

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Ohio)	
Edison Company, The Cleveland Electric)	
Illuminating Company and The Toledo)	Case No. _____ - EL-ATA
Edison Company for Authority to Continue)	EL-AAM
And Modify Certain Regulatory Accounting)	EL-UNC
Practices and Procedures, for Tariff Approvals)	
and to Establish Rates and Other Charges)	
Including Regulatory Transition Charges)	
Following the Market Development Period.)	

APPLICATION

Ohio Edison Company (hereinafter “OE”), The Cleveland Electric Illuminating Company (hereinafter “CEI”), and The Toledo Edison Company (hereinafter “TE”, with OE, CEI and TE, individually referred to as “Company” and collectively referred to as the “Companies”), each of which is an electric light company and a public utility pursuant to Sections 4905.02 and 4905.03 O.R.C., by this Application request regulatory authority to establish rates for generation service under Chapter 4928 O.R.C., to be effective as of the end of the market development period, on January 1, 2006. The Companies propose to either (1) establish a competitive bidding process to determine standard offer generation service rates commencing as of January 1, 2006 under which the prices for generation services would be determined by then current market prices, or (2) implement a comprehensive Rate Stabilization Plan designed to provide stable long-term competitive pricing of energy services for their customers, assure supplies of

electricity and enhance economic development within their service areas. Along with this Application, and as an integral part hereof, the Companies have attached as Exhibit 1 an outline of its proposed competitive bidding process, and as Exhibit 2 the Rate Stabilization Plan.

The Rate Stabilization Plan (hereinafter the “Plan”) proposed herein is designed to address the significant price and supply uncertainties that customers will face following the end of the market development period. These price and supply uncertainties are outlined below, but generally result from unanticipated events that have negatively impacted the development of wholesale and retail markets, the lack of liquidity in the electricity sector, the volatility of energy prices and the impact these events and others could have on reliable and reasonably priced supplies of electricity and on the economy of Ohio. The Plan is consistent with the Commission’s recent encouragement to provide alternatives that offer price stability following the end of the market development period.

Under the Plan, the Companies will continue to be obligated to provide full service to customers, thus assuring customers of an adequate supply of electricity, while giving customers the opportunity to select alternative suppliers and the opportunity to receive lower market prices based upon a competitive bid. Further, the Plan stabilizes the price customers pay for electricity by essentially maintaining current prices through 2008, subject to limited adjustments, and continues in effect rate discounts that otherwise would have expired during the period.

The Plan consists of four principal elements:

- 1. Maintaining current rates subject to limited exceptions for the Plan period from the end of the market development period through the earlier of December 31, 2008 or termination of the Plan;**
- 2. Continuation of certain rate reductions that otherwise would have expired;**
- 3. A stable generation price and a competitive bidding process which could pass on to customers any additional market based savings that may be available during the period; and**
- 4. Modification, continuation and implementation of specified regulatory accounting practices.**

In effect, the Plan guarantees that customers would pay no higher than current prices for generation, with certain limited exceptions, while retaining the option to pay less through the competitive bidding process for generation service following the market development period and during the term of the Plan.

A. BACKGROUND

Chapter 4928 O.R.C. enacted a state policy that seeks to ensure the availability of adequate, reliable, safe, efficient, nondiscriminatory, and reasonably priced retail electric service. It also seeks to protect consumers within the state against market deficiencies, the impact of adverse economic changes and the state's effectiveness in the global economy. The framework established in Chapter 4928 O.R.C. includes a market development period that contemplated the establishment of fully functional regional transmission organizations meeting specified criteria and a well-developed wholesale generation market as necessary conditions for the

establishment of a retail market capable of serving as a suitable replacement for traditional regulation of the price and availability of generation service.

Under Chapter 4928 O.R.C., generation rates for customers would be based upon market prices following the market development period for electric distribution utilities, which will end on December 31, 2005 for the Companies. As a result of such shift to rates based upon market prices, customers will be exposed to prices for generation that are unpredictable, volatile and potentially much higher than the Companies' current rates for electric service.

Recent events in the electric industry, however, including severe credit restrictions, new generation construction cancellations, increasingly volatile natural gas and other fuel prices, and the delay in completion of the work identified in Chapter 4928 O.R.C. as essential to the development of both Midwest wholesale and retail markets, may expose Ohio electric customers receiving electric generation service after December 31, 2005 to unreasonable price volatility and service reliability risks and uncertainties. And, the electric industry may continue to be impacted by credit and other issues, including additional environmental restrictions, which in turn may affect the industry's ability to maintain adequate levels of supply and put additional upward pressure on prices.

These events not only could impact customers directly, but also could have a negative impact on Ohio's economic development efforts and its ability to attract and retain jobs and businesses, particularly because states adjoining Ohio have not generally chosen to pursue competitive generation or have frozen prices through periods typically much longer than in Ohio.

As a result of the risks described herein, the Commission has encouraged utilities in Ohio to identify alternative plans that will effectively and proactively manage such risks through strategies that do not depend on the completion of work essential to the development of both Midwest wholesale and retail markets. The Plan proposed herein as an alternative to the establishment of rates based solely upon market prices is a means to accomplish stability and a cap on the prices customers could otherwise be exposed to following the end of the market development period.

B. COMPETITIVE BID PROCESS

As outlined in Exhibit 1, the competitive bid process proposed by the Companies would establish generation prices based upon a competitive bid to be undertaken probably during 2005. The bid prices would be for full service, i.e., would include provider of last resort responsibility, and would be recovered from customers without markup by the Companies, except for costs.

While the Companies are prepared to work out the details of the bidding process with the Commission, which would be consistent with any final rules of the Commission concerning that matter, the Companies believe that a process much like that established in New Jersey would work well.

Generally, under the proposed process, the entire load of the Companies, including loads served under contracts that could be terminated by the customer and by alternative suppliers, would be bid to the market. The suppliers would be responsible for whatever portion of the supply they have committed to provide, plus

or minus the proportion of increased or decreased requirements that may be demanded by customers at a fixed price for the period. Initially, a bid for a one-year period would be contemplated, however, ultimately the Commission may choose to require bids for multiple years.

Under this proposal, price and supply risk is shifted to customers, although there would be recourse against suppliers that fail to meet their contractual obligations. In such instances of supplier failure, whether as a result of a default or a failure to meet both scheduled and actual real-time requirements, the prices paid by customers would be adjusted to reflect the market price at the time of the default or to cover the supplier's failure to supply. The Companies' obligation would be to acquire the supplies necessary to cover the default or shortfall at the then current market price, and would be permitted to timely recover the costs associated therewith.

C. COMPREHENSIVE RATE STABILIZATION PLAN

The Plan represents a comprehensive solution to the issues outlined in the Background section hereof and, more importantly, creates a unique and substantial opportunity to bring price and supply stability to the customers of the Companies through 2008, while providing customers the benefits of a competitive market should one adequately develop. And, it further represents an attempt to achieve an overall reasonable solution in light of facts and circumstances and the pace of market development all of which are very different than those originally contemplated in Chapter 4928 O.R.C. In fact, as evidenced by the Commission's

encouragement of alternatives to volatile and unpredictable market prices, it may be no longer possible to ignore the price and reliability risks associated with the timely and complementary action necessary to foster development of a dynamically efficient market.

Accordingly, the Plan represents a balancing of complex issues and provides substantial customer benefits that would not otherwise be available. By combining price stability and supply reliability for customers, the Plan ensures an adequate generation supply at reasonable prices for an extended period that would not have been available otherwise and that is critical, under the circumstances, to the overall solution and to the well-being of Ohio and Ohioans. And, since under the Plan, the Commission may elect to terminate it early for any reason, including based upon a competitive market bid, customers are essentially assured of prices after December 31, 2005 that are reasonable and predictable through the rate stability period of the Plan or through the competitively bid market prices for generation services as provided for herein. The early termination feature of the Plan also provides the Commission more time to assess the maturation of the wholesale and retail market and to further encourage action to complement Ohio's restructuring plan and introduce an efficient wholesale market to meet the electric price and service reliability needs of the Midwest region. It, thus, provides for what the market could not ensure, that an electric commodity supply will be available in the Companies' service territories at predictable prices for both buyers and sellers. Also, beyond what the Commission could order, the Plan offers substantial energy efficiency grants, creating opportunities that would not otherwise exist for low-income

customers; economic development assistance to enhance job growth and retention; and extends certain rate plan reductions for residential customers up to December 31, 2010. In effect, the Plan represents a solution that is designed to ensure the availability of adequate, stable and reasonably priced retail electricity service for customers, and further takes all steps possible within the constraints of Senate Bill No. 3 to maintain customer choice consistent with state policy as set forth in Section 4928.02 O.R.C.

The major terms of the Plan can be generally summarized as follows:

- 1. Current generation rates will continue through December 31, 2008, subject to limited exceptions for costs that are generally beyond the Companies' ability to control, e.g., taxes, fuel and certain regulatory costs, but in some instances subject to a cap, and other changes that are currently allowed by Ohio Revised Code or applicable tariffs. (Section I Paragraph 5, Section II Paragraph 1).**
- 2. Distribution rates would continue to be generally frozen through December 31, 2007. Residential customer charge credits currently in effect for the Companies will be extended as a reduction in other charges. Transmission rates would be adjusted as established by the FERC or applicable RTO. (Section I Paragraphs 2, 6 and 7).**
- 3. Effective January 1, 2006, a rate stabilization charge (the "RSC") will be established. The RSC will end for all of the Companies, unless the Plan is terminated early, with usage through December 31, 2008. The**

RSC charge will be at the same level as the generation transition charge. (Section II Paragraph 2(a)).

- 4. The RSC will be a non-bypassable charge, except that aggregators and industrial/commercial customers will be given an opportunity to enter into contracts for the period January 1, 2006 through December 31, 2008 under which, if the Companies are no longer obligated to reserve capacity to meet the requirements of such customers under the contracts, then the shopping credit for such customers will be equal to the generation charge (which otherwise would be set at the current little “g” charge) plus 65% of the RSC. The shopping credit for customers that do not enter into such contracts by December 31, 2004 will be set at the generation charge during the period of the Plan. Returning customers would only be exposed to then current market prices for a limited period of time, and any excess charges will be spread over 12 months, without interest, at the customer’s request. (Section II Paragraph 2(b)).**
- 5. If, following the market development period, the Companies do not maintain at least 20% shopping by class, as currently determined, then the Companies will continue to make available for that class market support generation under generally the same terms as currently in effect up to the amount needed to attain 20% shopping at a price equal to 85% of the generation charge otherwise applicable to**

the customer, but not lower than 1.5 cents per kWh. (Section IV Paragraph 4).

6. The Companies will waive the right to seek a reduction in the shopping credits, and to extend the recovery of the RTC for economic conditions and other factors that have affected or will affect kWh sales, as set forth in Case No. 99-1212-EL-ETP, except that the shopping credits in effect for calendar year 2004 will continue during 2005. Effective January 1, 2004 through December 31, 2005, the Companies will begin to defer as an additional shopping credit incentive deferral the amount by which little “g” for shopping customers is less than the market support price used in determining such customers’ shopping credit. The Companies will also accrue and defer interest on the shopping credit deferred balances and other deferrals created under the Plan. (Section II Paragraphs 9 and 10; Section VIII Paragraph 6).
7. The GTC charge will be reduced effective January 1, 2004 through December 31, 2005 to incorporate a reduction within that charge to reflect the 5% residential generation credit and the residential customer charge credits. Effective January 1, 2006, those credits will be reflected as reductions in the RTC charge. This will allow those credits to continue through the recovery of regulatory transition costs, and, as discussed below, be further extended. As a result of lowering the transition cost charges, the time period for recovery and

amortization of certain regulatory transition costs will be fixed at the earlier of specific dates or attaining certain Kwh sales levels for each Company. When those dates or sales are reached, the RTC will be extended to recover the shopping credit incentive deferrals and other deferrals created by the Plan, on a dollar for dollar basis, but no later than through December 31, 2010. The extended RTC charge will be set at the same level as the RTC charge. Termination of the Plan will not impact the RTC or extended RTC recovery periods or rates. (Section II Paragraphs 6, 7 and 8; Section I Paragraphs 2 and 12).

- 8. Energy efficiency and economic development funds will be made available during the period the Plan is in effect. (Section III).**
- 9. A competitive bidding process will be established to test the generation price provided for under the Plan against market prices. If the market prices are lower, the Commission may terminate the Plan and accept the bids for generation service within the service areas of the Companies. The Commission may also elect to terminate the Plan at any time and for any reason with certain notice. (Section IV and V).**
- 10. The Companies may only terminate the Plan, if, as a result of environmental requirements, generating units currently owned by the Companies are shut down or retired in an aggregate amount that exceeds 250 MWs. (Section VI).**

11. The requirement that the Companies corporately separate will be extended until twelve months after the Commission terminates the Plan or until December 31, 2008, whichever occurs earlier. (Section VII Paragraph 2).

D. PROPOSAL TIME PERIOD

The Companies seek to resolve this matter by December 31, 2003. Accordingly, if the Commission does not approve the Plan or makes any modifications thereto that are not accepted by the Companies in writing, it will be deemed withdrawn as of December 31, 2003. And, the Companies' plan then will be to proceed with a competitive bidding process to satisfy the generation requirements of their customers, subject to Commission approval.

As the Commission is well aware, the Companies have already functionally separated their generation assets as required by Ohio law such that control of the output from those facilities is with FirstEnergy Solutions. Commencing immediately upon the Commission's decision in this case, FirstEnergy Solutions will either be required to essentially continue to dedicate such generation resources to the Ohio customers of the Companies or will begin to use it to supply other obligations. Time is of the essence because the overall requirements to be served by FirstEnergy Solutions, assuming an obligation to Ohio customers continues beyond 2005, is substantially greater than the resources controlled by that company. Accordingly, it will have to begin to purchase power to meet its full requirements in the event the Plan is adopted, or will not need to purchase power but can devote its

resources primarily outside of Ohio if the Plan is not adopted. As such, billions of dollars of commitments are involved and early resolution is imperative to protect the overall financial condition of the Companies and their affiliated companies.

NOW, THEREFORE, the Companies urge the Commission to issue its Opinion and Order which either (1) establishes a competitive bidding process for generation services within the service areas of the Companies effective January 1, 2006, or (2) adopts and approves the Rate Stabilization Plan filed and proposed herein without change, and to do so in an expeditious fashion.

Ohio Edison Company
The Cleveland Electric Illuminating Company
The Toledo Edison Company

By _____
Richard H. Marsh
Senior Vice President & Chief Financial Officer

By _____
Thomas C. Navin
Treasurer

Attorneys for Applicants

**James W. Burk
Kathy J. Kolich
FirstEnergy Corp.
76 South Main Street
Akron, Ohio 44308
Phone 330-384-5861
Fax 330-384-3875**

**Paul T. Ruxin
JONES DAY
North Point
901 Lakeside Avenue
Cleveland, Ohio 44114
Telephone: 216-586-3939
Facsimile: 216-579-0212**

**Helen L. Liebman
JONES DAY
41 South High Street, Suite 1900
Columbus, Ohio 43215
Telephone: 614-469-3939
Facsimile: 614-461-4198**

**Attorneys for Applicants
The Cleveland Electric Illuminating Company
Ohio Edison Company
and The Toledo Edison Company**

VERIFICATION

STATE OF OHIO)
) ss.
COUNTY OF SUMMIT)

The undersigned, being first duty sworn, state that they have the authority to verify the foregoing Application of Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company (collectively, the “Companies”) for authority to continue and modify certain regulatory accounting practices and procedures, for tariff approvals and to establish rates and other charges including regulatory transition charges following the market development period. Also, they state that they have read said Application and are familiar with the contents of the filing in support; and that all of the statements contained in said filing made on behalf of the Companies are true and correct to the best of their knowledge and belief.

Richard H. Marsh
Senior Vice President & CFO

Thomas C. Navin
Treasurer

Ohio Edison Company
The Cleveland Electric Illuminating Co.
The Toledo Edison Company

Ohio Edison Company
The Cleveland Electric Illuminating Co.
The Toledo Edison Company

Sworn to and subscribed before me, a notary public, in and for said County and State, this 20th day of October, 2003.

Notary Public