as of December 31, 2008 | $ (332) | $ (518) | $ 150 | $ 36 |

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