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CLEVELAND ELECTRIC ILLUMINATING CO
 Form 10-K/A
 September 24, 2003

SECURITIES AND EXCHANGE COMMISSION
 WASHINGTON, D. C. 20549

FORM 10-K/A

AMENDMENT NO. 2

(MARK ONE)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
 OF THE SECURITIES EXCHANGE ACT OF 1934
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
 OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
 OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER -----	REGISTRANT; STATE OF INCORPORATION; ADDRESS; AND TELEPHONE NUMBER -----	I.R.S. EMPLOYER IDENTIFICATION NO. -----
1-2323	THE CLEVELAND ELECTRIC ILLUMINATING COMPANY (AN OHIO CORPORATION) 76 SOUTH MAIN STREET AKRON, OH 44308 TELEPHONE (800)736-3402	34-0150020

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

REGISTRANT -----	TITLE OF EACH CLASS -----	NAME OF EACH ON WHICH RE -----
The Cleveland Electric Illuminating Company	Cumulative Serial Preferred Stock, without par value: \$7.40 Series A Adjustable Rate, Series L	Both series regi York Stock Excha

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether each registrant is an accelerated filer (as defined in Rule 12b-2 of the Act): Yes [X] No []

State the aggregate market value of the common stock held by non-affiliates of the registrant: None.

Indicate the number of shares outstanding of the registrant's classes of common stock, as of the latest practicable date:

CLASS -----	OUTSTANDING AS OF MARCH 24, 2003 -----
The Cleveland Electric Illuminating Company, no par value	79,590,689

EXPLANATORY NOTE

We are filing this Amendment No. 2 to our Annual Report on Form 10-K/A for the year ended December 31, 2002 (the "Report") to correct certain typographical and minor computational errors in Item 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION and Item 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA of the Report (filed originally as part of Exhibit 13 to the Report). This Amendment has no effect on previously reported results of operations or financial position.

The complete amended and restated Item 7, which is included in its entirety below, reflects the following corrections:

Under the heading "Restatements":

Under the subheading "Above-Market Lease Costs":

In the table following the sixth paragraph, the total transition cost amortization is corrected as follows:

	(IN MILLIONS)	
	AS ORIGINALLY FILED -----	AS CORRECTED -----
2003	\$ 71	\$169
2004	102	190
2005	161	217
2006	74	128
2007	125	145
2008	213	163
2009	55	43

Under the heading "Results of Operations":

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Under the subheading "Operating Expenses and Taxes":

In the second sentence of the first paragraph, total 2001 operating expenses and taxes of \$173.3 million should have read \$185.7 million.

In the table, the change in 2001 operating expenses and taxes is corrected as follows:

	(IN MILLIONS)	
	AS ORIGINALLY FILED	AS CORRECTED
	-----	-----
Income taxes	10.1	(2.3)
Total operating expenses and taxes	(173.3)	(185.7)

In the second sentence of the third paragraph, the decrease in nuclear operating costs in 2001 of \$11.4 million should have read \$11.8 million.

Under the heading "Capital Resources and Liquidity":

Under the subheading "Cash Flows from Operating Activities":

The Operating Cash Flow table is corrected as follows:

	(IN MILLIONS)			
	2002		2001	
	AS ORIGINALLY FILED	AS CORRECTED	AS ORIGINALLY FILED	AS CORRECTED
	-----	-----	-----	-----
Cash earnings	\$319.3	\$326.5	\$ 473.4	
Working capital and other	(2.1)	(9.3)	(107.9)	

The complete amended and restated Item 8, which is included in its entirety below, reflects the following corrections:

NOTES TO FINANCIAL STATEMENTS:

Under Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Under the subheading "(M) RESTATEMENTS":

Under the subheading "Above-Market Lease Costs":

In the table following the sixth paragraph, the total transition cost amortization is corrected as follows:

(IN MILLIONS)	
AS ORIGINALLY FILED	AS CORRECTED
-----	-----

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2003	\$ 71	\$169
2004	102	190
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2006	74	128
2007	125	145
2008	213	163
2009	55	43

EXHIBIT 12.3 CONSOLIDATED RATIO OF EARNINGS TO FIXED CHARGES

As a result of the restatements, the fixed charge ratios exhibit has been revised.

FORM 10-K/A
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* Indicates the items that have not been revised and are not included in this Form 10-K/A. Reference is made to the original 10-K, as previously amended, for the complete text of such items.

THE FOLLOWING ITEM HAS BEEN AMENDED IN THIS AMENDMENT NO. 2:

PART II

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY

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

This discussion includes forward-looking statements based on information currently available to management. Such statements are subject to certain risks and uncertainties. These statements typically contain, but are not limited to, the terms "anticipate", "potential," "expect", "believe", "estimate" and similar words. Actual results may differ materially due to the speed and nature of increased competition and deregulation in the electric utility industry, economic or weather conditions affecting future sales and margins, changes in markets for energy services, changing energy and commodity market

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prices, replacement power costs being higher than anticipated or inadequately hedged, maintenance costs being higher than anticipated, legislative and regulatory changes (including revised environmental requirements), availability and cost of capital, inability of the Davis-Besse Nuclear Power Station to restart (including because of an inability to obtain a favorable final determination from the Nuclear Regulatory Commission) in the fall of 2003, inability to accomplish or realize anticipated benefits from strategic goals, further investigation into the causes of the August 14, 2003, power outage, and other similar factors.

CORPORATE SEPARATION

Beginning on January 1, 2001, Ohio customers were able to choose their electricity suppliers as a result of legislation which restructured the electric utility industry. That legislation required unbundling the price for electricity into its component elements - including generation, transmission, distribution and transition charges. CEI continues to deliver power to homes and businesses through its existing distribution system and maintain the "provider of last resort" (PLR) obligations under its transition plan. As a result of the transition plan, FirstEnergy's electric utility operating companies (EUOC) entered into power supply agreements whereby FirstEnergy Solutions Corp. (FES) purchases all of the EUOC nuclear generation, and leases EUOC fossil generating facilities. CEI is a "full requirements" customer of FES to enable it to meet its PLR responsibilities in its respective service area.

The effect on CEI's reported results of operations during 2001 from FirstEnergy's corporate separation plan and our sale of transmission assets to American Transmission Systems, Inc. (ATSI) in September 2000, are summarized in the following tables:

CORPORATE RESTRUCTURING - 2001 INCOME STATEMENT EFFECTS INCREASE (DECREASE)

	CORPORATE SEPARATION	ATSI	TOTAL
	-----	-----	-----
	(IN MILLIONS)		
Operating Revenues:			
Power supply agreement with FES.....	\$ 334.1	\$ --	\$ 334.1
Generating units rent.....	59.1	--	59.1
Ground lease with ATSI.....	--	2.8	2.8
<hr style="border-top: 1px dashed black;"/>			
TOTAL OPERATING REVENUES EFFECT.....	\$ 393.2	\$ 2.8	\$ 396.0
<hr style="border-top: 3px double black;"/>			
Operating Expenses and Taxes:			
Fossil fuel costs.....	\$ (97.6) (a)	\$ --	\$ (97.6)
Purchased power costs.....	597.4 (b)	--	597.4
Other operating costs.....	(90.7) (a)	13.9 (d)	(76.8)
Provision for depreciation and amortization	--	(5.9) (e)	(5.9)
General taxes.....	(3.2) (c)	(9.3) (e)	(12.5)
Income taxes.....	(4.9)	3.4	(1.5)
<hr style="border-top: 1px dashed black;"/>			
TOTAL OPERATING EXPENSES EFFECT.....	\$ 401.0	\$ 2.1	\$ 403.1
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OTHER INCOME.....	\$ --	\$ 4.8 (f)	\$ 4.8
<hr style="border-top: 3px double black;"/>			

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- (a) Transfer of fossil operations to FirstEnergy Generation Company (FGCO).
- (b) Purchased power from power supply agreement (PSA).
- (c) Payroll taxes related to employees transferred to FGCO.
- (d) Transmission services received from ATSI.
- (e) Depreciation and property taxes related to transmission assets sold to ATSI.
- (f) Interest on note receivable from ATSI.

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RESTATEMENTS

As further discussed in Note 1(M) to the Consolidated Financial Statements, the Company is restating its consolidated financial statements for the three years ended December 31, 2002. The revisions principally reflect a change in the method of amortizing costs being recovered through the Ohio transition plan and recognition of above-market values of certain leased generation facilities.

Transition Cost Amortization

As discussed under Regulatory Plan in Note 1(C) to the Consolidated Financial Statements, CEI recovers transition costs, including regulatory assets, through an approved transition plan filed under Ohio's electric utility restructuring legislation. The plan, which was approved in July 2000, provides for the recovery of costs from January 1, 2001 through a fixed number of kilowatt-hour sales to all customers that continue to receive regulated transmission and distribution service, which is expected to end in 2009.

The Company amortizes transition costs using the effective interest method. The amortization schedules originally developed at the beginning of the transition plan in 2001 in applying this method were based on total transition revenues, including revenues designed to recover costs which have not yet been incurred or that were recognized on the regulatory financial statements (fair value purchase accounting adjustments), but not in the financial statements prepared under generally accepted accounting principles (GAAP). The Company has revised the amortization schedules under the effective interest method to consider only revenues relating to transition regulatory assets recognized on the GAAP balance sheet. The impact of this change will result in higher amortization of these regulatory assets the first several years of the transition cost recovery period, compared with the method previously applied. The change in method results in no change in total amortization of previously recorded regulatory assets recovered under the transition period through the end of 2009.

Above-Market Lease Costs

In 1997, FirstEnergy Corp. was formed through a merger between OE and Centerior Energy Corporation (Centerior). The merger was accounted for as an acquisition of Centerior, the parent company of CEI, under the purchase accounting rules of Accounting Principles Board (APB) Opinion No. 16. In connection with the reassessment of the accounting for the transition plan, the Company reassessed its accounting for the Centerior purchase and determined that

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above-market lease liabilities should have been recorded at the time of the merger. Accordingly, the Company has restated its financial statistics to record additional adjustments associated with the 1997 merger between OE and Centerior to reflect certain above-market lease liabilities for Beaver Valley Unit 2 and the Bruce Mansfield Plant, for which CEI had previously entered into sale-leaseback arrangements. The Company recorded an increase in goodwill related to the above-market lease costs for Beaver Valley Unit 2 since regulatory accounting for nuclear generating assets had been discontinued prior to the merger date and it was determined that this additional consideration would have increased goodwill at the date of the merger. The corresponding impact of the above-market lease liability for the Bruce Mansfield Plant was recorded as a regulatory asset because regulatory accounting had not been discontinued at that time for the fossil generating assets and recovery of these liabilities was provided under the transition plan.

The total above-market lease obligation of \$611 million associated with Beaver Valley Unit 2 will be amortized through the end of the lease term in 2017 (approximately \$31.2 million annually). The additional goodwill has been recorded effective as of the merger date, and amortization has been recorded through 2001, when goodwill amortization ceased with the adoption of Statement of Financial Accounting Standards (SFAS) No. 142 (SFAS 142), "Goodwill and Other Intangible Assets." The total above-market lease obligation of \$457 million associated with the Bruce Mansfield Plant is being reversed through the end of 2016 (approximately \$29.0 million annually). Before the start of the transition plan in fiscal 2001, the regulatory asset would have been amortized at the same rate as the lease obligation resulting in no impact to net income. Beginning in 2001, the unamortized regulatory asset has been included in the Company's revised amortization schedule for regulatory assets and amortized through the end of the recovery period in 2009.

The Company has reflected the impact of the accounting for the period from the merger in 1997 through 1999 as a cumulative effect adjustment of \$23.6 million to retained earnings as of January 1, 2000. The after-tax effects of these items in the three years ended December 31, 2002, were as follows:

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INCOME STATEMENT EFFECTS
INCREASE (DECREASE)

	TRANSITION COST AMORTIZATION	REVERSAL OF LEASE OBLIGATIONS (1)	TOTAL
	-----	-----	-----
	(IN THOUSANDS)		
Year ended December 31, 2002			
Nuclear operating expenses	\$ --	\$ (31,200)	\$ (31,200)
Other operating expenses	--	(29,000)	(29,000)
Provision for depreciation and amortization	52,000	51,300	103,300
Income taxes	(21,945)	3,744	(18,201)
	-----	-----	-----
Total expense	\$ 30,055	\$ (5,156)	\$ 24,899
	=====	=====	=====
Net income effect	\$ (30,055)	\$ 5,156	\$ (24,899)
	=====	=====	=====

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Year ended December 31, 2001				
Nuclear operating expenses	\$	--	\$ (31,200)	\$ (31,200)
Other operating expenses		--	(29,000)	(29,000)
Provision for depreciation and amortization		53,600	56,100	109,700
Income taxes		(18,714)	1,412	(17,302)
		-----	-----	-----
Total expense	\$	34,886	\$ (2,688)	\$ 32,198
		=====	=====	=====
Net income effect	\$	(34,886)	\$ 2,688	\$ (32,198)
		=====	=====	=====
Year ended December 31, 2000				
Nuclear operating expenses	\$	--	\$ (31,200)	\$ (31,200)
Other operating expenses		--	--	--
Provision for depreciation and amortization		--	9,000	9,000
Income taxes		--	12,974	12,974
		-----	-----	-----
Total expense	\$	--	\$ (9,226)	\$ (9,226)
		=====	=====	=====
Net income effect	\$	--	\$ 9,226	\$ 9,226
		=====	=====	=====

- (1) The provision for depreciation and amortization in each of 2001 and 2000 includes goodwill amortization of \$1.9 million.

In addition, the impact increased the following balances in the Consolidated Balance Sheet as of January 1, 2000:

(IN THOUSANDS)	
Goodwill	\$ 340,990
Regulatory assets	457,000

Total assets	\$ 797,990
	=====
Other current liabilities	\$ 60,000
Deferred income taxes	(225,971)
Other deferred credits	940,400

Total liabilities	\$ 774,429
	=====
Retained earnings	\$ 23,561
	=====

The impact of the adjustments described above for the next five years is expected to reduce net income in 2003 through 2005 and increase net income in 2006 through 2007 as shown below.

YEAR	CHANGE IN TRANSITION COST AMORTIZATION	REGULATORY ASSET AMORTIZATION (a)	LEASE LIABILITY REVERSAL	EFFECT ON PRE-TAX INCOME	EFFECT ON NET INCOME
----	-----	-----	-----	-----	-----

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(IN MILLIONS)

2003	\$ (39.4)	\$ (57.7)	\$60.2	\$ (36.9)	\$ (21.8)
2004	(22.9)	(64.8)	60.2	(27.5)	(16.2)
2005	18.3	(74.4)	60.2	4.1	2.4
2006	(9.5)	(43.7)	60.2	7.0	4.1
2007	30.4	(49.5)	60.2	41.1	24.2

(a) This represents the additional amortization related to the regulatory assets recognized in connection with the above-market lease for the Bruce Mansfield Plant discussed above.

After giving effect to the restatement, total transition cost amortization (including above market leases) is expected to approximate the following for the years from 2003 through 2009 (in millions).

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2003.....	\$169
2004.....	190
2005.....	217
2006.....	128
2007.....	145
2008.....	163
2009.....	43

Other Unrecorded Adjustments

This restatement for the three years ended December 31, 2002 also includes adjustments that were not previously recognized. The net income impact by year was \$7.6 million in 2002, \$(7.9) million in 2001 and \$(1.8) million in 2000.

The effects of all the changes on the Consolidated Statements of Income previously reported for the three years ended December 31, 2002 are as follows:

	2002		2001		AS
	AS PREVIOUSLY PRESENTED	RESTATED PRESENTATION	AS PREVIOUSLY PRESENTED	RESTATED PRESENTATION	
	(IN THOUSANDS)				
Revenues	\$1,835,371	\$1,843,671	\$2,076,222	\$2,064,622	\$
Expenses	1,510,225	1,537,519	1,680,661	1,710,200	
Other income	15,971	15,971	13,292	13,292	
Income before net interest charges	341,117	322,123	408,853	367,714	
Net interest charges	185,171	185,171	189,809	189,809	

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Net income	155,946	136,952	219,044	177,905
Preferred stock dividend requirements	17,390	15,690	25,838	24,838

Earnings on common stock	\$ 138,556	\$ 121,262	\$ 193,206	\$ 153,067
=====				

RESULTS OF OPERATIONS

Earnings on common stock in 2002 decreased 20.8% to \$121.3 million in 2002 from \$153.1 million in 2001 and \$189.6 million in 2000. The earnings decrease in 2002 primarily resulted from lower operating revenues, which was partially offset by lower operating expenses, net interest charges and preferred stock dividend requirements. Excluding the effects of corporate restructuring shown in the table above, earnings on common stock decreased by 19.3% in 2001 from 2000.

Operating revenues decreased \$221.0 million or 10.7% in 2002 compared with 2001. The lower revenues reflected the effects of a sluggish national economy on our service area, shopping by Ohio customers for alternative energy providers and decreases in wholesale revenues. Retail kilowatt-hour sales declined by 23.9% in 2002 from the prior year, with declines in all customer sectors (residential, commercial and industrial), resulting in a \$123.0 million reduction in generation sales revenue. Our lower generation kilowatt-hour sales resulted primarily from customer choice in Ohio. Sales of electric generation by alternative suppliers as a percent of total sales delivered in our franchise area increased to 31.5% in 2002 from 12.9% in 2001, while our share of electric generation sales in our franchise areas decreased by 18.6% compared to the prior year. Distribution deliveries decreased 3.3% in 2002 compared with 2001, which decreased revenues from electricity throughput by \$18.9 million in 2002 from the prior year. The lower distribution deliveries resulted from the effect that continued sluggishness in the economy had on demand by commercial and industrial customers which was offset in part by the additional residential demand due to warmer summer weather. Transition plan incentives, provided to customers to encourage switching to alternative energy providers, further reduced operating revenues \$43.4 million in 2002 from the prior year. These revenue reductions are deferred for future recovery under our transition plan and do not materially affect current period earnings. Sales revenues from wholesale customers decreased by \$43.8 million in 2002 compared to 2001, due to lower kilowatt-hour sales. The reduced kilowatt-hour sales resulted from lower sales to FES reflecting the extended outage at Davis-Besse (see Davis-Besse Restoration).

Excluding the effects shown in the Corporate Restructuring table above, operating revenues decreased by \$221.9 million or 11.7% in 2001 from 2000. Customer choice in Ohio and the influence of a declining national economy on our regional business activity combined to lower operating revenues. Electric generation services provided by other suppliers in our service area represented 12.9% of total energy delivered in 2001. Retail generation sales declined in all customer categories, resulting in an overall 14.9% reduction in kilowatt-hour sales from the prior year. As part of Ohio's electric utility restructuring law, the implementation of a 5% reduction in generation charges for residential customers reduced operating revenues by approximately \$16.6 million in 2001, compared to 2000. Distribution deliveries declined 2.4% in 2001 from the prior year, reflecting the impact of a weaker economy that contributed to lower commercial and industrial kilowatt-hour sales. Operating revenues were also lower in 2001 from the prior year due to the absence of

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revenues associated with the low-income payment plan now administered by the Ohio Department of Development; there was also a corresponding reduction in other operating costs associated with that change. Revenues from kilowatt-hour sales to wholesale customers declined by \$86.7 million in 2001 from 2000, with a corresponding 76.4% reduction in kilowatt-hour sales.

CHANGES IN KWH SALES	2002	2001

INCREASE (DECREASE)		
Electric Generation:		
Retail.....	(23.9)%	(14.9)%
Wholesale.....	(12.8)%	(76.4)%

TOTAL ELECTRIC GENERATION SALES.....	(18.9)%	(26.4)%
=====		
Distribution Deliveries:		
Residential.....	6.1 %	-- %
Commercial and industrial.....	(6.6)%	(3.2)%

TOTAL DISTRIBUTION DELIVERIES.....	(3.3)%	(2.4)%
=====		

Operating Expenses and Taxes

Total operating expenses and taxes decreased by \$172.7 million in 2002 and increased by \$217.4 million in 2001 from 2000. Excluding the effects of restructuring, total 2001 operating expenses and taxes were \$185.7 million lower than the prior year. The following table presents changes from the prior year by expense category excluding the impact of restructuring on 2001 changes.

OPERATING EXPENSES AND TAXES - CHANGES	2002	2001

RESTATED (SEE NOTE 1 (M)) (IN MILLIONS)		
INCREASE (DECREASE)		
Fuel and purchased power.....	\$(181.2)	\$(145.6)
Nuclear operating costs.....	98.7	(11.8)
Other operating costs.....	16.5	(41.6)

TOTAL OPERATION AND MAINTENANCE EXPENSES...	(66.0)	(199.0)
Provision for depreciation and amortization..	(59.7)	80.4
General taxes.....	2.9	(64.8)
Income taxes.....	(49.9)	(2.3)

TOTAL OPERATING EXPENSES AND TAXES.....	\$(172.7)	\$(185.7)

Lower fuel and purchased power costs in 2002 compared to 2001, resulted from a \$177.0 million reduction in power purchased from FES, reflecting lower kilowatt-hours purchased due to reduced kilowatt-hour sales and lower unit prices. Nuclear operating costs increased \$98.7 million in 2002, primarily due to approximately \$59.1 million of incremental Davis-Besse maintenance costs

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related to its extended outage (see Davis-Besse Restoration). The \$16.5 million increase in other operating costs resulted principally from higher employee benefit costs.

The decrease in fuel and purchased power costs in 2001, compared to 2000, reflects the transfer of fossil operations to FGCO, with our power requirements being provided under the PSA. Nuclear operating costs decreased by \$11.8 million in 2001 from the prior year due to one less nuclear refueling outage in 2001. Other operating costs decreased \$41.6 million in 2001 from the prior year reflecting a reduction in low-income payment plan customer costs and the absence of voluntary early retirement costs in 2001, offset in part by additional planned maintenance work at the Bruce Mansfield Plant and the absence in 2001 of gains from the sale of emission allowances.

Charges for depreciation and amortization decreased by \$59.7 million in 2002 from 2001 primarily due to higher shopping incentive deferrals and tax-related deferrals under our transition plan and the cessation of goodwill amortization (\$38.2 million annually) beginning January 1, 2002, upon implementation of Statement of Financial Accounting Standards No. (SFAS) 142 "Goodwill and Other Intangible Assets." In 2001, depreciation and amortization increased by \$80.4 million due to amortization of transition costs offset by new deferrals for shopping incentives under FirstEnergy's Ohio transition plan.

General taxes increased by \$2.9 million in 2002 from 2001 principally due to additional property taxes. In 2001, general taxes decreased by \$64.8 million from 2000 as a result of reduced property taxes and other state tax changes in connection with the Ohio electric industry restructuring. The reduction in general taxes was partially offset by \$20.1 million of new Ohio franchise taxes in 2001, which are classified as state income taxes on the Consolidated Statements of Income.

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Net Interest Charges

Net interest charges continued to trend lower, decreasing by \$4.6 million in 2002 and by \$9.9 million in 2001, compared to the prior year. We continued to redeem and refinance outstanding debt and preferred stock during 2002 - net redemptions and refinancing activities totaled \$291.8 million and \$108.7 million, respectively, and will result in annualized savings of \$25.5 million.

Preferred Stock Dividend Requirements

Preferred stock dividend requirements were \$9.1 million lower in 2002, compared to the prior year principally due to the completion of \$164.7 million in optional and sinking fund preferred stock redemptions. Premiums related to the optional redemptions partially offset the lower dividend requirements.

CAPITAL RESOURCES AND LIQUIDITY

Through net debt and preferred stock redemptions, we continued to reduce the cost of debt and preferred stock, and improve our financial position in 2002. During 2002, we reduced our total debt by approximately \$206 million. Our common stockholder's equity as a percentage of total capitalization increased to 36% as of December 31, 2002 from 21% at the end of 1997. Over the last five years, we have reduced the average cost of outstanding debt from 8.15% in 1997 to 7.30% in 2002.

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Changes in Cash Position

As of December 31, 2002, we had \$30.4 million of cash and cash equivalents, which was principally used to redeem long-term debt in January 2003, compared with \$ 0.3 million as of December 31, 2001. The major sources for changes in these balances are summarized below.

Cash Flows from Operating Activities

Our consolidated net cash from operating activities is provided by our regulated energy services. Net cash provided from operating activities was \$317.2 million in 2002 and \$365.5 million in 2001. Cash flows provided from 2002 and 2001 operating activities are as follows:

OPERATING CASH FLOWS	2002	2001

(IN MILLIONS)		
Cash earnings (1).....	\$326.5	\$ 467.6
Working capital and other.....	(9.3)	(102.1)

Total.....	\$317.2	\$ 365.5
=====		

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

Cash Flows from Financing Activities

In 2002, the net cash used for financing activities of \$140.1 million primarily reflects the redemptions of debt and preferred stock shown below. CEI received an equity contribution of \$50 million from FirstEnergy that facilitated CEI's 2002 optional preferred stock redemptions.

The following table provides details regarding new issues and redemptions during 2002:

SECURITIES ISSUED OR REDEEMED IN 2002

		(IN MILLIONS)
NEW ISSUES		
Pollution Control Notes.....		\$108.7
Other, principally new financing discounts.....		(1.7)

		107.0
REDEMPTIONS		
First Mortgage Bonds.....		195.0
Pollution Control Notes.....		78.7
Secured Notes.....		33.0
Preferred Stock.....		164.7
Other, principally redemption premiums.....		2.8

		474.2

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Short-term Borrowings, Net..... \$190.9
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In 2001, net cash used for financing activities totaled \$192.4 million, primarily due to payment of common stock dividends to FirstEnergy.

We had about \$30.8 million of cash and temporary investments and approximately \$288.6 million of short-term indebtedness at the end of 2002. We had the capability to issue \$379.3 million of additional first mortgage bonds (FMB) on the basis of property additions and retired bonds. We have no restrictions on the issuance of preferred stock. At the end of 2002, our common equity as a percentage of capitalization, including debt relating to assets held for sale, stood at 36% compared to 31% at the end of 2001. The higher common equity percentage in 2002 compared to 2001 resulted from net redemptions of preferred stock and long-term debt, the additional equity investment from FirstEnergy and the increase in retained earnings.

Cash Flows from Investing Activities

Net cash used in investing activities totaled \$147 million in 2002. The net cash used for investing resulted from property additions, which was offset in part by a reduction of the Shippingport Capital Trust investment. Expenditures for property additions primarily include expenditures supporting our distribution of electricity and capital expenditures related to Davis-Besse (see Davis-Besse Restoration).

In 2001, net cash used in investing activities totaled \$176 million, principally due to property additions and the sale of property to affiliates as part of corporate separation and the sale to ATSI discussed above.

Our cash requirements in 2003 for operating expenses, construction expenditures, scheduled debt maturities and preferred stock redemptions are expected to be met without increasing our net debt and preferred stock outstanding. Over the next three years, we expect to meet our contractual obligations with cash from operations. Thereafter, we expect to use a combination of cash from operations and funds from the capital markets.

CONTRACTUAL OBLIGATIONS	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS

(IN MILLIONS)				
Long-term debt.....	\$2,309	\$145	\$580	\$120
Short-term borrowings.....	289	289	--	--
Preferred stock (1).....	106	1	2	2
Capital leases (2).....	10	1	2	2
Operating leases (2).....	200	(2)	46	25
Purchases (3).....	413	46	114	100

Total.....	\$3,327	\$480	\$744	\$249
=====				

(1) Subject to mandatory redemption.

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- (2) Operating lease payments are net of capital trust receipts of \$653.9 million (see Note 2).
- (3) Fuel and power purchases under contracts with fixed or minimum quantities and approximate timing.

Our capital spending for the period 2003-2007 is expected to be about \$312 million (excluding nuclear fuel) of which approximately \$96 million applies to 2003. Investments for additional nuclear fuel during the 2003-2007 period are estimated to be approximately \$53 million, of which about \$15 million relates to 2003. During the same periods, our nuclear fuel investments are expected to be reduced by approximately \$59 million and \$28 million, respectively, as the nuclear fuel is consumed. We sell substantially all of our retail customer receivables, which provided \$118 million of off balance sheet financing as of December 31, 2002.

On February 22, 2002, Moody's Investors Service changed its credit rating outlook for FirstEnergy from stable to negative. The change was based upon a decision by the Commonwealth Court of Pennsylvania to remand to the Pennsylvania Public Utility Commission (PPUC) for reconsideration of its decision on the mechanism for sharing merger savings and reversed the PPUC decisions regarding rate relief and accounting deferrals rendered in connection with its approval of the GPU merger. On March 20, 2002, Moody's changed its outlook for CEI from stable to negative and retained a negative outlook for FirstEnergy based on the uncertain outcome of the Davis-Besse extended outage. On April 4, 2002, Standard & Poor's (S&P) changed its outlook for FirstEnergy's credit ratings from stable to negative citing recent developments including: damage to the Davis-Besse reactor vessel head, the Pennsylvania Commonwealth Court decision, and deteriorating market conditions for some sales of FirstEnergy's remaining non-core assets. On July 31, 2002, Fitch revised its rating outlook for FirstEnergy and CEI securities to negative from stable. The revised outlook reflected the adverse impact of the unplanned Davis-Besse outage, Fitch's judgment about NRG's financial ability to consummate the purchase of four power plants (see Note 6 - Sale of Generating Assets) from FirstEnergy and Fitch's expectation of subsequent delays in debt reduction. On August 1, 2002, S&P concluded that while NRG's liquidity position added uncertainty to FirstEnergy's sale of power plants to NRG, FirstEnergy's ratings would not be affected. S&P found its cash flows sufficiently stable to support a continued (although delayed) program of debt and preferred stock redemption. S&P noted that it would continue to closely monitor our progress on various initiatives. On January 21,

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2003, S&P indicated its concern about FirstEnergy's disclosure of non-cash charges related to deferred costs in Pennsylvania, pension and other post-retirement benefits, and Emdersa (FirstEnergy's Argentina operations), which were higher than anticipated in the third quarter of 2002. S&P identified the restart of the Davis-Besse nuclear plant "...without significant delay beyond April 2003..." as key to maintaining its current debt ratings. S&P also identified other issues it would continue to monitor including: FirstEnergy's deleveraging efforts, free cash generated during 2003, the Jersey Central Power & Light Company rate case, successful hedging of our short power position, and continued capture of projected merger savings. While we anticipate being prepared to restart the Davis-Besse plant in the spring of 2003, the Nuclear Regulatory Commission (NRC) must authorize the unit's restart following a formal inspection process prior to our returning the unit to service. Significant delays in the planned date of Davis-Besse's return to service or other factors (identified above) affecting the speed with which we reduce debt could put additional pressure on our credit ratings.

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Other Obligations

Obligations not included on our Consolidated Balance Sheet primarily consist of a sale and leaseback arrangement involving the Bruce Mansfield Plant, which is reflected in the operating lease payments disclosed above (see Note 2 - Leases). The present value as of December 31, 2002, of this sale and leaseback operating lease commitments, net of trust investments, total \$156 million.

INTEREST RATE RISK

Our exposure to fluctuations in market interest rates is reduced since a significant portion of our debt has fixed interest rates, as noted in the following table. We are subject to the inherent risks related to refinancing maturing debt by issuing new debt securities. As discussed in Note 2, our investment in the Shippingport Capital Trust effectively reduces future lease obligations, also reducing interest rate risk. Changes in the market value of our nuclear decommissioning trust funds had been recognized by making corresponding changes to the decommissioning liability, as described in Note 1 - Utility Plant and Depreciation. While fluctuations in the fair value of our Ohio EUOCs' trust balances will eventually affect earnings (affecting OCI initially) based on the guidance provided by SFAS 115, our non-Ohio EUOC have the opportunity to recover from ratepayers the difference between the investments held in trust and their retirement obligations. Thus, in absence of disallowed costs, there will be no earning effect from fluctuations in their decommissioning trust balances today or in the future. As of December 31, 2002, decommissioning trust balances totaled \$1.050 billion with \$698 million held by our Ohio EUOC and the balance held by our non-Ohio EUOC. As of year end 2002, trust balances included 51% of equity and 49% of debt instruments.

The table below presents principal amounts and related weighted average interest rates by year of maturity for our investment portfolio, debt obligations and preferred stock with mandatory redemption provisions.

COMPARISON OF CARRYING VALUE TO FAIR VALUE

	2003	2004	2005	2006	2007	There- after
(DOLLARS IN MILLIONS)						
Assets						
Investments other than Cash and Cash Equivalents:						
Fixed Income.....	\$ 48	\$ 1	\$ 32	\$ 31	\$ 25	\$ 494
Average interest rate.....	7.8%	7.8%	8.0%	7.9%	7.7%	7.1%
Liabilities						
Long-term Debt:						
Fixed rate.....	\$ 145	\$ 280	\$ 300	\$ --	\$ 120	\$ 1,246
Average interest rate	7.3%	7.7%	9.5%		7.1%	7.2%
Variable rate.....						\$ 218
Average interest rate.....						1.8%
Short-term Borrowings.....	\$ 289					
Average interest rate.....	1.8%					
Preferred Stock.....	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ 101

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Average dividend rate	7.4%	7.4%	7.4%	7.4%	7.4%	9.0%
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EQUITY PRICE RISK

Included in our nuclear decommissioning trust investments are marketable equity securities carried at their market value of approximately \$209 million and \$208 million as of December 31, 2002 and 2001, respectively. A hypothetical 10% decrease in prices quoted by stock exchanges would result in a \$21 million reduction in fair value as of December 31, 2002 (see Note 1 - Supplemental Cash Flows Information).

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OUTLOOK

Our industry continues to transition to a more competitive environment. In 2001, all our customers could select alternative energy suppliers. We continue to deliver power to homes and businesses through our existing distribution systems, which remain regulated. Customer rates have been restructured into separate components to support customer choice. In Ohio and Pennsylvania, we have a continuing responsibility to provide power to those customers not choosing to receive power from an alternative energy supplier subject to certain limits. Adopting new approaches to regulation and experiencing new forms of competition have created new uncertainties.

Regulatory Matters

Beginning on January 1, 2001, Ohio customers were able to choose their electricity suppliers. Ohio customer rates were restructured to establish separate charges for transmission, distribution, transition cost recovery and a generation-related component. When one of our Ohio customers elects to obtain power from an alternative supplier, we reduce the customer's bill with a "generation shopping credit," based on the regulated generation component (plus an incentive for our customers), and the customer receives a generation charge from the alternative supplier. We have continuing PLR responsibility to our franchise customers through December 31, 2005. Regulatory assets are costs which have been authorized by the Public Utilities Commission of Ohio (PUCO), PPUC and the Federal Energy Regulatory Commission for recovery from customers in future periods and, without such authorization, would have been charged to income when incurred. All of our regulatory assets are expected to continue to be recovered under the provisions of our transition plan as discussed below. Our regulatory assets as of December 2002 and 2001 are \$1,191.8 million and \$1,230.2 million, respectively.

The transition cost portion of rates provides for recovery of certain amounts not otherwise recoverable in a competitive generation market (such as regulatory assets). Transition costs are paid by all customers whether or not they choose an alternative supplier. Under the PUCO-approved transition plan, we assumed the risk of not recovering up to \$170 million of transition revenue if the rate of customers (excluding contracts and full-service accounts) switching from our service to an alternative supplier did not reach 20% for any consecutive twelve-month period by December 31, 2005 - the end of the market development period. That goal was achieved in 2002. Accordingly, CEI does not believe that there will be any regulatory action reducing the recoverable transition costs.

As part of our Ohio transition plan we are obligated to supply electricity to customers who do not choose an alternative supplier. We are also

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required to provided 400 megawatts (MW) of low cost supply to unaffiliated alternative suppliers that serve customers within our service area. Our competitive retail sales affiliate, FES, acts as an alternate supplier for a portion of the load in our franchise area. In 2003, the total peak load forecasted for customers electing to stay with us, including the 400 MW of low cost supply and the load served by our affiliate is 4175 MW.

Davis-Besse Restoration

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

Restart activities include both hardware and management issues. In addition to refurbishment and installation work at the plant, we have made significant management and human performance changes with the intent of establishing the proper safety culture throughout the workforce. Work was completed on the reactor head during 2002 and is continuing on efforts designed to enhance the unit's reliability and performance. FENOC is also accelerating maintenance work that had been planned for future refueling and maintenance outages. At a meeting with the NRC in November 2002, FENOC discussed plans to test the bottom of the reactor for leaks and to install a state-of-the-art leak-detection system around the reactor. The additional maintenance work being performed has expanded the previous estimates of restoration work. FENOC anticipates that the unit will be ready for restart in the fall of 2003 after completion of the additional maintenance work and regulatory reviews. The NRC must authorize restart of the plant following its formal inspection process before the unit can be returned to service. While the additional maintenance work has delayed our plans to reduce post-merger debt levels we believe such investments in the unit's future safety, reliability and performance to be essential. Significant delays in Davis-Besse's return to service, which depends on the successful resolution of the management and technical issues as well as NRC approval, could trigger an evaluation for impairment of our investment in the plant (see Significant Accounting Policies below).

The actual costs (capital and expense) associated with the extended Davis-Besse outage (CEI's share - 51.38%) in 2002 and estimated costs in 2003 are:

COSTS OF DAVIS-BESSE EXTENDED OUTAGE	100%

	(IN MILLIONS)
2002 - ACTUAL	
Capital Expenditures:	
Reactor head and restart.....	\$ 63.3
Incremental Expenses (pre-tax):	
Maintenance.....	115.0

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Fuel and purchased power.....	119.5
Total.....	\$ 234.5

2003 - ESTIMATED

Primarily operating expenses (pre-tax):

Maintenance (including acceleration of programs).....	\$ 50
Replacement power per month.....	\$ 12-18

Power Outage

On August 14, 2003, eight states and southern Canada experienced a widespread power outage. That outage affected approximately 1.4 million customers in FirstEnergy's service area. The cause of the outage has not been determined. After having restored service to its customers, FirstEnergy is accumulating data and evaluating the status of its electrical system prior to and during the outage event. FirstEnergy is committed to working with the North American Electric Reliability Council and others involved to determine exactly what events in the entire affected region led to the outage. There is no timetable as to when this entire process will be completed. It is, however, expected to last several weeks, at a minimum.

Environmental Matters

We believe we are in compliance with the current sulfur dioxide (SO(2)) and nitrogen oxide (NO(x)) reduction requirements under the Clean Air Act Amendments of 1990. In 1998, the Environmental Protection Agency (EPA) finalized regulations requiring additional NO(x) reductions in the future from our Ohio and Pennsylvania facilities. Various regulatory and judicial actions have since sought to further define NO(x) reduction requirements (see Note 5 - Environmental Matters). We continue to evaluate our compliance plans and other compliance options.

Violations of federally approved (SO(2)) regulations can result in shutdown of the generating unit involved and/or civil or criminal penalties of up to \$31,500 for each day a unit is in violation. The EPA has an interim enforcement policy for SO(2) regulations in Ohio that allows for compliance based on a 30-day averaging period. We cannot predict what action the EPA may take in the future with respect to the interim enforcement policy.

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

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

We have been named as "potentially responsible parties" (PRP) at waste disposal sites which may require cleanup under the Comprehensive Environmental Response, Compensation and Liability Act of 1980. Allegations of disposal of hazardous substances at historical sites and the liability involved

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are often unsubstantiated and subject to dispute; however, federal law provides that all PRPs for a particular site be held liable on a joint and several basis. Therefore, potential environmental liabilities have been recognized on the Consolidated Balance Sheet as of December 31, 2002, based on estimates of the total costs of cleanup, our proportionate responsibility for such costs and the financial ability of other nonaffiliated entities to pay. We have total accrued liabilities aggregating approximately \$2.9 million as of December 31, 2002.

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

SIGNIFICANT ACCOUNTING POLICIES

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

Regulatory Accounting

CEI is subject to regulation that sets the prices (rates) we are permitted to charge our customers based on our 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 rate-making process results in the recording of regulatory assets based on anticipated future cash inflows. As a result of the changing regulatory framework in Ohio and Pennsylvania, a significant amount of regulatory assets have been recorded. As of December 31, 2002, the CEI's regulatory assets totaled \$1,191.8 million. We continually 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.

Revenue Recognition

We follow the accrual method of accounting for revenues, recognizing revenue for KWH that have been delivered but not yet been billed through the end of the year. The determination of unbilled revenues requires management to make various estimates including:

- Net energy generated or purchased for retail load
- Losses of energy over distribution lines
- Allocations to distribution companies within the FirstEnergy system

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- Mix of KWH usage by residential, commercial and industrial customers
- KWH usage of customers receiving electricity from alternative suppliers

Pension and Other Postretirement Benefits Accounting

Our reported costs of providing non-contributory defined pension benefits and postemployment benefits other than pensions (OPEB) are dependent upon numerous factors resulting from actual plan experience and certain assumptions.

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

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

In selecting an assumed discount rate, 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. Due to the significant decline in corporate bond yields and interest rates in general during 2002, we

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reduced the assumed discount rate as of December 31, 2002 to 6.75% from 7.25% used in 2001 and 7.75% used in 2000.

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. The market values of our pension assets have been affected by sharp declines in the equity markets since mid-2000. In 2002, 2001 and 2000, plan assets have earned (11.3)%, (5.5)% and (0.3)%, respectively. Our pension costs in 2002 were computed assuming a 10.25% rate of return on plan assets. As of December 31, 2002 the assumed return on plan assets was reduced to 9.00% based upon our projection of future returns and pension trust investment allocation of approximately 60% large cap equities, 10% small cap equities and 30% bonds.

Based on pension assumptions and pension plan assets as of December 31, 2002, we will not be required to fund our pension plans in 2003. While OPEB plan assets have also been affected by sharp declines in the equity

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market, the impact is not as significant due to the relative size of the plan assets. However, health care cost trends have significantly increased and will affect future OPEB costs. The 2003 composite health care trend rate assumption is approximately 10%-12% gradually decreasing to 5% in later years, compared to our 2002 assumption of approximately 10% in 2002, gradually decreasing to 4%-6% 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 SFAS 87 and 106 costs and liabilities from changes in key assumptions are as follows:

INCREASE IN COSTS FROM ADVERSE CHANGES IN KEY ASSUMPTIONS

ASSUMPTION	ADVERSE CHANGE	PENSION	OPEB	TO
(IN MILLIONS)				
INCREASE IN COSTS				
Discount rate.....	Decrease by 0.25%	\$0.4	\$0.4	\$
Long-term return on assets.....	Decrease by 0.25%	0.3	--	
Health care trend rate.....	Increase by 1%	na	1.0	
INCREASE IN MINIMUM PENSION LIABILITY				
Discount rate.....	Decrease by 0.25%	9.1	na	

As a result of the reduced market value of our pension plan assets, we were required to recognize an additional minimum liability as prescribed by SFAS 87 and SFAS 132, "Employers' Disclosures about Pension and Postretirement Benefits," as of December 31, 2002. We eliminated our prepaid pension asset of \$39.3 million and established a minimum liability of \$52.1 million, recording an intangible asset of \$15.9 million and reducing OCI by \$44.1 million (recording a related deferred tax benefit of \$31.4 million). The charge to OCI will reverse in future periods to the extent the fair value of trust assets exceed the accumulated benefit obligation. The amount of pension liability recorded as of December 31, 2002 increased due to the lower discount rate assumed and reduced market value of plan assets as of December 31, 2002. Our non-cash, pre-tax pension and OPEB expense under SFAS 87 and SFAS 106 is expected to increase by \$6 million and \$2 million, respectively - a total of \$8 million in 2003 as compared to 2002.

Ohio Transition Cost Amortization

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

Long-Lived Assets

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," we periodically evaluate our long-lived assets to determine whether conditions exist that would indicate that the carrying value of an asset may not be fully recoverable. The accounting standard requires that if the sum of future cash flows (undiscounted) expected to result from an asset, is less than the carrying value of the asset, an asset impairment must be recognized in the financial statements. If impairment, other than of a temporary nature, has occurred, we recognize a loss - calculated as the difference between the carrying value and the estimated fair value of the asset (discounted future net cash flows).

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Goodwill

The Regulators in the jurisdictions that CEI operates does not provide for recovery of goodwill. As a result, no amortization of goodwill has been recorded subsequent to the adoption of SFAS 142. In a business combination, the excess of the purchase price over the estimated fair values of the assets acquired and liabilities assumed is recognized as goodwill. Based on the guidance provided by SFAS 142, we evaluate our goodwill for impairment at least annually and would make such an evaluation more frequently if indicators of impairment should arise. In accordance with the accounting standard, if the fair value of a reporting unit is less than its carrying value including goodwill, an impairment for goodwill must be recognized in the financial statements. If impairment were to occur we would 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. Our annual review was completed in the third quarter of 2002. The results of that review indicated no impairment of 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. As of December 31, 2002, we had approximately \$1.7 billion of goodwill.

RECENTLY ISSUED ACCOUNTING STANDARDS NOT YET IMPLEMENTED

SFAS 143, "Accounting for Asset Retirement Obligations"

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

We have identified applicable legal obligations as defined under the new standard, principally for nuclear power plant decommissioning. Upon adoption of SFAS 143 in January 2003, asset retirement costs of \$173 million were recorded as part of the carrying amount of the related long-lived asset, offset by accumulated depreciation of \$19 million. Due to the increased carrying amount, the related long-lived assets were tested for impairment in

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accordance with SFAS 144. No impairment was indicated. The asset retirement liability at the date of adoption was \$238 million. As of December 31, 2002, CEI had recorded decommissioning liabilities of \$242.1 million. The change in the estimated liabilities resulted from changes in methodology and various assumptions, including changes in the projected dates for decommissioning.

The cumulative effect adjustment to recognize the undepreciated asset retirement cost and the asset retirement liability offset by the reversal of the previously recorded decommissioning liabilities was a \$155 million increase to income (\$91 million net of tax).

SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities"

This statement, which was issued by the FASB in July 2002, requires the recognition of costs associated with exit or disposal activities at the time they are incurred rather than when management commits to a plan of exit or disposal. It also requires the use of fair value for the measurement of such liabilities. The new standard supersedes guidance provided by EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." This new standard was effective for exit and disposal activities initiated after December 31, 2002. Since it is applied prospectively, there will be no impact upon adoption. However, SFAS 146 could change the timing and amount of costs recognized in connection with future exit or disposal activities.

FASB Interpretation (FIN) No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others - an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34"

The FASB issued FIN 45 in January 2003. This interpretation identifies minimum guarantee disclosures required for annual periods ending after December 15, 2002 (see Guarantees and Other Assurances). It also clarifies that providers of guarantees must record the fair value of those guarantees at their inception. This accounting guidance is applicable on a prospective basis to guarantees issued or modified after December 31, 2002. We do not believe that implementation of FIN 45 will be material but we will continue to evaluate anticipated guarantees.

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

In January 2003, the FASB issued this interpretation of ARB No. 51, "Consolidated Financial Statements". The new interpretation provides guidance on consolidation of variable interest entities (VIEs), generally defined as certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. This Interpretation requires an enterprise to disclose the nature of its involvement with a VIE if the enterprise has a significant variable interest in the VIE and to consolidate a VIE if the enterprise is the primary beneficiary. VIEs created after January 31, 2003 are immediately subject to the provisions of FIN 46. VIEs created before February 1, 2003 are subject to this interpretation's provisions in the first interim or annual reporting period beginning after June 15, 2003 (CEI's third quarter of 2003). The FASB also identified transitional disclosure provisions for all financial statements issued after January 31, 2003.

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CEI currently has transactions which may fall within the scope of this interpretation and which are reasonably possible of meeting the definition of a VIE in accordance with FIN 46. CEI currently consolidates the majority of these entities and believes it will continue to consolidate following the adoption of FIN 46. One of these entities CEI is currently consolidating is the Shippingport Capital Trust, which reacquired a portion of the off-balance sheet debt issued in connection with the sale and leaseback of its interest in the Bruce Mansfield Plant. Ownership of the trust includes a 4.85 percent interest by nonaffiliated parties and a 0.34 percent equity interest by Toledo Edison Capital Corp., a majority owned subsidiary.

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

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

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

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

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

In May 2003, the EITF reached a consensus regarding when arrangements contain a lease. Based on the EITF consensus, an arrangement contains a lease if (1) it identifies specific property, plant or equipment (explicitly or implicitly), and (2) the arrangement transfers the right to the purchaser to control the use of the property, plant or equipment. The consensus will be applied prospectively to arrangements committed to, modified or acquired through a business combination, beginning in the third quarter of 2003. CEI is currently assessing the new EITF consensus and has not yet determined the impact on its financial position or results of operations following adoption.

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THE FOLLOWING ITEM HAS BEEN AMENDED IN THIS AMENDMENT NO. 2:

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY

CONSOLIDATED STATEMENTS OF INCOME (RESTATED*)

FOR THE YEARS ENDED DECEMBER 31,	2002
OPERATING REVENUES (NOTE 1).....	\$1,843,671
OPERATING EXPENSES AND TAXES:	
Fuel and purchased power (Note 1).....	587,108
Nuclear operating costs (Note 1).....	207,313
Other operating costs (Note 1).....	279,242
Total operation and maintenance expenses.....	1,073,663
Provision for depreciation and amortization.....	244,727
General taxes.....	147,804
Income taxes.....	71,325
Total operating expenses and taxes.....	1,537,519
OPERATING INCOME.....	306,152
OTHER INCOME (NOTE 1).....	15,971
INCOME BEFORE NET INTEREST CHARGES.....	322,123
NET INTEREST CHARGES:	
Interest on long-term debt.....	179,140
Allowance for borrowed funds used during construction.....	(4,331)
Other interest expense.....	1,462
Subsidiary's preferred stock dividend requirements.....	8,900
Net interest charges.....	185,171
NET INCOME.....	136,952
PREFERRED STOCK DIVIDEND	
REQUIREMENTS.....	15,690
EARNINGS ON COMMON STOCK.....	\$ 121,262

* See Note 1(M)

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

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY
 CONSOLIDATED BALANCE SHEETS (RESTATED*)

AS OF DECEMBER 31,

ASSETS

UTILITY PLANT:

In service..... \$
 Less-Accumulated provision for depreciation.....

Construction work in progress-

Electric plant.....
 Nuclear fuel.....

OTHER PROPERTY AND INVESTMENTS:

Shippingport Capital Trust (Note 2).....
 Nuclear plant decommissioning trusts.....
 Long-term notes receivable from associated companies.....
 Other.....

CURRENT ASSETS:

Cash and cash equivalents.....
 Receivables-
 Customers.....
 Associated companies.....
 Other (less accumulated provisions of \$1,015,000 for uncollectible accounts
 at both dates).....
 Notes receivable from associated companies.....
 Materials and supplies, at average cost-
 Owned.....
 Under consignment.....
 Prepayments and other.....

DEFERRED CHARGES:

Regulatory assets.....
 Goodwill.....
 Property taxes.....
 Other.....

CAPITALIZATION AND LIABILITIES

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CAPITALIZATION (See Consolidated Statements of Capitalization):

Common stockholder's equity.....
 Preferred stock-
 Not subject to mandatory redemption.....
 Subject to mandatory redemption.....
 Company obligated mandatorily redeemable preferred securities of
 subsidiary trust holding solely Company subordinated debentures (Note 3).....
 Long-term debt.....

CURRENT LIABILITIES:

Currently payable long-term debt and preferred stock.....
 Accounts payable-
 Associated companies.....
 Other.....
 Notes payable to associated companies.....
 Accrued taxes.....
 Accrued interest.....
 Other.....

DEFERRED CREDITS:

Accumulated deferred income taxes.....
 Accumulated deferred investment tax credits.....
 Nuclear plant decommissioning costs.....
 Pensions and other postretirement benefits.....
 Deferred lease costs.....
 Other.....

COMMITMENTS AND CONTINGENCIES

(Notes 2 and 5).....

* See Note 1(M)

The accompanying Notes to Consolidated Financial Statements are an integral part of these balance sheets.

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY

CONSOLIDATED STATEMENTS OF CAPITALIZATION (RESTATED*)

AS OF DECEMBER 31,

 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

COMMON STOCKHOLDER'S EQUITY:

Common stock, without par value, authorized 105,000,000 shares
 79,590,689 shares outstanding.....
 Accumulated other comprehensive loss (Note 3G).....

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Retained earnings (Note 3A).....
 Total common stockholder's equity.....

	NUMBER OF SHARES OUTSTANDING		OPTIONAL REDEMPTION PRICE	
	2002	2001	PER SHARE	AGGREG
PREFERRED STOCK (NOTE 3C):				
Cumulative, without par value-				
Authorized 4,000,000 shares				
Not Subject to Mandatory Redemption:				
\$ 7.40 Series A.....	500,000	500,000	\$101.00	\$50,5
\$ 7.56 Series B.....	--	450,000	--	
Adjustable Series L.....	474,000	474,000	100.00	47,4
\$42.40 Series T.....	--	200,000	--	
	974,000	1,624,000		97,9
Redemption Within One Year.....				
Total Not Subject to Mandatory Redemption.....	974,000	1,624,000		\$97,9
Subject to Mandatory Redemption (Note 3D):				
\$ 7.35 Series C.....	60,000	70,000	101.00	\$ 6,0
\$90.00 Series S.....	--	17,750	--	
	60,000	87,750		6,0
Redemption Within One Year.....				
Total Subject to Mandatory Redemption.....	60,000	87,750		\$ 6,0

COMPANY OBLIGATED MANDATORILY REDEEMABLE
 PREFERRED SECURITIES OF SUBSIDIARY TRUST
 HOLDING SOLELY COMPANY SUBORDINATED
 DEBENTURES (NOTE 3E):

Cumulative, \$25 stated value-				
Authorized 4,000,000 shares				
Subject to Mandatory Redemption:				
9.00%.....	4,000,000	4,000,000	--	\$

LONG-TERM DEBT (NOTE 3F):

First mortgage bonds:

- 7.625% due 2002.....
- 7.375% due 2003.....
- 9.500% due 2005.....
- 6.860% due 2008.....
- 9.000% due 2023.....

Total first mortgage bonds.....

Unsecured notes:

6.000% due 2013.....

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* 5.580% due 2033.....
 Total unsecured notes.....

* See Note 1(M)

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THE CLEVELAND ELECTRIC ILLUMINATING COMPANY

CONSOLIDATED STATEMENTS OF CAPITALIZATION (RESTATED*) (CONT'D)

AS OF DECEMBER 31,

LONG-TERM DEBT (CONT'D):

Secured notes:

7.000% due 2003-2009.....
 7.850% due 2002.....
 8.130% due 2002.....
 7.750% due 2003.....
 7.670% due 2004.....
 7.130% due 2007.....
 7.430% due 2009.....
 8.000% due 2013.....
 ** 1.176% due 2015.....
 7.880% due 2017.....
 ** 1.180% due 2018.....
 ** 1.550% due 2020.....
 6.000% due 2020.....
 6.100% due 2020.....
 9.520% due 2021.....
 6.850% due 2023.....
 8.000% due 2023.....
 7.625% due 2025.....
 7.700% due 2025.....
 7.750% due 2025.....
 5.375% due 2028.....
 5.350% due 2030.....
 4.600% due 2030.....
 ** 1.300% due 2033.....

Total secured notes.....

Capital lease obligations (Note 2).....

Net unamortized premium on debt.....

Long-term debt due within one year.....

Total long-term debt.....

TOTAL CAPITALIZATION.....

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* See Note 1(M).

** Denotes variable rate issue with December 31, 2002 interest rate shown.

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

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THE CLEVELAND ELECTRIC ILLUMINATING COMPANY

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY (RESTATED)

	COMPREHENSIVE INCOME	NUMBER OF SHARES	CARRYING VALUE
	----- RESTATED (SEE NOTE 1(M))	-----	-----
			(DOLLARS IN T
Balance, January 1, 2000.....		79,590,689	\$931,962
Cumulative effect for restatements (see Note 1(M))...			

Restated Balance at January 1, 2000.....			
Net income.....	\$ 210,424		
	=====		
Cash dividends on preferred stock.....			
Cash dividends on common stock.....			

Balance, December 31, 2000.....		79,590,689	931,962
Net income.....	\$ 177,905		

Unrealized gain on instruments, net of \$5,900 of income taxes.....	9,000		

Comprehensive income.....	\$ 186,905		
	=====		
Cash dividends on preferred stock.....			
Cash dividends on common stock.....			

Balance, December 31, 2001.....		79,590,689	931,962
Net income.....	\$ 136,952		
Unrealized loss on investments, net of \$(6,058) of income taxes.....	(9,233)		
Minimum liability for unfunded retirement benefits, net of \$(31,359,000) of income taxes.....	(44,051)		

Comprehensive income.....	\$ 83,668		
	=====		
Equity contribution from parent.....			50,000
Cash dividends on preferred stock.....			
Preferred stock redemption premiums.....			

Balance, December 31, 2002.....		79,590,689	\$981,962
=====			

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CONSOLIDATED STATEMENTS OF PREFERRED STOCK

	NOT SUBJECT TO MANDATORY REDEMPTION		SUBJECT TO MANDATORY REDEMPTION	
	NUMBER OF SHARES	CARRYING VALUE	NUMBER OF SHARES	CARRYING VALUE
	(DOLLARS IN THOUSANDS)			
Balance, January 1, 2000.....	1,624,000	\$238,325	219,680	\$177,216
Redemptions-				
\$ 7.35 Series C.....			(10,000)	
\$88.00 Series E.....			(3,000)	
\$91.50 Series Q.....			(10,714)	
\$90.00 Series S.....			(18,750)	
Amortization of fair market value adjustments-				
\$ 7.35 Series C.....				
\$88.00 Series R.....				
\$90.00 Series S.....				
Balance, December 31, 2000.....	1,624,000	238,325	177,216	177,216
Issues				
9.00%.....			4,000,000	
Redemptions-				
\$ 7.35 Series C.....			(10,000)	
\$88.00 Series R.....			(50,000)	
\$91.50 Series Q.....			(10,716)	
\$90.00 Series S.....			(18,750)	
Amortization of fair market value adjustments-				
\$ 7.35 Series C.....				
\$88.00 Series R.....				
\$90.00 Series S.....				
Balance, December 31, 2001.....	1,624,000	238,325	4,087,750	4,087,750
Redemptions				
\$ 7.56 Series B.....	(450,000)	(45,071)		
\$42.40 Series T.....	(200,000)	(96,850)		
\$ 7.35 Series C.....			(10,000)	
\$90.00 Series S.....			(17,750)	
Amortization of fair market value adjustments-				
\$ 7.35 Series C.....				
\$90.00 Series S.....				
Balance, December 31, 2002.....	974,000	\$ 96,404	4,060,000	4,060,000

* See Note 1(M).

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

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THE CLEVELAND ELECTRIC ILLUMINATING COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS (RESTATED*)

FOR THE YEARS ENDED DECEMBER 31,

2002

(I

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net Income.....	\$ 136,952
Adjustments to reconcile net income to net cash from operating activities:	
Provision for depreciation and amortization.....	244,727
Nuclear fuel and lease amortization.....	21,044
Other amortization.....	(15,008)
Deferred income taxes, net.....	3,637
Investment tax credits, net.....	(4,632)
Receivables.....	(27,159)
Materials and supplies.....	(7,624)
Accounts payable.....	47,147
Deferred lease costs.....	(60,200)
Accrued taxes.....	(3,5