

CLEVELAND ELECTRIC ILLUMINATING CO
 Form 424B2
 March 26, 2007

As Filed Pursuant to Rule 424(b)(2)
 Registration No. 333-138101

PROSPECTUS SUPPLEMENT
 (To prospectus dated October 31, 2006)

\$250,000,000

5.70% SENIOR NOTES DUE 2017

This is an offering by The Cleveland Electric Illuminating Company of \$250,000,000 aggregate principal amount of 5.70% Senior Notes due 2017. The Senior Notes will be our senior unsecured obligations and will rank equally with all of our other unsecured and unsubordinated indebtedness.

Interest on the Senior Notes will be payable semiannually on April 1 and October 1 of each year, beginning on October 1, 2007 and at maturity. The Senior Notes will mature on April 1, 2017.

We may redeem the Senior Notes from time to time, in whole or in part, prior to their maturity at the redemption price described in this prospectus supplement. The Senior Notes do not provide for a sinking fund. For a more detailed description of the Senior Notes, see Description of the Senior Notes beginning on page S-15.

Investing in the Senior Notes involves risks. See Risk Factors in this prospectus supplement beginning on page S-5 and in the documents incorporated by reference in this prospectus supplement and the accompanying prospectus dated October 31, 2006.

	Per Note		Total
Price to Public(1)	99.841	%	\$ 249,602,500
Underwriting Discounts and Commissions	0.650	%	\$ 1,625,000
Proceeds, before expenses, to Cleveland Electric	99.191	%	\$ 247,977,500

(1) Plus accrued interest, if any, from March 27, 2007.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the Senior Notes to purchasers through The Depository Trust Company on or about March 27, 2007.

Joint Book-Running Managers

KeyBanc Capital Markets

**Mizuho Securities
 USA Inc.**

**PNC Capital
 Markets LLC**

Co-Managers

RBS Greenwich Capital

**Scotia
 Capital**

**The Williams
 Capital Group, L.P.**

The date of this prospectus supplement is March 22, 2007.

TABLE OF CONTENTS

Prospectus Supplement

	Page
<u>About this Prospectus Supplement</u>	S-1
<u>Cautionary Note Regarding Forward-Looking Statements</u>	S-1
<u>Summary</u>	S-3
<u>Risk Factors</u>	S-5
<u>Where You Can Find More Information</u>	S-13
<u>Capitalization</u>	S-13
<u>Ratio of Earnings to Fixed Charges</u>	S-13
<u>Selected Financial Data</u>	S-14
<u>Use of Proceeds</u>	S-14
<u>Description of the Senior Notes</u>	S-15
<u>Underwriting</u>	S-19
<u>Legal Matters</u>	S-20
<u>Experts</u>	S-20

Prospectus

	Page
<u>Risk Factors</u>	1
<u>About this Prospectus</u>	1
<u>Forward-Looking Statements</u>	1
<u>The Cleveland Electric Illuminating Company</u>	2
<u>Ratio of Earnings to Fixed Charges</u>	3
<u>Use of Proceeds</u>	3
<u>Description of Debt Securities</u>	4
<u>Plan of Distribution</u>	14
<u>Legal Matters</u>	15
<u>Independent Registered Public Accounting Firm</u>	15
<u>Where You Can Find More Information</u>	16

ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement and the accompanying prospectus contain information about our company and about the Senior Notes. You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. Neither we nor any underwriter, agent or dealer has authorized anyone to provide you with information that is different. Neither we nor any underwriter, agent or dealer is making an offer of the Senior Notes in any state where the offer is not permitted. You should not assume that the information contained or incorporated by reference in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date on the front of this prospectus supplement.

In this prospectus supplement, unless the context indicates otherwise, the words Cleveland Electric, we, our, ours and us refer to The Cleveland Electric Illuminating Company.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements contained in this prospectus supplement and incorporated by reference into this prospectus supplement and the accompanying prospectus are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These statements include declarations regarding our or our management's intents, beliefs and current expectations. In some cases, you can identify forward-looking statements by terminology such as may, will, should, expects, plans, anticipates, believes, estimates, predicts, potential or could, or the negative of such terms or other comparable terminology. Forward-looking statements are not guarantees of future performance, and actual results could differ materially from those indicated by the forward-looking statements. Forward-looking statements involve estimates, assumptions, known and unknown risks, uncertainties and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements.

The forward-looking statements contained and incorporated by reference herein are qualified in their entirety by reference to the following important factors, which are difficult to predict, contain uncertainties, are beyond our control and may cause actual results to differ materially from those contained in forward-looking statements:

- the speed and nature of increased competition and deregulation in the electric utility industry;
- economic or weather conditions affecting future sales and margins;
- changes in markets for energy services;
- changing energy and commodity market prices;
- our ability to continue to collect transition and other charges;
- maintenance costs being higher than anticipated;
- legislative and regulatory changes (including revised environmental requirements);
- the repeal of the Public Utility Holding Company Act of 1935, or PUHCA, and the legal and regulatory changes resulting from the implementation of the Energy Policy Act of 2005, or EPACT;
- adverse regulatory or legal decisions and the outcomes of governmental investigations and oversight;

- our inability to accomplish or realize anticipated benefits from strategic goals (including employee workforce factors);
- the anticipated benefits from our voluntary pension plan contributions;
- our ability to experience growth in the distribution business;
- our ability to access the public securities and other capital markets and the cost of such capital;
- the outcome, cost and other effects of present and potential legal and administrative proceedings and claims related to the August 14, 2003 regional power outages;
- the outcome of future competitive bid processes under the Ohio Rate Stabilization Plan;
- the risks and other factors discussed from time to time in our filings with the Securities and Exchange Commission, or the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2006, as amended, and in this prospectus supplement and the accompanying prospectus relating to a specific issue of debt securities, in each case, under the heading "Risk Factors"; and
- other similar factors.

Any forward-looking statements speak only as of the date of this prospectus supplement, and we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date on which such statements are made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict all of such factors, nor can we assess the impact of any such factors on our business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statements. The foregoing review of factors should not be considered exhaustive.

S-2

SUMMARY

This summary may not contain all of the information that may be important to you. You should read this entire prospectus supplement and the accompanying prospectus, as well as the documents incorporated in the accompanying prospectus, before making an investment decision.

The Cleveland Electric Illuminating Company

We are one of eight wholly owned electric utility operating subsidiaries of FirstEnergy Corp., or FirstEnergy. We were organized under the laws of the State of Ohio in 1892 and own property and do business as an electric public utility in that state. We engage primarily in the distribution and sale of electric energy in an area of approximately 1,600 square miles in northeastern Ohio. We also engage in the sale, purchase and interchange of electric energy with other electric companies. The area we serve has a population of approximately 1.9 million.

Summary of the Offering

Issuer	The Cleveland Electric Illuminating Company
Securities Offered	We are offering \$250,000,000 aggregate principal amount of the Senior Notes.
Maturity	The Senior Notes will mature on April 1, 2017.
Interest	Interest on the Senior Notes will accrue at the per annum rate of 5.70%.
Interest Payment Dates	Interest on the Senior Notes will be payable semiannually in arrears on each April 1 and October 1 of each year, beginning on October 1, 2007, and at maturity.
Optional Redemption	The Senior Notes will be redeemable, in whole or in part, at our option, at any time at a make-whole redemption price as described under Description of the Senior Notes Optional Redemption herein.
Ranking	The Senior Notes will be our senior unsecured general obligations and will rank equally with all our other unsecured and unsubordinated indebtedness.
Limitation on Liens	Subject to certain exceptions, so long as any Senior Notes are outstanding, we will not issue, assume, guarantee or permit to exist any debt secured by any lien upon any of our operating property, except for certain permitted secured debt, without effectively securing all outstanding senior notes, including the Senior Notes, equally and ratably with that debt, but only so long as such debt is secured. (See Description of Debt Securities Certain Covenants Limitation on Liens in the accompanying prospectus.)
Limitation on Sale and Lease-Back Transactions	Subject to certain exceptions, so long as any Senior Notes are outstanding, we may not enter into or permit to exist any sale and lease-back transaction with respect to any operating property (except for transactions involving leases for a term, including renewals, of not more than 48 months), if the purchasers' commitment is obtained more than 18 months after the later of the completion of the acquisition, construction or development of that operating property or the placing in operation of that operating property or of that operating property as constructed or developed or substantially repaired, altered or improved. (See Description of Debt Securities Certain Covenants Limitation on Sale and Lease-Back Transactions in the accompanying prospectus.)

S-3

Additional Issuances	We may from time to time, without the consent of the holders of our senior notes, create and issue additional Senior Notes having the same terms and conditions as the Senior Notes (except the issue date and issue price) so that the additional issuance is consolidated and forms a single series with the previously outstanding Senior Notes.
Risk Factors	You should carefully consider, in addition to matters set forth elsewhere in this prospectus supplement and the accompanying prospectus, each of the factors described in the section of this prospectus supplement entitled "Risk Factors" beginning on page S-5 or in the documents incorporated by reference in this prospectus supplement or the accompanying prospectus before purchasing any Senior Notes.
Form and Denomination	The Senior Notes will be represented by a global certificate deposited with, or on behalf of, The Depository Trust Company, or DTC, or its nominee. (See "Description of Senior Notes Book-Entry" in this prospectus supplement.) The Senior Notes will be issuable in fully registered form only in denominations of \$1,000 and integral multiples thereof.
Use of Proceeds	Proceeds received from the issuance of the Senior Notes are expected to be used to repay short-term debt and for general corporate purposes, all as described under "Use of Proceeds" herein.
Governing Law	The indenture is, and the Senior Notes will be, governed by, and construed in accordance with, the laws of the State of New York, except to the extent that the Trust Indenture Act of 1939, as amended, is applicable.
Ratings	The Senior Notes are expected to be assigned ratings of Baa3 by Moody's Investors Service, Inc., or Moody's, BBB- by Standard & Poor's Ratings Service, a division of the McGraw Hill Companies, Inc., or S&P, and BBB- by FitchRatings, or Fitch. A rating reflects only the view of a rating agency, and it is not a recommendation to buy, sell or hold the Senior Notes. Any rating can be revised upward or downward or withdrawn at any time by a rating agency if such rating agency decides that circumstances warrant that change.
Trustee and Paying Agent Listing	The Bank of New York Trust Company, N.A., as successor Trustee. The Senior Notes will not be listed on any national securities exchange.

S-4

RISK FACTORS

You should consider, in evaluating us, our business and whether to participate in this offering, the following risk factors, in addition to the other information presented in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference into this prospectus supplement or the accompanying prospectus to which we refer you for more detailed information on our business, industry, and financial and corporate structure. Any of the following risks, as well as other risks and uncertainties, could harm the value of the Senior Notes directly or our business and financial results and thus indirectly cause the value of the Senior Notes to decline, which in turn could cause you to lose all or part of your investment. The risks below are not the only ones facing us or the Senior Notes. Additional risks not currently known to us or that we currently deem immaterial also may impair our business and cause the value or trading price of the Senior Notes to decline.

Risks related to our business and industry

Our facilities may not operate as planned, which may increase our expenses or decrease our revenues and, thus, have an adverse effect on our financial performance.

Operation of distribution facilities involves risk, including potential breakdown or failure of equipment or processes, accidents, labor disputes, stray voltage and performance below expected levels. In addition, weather-related incidents and other natural disasters can disrupt distribution delivery systems.

We are obligated to provide necessary and adequate service to customers within our franchised service territories. Meeting this commitment requires the expenditure of significant capital and other resources. Failure to provide necessary and adequate service and failure to meet regulatory reliability standards due to a number of factors, including equipment failure and weather, could adversely affect our operating results through reduced revenues and increased capital and maintenance costs and the imposition of penalties, fines or other adverse regulatory outcomes. Because the total of our distribution rates and generation charges will remain at current levels through April 2009, any increased costs for providing these services may be unrecoverable from customers during that period. Fuel cost increases above the level of fuel costs in the reference year of 2002 can be deferred. We, together with Ohio Edison Company and The Toledo Edison Company, or the Ohio Companies, can defer up to a total of \$150 million per year in distribution costs during the period 2006 to 2008. Beyond this period, as a regulated electric utility, our recovery of these types of costs would require timely and adequate regulatory relief, which would generally require a Public Utilities Commission of Ohio, or PUCO, determination that those costs were prudently incurred.

Also, as more fully discussed in our Annual Report on Form 10-K for the year ended December 31, 2006, as amended, incorporated herein by reference, certain legal proceedings related to power outages in our service territory in August 2003 are pending against us and certain of our affiliates and we may be affected by the outcome of the Seams Elimination Cost Adjustment rate proceeding at the U.S. Federal Energy Regulatory Commission, or the FERC. We are unable to predict the outcome of these matters.

We are subject to complex and changing laws and government regulations, including but not limited to environmental matters, that may require increased expense and/or changes in business strategy that could have a negative impact on our results of operations.

We are subject to comprehensive regulation by various federal, state and local regulatory agencies that significantly influence our operating environment. We are required to have numerous permits, approvals and certificates from agencies that regulate our business. Compliance with these legal requirements requires us to incur significant costs. These expenditures have been significant in the past and may increase in the future. If the cost of compliance with existing laws and regulations does increase, it could adversely affect our business and results of operations, financial position and cash flows. We believe the necessary permits, approvals and certificates have been obtained for our existing operations and that our business is conducted in accordance with applicable laws; however, we are unable to predict the impact on our operating results from future regulatory activity of any of these agencies.

Changes in or reinterpretations of existing laws or regulations or the imposition of new laws or regulations could require us to incur additional costs or change the way we conduct our business, and therefore could have an adverse impact on our results of operations.

Although our affiliates, FirstEnergy Generation Corp. and FirstEnergy Nuclear Generation Corp., or NGC, assumed or otherwise indemnified us for all then existing potential environmental liabilities associated with formerly-owned generating plants we transferred to those companies in October and December of 2005, respectively, we could conceivably be found primarily or jointly liable for failure to comply with environmental laws and regulations that may have occurred prior to the transfers.

The EPACT provides, among other things, for the creation of an electric reliability organization, or ERO, to establish and enforce reliability standards for the bulk power system, subject to the FERC's review. On February 3, 2006, the FERC adopted a rule establishing certification requirements for the ERO as well as regional entities envisioned to assume compliance monitoring and enforcement responsibility for the new reliability standards. The FERC issued an order on rehearing on March 30, 2006, providing certain clarifications and essentially affirming the rule.

On July 20, 2006, the FERC certified the North American Electric Reliability Council, or NERC, as the ERO to implement the provisions of the EPACT related to Section 215 of the Federal Power Act. In addition, on October 20, 2006, the FERC issued a Notice of Proposed Rulemaking, or NOPR, on reliability standards originally proposed by NERC in an April 4, 2006 filing with the FERC. The proposed reliability standards were based, with some modifications and additions, on the current NERC Version 0 reliability standards. In the NOPR, the FERC voted to adopt 83 of the proposed 107 reliability standards. The FERC asked the NERC to make technical improvements to 62 of the 83 standards approved. The 24 standards that were not adopted remain pending at the FERC awaiting further clarification and filings by the NERC and regional entities. The FERC also provided additional clarification on the proposed application of final standards in the NOPR. On November 15, 2006, NERC submitted several revised reliability standards and three new proposed reliability standards. Interested parties were provided the opportunity to comment on the NOPR (including the revised reliability standards) by January 3, 2007. Numerous parties, including FirstEnergy, filed comments on the NOPR on January 3, 2007. The FERC intends to issue a NOPR for the three new proposed reliability standards at a later date. Mandatory reliability standards are expected to be in place by the summer of 2007, and we will be subject to meeting those standards upon their approval by the FERC.

We believe that we are in compliance with all current NERC reliability standards. However, based upon a review of the October 20, 2006 NOPR, it appears that the FERC will adopt stricter reliability standards than those contained in the current NERC standards. The financial impact of complying with the new standards cannot be determined at this time. However, the EPACT requires that all prudent costs incurred to comply with the new reliability standards be recovered in rates. If we are unable to meet the reliability standards for the bulk power system in the future, it could have a material adverse effect on our financial condition, results of operations and cash flows. In addition, failure to comply with the reliability standards approved by the FERC can result in the imposition of fines and civil penalties.

On March 16, 2007, the FERC issued a final rule approving the 83 mandatory reliability standards. The final rule will not take effect until 60 days after publication in the Federal Register. The FERC also directed NERC to improve 56 reliability standards. The final rule has not yet been fully evaluated to assess its impact on our operations.

Regulatory changes in the electric industry and developments in pending regulatory proceedings and related litigation could result in unrecoverable costs adversely affecting our business and results of operations.

As a result of the actions taken by state legislative bodies over the last few years, changes in the electric utility business have occurred and are continuing to take place in states throughout the United States, including Ohio. These changes have resulted, and are expected to continue to result, in fundamental alterations in the way integrated utilities conduct their business.

The FERC and the U.S. Congress also propose changes from time to time in the structure and conduct of the electric utility industry. If the restructuring and deregulation efforts result in unrecoverable costs, our business and results of operations may be adversely affected. We cannot predict the extent or timing of further efforts to restructure, deregulate or re-regulate our business or the industry.

On October 21, 2003, the Ohio Companies filed the Rate Stabilization Plan, or RSP, case with the PUCO. On August 5, 2004, the Ohio Companies accepted the RSP as modified and approved by the PUCO in an August 4, 2004 Entry on Rehearing, subject to a competitive bid process, or CBP. The RSP was intended to establish generation service rates beginning January 1, 2006 in response to PUCO concerns about price and supply uncertainty following the end of the Ohio Companies' transition plan market development period. In October 2004, the Ohio Consumers' Counsel, or OCC, and Northwest Ohio Aggregation Coalition, or NOAC, filed appeals with the Supreme Court of Ohio to overturn the original June 9, 2004 PUCO order in this proceeding, as well as the associated entries on rehearing. On May 3, 2006, the Supreme Court of Ohio affirmed that order with respect to the approval of the rate stabilization charge, approval of the shopping credit incentive deferral amounts, and approval of the Ohio Companies' financial separation plan. It remanded back to the PUCO the matter of ensuring the availability of sufficient means for customer participation in the competitive marketplace. The RSP contained a provision that permitted the Ohio Companies to withdraw and terminate the RSP in the event that the PUCO, or the Supreme Court of Ohio, rejected all or part of the RSP. On July 20, 2006, the Ohio Companies filed with the PUCO a Request to Initiate a Proceeding on Remand. In their Request, the Ohio Companies provided notice of termination of those provisions of the RSP subject to termination, subject to being withdrawn, and also set forth a framework for addressing the Supreme Court of Ohio's findings on customer participation, requesting the PUCO to initiate a proceeding to consider the Ohio Companies' proposal. If the PUCO approves a resolution to the issues raised by the Supreme Court of Ohio that is acceptable to the Ohio Companies, the Ohio Companies' termination will be withdrawn and considered to be null and void. Separately, the OCC and NOAC also submitted to the PUCO on July 20, 2006 a conceptual proposal dealing with the issue raised by the Supreme Court of Ohio. On July 26, 2006, the PUCO issued an Entry acknowledging the July 20, 2006 filings of the Ohio Companies and the OCC and NOAC, and giving the Ohio Companies 45 days to file a plan in a new docket to address the Court's concern. On September 19, 2006, the PUCO issued an Entry granting the Ohio Companies' Motion for extension of time to file the remand proposal. The Ohio Companies filed their RSP Remand CBP on September 29, 2006. The PUCO conducted a technical conference on December 1, 2006 to discuss the Ohio Companies' RSP Remand CBP. Initial comments were filed on January 12, 2007 and reply comments were filed on January 29, 2007. In their reply comments the Ohio Companies described the highlights of a new tariff offering they would be willing to make available to customers that would allow customers to purchase renewable energy certificates associated with a renewable generation source, subject to PUCO approval. No further proceedings are scheduled at this time.

On March 1, 2006, the PUCO denied applications for rehearing of the PUCO's January 4, 2006 order approving the Ohio Companies' Rate Certainty Plan, or RCP, filed by several parties. The RCP was originally proposed by the Ohio Companies in 2005 as a supplement to the RSP to provide customers with more certain rate levels than otherwise available under the RSP during the plan period. Two parties subsequently filed notices of appeal with the Supreme Court of Ohio challenging the deferral of fuel and distribution costs approved under the RCP and the continuation of shopping credit caps approved under the RSP. If these appeals are successful in overturning the deferral authority granted by the PUCO, we may not be able to recover these fuel and distribution costs without further timely and adequate regulatory relief, which would adversely affect our results of operation.

On December 30, 2004, the Ohio Companies filed with the PUCO two applications related to the recovery of transmission and ancillary service-related costs. The first application sought recovery of these costs beginning January 1, 2006. We requested that these costs be recovered through a rider that would be effective on January 1, 2006 and adjusted each July 1 thereafter. The parties reached a settlement

agreement that was approved by the PUCO on August 31, 2005. Our portion of incremental transmission and ancillary service revenues recovered from January 1 through June 30, 2006 was approximately \$23.5 million. That amount included the recovery of a portion of 2005 deferred Midwest Independent Transmission System Operator, Inc., or MISO, expenses, as described below. On April 27, 2006, the Ohio Companies filed the annual update rider to determine revenues (\$50 million for us) from July 2006 through June 2007. The filed rider went into effect on July 1, 2006.

The second application sought authority to defer costs associated with transmission and ancillary service-related costs incurred during the period from October 1, 2003 through December 31, 2005. On May 18, 2005, the PUCO granted the accounting authority for the Ohio Companies to defer incremental transmission and ancillary service-related charges incurred as a participant in MISO, but only for those costs incurred during the period December 30, 2004 through December 31, 2005. Permission to defer costs incurred prior to December 30, 2004 was denied. The PUCO also authorized the Ohio Companies to accrue carrying charges on the deferred balances. On August 31, 2005, the OCC appealed the PUCO's decision. On January 20, 2006, the OCC sought rehearing of the PUCO approval of the recovery of deferred costs through the rider during the period January 1, 2006 through June 30, 2006. The PUCO denied the OCC's application on February 6, 2006. On March 23, 2006, the OCC appealed the PUCO's order to the Ohio Supreme Court. On March 27, 2006, the OCC filed a motion to consolidate this appeal with the deferral appeals discussed above and to postpone oral arguments in the deferral appeal until after all briefs are filed in this most recent appeal of the rider recovery mechanism. On March 20, 2006, the Ohio Supreme Court, on its own motion, consolidated the OCC's appeal of the Ohio Companies' case with a similar case involving The Dayton Power and Light Company. Oral arguments were heard on May 10, 2006. On November 29, 2006, the Ohio Supreme Court affirmed the PUCO's order with respect to the deferral of incremental transmission and ancillary service-related charges. No party filed a motion for reconsideration with the Ohio Supreme Court.

On February 15, 2007, MISO filed documents with the FERC to establish a market-based, competitive ancillary services market. MISO contends that the filing will integrate operating reserves into MISO's existing day-ahead and real-time settlements process, incorporate opportunity costs into these markets, address scarcity pricing through the implementation of a demand curve methodology, foster demand response in the provision of operating reserves, and provide for various efficiencies and optimization with regard to generation dispatch. The filing also proposes amendments to existing documents to provide for the transfer of balancing functions from existing local balancing authorities to MISO. MISO will then carry out this reliability function as the NERC-certified balancing authority for the MISO region. MISO is targeting implementation for the second or third quarter of 2008. The FERC has established March 23, 2007, as the date for interested parties to submit comments addressing the filing. The filing has not yet been fully evaluated to assess its impact on our operations.

On February 16, 2007, the FERC issued a final rule that revises its decade-old open access transmission regulations and policies. The FERC explained that the final rule is intended to strengthen non-discriminatory access to the transmission grid, facilitate FERC enforcement, and provide for a more open and coordinated transmission planning process. The final rule will be effective on May 14, 2007. The final rule has not yet been fully evaluated to assess its impact on our operations.

Nuclear generation involves risks that include uncertainties relating to health and safety, additional capital costs, the adequacy of insurance coverage and nuclear plant decommissioning.

On December 16, 2005, our affiliates, Pennsylvania Power Company, or Penn, and the Ohio Companies transferred their undivided ownership interests in their nuclear generation assets to NGC. We retained, however, our leasehold interests in certain of the plants that are currently subject to sale and leaseback arrangements with non-affiliates. FirstEnergy Nuclear Operating Company continues to operate and maintain the nuclear generation assets.

We are exposed to losses as co-lessee with our affiliate, The Toledo Edison Company, under sale and leaseback agreements for a portion of Unit 2 at the Beaver Valley Power Station, a nuclear power plant, upon the occurrence of certain contingent events that could render that facility worthless. Although we believe these types of events are unlikely to occur, we and our co-lessee have a maximum exposure to loss under these provisions of approximately \$510 million.

Also, as a former owner, and a continuing co-lessee under sale and leaseback arrangements, of nuclear facilities, we are subject to the risks of nuclear generation, including but not limited to the following:

- the potential harmful effects on the environment and human health resulting from the operation of nuclear facilities and the storage, handling and disposal of radioactive materials;
- limitations on the amounts and types of insurance commercially available to cover losses that might arise in connection with our nuclear operations or those of others in the United States;
- uncertainties with respect to contingencies and assessments if insurance coverage is inadequate; and
- uncertainties with respect to the technological and financial aspects of decommissioning nuclear plants at the end of their licensed operation.

The NRC has broad authority under federal law to impose licensing, security and safety-related requirements for the operation of nuclear generation facilities. In the event of non-compliance, the NRC has the authority to impose fines and/or shut down a unit, depending upon its assessment of the severity of the situation, until compliance is achieved. Revised safety requirements promulgated by the NRC could necessitate substantial capital expenditures at nuclear plants, including those we lease.

Our leasehold interests in Beaver Valley Unit 2 are insured under Nuclear Electric Insurance Limited policies issued for that plant. Under these policies, up to \$2.75 billion of insurance coverage is provided for property damage and decontamination and decommissioning costs, approximately \$251.1 million of which would apply to our and our co-lessee's leasehold interests. Approximately \$89.5 million of insurance coverage for replacement power costs have also been obtained. Under these policies, we and our co-lessee can be assessed a maximum of approximately \$2.8 million for incidents at any covered nuclear facility occurring during a policy year that are in excess of accumulated funds available to the insurer for paying losses.

Changes in commodity prices could adversely affect our profit margins.

On November 1, 2005, our affiliate, FirstEnergy Solutions Corp., or FES, filed a power sales agreement for approval with the FERC. The power sales agreement calls for FES to provide the provider of last resort, or PLR, requirements of the Ohio Companies, at a price equal to the retail generation rates approved by the PUCO for the Ohio Companies for a period of three years beginning January 1, 2006. We and the other Ohio Companies would be relieved of our obligation to obtain PLR power requirements from FES if the Ohio CBP approved in the RSP proceeding results in a lower price for retail customers.

On December 29, 2005, the FERC issued an order setting the power sales agreement for hearing. The order criticized the Ohio CBP, and required FES to submit additional evidence in support of the reasonableness of the prices charged in the power sales agreement. A pre-hearing conference was held on January 18, 2006 to determine the hearing schedule in this case. Under the procedural schedule approved in this case, FES expected an initial decision to be issued in this case in late January 2007. However, on July 14, 2006, the Chief Judge granted the joint motion of FES and the Trial Staff to appoint a settlement judge in this proceeding and the procedural schedule was suspended pending settlement discussions. A settlement conference was held on September 5, 2006. FES, the Ohio Companies and the PUCO, along with other parties, reached an agreement to settle the case. The settlement was filed with the FERC presiding administrative law judge, or ALJ, on October 17, 2006, and was unopposed by the remaining parties, including the FERC Trial Staff. Initial comments in support of the settlement were filed on November 6, 2006 by the FERC Trial Staff and industrial intervenors. On November 17, 2006, the ALJ

certified the settlement as uncontested to the FERC, finding it a fair and reasonable resolution of the issues being litigated and in the public interest. The settlement was accepted by the FERC on December 8, 2006.

The terms of the settlement provide for modification of the Ohio Companies' power supply agreement with FES. Under the Ohio power supply agreement, separate rates are established for the Ohio Companies' PLR requirements, special retail contract requirements, wholesale contract requirements, and interruptible buy-through retail load requirements. For our PLR and special retail contract requirements, the Ohio Companies will pay FES no more than the lower of (i) the sum of the retail generation charge, the rate stabilization charge, the fuel recovery mechanism charge, and FES' actual incremental fuel costs for such sales; or (ii) the applicable wholesale price cap. Different wholesale price caps are imposed for PLR sales, special retail contracts, and wholesale contracts. The wholesale price for interruptible buy-through retail load requirements is limited to the actual spot price of power obtained by FES to provide this power. The total power supply cost billed by FES was lower in each case than the wholesale price caps specified in the settlement accepted by the FERC.

To the extent any of our power supply costs are greater than what the PUCO permits us to recover in rates, we are subject to the risk of increasing power costs. Electricity prices may fluctuate substantially over relatively short periods of time for a variety of reasons, including:

- changing weather conditions or seasonality;
- changes in electricity usage by our customers;
- illiquidity in wholesale power and other markets;
- transmission congestion or transportation constraints, inoperability or inefficiencies;
- availability of competitively priced alternative energy sources;
- changes in supply and demand for energy commodities;
- changes in power production capacity;
- outages at power production facilities that supply us or others; and
- natural disasters, wars, acts of sabotage, terrorist acts, embargoes and other catastrophic events.

We may ultimately incur liability in connection with federal proceedings.

On October 20, 2004, FirstEnergy was notified by the SEC that the previously disclosed informal inquiry initiated by the SEC's Division of Enforcement in September 2003 relating to the restatements in August 2003 of previously reported results by FirstEnergy and the Ohio Companies, and the Davis-Besse Nuclear Power Station extended outage, have become the subject of a formal order of investigation. The SEC's formal order of investigation also encompasses issues raised during the SEC's examination of FirstEnergy and its subsidiaries under the PUHCA, which has since been repealed. Concurrent with this notification, FirstEnergy received a subpoena asking for background documents and documents related to the restatements and Davis-Besse issues. On December 30, 2004, FirstEnergy received a subpoena asking for documents relating to issues raised during the SEC's PUHCA examination. On August 24, 2005, additional information was requested regarding Davis-Besse. FirstEnergy has cooperated fully with the informal inquiry and will continue to do so with the formal investigation.

Weather conditions such as tornadoes, hurricanes, storms, ice and droughts, as well as seasonal temperature variations, could have a negative impact on our results of operations.

Weather conditions directly influence the demand for electric power. In our service area, demand for power peaks during the summer months, with market prices also typically peaking at that time. As a result, overall operating results may fluctuate on a seasonal and quarterly basis. In addition, we have historically sold less power, and consequently received less revenue, when weather conditions are milder. Severe weather, such as tornadoes, hurricanes, storms, ice, droughts or other natural disasters, may cause outages

and property damage that may require us to incur additional costs that are generally not insured and that may not be recoverable from customers.
The effect of the