

PENNSYLVANIA POWER CO

Form 8-K

December 16, 2005

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549**

FORM 8-K

CURRENT REPORT

**PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

Date of Report (Date of earliest event reported) December 16, 2005

Commission	Registrant; State of	I.R.S. Employer
<u>File Number</u>	<u>Address; and Telephone</u>	<u>Identification No.</u>
	<u>Number</u>	
333-21011	FIRSTENERGY CORP. (An Ohio Corporation) 76 South Main Street Akron, OH 44308 Telephone (800)736-3402	34-1843785
1-2578	OHIO EDISON COMPANY (An Ohio Corporation) c/o FirstEnergy Corp. 76 South Main Street Akron, OH 44308 Telephone (800)736-3402	34-0437786
1-2323	T H E C L E V E L A N D ELECTRIC ILLUMINATING COMPANY (An Ohio Corporation) c/o FirstEnergy Corp. 76 South Main Street Akron, OH 44308 Telephone (800)736-3402	34-0150020
1-3583	THE TOLEDO EDISON COMPANY (An Ohio Corporation) c/o FirstEnergy Corp. 76 South Main Street Akron, OH 44308 Telephone (800)736-3402	34-4375005

1-3491 PENNSYLVANIA POWER 25-0718810
COMPANY
(A Pennsylvania Corporation)
c/o FirstEnergy Corp.
76 South Main Street
Akron, OH 44308
Telephone (800)736-3402

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2.):

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 1.01 Entry into a Material Definitive Agreement.

See Item 2.01 below with respect to certain new power supply agreements among subsidiaries of FirstEnergy Corp. and Item 2.03 below with respect to certain Guaranties of FirstEnergy referred to therein.

Item 2.01 Completion of Acquisition or Disposition of Assets.

On December 16, 2005, Ohio Edison Company (OE), The Cleveland Electric Illuminating Company (CEI), The Toledo Edison Company (TE) and Pennsylvania Power Company (Penn, and together with OE, CEI and TE, the Utility Subsidiaries), certain operating utility subsidiaries of FirstEnergy, completed an intra-system transfer of nuclear generation assets to FirstEnergy Nuclear Generation Corp. (NGC). Penn's asset transfer was consummated pursuant to the Subscription and Capital Contribution Agreement (Penn Contribution Agreement) entered into with NGC on May 13, 2005. OE's asset transfer was consummated pursuant to the Capital Contribution Agreement (OE Contribution Agreement) entered into with NGC on May 18, 2005. CEI's and TE's asset transfers were consummated pursuant to the separate Nuclear Purchase and Sale Agreements (Nuclear PSAs) entered into with NGC on May 18, 2005. These agreements were previously disclosed on Form 8-K filed with the Securities and Exchange Commission (SEC) on May 19, 2005.

NGC was organized under the laws of the State of Ohio for the purpose of owning the nuclear generation assets transferred from the Utility Subsidiaries. The nuclear generating plant interests transferred do not include leasehold interests of OE and TE in certain of the nuclear plants that are currently subject to sale and leaseback arrangements with non-affiliates. FirstEnergy Nuclear Operating Company, a wholly owned subsidiary of FirstEnergy, will continue to operate and maintain the nuclear generation assets. In connection with the asset transfers, OE and TE have entered into a power supply agreement with NGC pursuant to which OE and TE will sell capacity, energy and ancillary services relating to their leasehold interests. The new agreement, which replaced in part a prior similar agreement among those companies and FirstEnergy Solutions Corp. (FES), is effective through December 31, 2010 with automatic one-year renewals thereafter unless terminated by the parties thereto. Under the new agreement, OE and TE will be compensated on a cost-of-service basis. NGC will sell all capacity, energy and ancillary services available from the nuclear assets transferred as well as under this new agreement to FES pursuant to a power sale agreement for subsequent resale to wholesale and retail customers.

Pursuant to the Penn Contribution Agreement, Penn previously acquired the common stock of NGC. Upon closing, Penn made a capital contribution to NGC of its undivided ownership interests in certain nuclear generation assets, together with associated decommissioning trust funds and other related assets. In connection with the contribution, NGC assumed Penn's obligations with respect to approximately \$63 million aggregate principal amount of outstanding pollution control debt and certain other liabilities associated with the transferred assets. In addition, Penn received a promissory note from NGC in the principal amount of approximately \$166 million, representing the net book value of the contributed assets as of September 30, 2005, less other liabilities assumed. The note bears interest at a rate per annum based on Penn's weighted average cost of long-term debt (5.39%), matures twenty years from the date of issuance, and is subject to prepayment at any time, in whole or in part, by NGC. Following the capital contribution, Penn distributed the common stock of NGC as a dividend to its parent, OE, such that NGC became a wholly owned subsidiary of OE, as further described below.

Pursuant to the OE Contribution Agreement, OE made a capital contribution to NGC of its undivided ownership interests in certain nuclear generation assets, the common stock of OES Nuclear Incorporated (OES Nuclear), a wholly owned subsidiary of OE that held an undivided ownership interest in the Perry Nuclear Power Plant, together with associated decommissioning trust funds and other related assets. In connection with the contribution, NGC assumed OE's obligations with respect to approximately \$115 million aggregate principal amount of outstanding pollution control debt and certain other liabilities associated with the transferred assets. In addition, OE received a

promissory note from NGC in the principal amount of approximately \$232 million, representing the net book value of the contributed assets as of September 30, 2005, less other liabilities assumed. The note bears interest at a rate per annum based on OE's weighted average cost of long-term debt (3.98%), matures twenty years from the date of issuance, and is subject to prepayment at any time, in whole or in part, by NGC. Following the capital contribution, OES Nuclear was merged with and into NGC, and OE distributed the common stock of NGC as a dividend to its parent, FirstEnergy, such that NGC is currently a direct wholly owned subsidiary of FirstEnergy.

Pursuant to the Nuclear PSAs, NGC purchased CEI's and TE's respective undivided ownership interests in certain nuclear generation assets for a purchase price equal to their net book values as of September 30, 2005 (CEI - \$993 million, TE - \$706 million), together with CEI's and TE's respective interests in associated decommissioning trust funds and other related assets, less the amount of obligations under outstanding pollution control debt (CEI - \$367 million, TE - \$284 million) and the agreed upon value of certain other liabilities associated with the transferred assets. As consideration, NGC delivered to each of CEI and TE a promissory note that is secured by a lien on the transferred assets, which bears interest at a rate per annum based on CEI's and TE's weighted average cost of long-term debt (5.99% and 4.38%, respectively), and matures twenty years from the date of issuance. NGC may pre-pay each note at any time, in whole or in part, at its option without penalty.

In conjunction with the asset transfers, FirstEnergy made a cash capital contribution to NGC of approximately \$750 million. NGC expects to use the proceeds from the capital contribution to pre-pay a portion of the promissory notes described above (CEI - \$465 million; TE - \$265 million; Penn - \$20 million).

Item 2.03 Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.

On December 16, 2005, FirstEnergy entered into five separate guaranties (Guaranties) in connection with the issuance of five new series of pollution control revenue refunding bonds (Bonds) by the Ohio Water Development Authority (OWDA), Ohio Air Quality Development Authority (OAQDA) and Beaver County Industrial Development Authority (BCIDA, and together with the OWDA and OAQDA, the Authorities) on behalf of NGC as follows:

Authority	Series	Principal Amount	Maturity
OWDA	Series 2005-A	\$ 99,100,000	August 1, 2033
OWDA	Series 2005-B	82,800,000	January 1, 2034
OAQDA	Series 2005-A	8,000,000	August 1, 2033
OAQDA	Series 2005-B	7,200,000	January 1, 2034
BCIDA	Series 2005-A	72,650,000	January 1, 2035
Total		\$269,750,000	

Principal or redemption price of and interest on, and purchase price of, each series of the Bonds is payable from a pledge of revenues derived by the respective Authority pursuant to a separate Loan Agreement between the respective Authority and NGC, and NGC's related unsecured promissory note. Payment of the principal or redemption price of and interest on, and purchase price of, the Bonds of each series will be fully secured by a separate irrevocable, direct-pay letter of credit (each a Letter of Credit) delivered to J.P. Morgan Trust Company, National Association, as Trustee for each series of Bonds, by Barclays Bank PLC (Barclays). Each Letter of Credit will permit the Trustee to draw up to (a) an amount sufficient to pay the principal of the applicable Bonds or the portion of the purchase price corresponding to principal of such Bonds, plus (b) an amount equal to 36 days' interest accrued on applicable Bonds, computed at a maximum rate of 10% per annum, to pay accrued and unpaid interest on such Bonds or the portion of the purchase price corresponding to accrued and unpaid interest on such Bonds. Each Letter of Credit will expire December 16, 2010 unless terminated earlier or extended in accordance with its terms. If a Letter of Credit is not extended, is cancelled or is replaced as described herein, the Bonds entitled to the benefit of that Letter of Credit will be subject to mandatory purchase prior to the cancellation, expiration or replacement of such Letter of Credit.

From the date of issuance of the Bonds, the Bonds of each series will accrue interest at Weekly Rates determined by the applicable remarketing agent as set forth in the related Trust Indenture. The method of determining the interest rate on the Bonds may be converted from time to time in accordance with the Trust Indenture to a Daily Rate, a Weekly Rate, a Commercial Paper Rate, a Semi-Annual Rate, an Annual Rate, a Two-Year Rate, a Three-Year Rate, a Five-Year Rate, a Long Term Rate or a Dutch Auction Rate. The Bonds of each series will be subject to optional, extraordinary optional and special mandatory redemption prior to maturity, and to optional and mandatory tender for

purchase and remarketing in certain circumstances described in the Trust Indentures.

FirstEnergy delivered a separate Guaranty to Barclays, as Administrative Agent and Fronting Bank under each Letter of Credit and Reimbursement Agreement, dated as of December 16, 2005, with NGC and the banks parties thereto pursuant to which Barclays issued each Letter of Credit. In certain circumstances relating to the attainment of investment grade credit ratings and specified levels of financial performance by FES or NGC in the future, FirstEnergy' may elect to have its obligations under each Guaranty reduced to zero.

The proceeds of the Bonds were used, together with additional funds provided by NGC in respect of applicable accrued interest and premium, if any, to refund an equal principal amount of bonds (the Prior Bonds) previously issued by the Authorities on behalf of OE (\$115 million), Penn (\$63 million) and TE (\$91 million). The Prior Bonds were issued to finance or refinance certain air quality and water pollution control facilities and sewage or solid waste disposal facilities at the Beaver Valley Power Station and the Perry Nuclear Power Plant.

The foregoing summary does not purport to be complete and is qualified in its entirety by reference to the complete text of each Guaranty, Reimbursement Agreement, Trust Indenture and Loan Agreement.

Item 9.01 Financial Statements and Exhibits.

(b) Pro forma financial information.

The following unaudited financial statements reflect the pro forma impact on each Utility Subsidiary of the nuclear generation asset transfers discussed above in Item 2.01 and the fossil and hydro-electric (non-nuclear) generation asset transfers to FirstEnergy Generation Corp. (FGCO) completed on October 24, 2005, as disclosed on Form 8-K filed with the SEC on October 24, 2005. The unaudited Pro Forma Consolidated Balance Sheets as of September 30, 2005 depict the impact of the asset transfers as if the transactions had occurred on September 30, 2005. The unaudited Pro Forma Consolidated Statements of Income for the nine month period ended September 30, 2005 depict the pro forma impact of the asset transfers as if the transactions had occurred on January 1, 2005. The pro forma financial statements have been prepared for comparative purposes only and do not purport to be indicative of future results of operations or financial condition.

Combined Explanatory Notes for the Pro Forma Consolidated Statements of Income

- a. The elimination of operating revenues from the lease rental of non-nuclear generation assets to FGCO.
- b. The elimination of depreciation expense on non-nuclear generation assets.
- c. The elimination of property tax expense on non-nuclear generation assets.
- d. The addition of interest income on the new associated company note receivable from FGCO for the transfer of non-nuclear generation net assets.
- e. The elimination of wholesale revenues from the sale of nuclear generation to FES.
- f. The elimination of fuel expense related to nuclear generation assets.
- g. The elimination of operating costs related to nuclear generation assets.
- h. The elimination of depreciation expense and asset retirement obligation accretion related to nuclear generation assets.
- i. The elimination of property tax expense on nuclear generation assets.
- j. The elimination of earnings on nuclear decommissioning trusts.
- k. The addition of interest income on the new associated company note receivable from NGC for the transfer of nuclear generation assets.
- l. The elimination of interest expense on pollution control revenue bonds to be transferred with the disposition of nuclear generation assets.
- m. The elimination of the allowance for borrowed funds used during construction on nuclear capital expenditures.
- n. The reduction of interest expense on associated company money pool debt resulting from the utilization of NGC's initial payment on the new associated company note receivable.
- o. To reclassify the reversal of the lease market valuation liability from nuclear operating costs to purchased power.
- p. The income tax effect of the pro forma adjustments at a composite tax rate of approximately 41%.

OHIO EDISON COMPANY

PRO FORMA CONSOLIDATED STATEMENT OF INCOME
for the nine month period ended September 30, 2005
(Unaudited)

	Non-Nuclear		Nuclear		
	As Reported	Adjustments	Pro Forma (In thousands)	Adjustments	Pro Forma
OPERATING REVENUES	\$ 2,268,760	\$ (132,999) a	\$ 2,135,761	\$ (219,942) e	\$ 1,915,819
OPERATING EXPENSES AND TAXES:					
Fuel	39,080		39,080	(32,188) f	6,892
Purchased power	703,658		703,658		703,658
Nuclear operating costs	264,514		264,514	(122,527) g	141,987
Other operating costs	293,530		293,530		293,530
Provision for depreciation	87,875	(30,124) b	57,751	(10,520) h	47,231
Amortization of regulatory assets	347,880		347,880		347,880
Deferral of new regulatory assets	(107,750)		(107,750)		(107,750)
General taxes	146,066	(4,247)			