CENTERIOR ENERGY

ANNUAL REPORT

Financial Summary

	1992	1991	% Change
Earnings Per Share of Common Stock	$ 1.50	$ 1.71	(12)
Dividends Declared Per Share of Common Stock	$ 1.60	$ 1.60	0
Book Value Per Share of Common Stock at Year End	$ 20.22	$ 20.37	(1)
Closing Common Stock Price at Year End	$ 19⅞	$ 19⅞	0
Common Stock Share Owners at Year End	171,255	177,560	(4)
Common Stock Shares Outstanding at Year End (millions)	143	140	2
Operating Revenues (millions)	$ 2,438	$ 2,560	(5)
Operating Expenses (millions)	$ 1,901	$ 1,981	(4)
Net Income (millions)	$ 212	$ 237	(11)
Return on Average Common Stock Equity	7.4%	8.4%	—
Kilowatt-hour Sales (Millions of Kilowatt-hours)			
Residential	6,666	6,981	(5)
Commercial	7,086	7,176	(1)
Industrial	11,551	11,559	0
Wholesale	2,814	2,690	5
Other	1,011	1,048	(4)
Total	29,128	29,454	(1)
Employees at Year End	8,376	8,592	(3)

QUARTERLY RANGE OF COMMON STOCK PRICES

1992	High	Low	1991	High	Low
1st Quarter	$20	$17⅛	1st Quarter	$19⅞	$16⅞
2nd Quarter	18⅜	16⅜	2nd Quarter	19⅛	16¼
3rd Quarter	17¾	15¾	3rd Quarter	18¼	15
4th Quarter	20	17⅛	4th Quarter	19⅞	17⅜

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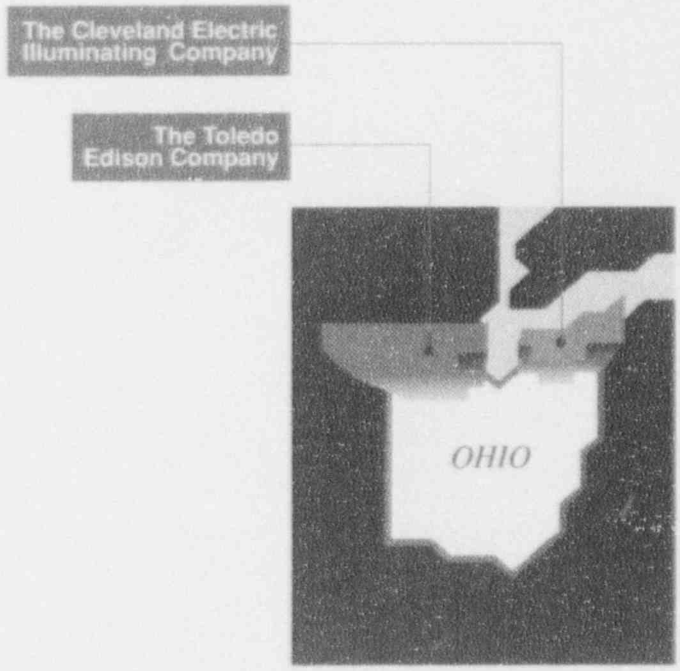

1992 Highlights

Reported earnings were down 12%, to $1.50 per share.

The common dividend was maintained at $1.60 per share.

Agreement on a Rate Stabilization Program was reached with customer representative groups. The Program freezes rates until 1996 and limits rate increases from 1996 to 1998. It also allows the Company to defer and subsequently recover certain costs not currently in rates and to accelerate the amortization of certain benefits. These actions added 48¢ per share to 1992 earnings.

Refinancing of $930 million of debt and equity securities in 1992 resulted in annual savings of $14 million in interest and preferred dividend costs.

Davis-Besse was the nation's **number one** nuclear power plant in 1992. It set a plant record with a 99% capacity factor, the highest among the 110 operating commercial plants in the U.S. Davis-Besse also set a plant record with 304 continuous days of operation through December 31. The previous record was 258 days.

Power sales to other utilities resulted in a pre-tax contribution to earnings of $32 million, surpassed only by the record level of $33 million in 1991.

Centerior Energy Corporation was formed in April 1986 upon the affiliation of The Cleveland Electric Illuminating Company and The Toledo Edison Company. With assets of over $12 billion, Centerior Energy is one of the largest electric utility systems in the nation. The Centerior operating companies serve 2.6 million people in a combined service area of 4,200 square miles in Northern Ohio. Centerior Energy is an equal opportunity employer.

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Dear Share Owner:

As anticipated, 1992 was a pivotal year for Centerior Energy. Two events were especially significant.

One was enactment of The Energy Policy Act of 1992. The other, closer to home, was our agreement with customer representative groups on a long-term Rate Stabilization Program.

Robert J. Farling

The former underscores the increasing importance of energy in the national consciousness and the growing public demand for energy efficiency, stable prices and environmental protection. The latter demonstrates our willingness to explore alternatives with our customers to serve their needs while meeting our own competitive and financial challenges.

The Energy Act marks the end of a highly structured and regulated era for investor-owned electric utilities. It also signals an era of more intense competition, including that from other energy sources and from would-be municipal electric systems.

The Act, for example, has opened the way for a municipal electric system to shop for power from regional suppliers. The investor-owned utility in whose territory the municipality is located must deliver that power to it. Such competition is not new to Centerior as it will be to most other utilities. We have competed off and on for almost 80 years with the City of

Cleveland's public power system. Further, we have been required to provide open transmission access to all municipal systems in our service area since 1979 as a condition of the licenses we were granted to operate our nuclear generating units.

We have competed successfully in the past and intend to do so in the future. But the challenge to us is greater today. The cost of the major construction we completed in the 1980s considerably raised our kilowatt-hour prices. Our prices have since leveled off, but they are still above the regional and national averages.

We are delaying further rate increases to become more competitive while helping our customers recover from the recession. At the same time, we are committed to maintaining and ultimately enhancing the value of your investment in Centerior. This has become more challenging because of the earnings erosion that results from holding our kilowatt-hour prices steady against inflation. That is why our Rate Stabilization Program was such an important achievement for us.

The Program was approved by The Public Utilities Commission of Ohio in October 1992. Details are explained later in this Report. In summary, we agreed to keep down electric rates for customers of Cleveland Electric and Toledo Edison. In return, the Program allows us regulatory accounting measures that reschedule the timing of rate recovery of certain costs and the amortization of certain benefits. This will prevent what otherwise would be an erosion of earnings during the 1992-1995 period.

Our Board of Directors maintained the common stock dividend at $1.60 per share in 1992 even though unusually moderate weather and a sluggish economy resulted in earnings of only $1.50 per share. This compares to $1.71 per share for 1991, when earnings benefited from the hottest summer in more than six decades.

As we have previously reported, we expect to continue the current dividend even if it exceeds our earnings for the short term. For the long term, we intend to increase earnings per share by continued cost-reduction and revenue-enhancing initiatives. Should our efforts not result in a positive long-term earnings outlook, or if we encounter unforeseen circumstances, naturally the Board would have to reconsider our dividend policy.

But we are optimistic. Our vision is to be the utility of choice – the choice of both customers and investors. Our progress is discussed in the following text, organized according to our long-term objectives:

• *Financial Strategies:* To further strengthen our financial position by controlling operating costs, keeping down capital expenditures and increasing income through off-system sales.

• *Marketing Strategies:* To expand our partnerships with customers to help them improve energy efficiency and hold down their costs while we aggressively pursue new markets for electricity sales.

• *Operating Strategies:* To continuously improve our operations to achieve the most profitable use of our facilities while acting as responsible stewards of the environment.

As we work to maintain good service without increasing electric rates, we will be severely challenged to achieve the cost reductions and revenue increases necessary for earnings growth. However, we have great confidence in our strong management team and the talented and caring employees who each day demonstrate anew our concern for customers. Together, we are determined to reward your trust in Centerior Energy.

Sincerely,

Robert J. Farling
Chairman, President &
Chief Executive Officer

February 16, 1993

Financial Strategies

A NOTABLE ACHIEVEMENT

The Rate Stabilization Program was a notable achievement for us in 1992. It will stabilize electric rates for our customers and provide us an opportunity to implement measures which will ultimately strengthen our financial position.

The Program also addresses the earnings erosion we have experienced because current electric rates, set in 1989, do not enable us to recover capital costs incurred since February of 1988.

In effect, the Program reschedules the timing of rate recovery of those costs and accelerates the amortization of certain benefits. The aggregate effect of these regulatory accounting measures on earnings over the 1992-1995 period could be as much as $495 million on an after-tax basis, depending on our success in reducing costs and increasing revenue. We also must periodically assess our financial outlook and conclude that recovery of these deferred costs in rates is probable. The measures are detailed in Note 6 of the Financial Statements.

In 1992, under the Program, we began the accrual of carrying charges on new facilities not yet in rate base and the deferral of depreciation and property taxes on those facilities. We eventually will recover these costs in rates rather than having them charged to share owners. The Program also allowed us to begin the accelerated amortization of certain tax and other benefits. Combined, these measures contributed 48¢ to per share earnings for 1992.

As part of the Program, we agreed to extend until 1996 the current freeze on base electric rates and to limit future rate increases to 4.7% in 1996, 3.4% in 1997 and 2.5% in 1998. We expect to keep the average annual rate increase during this decade below the average annual increase in the cost of living.

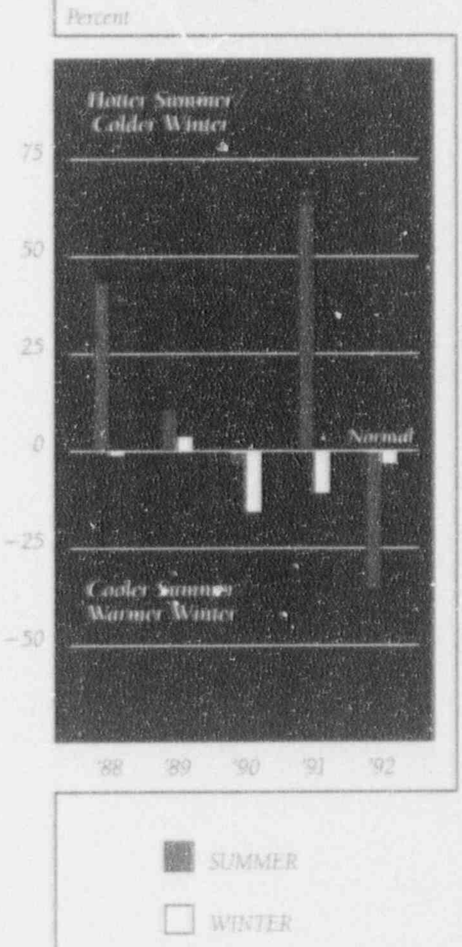
In our judgment, negotiating the Rate Stabilization Program was far preferable to seeking rate increases at this time. We believe the latter option would have been counterproductive to our competitive standing and to the long-term interests of our share owners and customers. Clearly, the Program improves our competitive position. It also underscores the need – and our commitment – to achieve significant cost reductions and revenue enhancements to improve our long-term financial results.

PLAN OF ACTION

With the Rate Stabilization Program as the critical interim step that provides us an opportunity to improve both our financial and competitive positions, this is our plan of action:

• ***Strict cost control:*** In the past two years, we achieved reductions of nearly $80 million, or 9%, in operation and maintenance expenses (excluding fuel and purchased power) despite inflationary pressures and new expenses. (Examples of cost reductions are discussed in separate articles.) We plan additional significant cost cuts in 1993.

Weather Deviation From Normal Centerior Energy Service Area



• *Workforce reductions*: We reduced our workforce by about 200 employees and 200 contractors in 1992, a total reduction of about 1,500, or 14%, since 1989. We plan to continue reducing our employment, now at about 8,370, to achieve the level that best allows us to maintain quality service to customers while minimizing costs.

• *Revenue enhancements*: We are aggressively pursuing off-system sales, particularly with utilities on the East Coast. In 1992, revenues from such sales exceeded related fuel costs by $32 million. That nearly equaled the record $33 million realized in 1991 when demand was considerably greater.

We are ideally located as one of the Midwest's two main transfer points to the East. We can compete effectively in the very competitive wholesale energy market. Late in 1992, for example, General Public Utilities contracted with us for 200-300 megawatts for 1993, enough electricity to serve the typical needs of up to 400,000 residential customers.

• *Refinancing*: Taking advantage of favorable interest rates, we refinanced some $930 million of securities in 1992 for an annual savings of about $14 million in interest and preferred dividend costs. This is in addition to the $9 million of annual savings achieved through refinancings in 1991. Also in 1992, we refinanced debt associated with our lease of Unit 2 of the Beaver Valley Nuclear Power Station. This reduced our annual rent expense by about $9 million. We now have completed the major portion of our planned refinancings, although additional opportunities will be pursued as redemption provisions and interest rates permit.

• *Unit retirements*: In 1992, we retired six fossil-fueled generating units. The units were old and infrequently used. Their retirement saves nearly $5 million in annual operating expenses, primarily property taxes. We also will not spend about $65 million budgeted over the next ten years to upgrade those units and comply with environmental regulations. We are considering other retirements with potentially greater savings. We also are studying the feasibility of "recycling" retired turbines and generators for use as wholesale independent power producers.

• *Decreased capital budgets*: By deferring and re-engineering capital projects, we have reduced our 10-year capital budget from nearly $5.7 billion in 1989 to $3.2 billion today. That's a 44% reduction.

OUTLOOK FOR RETAIL SALES

Consensus economic forecasts indicate a 2-3% annual increase in Gross Domestic Product for the next several years. If the economy improves, we expect industrial sales in 1993 to show a 2.2% increase. If we return to more normal weather patterns in 1993, we expect residential sales to rebound 3.1%. Commercial sales, our fastest growing segment, are expected to increase 3.6% in 1993. In total, we expect 1993 retail sales to increase 2.6% over 1992. After 1993, we expect a 1-2% annual increase in retail sales.

THE MOTHER OF INVENTION

It is said that necessity is the mother of invention. Our employees are proving that maxim as they work to reduce costs and add value to our customer service.

Until last year, for example, it took a team of four workers up to two weeks to remove blockages in the pipes, or subways, that carry underground cables. Each job required us to obtain digging permits, break through pavement with jackhammers and dig down some 10 feet just to reach the trouble spot.

Last year, field personnel came up with the idea of mounting a combination water-jet and vacuum device on a truck to power-wash blockages from underground subways. As a result, today many blockages can be cleared by two people in just a few hours, for a savings of up to $8,000 per job, or $60,000-$90,000 a year.

Just as field personnel exercise ingenuity, so do the dozen mechanics in our Transformer Repair and Fabricating Shop. They devise ways to repair and put back in service used transformers and other equipment. To extend the service life of aged electrical facilities, they often fabricate parts that otherwise would be very costly or unobtainable.

"Employees throughout the organization recognize the importance of cutting costs," says Shop Supervisor Pat Rode. "The more experience we gain here at the shop, the more proficient we are in this work and the more we can salvage."

The reclamation of transformers and other equipment at the shop saves an estimated $7 million a year. Ingenuity has its rewards.

Marketing Strategies

ENERGY POLICY AND COMPETITION

The Energy Policy Act of 1992 impacts virtually every segment of the energy industry. Its influence extends to economic and environmental matters as well.

Of particular concern to many electric utilities is a provision that allows for a new class of wholesale power generators largely exempt from regulation. A related provision gives federal regulators more authority to require electric utilities to transmit, or "wheel", power across their lines from wholesale generators to other utilities.

For now, these requirements are limited to wholesale power transactions between a power generator and an electric utility. They do not open the way for retail wheeling — which would require utilities to wheel power from a wholesale generator to a retail customer in its own service area.

Since we already have wholesale wheeling requirements as part of our nuclear licenses, this provision does not hurt our competitive standing as it does that of many other utilities. In fact, the provision affords us new opportunities to expand our own off-system sales to the benefit of our share owners and customers.

Nevertheless, the Energy Act illustrates the increasingly competitive nature of the energy industry. It also contains provisions to encourage greater energy efficiency, the wise use of resources and the development of new technologies such as electric vehicles. Our progress in those areas is discussed later in this Report.

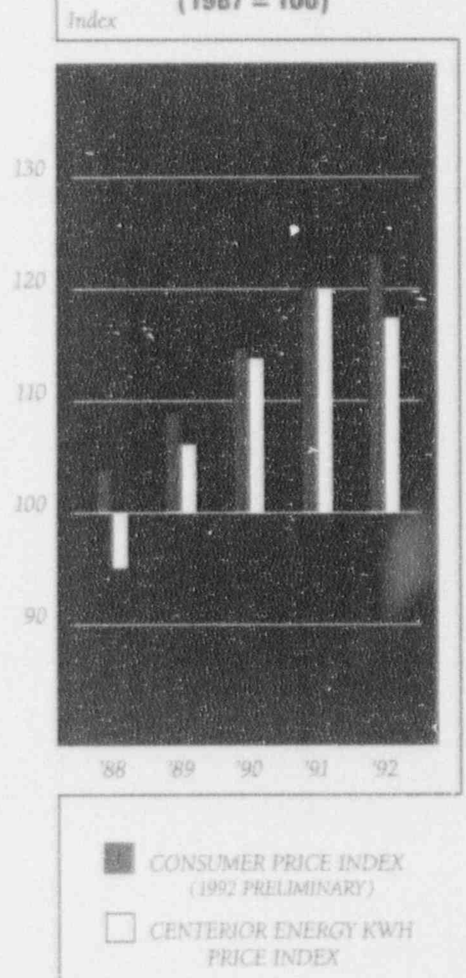
THE MUNICIPALIZATION ISSUE

As in past years, a few communities in our service area are considering spending tens of millions of dollars to create their own municipal electric systems. Their intent is to provide businesses and residents with the low-cost power currently available in the region's spot wholesale market.

We believe our best ally in the municipalization matter is education. We are meeting with civic leaders in communities considering municipalization to explain the high costs and risks of this option. We also provide comparisons of electric rate projections between our operating companies and municipal systems. In more than 50 years, only one community in our service area has developed its own municipal system. Just last year, several communities in our service area rejected the idea of municipalization once the risks, costs and complexities were made known to them and evaluated.

In another effort to counteract municipalization, we continue to pursue long-term contracts with major energy users. Currently, 60% of Toledo Edison and 40%

Average Retail Price Per KWH Compared With The Consumer Price Index (1987 = 100)



In 1990, we made a commitment to the Total Quality process to help employees follow the path of continuous improvement.

of Cleveland Electric industrial sales are under sole-supplier contracts which typically are for five years. These contracts provide customers economic incentives to remain with us.

In the City of Toledo, where municipalization has been under study for several years, a citizens' committee recommended in 1992 that the City negotiate with Toledo Edison *before* moving toward the creation of its own electric system. Negotiations are continuing.

We already have reduced our rates in Toledo to the extent practicable. However, we are offering the City and its residents a five-year, multi-million-dollar package of energy-efficiency programs, economic development initiatives and other community benefits. Our most recent price projections indicate continued service from Toledo Edison will be more economical for our customers over the long term than municipal service.

In the City of Cleveland, Cleveland Public Power continues its expansion program. It now serves about 53,000 customers, or 25% of all electric customers in the City. We continue to secure long-term contracts with key commercial and industrial customers in the City. In addition, we have launched energy efficiency programs to help our industrial and commercial customers in Cleveland lower their energy bills.

A hallmark of Total Quality is the team approach. In one project involving materials management, seven teams of employees from the Customer Operations Sector met last year to help standardize specifications between Cleveland Electric and Toledo Edison for poles, conductors, vehicles, meters, transformers and other items.

Standardization creates more opportunities for volume buying from vendors, resulting in lower unit costs. It also reduces the variety of items we must maintain in our inventory. One team, for example, standardized utility pole specifications. That, alone, is yielding $100,000 in annual savings.

Additionally, the teams looked at ways to reduce costs through improved work practices and better relations with suppliers.

While teamwork is a hallmark of Total Quality, individual effort can be just as important. Hundreds of employees submitted ideas to our suggestion program last year producing some $3 million in annual savings.

Working in teams or on their own, Centerior people are employing Total Quality concepts to reduce costs.

To date, customer and revenue losses have not been severe, but we could lose up to 35,000 more Cleveland customers, mostly residential, by 1997. Eventually, this could mean an accompanying loss of up to $40 million in annual revenues, about 1.5% of Centerior's current annual revenues. However, we expect that our rate stabilization efforts and superior customer service will considerably diminish the allure of municipalization over the long term.

Another community, the City of Brook Park, continues to study the municipalization issue. One of our largest industrial customers is located there. We are negotiating with both of them to seek resolution of the issue.

QUALITY CUSTOMER SERVICE

As part of the Rate Stabilization Program, we agreed to maintain high quality electric service to customers. This, of course, is consistent with our traditional commitment to customers. Without them, we wouldn't be in business.

We work in many ways to respond to customer interests and needs. Our monthly *Electric Connections* newsletter, for example, provides information to customers showing them how to use energy wisely and to reduce their bills.

Despite an unusual number of storms during the spring and summer of 1992, our reliability record was above the average for our industry comparison group. The customer favorability rating for Cleveland Electric and Toledo Edison, combined, was up another five percentage points in 1992, to 66%. This is the highest level since Centerior began tracking favorability.

ENERGY EFFICIENCY

Our most frequent request from customers is for new energy-efficiency programs to help them gain more control over their electricity usage and cost.

This dovetails with our "demand-side management" efforts to reduce growth in peak demand for electricity and spread kilowatt-hour usage more evenly throughout the day, week and year. Improved usage patterns permit us to use existing generating facilities more efficiently and delay building new power plants. Limiting new plant construction keeps down long-term costs for our customers and avoids any environmental impact. Such efforts are consistent with the objectives of the Energy Act.

Late in 1992, we reached agreement with customer and environmental groups on a plan to invest $35 million in demand-side programs from 1993 through 1995. This will b[illegible] part of the $90 million we plan to invest in such programs over the next 10 years.

Demand-side programs include energy-efficiency rate incentives, conservation initiatives, load controls, energy information and other measures to help customers reduce their monthly electric bills.

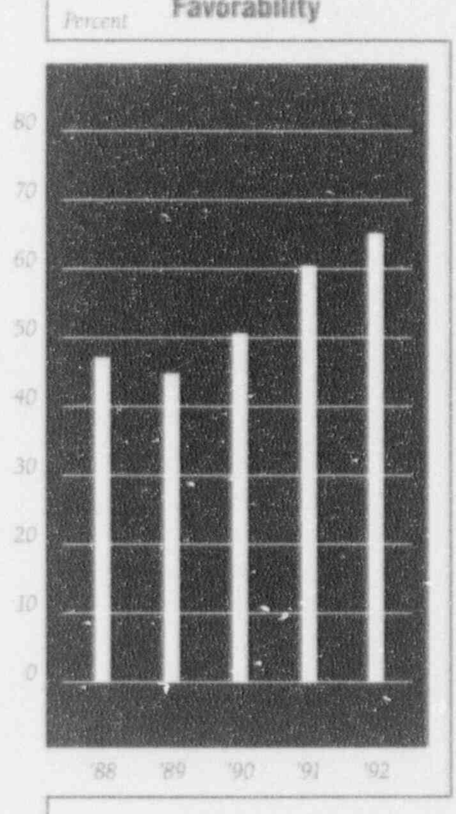
Why would an electric utility help customers *reduce* their electric bills, thereby reducing utility revenues? The reason is that such measures are essential to good customer service and customer satisfaction. They also help our commercial and industrial customers reduce costs and remain competitive, thus increasing our sales and revenue prospects to the ultimate benefit of our share owners. In addition, the efficient use of energy protects the environment and our planet's natural resources.

As their part of the demand-side program agreement, customer and environmental groups are working with us to develop an improved regulatory mechanism to allow us recovery of demand-side program costs and the costs associated with lost revenues.

COMMERCIAL AND INDUSTRIAL PARTNERSHIPS

We work hard with our customers to improve their satisfaction and competitiveness.

Customer Favorability



These working partnerships help retain and create jobs for Northern Ohio — a win-win proposition for us and the communities we serve.

For example, Horsburgh & Scott, an industrial gear maker in Cleveland, is saving $50,000 a year in total energy costs as a result of our energy-saving recommendations. American Spring Wire in a Cleveland suburb is saving $72,000 annually from the electrical load management system we helped the firm develop.

We're also planning a cogeneration project with Sauder Woodworking, one of the nation's largest manufacturers of ready-to-assemble furniture, located west of Toledo. Sauder plans to burn woodwaste and sawdust to generate electricity for sale to Toledo Edison. This partnership adds to our electricity supply while eliminating some of the 200 tons of waste this customer produces each day.

Sauder is the largest electricity user in the community of Archbold. Our partnership with Sauder not only helps a customer stay competitive, it also helps maintain the economic health of the entire community.

NEW MARKETS

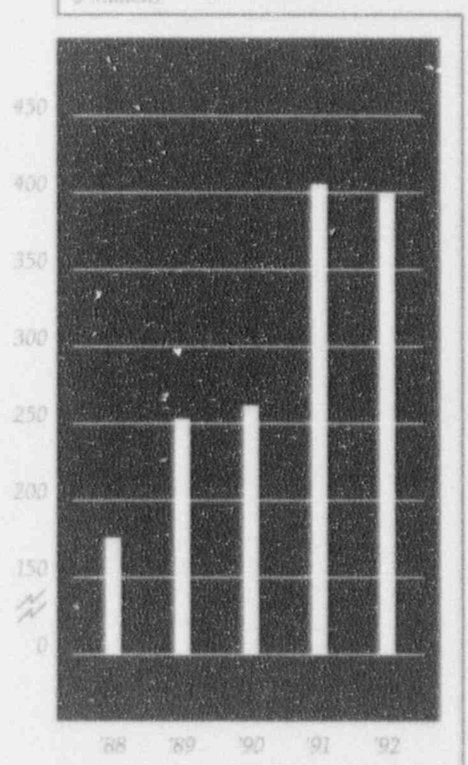
Even with the growing emphasis on energy efficiency and conservation, the U.S. Department of Energy forecasts continued growth in energy consumption, with electricity expanding its share of the energy pie.

We believe that electric energy is a good value for the price. We also know it is the most efficient, economical and environmentally compatible form of energy for most applications, consistent with national energy objectives.

We encourage electric-powered technologies by offering rate incentives, wiring allowances and other benefits to commercial and industrial customers. Electric process heating, for example, is a sound economic investment for many manufacturers. As we develop new markets for electricity, the customer also benefits from improved efficiency and reduced costs.

We are adding electric vehicles to our fleet to gain hands-on experience regarding the operating characteristics and costs of these pollution-free cars and trucks of the future. With assistance and support from our industry research organization, the Electric Power Research Institute (EPRI), we are working with business, industrial, academic and civic representatives to build a local framework for the development and commercialization of electric vehicles. Production of electric vehicles could mean a major new industry for Northern Ohio, hundreds of new jobs and a new source of revenue for us.

Cash Generated From Results Of Operations*



**Net income adjusted for the noncash impact of depreciation, deferred taxes, deferred expenses, the write-off of nuclear costs, investment tax credits, allowance for funds used during construction, carrying charges and certain other noncash items.*

Operating Strategies

POWER PLANT OPERATIONS

In today's competitive climate, power plant operations are among our most important strengths.

Our three nuclear units provided 44% of our total output in 1992. All performed well, with the Davis-Besse Nuclear Power Station achieving the highest capacity factor (total power generated compared with total capability) among the 110 commercial nuclear units in the U.S. Davis-Besse's capacity factor was 99%.

For the three years ended 1992, our three nuclear units achieved high levels of availability, which is the percentage of time a unit is available to generate electricity.

The three-year availability averages of Davis-Besse and Beaver Valley Unit 2, which is operated by Duquesne Light Company, were 84% and 87%, respectively. The most recent three-year industry average for such pressurized-water reactors was 75%. Perry Unit 1 had a 76% average compared to the industry average of 72% for boiling-water reactors.

As for our fossil-fueled plants, the 12 units that help make up our baseload capacity also performed well as they achieved a combined availability average of 83% in 1992.

The good performance of our nuclear units and a decrease in the cost of fuel in 1992 resulted in a 3% reduction of the fuel factor in customer bills. We expect a further reduction in 1993.

With our combined nuclear and fossil generation, we have enough capacity to serve our customers' needs. We also have adequate generation available at low marginal cost to pursue intermediate and long-term wholesale power contracts with other utilities. The pre-tax contribution to earnings from these sales was about $135 million over the last five years.

Construction on Perry Unit 2 has been suspended since 1985. We continue to review various options including resumed construction, conversion to a nonnuclear design, sale of all or part of our ownership or cancellation. The unit is about 50% complete. If it were canceled, our net investment would have to be written off. If it were converted to a nonnuclear design, we would have to write off the cost of unusable nuclear equipment and facilities.

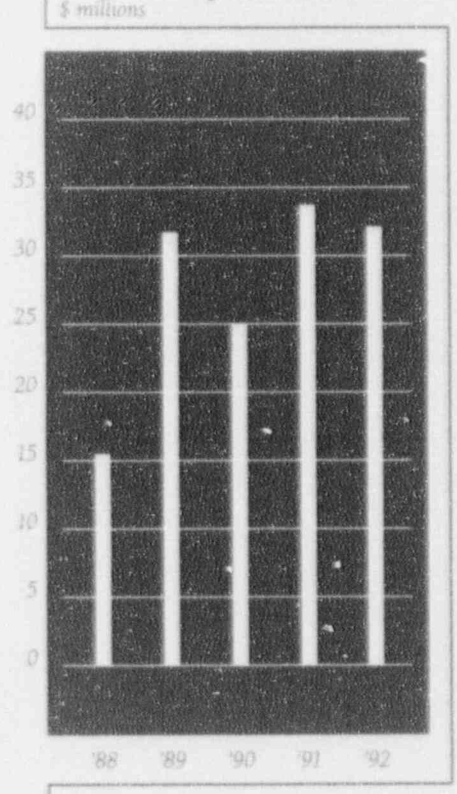
ENVIRONMENTAL AND SAFETY ISSUES

We remain committed to protecting the environment.

Because of previous reductions in sulfur dioxide emissions, we face comparatively moderate costs to meet the emission standards set by the Clean Air Act Amendments of 1990. We've reached agreement with intervening groups on a compliance plan and have applied for approval from The Public Utilities Commission of Ohio and the U.S. Environmental Protection Agency.

The plan calls for expenditures of about $208 million by the year 2002. This least-cost plan also calls for Cleveland Electric to place in service a scrubber or other sulfur dioxide emission control equipment after 2004. The potential rate

Pre-Tax Contribution To Earnings From Off-System Sales



increase associated with these expenditures would be about 1-2% in the late 1990s and another increase after the year 2000 for an aggregate total of only 3-6%. Many coal-based utilities in our region face more substantial cost increases.

Our three nuclear generating units not only are free of sulfur dioxide emissions, they also keep the air free of the carbon dioxide, a "greenhouse" gas, that would result from the same amount of electricity being produced from coal.

We estimate that our nuclear generation has prevented *70 million tons* of carbon dioxide emissions over the past 10 years and will prevent an additional *200-300 million tons* over the next 20 years.

We have an environmental initiative under way with LTV Steel and Air Products Inc., two of our biggest customers. Together we are seeking funding from the U.S. Department of Energy to evaluate a new technology, called COREX®, for making steel. The new process burns coal directly with iron ore, eliminating the use of coke, which would reduce LTV's pollution-control costs. The process also creates combustible process gas which we could use to generate electricity. Our other partner, Air Products, would use some of the electricity to make the oxygen needed by the COREX® process. Completion of this project would provide us with about 150 additional megawatts of electricity for sale while helping two important customers stay competitive.

The maintenance of boilers, turbine-generators and auxiliary equipment for some 30 fossil-fueled generating units often requires the help of contractors and consultants at considerable expense.

Through the past decade or so, we have worked to control the escalating costs for these services. We have developed our own teams of highly qualified personnel, known collectively as the Technical Support Section.

Teams from this Section provide day-to-day consultations, analyses and trouble-shooting to power plant staffs. Here are some of the team recommendations that were implemented in 1992:

- **Repairing, on our own, turbine blades at the Bay Shore Plant rather than buying replacement blades as recommended by the original manufacturer. Savings: $700,000.**
- **Having a Technical Support team, instead of the original manufacturer, carry out a detailed inspection of a turbine-generator at the Ashtabula Plant. Savings: More than $40,000.**
- **Repairing and replacing main boiler feedwater pumps without outside assistance. Savings: At least $10,000 for each overhaul.**
- **Fabricating special tools rather than renting them. Savings: $20,000 per use.**

In-house maintenance and repair saves money and helps our employees improve their job skills.

Another environmental concern is the effect of Electric and Magnetic Fields, known as EMF. These fields are associated with electrical voltage and current. They are found anywhere electricity is used.

Studies of potential health hazards from EMF have been inconclusive thus far. The issue remains under study by the electric utility industry, particularly EPRI, and international health organizations. We are monitoring the progress of these studies and are pleased that the Energy Act provides increased funding for research in this area.

THE CENTERIOR WORKFORCE

Our successes would have been impossible and our goals for the future would be unattainable without our outstanding workforce of men and women in power plants, service centers and offices throughout our service area.

Their concern for customers is the reason we are known for quality electric service. Their commitment to cost reduction has kept us financially viable. Their high level of volunteerism has won national recognition and helps us remain a visible and valued presence in the community.

The Centerior Board of Directors and officers are proud of the Centerior Energy team. With their help, we are confident of our ability to fulfill our corporate responsibility to share owners, customers and the communities of Northern Ohio.

Management's Statement of Responsibility for Financial Statements

The management of Centerior Energy Corporation is responsible for the consolidated financial statements in this Annual Report. The statements were prepared in accordance with generally accepted accounting principles. Under these principles, some of the recorded amounts are based on estimates which are, in turn, based on an analysis of the best information available.

We maintain a system of internal accounting controls designed to assure that the financial records are substantially complete and accurate. The controls also are designed to help protect the assets and their related records. We structure our control procedures such that their costs do not exceed their benefits.

Our internal audit program monitors the internal accounting controls. This program gives us the opportunity to assess the adequacy and effectiveness of existing controls and to identify and institute changes where needed. In addition, an examination of our financial statements is conducted by Arthur Andersen & Co., independent public accountants, whose report appears below.

Our Board of Directors is responsible for determining whether management and the independent public accountants are carrying out their responsibilities. The Board is also responsible for making changes in management or independent public accountants if needed.

The Board has appointed an Audit Committee, comprised entirely of outside directors, which met two times in 1992. The Committee recommends annually to the Board the firm of independent public accountants to be retained for the ensuing year and reviews the audit approach used by the accountants plus the results of their audits. It also oversees the adequacy and effectiveness of our internal accounting controls and ensures that our accounting system produces financial statements which present fairly our financial position.

E H Maugans

E. H. MAUGANS
Executive Vice President and
Chief Financial Officer

Paul G. Busby

PAUL G. BUSBY
Controller and
Chief Accounting Officer

Report of Independent Public Accountants

ARTHUR ANDERSEN &CO.

To the Share Owners and Board
of Directors of Centerior Energy
Corporation:

We have audited the accompanying consolidated balance sheet and consolidated statement of preferred stock of Centerior Energy Corporation (an Ohio corporation) and subsidiaries as of December 31, 1992 and 1991, and the related consolidated statements of income, retained earnings and cash flows for each of the three years in the period ended December 31, 1992. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Centerior Energy Corporation and subsidiaries as of December 31, 1992 and 1991, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1992, in conformity with generally accepted accounting principles.

As discussed further in the Summary of Significant Accounting Policies, a change was made in the method of accounting for nuclear plant depreciation in 1991, retroactive to January 1, 1991.

As discussed further in Note 3(c), the future of Perry Unit 2 is undecided. Construction has been suspended since July 1985. Various options are being considered, including resuming construction, converting the unit to a nonnuclear design, sale of all or part of the Company's ownership share, or canceling the unit. Management can give no assurance when, if ever, Perry Unit 2 will go in service or whether the Company's investment in that unit and a return thereon will ultimately be recovered.

Arthur Andersen & Co.

Cleveland, Ohio
February 12, 1993

Summary of Significant Accounting Policies

GENERAL

Centerior Energy Corporation (Centerior Energy) is a holding company with two electric utilities as subsidiaries, The Cleveland Electric Illuminating Company (Cleveland Electric) and The Toledo Edison Company (Toledo Edison). The consolidated financial statements also include the accounts of Centerior Energy's other wholly owned subsidiary, Centerior Service Company (Service Company), and Cleveland Electric's wholly owned subsidiaries. The Service Company provides management, financial, administrative, engineering, legal and other services at cost to Centerior Energy, Cleveland Electric and Toledo Edison. Cleveland Electric and Toledo Edison (Operating Companies) operate as separate companies, each serving the customers in its service area. The preferred stock, first mortgage bonds and other debt obligations of the Operating Companies continue to be outstanding securities of the issuing utility. All significant intercompany items have been eliminated in consolidation.

Centerior Energy and the Operating Companies follow the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC) and adopted by The Public Utilities Commission of Ohio (PUCO). As rate-regulated utilities, the Operating Companies are subject to Statement of Financial Accounting Standards (SFAS) 71 which governs accounting for the effects of certain types of rate regulation. The Service Company follows the Uniform System of Accounts for Mutual Service Companies prescribed by the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935.

The Operating Companies are members of the Central Area Power Coordination Group (CAPCO). Other members include Duquesne Light Company (Duquesne), Ohio Edison Company (Ohio Edison) and Ohio Edison's wholly owned subsidiary, Pennsylvania Power Company (Pennsylvania Power). The members have constructed and operate generation and transmission facilities for their use.

REVENUES

Customers are billed on a monthly cycle basis for their energy consumption based on rate schedules or contracts authorized by the PUCO or on ordinances of individual municipalities. An accrual is made at the end of each month to record the estimated amount of unbilled revenues for kilowatt-hours sold in the current month but not billed by the end of that month.

A fuel factor is added to the base rates for electric service. This factor is designed to recover from customers the costs of fuel and most purchased power. It is reviewed and adjusted semiannually in a PUCO proceeding.

FUEL EXPENSE

The cost of fossil fuel is charged to fuel expense based on inventory usage. The cost of nuclear fuel, including an interest component, is charged to fuel expense based on the rate of consumption. Estimated future nuclear fuel disposal costs are being recovered through the base rates.

The Operating Companies defer the differences between actual fuel costs and estimated fuel costs currently being recovered from customers through the fuel factor. This matches fuel expenses with fuel-related revenues.

DEFERRED CARRYING CHARGES AND OPERATING EXPENSES

As discussed in Note 6, the January 1989 PUCO rate orders for the Operating Companies included approved rate phase-in plans for their investments in Perry Nuclear Power Plant Unit 1 (Perry Unit 1) and Beaver Valley Power Station Unit 2 (Beaver Valley Unit 2). These plans called for the Operating Companies to begin deferring in January 1989 operating expenses and both interest and equity carrying charges on deferred rate-based investment. These deferrals, called phase-in deferrals, will be amortized and recovered by December 31, 1998. Previously, the PUCO authorized the Operating Companies to defer operating expenses and carrying charges for Perry Unit 1 and Beaver Valley Unit 2 from their respective in-service dates in 1987 through December 1988. The amortization and recovery of these deferrals, called pre-phase-in deferrals, also began in January 1989 and will continue over the lives of the related property.

Beginning in January 1992, the Operating Companies deferred charges for depreciation, property taxes and interest carrying charges related to plant placed in service after February 29, 1988 and not yet included in rate base. The PUCO authorized these deferrals in October 1992 under a Rate Stabilization Program. Similar deferrals may be recorded through December 31, 1995. Amortization and recovery of these deferrals will occur over the average life of the assets and will commence with future rate recognition. See Notes 6 and 13. Toledo Edison is also deferring operating expenses equivalent to an accumulated excess rent reserve for Beaver Valley Unit 2 over a 39-month period commencing October 1, 1992. Amortization and recovery of this deferral will occur over the unit's remaining lease term beginning in 1996. See Note 6.

DEPRECIATION AND AMORTIZATION

The cost of property, plant and equipment is depreciated over their estimated useful lives on a straight-line basis. The annual straight-line depreciation provision for nonnuclear property expressed as a percent of average depreciable utility plant in service was 3.4% in both 1992 and 1991 and 3.3% in 1990. Effective January 1, 1991, the Operating Companies, after obtaining PUCO approval, changed their method of accounting for nuclear plant depreciation from the units-of-production method to the straight-line method at about a 3% rate. This change decreased 1991 depreciation expense $36 million and increased 1991 net income $28 million (net of $8 million of income taxes) and earnings per share $.20 from what they otherwise would have been. The PUCO subsequently approved in 1991 a change to lower the 3%

rate to 2.5% retroactive to January 1, 1991. See Note 13.

The Operating Companies use external funding of future decommissioning costs for their operating nuclear units pursuant to a PUCO order. Cash contributions are made to the trust funds on a straight-line basis over the remaining licensing period for each unit. The current level of expense being funded and recovered from customers over the remaining licensing periods of the units is approximately $8 million annually. Amounts currently in rates are based on past estimates of decommissioning costs of $122 million in 1986 dollars for the Davis-Besse Nuclear Power Station (Davis-Besse) and $72 million and $63 million in 1987 dollars for Perry Unit 1 and Beaver Valley Unit 2, respectively. Actual decommissioning costs are expected to significantly exceed these estimates. We expect to complete our assessment of these estimates in 1993 to update the decommissioning cost amounts and to continue to satisfy the external funding requirements. It is expected that increases in the cost estimates will be recoverable in future rates. The present funding requirements for Beaver Valley Unit 2 also satisfy a similar commitment made as part of the sale and leaseback transaction discussed in Note 2. In the Balance Sheet at December 31, 1992, Accumulated Depreciation and Amortization included $58 million for the cumulative total of decommissioning costs previously expensed and the earnings on the external funding. This amount exceeds the Balance Sheet amount of the external Nuclear Plant Decommissioning Trusts because the reserve began prior to the external trust funding.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at original cost less any amounts ordered by the PUCO to be written off. Construction costs include related payroll taxes, pensions, fringe benefits, management and general overheads and allowance for funds used during construction (AFUDC). AFUDC represents the estimated composite debt and equity cost of funds used to finance construction. This noncash allowance is credited to income, except for certain AFUDC for Perry Nuclear Power Plant Unit 2 (Perry Unit 2). See Note 3(c). The AFUDC rates averaged 10.8% in 1992, 10.7% in 1991 and 10.8% in 1990.

Maintenance and repairs are charged to expense as incurred. The cost of replacing plant and equipment is charged to the utility plant accounts. The cost of property retired plus removal costs, after deducting any salvage value, is charged to the accumulated provision for depreciation.

DEFERRED GAIN AND LOSS FROM SALES OF UTILITY PLANT

The sale and leaseback transactions discussed in Note 2 resulted in a net gain for the sale of the Bruce Mansfield Generating Plant (Mansfield Plant) and a net loss for the sale of Beaver Valley Unit 2. The net gain and net loss were deferred and are being amortized over the terms of leases. These amortizations and the lease expense amounts are recorded as other operation and maintenance expenses. See Note 6.

INTEREST CHARGES

Debt Interest reported in the Income Statement does not include interest on obligations for nuclear fuel under construction. That interest is capitalized. See Note 5.

Losses and gains realized upon the reacquisition or redemption of long-term debt are deferred, consistent with the regulatory rate treatment. Such losses and gains are either amortized over the remainder of the original life of the debt issue retired or amortized over the life of the new debt issue when the proceeds of a new issue are used for the debt redemption. The amortizations are included in debt interest expense.

FEDERAL INCOME TAXES

The Financial Accounting Standards Board (FASB) issued a new standard for accounting for income taxes (SFAS 109) in February 1992. We adopted the new standard in 1992. The new standard amends certain provisions of SFAS 96 previously adopted in 1988. Adoption of the new standard in 1992 did not materially affect our results of operations, but did affect certain Balance Sheet accounts. See Note 7.

The financial statements reflect the liability method of accounting for income taxes. This method requires that deferred taxes be recorded for all temporary differences between the book and tax bases of assets and liabilities. The majority of these temporary differences are attributable to property-related basis differences. Included in these basis differences is the equity component of AFUDC, which will increase future tax expense when it is recovered through rates. Since this component is not recognized for tax purposes, we must record a liability for our tax obligation. The PUCO permits recovery of such taxes from customers when they become payable. Therefore, the net amount due from customers through rates has been recorded as a regulatory asset in deferred charges and will be recovered over the lives of the related assets.

Investment tax credits are deferred and amortized over the estimated lives of the applicable property as a reduction of depreciation expense. See Note 6 for a discussion of the amortization of certain unrestricted excess deferred taxes and unrestricted investment tax credits available after 1998 under the Rate Stabilization Program.

RECLASSIFICATIONS

Certain reclassifications were made to prior years financial statements to make them comparable with the 1992 financial statements. A reserve for Perry Unit 2 AFUDC, which was previously reported under Deferred Credits in the Balance Sheet, was reclassified as an offset against the Perry Unit 2 asset balance. See Note 3(c).

Management's Financial Analysis

RESULTS OF OPERATIONS

Overview

In recent years, our efforts to add our substantial nuclear investment to rate base while maintaining a competitive rate structure have resulted in a series of agreements with the major intervenors in our rate cases. One agreement was approved by the PUCO in January 1989 and is described more fully in Note 6. It established our rate phase-in plans to recognize in rates our allowed investment in Perry Unit 1 and Beaver Valley Unit 2. The phase-in plans increased revenues and cash flows but were designed to have a relatively neutral impact on earnings. Gains in revenues were to be initially offset by a reduction in the deferral of operating expenses and carrying charges and subsequently offset by the amortization of such deferrals. A key assumption underlying the phase-in plans was that revenues would increase as a result of projected sales growth. When sales decreased primarily because of a sluggish economy, earnings were adversely affected.

A number of other factors also exerted a negative influence on earnings. These factors included the recording of nuclear plant depreciation at levels in excess of that reflected in rates, the recording of depreciation and interest charges on facilities placed in service after February 1988 as current expenses even though such items were not being recovered in rates and the effect of inflation on expenses. Also, the need to meet competitive forces, coupled with a desire to encourage economic growth in our service area, prompted us to reduce rates for various communities and certain industrial and commercial customers.

We determined that the best solution to address these factors was to delay rate increases and implement cost-reduction and revenue-enhancement strategies. Furthermore, we sought PUCO approval of regulatory accounting measures designed to recognize the effects of a delay in rate recovery of certain costs and provide a better match of current revenues and operating expenses. In 1991, we obtained PUCO approval to change the method and rate of accruing nuclear plant depreciation. In October 1992, the PUCO approved a Rate Stabilization Program, which was supported by certain customer representative groups, as discussed in Note 6. Under the terms of the Rate Stabilization Program, we agreed to freeze base rates until 1996 and to limit rate increases through 1998. In exchange, we are permitted to defer and subsequently recover certain costs not currently recovered in rates and to accelerate amortization of certain benefits. However, our ability to utilize these regulatory accounting measures is dependent upon our taking significant actions to reduce costs and increase revenues. It is also dependent upon an ongoing determination that recovery of the deferred costs in rates is probable.

We face further challenges in the years to come. In 1994, expense deferrals provided in the 1989 agreement will cease. The amortization of the deferrals taken from 1989 through 1993 will also begin and continue through 1998. The amortization schedule provides for $27 million in 1994, increasing to $318 million in 1998. An additional $39 million of expense deferrals for 1990 and 1991, related to certain provisions of the phase-in plans, will be amortized and recovered by December 31, 1998. In addition, we are still confronted with competitive threats from municipal electric systems within our service territory and from cities contemplating creation of their own electric systems. Although the rate of inflation has eased in recent years, we are still affected by even modest inflation which causes increases in the unit cost of labor, materials and services.

To combat the forces described above, we have embarked on the following course. Reductions in other operation and maintenance expenses and capital expenditures were implemented in 1991 and 1992 and will be vigorously pursued in 1993 and beyond. We will further reduce staffing levels and look to improve efficiency of operations wherever possible. We are aggressively attempting to increase revenues by seeking additional long-term power sales agreements with wholesale customers and by exploring various corporate asset transactions. The Energy Policy Act of 1992 (Energy Act), which requires utilities to transmit electricity from wholesale suppliers to wholesale customers, will provide new opportunities for us to make wholesale power transactions. To counter municipal electric system initiatives, we have continued programs that demonstrate the value inherent in our service, beyond what one might expect from a municipal system. Such programs include providing services to communities to help them retain and attract businesses, providing consulting services to customers to improve their energy efficiency and developing demand-side management programs.

Increases in sales are expected to be modest with annual sales growth projected at about 1-2% for the next several years, depending upon the economic climate in our service area. Recognizing the fact that costs can be reduced only so far and the limitations imposed by our sales forecasts and competition in the wholesale power market, rate increases will be necessary eventually to recognize the cost of our new capital investment, including that being deferred under the Rate Stabilization Program, and inflation.

We believe that our Rate Stabilization Program and our strategies to reduce costs and increase revenues give us the opportunity to improve our competitive position and our earnings. Nevertheless, we operate in a changing industry and market. We must monitor the impact of these changes on our

strategy and the continued appropriateness of the regulatory accounting provided by our various agreements.

1992 vs. 1991

Factors contributing to the 4.8% decrease in 1992 operating revenues are as follows:

Decrease in Operating Revenues	*Millions of Dollars*
Sales Volume and Mix	$ 79
Base Rates and Miscellaneous	32
Fuel Cost Recovery Revenues	11
	$122

The revenue decreases resulted primarily from the different weather conditions in both years and the changes in the composition of the sales mix among customer categories. Weather accounted for approximately $77 million of the lower 1992 revenues. Winter and spring in 1992 were milder than in 1991. In addition, the 1992 summer was the coolest in 56 years in Northern Ohio as contrasted with the summer of 1991 which was much hotter than normal. As a result, total kilowatt-hour sales decreased 1.1% in 1992. Residential and commercial sales decreased 4.5% and 1.3%, respectively, as moderate temperatures in 1992 reduced electric heating and cooling demands. Industrial sales were virtually the same as in 1991 as sales increases to steel producers and auto manufacturers of 10.9% and 2.7%, respectively, offset a decline in sales to other industrial customers. Other sales increased 2.3% because of increased sales to wholesale customers. Operating revenues in 1991 included the recognition by Toledo Edison of $24 million of deferred revenues over the period of a refund to customers under a provision of its January 1989 rate order. No such revenues were reflected in 1992 as the refund period ended in December 1991. The decreases in 1992 fuel cost recovery revenues resulted primarily because of the good performance of our generating units, which in turn decreased our fuel cost factors. The weighted averages of these factors decreased approximately 3% for the Operating Companies.

Operating expenses decreased 4% in 1992. Lower fuel and purchased power expense resulted from less amortization of previously deferred fuel costs than the amount amortized in 1991 and lower generation requirements stemming from less electric sales. A reduction of $17 million in other operation and maintenance expenses resulted primarily from cost-cutting measures. Federal income taxes decreased because of the Rate Stabilization Program's amortization of certain tax benefits and the effects of adopting SFAS 109 in 1992. These decreases were partially offset by higher depreciation and amortization, caused primarily by the adoption of SFAS 109, and by higher taxes, other than federal income taxes, caused by increased Ohio property and gross receipts taxes. Deferred operating expenses increased as a result of the deferrals under the Rate Stabilization Program as mentioned in Note 6.

The federal income tax provision for nonoperating income decreased because of lower carrying charge credits and a greater tax allocation of interest charges to nonoperating activities. Credits for carrying charges recorded in nonoperating income decreased primarily because of lower phase-in carrying charge credits. Interest charges decreased as a result of debt refinancings at lower interest rates and lower short-term borrowing requirements.

1991 vs. 1990

Factors contributing to the 5.5% increase in 1991 operating revenues are as follows:

Increase in Operating Revenues	*Millions of Dollars*
Base Rates and Miscellaneous	$ 86
Sales Volume and Mix	28
Wholesale Sales	19
	$133

The increases in base rates and miscellaneous revenues resulted primarily from rate increases in the January 1989 PUCO rate orders for the Operating Companies as discussed in Note 6. Total kilowatt-hour sales increased 1.1% in 1991. Residential and commercial sales increased 4.7% and 4.8%, respectively, as a result of higher usage of cooling equipment in response to the unusually warm late spring and summer 1991 temperatures. The commercial sales increase was also influenced by some improvement in the economy for the commercial sector. Industrial sales declined 5% largely because of the recession-driven slump in the steel, auto and chemical industries. Other sales increased 8.5% because of increased sales to wholesale customers and public authorities.

Operating expenses increased 3% in 1991. The increase was mitigated by a reduction of $62 million in other operation and maintenance expenses, resulting primarily from cost-cutting measures. Offsetting this decrease were an increase in federal income taxes because of higher pretax operating income; an increase in fuel and purchased power expense resulting primarily from increased amortization of previously deferred fuel costs over the amount amortized in 1990; an increase in taxes, other than federal income taxes, resulting from higher property and gross receipt taxes and accruals for Pennsylvania tax increases enacted in August 1991; and lower operating expense deferrals for Perry Unit 1 and Beaver Valley Unit 2 pursuant to the January 1989 rate orders.

Credits for carrying charges recorded in nonoperating income decreased in 1991 because a greater share of our investments and leasehold interests in Perry Unit 1 and Beaver Valley Unit 2 were recovered in rates. The federal income tax provision for nonoperating income increased mainly because the 1990 provision was reduced $38 million for unamortized investment tax credits on the 1988 write-off of nuclear plant investments.

Income Statement

CENTERIOR ENERGY CORPORATION AND SUBSIDIARIES

	For the years ended December 31, 1992	1991	1990
	(millions of dollars, except per share amounts)		
Operating Revenues	$2,438	$2,560	$2,427
Operating Expenses			
Fuel and purchased power	473	500	472
Other operation and maintenance	784	801	863
Total operation and maintenance	1,257	1,301	1,335
Depreciation and amortization	256	243	242
Taxes, other than federal income taxes	318	305	283
Deferred operating expenses, net	(52)	(6)	(34)
Federal income taxes	122	138	96
	1,901	1,981	1,922
Operating Income	537	579	505
Nonoperating Income			
Allowance for equity funds used during construction	2	9	8
Other income and deductions, net	9	6	(1)
Deferred carrying charges	100	110	205
Federal income taxes — credit (expense)	(7)	(30)	(13)
	104	95	199
Income Before Interest Charges and Preferred Dividends	641	674	704
Interest Charges and Preferred Dividends			
Debt interest	365	381	384
Allowance for borrowed funds used during construction	(1)	(5)	(6)
Preferred dividend requirements of subsidiaries	65	61	62
	429	437	440
Net Income	$ 212	$ 237	$ 264
Average Number of Common Shares Outstanding (millions)	141.7	139.1	138.9
Earnings Per Common Share	$ 1.50	$ 1.71	$ 1.90
Dividends Declared Per Common Share	$ 1.60	$ 1.60	$ 1.60

Retained Earnings

	For the years ended December 31, 1992	1991	1990
	(millions of dollars)		
Balance at Beginning of Year	$ 669	$ 655	$ 614
Additions			
Net income	212	237	264
Deductions			
Common stock dividends	(226)	(222)	(222)
Other, primarily preferred stock redemption expenses of subsidiaries	(3)	(1)	(1)
Net Increase (Decrease)	(17)	14	41
Balance at End of Year	$ 652	$ 669	$ 655

The accompanying notes and summary of significant accounting policies are an integral part of these statements.

Management's Financial Analysis

CAPITAL RESOURCES AND LIQUIDITY

We need cash for normal corporate operations, the mandatory retirement of securities and an ongoing program of constructing new facilities and modifying existing facilities. The construction program is needed to meet anticipated demand for electric service, comply with governmental regulations and protect the environment. Over the three-year period of 1990-1992, these construction and mandatory retirement needs totaled approximately $1.3 billion. In addition, we exercised various options to redeem and purchase approximately $1 billion of our securities.

We raised $2.1 billion through security issues and term bank loans during the 1990-1992 period as shown in the Cash Flows statement. During the three-year period, the Operating Companies also utilized their short-term borrowing arrangements (explained in Note 11) to help meet their cash needs. The Operating Companies had $50 million of short-term borrowings outstanding at December 31, 1992.

Estimated cash requirements for 1993-1995 for Cleveland Electric and Toledo Edison, respectively, are $658 million and $203 million for their construction programs and $627 million and $154 million for the mandatory redemption of debt and preferred stock. Cleveland Electric and Toledo Edison expect to finance externally about 75% of their total 1993 cash requirements of approximately $530 million and $118 million, respectively. About 50-60% of the Operating Companies' 1994 and 1995 requirements are expected to be financed externally. If economical, additional securities may be redeemed under optional redemption provisions. See Notes 10(d) and (e) for information concerning limitations on the issuance of preferred stock and debt.

Our capital requirements after 1995 will depend on our implementation strategy to achieve compliance with the Clean Air Act Amendments of 1990 (Clean Air Act). Expenditures for our optimal plan are estimated to be approximately $208 million over the 1993-2002 period. See Note 3(b).

The Operating Companies are aware of their potential involvement in the cleanup of nine hazardous waste sites. However, we believe that the ultimate outcome of these matters will not have a material adverse effect on our liquidity. See Note 3(d).

We expect to be able to raise cash as needed. The availability and cost of capital to meet our external financing needs, however, depends upon such factors as financial market conditions and our credit ratings. Apparently, the market perceives the Operating Companies as having a greater risk than their credit ratings would indicate. Therefore, in 1992, the Operating Companies had to offer interest and dividend rates on certain of their new debt and preferred stock securities which were significantly higher than those that would be expected for securities having the credit ratings of the Operating Companies. Current securities ratings for the Operating Companies are as follows:

	Standard & Poor's Corporation	*Moody's Investors Service*
Cleveland Electric		
First mortgage bonds	BBB−	Baa3
Unsecured notes	BB+	Ba1
Preferred stock	BB+	ba1
Toledo Edison		
First mortgage bonds	BBB−	Baa3
Unsecured notes	BB+	Ba1
Preferred stock	BB+	ba2

The ratings of Moody's Investors Service, Inc. for Cleveland Electric set forth above reflect a downgrade in February 1993.

Barring unforeseen circumstances, we believe that the 1989 rate agreement and the 1992 Rate Stabilization Program afford us a reasonable opportunity to take the significant actions necessary to achieve financial results which should permit Centerior Energy to continue the current quarterly common stock dividend of $.40 per share. Nevertheless, dividend action by our Board of Directors will continue to be decided on a quarter-to-quarter basis after the evaluation of financial results, potential earning capacity and cash flow. A write-off of our investment in Perry Unit 2, as discussed in Note 3(c), would not reduce our retained earnings sufficiently to impair our ability to declare common stock dividends and would not affect our cash flow.

Cash Flows

	For the years ended December 31,		
	1992	1991	1990
	(millions of dollars)		
Cash Flows from Operating Activities (1)			
Net Income	$ 212	$ 237	$ 264
Adjustments to Reconcile Net Income to Cash from Operating Activities:			
Depreciation and amortization	256	243	242
Deferred federal income taxes	95	85	142
Investment tax credits, net	(14)	43	(34)
Deferred and unbilled revenues	(6)	(51)	(61)
Deferred fuel	1	18	(12)
Deferred carrying charges	(100)	(110)	(205)
Leased nuclear fuel amortization	126	123	84
Deferred operating expenses, net	(52)	(6)	(34)
Allowance for equity funds used during construction	(2)	(9)	(8)
Pension settlement gain	—	—	(41)
Changes in amounts due from customers and others, net	7	14	(26)
Changes in inventories	(10)	(22)	(29)
Changes in accounts payable	(5)	(49)	46
Changes in working capital affecting operations	8	19	(25)
Other noncash items	3	1	7
Total Adjustments	307	299	46
Net Cash from Operating Activities	519	536	310
Cash Flows from Financing Activities (2)			
Bank loans, commercial paper and other short-term debt	50	(110)	110
Debt issues:			
First mortgage bonds	600	—	167
Secured medium-term notes	138	285	338
Term bank loans and other long-term debt	135	108	31
Preferred stock issues	74	125	—
Common stock issues	53	32	—
Reacquired common stock	(3)	—	(26)
Maturities, redemptions and sinking funds	(1,013)	(312)	(395)
Nuclear fuel lease obligations	(117)	(116)	(99)
Common stock dividends paid	(226)	(222)	(222)
Premiums, discounts and expenses	(14)	(7)	(7)
Net Cash from Financing Activities	(323)	(217)	(103)
Cash Flows from Investing Activities (2)			
Cash applied to construction	(200)	(189)	(237)
Interest capitalized as allowance for borrowed funds used during construction	(1)	(5)	(6)
Sale and leaseback restructuring fees	(43)	—	—
Other cash applied	(36)	(1)	(14)
Net Cash from Investing Activities	(280)	(195)	(257)
Net Change in Cash and Temporary Cash Investments	(84)	124	(50)
Cash and Temporary Cash Investments at Beginning of Year	177	53	103
Cash and Temporary Cash Investments at End of Year	$ 93	$ 177	$ 53

(1) Interest paid (net of amounts capitalized) was $299 million, $339 million and $297 million in 1992, 1991 and 1990, respectively. Income taxes paid were $32 million, $57 million and $21 million in 1992, 1991 and 1990, respectively.

(2) Increases in Nuclear Fuel and Nuclear Fuel Lease Obligations in the Balance Sheet resulting from the noncash capitalizations under nuclear fuel agreements are excluded from this statement.

The accompanying notes and summary of significant accounting policies are an integral part of this statement.

Balance Sheet

	December 31, 1992	December 31, 1991
	(millions of dollars)	
ASSETS		
Property, Plant and Equipment		
Utility plant in service	$ 9,449	$ 8,888
Less: accumulated depreciation and amortization	2,488	2,274
	6,961	6,614
Construction work in progress	167	215
Perry Unit 2	614	638
	7,742	7,467
Nuclear fuel, net of amortization	385	458
Other property, less accumulated depreciation	39	45
	8,166	7,970
Current Assets		
Cash and temporary cash investments	93	177
Amounts due from customers and others, net	222	229
Unbilled revenues	114	108
Materials and supplies, at average cost	129	126
Fossil fuel inventory, at average cost	65	58
Taxes applicable to succeeding years	247	234
Other	7	9
	877	941
Deferred Charges and Other Assets		
Amounts due from customers for future federal income taxes	975	1,146
Unamortized loss from Beaver Valley Unit 2 sale	110	114
Unamortized loss on reacquired debt	101	75
Carrying charges and operating expenses, phase-in	846	762
Carrying charges and operating expenses, other	687	613
Nuclear plant decommissioning trusts	42	32
Other	267	176
	3,028	2,918
Total Assets	$12,071	$11,829

The accompanying notes and summary of significant accounting policies are an integral part of this statement.

	December 31, 1992	December 31, 1991
	(millions of dollars)	
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common shares, without par value (stated value of $274 million and $221 million for 1992 and 1991, respectively): 180.0 million authorized; 142.9 million (excluding 2.7 million shares in Treasury) and 140.2 million (excluding 2.5 million shares in Treasury) outstanding in 1992 and 1991, respectively	$ 2,237	$ 2,186
Retained earnings	652	669
Common stock equity	2,889	2,855
Preferred stock		
With mandatory redemption provisions	364	332
Without mandatory redemption provisions	354	427
Long-term debt	3,694	3,841
	7,301	7,455
Other Noncurrent Liabilities		
Nuclear fuel lease obligations	303	341
Other	119	83
	422	424
Current Liabilities		
Current portion of long-term debt and preferred stock	368	216
Current portion of nuclear fuel lease obligations	118	145
Notes payable to banks and others	50	—
Accounts payable	143	148
Accrued taxes	368	351
Accrued interest	84	84
Other	59	58
	1,190	1,002
Deferred Credits		
Unamortized investment tax credits	353	366
Accumulated deferred federal income taxes	2,035	1,785
Unamortized gain from Bruce Mansfield Plant sale	578	602
Accumulated deferred rents for Bruce Mansfield Plant and Beaver Valley Unit 2	116	131
Other	76	64
	3,158	2,948
Total Capitalization and Liabilities	$12,071	$11,829

Statement of Preferred Stock

	1992 Shares Outstanding	Current Call Price Per Share	December 31, 1992	December 31, 1991
			(millions of dollars)	
CLEVELAND ELECTRIC				
Without par value, 4,000,000 preferred shares authorized				
Subject to mandatory redemption:				
$ 7.35 Series C	160,000	$ 101.00	$ 16	$ 17
88.00 Series E	24,000	1,026.78	24	27
Adjustable Series M	300,000	101.00	30	39
9.125 Series N	750,000	104.06	74	74
91.50 Series Q	75,000	—	75	75
88.00 Series R	50,000	—	50	50
90.00 Series S	75,000	—	74	—
			343	282
Less: Current maturities			29	14
			314	268
Not subject to mandatory redemption:				
$ 7.40 Series A	500,000	101.00	50	50
7.56 Series B	450,000	102.26	45	45
Adjustable Series L	500,000	103.00	49	49
Remarketed Series P	97	100,000.00	9	73
			153	217
Less: Current maturities			9	—
			144	217
TOLEDO EDISON				
$100 par value, 3,000,000 preferred shares authorized and $25 par value, 12,000,000 preferred shares authorized				
Subject to mandatory redemption:				
$100 par $11.00	—	—	—	3
9.375	116,800	102.96	12	13
25 par 2.81	2,000,000	26.25	50	50
			62	66
Less: Current maturities			12	2
			50	64
Not subject to mandatory redemption:				
$100 par $ 4.25	160,000	104.625	16	16
4.56	50,000	101.00	5	5
4.25	100,000	102.00	10	10
8.32	100,000	102.46	10	10
7.76	150,000	102.437	15	15
7.80	150,000	101.65	15	15
10.00	190,000	101.00	19	19
25 par 2.21	1,000,000	25.25	25	25
2.365	1,400,000	27.75	35	35
Series A Adjustable	1,200,000	25.75	30	30
Series B Adjustable	1,200,000	25.75	30	30
			210	210
CENTERIOR ENERGY				
Without par value, 5,000,000 preferred shares authorized, none outstanding			—	—
Total Preferred Stock, with Mandatory Redemption Provisions			$364	$332
Total Preferred Stock, without Mandatory Redemption Provisions			$354	$427

The accompanying notes and summary of significant accounting policies are an integral part of this statement.

(1) PROPERTY OWNED WITH OTHER UTILITIES AND INVESTORS

The Operating Companies own, as tenants in common with other utilities and those investors who are owner-participants in various sale and leaseback transactions (Lessors), certain generating units as listed below. Each owner owns an undivided share in the entire unit. Each owner has the right to a percentage of the generating capability of each unit equal to its ownership share. Each utility owner is obligated to pay for only its respective share of the construction and operating costs. Each Lessor has leased its capacity rights to a utility which is obligated to pay for such Lessor's share of the construction and operating costs. The Operating Companies' share of the operating costs of these generating units is included in the Income Statement. Property, plant and equipment at December 31, 1992 includes the following facilities owned by the Operating Companies as tenants in common with other utilities and Lessors:

Generating Unit	In-Service Date	Ownership Share	Ownership Megawatts	Power Source	Plant in Service	Construction Work in Progress and Suspended	Accumulated Depreciation
					(millions of dollars)		
In Service:							
Seneca Pumped Storage	1970	80.00%	351	Hydro	$ 62	$ 1	$ 20
Eastlake Unit 5	1972	68.80	411	Coal	155	1	—
Perry Unit 1 and Common Facilities	1987	51.02	609	Nuclear	2,817	7	407
Beaver Valley Unit 2 and Common Facilities (Note 2)	1987	26.12	214	Nuclear	1,480	4	215
Construction Suspended:							
Perry Unit 2 (Note 3(c))	Uncertain	64.76	780	Nuclear	—	614	—
					$4,514	$627	$642

Depreciation for Eastlake Unit 5 has been accumulated with all other nonnuclear depreciable property rather than by specific units of depreciable property.

(2) UTILITY PLANT SALE AND LEASEBACK TRANSACTIONS

The Operating Companies are co-lessees of 18.26% (150 megawatts) of Beaver Valley Unit 2 and 6.5% (51 megawatts), 45.9% (358 megawatts) and 44.38% (355 megawatts) of Units 1, 2 and 3 of the Mansfield Plant, respectively, all for terms of about 29½ years. These leases are the result of sale and leaseback transactions completed in 1987.

Under these leases, the Operating Companies are responsible for paying all taxes, insurance premiums, operation and maintenance costs and all other similar costs for their interests in the units sold and leased back. The Operating Companies may incur additional costs in connection with capital improvements to the units. The Operating Companies have options to buy the interests back at the end of the leases for the fair market value at that time or to renew the leases. Additional lease provisions provide other purchase options along with conditions for mandatory termination of the leases (and possible repurchase of the leasehold interests) for events of default. These events include noncompliance with several financial covenants discussed in Note 10(e).

In April 1992, nearly all of the outstanding Secured Lease Obligation Bonds (SLOBs) issued by a special purpose corporation in connection with financing the sale and leaseback of Beaver Valley Unit 2 were refinanced through a tender offer for the outstanding SLOBs and the sale by another special purpose corporation of new bonds having a lower interest rate. As part of the refinancing transaction, Toledo Edison paid $43 million as supplemental rent to fund transaction expenses and part of the tender premium. This amount has been deferred and is being amortized over the remaining lease term. The refinancing transaction reduced the straight-line annual rental expense for the Beaver Valley Unit 2 lease by $9 million.

Future minimum lease payments under the operating leases at December 31, 1992 are summarized as follows:

Year	Amount (millions of dollars)
1993	$ 166
1994	166
1995	165
1996	188
1997	165
Later Years	3,576
Total Future Minimum Lease Payments	$4,426

Rental expense is accrued on a straight-line basis over the terms of the leases. The amount recorded

in 1992, 1991 and 1990 as annual rental expense for the Mansfield Plant leases was $115 million. The amounts recorded in 1992 and both 1991 and 1990 as annual rental expense for the Beaver Valley Unit 2 lease were $66 million and $72 million, respectively. Amounts charged to expense in excess of the lease payments are classified as Accumulated Deferred Rents in the Balance Sheet.

Toledo Edison is selling 150 megawatts of its Beaver Valley Unit 2 leased capacity entitlement to Cleveland Electric. We anticipate that this sale will continue at least until 1998.

(3) *CONSTRUCTION AND CONTINGENCIES*

(a) CONSTRUCTION PROGRAM

The estimated cost of our construction program for the 1993-1995 period is $910 million, including AFUDC of $49 million and excluding nuclear fuel.

(b) CLEAN AIR LEGISLATION

The Clean Air Act will require, among other things, significant reductions in the emission of sulfur dioxide in two phases over a ten-year period and nitrogen oxides by fossil-fueled generating units.

We developed a compliance strategy which was submitted to the PUCO in 1992 for review. We subsequently reached agreement with intervening parties and are awaiting formal PUCO approval. We also are seeking United States Environmental Protection Agency approval of our Phase 1 plans. The compliance plan which results in the least cost and the greatest flexibility provides for compliance with both phases through at least 2005. The plan calls for greater use of low-sulfur coal at some of our units and the banking of emission allowances. The plan would require capital expenditures over the 1993-2002 period of approximately $208 million for nitrogen oxide control equipment, emission monitoring equipment and plant modifications. In addition, higher fuel and other operation and maintenance expenses would be incurred. The least cost plan also calls for Cleveland Electric to place a scrubber or other sulfur emission control technology in service at one of its generating plants sometime after 2004 with expenditures beginning in 2001. The anticipated rate increase associated with the capital expenditures and higher expenses would be about 1-2% in the late 1990s. Another increase would be needed after the year 2000, for an aggregate rate increase in the range of 3-6%. Cleveland Electric would incur substantially more of these costs than Toledo Edison.

Our compliance plan will depend upon future environmental regulations and input from the PUCO, other regulatory bodies and other concerned entities. In addition, we are continuing to monitor developments in new technologies that may be incorporated into our compliance strategy. If a plan other than the least cost plan is required, significantly higher capital expenditures could be required during the 1993-2002 period. We believe Ohio law permits the recovery of compliance costs from customers in rates.

(c) PERRY UNIT 2

Perry Unit 2, including its share of the common facilities, is approximately 50% complete. Construction of Perry Unit 2 was suspended in 1985 pending future consideration of various options. These options include resumption of full construction with a revised estimated cost, conversion to a nonnuclear design, sale of all or part of our ownership share, or cancellation. No option may be implemented without the unanimous approval of the owners. A request by Cleveland Electric, the company responsible for the construction of Perry Unit 2, for an extension of the construction license is pending with the Nuclear Regulatory Commission (NRC).

In February 1992, Cleveland Electric purchased Duquesne's 13.74% ownership share of Perry Unit 2 and all Perry real property for $3.3 million. This purchase increased the Operating Companies' ownership share of the unit to 64.76%. The remainder is owned by Ohio Edison and Pennsylvania Power.

The license extension request and the purchase of Duquesne's share do not indicate any plans to resume construction of Perry Unit 2. They were made to keep our options open.

If we canceled Perry Unit 2, the net-of-tax investment would have to be written off. Such a write-off (based on our investment as of the end of 1992) would be about $434 million. Note 10(e) discusses more about the effects of a write-off.

If we decide to convert Perry Unit 2 to a nonnuclear design, we would expect to write-off a portion of our investment for nuclear plant construction costs not transferable to the nonnuclear construction project.

Perry Unit 2 AFUDC was credited to a deferred income account from July 1985 until January 1, 1988, when the accrual was discontinued. The total deferred AFUDC amount of $213 million is reflected in the Balance Sheet as a reduction in the Perry Unit 2 investment.

(d) SUPERFUND SITES

The Comprehensive Environmental Response, Compensation and Liability Act of 1980 as amended (Superfund) established programs addressing the cleanup of hazardous waste disposal sites, emergency preparedness and other issues. The Operating Companies are aware of their potential involvement in the cleanup of nine hazardous waste sites. The Operating Companies have recorded reserves based on estimates of their proportionate responsibility for these sites. We be-

lieve that the ultimate outcome of these matters will not have a material adverse effect on our financial condition or results of operations.

(4) NUCLEAR OPERATIONS AND CONTINGENCIES

(a) OPERATING NUCLEAR UNITS

Our interests in nuclear units may be impacted by activities or events beyond our control. Operating nuclear generating units have experienced unplanned outages or extensions of scheduled outages because of equipment problems or new regulatory requirements. A major accident at a nuclear facility anywhere in the world could cause the NRC to limit or prohibit the operation, construction or licensing of any nuclear unit. If one of our nuclear units is taken out of service for an extended period of time for any reason, including an accident at such unit or any other nuclear facility, we cannot predict whether regulatory authorities would impose unfavorable rate treatment. Such treatment could include taking our affected unit out of rate base or disallowing certain construction or maintenance costs. An extended outage of one of our nuclear units coupled with unfavorable rate treatment could have a material adverse effect on our financial condition and results of operations.

(b) NUCLEAR INSURANCE

The Price-Anderson Act limits the liability of the owners of a nuclear power plant to the amount provided by private insurance and an industry assessment plan. In the event of a nuclear incident at any unit in the United States resulting in losses in excess of the level of private insurance (currently $200 million), our maximum potential assessment under that plan would be $129 million (plus any inflation adjustment) per incident. The assessment is limited to $20 million per year for each nuclear incident. These assessment limits assume the other CAPCO companies contribute their proportionate share of any assessment.

The CAPCO companies have insurance coverage for damage to property at the Davis-Besse, Perry and Beaver Valley sites (including leased fuel and clean-up costs). Coverage amounted to $2.625 billion for each site as of January 1, 1993. Damage to property could exceed the insurance coverage by a substantial amount. If it does, our share of such excess amount could have a material adverse effect on our financial condition and results of operations.

We also have extra expense insurance coverage. It includes the incremental cost of any replacement power purchased (over the costs which would have been incurred had the units been operating) and other incidental expenses after the occurrence of certain types of accidents at our nuclear units. The amounts of the coverage are 100% of the estimated extra expense per week during the 52-week period starting 21 weeks after an accident and 67% of such estimate per week for the next 104 weeks. The amount and duration of extra expense could substantially exceed the insurance coverage.

(c) NUCLEAR DECONTAMINATION AND DECOMMISSIONING ASSESSMENT

The Energy Act permits special assessments on investor-owned electric utilities which own nuclear generating plants for the decontamination and decommissioning of nuclear enrichment facilities operated by the Department of Energy. The assessments to individual utilities are based upon the amount of enrichment services used in prior years and cannot be imposed for more than 15 years. At December 31, 1992, the Operating Companies accrued a liability of $34 million for their share of the total assessments. These costs are recorded as deferred charges since, based on the legislation, we believe the PUCO will allow the Operating Companies to recover the assessments through their fuel cost factors.

(5) NUCLEAR FUEL

The Operating Companies have inventories for nuclear fuel which should provide an adequate supply into the mid-1990s. Substantial additional nuclear fuel must be obtained to supply fuel for the remaining useful lives of their nuclear generating units.

Nuclear fuel is financed for the Operating Companies through leases with a special-purpose corporation. The total amount of financing currently available under these lease arrangements is $509 million ($309 million from intermediate-term notes and $200 million from bank credit arrangements). Financing in an amount up to $900 million is permitted. The intermediate-term notes mature in the period 1993-1997, with $77 million maturing in September 1993. The bank credit arrangements terminate in October 1993 at which time the corporation will obtain alternate financing. As of December 31, 1992, $425 million of nuclear fuel was financed. The Operating Companies severally lease their respective portions of the nuclear fuel and are obligated to pay for the fuel as it is consumed in a reactor. The lease rates are based on various intermediate-term note rates, bank rates and commercial paper rates.

The amounts financed include nuclear fuel in the Davis-Besse, Perry Unit 1 and Beaver Valley Unit 2 reactors with remaining lease payments of $88 million, $103 million and $41 million, respectively, as of December 31, 1992. The nuclear fuel amounts financed and capitalized also included interest charges incurred by the lessors amounting to $15 million in 1992, $21 million in 1991 and $33 million in 1990. The estimated future lease amortization payments based on projected consumption are $103 million in 1993, $105 million in 1994, $99

million in 1995, $94 million in 1996 and $86 million in 1997.

(6) *REGULATORY MATTERS*

On January 31, 1989, the PUCO issued orders which provided for three annual rate increases for the Operating Companies of approximately 9%, 7% and 6% effective with bills rendered on and after February 1, 1989, 1990 and 1991, respectively. The 6% increase effective February 1, 1991 was reduced to 4.35% for Cleveland Electric and 2.74% for Toledo Edison as 50% of the savings identified by a management audit were used to reduce the 6% rate increase for each of the Operating Companies. Toledo Edison waived its 2.74% rate increase for residential and small commercial customers and reduced its residential rate by 3% effective in March 1991 and by an additional 1% effective in September 1991 to improve its competitive position in its service area. The resulting annualized revenue increases in 1990 and 1991 associated with the rate orders were $106 million and $71 million, respectively, for Cleveland Electric and $44 million and $2 million, respectively, for Toledo Edison. Toledo Edison's increase in 1991 reflects the net of $19 million of annualized revenues authorized for the 2.74% increase less $17 million for the waiver and rate reductions.

Under the January 1989 rate orders, phase-in plans were designed so that the three rate increases, coupled with then-projected sales growth, would provide revenues over the ten years beginning January 1, 1989 sufficient to recover all operating expenses and provide a fair rate of return on the Operating Companies' allowed investments in Perry Unit 1 and Beaver Valley Unit 2. Revenues in the first five years of the plans were expected to be less than that required to recover operating expenses and provide a fair return on investment. Therefore, the amounts of operating expenses and return on investment not currently recovered are deferred and capitalized as deferred charges. The unrecovered investment will decline over the period of the phase-in plans because of depreciation and deferred federal income taxes that result from the use of accelerated tax depreciation. Therefore, the amount of revenues required to provide a fair return also declines. This results in decreasing amounts of annual deferrals in the early years of the plans and then increasing amounts of amortization and recovery in the later years of the plans. The Operating Companies deferred $84 million, $132 million and $256 million in 1992, 1991 and 1990, respectively, of operating expenses and carrying charges pursuant to such phase-in plans. The amount of deferrals scheduled to be recorded in 1993 total $31 million. Beginning in the sixth year (1994) and continuing through the tenth year, the revenue levels authorized pursuant to the phase-in plans were designed to be sufficient to recover that period's operating expenses, a fair return on the unrecovered investments, and the amortization of the deferred operating expenses and carrying charges recorded during the first five years of the plans. The phase-in deferrals relating to these two units will total $838 million after 1993 and are scheduled to be amortized and recovered as follows: $27 million in 1994, $91 million in 1995, $162 million in 1996, $240 million in 1997 and $318 million in 1998. Additional carrying charges totaling $39 million deferred for 1990 and 1991 pursuant to certain provisions of the phase-in plans will also be amortized and recovered by December 31, 1998. These amortizations can be accelerated at the option of the Operating Companies.

On October 22, 1992, the PUCO approved a Rate Stabilization Program as set forth in a joint recommendation filed by the Operating Companies and certain customer representative groups involved in the 1989 rate case settlement. Under the Rate Stabilization Program, the Operating Companies agreed to freeze base rates until 1996 and limit subsequent rate increases for Cleveland Electric and Toledo Edison to no more than $93 million and $38 million, respectively, in 1996; $69 million and $28 million, respectively, in 1997; and $54 million and $23 million, respectively, in 1998. For purposes of any rate increase proceeding in the 1996-1998 period, we agreed to cap operation and maintenance expenses (other than fuel and purchased power) at $784 million, subject to adjustment for inflation and other specified expenses. During the 1996-1998 period, PUCO approval of any base rate increases and any additional regulatory accounting measures would be dependent upon our success in implementing cost-reduction and revenue-enhancement initiatives. We agreed to seek authorization for acceleration of the post-1998 Mansfield Plant unamortized gain in any rate increase proceeding for the Operating Companies in the 1996-1998 period. See Summary of Significant Accounting Policies.

As part of the Rate Stabilization Program, the Operating Companies are allowed to defer and subsequently recover certain costs not currently recovered in rates and to accelerate amortization of certain benefits. Such regulatory accounting measures provide for rate stabilization by rescheduling the timing of rate recovery of certain costs and the amortization of certain benefits, thereby preventing what otherwise would be an erosion in earnings during the 1992-1995 period. The continued use of these regulatory accounting measures during this period will be dependent upon a continuing assessment and determination that there will be probable recovery of such deferrals and carrying charges in future rates. The aggregate effect of these measures over this period could be as much as $495 million on an after-tax basis dependent upon our success in implementing cost-reduction and other revenue-enhancement initiatives, among other factors. Such regulatory accounting

measures which are eligible to be recorded through December 31, 1995 on an after-tax basis are as follows:

- Deferral of up to $327 million of accrued post-in-service interest carrying charges, depreciation expense and property taxes on assets placed in service after February 29, 1988. The deferrals recorded in 1992 were retroactive to January 1, 1992. Deferrals are based on actual capital expenditures relating to assets placed in service within the 1988-1995 period. Consequently, the deferrals will be lower than $327 million if we continue to reduce capital expenditures. Amortization and recovery of these deferrals will occur over the average life of the assets and will commence with future rate recognition.
- Deferral of up to $19 million of Toledo Edison operating expenses equivalent to an accumulated excess rent reserve for Beaver Valley Unit 2 which resulted from the April 1992 refinancing of SLOBs as discussed in Note 2. The deferral commenced October 1, 1992. Amortization of this deferral will occur over the remaining term of the unit's lease beginning in 1996.
- Acceleration of the amortizations of an estimated $89 million in unrestricted excess deferred taxes and $34 million in unrestricted investment tax credits available after 1998. The amortizations commenced October 1, 1992. The amortization of investment tax credits is reported as a reduction of depreciation expense.
- Amortization of up to $26 million in interim spent fuel storage accrual balances for Davis-Besse. The amortization commenced October 1, 1992.

The Operating Companies also are allowed to defer and subsequently recover the incremental expenses associated with adoption of the accounting standard for postretirement benefits other than pensions. See Note 8(b).

The Rate Stabilization Program provides for PUCO regulatory approval of certain corporate transactions, including major asset sales, after an evaluation of the customer benefit of these transactions. The Rate Stabilization Program may be renegotiated under certain force majeure and other events.

Deferred Operating Expenses, Net, and Deferred Carrying Charges shown in the Income Statement consist of the following:

	1992	1991	1990
	(millions of dollars)		
Deferred Operating Expenses, Net:			
Phase-in	$(17)	$(22)	$(51)
Rate Stabilization	(51)	—	—
Amortization of Pre-Phase-in Deferrals	16	16	17
Total	$(52)	$ (6)	$(34)
Deferred Carrying Charges:			
Phase-in:			
Debt	$ 25	$ 31	$ 73
Equity	42	79	132
Total Phase-in	67	110	205
Rate Stabilization (Debt)	33	—	—
Total	$100	$110	$205

(7) *FEDERAL INCOME TAX*

Federal income tax, computed by multiplying the income before taxes and preferred dividend requirements of subsidiaries by the statutory rates, is reconciled to the amount of federal income tax recorded on the books as follows:

	1992	1991	1990
	(millions of dollars)		
Book Income Before Federal Income Tax	$406	$466	$435
Tax on Book Income at Statutory Rate	$138	$158	$148
Increase (Decrease) in Tax:			
Depreciation	(9)	1	6
Investment tax credits on disallowed nuclear plant	—	—	(38)
Rate Stabilization	(7)	—	—
Taxes, other than federal income taxes	1	(2)	(12)
Other items	6	11	5
Total Federal Income Tax Expense	$129	$168	$109

Federal income tax expense is recorded in the Income Statement as follows:

	1992	1991	1990
	(millions of dollars)		
Operating Expenses:			
Current Tax Provision	$ 71	$ 88	$ 43
Changes in Accumulated Deferred Federal Income Tax:			
Accelerated depreciation and amortization	39	17	42
Alternative minimum tax credit	(31)	(46)	(24)
Sale and leaseback transactions and amortization	8	4	9
Property tax expense	19	—	(15)
Rate Stabilization	4	—	—
Reacquired debt costs	10	22	1
Deferred construction work in progress revenues	—	7	20
Deferred fuel costs	(1)	(9)	1
Other items	3	16	16
Investment Tax Credits	—	39	3
Total Charged to Operating Expenses	122	138	96

	1992	1991	1990
	(millions of dollars)		
Nonoperating Income:			
Current Tax Provision	(38)	(46)	(42)
Changes in Accumulated Deferred Federal Income Tax:			
Write-off of nuclear costs	14	—	(22)
Rate Stabilization	11	—	—
AFUDC and carrying charges	24	41	74
Net operating loss carryforward	—	35	—
Other items	(4)	—	3
Total Expense Charged to Nonoperating Income	7	30	13
Total Federal Income Tax Expense	$129	$168	$109

In 1990, adjustments for unamortized investment tax credits on the 1988 write-off of nuclear plant investments decreased the federal income tax provision for nonoperating income $38 million and increased earnings per share $.27. Also in 1990, the resolution of a property tax deduction issue resulted in a reduction in federal income tax expense of $14 million, thereby increasing earnings per share by $.10.

The adoption of SFAS 109 in 1992 affected certain Balance Sheet accounts. The most significant impact was an increase in Utility Plant In Service and an offsetting increase in Accumulated Deferred Federal Income Taxes.

Under SFAS 109, temporary differences and carryforwards gave rise to deferred tax assets of $563 million and deferred tax liabilities of $2.598 billion at December 31, 1992. These are summarized as follows:

	Millions of Dollars
Property, plant and equipment	$2,125
Deferred carrying charges and operating expenses	368
Net operating loss carryforwards	(137)
Investment tax credits	(190)
Other	(131)
Net deferred tax liability	$2,035

For tax purposes, net operating loss (NOL) carryforwards of approximately $404 million are available to reduce future taxable income and will expire in 2003 through 2005. The 34% tax effect of the NOLs is $137 million.

The Tax Reform Act of 1986 provides for an alternative minimum tax (AMT) credit to be used to reduce the regular tax to the AMT level should the regular tax exceed the AMT. AMT credits of $114 million are available to offset future regular tax. The credits may be carried forward indefinitely.

(8) RETIREMENT AND POSTEMPLOYMENT BENEFITS

(a) RETIREMENT INCOME PLANS

We sponsor noncontributing pension plans which cover all employee groups. The amount of retirement benefits generally depends upon the length of service. Under certain circumstances, benefits can begin as early as age 55. The plans also provide certain death, medical and disability benefits. Our funding policy is to comply with the Employee Retirement Income Security Act of 1974 guidelines.

In 1990, we offered a Voluntary Early Retirement Opportunity Program (VEROP). Operating expenses for 1990 included $15 million of pension plan accruals to cover enhanced VEROP benefits and an additional $28 million of pension costs for VEROP benefits paid to retirees from corporate funds. The $28 million is not included in the pension data reported below. A credit of $41 million resulting from a settlement of pension obligations through lump sum payments to a substantial number of VEROP retirees partially offset the VEROP expenses.

Net pension and VEROP costs (credits) for 1990 through 1992 were comprised of the following components:

	1992	1991	1990
	(millions of dollars)		
Pension Costs (Credits):			
Service cost for benefits earned during the period	$ 15	$ 14	$ 15
Interest cost on projected benefit obligation	38	36	37
Actual return on plan assets	(24)	(129)	5
Net amortization and deferral	(45)	65	(65)
Net pension costs (credits)	(16)	(14)	(8)
VEROP cost	—	—	15
Settlement gain	—	—	(41)
Net costs (credits)	$(16)	$ (14)	$(34)

The following table presents a reconciliation of the funded status of the plans at December 31, 1992 and 1991.

	December 31,	
	1992	1991
	(millions of dollars)	
Actuarial present value of benefit obligations:		
Vested benefits	$ 310	$ 301
Nonvested benefits	40	33
Accumulated benefit obligation	350	334
Effect of future compensation levels	121	113
Total projected benefit obligation	471	447
Plan assets at fair market value	754	757
Surplus of plan assets over projected benefit obligation	283	310
Unrecognized net gain from variance between assumptions and experience	(140)	(177)
Unrecognized prior service cost	12	13
Transition asset at January 1, 1987 being amortized over 19 years	(99)	(106)
Net prepaid pension cost included in other deferred charges in the Balance Sheet	$ 56	$ 40

At December 31, 1992 and 1991, the settlement (discount) rate and long-term rate of return on plan assets assumptions were 8.5% and the long-term rate of annual compensation increase assumption was 5%.

Plan assets consist primarily of investments in common stock, bonds, guaranteed investment contracts, cash equivalent securities and real estate.

(b) OTHER POSTRETIREMENT BENEFITS

The FASB accounting standard for postretirement benefits other than pensions (SFAS 106) requires the accrual of the expected cost of such benefits during the employees' years of service. The assumptions and calculations involved in determining the accrual closely parallel pension accounting requirements.

We currently provide certain postretirement health care, death and other benefits and expense such costs as these benefits are paid, which is consistent with current ratemaking practices. Such costs totaled $9 million in 1992, $10 million in 1991 and $8 million in 1990, which included medical benefits of $8 million in 1992, $9 million in 1991 and $7 million in 1990.

We will adopt the standard effective January 1, 1993. We plan to amortize the present value of the accumulated postretirement benefit obligation to expense over a 20-year period. Based on our actuaries' review of 1992 data, the accumulated postretirement benefit obligation as of December 31, 1992 is estimated to be in the range of $200 million to $250 million (pretax). Had the standard been adopted in 1992, the additional 1992 postretirement benefit cost would have been in the range of $20 million to $27 million (pretax). We believe the 1993 effect of actual adoption may be similar, although it could be significantly different because of changes in health care costs, the assumed health care cost trend rate, work force demographics, plan provisions or interest rates. Like the retirement income plans, these estimates reflect a discount rate assumption of 8.5% per year. The annual health care cost trend assumption is 12% in 1992, reducing gradually to an ultimate annual rate of 6% in 1996 and later years.

The PUCO authorized us to defer for subsequent recovery postretirement benefit costs that exceed our actual payments for the period 1993-1997. This provision was part of the Rate Stabilization Program discussed in Note 6. The amount we can defer will be determined by the extent to which we are successful in reducing the added obligation by $37 million or 25% of the incremental costs expected when we got the order. We have until December 31, 1997 to make the reductions.

(c) POSTEMPLOYMENT BENEFITS

In November 1992, the FASB issued a new accounting standard for postemployment benefits (SFAS 112), such as severance pay, disability, worker's compensation and supplemental unemployment benefits. We are required to adopt the new standard no later than 1994. We have not completed an analysis to determine the effect of adopting the new standard.

(9) GUARANTEES

Cleveland Electric has guaranteed certain loan and lease obligations of two mining companies under two long-term coal purchase arrangements. Toledo Edison is also a party to one of these guarantee arrangements. This arrangement requires payments to the mining company for any actual out-of-pocket idle mine expenses (as advance payments for coal) when the mines are idle for reasons beyond the control of the mining company. At December 31, 1992, the principal amount of the mining companies' loan and lease obligations guaranteed by the Operating Companies was $93 million.

(10) CAPITALIZATION

(a) CAPITAL STOCK TRANSACTIONS

Shares sold, retired and purchased for treasury during the three years ended December 31, 1992 are listed in the following table.

	1992	1991	1990
	(thousands of shares)		
Centerior Energy Common Stock:			
Dividend Reinvestment and Stock Purchase Plan	2,570	1,422	—
Employee Savings Plan	322	348	—
Total Common Stock Sales	2,892	1,770	—
Treasury Shares	(172)	(11)	(1,391)
Net Change	2,720	1,759	(1,391)
Preferred Stock of Subsidiaries Subject to Mandatory Redemption:			
Cleveland Electric Sales			
$ 91.50 Series Q	—	75	—
88.00 Series R	—	50	—
90.00 Series S	75	—	—
Cleveland Electric Retirements			
$ 7.35 Series C	(10)	(10)	(10)
88.00 Series E	(3)	(3)	(3)
75.00 Series F	—	(2)	—
80.00 Series G	—	—	(1)
145.00 Series H	—	—	(14)
145.00 Series I	—	(14)	(4)
113.50 Series K	—	(10)	—
Adjustable Series M	(100)	(100)	—
Toledo Edison Retirements			
$100 par $11.00	(25)	(10)	(10)
9.375	(17)	(17)	(17)
Preferred Stock of Subsidiaries Not Subject to Mandatory Redemption:			
Cleveland Electric Retirements			
Remarketed Series P	(1)	—	—
Net Change	(81)	(41)	(59)

Shares of common stock required for our stock plans in 1992 were either acquired in the open market, issued as new shares or issued from treasury.

The Board of Directors has authorized the purchase in the open market of up to 1,500,000 shares of our common stock until June 30, 1994. As of December 31, 1992, 225,500 shares had been purchased at a total cost of $4 million. Under a prior authorization, 2,510,000 shares were purchased between March 1989 and March 1991 at a cost of $46 million. Such shares are being held as treasury shares.

(b) COMMON SHARES RESERVED FOR ISSUE

Common shares reserved for issue under the Employee Savings Plan and the Employee Purchase Plan were 2,506,550 and 521,423 shares, respectively, at December 31, 1992.

Stock options to purchase unissued shares of common stock under the 1978 Key Employee Stock Option Plan were granted at an exercise price of 100% of the fair market value at the date of the grant. No additional options may be granted. The exercise prices of option shares purchased during the three years ended December 31, 1992 ranged from $14.09 to $17.41 per share. Shares and price ranges of outstanding options held by employees were as follows:

	1992	1991	1990
Options Outstanding at December 31:			
Shares	93,312	129,798	168,655
Option Prices	$14.09 to $20.73	$14.09 to $20.73	$14.09 to $20.73

(c) EQUITY DISTRIBUTION RESTRICTIONS

At December 31, 1992, consolidated retained earnings were comprised almost entirely of the undistributed retained earnings of the Operating Companies. Substantially all of their retained earnings were available for the declaration of dividends on their respective preferred and common shares. All of their common shares are held by Centerior Energy.

Any financing by an Operating Company of any of its nonutility affiliates requires PUCO authorization unless the financing is made in connection with transactions in the ordinary course of the companies' public utilities business operations in which one company acts on behalf of another.

(d) PREFERRED AND PREFERENCE STOCK

Amounts to be paid for preferred stock which must be redeemed during the next five years are $50 million in 1993, $41 million in 1994, $52 million in 1995 and $42 million in both 1996 and 1997.

The annual mandatory redemption provisions are as follows:

	Shares To Be Redeemed	Beginning in	Price Per Share
Cleveland Electric Preferred:			
$ 7.35 Series C	10,000	1984	$ 100
88.00 Series E	3,000	1981	1,000
Adjustable Series M	100,000	1991	100
9.125 Series N	150,000	1993	100
91.50 Series Q	10,714	1995	1,000
88.00 Series R	50,000	2001*	1,000
90.00 Series S	18,750	1999	1,000
Toledo Edison Preferred:			
$100 par $9.375	16,650	1985	100
25 par 2.81	400,000	1993	25

* All outstanding shares to be redeemed on December 1, 2001.

Cleveland Electric has called for redemption the remaining 97 outstanding shares of its Serial Preferred Stock, Remarketed Series P, in August 1993 at a redemption price of $100,000 per share.

The annualized preferred dividend requirement as of December 31, 1992 was $66 million.

The preferred dividend rates on Cleveland Electric's Series L, M and P and Toledo Edison's Series A and B fluctuate based on prevailing interest rates and market conditions. The dividend rates for these issues averaged 7.59%, 7.04%, 6.73%, 8.24% and 9.09%, respectively, in 1992.

Under its articles of incorporation, Toledo Edison cannot issue preferred stock unless certain earnings coverage requirements are met. Based on earnings for the 12 months ended December 31, 1992, Toledo Edison could not issue additional preferred stock. The issuance of additional preferred stock in the future will depend on earnings for any 12 consecutive months of the 15 months preceding the date of issuance, the interest on all long-term debt outstanding and the dividends on all preferred stock issues outstanding.

Preference stock authorized for the Operating Companies are 3,000,000 shares without par value for Cleveland Electric and 5,000,000 shares with a $25 par value for Toledo Edison. No preference shares are currently outstanding for either company.

There are no restrictions on Cleveland Electric's ability to issue preferred or preference stock or Toledo Edison's ability to issue preference stock.

With respect to dividend and liquidation rights, each Operating Company's preferred stock is prior to its preference stock and common stock, and each Operating Company's preference stock is prior to its common stock.

(e) LONG-TERM DEBT AND OTHER BORROWING ARRANGEMENTS

Long-term debt, less current maturities, for the Operating Companies was as follows:

Year of Maturity	Actual or Average Interest Rate at December 31, 1992	December 31, 1992	December 31, 1991
		(millions of dollars)	
First mortgage bonds:			
1993	3.875%	$ —	$ 30
1993	8.55	—	50
1993	13.75	—	4
1994	4.375	25	25
1994	13.75	4	4
1995	13.75	4	4
1995	7.00	1	1
1996	13.75	4	4
1996	7.00	1	1
1996	9.375	—	100
1997	10.88	6	6
1997	13.75	4	4
1997	7.00	1	1
1997	6.125	31	31
1998-2002	8.02	433	122
2003-2007	8.32	308	218
2008-2012	7.72	341	462
2013-2017	8.90	538	663
2018-2022	7.88	445	445
2023	6.34	211	211
		2,357	2,386
Term bank loans due 1994-1997	8.56	121	197
Medium-term notes due 1994-2021	8.92	860	835
Notes due 1994-1997	9.69	60	102
Debentures due 2002	8.70	135	—
Debentures due 1997	—	—	125
Pollution control notes due 1994-2015	10.10	158	190
Other — net	—	3	6
Total Long-Term Debt		$3,694	$3,841

Long-term debt matures during the next five years as follows: $318 million in 1993, $88 million in 1994, $232 million in 1995, $242 million in 1996 and $139 million in 1997.

The Operating Companies issued $760 million aggregate principal amount of secured medium-term notes during the 1990-1992 period. The notes are secured by first mortgage bonds. At December 31, 1992, Cleveland Electric and Toledo Edison had $35 million and $93 million, respectively, aggregate principal amount of secured medium-term notes registered with the SEC and available for issuance.

The mortgages of the Operating Companies constitute direct first liens on substantially all property owned and franchises held by them. Excluded from the liens, among other things, are cash, securities, accounts receivable, fuel, supplies and, in the case of Toledo Edison, automotive equipment.

Additional first mortgage bonds may be issued by Cleveland Electric under its mortgage on the basis of bondable property additions, cash or substitution for refundable first mortgage bonds. The issuance of additional first mortgage bonds by Cleveland Electric on the basis of property additions is limited by two provisions of its mortgage. One relates to the amount of bondable property available and the other to earnings coverage of interest on the bonds. Under the more restrictive of these provisions (currently, the amount of bondable property available), Cleveland Electric would have been permitted to issue approximately $329 million of bonds based upon available bondable property at December 31, 1992. Cleveland Electric also would have been permitted to issue approximately $432 million of bonds based upon refundable bonds at December 31, 1992. If Perry Unit 2 had been canceled and written off as of December 31, 1992, Cleveland Electric would not have been permitted to issue any bonds based upon available bondable property, but would have been permitted to issue approximately $432 million of bonds based upon refundable bonds.

The issuance of additional first mortgage bonds by Toledo Edison also is limited by provisions in its mortgage similar to those in Cleveland Electric's mortgage. Under the more restrictive of these provisions (currently, the earnings coverage test), Toledo Edison would have been permitted to issue approximately $173 million of bonds at an assumed interest rate of 9.5% based upon available bondable property at December 31, 1992. Toledo Edison also would have been permitted to issue approximately $266 million of bonds based upon refundable bonds at December 31, 1992. If Perry Unit 2 had been canceled and written off as of December 31, 1992, the amount of bonds which could have been issued by Toledo Edison would not have changed.

Certain unsecured loan agreements of Toledo Edison contain covenants relating to capitalization ratios, earnings coverage ratios and limitations on secured financing other than through first mortgage bonds or certain other transactions. An agreement relating to a letter of credit issued in connection with the sale and leaseback of Beaver Valley Unit 2 contains several financial covenants affecting Centerior Energy and the Operating Companies. Among these are covenants relating to earnings coverage ratios and capitalization ratios. Centerior Energy and the Operating Companies are in compliance with these covenant provisions. We believe Centerior Energy and the Operating Companies will continue to meet these covenants in the event of a write-off of the Operating Companies' investments in Perry Unit 2, barring unforeseen circumstances.

(11) SHORT-TERM BORROWING ARRANGEMENTS

Our bank credit arrangements at December 31, 1992 were as follows:

	Cleveland Electric	Toledo Edison	Service Company	Total
	(millions of dollars)			
Bank Lines of Credit	$137	$70	$8	$215

There were no borrowings under these bank credit arrangements at December 31, 1992. An additional $5 million line of credit is available to the Service Company under a $30 million Cleveland Electric line of credit, if unused by Cleveland Electric. The $5 million line of credit is included in the Cleveland Electric total.

Short-term borrowing capacity authorized by the PUCO annually is $300 million for Cleveland Electric and $150 million for Toledo Edison. The Operating Companies are authorized by the PUCO to borrow from each other on a short-term basis.

Most borrowing arrangements under the Operating Companies' short-term bank lines of credit require a fee of 0.25% per year to be paid on any unused portion of the lines of credit. For those banks without fee requirements, the average daily cash balance in the Operating Companies' bank accounts satisfied informal compensating balances.

At December 31, 1992, Cleveland Electric and Toledo Edison had $10 million and $40 million, respectively, of short-term notes outstanding under an uncommitted financing facility. Each of the Operating Companies can borrow up to $40 million until the agreement is canceled by any party.

At December 31, 1992, the Operating Companies had no commercial paper outstanding. If commercial paper were outstanding, it would be backed by at least an equal amount of unused bank lines of credit.

The fee for the Service Company's lines of credit is 0.25% per year to be paid on any unused portion of its lines of credit.

No formal short-term borrowing arrangements have been established for Centerior Energy.

(12) FINANCIAL INSTRUMENTS' FAIR VALUE

The estimated fair values at December 31, 1992 of financial instruments that do not approximate their carrying amounts are as follows:

	Carrying Amount	Fair Value
	(millions of dollars)	
Nuclear Plant Decommissioning Trusts	$ 42	$ 45
Preferred Stock, with Mandatory Redemption Provisions (including current portion)	405	408
Long-Term Debt (including current portion)	4,017	4,107

The fair value of the nuclear plant decommissioning trusts is estimated based on the quoted market prices for the investment securities. The fair value of the Operating Companies' preferred stock with mandatory redemption provisions and long-term debt is estimated based on the quoted market prices for the respective or similar issues or on the basis of the discounted value of future cash flows. The discounted value used current dividend or interest rates (or other appropriate rates) for similar issues and loans with the same remaining maturities.

The estimated fair values of all other financial instruments approximate their carrying amounts in the Balance Sheet at December 31, 1992 because of their short-term nature.

(13) QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a tabulation of the unaudited quarterly results of operations for the two years ended December 31, 1992.

	Quarters Ended			
	March 31,	June 30,	Sept. 30,	Dec. 31,
	(millions of dollars, except per share amounts)			
1992				
Operating Revenues	$592	$581	$665	$600
Operating Income	$122	$115	$191	$109
Net Income	$ 23	$ 20	$122	$ 47
Average Common Shares (millions)	140.6	141.6	142.0	142.5
Earnings Per Common Share	$ .16	$ .14	$ .86	$ .33
Dividends Paid Per Common Share	$ .40	$ .40	$ .40	$ .40
1991				
Operating Revenues	$609	$645	$716	$590
Operating Income	$129	$146	$182	$123
Net Income	$ 35	$ 52	$ 95	$ 55
Average Common Shares (millions)	138.4	138.9	139.3	139.7
Earnings Per Common Share	$ .26	$ .37	$ .68	$ .39
Dividends Paid Per Common Share	$ .40	$ .40	$ .40	$ .40

Earnings for the quarter ended September 30, 1992 were increased by $41 million, or $.29 per share, as a result of the recording of deferred operating expenses and carrying charges for the first nine months of 1992 totaling $61 million under the Rate Stabilization Program approved by the PUCO in October 1992. See Note 6.

Earnings for the quarter ended December 31, 1991 were increased by $40 million, or $.29 per share, as a result of year-end adjustments of $28 million to reduce depreciation expense for the year for the change in the nuclear plant straight-line depreciation rate to 2.5% (see Summary of Significant Accounting Policies) and $28 million to increase phase-in carrying charges for an adjustment to 1991 cost deferrals (see Note 6).

Executives of Centerior Energy Corporation and Centerior Service Company

CENTERIOR ENERGY CORPORATION

Chairman, President and Chief Executive Officer	*Robert J. Farling (56)*
Executive Vice President	*Murray R. Edelman (53)*
Executive Vice President	*Edgar H. Maugans (58)*
Executive Vice President	*Lyman C. Phillips (53)*
Senior Vice President–Legal, Human & Corporate Affairs	*Fred J. Lange, Jr. (43)*
Controller	*Paul G. Busby (44)*
Treasurer	*Gary M. Hawkinson (44)*
Secretary	*E. Lyle Pepin (51)*

CENTERIOR SERVICE COMPANY

Chairman, President and Chief Executive Officer	*Robert J. Farling (56)*
Executive Vice President–Power Generation	*Murray R. Edelman (53)*
Executive Vice President–Finance & Administration	*Edgar H. Maugans (58)*
Executive Vice President–Customer Operations (and Chairman & CEO of Toledo Edison and President & CEO of Cleveland Electric)	*Lyman C. Phillips (53)*
Senior Vice President–Legal, Human & Corporate Affairs	*Fred J. Lange, Jr. (43)*
Vice President–Fossil Operations	*Richard P. Crouse (53)*
Vice President–Transmission and Distribution Engineering & Services	*Gary J. Greben (55)*
Vice President–Customer Service & Community Affairs	*Jacquita K. Hauserman (50)*
Vice President–System Engineering & Control	*Alvin Kaplan (54)*
Vice President–Human Resources & Strategic Planning	*John S. Levicki (53)*
Vice President–Legal & General Counsel	*Terrence G. Linnert (46)*
Vice President–Transmission & Distribution Operations	*David L. Monseau (52)*
Vice President–Marketing	*Thomas M. Quinn (53)*
Vice President (and President of Toledo Edison)	*Donald H. Saunders (57)*
Vice President–Nuclear-Davis-Besse	*Donald C. Shelton (59)*
Vice President–Nuclear-Perry	*Robert A. Stratman (44)*
Controller	*Paul G. Busby (44)*
Treasurer	*Gary M. Hawkinson (44)*
Secretary	*E. Lyle Pepin (51)*

Number in parentheses indicates age.

Financial and Statistical Review

Operating Revenues (millions of dollars)

Year	Residential	Commercial	Industrial	Other	Total Retail	Wholesale	Total Electric	Steam Heating & Gas	Total Operating Revenues
1992	$732	706	766	143	2 347	91	2 438	—	$2 438
1991	777	723	783	188	2 471	89	2 560	—	2 560
1990	719	669	779	190	2 357	70	2 427	—	2 427
1989	686	617	747	204	2 254	107	2 361	—	2 361
1988	637	538	676	84	1 935	120	2 055	—	2 055
1982	502	407	553	74	1 536	47	1 583	26	1 609

Operating Expenses (millions of dollars)

Year	Fuel & Purchased Power	Other Operation & Maintenance	Depreciation & Amortization	Taxes, Other Than FIT	Deferred Operating Expenses, Net	Federal Income Taxes	Total Operating Expenses
1992	$473	784	256	318	(52)	122	$1 901
1991	500	801	243(a)	305	(6)	138	1 981
1990	472	863	242	283	(34)	96	1 922
1989	473	860	273	260	(59)	122	1 929
1988	408	866	265	268	(188)	124	1 743
1982	474	367	130	148	—	152	1 271

Income (Loss) (millions of dollars)

Year	Operating Income	AFUDC—Equity	Other Income & Deductions, Net	Deferred Carrying Charges	Federal Income Taxes—Credit (Expense)	Income Before Interest Charges	Debt Interest	AFUDC—Debt	Preferred & Preference Stock Dividends
1992	$537	2	9	100	(7)	641	365	(1)	65
1991	579	9	6	110	(30)	674	381	(5)	61
1990	505	8	(1)	205	(13)	704	384	(6)	62
1989	432	17	14	299	(73)	689	369	(13)	66
1988	312	14	(489)(b)	372	131	340	378	(6)	70
1982	338	126	(2)	—	41	503	239	(50)	64

Income (Loss) (millions of dollars) Common Stock (dollars per share & %)

Year	Income (Loss) Before Cumulative Effect of an Accounting Change	Cumulative Effect of an Accounting Change	Net Income (Loss)	Average Shares Outstanding (millions)	Earnings (Loss)	Return on Average Common Stock Equity	Dividends Declared	Book Value
1992	$212	—	$212	141.7	$ 1.50	7.4%	$1.60	$20.22
1991	237	—	237	139.1	1.71	8.4	1.60	20.37
1990	264	—	264	138.9	1.90	9.4	1.60	20.30
1989	267	—	267	140.5	1.90	9.6	1.60	19.99
1988	(102)	28(c)	(74)	140.8	(0.53)	(2.5)	1.84	19.68
1982	250	—	250	87.8(d)	2.84(d)	14.8	2.09(d)	19.39(d)

NOTE: 1982 data is the result of combining and restating Clevela nd Electric and Toledo Edison data.

(a) In 1991, the Operating Companies adopted a change in accounting for nuclear plant depreciation, changing from the units-of-production method to the straight-line method at a 2.5% rate.

(b) Includes write-off of nuclear costs in the amount of $534 million in 1988.

(c) In 1988, the Operating Companies adopted a change in the method of accounting for unbilled revenues.

	Electric Sales (millions of KWH)						Electric Customers (year end)				Residential Usage		
Year	Residential	Commercial	Industrial	Wholesale	Other	Total	Residential	Commercial	Industrial & Other	Total	Average KWH Per Customer	Average Price Per KWH	Average Revenue Per Customer
1992	6 666	7 086	11 551	2 814	1 011	29 128	925 099	96 813	12 741	1 034 653	7 227	10.98¢	$793.68
1991	6 981	7 176	11 559	2 690	1 048	29 454	921 995	96 449	12 843	1 031 287	7 410	11.16	827.10
1990	6 666	6 848	12 168	2 487	959	29 128	918 965	94 522	12 906	1 026 393	7 079	10.82	765.93
1989	6 806	6 830	12 520	3 235	996	30 387	914 020	93 833	12 763	1 020 616	7 295	10.08	737.58
1988	6 920	6 577	12 793	1 828	946	29 064	909 182	92 132	12 305	1 013 619	7 462	9.21	690.06
1982	6 247	5 520	9 955	1 526	827	24 075	883 197	85 356	11 471	980 024	6 884	8.04	555.37

	Load (MW & %)				Energy (millions of KWH)					Fuel	
					Company Generated						
Year	Operable Capacity at Time of Peak	Peak Load	Capacity Margin	Load Factor	Fossil	Nuclear	Total	Purchased Power	Total	Fuel Cost Per KWH	Efficiency—BTU Per KWH
1992	6 430	5 091	20.8%	63.4%	17 371	13 814	31 185	(122)	31 063	1.45¢	10 395
1991	6 453	5 361	16.9	62.9	18 041	13 454	31 495	40	31 535	1.48	10 442
1990	6 437	5 261	18.3	63.6	21 114	9 481	30 595	413	31 008	1.52	10 354
1989	6 430	5 389	16.2	63.3	20 174	12 122	32 296	21	32 317	1.47	10 435
1988	5 525(e)	5 673	(2.7)	60.8	21 576	7 805	29 381	1 885	31 266	1.59	10 410
1982	6 546	4 296	34.4	66.5	20 882	3 219	24 101	1 720	25 821	1.80	10 404

Investment (millions of dollars)

Year	Utility Plant In Service	Accumulated Depreciation & Amortization	Net Plant	Construction Work in Progress & Perry Unit 2	Nuclear Fuel and Other	Total Property, Plant and Equipment	Utility Plant Additions	Total Assets
1992	$9 449	2 488	6 961	781	424	$8 166	$200	$12 071
1991	8 888	2 274	6 614	853	503	7 970	204	11 829
1990	8 636	2 039	6 597	921	568	8 086	251	11 681
1989	8 398	1 824	6 574	945	592	8 111	217	11 454
1988	8 144	1 569	6 575	1 010	643	8 228	343	11 360
1982	4 019	965	3 054	2 142	277(f)	5 473	671	6 152

Capitalization (millions of dollars & %)

Year	Common Stock Equity		Preferred & Preference Stock, with Mandatory Redemption Provisions		Preferred Stock, without Mandatory Redemption Provisions		Long-Term Debt		Total
1992	$2 889	39%	364	5%	354	5%	3 694	51%	$7 301
1991	2 855	38	332	4	427	6	3 841	52	7 455
1990	2 810	39	237	3	427	6	3 729	52	7 203
1989	2 795	40	281	4	427	6	3 534	50	7 037
1988	2 772	39	304	4	427	6	3 552	51	7 055
1982	1 838	38	418	9	265	5	2 318	48	4 839

(d) Average shares outstanding and related per share computations reflect the Cleveland Electric 1.11-for-one exchange ratio and the Toledo Edison one-for-one exchange ratio for Centerior Energy shares at the date of affiliation, April 29, 1986.

(e) Capacity data reflects extended generating unit outage for renovation and improvements.

(f) Restated for effects of capitalization of nuclear fuel lease and financing arrangements pursuant to Statement of Financial Accounting Standards 71.

Board of Directors

Richard P. Anderson (63) President and Chief Executive Officer of The Andersons Management Corporation, a grain, farm supply and retailing firm. 1986

Albert C. Bersticker (58) President and Chief Executive Officer of Ferro Corporation, a producer of specialty chemical materials for manufactured products. 1990

Leigh Carter (67) Retired President and Chief Operating Officer of The BFGoodrich Company, a producer of chemicals, plastics and aerospace products. Retired Chairman of Tremco, Incorporated, a manufacturer of specialty chemical products and a wholly owned subsidiary of The BFGoodrich Company. 1986

Thomas A. Commes (50) President and Chief Operating Officer of The Sherwin-Williams Company, a manufacturer of paints and painting supplies. 1987

Wayne R. Embry (55) Executive Vice President and General Manager of the Cleveland Cavaliers, a professional basketball team. Chairman of Michael Alan Lewis Company, a fabricator of hardboard, fiberglass and carpeting materials for the automotive industry. 1991

Robert J. Farling (56) Chairman, President and Chief Executive Officer of the Company and Centerior Service Company. 1988

George H. Kaull (61) Chairman of Premix, Inc., a developer, manufacturer and fabricator of thermoset reinforced composite materials. 1987

Richard A. Miller (66) Retired Chairman and Chief Executive Officer of the Company and Centerior Service Company. 1986

Frank E. Mosier (62) Vice Chairman of the Advisory Board of BP America Inc., a producer and refiner of petroleum products. 1986

Sister Mary Marthe Reinhard, SND (63) Director of Development for the Sisters of Notre Dame of Cleveland, Ohio. Former President of Notre Dame College of Ohio. 1986

Robert C. Savage (55) President and Chief Executive Officer of Savage & Associates, Inc., an insurance, financial planning and estate planning firm. 1990

Paul M. Smart (64) Attorney and retired Vice Chairman of the Company and The Toledo Edison Company. 1986

William J. Williams (64) Chairman of Huntington National Bank. 1986

Robert M. Ginn Chairman Emeritus
John P. Williamson Chairman Emeritus

Number in parentheses indicates age.
Date indicates first year in which elected to Board.

Committees of the Board

Audit	*Capital Expenditures*	*Environmental and Community Responsibility*	*Executive*	*Finance*	*Human Resources*	*Nominating*	*Nuclear*
T.A. Commes, Chairman	G.H. Kaull, Chairman	Sr. M.M. Reinhard, Chairman	R.J. Farling, Chairman	R.A. Miller, Chairman	W.J. Williams, Chairman	F.E. Mosier, Chairman	R.P. Anderson, Chairman
L. Carter	A.C. Bersticker	W.R. Embry	L. Carter	R.P. Anderson	L. Carter	R.P. Anderson	A.C. Bersticker
W.R. Embry	R.J. Farling	R.J. Farling	T.A. Commes	T.A. Commes	G.H. Kaull	A.C. Bersticker	R.J. Farling
Sr. M.M. Reinhard	R.A. Miller	R.A. Miller	R.A. Miller	W.R. Embry	F.E. Mosier	L. Carter	Sr. M.M. Reinhard
	F.E. Mosier	F.E. Mosier	W.J. Williams	R.J. Farling	R.C. Savage	T.A. Commes	W.J. Williams
	P.M. Smart	P.M. Smart		R.C. Savage		W.R. Embry	
				P.M. Smart		R.J. Farling	
						G.H. Kaull	
						R.A. Miller	
						Sr. M.M. Reinhard	
						R.C. Savage	
						P.M. Smart	
						W.J. Williams	

Share Owner Information

DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN AND INDIVIDUAL RETIREMENT ACCOUNT (CX•IRA)

The Company has a Dividend Reinvestment and Stock Purchase Plan which provides share owners of record and customers of the Company's subsidiaries a convenient means of purchasing shares of Company common stock by investing all or a part of their quarterly dividends as well as making cash investments. In addition, individuals may establish an individual retirement account (IRA) which invests in Company common stock through the Plan. Information relating to the Plan and the CX•IRA may be obtained from Share Owner Services at the Company.

SHARE OWNER SERVICES

Communications regarding stock transfer requirements, lost certificates, dividends and changes of address should be directed to Share Owner Services at the Company. To reach Share Owner Services by phone, call:

In Cleveland area 642-6900 or 447-2400

Outside Cleveland area 1-800-433-7794

Please have your account number ready when calling.

INVESTOR RELATIONS

Inquiries from security analysts and institutional investors should be directed to Terrence R. Moran, Manager-Investor Relations, at the Company's mail address or by telephone at (216) 447-2882.

TRANSFER AGENT

Centerior Energy Corporation
Share Owner Services
P.O. Box 94661
Cleveland, Ohio 44101-4661

Stock transfers may be presented at
PNC Trust Company of New York
40 Broad Street, Fifth Floor
New York, NY. 10004

REGISTRAR

Society National Bank
Corporate Trust Division
P.O. Box 6477
Cleveland, Ohio 44101

EXECUTIVE OFFICES

Centerior Energy Corporation
6200 Oak Tree Boulevard
Independence, Ohio
Telephone: (216) 447-3100
FAX: (216) 447-3240

MAIL ADDRESS

Centerior Energy Corporation
P.O. Box 94661
Cleveland, Ohio 44101-4661

CX•IRA CUSTODIAN

All communications about an existing CX•IRA should be directed to the Custodian at the address or telephone numbers listed below:

Society National Bank
Custodian, CX•IRA
P.O. Box 6477
Cleveland, Ohio 44101

In Cleveland area 737-5745

Elsewhere in Ohio
1-800-362-0697, Extension 5745

Outside Ohio
1-800-321-1355, Extension 5745

INDEPENDENT ACCOUNTANTS

Arthur Andersen & Co.
1717 East Ninth Street
Cleveland, Ohio 44114

COMMON STOCK

Listed on the New York, Midwest and Pacific Stock Exchanges. Options are traded on The Pacific Stock Exchange. New York Stock Exchange symbol—CX. Newspaper abbreviation—CentEn or CentrEngy.

ANNUAL MEETING

The 1993 annual meeting of the share owners of the Company will be held at 10 a.m. on April 27, 1993 at Executive Caterers at Landerhaven in Mayfield Heights, Ohio. Owners of common stock as of February 26, 1993, the record date for the meeting, will be eligible to vote on matters brought up for share owners' consideration.

ENVIRONMENTAL REPORT

The Company will furnish to share owners, without charge, a copy of a report on its environmental performance. Requests should be directed to Share Owner Services.

FORM 10-K

The Company will furnish to share owners, without charge, a copy of its most recent annual report to the Securities and Exchange Commission. Requests should be directed to Share Owner Services.

AUDIO CASSETTES

Share owners with impaired vision may obtain audio cassettes of the Company's Quarterly Reports and Annual Report. To obtain a cassette, simply write or call Share Owner Services. There is no charge for this service.

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