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**TO THE INVESTMENT COMMUNITY: <sup>1</sup>**

This letter will provide an update on the JCP&L rate case proceeding.

**Independent Accountants' Report**

On July 29, 2002, the New Jersey Board of Public Utilities (Board) issued a Request for Proposals to secure the services of an independent accountant/auditor/consultant to conduct audits of the restructuring-related deferred balances of New Jersey's four electric utilities. On October 2, 2002, Mitchell & Titus and the Barrington-Wellesley Group were engaged to perform the audit of JCP&L.

The audit is being conducted in two phases. Phase I covers the deferred balances for the first three years of the Transition Period (August 1, 1999 through July 31, 2002) and Phase II covers the final Transition Period year of August 1, 2002 through July 31, 2003.

The objective of the audit is to provide the Board with a certified opinion as to whether JCP&L's deferred balances are accurately calculated, correctly recorded, fairly stated in all material respects and in compliance with Board Orders. Additionally, for utilities like JCP&L that have divested their generation assets, the audit includes a prudence review of the utility's Basic

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<sup>1</sup> This letter includes forward-looking statements based on information currently available to management. Such statements are subject to certain risks and uncertainties. These statements typically contain, but are not limited to, the terms "anticipate," "expect," "believe," "estimate," and similar words. Actual results may differ materially due to a number of factors including, but not limited to, the speed and nature of regulatory approvals.

Generation Service (BGS) procurement practices for the transition period. The audit is also to examine the utility's mitigation efforts with respect to the above-market Non-Utility Generation (NUG) contracts costs during the Transition Period.

The Phase I Report was transmitted to the Office of Administrative Law, where the rate case is being heard, on March 18, 2003.

With respect to energy procurement approach and management, the Phase I Report found that the company's "strategy for meeting its BGS procurement responsibilities was informed and reasonable in light of the Company's prior experience in meeting supply procurement requirements." The report also found that the company "appropriately supplemented its expertise through the use of external consultants who assisted in developing and shaping JCP&L's BGS procurement strategy, training employees on procurement risk management issues, developing planning and management tools, and developing risk management policies and procedures." The report states that the company "developed a reasonable strategic framework for meeting BGS procurement needs."

With respect to NUG mitigation efforts, the report found that "in general, JCP&L maintained a reasonable and prudent program for NUG mitigation well before the transition period and committed substantial corporate resources to mitigating the costs of its NUG contracts."

The Phase I Report made two specific findings of potential disallowances of deferred balance recovery:

- Because the auditors could not find an adequate explanation for why JCP&L deviated from a hedge procurement target during the spring and summer of 2001, they estimated that the incremental cost of the hedge deviations was \$11.7 million.
- Because the auditors believe that JCP&L was not as aggressive in the pursuit of mitigation opportunities for its smaller NUG contracts as it was for its larger NUG contracts, they estimate that \$5.6 million of mitigation savings may have been foregone.

Although we disagree with the report's findings of \$17.3 million of potential disallowances, we are pleased with the report's major conclusions and overall tone. The Phase I audit period subjected \$436 million of deferred costs to a retrospective prudence review during a period of extreme price uncertainty and volatility in the energy markets. We believe the auditors overall conclusion that JCP&L's energy procurement strategy and process was reasonable and prudent is a correct one.

The company will have an opportunity to conduct discovery on the Phase I Report, cross-examine the auditing firms and submit rebuttal testimony.

If you have any questions concerning information in this update, please call Kurt Turosky, Director of Investor Relations, at (330) 384-5500, or me at (973) 401-8519.

Very truly yours,

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