

FIRSTENERGY CORP  
Form 424B5  
September 15, 2003  
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**PROSPECTUS SUPPLEMENT**

(To Prospectus dated August 29, 2003)

**Filed Pursuant to Rule 424(b)(5)  
Registration No. 333-103865**

**28,000,000 Shares**

**FirstEnergy Corp.**

**Common Stock**

We are offering 28,000,000 shares of our common stock. Our common stock is listed on the New York Stock Exchange under the symbol **FE** . The last reported sale price of our common stock on September 11, 2003 was \$31.10 per share.

**Investing in our common stock involves risks. See [Risk Factors](#) beginning on page S-8 of this prospectus supplement.**

	<b>Price to Public</b>	<b>Underwriting Discounts and Commissions</b>	<b>Proceeds to FirstEnergy</b>
Per Share	\$30.00	\$0.975	\$29.025
Total	\$ 840,000,000	\$ 27,300,000	\$ 812,700,000

We have granted the underwriters a 30-day option to purchase up to 4,200,000 additional shares of our common stock on the same terms and conditions as set forth above to cover over-allotments, if any.

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Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined that this prospectus supplement is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares to purchasers on September 17, 2003.

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*Joint Book-Running Managers*

**Citigroup**

**Morgan Stanley**

**Barclays Capital**

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**JPMorgan**

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**Wachovia Securities**

**BNY Capital Markets, Inc.**  
**Lehman Brothers**

**Credit Suisse First Boston**  
**UBS Investment Bank**

The date of this prospectus supplement is September 12, 2003.

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**ABOUT THIS PROSPECTUS SUPPLEMENT**

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering of the common stock and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference into the accompanying prospectus. The second part is the accompanying prospectus, which contains a description of our common stock and gives more general information, some of which may not apply to the common stock. To the extent there is a conflict between the information contained or incorporated by reference in this prospectus supplement, on the one hand, and the information contained in the accompanying prospectus or any document incorporated by reference therein, on the other hand, the information in this prospectus supplement shall control.

This prospectus supplement and the accompanying prospectus are part of a registration statement that we filed with the Securities and Exchange Commission (SEC) using a shelf registration process. Under the shelf registration process, we may sell any combination of the securities described in the accompanying prospectus up to a dollar amount of \$2,000,000,000, of which this offering is a part. In this prospectus supplement, we provide you with specific information about the terms of this offering.

You should rely on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. Neither we nor any underwriter, agent or dealer has authorized anyone to provide you with information other than that contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. Neither we nor any underwriter, agent or dealer is making an offer of these securities in any state where such offer is not permitted.

You should not assume that the information contained or incorporated by reference in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date on the front of this prospectus supplement.

Unless the context requires otherwise, references to we, us, our and FirstEnergy refer specifically to FirstEnergy Corp. and its subsidiaries.

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**PROSPECTUS SUPPLEMENT SUMMARY**

*This summary may not contain all of the information that may be important to you. This summary contains basic information about us and this offering and highlights selected information from this prospectus supplement. The following summary is qualified in its entirety by the information contained elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus. You should read this entire prospectus supplement and the accompanying prospectus carefully, including the Risk Factors section beginning on page S-8 of this prospectus supplement and the financial statements and notes to those statements contained or incorporated by reference in this prospectus supplement and in the accompanying prospectus, before making an investment decision.*

**FirstEnergy Corp.**

FirstEnergy Corp. was organized under the laws of the State of Ohio in 1996. On November 7, 2001, we merged with GPU, Inc., and we were the surviving company. We are a registered public utility holding company, and as such are subject to regulation by the SEC under the Public Utility Holding Company Act of 1935. Our principal business is the holding, directly or indirectly, of all of the outstanding common stock of our principal electric utility operating subsidiaries, Ohio Edison Company, The Cleveland Electric Illuminating Company, Pennsylvania Power Company, The Toledo Edison Company, Jersey Central Power & Light Company, Metropolitan Edison Company and Pennsylvania Electric Company. Our other principal operating subsidiaries include American Transmission Systems, Incorporated, FirstEnergy Solutions Corp., FirstEnergy Facilities Services Group, LLC, MYR Group, Inc., MARBEL Energy Corporation, FirstEnergy Nuclear Operating Company (FENOC) and GPU Power, Inc. American Transmission Systems owns and operates transmission facilities located within the service areas of Ohio Edison, Cleveland Electric, Toledo Edison and Pennsylvania Power. FirstEnergy Solutions provides energy-related products and services and, through its FirstEnergy Generation Corp. subsidiary, operates our non-nuclear generation business. FENOC operates the electric utility subsidiaries' nuclear generating facilities. FirstEnergy Facilities Services Group is the parent company of several heating, ventilating, air conditioning and energy management companies, and MYR Group is a utility infrastructure construction service company. MARBEL holds our interest in Great Lake Energy Partners, LLC. GPU Power, Inc. owns and operates generation facilities in Latin America.

Our consolidated revenues are primarily derived from electric service provided by our electric utility subsidiaries. The combined service areas of our electric utility operating subsidiaries encompass approximately 37,200 square miles in Ohio, Pennsylvania and New Jersey. The areas they serve have a combined population of approximately 11.0 million.

As of August 31, 2003, Ohio Edison, Cleveland Electric, Pennsylvania Power, Toledo Edison and FirstEnergy Solutions had 13,387 megawatts (MW) of generation capacity (including the 883 MW of the Davis-Besse Nuclear Power Station, which is currently not in service) to meet customer needs. Pursuant to our corporate separation plan implemented under Ohio utility restructuring legislation, we transferred ownership or operational control of the non-nuclear generation assets of those operating subsidiaries to FirstEnergy Generation as of January 1, 2001.

As a result of restructuring legislation in Pennsylvania and New Jersey, GPU had divested essentially all of its generation assets prior to the time we agreed to merge with GPU in August 2000. However, the Pennsylvania and New Jersey restructuring orders require Jersey Central, Pennsylvania Electric and Metropolitan Edison, operating subsidiaries of ours that were formerly owned by GPU, to act as providers of last resort (PLR) by supplying electricity to customers who do not choose an alternate supplier. Jersey Central has entered into contracts for the supply of electricity to meet its PLR obligations through May 31, 2004 (and for one-third of its

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requirements through May 31, 2006) pursuant to an auction approved by the New Jersey Board of Public Utilities (NJBP). Effective September 1, 2002, Metropolitan Edison and Pennsylvania Electric assigned their PLR responsibility to FirstEnergy Solutions through a wholesale power sale agreement which expires in December 2003 and may be extended for each successive calendar year. Under the terms of the power sale agreement, FirstEnergy Solutions assumed the supply obligation and the energy supply profit and loss risk for the portion of power supply requirements not self-supplied by Metropolitan Edison and Pennsylvania Electric under their non-utility generation (NUG) contracts and other power contracts with nonaffiliated third party suppliers. This arrangement reduces Metropolitan Edison's and Pennsylvania Electric's exposure to high wholesale power prices by making power available at fixed prices for their uncommitted PLR energy costs during the term of the agreement to FirstEnergy Solutions. FirstEnergy Solutions has hedged most of Metropolitan Edison's and Pennsylvania Electric's unfulfilled PLR obligations through 2005. Metropolitan Edison and Pennsylvania Electric will continue to defer the cost differences between NUG contract rates and the rates reflected in their capped generation rates.

Our principal executive office is located at 76 South Main Street, Akron, Ohio 44308-1890; telephone: (800) 646-0400.

## **Recent Developments**

### **Restatement of Previously Reported Results**

On August 19, 2003, we filed with the SEC an amended annual report on Form 10-K/A for the year ended December 31, 2002, and an amended quarterly report on Form 10-Q/A for the quarter ended March 31, 2003, in connection with our previously announced restatements of our 2002 and first quarter 2003 financial statements to reflect implementation of a change in the application of the method of amortizing costs being recovered under our Ohio transition plan and recognition of above-market values of certain leased generation facilities. In addition, certain other immaterial adjustments related to the recognition of a valuation allowance on a tax benefit recognized in 2002 and other adjustments are now reflected in results for the year ended December 31, 2002. The restatements reflected non-cash expenses only and reduced our earnings per share by \$0.26 to \$1.89 (\$1.88 diluted) on a GAAP basis for 2002 and will reduce earnings per share in 2003 by \$0.17. As a result, over the period encompassed by the restatements (2000-2017), net income will increase by \$381 million. See Note 2(M) to the Consolidated Financial Statements contained in our Form 10-K/A filed August 19, 2003. Cleveland Electric and Toledo Edison also restated their 2001 and 2000 financial results due to the changes for those years being material for those two individual companies.

### **Progress Toward Davis-Besse Restart**

On April 30, 2002, the Nuclear Regulatory Commission, or NRC, initiated a formal inspection process at our Davis-Besse Nuclear Power Station in response to corrosion found by FENOC 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 our 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. Having completed refurbishment and installation of the replacement reactor vessel head and numerous other enhancements to improve the safety margin at the plant and having demonstrated that all major systems of the plant are operable, we have now entered Mode 4 of the restart process. Entering Mode 4 allows us to conduct a pressure test of the reactor's coolant system, as well as inspect the under vessel penetration nozzles and test other plant systems. We expect to complete these procedures by late September 2003. The pressure test, which will take nine to ten days to complete including heat-up and cool-down, involves increasing pressure and temperature in the reactor coolant system to operating conditions and maintaining those pressure and temperature levels for about seven days. After the system cools down, a comprehensive inspection will be

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conducted. Subject to their successful completion, these tests and inspections will be followed by previously scheduled modifications to the plant's high pressure injection pumps. These and other planned modifications are expected to take approximately four to six weeks to complete and should result in the plant's availability for restart in the fall of 2003. The plant continues to remain offline, and before the unit can be returned to service, the NRC must authorize restart of the plant following its formal inspection process.

During this outage, we have incurred replacement power costs of approximately \$15 million to \$25 million per month. If the tests described above do not go as expected, or if there are significant delays in the NRC approval process, we will continue to incur substantial replacement power costs, which will continue to have an adverse effect on our cash flows and results of operations. In addition, if testing is not successful, we may be required to undertake additional and possibly costly remedial actions.

## **Regional Power Outage**

On August 14, 2003, eight states in the Northeast U.S. and southern Canada, covering a geographic area reportedly having approximately 50 million people, experienced a widespread power outage. That outage affected approximately 1.4 million customers in our service area. The causes of the outage have not yet been determined, although various industry, media and other reports have alleged that the outage began in our system. We are in the process of accumulating data and evaluating the status of our electrical system prior to and during the outage event and we understand that the same effort is under way at utilities and transmission operators across the region.

## *Investigations*

Congressional committees, state utility commissions and others have commenced investigations and inquiries into the causes and implications of the outage. In addition, a joint U.S.-Canada Task Force has been formed to investigate the events, with the U.S. Department of Energy coordinating the U.S. portion of this investigation. The consensus of the investigating entities is that extensive data needs to be gathered and analyzed in order to determine with any degree of certainty the circumstances that led to the outage. We are committed to working with the U.S.-Canada Task Force and other appropriate groups involved to determine exactly what events led to the outage. The various inquiries could take many months to complete, given the complexity of the issues involved, the number of parties involved and the amount of data to be collected and analyzed.

Based on our internal investigations to date, we have reached the following initial conclusions. We believe that the events of August 14, 2003 that occurred on our system, in and of themselves, could not account for the widespread nature of this outage. Instead, we believe that the widespread loss of power could have resulted only from a combination of events and not a few isolated incidents. A number of events occurred on the transmission system during the day, including oscillations in flow, frequency dips and reversals in power flows between regions along major interconnections, all of which could have combined to affect the ability of the Eastern Interconnection to perform. Even with the temporary loss of our Eastlake Unit 5 at 1:31 pm (EDT) and other events on our system, the causes of which we are still analyzing, including the loss of three of our transmission lines and of one interconnection with American Electric Power Company, power systems and flows corrected themselves, and our system remained balanced and stable. Despite increasing uncertainty as to the events on our system, as late as 4:05 pm (EDT), power flows into and out of our system had not changed meaningfully, and even as events began to escalate after that time, our system worked as designed to protect itself. The systems with which we remained interconnected did not experience significant outages. In addition, we determined that our computerized system for monitoring and controlling our transmission and generation system was operational, but certain functions, including the audible alarms and an alarm screen function, were not. However, the Midwest Independent Operator (MISO), as regional security coordinator, was monitoring important elements of our system. Its monitoring system contains similar alarming functionality to ours.





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### *Legal Proceedings*

A number of lawsuits have been filed against us in connection with the August 14th regional outage by individuals seeking court certification to represent a class of similarly situated persons who allegedly suffered damages as a result of the outage. We intend to defend these actions vigorously and believe we have substantial defenses. We cannot, however, predict the outcome of any of these legal or any related regulatory proceedings. If it were ultimately determined that we have legal liability or are otherwise made subject to regulatory action in connection with the outage, it could have a material adverse effect on our financial condition and results of operations. There also have been insurance-related claims made by or on behalf of several individuals claiming losses related to the outage. We have denied liability with respect to these claims.

### *Proposed Regulatory Action and Legislation*

In addition to these legal proceedings and depending upon the outcomes of the governmental and other investigations of the outage, it is possible that additional regulatory proceedings or legal actions may be instituted against us. One such proceeding has already been initiated at the Public Utilities Commission of Ohio (PUCO) in respect to a complaint made by a local congressman, alleging that we failed to provide reasonable and adequate service under applicable Ohio law. The complaint seeks the authorization for another electric supplier to furnish electric service within our Ohio-based franchise territory. While we are unable to predict the outcome of this proceeding, we believe that the complaint is without merit.

Moreover, separate legislation passed by the Senate and the House of Representatives may, if enacted, impose new regulatory requirements and operational criteria for owners and operators of electric transmission systems, as a consequence, in part, of the outage. The additional capital and operating costs which might be required to comply with these new standards could be material. At this time, however, we are unable to predict the outcome of these proceedings or legislative or regulatory changes or the magnitude of any increased associated costs we might incur.

### **Proceedings Relating to the Recent Restatements and Other Events**

A number of individual shareholder-plaintiffs have filed separate complaints against us, our Board of Directors and certain of our executive officers alleging that we and our named officers reported materially false and misleading financial results over the relevant periods in violation of federal securities laws in connection with the restatement of earnings described above and, in one case, the August 14, 2003 regional power outage. In each case, the plaintiffs are seeking certification from the court to represent a class of similarly situated shareholders. Although we intend to defend these cases vigorously, we cannot predict the outcome or whether any further cases will be filed against us.

In addition, we were recently served with a derivative complaint filed by an individual shareholder on behalf of other shareholders against us and our Board of Directors, alleging a series of breaches of fiduciary duties by our directors and certain of our officers relating to the issues surrounding the regional power outage, the restatement of earnings and the on-going outage at the Davis-Besse Nuclear Power Plant, all discussed above. Another shareholder has served a demand on the Board of Directors to take action to remedy alleged breaches of fiduciary duties by our officers and directors related to the restatement of earnings.

On September 11, 2003, we received an informal data request from the SEC asking us to voluntarily provide information and documents related to our recent restatement of our 2002 annual financial statements. We intend to fully comply with the request, and we do not anticipate any adverse consequences.

**Sammis Plant Litigation**

On August 7, 2003, the United States District Court for the Southern District of Ohio ruled, in an initial liability phase, that 11 projects undertaken at Ohio Edison's and Penn Power's W.H. Sammis Plant between 1984

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and 1998 required Ohio Edison to obtain pre-construction permits under the Clean Air Act. In 1999, the U.S. Environmental Protection Agency (EPA) and the States of Connecticut, New Jersey and New York commenced this lawsuit alleging that these projects did not constitute routine maintenance, repair or replacement, and resulted in an increase in pollutant emissions requiring compliance with EPA's New Source Review Program and, if applicable, to more stringent emission limitations. The remedy phase, which is currently scheduled for trial beginning April 19, 2004, will address civil penalties and what, if any, actions should be taken to further reduce emissions at the plant. In its ruling, the Court indicated that the remedies it may consider and impose involved a much broader, equitable analysis, requiring the Court to consider air quality, public health, economic impact, and employment consequences. The Court may also consider the less than consistent efforts of the EPA to apply and further enforce the Clean Air Act. The potential penalties that may be imposed, as well as the capital expenditures necessary to comply with substantive remedial measures that may be required, may have a material adverse impact on our financial condition and results of operations.

### **Jersey Central Power & Light Company Rate Case**

On July 25, 2003, the NJBPU announced its decision in Jersey Central's base electric rate proceeding, which reduces Jersey Central's annual revenues by approximately \$62 million effective August 1, 2003. The NJBPU decision which was embodied in a written Summary Order dated August 1, 2003, also provided for an interim return on equity of 9.5 percent on Jersey Central's rate base for the next 6 to 12 months. During that period, Jersey Central can initiate another proceeding to request recovery of additional costs incurred to enhance system reliability. In that proceeding, the NJBPU could increase the return on equity to 9.75 percent or decrease it to 9.25 percent, depending on its assessment of the reliability of Jersey Central's service. Any reduction would be retroactive to August 1, 2003. The revenue decrease in the decision consists of an annual \$223 million decrease in the electricity delivery charge, an annual \$111 million increase due to the August 1, 2003 expiration of annual customer credits previously mandated by the New Jersey transition legislation, an annual \$49 million increase in the Market Transition Charge, or MTC, tariff component, and a net \$1 million annual increase in the Societal Benefits Charge.

In addition, the NJBPU disallowed recovery of \$153 million of the \$618 million in projected deferred energy balances as of July 31, 2003. In the second quarter of 2003, Jersey Central recorded charges to net income aggregating \$158 million (\$94 million net of tax) consisting of the \$153 million in disallowed deferred energy costs and other regulatory assets that are not recoverable.

On August 18, 2003, Jersey Central filed a Motion for Rehearing, Reconsideration and Partial Remand which is pending before the NJBPU.

### **Jersey Central Outage Investigation**

A series of unexpected faults in the three sub-transmission lines serving a portion of the Jersey Shore triggered a series of outages for approximately 34,000 New Jersey customers from July 5 to July 8, 2003. The NJBPU has launched an investigation into the causes of the outages, and Jersey Central has filed an incident report with the NJBPU, detailing the timeline and causes for the outages. At the request of the Governor, a Special Reliability Master has also been appointed by the NJBPU to investigate the outage. Jersey Central has committed to accelerate \$60 million in system improvements to enhance service reliability. Additionally, Jersey Central sited ten emergency generators at strategic locations and installed a temporary back-up transmission line within a few days of the outage. Without admitting liability, Jersey Central has established a streamlined procedure to address customers' damage claims. Dover Township has filed a complaint against Jersey Central with the NJBPU as well as a lawsuit seeking damages.

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**The Offering**

Common stock offered	28,000,000 shares. We have granted the underwriters a 30-day option to purchase up to 4,200,000 additional shares of our common stock to cover over-allotments, if any.
Shares of common stock outstanding as of September 11, 2003	297,636,276 shares.
Pro forma shares of common stock outstanding after the issuance of the common stock offered by this prospectus supplement (28,000,000 shares)	Approximately 325,636,276 shares.
Listing	Our common stock is listed on the New York Stock Exchange under the symbol <b>FE</b> . The shares of common stock offered hereby have been authorized for listing on such exchange, subject to official notice of issuance.
Indicated current quarterly dividend rate	\$0.375 per share. See <b>Risk Factors</b> and <b>Common Stock Dividends and Price Range</b> .
Use of proceeds	The net proceeds to be received by us from this offering of common stock, after deducting underwriting discounts and commissions and our estimated expenses, are expected to be approximately \$812.3 million, or \$934.2 million if the underwriters' option to purchase additional shares is exercised in full. We anticipate using the aggregate net proceeds from this offering to repay outstanding short-term debt. If and to the extent that the underwriters' option to purchase additional shares is exercised, we intend to repay additional short-term debt and a portion of the outstanding advances under our 3-year credit facility. This facility matures on November 29, 2004 and currently has outstanding aggregate advances of \$315 million with interest rates of 2.25% to 2.75% per annum. We may also use a portion of any additional net proceeds for an advance to Cleveland Electric to repay a portion of its First Mortgage Bonds, 9 1/2% Series due 2005.
Voting rights	Holders of our common stock are entitled to one vote for each share of common stock held.
Risks	Your investment in our common stock will involve risks. You should carefully consider the discussion of risks in <b>Risk Factors</b> in this prospectus supplement and the other information in this prospectus supplement and the accompanying prospectus, including our cautionary statements regarding forward-looking statements in the accompanying prospectus, before deciding whether an investment in our common stock is suitable for you.

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We present below selected historical consolidated financial data for each of the five fiscal years ended December 31, 2002, which have been derived from our audited consolidated financial statements, and selected historical consolidated financial data for the three months ended June 30, 2003 and June 30, 2002, which have been derived from our unaudited consolidated financial statements.

Due to the effect of seasonal fluctuations and other factors affecting our operations, our financial results for the three-month period ended June 30, 2003 are not necessarily indicative of what our financial results will be for the year ending December 31, 2003. You should read the information set forth below in conjunction with our audited and unaudited consolidated financial statements included in our filings with the SEC incorporated by reference in this prospectus supplement.

	(Unaudited) At or for the three months ended June 30,		At or for the year ended December 31,				
	2003	2002	2002	2001	2000	1999	1998
(Dollars in Millions)							
Revenues	\$ 2,863	\$ 2,899	\$ 12,231	\$ 7,999	\$ 7,029	\$ 6,320	\$ 5,875
Depreciation and amortization	309	300	1,306	890	934	938	759
Net interest	206	250	961	556	529	572	601
Income taxes	18	168	529	474	377	395	304
Income before discontinued operations, accounting change and extraordinary item	9	208	640	655	599	568	441
Net income (loss)	(58)	208	553	646	599	568	411
Total assets	34,025	35,198	34,386	37,352	17,941	18,224	18,192
Preferred stock of consolidated subsidiaries not subject to mandatory redemption	335	335	335	480	648	648	660
Preferred stock of consolidated subsidiaries subject to mandatory redemption	19	20	19	66	41	136	175
Subsidiary-obligated mandatorily redeemable preferred securities	285	410	410	529	120	120	120
Long-term debt	11,239	11,077	10,872	12,865 <sup>(a)</sup>	5,742	6,001	6,352

- (a) 2001 includes approximately \$1.4 billion of long-term debt (excluding long-term debt to be repaid within one year) included in Liabilities Related to Assets Pending Sale on our Consolidated Balance Sheet as of December 31, 2001.

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### **RISK FACTORS**

*Before investing in our common stock, you should carefully consider the risks described below, as well as the other information contained in this prospectus supplement and the accompanying prospectus or incorporated by reference herein or therein from our other filings with the SEC, to which we refer you for more detailed information on our business, industry, and financial and corporate structure. These are risks we consider to be material to your decision whether to invest in our common stock. There may be risks that you view in a different way than we do, and we may omit a risk that we consider immaterial, but you consider important. If any of the following risks occur, our business, cash flows, financial condition or results of operations could be materially harmed. In that case, the value or trading price of our common stock could decline, and you could lose part or all of your investment.*

#### **Risks Related to our Business**

*We may ultimately incur liability in connection with the August 14, 2003 regional outage or the restatement of earnings.*

On August 14, 2003, eight states in the Northeast U.S. and southern Canada, covering a geographic area reportedly having approximately 50 million people, experienced a widespread power outage. That outage affected approximately 1.4 million customers in our service area. The causes of the outage have not yet been determined, although various industry, media and other reports have claimed that the outage began in our system. Congressional committees, state utility commissions and others have commenced investigations and inquiries into the causes and implications of the outage. In addition, a joint U.S.-Canada Task Force has been formed to investigate the events, with the U.S. Department of Energy coordinating the U.S. portion of this investigation.

A number of lawsuits have been filed against us in connection with the August 14th regional outage by individuals seeking court certification to represent a class of similarly situated persons who allegedly suffered damages as a result of such outage.

In addition to these legal proceedings and depending upon the outcomes of the governmental and other investigations of the outage, it is possible that additional regulatory proceedings or legal actions may be instituted against us. We intend to defend these actions vigorously and believe we have substantial defenses. We cannot, however, predict the outcome of any of these legal or regulatory proceedings. If it were ultimately determined that we have legal liability or are otherwise made subject to regulatory action in connection with the outage, it could have a material adverse effect on our financial condition and results of operations. See the discussion of the August 14, 2003 Regional Power Outage in the Recent Developments section above.

Several class-action lawsuits have also been filed against us in connection with the restatement of our 2002 and first quarter 2003 earnings and in one case also in connection with the outage by shareholders who claim to have suffered damages as a result of alleged federal securities law violations by us and our officers. On September 11, 2003, we received an informal data request from the SEC asking us to voluntarily provide information and documents related to our recent restatement of our 2002 annual financial statements. See the discussion under Proceedings Relating to the Recent Restatements and Other Events in the Recent Developments section above. We are unable to predict the outcome of any of these legal or regulatory proceedings.

*Changes in commodity prices could decrease revenues from power we sell or increase the cost of power we buy.*

While much of our generation serves customers under retail rates set by regulatory bodies, we also purchase and sell electricity in the competitive wholesale and retail markets. Increases in the costs of fuel for our generation facilities (particularly coal and natural gas) can affect our profit margins in both our competitive and non-competitive markets. Changes in the market prices of electricity, which are affected by changes in fuel costs and other factors, may impact our financial results and financial position by increasing the amount we pay to

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purchase power to supply PLR obligations in Ohio and Pennsylvania. Electricity and fuel prices may fluctuate substantially over relatively short periods of time for a variety of reasons, including:

severe or unexpected weather or seasonality;

changes in electricity usage;

illiquidity in wholesale power and other markets;

transmission or transportation constraints, inoperability or inefficiencies;

availability of competitively priced alternative energy sources;

changes in supply and demand for energy commodities;

changes in power production capacity;

outages at our power production facilities or those of our competitors;

changes in production and storage levels of natural gas, lignite, coal, crude oil and refined products;

natural disasters, wars, acts of sabotage, terrorist acts, embargoes and other catastrophic events; and

federal, state, local and foreign energy, environmental and other regulation and legislation.

We could be particularly vulnerable if power prices rise while any of our generating units are out of service as a result of an unscheduled outage.

Although we use derivatives to hedge electricity and natural gas purchase prices over periods of up to three years, we could experience losses on those hedges when the underlying commodities are delivered. These losses would affect our net income at the time of delivery. In addition, we cannot hedge our entire exposure to market price volatility at any given time. We have long-term coal contracts for 85% of our expected coal supply in 2004 and 70% in 2005.

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



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Operation of power plants and transmission and distribution facilities involves many risks, including the breakdown or failure of equipment or processes, accidents, labor disputes, and performance below expected levels. In addition, weather-related incidents and other natural disasters can disrupt generation, transmission and distribution delivery systems. Because our transmission facilities are interconnected with those of third parties, the operation of our facilities may be adversely affected by unexpected or uncontrollable events occurring on the system of such a third party.

Operation of our power plants below expected capacity levels could result in lost revenues or increased expenses, including higher maintenance costs that we may not be able to recover from customers. Unplanned outages may require us to incur significant replacement power costs. Moreover, if we are unable to perform our contractual obligations, penalties or liability for damages may result. See the discussion of the Davis-Besse outage in the Risk Factor below.

*Delays in the Davis-Besse restart process would require continued expenditures for replacement power.*

As described in Recent Developments, our Davis-Besse Nuclear Power Station has been offline since the first quarter of 2002 when corrosion was found by FENOC in the reactor vessel head during a refueling outage. During this outage, we have incurred replacement power costs of approximately \$15 million to \$25 million per month. We are now conducting a pressure test of the reactor's coolant system, which is one of the final steps in the restart process prior to NRC approval. If this and other tests described above do not go as expected, or if there

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are significant delays in the NRC approval process, we will continue to incur substantial replacement power costs, which will continue to have an adverse effect on our cash flows and results of operations. In addition, if testing is not successful, we may be required to undertake additional and possibly costly remedial actions.

*We may not be able to obtain adequate fuel supplies, which could adversely affect our ability to operate our facilities.*

We purchase fuel from many suppliers. Disruption in the delivery of fuel, including disruptions as a result of weather, labor relations or environmental regulations affecting our fuel suppliers, could adversely affect our ability to operate our facilities, and thus, our results of operations.

*Increasing costs associated with our defined benefits retirement plans and other employee related benefits may adversely affect our results of operations, liquidity and financial condition.*

Pensions and other post-employment benefit (OPEB) obligation costs can vary widely from year-to-year due to changes in the market value of assets held by those plans and interest rates at the end of the year. In particular, sharp declines in equity markets since the second quarter of 2000 and a reduction in our assumed discount rate for pension and OPEB obligations have combined to produce a significant increase in those costs. Also, increases in health care payments and a related increase in projected trend rates have led to higher health care costs. Combined, these employee benefit expenses increased by \$44.6 million in the second quarter of 2003 and \$93.8 million in the first six months of 2003 compared to the same periods in 2002. While we do not expect to be required to make cash contributions to the plan in 2003 or 2004 under the Employee Retirement Income Security Act of 1974, substantial cash funding is probable in the later years.

## **Risks Related to Our Industry**

*We are subject to complex and changing government regulations that may require increased expense and/or changes in business strategy that could have a negative impact on our and our subsidiaries' results of operations.*

We are subject to comprehensive regulation by various federal, state and local regulatory agencies that significantly influences our operating environment. We are required to have numerous permits, approvals and certificates from the agencies that regulate our business. We believe the necessary permits, approvals and certificates have been obtained for our existing operations and that our business is conducted in accordance with applicable laws; however, we are unable to predict the impact on our operating results of future regulatory activities of any of these agencies. Changes in or reinterpretations of existing laws or regulations or the imposition of new laws or regulations may require us to incur additional expenses or change the way we run our businesses, and therefore adversely impact our results of operations.

As a registered public utility holding company, we are subject to regulation by the SEC under the Public Utility Holding Company Act of 1935. The SEC has determined that our electric facilities constitute a single integrated public utility system under the standards of the Holding Company Act. The SEC regulates us under the Holding Company Act with respect to our accounting, the issuance of securities, the acquisition and sale of utility assets, securities or any other interest in any business, and entering into, and performance of, service, sales and construction contracts among our subsidiaries, and certain other matters. The Holding Company Act also limits the extent to which we may engage in non-utility businesses or acquire additional utility businesses. Each of our operating utility subsidiaries' retail rates, conditions of service, issuance of securities and other matters are subject to regulation in the state in which it operates in Ohio by the PUCO, in New Jersey by the

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NJBPU and in Pennsylvania by the Pennsylvania Public Utility Commission. With respect to their wholesale and interstate electric operations and rates, those subsidiaries are subject to regulation, including regulation of their accounting policies and practices, by the Federal Energy Regulatory Commission (FERC). Under Ohio law, municipalities

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may regulate rates, subject to appeal to the PUCO if not acceptable to the utility. In addition, our subsidiary American Transmission Systems Incorporated, is subject to regulation by the FERC with respect to its rates and operation of interstate transmission. Decisions by any of these regulatory bodies could affect us adversely for the reasons described above.

Separate energy bills have been passed by the Senate and the House of Representatives and have been referred to a conference committee to reconcile differing provisions. Among other things, each of the bills provides for the repeal of the Holding Company Act effective not earlier than 12 months or later than 18 months from the date legislation is ultimately enacted. The proposed legislation would, among other things, also confer on FERC certain additional regulatory authority over electric utilities. We cannot predict how our business may be affected by the enactment of the proposed legislation or, in particular, the repeal of the Holding Company Act.

***Restructuring and deregulation in the electric utility industry may result in increased costs that could adversely affect our and our utility subsidiaries' business and results of operations.***

As a result of the actions taken by state legislative bodies over the last few years, major changes in the electric utility business have occurred and are continuing to take place in parts of the United States, including Ohio, New Jersey and Pennsylvania, where our utility subsidiaries operate. These changes have resulted in fundamental alterations in the way integrated utilities and holding company systems like ours conduct their business.

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

In Ohio, New Jersey and Pennsylvania, laws applicable to electric industry restructuring and the respective state regulatory plans of our operating electric utility subsidiaries in those states include provisions:

imposing PLR obligations on electric distribution utilities for customers who have not selected other suppliers in those subsidiaries' service areas,

allowing customers to select other generation suppliers, and

deregulating those subsidiaries' electric generation businesses.

Our regulated utility subsidiaries in Ohio and Pennsylvania are required to provide electric service to customers who have not selected other suppliers at capped rates, which may be below current market rates and below our cost of supplying this power. Our regulated utility subsidiaries in those states source power from electricity supplied through our competitive energy services subsidiary, FirstEnergy Solutions Corp., and grandfathered wholesale and non-utility generator contracts. FirstEnergy Solutions in turn obtains power from generation assets owned or leased from our Ohio operating subsidiaries by FirstEnergy Generation, or through open market purchases. Because PLR rates in Ohio and Pennsylvania are capped, we bear the risks associated with increases in the costs of procuring power necessary to satisfy those obligations, whether those increases are experienced directly by us through increases in fuel prices or environmental compliance costs, for example, or reflected in the increased market prices we may pay for purchased power from time to time. The operating subsidiaries in Ohio and Pennsylvania also bear the risk that customers originally choosing alternative unaffiliated suppliers may switch back to us, which may increase

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demand above our available generation or contractual capacity and force us to purchase additional power on the open market at potentially unfavorable prices. In addition, increases in these supply costs can no longer be recovered from customers as was permitted prior to state utility restructuring. If these supply costs were to increase significantly and prove unrecoverable, our profit margins may significantly decrease with an adverse effect on our results of operations.

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The Ohio transition plan stipulation also granted preferred access to marketers, brokers and aggregators serving the retail customers of our Ohio utility subsidiaries to 1,120 MW of our generation capacity through 2005 at fixed prices set below the shopping credits of the applicable utility subsidiaries. To the extent any of that capacity is used by parties not affiliated with us, we may incur potentially significant lost opportunity costs if we could have sold such capacity at more favorable wholesale prices or used it in satisfaction of PLR obligations in preference to higher priced purchased power obtained for that purpose.

Under our Ohio transition plan, customer prices for generation are frozen through the five-year market development period that ends at the end of 2005, except for certain limited statutory exceptions including a 5% reduction in the price of generation for residential customers. Following the end of this period, we will be subject to prevailing market prices for electricity. If those market prices are substantially less than our current frozen rates, our results of operations and cash flows will be adversely affected.

***The different regional power markets in which we compete or will compete in the future have changing transmission regulatory structures, which could affect our performance in these regions.***

Our results are likely to be affected by differences in the market and transmission regulatory structures in the various regional power markets in which we participate. Jersey Central, Metropolitan Edison and Pennsylvania Electric currently own and operate facilities within the PJM RTO. The price of obtaining capacity and energy in the PJM-administered markets has a direct impact on the supply costs incurred by those companies. Cleveland Electric, Ohio Edison, Pennsylvania Power and Toledo Edison are transferring control of their transmission facilities to MISO effective October 1, 2003. The MISO expects to implement its own energy markets on or about March 31, 2004. The rules governing the various regional power markets may also change from time to time, which could affect our costs or revenues. Because it remains unclear which companies will be participating in the various regional power markets, how RTOs will develop or what regions they will cover, we are unable to assess fully the impact that transmission requirements may have on our business.

Management is unable to predict the outcome of these transmission regulatory actions and related proceedings or their impact on the timing and operation of RTOs, our transmission operations or our future results of operations and cash flows.

***We are exposed to risks of nuclear generation, which involve issues and uncertainties relating to health and safety, the adequacy of insurance coverage and nuclear plant decommissioning.***

We currently own four nuclear generating units which are operated by our subsidiary, FENOC: Beaver Valley Power Station Units 1 and 2; Davis-Besse Nuclear Power Station (which is out of service awaiting regulatory authorization to restart); and Perry Nuclear Power Plant Unit 1. These units comprise a total of 3,795 MW, or 28.3% of our total generating capacity, of which the Davis-Besse Plant accounts for 883 MW. We are, therefore, subject to the risks of nuclear generation, which include the following:

the potential harmful effects on the environment and human health resulting from the operation of nuclear facilities and the storage, handling and disposal of radioactive materials;

limitations on the amounts and types of insurance commercially available to cover losses that might arise in connection with our nuclear operations or those of others in the United States;

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uncertainties with respect to contingencies and assessment amounts if insurance coverage is inadequate; and

uncertainties with respect to the technological and financial aspects of decommissioning nuclear plants at the end of their licensed operation.

The NRC has broad authority under federal law to impose licensing and safety-related requirements for the operation of nuclear generation facilities. In the event of non-compliance, the NRC has the authority to impose

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finer or shut down a unit, or both, depending upon its assessment of the severity of the situation, until compliance is achieved. Revised safety requirements promulgated by the NRC could necessitate substantial capital expenditures at nuclear plants, including ours.

Any of our nuclear plants could face similar prolonged outages for unforeseen repair issues such as we are experiencing with our Davis-Besse Plant (see *Progress Toward Davis-Besse Restart* in the *Recent Developments* section above) or could experience a serious nuclear incident at any time. If such an incident did occur, it could cause us to incur significant repair expenses, which could adversely affect our results of operations, cash flows or financial condition. In addition, a major incident at any nuclear facility anywhere in the world could cause the NRC to limit or prohibit the operation or licensing of any domestic nuclear unit. Any such action could require us to purchase replacement power on the open market. Depending on prevailing market prices for replacement power, our financial condition, cash flows and results of operations could be materially adversely affected if this were to occur.

In addition, under the public liability insurance provided pursuant to the Price Anderson Act, we could be required to pay additional amounts in the event that losses in excess of private insurance occur as a result of a nuclear incident at any U.S. nuclear unit. As members of Nuclear Electric Insurance Limited, or NEIL, our subsidiaries owning or leasing interests in a nuclear facility are currently subject to assessments of up to \$68.4 million under insurance policies that cover property damage, decontamination cost and replacement power costs for incidents during a policy year at any NEIL-member company's nuclear facility if losses exceed the accumulated funds available to the insurer.

*Our operating results are affected by weather conditions and may fluctuate on a seasonal and quarterly basis.*

Weather conditions directly influence the demand for el