April 13, 2009

FirstEnergy appreciates the opportunity to respond to the Discussion Paper "Preliminary Views on Financial Statement Presentation."

FirstEnergy is a diversified energy company with approximately $34 billion of assets and $14 billion in annual revenues. Our subsidiaries and affiliates are involved in the generation, transmission, and distribution of electricity, as well as energy management and other energy-related services. Our seven electric utility operating companies comprise the nation’s fifth largest investor-owned electric system, serving 4.5 million customers within 36,100 square miles of Ohio, Pennsylvania, and New Jersey. Our generation subsidiaries control more than 14,000 megawatts of capacity.

We believe that the presentation model proposed in the FASB’s Discussion Paper is interesting, but we are not convinced that the proposed model provides significantly better information to investors than does the current model. We strongly object to the proposed requirement for companies to use the direct method in the statement of cash flows. We believe that the costs to implement systems to capture cash flow information required to support the proposed classifications under the direct method far outweigh any perceived benefits.

We address these concerns in our responses below to specific questions as presented in the Discussion Paper.
Chapter 2: Objectives and Principles of Financial Statement Presentation

5. The proposed presentation model relied on a management approach to classification of assets and liabilities and the related changes in those items in the sections and categories in order to reflect the way an item is used within the entity or its reportable segment (see paragraphs 2.27, 2.34, and 2.39-2.41).

a. Would a management approach provide the most useful view of an entity to users of its financial statements?

We agree that management is in the best position to be able to determine the classifications based on each asset’s or liability’s economic function or nature. Although the proposed change to the financial statements enables management to communicate its story in a different way to financial statement users, we have concerns about the reduced comparability of financial statements that might result from the management approach.

We acknowledge that a management approach to the classification of assets and liabilities into separate sections and categories in order to reflect the way an item is used within the entity allows a company’s management to exercise a significant amount of discretion in the presentation of the financial statements. This would result in the financial statements appearing to be comparable on their face because the classification categories are the same; however, the line item components can vary greatly due to differences in interpretation by each company’s management. For example, these differences could be caused by the degree of conservatism each company’s management employs in determining the appropriate nature or function of each item. Regardless of the reason, these differences may significantly hinder the ability of financial statement users to assess the performance of companies on a comparable basis.

The Discussion Paper proposes additional footnote disclosures where management would explain its rationale for classifying its assets and liabilities into specific categories. While this additional disclosure requirement attempts to address the comparability issue, it also adds to "information overload" for financial statement users and burdens the preparer with additional costs. Additional footnote disclosures will not resolve the user’s dilemma to reconcile the differences in each company’s management approach to asset and liability classification. This additional analysis may be somewhat beneficial to the most sophisticated investors, but will surely erode the financial statements’ usefulness for the average investor.

We are also not convinced that the proposal to disaggregate financial statement line items according to an item’s economic characteristic would provide sufficient benefits to financial statement users that outweigh the costs of implementing such a
change. This proposal could result in significantly more complex financial statements, which would distort the usability of the statements. In order to implement the proposed change, FirstEnergy would have to undertake a costly overhaul of its enterprise reporting system, which was implemented only a few years ago at a substantial cost.

We believe that any benefits of a pure management approach to the classification of assets and liabilities would not outweigh the costs placed on preparers to implement the proposed change or the burden placed on financial statement users caused by increased financial statement complexity.

b. Would the potential for reduced comparability of financial statements resulting from the management approach to classification outweigh the benefits to the approach?

The significant reduction to the comparability of the financial statements outweighs any potential benefit achieved through the management approach. As explained above, the introduction of such expansive management discretion into the presentation of the financial statements may impede an investor's ability to measure a company's performance comparatively among companies. Additional guidance for the proposed financial statement presentation, which could limit the amount of management discretion, would help to reduce the burden placed on investors by making the financial statements easier to compare to other companies.

Chapter 3: Implications of the Objectives and Principles for Each Financial Statement

19. Paragraph 3.75 proposes that an entity should use the direct method of presenting cash flows in the statement of cash flows.

a. Would a direct method of presenting operating cash flows provide information that is decision useful?

The direct method of presenting operating cash flows would provide information that is decision useful to financial statement users; however, we believe that it is no more useful than the indirect method of presenting operating cash flows. In weighing the advantages and disadvantages of each method, the FASB stated in paragraph 110 of FAS 95 that “the Board recognized the advantages of both approaches and concluded that neither method provided benefits sufficient to justify requiring one and prohibiting the other.” As a result, companies were able to choose which cash flow method best suited its business while still providing valuable information to investors.
In the Discussion Paper, however, the Board's position seems to change from either method being sufficient to neither method being independently sufficient. The Board states that the direct method is the better choice when considering the objectives of the financial statement presentation as proposed in the Discussion Paper. However, by requiring the direct method within the statement of cash flows, with the supplemental schedule of the indirect method reconciliation instead of continuing to permit the indirect method, the financial statements may become more confusing for average investors to understand, despite the complementary categories in each statement.

Requiring the direct method will force companies to incur considerable costs. For example, FirstEnergy and its subsidiaries (seven of which are also SEC registrants) use a money pool arrangement to manage their working capital. The indirect method sufficiently captures each subsidiary's cash activities, which flow through intercompany receivables and payables with the subsidiary that administers the money pool. Our enterprise reporting system is not currently capable of supporting the preparation of a direct method cash flow statement for the subsidiaries and the costs associated with changing the system would be significant.

Companies should not be required to use the direct method of presenting cash flows because it does not add to the usefulness of the statement and the benefits of the proposed reconciliation schedule are already provided for under the indirect method.

c. Would the information currently provided using an indirect method to present operating cash flows be provided in the proposed reconciliation schedule (see paragraphs 4.19 and 4.45)? Why or why not?

While it appears that the proposed reconciliation schedule generally captures similar operating cash flow information that is provided by using the indirect method, we do not believe such a schedule, resulting from the mandate of using the direct method of cash flow presentation, provides sufficient benefits to outweigh the costs of implementing changing cash flow methods.

We request the Board to seriously consider the substantial costs involved with the implementation and maintenance of the underlying systems that would be needed to support the proposed changes to the financial statements. We expect the majority of the costs to be incurred during the implementation stage to include such costs as software changes or upgrades, personnel training, and audit fees. We also expect ongoing expenses to be higher due to additional audit fees and maintenance costs.

We suggest that the Board consider this proposal in conjunction with the SEC's proposed IFRS roadmap and determine what effects these changes will have on the SEC's final rule regarding Interactive Data to Improve Financial Reporting. In light of current economic conditions, the cost and complexity required to implement the changes
proposed in this Discussion Paper on a timeline that is separate and distinct from the SEC’s proposed roadmap for IFRS would place a significant burden on companies and their shareholders. We are also concerned with how the management approach could impact the use of the XBRL taxonomy. Through the tagging of financial data, investors can quickly query similarly tagged items across multiple companies. A management approach to classification of assets and liabilities may impair an investor’s ability to compare financial statements because of the discretion companies would be permitted in classifying certain assets and liabilities throughout XBRL’s hierarchy.

We are also concerned with the potential timing of the implementation. Depending on the expected effective date of the proposed changes in financial statement presentation, management will need sufficient time to make the necessary changes to financial reporting systems in order to incorporate the proposed changes retroactively.

FirstEnergy will continue to participate in this important financial statement presentation project. The Board should take a more measured approach, aligned with the migration to IFRS, to ensure that decision useful financial statements result from this project, with appropriate consideration of the costs and benefits of any changes to financial statements to their preparers and users.

Sincerely,

[Signature]

Harry L. Faynen