SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Under Section 13 or 15(d) of
the Securities Exchange Act of 1934

For Quarter Ended September 30, 1978   Commission File Number 1-1839

COMMONWEALTH EDISON COMPANY

(Exact name of registrant as specified in its charter)

ILLINOIS (State or other jurisdiction of incorporation or organization)	36-0938600 (IRS Employer Identification No.)
37th Floor, One First National Plaza, Post Office Box 767, Chicago, Illinois (Address of principal executive offices)	60690 (Zip Code)

Registrant's telephone number, including area code: 312/294-4321

Common Stock outstanding at September 30, 1978: 77,499,115 shares

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, and (2) has been subject to such filing requirements for the past 90 days. Yes ✓ No ____

COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES

PART I. FINANCIAL INFORMATION

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Commonwealth Edison Company:

We have examined the consolidated balance sheets and statements of consolidated capitalization of Commonwealth Edison Company (an Illinois corporation) and subsidiary companies as of September 30, 1977 and 1978, and the related statements of consolidated income, retained earnings, premium on common stock and other paid-in capital, and changes in financial position for the three-month, nine-month and twelve-month periods then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Commonwealth Edison Company and subsidiary companies as of September 30, 1977 and 1978, and the results of their operations and changes in their financial position for the three-month, nine-month and twelve-month periods then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

ARTHUR ANDERSEN & CO.

Chicago, Illinois
November 9, 1978

COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES

STATEMENTS OF CONSOLIDATED INCOME

The following statements of consolidated income for the three months, nine months and twelve months ended September 30, 1977 and 1978 reflect the results of past operations and are not intended as any representation as to results of operations for any future period. Future operations will necessarily be affected by various and diverse factors and developments, including changes in electric rates, population, business activity, taxes, environmental control, energy use, fuel supply, and labor, fuel and purchased power costs, and other matters, the nature and effect of which cannot now be determined.

	Three Months Ended September 30		Nine Months Ended September 30		Twelve Months Ended September 30	
	1977	1978	1977	1978	1977	1978
	—Thousands of Dollars—					
ELECTRIC OPERATING REVENUES (Note 15)	$578,962	$661,373	$1,571,647	$1,845,058	$2,050,048	$2,368,428
ELECTRIC OPERATING EXPENSES AND TAXES:						
Fuel (Notes 1 and 19)	$145,086	$175,437	$ 423,900	$ 559,593	$ 552,162	$ 728,011
Purchased and interchanged power—net	23,882	19,174	54,067	44,904	62,894	62,183
Operation	81,417	92,205	235,271	260,465	308,626	333,026
Maintenance	35,883	38,111	111,780	118,612	140,085	149,677
Depreciation (Notes 1 and 19)	53,520	56,917	158,095	170,593	207,483	224,905
Taxes (except income) (Note 14)	75,397	86,368	212,102	243,586	269,603	311,899
Income taxes (Notes 1 and 13)—						
Current —Federal	27,776	39,349	12,556	54,349	19,336	53,099
—State	3,105	4,313	5,126	7,621	6,730	8,966
Deferred—Federal—net	21,971	20,210	62,274	62,899	89,018	79,575
—State—net	1,938	1,770	5,497	5,530	7,860	6,923
Investment tax credits deferred—net (Notes 1 and 13)	6,669	8,511	42,205	27,586	52,268	42,651
	$476,[illegible]44	$542,365	$1,322,873	$1,555,738	$1,716,065	$2,000,915
ELECTRIC OPERATING INCOME	$102,318	$119,008	$ 248,774	$ 289,320	$ 333,983	$ 367,513
OTHER INCOME AND DEDUCTIONS:						
Interest on long-term debt	$(52,622)	$(61,498)	$ (150,739)	$ (175,445)	$ (197,319)	$ (228,842)
Interest on notes payable	(2,151)	(4,012)	(6,960)	(11,126)	(7,411)	(14,315)
Allowance for funds used during construction (Note 1)—						
Borrowed funds, net of income taxes	7,506	11,555	21,116	32,084	26,036	40,339
Equity funds	19,303	29,714	54,300	82,502	69,461	103,729
Current income tax credits applicable to nonoperating activities (Notes 1 and 13)	7,460	15,406	21,778	37,846	28,134	51,972
Miscellaneous—net	3,098	(4,877)	(535)	(5,532)	(711)	(11,704)
	$(17,406)	$(13,712)	$ (61,040)	$ (39,671)	$ (81,810)	$ (58,821)
NET INCOME	$ 84,912	$105,296	$ 187,734	$ 249,6[illegible]	$ 252,173	$ 308,692
PROVISION FOR DIVIDENDS ON PREFERRED AND PREFERENCE STOCKS	13,495	17,676	39,105	48,788	51,166	63,785
NET INCOME ON COMMON STOCK	$ 71,417	$ 87,620	$148,629	$ 200,861	$ 201,007	$ 244,907
AVERAGE NUMBER OF COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING (in thousands)	69,983	77,600	66,413	76,564	65,567	75,039
EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE (Note 1)	$1.02	$1.13	$2.24	$2.62	$3.07	$3.26
CASH DIVIDENDS DECLARED PER COMMON SHARE	$0.60	$0.60	$1.80	$1.80	$2.40	$2.40

( ) Indicates deduction.

The accompanying Notes to Financial Statements are an integral part of the above statements.

COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

ASSETS	September 30 1977	September 30 1978
	-Thousands of Dollars-	
UTILITY PLANT (Notes 1, 7 and 19):		
Plant and equipment, at original cost (includes construction work in progress of $1,806 million and $2,554 million, respectively)	$8,142,299	$9,163,975
Less—Accumulated provision for depreciation	1,747,023	1,847,086
	$6,395,276	$7,316,889
Nuclear fuel, including leased fuel, at amortized cost (Note 16)	233,126	322,085
	$6,628,402	$7,638,974
Less—Accumulated deferred income taxes (Note 2)	689,808	784,452
	$5,938,594	$6,854,522
POLLUTION CONTROL CONSTRUCTION FUNDS HELD BY TRUSTEE	$ 53,080	$ 15,423
INVESTMENTS:		
Subsidiaries not consolidated (Note 1)	$ 99,016	$ 138,371
Other investments, at cost	31,170	56,080
	$ 130,186	$ 194,451
CURRENT ASSETS:		
Cash (Note 8)	$ 12,374	$ 13,000
Temporary cash investments, at cost which approximates market	9,936	9,473
Special deposits	14,527	14,359
Receivables—		
Customers	170,647	214,721
Other	26,419	13,398
Provision for uncollectible accounts	(1,500)	(1,500)
Coal and fuel oil, at average cost (Note 19)	151,511	149,678
Materials and supplies, at average cost	55,694	56,789
Prepayments	5,346	7,797
	$ 444,954	$ 477,715
DEFERRED CHARGES	$ 13,132	$ 16,566
	$6,579,946	$7,558,677

( ) Indicates deduction.

The accompanying Notes to Financial Statements are an integral part of the above statements.

COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES	September 30 1977	September 30 1978
	-Thousands of Dollars-	
CAPITALIZATION (see accompanying statements):		
Common stock equity	$2,008,717	$2,276,843
Preferred and preference stocks	744,768	884,238
Long-term debt	2,885,219	3,181,518
Nuclear fuel lease obligation	6,105	3,760
	$5,644,809	$6,346,359
CURRENT LIABILITIES:		
Notes payable (Note 8)—		
Commercial paper	$ 143,437	$ 267,769
Bank loans	3,700	3,800
Current maturities of long-term debt	83,386	139,572
Accounts payable	1[illegible]2,002	142,050
Accrued interest	65,124	80,206
Accrued taxes	163,375	195,825
Dividends payable	55,455	64,727
Customer deposits	28,585	29,734
Other	29,732	25,414
	$ 714,796	$ 949,097
DEFERRED CREDITS:		
Accumulated deferred investment tax credits (Note 1)	$ 197,762	$ 240,442
Other (Note 15)	22,579	22,779
	$ 220,341	$ 263,221
COMMITMENTS AND CONTINGENT LIABILITIES (Note 17)		
	$6,579,946	$7,558,677

The accompanying Notes to Financial Statements are an integral part of the above statements.

COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES

STATEMENTS OF CONSOLIDATED CAPITALIZATION

	September 30 1977	September 30 1978
	–Thousands of Dollars–	
Common Stock Equity (Notes 3 and 4):		
Common stock, $12.50 par value per share—		
Authorized 125,000,000 shares—		
Outstanding—69,961,638 shares and 77,499,115 shares, respectively	$ 874,520	$ 968,739
Premium on common stock and other paid-in capital	567,591	679,979
Treasury stock, at cost	(11)	(9)
Capital stock and warrant expense	(11,368)	(12,126)
Retained earnings	577,985	640,260
	$2,008,717	$2,276,843
Preferred and Preference Stocks:		
Preference stock, cumulative, without par value (Note 5)—		
Authorized 35,000,000 shares—issuable in series—		
Outstanding—17,249,549 shares and 18,749,549 shares, respectively	$ 652,070	$ 801,564
$1.425 convertible preferred stock, cumulative, without par value (Note 6)		
Authorized and outstanding—2,915,061 shares and 2,599,817 shares, respectively	92,698	82,674
Prior preferred stock, cumulative, $100 par value per share—		
Authorized 850,000 shares—none outstanding	—	—
	$ 744,768	$ 884,238
Long-Term Debt (Notes 7 and 18):		
First mortgage bonds:		
Maturing through 1983—		
3% due June 1, 1978	$ 50,000	$ —
7⅛% due July 1, 1978	33,321	—
7.55% due April 1, 1979	14,504	14,504
9% due June 15, 1979	125,000	125,000
8⅝% due July 1, 1980	49,009	49,009
8¾% due April 1, 1981	39,269	39,269
3½% due January 1, 1982	4,000	4,000
3¼% due July 1, 1982	40,000	40,000
8% due October 1, 1982	99,695	99,695
9% due August 1, 1983	125,000	125,000
Maturing 1984 through 1993—3% to 5.80%	344,000	344,000
Maturing 1994 through 2003—5¼% to 8%	800,000	800,000
Maturing 2004 through 2007—6⅝% to 9⅜%	605,000	755,000
	$2,328,798	$2,395,477
Sinking fund debentures, due 1996 through 2011—2¾% to 9¼%	546,127	833,363
Pollution control obligations, due 2006 through 2007—5⅞% to 6.80%	100,000	100,000
Other long-term debt	2,331	2,266
Current maturities of long-term debt included in current liabilities	(83,386)	(139,572)
Unamortized net debt discount and premium (Note 1)	(8,651)	(10,016)
	$2,885,219	$3,181,518
Nuclear Fuel Lease Obligation (Note 16)	$ 6,105	$ 3,760
	$5,644,809	$6,346,359

( ) Indicates deduction.

The accompanying Notes to Financial Statements are an integral part of the above statements.

COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES

STATEMENTS OF CONSOLIDATED RETAINED EARNINGS

	Three Months Ended September 30		Nine Months Ended September 30		Twelve Months Ended September 30	
	1977	1978	1977	1978	1977	1978
	—Thousands of Dollars—					
BALANCE AT BEGINNING OF PERIOD	$548,528	$599,691	$551,386	$579,288	$536,716	$577,985
NET INCOME	84,912	105,296	187,734	249,649	252,173	308,692
	$633,440	$704,987	$739,120	$828,937	$783,889	$886,677
DEDUCT—Cash dividends declared on—						
Common stock—$0.60 per share quarterly	$ 41,976	$ 46,499	$121,522	$138,811	$159,230	$181,025
$1.90 preference stock	2,019	2,019	6,056	6,056	8,075	8,074
$2.00 preference stock	1,000	1,000	3,000	3,000	4,000	4,000
$1.96 preference stock	980	980	2,940	2,940	3,920	3,920
$7.24 preference stock	1,357	1,357	4,072	4,072	5,430	5,430
$8.40 preference stock	1,575	1,575	4,725	4,725	6,300	6,300
$2.875 preference stock	2,156	2,156	6,469	6,469	8,625	8,625
$2.375 preference stock	1,782	1,782	5,344	5,344	7,125	7,125
$8.38 preference stock	1,571	1,571	3,707	4,714	3,707	6,285
$8.20 preference stock	—	1,537	—	4,612	—	6,685
$8.40 preference stock, Series B	—	1,575	—	3,345	—	3,345
$8.85 preference stock	—	1,750	—	1,750	—	1,750
$1.425 convertible preferred stock	1,039	926	3,300	2,839	4,492	3,853
	$ 55,455	$ 64,727	$161,135	$188,677	$210,904	$246,417
BALANCE AT END OF PERIOD	$577,985	$640,260	$577,985	$640,260	$577,985	$640,260

STATEMENTS OF CONSOLIDATED PREMIUM ON COMMON STOCK AND OTHER PAID-IN CAPITAL

	Three Months Ended September 30		Nine Months Ended September 30		Twelve Months Ended September 30	
	1977	1978	1977	1978	1977	1978
	—Thousands of Dollars—					
BALANCE AT BEGINNING OF PERIOD	$558,464	$675,067	$447,867	$574,033	$441,972	$567,591
ADD—Premium on issuance of common stock	9,269	5,119	120,276	106,306	126,323	112,869
	$567,733	$680,186	$568,143	$680,339	$568,295	$680,460
DEDUCT—Transfer to common stock account the par value of common stock issued upon exercise of warrants	142	207	552	360	704	481
BALANCE AT END OF PERIOD	$567,591	$679,979	$567,591	$679,979	$567,591	$679,979

The accompanying Notes to Financial Statements are an integral part of the above statements.

COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES

STATEMENTS OF CONSOLIDATED CHANGES IN FINANCIAL POSITION

	Three Months Ended September 30		Nine Months Ended September 30		Twelve Months Ended September 30	
	1977	1978	1977	1978	1977	1978
			—Thousands of Dollars—			
FUNDS PROVIDED BY:						
Current operations—						
Net income	$ 84,912	$105,296	$ 187,734	$ 249,649	$ 252,173	$ 308,692
Depreciation and amortization	65,484	76,947	199,463	221,758	264,977	289,941
Deferred income taxes and investment tax credits—net	28,005	32,424	107,469	98,547	146,736	137,340
Equity component of allowance for funds used during construction	(19,303)	(29,714)	(54,300)	(82,502)	(69,461)	(103,729)
Other non-cash items—net	(695)	(1,198)	(1,786)	(2,888)	(2,286)	(4,706)
Funds provided internally	$158,403	$183,755	$ 436,580	$ 484,564	$ 592,139	$ 627,538
Issuance of securities—						
Long-term debt	—	—	374,735	298,950	474,430	447,375
Capital stock	84,392	82,334	342,655	336,132	349,952	345,321
Increase in short-term borrowings	101,180	154,094	14,362	44,234	143,437	124,432
	$343,975	$420,183	$1,170,332	$1,163,880	$1,559,958	$1,544,666
FUNDS APPLIED TO:						
Construction expenditures	$277,412	$319,888	$ 773,468	$ 895,191	$1,047,294	$1,162,621
Nuclear fuel expenditures	17,450	50,017	58,313	132,370	72,827	169,722
Equity component of allowance for funds used during construction	(19,303)	(29,714)	(54,300)	(82,502)	(69,461)	(103,729)
	$275,559	$340,191	$ 777,481	$ 945,059	$1,050,660	$1,228,614
Cash dividends declared on capital stock	55,455	64,727	161,135	188,677	210,904	246,417
Deposits for retirement of first mortgage bonds	(1,900)	(33,321)	—	—	(20,000)	—
Retirement of first mortgage bonds for cash	1,900	33,321	181,900	83,321	222,434	83,321
First mortgage bonds exchanged at maturity	—	—	—	—	59,466	—
Deposit by bondholders for purchase of first mortgage bonds	—	—	—	—	40,229	—
Increase (Decrease) in pollution control construction funds held by trustee	(4,167)	(7,291)	28,419	(26,236)	27,093	(37,657)
Investment in subsidiaries not consolidated	3,033	18,500	13,522	25,820	12,857	37,895
Increase (Decrease) in working capital (other than short-term borrowings and current maturities of long-term debt)	11,299	6,083	9,135	(51,574)	(49,050)	(20,922)
Other items—net	2,796	(2,027)	(1,260)	(1,187)	5,365	6,998
	$343,975	$420,183	$1,170,332	$1,163,880	$1,559,958	$1,544,666

( ) Indicates deduction.

The accompanying Notes to Financial Statements are an integral part of the above statements.

COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies:

Principles of Consolidation. The consolidated financial statements include the accounts of all subsidiaries engaged in the electric utility business. All significant intercompany transactions have been eliminated.

Individual financial statements of Commonwealth Edison Company (the "Company") have been omitted because it is primarily an operating company and all subsidiaries included in the consolidated financial statements are totally-held subsidiaries. Financial statements of the Company's nonconsolidated subsidiaries have been omitted because, considered in the aggregate, they would not constitute a significant subsidiary.

Investments in Subsidiaries not Consolidated. The Company accounts for investments in its subsidiaries not consolidated under the equity method. At September 30, 1977 and 1978, retained earnings includes $16,598,000 and $18,691,000, respectively, of undistributed earnings of subsidiaries not consolidated. The equity in earnings of subsidiaries not consolidated, which is included in miscellaneous income, for the three months ended September 30, 1977 and 1978 was $774,000 and $267,000, respectively, for the nine months ended September 30, 1977 and 1978 was $2,298,000 and $1,229,000, respectively and for the twelve months ended September 30, 1977 and 1978 was $2,837,000 and $2,118,000, respectively. The Company's investment in its uranium subsidiary at September 30, 1978 includes about $7,100,000 which represents the unamortized portion of the purchase cost attributable to uranium ore reserves after taking account of the estimated net value of the subsidiary's other assets at the date of acquisition. This amount is being amortized on the basis of uranium concentrate produced from the reserves.

Depreciation. Depreciation is provided on the straight-line basis by amortizing the cost of depreciable utility plant and equipment over estimated composite service lives. Such provisions for depreciation approximated effective annual rates for the three months ended September 30, 1977 and 1978 of 3.59% and 3.63%, respectively, for the nine months ended September 30, 1977 and 1978 of 3.60% and 3.63%, respectively and for the twelve months ended September 30, 1977 and 1978 of 3.59% and 3.62%, respectively, of the average cost of depreciable utility plant and equipment. While the eventual cost of retiring a nuclear generating unit is uncertain at the present time, these composite depreciation rates include significant allowances for both interim chemical cleaning and end-of-life decontamination and retirement.

Maintenance, repairs and replacement of minor items of property are charged to maintenance expense as incurred. When property which represents a retirement unit is replaced, removed or abandoned, the original cost of such property, together with removal costs less salvage, is charged to accumulated provision for depreciation.

Amortization of Nuclear Fuel. The cost of nuclear fuel, including spent fuel disposal cost, is amortized to fuel expense based on the quantity of heat produced for the generation of electric energy. The disposal cost outlook is reviewed periodically and the estimate is revised, as appropriate, on a prospective basis. The Company's objective is to provide for all disposal costs by the time final disposition is made of all nuclear fuel currently on hand, including spent fuel. A provision for costs associated with the disposal of spent fuel has been included in nuclear fuel expense. Provisions for amortization of nuclear fuel for the three months ended September 30, 1977 and 1978 were $11,964,000 and $20,030,000, respectively, for the nine months ended September 30, 1977 and 1978 were $41,368,000 and $51,165,000, respectively and for the twelve months ended September 30, 1977 and 1978 were $57,494,000 and $65,036,000, respectively.

Income Taxes. Provisions for deferred income taxes primarily reflect the use of liberalized depreciation methods, the Class Life Asset Depreciation Range System, including the repair allowance, and accelerated amortization for income tax purposes; gain on reacquired debentures credited to other income but applied as a reduction of the cost of depreciable property for income tax purposes; and pensions and general taxes capitalized for book purposes but deducted currently for income tax purposes. As income taxes become payable because of the reversal of such timing differences, the related accumulated deferred income taxes are credited to income.

Investment tax credits utilized, other than credits resulting from contributions to the Employe Stock Ownership Plan, are deferred and amortized through credits to income over the lives of related property.

Income tax credits resulting from interest charges applicable to nonoperating activities, principally construction, are classified as other income.

Allowance for Funds Used During Construction (AFUDC). In accordance with uniform systems of accounts prescribed by regulatory authorities, the Company capitalizes AFUDC which represents the estimated net cost of funds used to finance the construction program. Annual rates of 6.6% and 7.0%, compounded semi-annually, were used in 1977 and 1978, respectively, to determine the amounts of AFUDC. AFUDC is a non-cash item and does not contribute to the current cash flow of the Company.

Unamortized Debt Discount, Premium and Expense. Debt discount, premium and expense on outstanding long-term debt are being amortized over the lives of the respective issues.

Gain on Reacquired Debentures. Gains resulting from reacquisition by the Company of its debentures to satisfy sinking fund requirements are recognized currently in other income, net of the related income tax effect. This method is consistent with the treatment applied for ratemaking purposes. The gain on reacquired debentures, net of income taxes, for the three months ended September 30, 1977 and 1978 was $78,000 and $622,000, respectively, for the nine months ended September 30, 1977 and 1978 was $141,000 and $1,336,000, respectively and for the twelve months ended September 30, 1977 and 1978 was $232,000 and $1,963,000, respectively.

Earnings Per Common and Common Equivalent Share. Earnings per share were computed using the weighted average number of shares of common stock and common stock equivalents outstanding. Additional shares of common stock which would be issued if all outstanding common stock purchase warrants were converted into common stock have been considered common stock equivalents.

(2) Accumulated Deferred Income Taxes. Accumulated deferred income taxes have been deducted from utility plant investment because a substantial portion thereof, like the depreciation reserve, is deducted from plant investment in arriving at the rate base used in ratemaking proceedings.

(3) Common Stock. At September 30, 1978, shares of common stock were reserved for the following purposes:

Conversion of $1.425 convertible preferred stock	1,923,864
Exercise of common stock purchase warrants	645,263
Automatic Dividend Reinvestment and Stock Purchase Plan	4,376,549
Employe Stock Purchase Plan	1,883,849
Employe Stock Ownership Plan	165,074
	8,994,599

COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS—Continued

During the three months, nine months and twelve months ended September 30, 1977 and 1978, shares of common stock, $12.50 par value per share, were issued for the following purposes:

	Three Months Ended September 30		Nine Months Ended September 30		Twelve Months Ended September 30	
	1977	1978	1977	1978	1977	1978
Public offerings	—	—	6,000,000	6,000,000	6,000,000	6,000,000
Conversion of $1.425 convertible preferred stock	110,983	32,984	305,952	180,940	365,426	231,341
Conversion of warrants	11,234	16,542	43,764	28,731	55,770	38,263
Purchased with warrants	133	31	380	68	534	233
Automatic Dividend Reinvestment and Stock Purchase Plan	160,407	286,696	479,468	790,916	618,068	1,003,570
Employe Stock Purchase Plan	—	—	120,111	138,504	234,349	264,070
Employe Stock Ownership Plan	162,528	—	162,528	—	162,528	—
	445,285	336,253	7,112,203	7,139,159	7,436,675	7,537,477

At September 30, 1978, the Company held in its treasury 314 shares of its common stock which were reacquired from participants who withdrew from the Automatic Dividend Reinvestment and Stock Purchase Plan.

(4) Common Stock Purchase Warrants. At September 30, 1978, 645,263 common stock purchase warrants were outstanding. Each warrant entitles the holder to purchase one share of common stock for $30 or to convert such warrant into common stock at a conversion rate of one share of common stock for three warrants. The option to purchase shares of common stock will expire on April 30, 1981. Thereafter, any unexercised warrants will continue to be convertible into common stock. Warrants exercised both to purchase and for conversion into common stock for the three months ended September 30, 1977 and 1978 were 34,052 and 49,724, respectively, for the nine months ended September 30, 1977 and 1978 were 132,215 and 86,582, respectively and for the twelve months ended September 30, 1977 and 1978 were 168,548 and 115,476, respectively.

(5) Preference Stock. The outstanding series of preference stock, without par value, at September 30, 1978 are summarized as follows:

Series	Year Issued	Shares Outstanding	Aggregate Stated Value	Redemption Price Per Share (plus accrued and unpaid dividends, if any)
			-Thousands of Dollars-	
$1.90	1971	4,249,549	$106,239	$26.00 prior to May 1, 1981; and $25.25 thereafter
$2.00	1971	2,000,000	51,560	$26.81 prior to December 1, 1981; and $26.04 thereafter
$1.96	1972	2,000,000	52,440	$27.65 prior to December 1, 1982; and $27.11 thereafter
$7.24	1973	750,000	74,340	$103 prior to March 1, 1983; and $101 thereafter
$8.40	1974	750,000	74,175	Non-callable prior to February 1, 1979; $103 from February 1, 1979 through January 31, 1984; and $101 thereafter
$2.875	1974	3,000,000	72,300	Non-callable prior to November 1, 1984, except for sinking fund; $26.50 from November 1, 1984 through October 31, 1989; and $25.25 thereafter
$2.375	1975	3,000,000	72,450	Non-callable prior to November 1, 1980; $26.50 from November 1, 1980 through October 31, 1985; $25.75 from November 1, 1985 through October 31, 1990; and $25.25 thereafter
$8.38	1977	750,000	73,566	Non-callable prior to April 1, 1982; $102.15 from April 1, 1982 through March 31, 1987; and $100.16 thereafter
$8.20	1977	750,000	75,000	Non-callable prior to November 1, 1987, except for sinking fund; $105 from November 1, 1987 through October 31, 1992; $103 from November 1, 1992 through October 31, 1997; and $101 thereafter
$8.40, Series B	1978	750,000	74,494	Non-callable prior to May 1, 1983; $103 from May 1, 1983 through April 30, 1988; and $101 thereafter
$8.85	1978	750,000	75,000	Non-callable prior to August 1, 1988, except for sinking fund; $105 from August 1, 1988 through July 31, 1993; $103 from August 1, 1993 through July 31, 1998; and $101 thereafter
		18,749,549	$801,564	

The mandatory sinking fund requirements of outstanding preference stock are summarized as follows:

Series	Annual Sinking Fund Requirement and Price Per Share (plus accrued and unpaid dividends, if any)
$2.875	150,000 shares on November 1 of each year, beginning in 1979, at $25
$2.375	150,000 shares on November 1 of each year, beginning in 1980, at $25
$8.20	35,715 shares on November 1 of each year, beginning in 1982, at $100
$8.40 Series B	30,000 shares on May 1 of each year, beginning in 1983, at $100
$8.85	37,500 shares on August 1 of each year, beginning in 1984, at $100

Annual sinking fund requirements will aggregate $3,750,000 in 1979, $7,500,000 in 1980, $7,500,000 in 1981, $11,071,500 in 1982 and $14,071,500 in 1983.

The Company has non-cumulative options to increase the annual sinking fund payments to retire an additional 150,000 shares of both the $2.875 series and the $2.375 series on November 1 of each year, beginning in 1979 and 1980, respectively, and an additional 30,000 shares of the $8.40 Series B on May 1 of each year, beginning in 1983.

The involuntary liquidation prices per share of the outstanding preference stock are $25.00 for the $1.90, $2.00 and $1.96 series; $99.12 for the $7.24 series; $98.90 for the $8.40 series; $24.10 for the $2.875 series; $24.15 for the $2.375 series; $98.09 for the $8.38 series; $100.00 for the $8.20 series; $99.326 for the $8.40 Series B; and $100.00 for the $8.85 series; plus accrued and unpaid dividends, if any.

(6) $1.425 Convertible Preferred Stock. The shares of the convertible preferred stock are convertible at the option of the holders thereof, at any time, into common stock currently at the rate of 74/100ths of a share of common stock for each share of convertible preferred stock. The convertible preferred stock may be redeemed at $42 per share, plus accrued and unpaid dividends, if any. The involuntary liquidation price of the convertible preferred stock is $31.80 per share, plus accrued and unpaid dividends, if any. Convertible preferred stock converted into common stock for the three months ended September 30, 1977 and 1978 was 154,247 shares and 44,591 shares, respectively, for the nine months ended September 30, 1977 and 1978 was 428,536 shares and 245,208 shares, respectively and for the twelve months ended September 30, 1977 and 1978 was 513,519 shares and 315,244 shares, respectively.

(7) Long-Term Debt. Sinking fund requirements and scheduled maturities through 1983 for long-term debt outstanding at September 30, 1978, after deducting $26,237,000 of debentures reacquired for satisfaction of future sinking fund requirements and deducting annual sinking fund requirements for prior lien bonds to be satisfied by available property additions, are summarized as follows:

Year	Sinking Fund Requirements	Scheduled Maturities
1979	$ 68,000	$139,504,000
1980	$ 1,897,000	$ 49,009,000
1981	$ 3,473,000	$ 39,269,000
1982	$27,613,000	$143,695,000
1983	$28,279,000	$125,000,000

Long-term debt maturing within one year has been included in current liabilities.

The Company's Mortgage dated July 1, 1923, as amended and supplemented, securing the first mortgage bonds issued by the Company, constitutes a direct first mortgage lien on substantially all property and franchises, other than expressly excepted property, owned by the Company. The properties and

franchises acquired by the Company in the merger with Central Illinois Electric and Gas Co. and now owned by the Company are also subject to the prior lien of the Central Indenture assumed by the Company.

(8) Notes Payable. At September 30, 1978, the Company had outstanding promissory notes payable as follows: commercial paper of $267,769,000 due on various dates through December 18, 1978, at annual discount rates averaging 8.35%; and bank loans of $3,800,000, due February 4, 1979 and July 5, 1979, at prevailing prime interest rates averaging 9.75%. The average amounts of outstanding promissory notes payable and the weighted average annual discount rates thereon for the three months ended September 30, 1978 were $201,284,000 and 7.91%, respectively, for the nine months ended September 30, 1978 were $205,254,000 and 7.25%, respectively and for the twelve months ended September 30, 1978 were $202,736,000 and 7.06%, respectively. The maximum amount of promissory notes payable outstanding at any month end during the twelve months ended September 30, 1978 was $308,830,000.

The Company has unused bank lines of credit that enable it to borrow up to $242,000,000 at prevailing prime interest rates. Short-term borrowings may be made under these lines of credit on unsecured notes of the Company. Substantially all of the current lines of credit expire September 30, 1979.

The Company maintains cash balances on deposit with banks to provide operating funds, to assure availability of its lines of credit and to compensate the banks for other services they perform for the Company. These bank balances for the Company and consolidated subsidiaries are maintained at an average level of approximately $13,500,000 without formal commitments to do so. As demand deposits, these balances may be legally withdrawn at any time.

(9) Service Annuity Systems. The Company and Commonwealth Edison Company of Indiana, Inc., a consolidated subsidiary, have non-contributory service annuity systems which cover all regular employes. Provisions for contributions to the related trust funds for the three months ended September 30, 1977 and 1978 were $12,836,000 and $12,192,000, respectively, for the nine months ended September 30, 1977 and 1978 were $35,274,000 and $36,452,000, respectively and for the twelve months ended September 30, 1977 and 1978 were $46,335,000 and $45,961,000, respectively, and were equivalent to actuarial normal costs based on the aggregate cost method. Parts of the provisions are charged to construction costs.

At September 30, 1978, the current value of the trust funds approximated the estimated actuarially computed value of vested benefits at that date, which estimate was based upon the latest actuarial valuation as of January 1, 1978.

(10) Employe Stock Purchase Plan. Under the Company's Employe Stock Purchase Plan, all regular full-time employes, including officers but not directors who are not officers or employes, may accumulate up to 10% of their regular pay and on designated dates twice each year, in April and October, use such accumulated savings to purchase, at their option, common stock of the Company at 90% of the closing market price on such dates, but at not less than par value.

(11) Employe Stock Ownership Plan. The Company has established an Employe Stock Ownership Plan, the funding of which is limited to contributions from the Company equal to additional investment tax credits utilized under the Tax Reduction Act of 1975.

(12) Deferred Compensation Plan. Under the Company's Deferred Compensation Plan compensation units may be awarded to key executive and managerial employes. Each compensation unit entitles the holder to payments equal to and made on the payment dates of the cash dividends he would have received if on the day of the award one share of the Company's common stock had been issued to him. Subject to certain limitations after termination of employment, such payments continue for the life of the holder and of the surviving spouse married to the holder when his period of service terminated. Charges to expense, including provisions for payment after termination of employment for the three months ended September 30, 1977 and 1978 were $577,000 and $601,000, respectively, for the nine months ended September 30, 1977 and 1978 were $1,643,000 and $1,752,000, respectively and for the twelve months ended September 30, 1977 and 1978 were $2,178,000 and $2,328,000, respectively.

(13) Income Tax Provisions. Provisions for current and deferred state and federal income taxes and investment tax credits deferred resulted in effective tax rates for the three months ended September 30, 1977 and 1978 of 41.2% and 40.6%, respectively, for the nine months ended September 30, 1977 and 1978 of 40.2% and 38.3%, respectively and for the twelve months ended September 30, 1977 and 1978 of 40.8% and 37.9%, respectively. The principal differences between these rates and the federal statutory rate of 48.0% were (i) the effect of state income taxes which increases the composite statutory rate to 50.08% and (ii) the exclusion from taxable income of the equity component of allowance for funds used during construction, the federal income tax effect of which, stated as a percentage of pre-tax income, for the three months ended September 30, 1977 and 1978, was 6.4% and 8.0%, respectively, for the nine months ended September 30, 1977 and 1978 was 8.3% and 9.8%, respectively and for the twelve months ended September 30, 1977 and 1978 was 7.8% and 10.0%, respectively.

A review by the Internal Revenue Service of the Company's income tax returns for the years 1972 through 1975 is in progress. Although no report has yet been issued, the Company was advised in March, 1978 that the Service may propose an adjustment increasing the Company's income tax liabilities for the years 1972 and 1973. The Company intends to contest such proposed adjustment and, in the opinion of the Company and its counsel, the Company should prevail and no material effect on the financial statements is anticipated.

At September 30, 1978, unused investment tax credits were approximately $85,000,000.

(14) Supplementary Income Statement Information. Provisions for taxes, except income taxes, for the three months, nine months and twelve months ended September 30, 1977 and 1978 were as follows:

	Three Months Ended September 30		Nine Months Ended September 30		Twelve Months Ended September 30	
	1977	1978	1977	1978	1977	1978
			—Thousands of Dollars—			
Real estate, personal property and capital stock	$26,893	$32,629	$ 79,890	$ 92,877	$ 99,326	$120,306
Illinois public utility revenue	26,875	31,039	72,940	86,061	95,547	110,206
Municipal compensation	7,944	8,950	21,776	24,972	28,424	32,156
Municipal utility gross receipts	10,883	12,746	29,653	34,715	38,757	44,342
Other	2,802	1,004	7,843	4,961	7,549	4,889
	$75,397	$86,368	$212,102	$243,586	$269,603	$311,899

(15) Revenues Subject to Possible Refund. Since October 31, 1974, the Company has billed $18,461,000 to resale customers subject to possible refund pending a final decision on revised wholesale

rate schedules filed with Federal Energy Regulatory Commission (the "Commission"). At September 30, 1978, $8,434,000 of such billings was included in Other Deferred Credits; billings of $10,027,000 subsequent to October 1, 1976 have been included in operating revenues. On May 22, 1978, an initial decision was rendered by an administrative law judge of the Commission and, on the basis of that opinion any refunds required would be nominal. The initial decision is subject to review by the Commission. When a final decision is issued, any amounts included in Other Deferred Credits not refunded will be credited to income.

(16) Lease Obligations. The Company has capitalized the nuclear fuel leased for Dresden Unit 3 and recorded the related lease obligation. Semi-annual rental payments are sufficient to pay for the cost of heat produced during each period plus lessor's interest expense, and provisions therefor are being charged to fuel expense.

In addition, the Company has leased certain other property which would meet the criteria requiring capitalization under an accounting standard issued by the Financial Accounting Standards Board. However, since they have been treated as operating leases for ratemaking purposes, they have been accounted for as such. If such leases had been capitalized, related assets and liabilities of approximately $29,745,000 and $44,030,000 would have been recorded at September 30, 1977 and 1978, respectively. The effect on expenses for the three months, nine months and twelve months ended September 30, 1977 and 1978, would not have been material.

Future minimum rental payments at September 30, 1978 for such leases, including the capitalized nuclear fuel lease and the other capitalizable leases referred to above, are estimated to aggregate $65,384,000, including $2,034,000 in 1978, $10,371,000 in 1979, $10,258,000 in 1980, $8,137,000 in 1981, $8,137,000 in 1982 and $8,137,000 in 1983. The estimated interest component of such rental payments aggregates $15,601,000.

(17) Commitments and Contingent Liabilities. Purchase commitments, principally related to construction and nuclear fuel, approximated $1,961,000,000 at September 30, 1978.

The Company is a member of Nuclear Mutual Limited, established to provide insurance coverage against property damage to members' nuclear generating facilities. The Company would be subject to a maximum assessment of approximately $61,000,000 in the event of losses.

In addition, effective August 1, 1977, the Nuclear Regulatory Commission's indemnity for public liability coverage under the Price-Anderson Act began to be supported by a mandatory industry-wide program under which owners of nuclear generating facilities could be assessed in the event of nuclear incidents. Based on the number of nuclear reactors presently in service, the Company would be subject to a maximum assessment of $32,500,000 in the event of an incident, limited to a maximum of $65,000,000 in any calendar year. For each additional nuclear reactor placed in service, such maximum assessments will increase $5,000,000 and $10,000,000, respectively.

Reference is made to "Part II, Item 1. Legal Proceedings" for information concerning certain administrative and legal proceedings which may or may not require increases in the Company's future construction expenditures and operating expenses.

(18) Subsequent Event. On October 26, 1978, the Company issued $250,000,000 principal amount of First Mortgage 9⅛% Bonds, Series 38, due October 15, 2008. Proceeds from the sale amounted to $246,425,000.

(19) Replacement Cost Information as of December 31, 1977 (Unaudited). The Company's estimates of replacement costs and related data are set forth below. These estimates do not consider all of the effects of inflation on the Company's operations and necessarily require substantial subjective judgments. Moreover, replacement costs are not recognized for income tax and ratemaking purposes. Consequently, it would be inappropriate to use these data to adjust reported earnings because doing so would result in a serious mismatch between revenues and expenses. Other limitations are set forth in notes a through g below.

	Replacement Cost Data (Note g)	Original (Historical) Cost Data
	—Millions of Dollars—	
UTILITY PLANT AND FUEL INVENTORIES AT DECEMBER 31, 1977:		
Utility plant and equipment (Note a)	$19,340	$8,400
Less—Accumulated provision for depreciation (Note b)	7,990	1,792
	$11,350	$6,608
Nuclear fuel (including leased fuel) at amortized cost (Note c):		
Fuel in reactors	340	107
Fuel stocks	470	145
	$12,160	$6,860
Coal and fuel oil inventories (Note d)	$ 80	$ 142
DEPRECIATION AND FUEL EXPENSE FOR THE YEAR 1976:		
Depreciation expense (Note e)	$ 465	$ 197
Fuel expense (Note f):		
Amortization and lease charges for nuclear fuel in reactors	$ 185	$ 51
Coal and fuel oil burned	330	438
	$ 515	$ 489
DEPRECIATION AND FUEL EXPENSE FOR THE YEAR 1977:		
Depreciation expense (Note e)	$ 540	$ 212
Fuel expense (Note f):		
Amortization and lease charges for nuclear fuel in reactors	$ 220	$ 59
Coal and fuel oil burned	335	533
	$ 555	$ 592

Notes to Replacement Cost Information

a. *Plant and equipment.* Construction work in progress, land and intangible plant are included in the replacement cost data at their original cost. The replacement costs of other plant and equipment represent estimated costs which would be incurred if the plant and equipment facilities were replaced at December 31, 1977 price levels, assuming no cost escalation beyond that date.

Actual replacement of plant and equipment will take place over many years, probably in form and manner different from those assumed in developing these estimates. For these and other reasons, the replacement cost information presented is not indicative of the current value of existing plant and equipment nor of the Company's future capital requirements.

The estimated replacement cost of the 16,909 megawatts of generating facilities at December 31, 1977 reflects assumed replacement at capacity levels of 50% nuclear, 40% coal-fired, 10% oil-fired peaking and no oil-fired steam capacity. Each type of such replacement capacity was priced at the estimated average cost per kilowatt of building such capacity, reflecting existing environmental and safety requirements, at December 31, 1977.

No changes in mix were assumed for transmission, distribution and general plant, for which replacement costs were estimated by using the July 1, 1977 Handy-Whitman Index of Public Utility Construction Costs applied by plant accounts and vintage years, with adjustments to December 31, 1977 price levels.

b. *Accumulated depreciation.* The accumulated provision for depreciation on a replacement cost basis was estimated separately for each of five major classes of plant and equipment—steam-electric generation (nuclear and coal), peaking generation (oil), transmission, distribution and general plant. The method used was to multiply the replacement cost of facilities in each class by a percentage representing the estimated expired life of existing facilities in that class at December 31, 1977. For each of the two classes of generating plant, the estimated expired life was based upon a weighted average for all units in the class, computed by weighting the estimated expired life of each unit according to its net capability. For each of the three remaining plant classes, transmission, distribution and general plant, the estimated expired life was based on the weighted average for all facilities in the class computed by weighting the estimated expired life of each group of facilities according to its replacement cost.

c. *Nuclear fuel.* The replacement cost of in-core reactor fuel represents the year-end value of the estimated energy content of such fuel which would be required by the nuclear capacity contemplated under the replacement cost assumptions (see note a). The method used was (i) to determine the initial energy content (expressed in usable Btu's) of all in-core assemblies which would be required to fuel the assumed nuclear capacity, assuming the same average mixture of initial and re-load fuel as existed in reactors at December 31, 1977, (ii) to reduce this initial quantity of Btu's by the average percentage of depletion recorded for all existing nuclear fuel cores at year-end (calculated by dividing the accumulated per books amortization of nuclear fuel in reactors by the original cost thereof), and (iii) to price the remaining Btu's of usable energy at their estimated year-end replacement cost, after adjustment for waste disposal allowances. The replacement cost of nuclear fuel stocks not yet placed in reactors, including uranium concentrate, uranium in various stages of refinement, conversion, enrichment and fuel fabrication, and completed fuel assemblies, was based on year-end price levels.

d. *Coal and fuel oil inventories.* Actual inventories of coal and fuel oil at December 31, 1977 were assumed to be reduced in proportion to the respective reductions in coal and fuel oil usage referred to in note f. The replacement costs of these inventories were then determined by pricing such reduced inventories at their estimated replacement costs at year-end.

e. *Depreciation expense.* Depreciation expense based on replacement cost was determined using the rates and methods used for computing book depreciation based on original cost.

f. *Fuel expense.* To determine 1976 and 1977 fuel expense on a replacement cost basis, actual fuel usage was adjusted to reflect the assumed proportions of nuclear, coal and oil-fired generating facilities referred to in note a. As a result, the quantity of nuclear fuel usage was increased while coal and fuel oil usage was reduced. Actual 1976 and 1977 operating rates for nuclear and oil-fired peaking capacity were used in estimating the generation of these two categories under the replacement cost assumptions. The remaining generation was assumed to result from coal-fired capacity. No change was made in purchased power.

Nuclear fuel amortization was calculated by pricing the estimated increased nuclear fuel usage (in Btu's) at the estimated December 31, 1976 and 1977 replacement prices (assuming no leasing) plus an allowance for disposal costs. Coal and fuel oil expenses were calculated by pricing the reduced 1976 and 1977 usage of each such fuel at its average year-end replacement cost and adding related handling expenses. This procedure was followed because replacement prices of nuclear, coal and oil fuel at each year-end were assumed to be representative of such prices throughout the year.

g. *General.* If replacement costs were fully recognized for ratemaking and income tax purposes, it would be appropriate to record them on the books, at least with respect to the proportion of plant

represented by stockholders' equity, in order to partially reflect the effects of inflation. Failing that, however, a modest first step might be to restate depreciation expense to reflect the higher construction costs of recently completed plant. A suggested procedure would be to depreciate the same proportion of plant facilities each year as at present, but to price the depreciation provision (expressed in units of physical plant) at the unit cost of the facilities most recently placed in service and not theretofore depreciated. Under such a "last-in, first-out" (LIFO) approach, depreciation charges would be significantly increased, but not as much as under full replacement cost accounting.

While not departing from the use of historical costs, the LIFO depreciation approach would tend to reflect higher construction costs already sustained and technological changes already embodied in completed plant. LIFO depreciation would have increased the Company's 1977 depreciation expense to $390 million, about midway between $212 million recorded per books and the $540 million replacement cost depreciation shown above. However, even the LIFO increase would be inappropriate unless allowed for both income tax and ratemaking purposes.

MANAGEMENT'S ANALYSIS OF STATEMENTS OF CONSOLIDATED INCOME

The following factors had a major impact on changes in the results of the Company's operations during the periods indicated:

Quarter ended September 30, 1978 compared to Quarter ended September 30, 1977

Electric Operating Revenues. Operating revenues increased by $82,411,000, of which approximately 56% resulted from a rate increase effective October 14, 1977, 35% from increased fuel adjustment charges because of higher fossil fuel costs and 9% from increased kilowatthour sales and other items.

Electric Operating Expenses and Taxes. Fuel expense increased due to an 8.5% increase in generation and higher fuel prices, primarily coal.

Purchased and interchanged power decreased due to greater availability of large generating units.

Operation expense increased as a result of additional plant and equipment in service, increased payroll costs and other employe benefits due to annual wage increases and more personnel on the payroll and annual escalation in the cost of materials and services from outside contractors.

Taxes other than income taxes increased principally due to higher provisions for property taxes primarily because of additions to plant and equipment and increased revenue taxes as a result of growth in revenues.

Interest on Debt. Interest on debt increased because of greater amounts of debt outstanding and higher interest rates, as follows:

	1977	1978
Long-term debt—		
Average amount outstanding (in thousands)	$2,969,378	$3,331,856
Average interest rate	7.03%	7.32%
Notes payable—		
Average amount outstanding (in thousands)	$ 147,856	$ 201,284
Average interest rate	5.77%	7.91%

Other Items. The amounts of allowance for funds used during construction primarily reflect increases in the levels of investment in construction work in progress and an increase in the annual rate from 6.6% in 1977 to 7.0% in 1978.

Quarter ended September 30, 1978 compared to Quarter ended June 30, 1978

Electric Operating Revenues. Operating revenues increased by $92,267,000 primarily from a 17.3% increase in kilowatthour sales to ultimate consumers.

Electric Operating Expenses and Taxes. Purchased and interchanged power increased as a result of increased kilowatthours purchased under a seasonal summer agreement.

Taxes other than income taxes increased principally due to higher provisions for property taxes primarily because of additions to plant and equipment and increased revenue taxes as a result of growth in revenues.

Interest on Debt. Interest on debt increased because of greater amounts of debt outstanding and higher interest rates, as follows:

	June 30	September 30
Long-term debt—		
Average amount outstanding (in thousands)	$3,238,833	$3,331,856
Average interest rate	7.22%	7.32%
Notes payable—		
Average amount outstanding (in thousands)	$ 192,848	$ 201,284
Average interest rate	7.01%	7.91%

Other Items. The amounts of allowance for funds used during construction primarily reflect increases in the levels of investment in construction work in progress.

Nine months ended September 30, 1978 compared to nine months ended September 30, 1977

Electric Operating Revenues. Operating revenues increased by $273,411,000, of which approximately 43% resulted from a rate increase effective October 14, 1977, 44% from increased fuel adjustment charges because of higher fossil fuel costs and 13% from increased kilowatthour sales and other items.

Electric Operating Expenses and Taxes. Fuel expense increased due to 6.4% higher generation and increased fuel prices, primarily higher priced fossil fuels.

Purchased and interchanged power decreased due to fewer kilowatthours purchased and a net increase in interchange energy supplied to other utilities.

Operation expense increased as a result of additional plant and equipment in service, increased payroll costs and other employe benefits due to annual wage increases and more personnel on the payroll and annual escalation in the cost of material and services from outside contractors.

Taxes other than income taxes increased principally due to higher provisions for property taxes primarily because of additions to plant and equipment and increased revenue taxes as a result of growth in revenues.

Interest on Debt. Interest on debt increased because of greater amounts of debt outstanding and higher interest rates, as follows:

	1977	1978
Long-term debt—		
Average amount outstanding (in thousands)	$2,875,801	$3,229,504
Average interest rate	7.01%	7.26%
Notes payable—		
Average amount outstanding (in thousands)	$ 180,024	$ 205,254
Average interest rate	5.17%	7.25%

Other Items. The amounts of allowance for funds used during construction primarily reflect increases in the levels of investment in construction work in progress and an increase in the annual rate from 6.6% in 1977 to 7.0% in 1978.

Twelve months ended September 30, 1978 compared to twelve months ended September 30, 1977

Electric Operating Revenues. Operating revenues increased by $318,380,000, of which approximately 44% resulted from a rate increase effective October 14, 1977, 44% from increased fuel adjustment charges because of higher fossil fuel costs and 12% from increased kilowatthour sales and other items.

Electric Operating Expenses and Taxes. Fuel expense increased due to 4.8% higher generation and generally higher fuel prices, primarily higher priced fossil fuels.

Taxes other than income taxes increased principally due to higher provisions for property taxes primarily because of additions to plant and equipment and increased revenue taxes as a result of growth in revenues.

Interest on Debt. Interest on debt increased because of greater amounts of debt outstanding and higher interest rates, as follows:

	1977	1978
Long-term debt—		
Average amount outstanding (in thousands)	$2,852,948	$3,168,767
Average interest rate	6.92%	7.22%
Notes payable—		
Average amount outstanding (in thousands)	$ 143,350	$ 202,736
Average interest rate	5.17%	7.06%

Other Items. The amounts of allowance for funds used during construction primarily reflect increases in the levels of investment in construction work in progress and an increase in the annual rate from 6.6% in 1977 to 7.0% in 1978.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

Electric Rate Increases. On January 20, 1978, Commonwealth Edison Company (the "Company") filed with the Illinois Commerce Commission a proposal for a 5.6% increase in electric rates, which would add about $125 million to annual revenues on the basis of sales for the year 1977. Certain governmental bodies and others intervened in the proceeding. Hearings in the case have been concluded. There is no assurance that the increase in rates applied for will be granted. The Illinois Public Utilities Act provides that the Commission issue a final decision by December 19, 1978.

On October 12, 1977, the Illinois Commerce Commission authorized increased electric rates for the Company, effective for service rendered on and after October 14, 1977, which increased operating revenues by about 7.6% on the basis of sales for the year 1977. Petitions for rehearing filed by certain intervenors were denied, and a petition for rehearing filed by the Company was partly denied. Such intervenors and the Company have appealed the denials to the Circuit Court of Cook County, Illinois. On the Company's petition for rehearing, the Commission entered an order on January 18, 1978 amending the rate order as to certain deferred tax matters.

On April 10, 1974, the Illinois Commerce Commission ordered an inquiry into the Company's compliance with environmental conditions of the Commission's rate order of July 10, 1970. Public hearings have been held to receive data as to such compliance by the Company. In the 1970 order, the Commission prescribed a program of environmental measures and made 50% of the rate increase granted by that order conditional upon the Company's carrying out such measures and such other measures as may be required under any future orders issued by the Commission as a result of its investigation referred to under "Air Quality Regulation." Rate increases effective December 13, 1971 and February 16, 1973, authorized by the Commission's rate order dated December 10, 1971, are also subject to the condition contained in the 1970 order. Subsequent rate orders have not been so conditioned. The program contained in the Commission's 1970 order is being implemented and is provided for in the Company's construction and operating budgets, and the Company, in its opinion, is complying with the requirements of the order.

The Company's rate schedules include fuel adjustment riders through which fossil fuel price changes are offset by later revenue changes. Under current riders, fossil fuel costs per therm are averaged over a three-month period beginning four months prior to the billing month.

Litigation. A complaint was filed on March 2, 1972 in the United States District Court for the Southern District of Illinois, Southern Division, by a holder of the Company's 9.44% Cumulative Prior Preferred Stock. The action was brought on behalf of such holder and on behalf of all of the other holders and owners of the Company's 9.44% Cumulative Prior Preferred Stock. The complaint alleged that as a consequence of the redemption of such stock the Prospectus of the Company dated June 24, 1970 used in connection with the issue and sale of such stock became and would become false, misleading and manipulative, and the redemption would be a manipulative device, in violation of the Securities Exchange Act of 1934, Rule 10(b)-5 thereunder and the Securities Act of 1933 and that such redemption would be a breach of contract. The plaintiff asked damages in the amount of $300,000 for itself and damages for each of the other holders in an amount equal to the loss sustained by such holder. On May 2, 1972, the Court entered an order providing that the action be maintained as a class action on behalf of a class comprised of the plaintiff and all other holders of record of such stock at and after January 4, 1972. Notice of this order

was mailed to the members of the class on May 12, 1972. On August 28, 1972, the Court entered an order allowing a party to intervene and designating chief counsel to represent the interests of all plaintiffs in the proceeding. On December 19, 1972, the plaintiff filed an amended complaint which made certain additional allegations of fraud and sought damages beyond the alleged actual losses of the plaintiff to the extent of alleged profits of the Company because of the redemption, based upon unjust enrichment. On May 22, 1978, the District Court decided the case in the Company's favor on all counts. On June 19, 1978, the plaintiff filed a notice of appeal to the United States Court of Appeals for the Seventh Circuit.

On October 26, 1976, the Company filed a complaint in the United States District Court for the Northern District of Illinois, Eastern Division, against Atlantic Richfield Company ("ARCO"). The complaint stated that ARCO has failed to deliver diesel fuel oil to the Company in the years 1974 through 1976 in the quantity and at the prices required by a contract between ARCO and the Company. A motion to dismiss the complaint, filed by ARCO, was denied on April 13, 1977. The Company's complaint, as amended, requests actual and liquidated damages of approximately $55,000,000. On August 5, 1977, ARCO filed a counterclaim against the Company requesting actual and liquidated damages of approximately $35,000,000. The counterclaim alleges that the Company breached the contract referred to above by failing and refusing to accept delivery of diesel fuel oil. On June 15, 1978, the Company's motion for summary judgment was denied and its motion to strike certain affirmative defenses was granted in part and denied in part.

A complaint was filed against the Company on November 29, 1976 in the United States District Court for the Northern District of Illinois, Eastern Division, by the Illinois cities of Batavia, Geneva, Naperville, Rock Falls and St. Charles which purchase wholesale electric power from the Company for retail distribution. The complaint alleges that the Company, through its rate structure, has monopolized and has attempted to monopolize interstate trade and commerce in the distribution and sale of electric power at retail in violation of the Sherman Act, and has substantially lessened or destroyed competition for retail industrial customers in violation of the Clayton Act. Such violations are claimed to have been intentional. The complaint seeks declaratory and injunctive relief and treble damages in the amount of $37,500,000. On September 15, 1977, the Court denied the Company's motion to dismiss the counts of the complaint relating to the level of rates charged by the Company to the plaintiffs. The Company has also filed an answer denying the allegations of the complaint.

On December 28, 1976, Richards of Rockford, Inc. filed a complaint against the Company and Sargent & Lundy in the Circuit Court (Law Division) of Cook County, Illinois. The complaint, as subsequently amended, seeks $997,000 alleged to be owed by the Company for the purchase from the plaintiff of certain pollution control equipment and services in connection therewith. The complaint also alleges public disparagement of the plaintiff's product by the Company and false and misleading specifications by the Company and Sargent & Lundy relied upon by the plaintiff in the manufacture of the pollution control equipment, for each of which allegations the plaintiff seeks $5,000,000 in punitive damages and additional actual damages in an amount to be determined. Finally, the plaintiff claims that the Company and Sargent & Lundy conspired, with each other and a third company, against the plaintiff's business in violation of the Illinois antitrust laws, for which it seeks damages in the amount of $50,000,000. On February 22, 1977, the Company filed an answer denying the allegations with respect to the $997,000 alleged to be owed to the plaintiff and moved to dismiss the remaining counts of the complaint. The Company also filed a counterclaim against the plaintiff, Darling-Delaware Company, Inc., the plaintiff's parent, and Richard B. Kelley, the plaintiff's president, seeking actual damages of $25,000,000 and punitive damages of $5,000,000 for breach of contract and warranties, negligent misrepresentation and violation of the Illinois Consumer Fraud and Deceptive Business Practices Act. The counterclaim was also filed against the surety on plaintiff's bond. The Company has withdrawn a portion of its counterclaim which requested damages in an unspecified amount for false allegations made without reasonable cause in violation of Illinois law.

Suits have been filed from time to time in the Circuit Court of Cook County, Illinois, Municipal Department, by the City of Chicago and the County of Cook, alleging violations by certain of the Company's generating stations or other facilities of environmental control ordinances. Suits have also been filed from time to time in the City Court of Hammond, Indiana, by the Hammond Air Pollution Control Authority alleging violations by State Line station, owned by Commonwealth Edison Company of Indiana, Inc. (the "Indiana Company"), of environmental control ordinances and air quality regulations of the Indiana Air Pollution Control Board. Penalties imposed on the Company and the Indiana Company (the "companies") to date have not been material.

Water Quality Regulation. Under the Federal Water Pollution Control Act of 1972, National Pollutant Discharge Elimination System ("NPDES") permits for discharges into waterways are required from the Federal Environmental Protection Agency or from state authorities to whom the permit program has been delegated. Such discharges must conform with standards which have been promulgated by the Federal Agency pursuant to the Act and with applicable state standards. The permit program for facilities located in the State of Illinois was delegated to the Illinois Environmental Protection Agency on October 23, 1977, except for certain matters then pending before the Federal Agency. The companies have received NPDES permits for discharges from all of their generating stations. Such permits require periodic renewal. The companies have also submitted evidence to the Federal Agency pursuant to its procedures to establish lack of need for modifications of the cooling water intakes and discharges at stations where permit conditions would impose that requirement. On December 21, 1977, the Federal Agency issued a notice of a proposed determination that a new intake structure is required at the Company's Dresden station. If it becomes necessary to install closed-cycle cooling systems or other facilities at existing generating stations, substantial additional construction expenditures would be involved.

On July 15, 1977, the Federal Agency issued an order finding the Company in violation of certain effluent limitations imposed by the NPDES permit for discharges at Crawford station. The Company has pending before the Illinois Environmental Protection Agency, pursuant to the delegation referred to above, a request for modification of the permit which, if granted, would establish compliance. The Company has since notified the Federal Agency that it has completed the installation of equipment to achieve compliance with the effluent limitations in the present permit.

On October 20, 1977, the Federal Agency ordered the Company to submit an application for an NPDES permit with respect to the alleged unauthorized discharge of various contaminants, including polychlorinated biphenyls, in runoff water at the Company's Maywood Technical Center. On November 18, 1977, the Company submitted such application to comply with the order, but stated therein its reservations as to the appropriateness of applying for the NPDES permit. The Maywood runoff has also been the subject of inquiries from the Attorney General of the State of Illinois and the Illinois Environmental Protection Agency, and a notice of violation from the Metropolitan Sanitary District of Greater Chicago. The Company has presented to the Attorney General, the Illinois Agency and the District plans for controlling the runoff.

On June 23, 1977, the Division of Water Pollution Control of the Indiana State Board of Health issued a notice of violation stating that the Indiana Company's State Line station had violated certain effluent limitations imposed by the NPDES permit for that station.

Regulations published by the Federal Agency in October 1974 established chemical discharge limitations for steam electric generating stations. The regulations impose certain levels of control for specified substances by July 1, 1977. The Federal Water Pollution Control Act, under which the regulations were adopted, also requires that applicable state water quality standards be met by that date. The companies have initiated a program for the installation of treatment facilities at their generating stations to meet the federal chemical discharge regulations and state effluent standards. The estimated total cost of this program is $200,000,000. The first four installations are complete and it is anticipated that all such

installations will be completed in 1979. The Illinois Pollution Control Board granted the Company a variance from state chemical discharge limitations until certain specified dates when each of the installations at the Company's stations is expected to be completed. On October 27, 1978, the Company filed a request to extend this variance to February 1, 1979 at Waukegan and Powerton stations (where the original variance expired on November 1, 1978) due to delays in completing the installations at those stations. Although the Federal Agency and the Company had stipulated that the Company's compliance schedule is a reasonable one, on August 19, 1977 the Federal Agency issued orders finding that 11 of the Company's 12 generating stations now in service were in violation of certain of the effluent discharge limitations referred to above. The orders require the Company to show cause why the Federal Agency should not refer the violations to the United States Attorney for initiation of judicial proceedings. The Federal Agency has issued a policy statement on proceedings involving such violations which states that, in any disposition thereof, Agency personnel should seek a fine or settlement penalty in an amount at least equal to any costs the violator has saved by non-compliance (not exceeding the maximum fine of $10,000 for each day of violation allowed by the Federal Water Pollution Control Act). On November 11, 1977, the Company filed a petition with the Federal Agency which, in essence, requests variances for these generating stations and for the Indiana Company's State Line station until the compliance program is completed.

The Company entered into an agreement with the Attorney General of the State of Illinois, Izaak Walton League of America and Illinois State Community Action Program of the United Automobile, Aerospace and Agricultural Implement Workers of America on March 27, 1972 requiring that, except in certain circumstances, both units at the Quad-Cities nuclear generating station be operated with closed-cycle cooling beginning May 1, 1975. Based on the agreement, an order dated December 13, 1972 was issued by the Illinois Commerce Commission requiring the Company to operate such units with closed-cycle cooling by May 4, 1975. The Commission made compliance with the terms of this order a condition of a portion of the rate increases granted to the Company by the Commission in its rate orders of July 10, 1970 and December 10, 1971. As indicated under "Electric Rate Increases," there is a proceeding pending before the Illinois Commerce Commission with respect to the Company's environmental control measures. Tests of the closed-cycle cooling system at Quad-Cities station conducted by the Company indicate that the system, which is a spray canal, operates at substantially less than anticipated efficiency. The generating capability of the two units at Quad-Cities station is substantially reduced by operation of both units with the existing closed-cycle cooling system on days when outside temperatures are high. The spray canal is currently being operated during warm weather so as to dispose of only a portion of the waste heat under a force majeure provision of the agreement which allows the Company to discharge some of the heated water into the Mississippi River through a diffuser pipe when completion of the closed-cycle cooling system has been delayed by events beyond the reasonable control of the Company. The Attorney General has stated to the Company that he disagrees with the Company's interpretation of the agreement. The Company believes, and on March 8, 1978, filed a petition with the Illinois Pollution Control Board to demonstrate, that operation of the diffuser pipe has not had a significant impact on aquatic life or caused significant ecological damage. The revised NPDES permit issued by the Federal Environmental Protection Agency on February 10, 1977 for the station also requires that the station be operated with closed-cycle cooling, but the Federal Agency has informed the Company that it has stayed that requirement in the revised permit pending resolution of certain legal issues raised by the Company. The effect of the stay is to require that the station be operated in accordance with the agreement referred to above. The revised NPDES permit expired by its terms on July 1, 1978. Application for its renewal has been filed with the Illinois Environmental Protection Agency, and the pendency of that application has the effect, in the opinion of counsel for the Company, of extending the term of the February 10, 1977 NPDES permit. The Illinois Agency has issued notice of a proposed new NPDES permit for the station which would allow continued partial open-cycle operation, but the Company does not know what conditions may be contained in the final permit.

Under a provision of the Illinois water quality standards, the Company is required to make a showing with respect to several of its generating stations that five years after the standard became effective or five

years after beginning operation the thermal discharge from such stations has not caused and cannot reasonably be expected to cause significant ecological harm to the receiving waters. Applications with respect to such showings have been filed with the Illinois Pollution Control Board for Zion, Waukegan, Dresden, Quad-Cities and Kincaid stations. The applications concerning Kincaid, Zion and Waukegan stations have been approved by the Illinois Pollution Control Board.

Air Quality Regulation. On November 12, 1969, the Illinois Commerce Commission, on its own motion, entered an investigative order directing all electric utility companies in Illinois to present evidence concerning air pollution attributable to electric generating facilities. Hearings with respect thereto have been held and further hearings may be conducted in the future.

The Federal Environmental Protection Agency has promulgated a regulation designed to prevent significant deterioration of existing air quality. It is not expected that the regulation will have an effect on any of the Company's existing generating facilities or those under construction. Its impact on the construction of fossil-fueled generating stations in the future is uncertain. The 1977 amendments to the Federal Clean Air Act provide for limitations on certain new or expanded emission sources and require use of emission control devices or precombustion fuel cleaning for such sources, except under limited circumstances. The regulation and the statutory amendments could affect the siting, construction and cost of future fossil-fueled generating units.

Air quality regulations promulgated by the Illinois Pollution Control Board impose state-wide restrictions on the emission of particulates, sulfur dioxide, nitrogen oxides and other air pollutants and require permits from the Illinois Environmental Protection Agency for the operation of emission sources. Of the Company's fossil-fueled generating facilities subject to this requirement, having a current aggregate capability of 10,611,000 kilowatts, units aggregating 5,947,000 kilowatts have such permits. The Company is attempting to obtain permits or variances for the remaining units. The 1977 amendments to the Federal Clean Air Act may require Illinois to adopt more stringent emissions limitations than are now applicable to certain of such facilities.

The Company has had pending before the Illinois Pollution Control Board a request for a variance from the sulfur dioxide limitations for Kincaid Units 1 and 2 (aggregate capability of 1,212,000 kilowatts) based on a compliance plan calling for the use of a supplemental control system as a permanent method of compliance at the station. The 1977 amendments to the Federal Clean Air Act do not permit the approval of such a plan. The Illinois Board has proposed the adoption of revised sulfur dioxide emission limitations with which these two units may be able to comply. The Illinois Board has granted a variance for the two units with respect to particulate limitations, based on a construction program for the installation of two new precipitators and a new stack expected to be completed by October 1981 at a substantial cost.

On August 3, 1978, the Illinois Pollution Control Board granted a variance until July 1, 1979 from the applicable sulfur dioxide emission limitations for the Company's Powerton station (aggregate capability of 1,700,000 kilowatts). The Company intends to achieve compliance at Powerton by July 1, 1979 through the use of low sulfur coal. The Governor of Illinois directed that public hearings be held to determine the economic and employment impact of the Company's decision to stop using Illinois coal at Powerton station and such hearings have been completed. The 1977 amendments to the Clean Air Act may give the Governor authority under certain circumstances, with the written consent of the President of the United States, to prohibit the use of coal other than Illinois coal. The variance referred to above would terminate if the Company were ordered to use Illinois coal at Powerton station. The Company believes that total construction and operating costs for Powerton station would be substantially increased if it is required to install scrubbers as a method of compliance rather than using low sulfur coal.

On July 6, 1978, the Attorney General of the State of Illinois filed a complaint against the Company in the United States District Court for the Northern District of Illinois, Eastern Division, and a complaint against the Company and four of its officers in the United States District Court for the Southern District of Illinois,

Southern Division, with respect to Waukegan and Kincaid stations, respectively. The complaints allege violations of the Federal Clean Air Act and certain Illinois air pollution regulations with respect to operation without permits from the Illinois Environmental Protection Agency and with respect to particulate and sulfur dioxide emissions. The complaints seek civil penalties as well as injunctions to cease operating the stations until compliance is achieved. On the same date, the Attorney General also notified the Company that suit would be filed against the Company and its officers and directors in United States District Court for alleged violations of the Federal Clean Air Act and certain Illinois air pollution regulations at Joliet and Will County stations, including operation without operating permits.

On August 21, 1978, the Federal Environmental Protection Agency issued notices of violation alleging violations of the Federal Clean Air Act at the Company's Joliet and Will County stations with respect to operation without permits from the Illinois Environmental Protection Agency and with respect to violations of Illinois standards concerning particulate and visible emissions. On August 31, 1978, the Federal Agency issued a similar notice alleging such violations at the Company's Waukegan station. Thirty days after such a notice of violation, the Administrator of the Federal Agency may issue an enforcement order requiring compliance, assess and collect a noncompliance penalty or commence a civil or criminal action.

Under the 1977 amendments to the Federal Clean Air Act, the companies may be subject to the assessment of noncompliance penalties for violations of applicable air emission limitations occurring on or after July 1, 1979 (whether or not the source of emissions is the subject of a variance or consent decree). The statute provides that the amount of the penalty will be no less than the economic value which noncompliance may have for the owners of the violating source. When compliance is attained, some or all of the penalty would be refunded for actual expenditures made to attain compliance, but such refunds could be substantially less than penalties paid. The noncompliance penalty is in addition to civil penalties a court can order under the Act, including fines (not exceeding $25,000 for each day of violation) and injunctive relief.

On August 8, 1977, the Federal Environmental Protection Agency notified the Company that Units 2 and 4 of the Indiana Company's State Line station had on certain dates violated a regulation of the Indiana Air Pollution Control Board with respect to visible emissions. Thirty days after the date of the notice, the Administrator of the Federal Agency may issue a compliance order or may commence proceedings in a federal district court. On January 23, 1978, the Federal Agency notified the Company that it will be required to install a monitoring system to determine whether the State Line station is in compliance with the visible emissions regulations.

Arbitration. There is presently underway an arbitration proceeding between the Company and General Atomic Company, Gulf Oil Corporation and United Nuclear Corporation, dealing with the Company's challenge to the purported termination by General Atomic Company of a contract to supply nuclear fuel for the Company's LaSalle County station (under construction), on grounds of force majeure and commercial impracticability. If the contract is found to have been validly terminated, the Company will incur in the future increased costs for nuclear fuel for LaSalle County station, but is unable to determine at this time the amount of such increase. Any such increased costs for the most part would not affect the Company's earnings until the middle 1980's.

Item 5. Increase in Amount Outstanding of Securities or Indebtedness.

	Number of Shares
Common stock, $12.50 par value per share:	
Outstanding at June 30, 1978	77,162,862
Conversion of $1.425 convertible preferred stock on various dates (1)	32,984
Conversion of warrants on various dates (2)	16,542
Purchased upon surrender of warrants on various dates (2)	31
Purchased by participants in the Automatic Dividend Reinvestment and Stock Purchase Plan on August 1, 1978 (3)	286,696
Outstanding at September 30, 1978	77,499,115(4)
Preference stock, cumulative, without par value:	
Outstanding at June 30, 1978	17,999,549
Add—Issuance of $8.85 series on July 27, 1978 (5)	750,000
Outstanding at September 30, 1978	18,749,549

(1) The shares of $1.425 convertible preferred stock are convertible at the option of the holders thereof, at any time, into common stock currently at the rate of 74/100ths of a share of common stock for each share of convertible preferred stock.

(2) Each warrant entitles the holder to purchase one share of common stock for $30 or to convert such warrant into common stock at a conversion rate of one share of common stock for three warrants.

(3) The net proceeds from the sale of 286,696 shares of common stock aggregated $7,698,000, of which $3,584,000 was credited to the common stock account and $4,114,000 was credited to premium on common stock and other paid-in capital account.

(4) Before deduction of 314 shares of common stock held in treasury which were reacquired from participants who withdrew from the Automatic Dividend Reinvestment and Stock Purchase Plan.

(5) The Company entered into Purchase Agreements each dated as of July 20, 1978 with five institutional investors for the sale of 750,000 shares of $8.85 Preference Stock for $75,000,000 and on July 27, 1978, the Company delivered the shares and received proceeds of $75,000,000. The sale of the shares was made in an exempt transaction under Section 4(2) of the Securities Act of 1933, as amended, as a transaction by an issuer not involving any public offering and, accordingly, the shares were not registered under said Act. The entire net proceeds were applied by the Company to the payment of outstanding short-term notes payable issued to provide funds for the construction program, or directly toward that program.

Item 6. Decrease in Amount Outstanding of Securities or Indebtedness.

	Number of Shares or Warrants
Common stock purchase warrants—1971 Warrants and Series B Warrants (1):	
Outstanding at June 30, 1978	694,987
Deduct—Warrants surrendered—	
For conversion into common stock on various dates	49,693
To purchase common stock on various dates	31
Outstanding at September 30, 1978	645,263
$1.425 convertible preferred stock, cumulative, without par value (2):	
Outstanding at June 30, 1978	2,644,408
Deduct—Surrendered for conversion into common stock on various dates	44,591
Outstanding at September 30, 1978	2,599,817

(1) Each warrant entitles the holder to purchase one share of common stock for $30 or to convert such warrant into common stock at a conversion rate of one share of common stock for three warrants.

(2) The shares of $1.425 convertible preferred stock are convertible at the option of the holders thereof, at any time, into common stock currently at the rate of 74/100ths of a share of common stock for each share of convertible preferred stock.

Item 8. Other Materially Important Events.

The United States Congress has enacted energy legislation which, among other things, establishes national standards for consideration by state regulatory agencies in determining utility rates and imposes other requirements on the operations of utilities, including the Company. The legislation requires state regulatory agencies to hold evidentiary hearings with respect to the desirability of implementing rate structures utilizing cost-of-service pricing, time-of-day rates, seasonal rates and interruptible rates and also with respect to the use of volume rates and automatic rate adjustment clauses and other matters. Because of the complexity of the legislation and the uncertainties in its interpretation and implementation, the effect of the legislation on the Company cannot be predicted.

Item 9. Exhibits and Reports on Form 8-K.

(a) Exhibits.

Exhibit Number	Description of Exhibit
2-1	Composite conformed copy of Purchase Agreements dated as of July 20, 1978 by and between the Company and The Prudential Insurance Company of America, Prudential Property and Casualty Insurance Company, Prudential Reinsurance Company, Metropolitan Life Insurance Company and Allstate Insurance Company.
2-2	Articles of Amendment to Articles of Incorporation of the Company effective April 5, 1971, May 9, 1975, April 23, 1976, and April 28, 1977 (Charter documents defining rights of the Company's stockholders). Exhibit 2-5 to Form S-7, File No. 2-60525, is incorporated by reference.
2-3	Statement of Resolution establishing $8.85 series of Preference Stock.

(b) Reports on Form 8-K.

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on the 9th day of November 1978.

COMMONWEALTH EDISON COMPANY
Registrant

By R. J. SCHULTZ
R. J. Schultz
Vice-President—Finance

By R. P. BACHERT
R. P. Bachert
Secretary and Treasurer

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference in Form S-16, Post-Effective Amendment to Form S-7 Registration Statement, File No. 2-42846, dated April 27, 1978 and in Form S-16, Post-Effective Amendment to Form S-7 Registration Statement, File No. 2-60526, dated July 27, 1978, of our report appearing in the Quarterly Report on Form 10-Q for the quarter ended September 30, 1978 of Commonwealth Edison Company.

ARTHUR ANDERSEN & CO.

Chicago, Illinois
November 9, 1978

OPINION AND CONSENT OF COUNSEL

We have reviewed the statements as to matters of law and legal conclusions made in Note 13 of Notes to Financial Statements and in the first full paragraph on page 24 under "Item 1. Legal Proceedings" in Part II of the Quarterly Report on Form 10-Q for the quarter ended September 30, 1978 of Commonwealth Edison Company. We are of the opinion that such statements are correct, and we hereby consent to the making of such statements, to the use of our name in connection therewith and to the incorporation of such statements by reference in Form S-16, Post-Effective Amendment to Form S-7 Registration Statement, File No. 2-42846, dated April 27, 1978 and in Form S-16, Post-Effective Amendment to Form S-7 Registration Statement, File No. 2-60526, dated July 27, 1978.

ISHAM, LINCOLN & BEALE

By FREDERICK R. CARSON
Frederick R. Carson

Chicago, Illinois
November 9, 1978