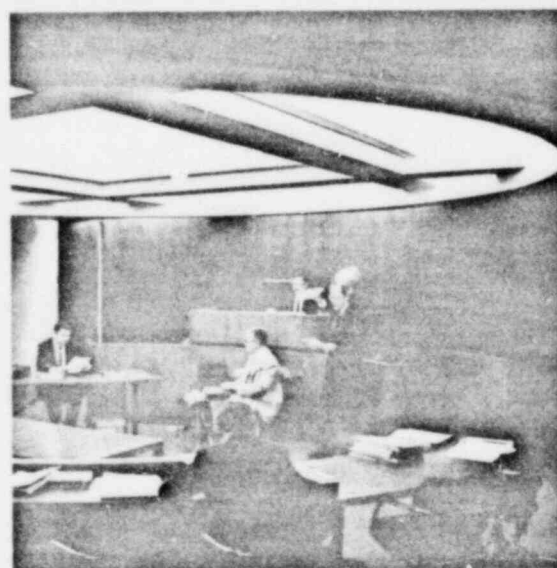
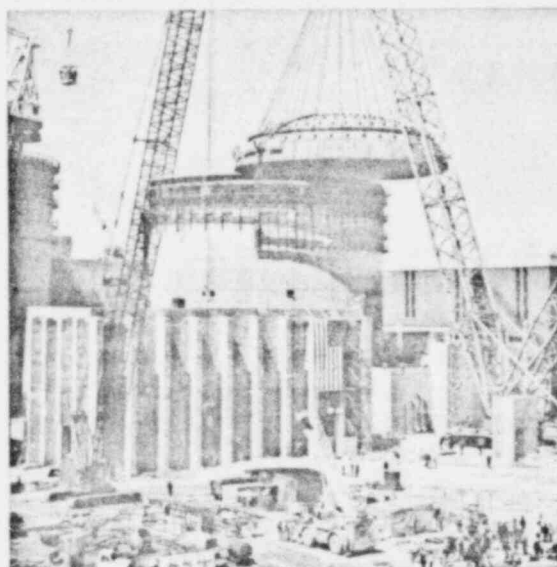


# The Cleveland Electric Illuminating Company



## 1981 Annual Report

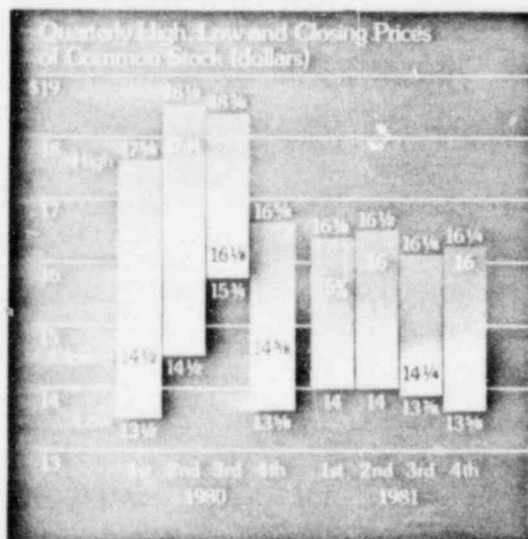
Our primary mission is to supply electric energy when and where it is needed to nearly three-quarters of a million customers in our 1,700-square-mile service area.

Over a 100-year span, our electricity powered the development of Northeastern Ohio's industrial might. Today, that strong industrial base, together with growing service and commercial business segments, promises economic vitality for our area for many years to come. Similarly, our residential customers have depended on us to light, heat and cool their homes...to cook their food...to wash and dry their clothes...to provide reliable electricity for a better living standard.

Because we are investor-owned, we are obligated to our share owners and bondholders whose investment makes our mission possible. These investors are entitled to a fair return on their investments. We strive to meet that obligation.

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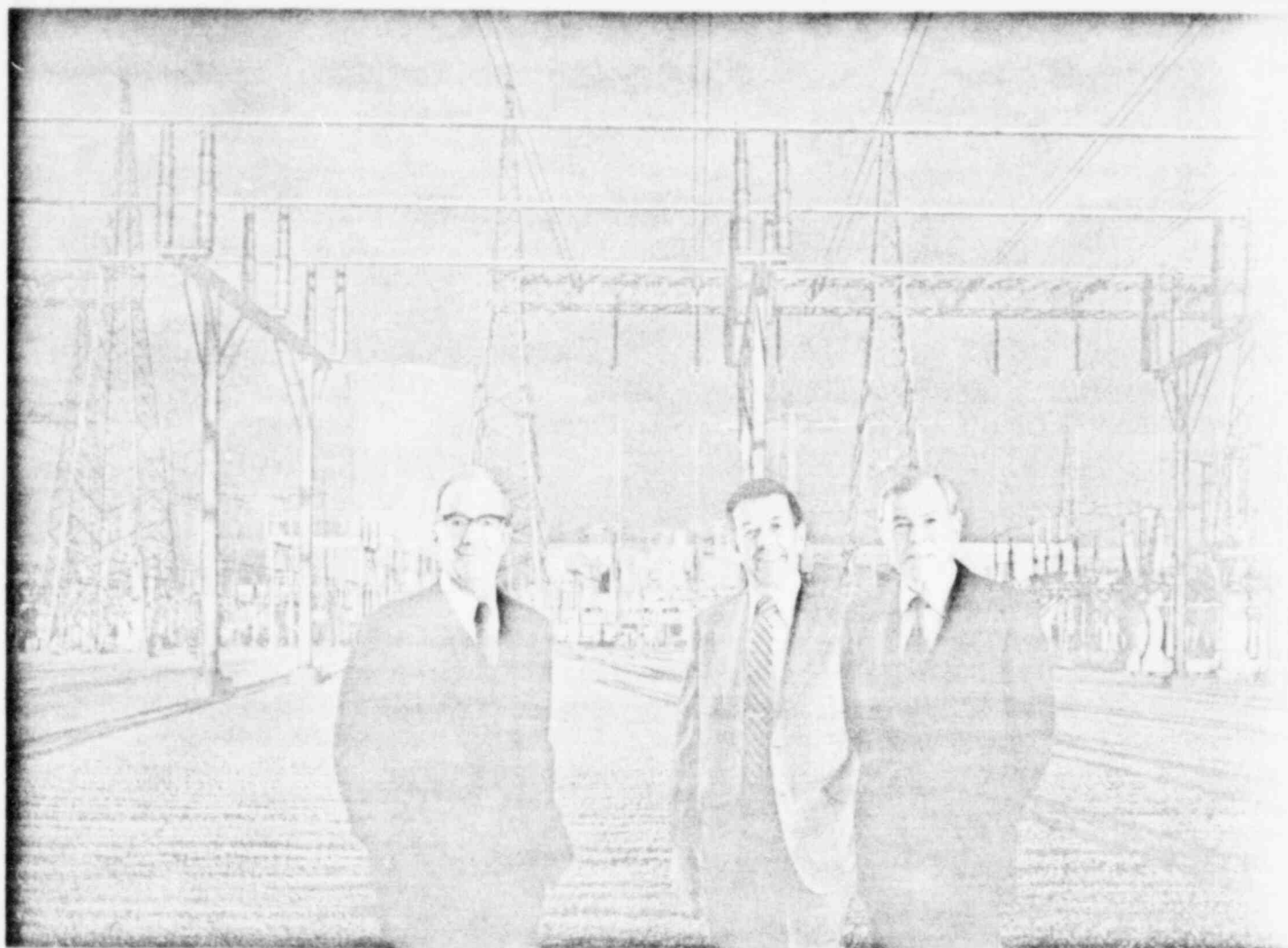
*The four environments in which the Company works today: a family enjoying the natural environment, construction of a power plant requires the raising of capital in the financial environment, a boiler operator in the operating environment and a hearing before The Public Utilities Commission of Ohio in the rate-setting environment.*

# Highlights

- Earnings per share were \$2.52, up 11.5% from \$2.26 in 1980.
- Common Stock dividends per share were increased 2¢ per quarter, effective with the February 15, 1982 payment, the 24th consecutive year of increase.
- In the retrial of the City of Cleveland's antitrust case against the Company, the jury found in favor of the Company; the City has appealed the decision.
- Annual operating revenues surpassed \$1 billion for the first time.
- A \$147.8 million (17%) rate increase became effective for retail electric customers.
- Hearings were completed before The Public Utilities Commission of Ohio for a \$130 million (12%) increase in retail electric rates; notice of intent to file for a \$221 million (17%) rate increase was announced.
- A record peak load of 3,362 megawatts was recorded in July.
- The 1982-1986 construction program is \$1.8 billion.

# Financial Summary

	1981	1980	Per Cent Change
Earnings Per Share of Common Stock	\$ 2.52	\$ 2.26	11.5
Dividends Paid Per Share of Common Stock	\$ 2.08	\$ 2.00	4.0
Book Value Per Share of Common Stock	\$ 19.63	\$ 19.72	(0.5)
Common Stock Share Owners	103,242	101,001	2.2
Operating Revenues (000)	\$1,012,930	\$893,566	13.4
Operating Expenses (000)	\$ 820,226	\$743,051	10.4
Net Income (000)	\$ 155,734	\$125,383	24.2
Earnings Available for Common Stock (000)	\$ 120,817	\$ 97,672	23.7
Kilowatt-hour Sales (Millions of Kilowatt-hours)			
Residential	4,376	4,463	(2.0)
Commercial	4,178	4,149	0.7
Industrial	8,280	8,062	2.7
Other	399	416	(3.8)
Sub-total	17,233	17,090	0.8
Sales to Utilities	275	1,070	(74.3)
Total	17,508	18,160	(3.6)



*The nearly completed transmission yard at the Perry Nuclear Power Plant provides the background for (from left to right) R. M. Ginn, H. L. Williams and R. A. Miller.*

### **Dear Share Owner:**

One of our predecessors in the leadership of The Illuminating Company, a man of Swedish ancestry, frequently spurred us on with the challenge, "The North Wind made the Vikings great." That phrase is perhaps more appropriate today than ever before. We believe that the management of the Company today is responding to Elmer Lindseth's challenge. In spite of the

adversity that has plagued our industry during the past several years, we believe fundamental improvement is under way.

In many ways 1981 was a watershed year for the industry and our Company. A new administration and Congress went to Washington with a pledge to end rampant infla-

tion, to improve the productivity of American industry by encouraging capital formation and to break the regulatory log jam on energy, including nuclear power. That is a big order, and implementation will take time. So far, the steps taken in Washington, in Columbus and by our industry and our Company are positive. The results which are dis-



cussed in detail in this report are indicative of an improving trend.

While we experienced peaks and valleys, on balance, 1981 was an upbeat year for the Company's customers, employees and share owners.

Earnings per common share increased 11.5% from \$2.26 to \$2.52.

The improved earnings enabled the Board of Directors to increase dividends for the 24th straight year and to add one more to what is now 81 consecutive years of cash dividend payments.

Gross revenues exceeded one billion dollars for the first time, an event more attributable to the severe inflation that plagued the economy than results of operations. We would gladly have had lower revenues and less inflation.

The Public Utilities Commission of Ohio took an essential step toward meeting the need for revenues that cover our costs, including earnings to compensate common share owners for their investment, by approving a rate increase of \$147.8 million in 1981. An Order deciding our pending \$130 million rate increase application is expected soon. Since we have not caught up with cost increases, we continue to need regular increases in our prices — a situation that will be common to all businesses, including utilities, until inflation is licked.

Those who expected the new Administration's program to bring a strong economic recovery in 1981 were disappointed. Realistically, an immediate turnaround was too much to expect. However, our industrial sales, despite heavy reliance on autos and steel, increased by 2.7% over the 1980 total, notwithstanding the fourth quarter downturn. Residential and commercial sales were adversely impacted by very poor housing growth and unusually mild weather in 1981.

We raised about \$275 million from outside financing despite a downrating of our bonds. The rating change reflects our need to continue to sell significant amounts of bonds

to finance our construction program, rate increases which were perceived to be insufficient by the rating agencies and an adverse Ohio Supreme Court decision.

The Federal administration and Congress took two actions to help utilities and our Company raise capital less expensively. They will both improve our share owner position and hold down rates for customers. The first provides for tax reductions to encourage investment in new plant and equipment. These reductions can now be utilized by utility companies with low taxable incomes. The second is a benefit to utility share owners who reinvest their dividends in new common stock. The Company took advantage of the first action, and many of our share owners are taking advantage of the second.

The first Perry unit passed the 80% completion mark and continues on schedule, and on budget, toward its 1984 completion date. Our integrated organization of Company engineers, consultants and outside contractors appears to be producing an outstanding result.

As for the balance of our construction program, our engineering and operating organizations have reviewed every proposed capital expenditure. Their objective, which was met, was to limit new projects to those absolutely essential to provide adequate service and to complete those projects now under way most expeditiously and economically. As a result, our five-year cash budget for construction has been held to no increase, despite the obvious five-year inflation in cost which is a consequence of dropping 1981 expenditures and adding those planned for 1986. Share owners and customers benefit from this effective cost control.

Two major court decisions impacted the Company during 1981: one unfavorable; the other favorable.

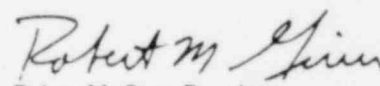
The Ohio Supreme Court overruled the PUCO and disallowed the recovery through rates of the

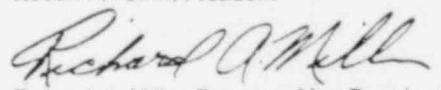
planning costs for four CAPCO generating unit projects which were terminated in 1980. The Court reached this decision despite concurring with the PUCO finding that the companies' decisions to construct the plants in the first instance, and later to terminate, were both prudent decisions. The Court decision, which is inconsistent with those in other jurisdictions including the Federal Energy Regulatory Commission, was appealed to the U.S. Supreme Court which so far has declined to review it on procedural grounds. We continue to pursue correction of what we consider bad law through regulatory and judicial actions.

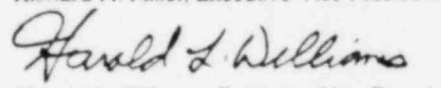
In October 1981, a Federal court jury found for the Company in the six-year antitrust case with the City of Cleveland, after two days of deliberation. The City has appealed the case. When the appeal is concluded, and we do not believe the appeal will succeed, an era of distressed relations with the City of Cleveland will end. It is particularly important during these adverse economic times that the Company and the City direct their energies toward a more cooperative and constructive relationship.

The three of us, the rest of our management team and our 5,000 employees look to 1982 and the future with great enthusiasm. That North Wind is still blowing but we believe the improvement in earnings in 1981 was indicative of a lot of good things about your Company, now and in the future. We have provided reliable electric service to a great section of a great country for over 100 years. We will continue to do so.

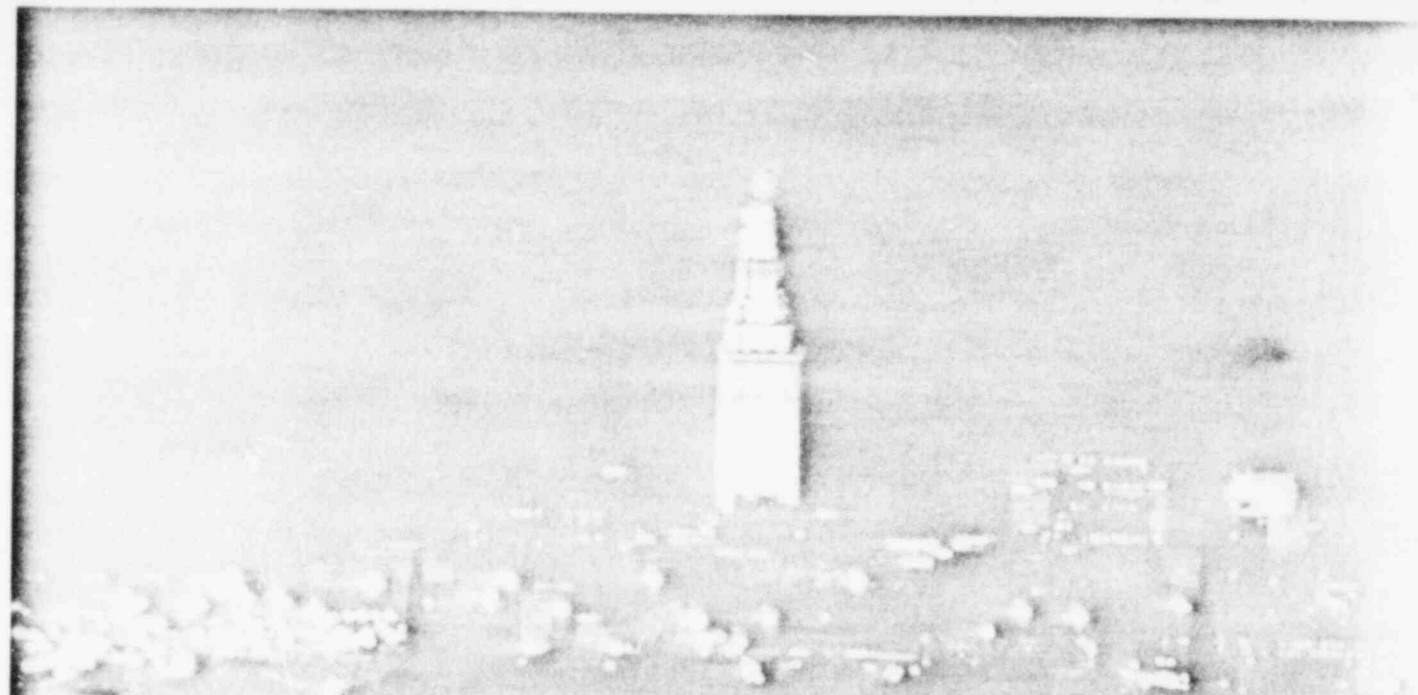
Sincerely,

  
Robert M. Ginn, President

  
Richard A. Miller, Executive Vice President

  
Harold L. Williams, Executive Vice President

February 23, 1982



## Perspective

In the Seventies, electricity was taken for granted. It was plentiful and inexpensive. Since 1881, The Cleveland Electric Illuminating Company had worked hard to spread the convenience of electric service from a small area in Cleveland to the 1,700-square-mile area we serve today. In so doing, we made a significant contribution to the development of Northeast Ohio's industrial base and helped create the jobs that made Greater Cleveland one of the most dynamic, productive areas in the nation. Electricity changed our individual lives by allowing us to enjoy refrigerators and freezers, radios and televisions, clothes washers and dryers, dishwashers, hair dryers, stereos, shavers and air conditioning. Through those first 90 years of progress, we enjoyed a spirit of trust and partnership with our customers and the general public.

## Change

Then came the Seventies, and America in general and the electric utility industry in particular were never to be the same again.

What happened?

For one thing, the basic economics of the utility industry were turned upside down. Rapid growth and improving technology had worked to reduce the cost of electricity. As recently as 1965, we actually *reduced* our rates by \$3 million. With the Seventies came rampant inflation, towering interest rates and rising taxes. Since then, new generating capacity has been added at a higher cost per kilowatt than the average cost per kilowatt of existing capacity.

Throughout the Seventies, all Americans were saddled with higher costs of living and growing levels of taxation. In addition, American business, and utilities in particular, witnessed surging governmental regulation.

Taxes, inflation and the high cost of borrowing have hurt The Cleveland Electric Illuminating Company as well as the consumer.

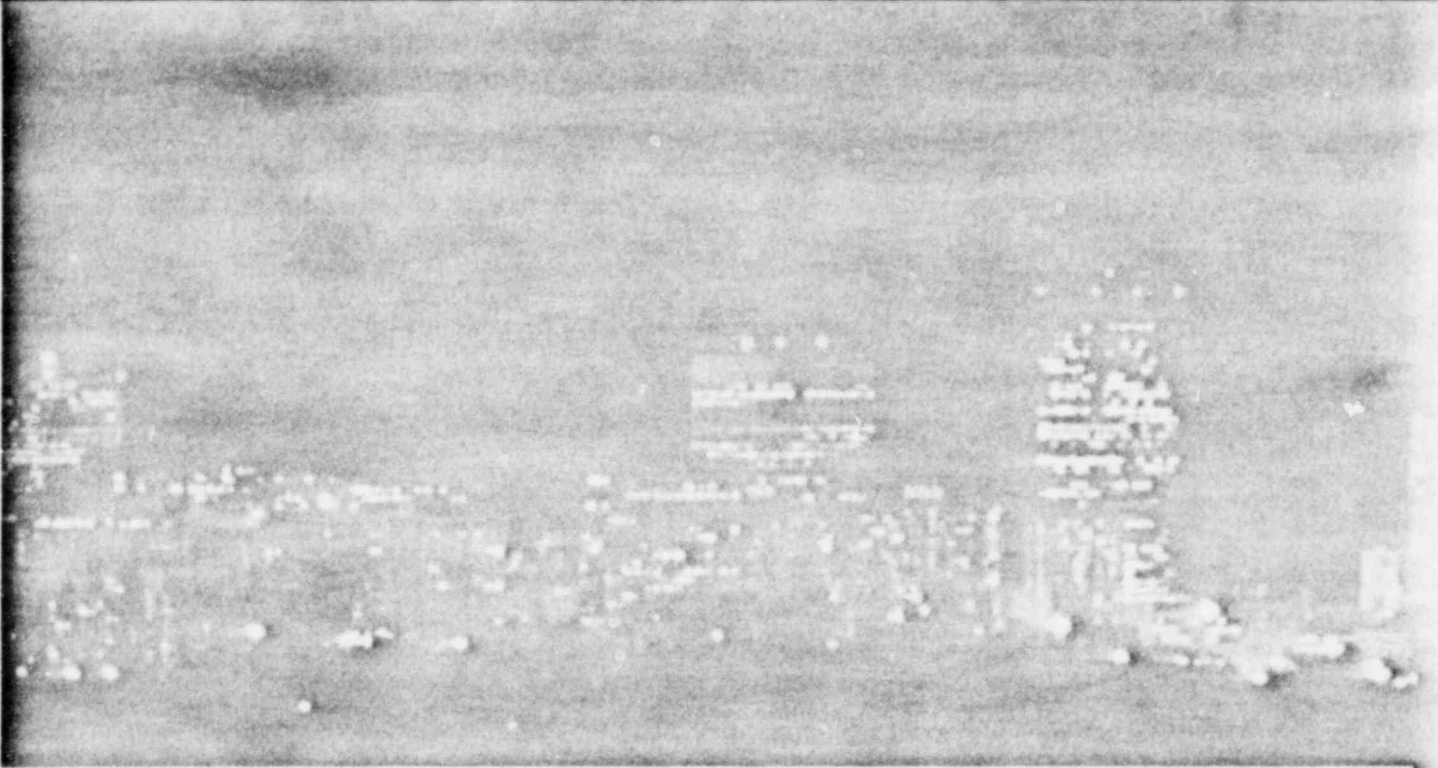
We, however, are faced with a special dilemma. Individuals might try to deal with inflation by paring

back on household budgets, postponing the purchase of cars such as a home or a new car; we can cut back in very few places because we are a public utility charged with meeting the needs of a service area that includes 650,000 residential customers, 80,000 commercial customers and more than 7,000 industrial customers. Preparing for the future energy requirements of Northeast Ohio means we have to install facilities today so that there will be enough energy tomorrow. We cannot postpone meeting that obligation.

## Environments

The Company is working to deal with four environments:

- a natural environment in which we must deal with the effects of our operations on water, air and working conditions;
- a financial environment in which our relationship with the financial community and others with whom we make our financial arrangements;



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an operating environment that is affected by each of the other environments, yet we must assure that electricity flows without interruption into each home, office and factory we serve; and a rate-setting environment in which we must deal with State and Federal agencies in establishing a fair price for our product.

### **Challenges**

These four environments are proper concerns for the Company and have been for many years. Individually, each is difficult enough to work with because all four overlap in so many ways. They present constant and complex challenges.

Yet, the challenges are being met. Much has been accomplished in controlling emissions into the air and discharges into area rivers, streams and lakes, and this vital work goes on. Despite the vagaries of the financial markets, we are meeting our financial needs. We have built and maintained an energy

system that has served well the people of Northeastern Ohio for more than 100 years. We are responsive and responsible in dealing with State and Federal rate regulators to the best long-term interests of our customers and investors.

### **Future**

We will continue to work in those four environments with a determination to make each of them better.

We see more and more acceptance of the idea that there is a clear need for realistically conceived and defined environmental regulations by both the State and Federal EPAs.

As a nation, we are working hard for a fundamental improvement in our economic stability. We need a sound economy to improve our financial environment. Sound fiscal and monetary policy should bring down inflation and reduce interest rates. Tax incentives will encourage individual saving and investment and make available needed capital. More capital investment by industry, leading to greater

productivity, will encourage the American public to respond with a renewed demand for products and services.

Nuclear energy will be a vital power source for our operations over the rest of this century. We are taking extraordinary precautions in building our nuclear generating plants. We must do all we can to contribute to an enlightened public understanding of the importance of nuclear energy.

The United States has the best electric energy system in the world. We are the only major world power whose electric power industry is largely free of nationalization, owned by millions of share owners. The unique American system works because the rate-setting environment which governs public utilities works to the best interests of all parties.

The text which follows is a factual account of how the Company is working in its four environments. It explains who we are, what we do and why we do it.





The natural environment — the air we breathe and the water we use for drinking and recreation — has been a concern of the Company from the time we became large enough to affect it. As our service area grew rapidly during the early 1900s, and as we built new coal-burning generating plants to meet that growth, we recognized as we do today that we had a responsibility to see that air and water quality was preserved.

## Technology

As early as the 1920s, pollution control equipment was available in America. In 1926, we were the first utility in Ohio to install precipitators at our power stations. Similarly, we also monitored our waste water and treated it with the technology of the times.

Our dedication over the years to clean air and water has not come cheaply. Progress in pollution control carries a stiff price, one borne by the Company, its customers and investors. In the past 10 years alone, we have spent more than \$400 million to install water and air pollution control equipment in order to comply with State and Federal regulations. (See chart on this page.)

## Complexity

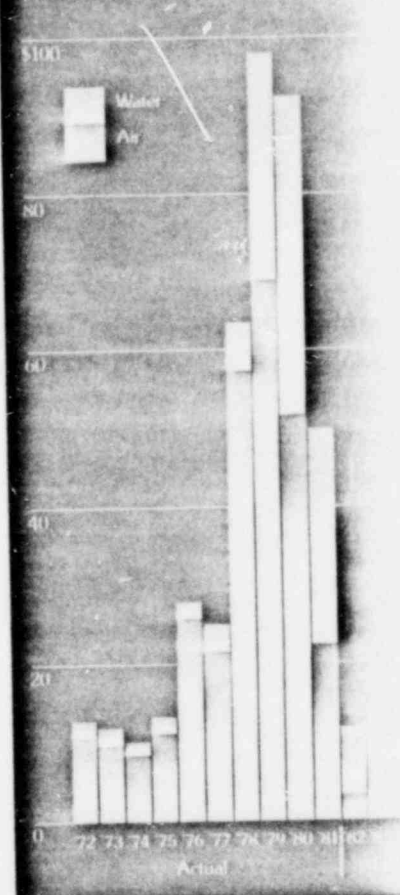
Working in the natural environment has become very complex. It requires the interplay of many different academic disciplines, from engineering to chemistry to botany. It is legally and operationally complicated by new and changing regulations and policies emanating from Congress and various governmental agencies. To the complexities add uncertainty — uncertainty about future regulations and how they will affect us — and the natural environment clearly becomes a most difficult one in which to operate.

For example, the air quality controls and methods we use are designed to reduce two types of emissions from our coal-burning plants — sulfur dioxide and particulate matter (fly ash). Both of these pollutants come from the coal we burn — about six million tons per year — much of it from Ohio mines.

Ohio coal has a high sulfur content. Therefore, most of what we burn is washed to reduce its sulfur content prior to burning. Still, Ohio coal's sulfur content remains high enough to make it necessary for the Company to purchase some expensive low-sulfur coal from other eastern states. By burning these two kinds of coal in a balanced manner, we are able to keep sulfur dioxide emissions within the allowable limits.

*Jim Pitts, Maintenance Supervisor at the Avon Lake Power Plant, and his family enjoy the beauty of Greater Cleveland's unique Metropark system, a part of Northeast Ohio's natural environment which the Company is committed to preserve.*

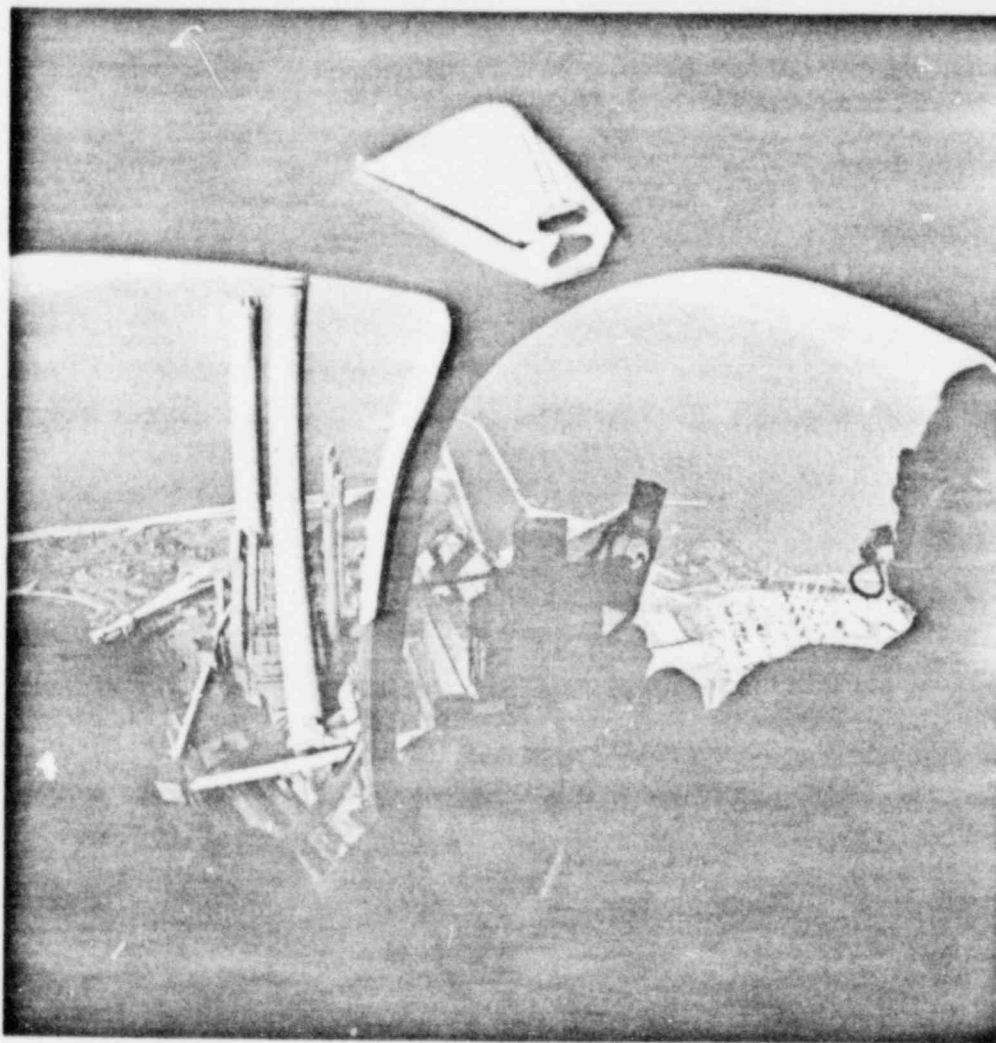
Pollution Control Construction Expenditures (millions of dollars)





To control fly ash emissions, we install electrostatic precipitators which are effective in limiting fly ash emissions from our stacks. These devices can collect anywhere from 95 to 99.6 per cent of fly ash, depending on the characteristics of the coal. Ironically, precipitators controlling fly ash emissions do not work as efficiently with low-sulfur coal as they do with high-sulfur coal.

Even solutions bring new problems. At our three Mansfield units where scrubbers remove substantially all of the sulfur dioxide from the stack emissions, approximately 2.75 million tons of useless sludge must be disposed of every year. Another problem is the approximately 950,000 tons of fly ash which must be removed from our plants and trucked to controlled land fill operations each year.



*The clean air and water viewed from a helicopter over the Eastlake Power Plant is indicative of our 10-year, \$400 million, system-wide investment in pollution control equipment.*

During 1981, we completed a seven-year precipitator upgrading program at a cost of about \$200 million to put in place 12 new, state-of-the-art precipitators at three of our plants.

## Results

Since 1975, total sulfur dioxide emissions from our plants have been reduced by 33 per cent, while fly ash emissions from our stacks have been reduced by 75 per cent.

Our policy is to comply with all State and Federal air and water quality regulations. We have complied in ways that minimize the cost to our customers and investors. We are working with the various governmental agencies to see that sound cost/benefit economics are considered before greater financial burdens are imposed on our customers and ourselves.

## New Issue

A new environmental issue has been raised by states to the east of Ohio and by the Canadian government: the acid rain phenomenon. Much has been written and said about acid rain with little basis in fact. The present need is thorough research and scientific evaluation to determine its causes and formulate solutions based on prudent cost/benefit judgments. The electric utility industry is sponsoring research in this field through the Electric Power Research Institute (EPRI), an industry-funded research and development organization. EPRI, the Environmental Protection Agency, universities and a host of others are spending millions of dollars in a search for the answers to the acid rain puzzle.

Our concern is that mounting pressures to "do something now" will result in bad legislation, hastily drawn regulations and standards that could

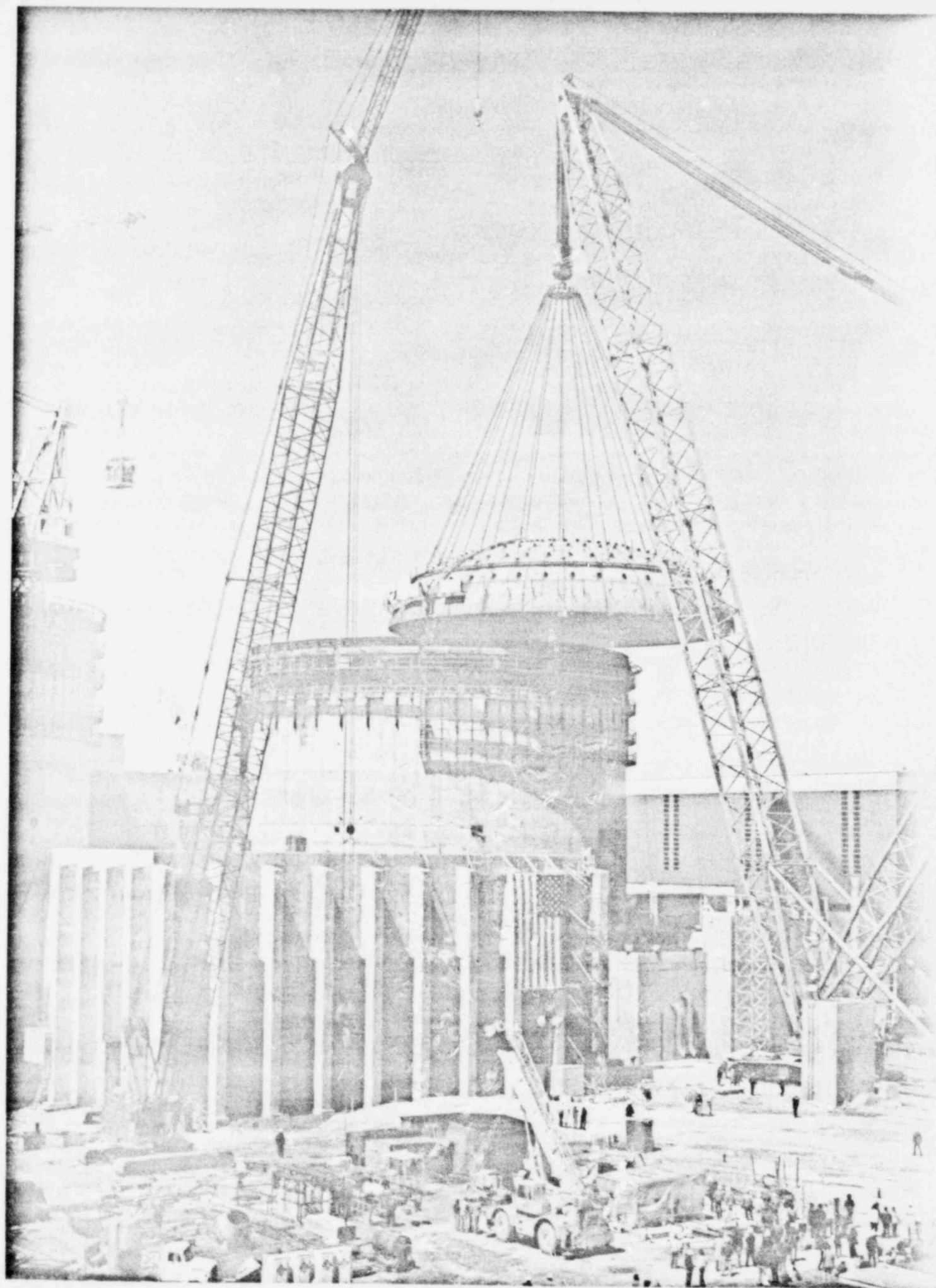
be extremely costly to our customers without solving the problem. Congress should fully investigate the sources of acid rain and consider the cost to the consumer before enacting any legislation.



*The Ashtabula Power Plant, equipped with new, state-of-the-art precipitators, operates in harmony with the environment—including a neighboring playground.*

## Commitment

Our stewardship of the natural environment in which we operate has been an ongoing commitment and responsibility. We are mindful that the present regulatory climate could change drastically. We have seen such changes before and know the stiff price that has been paid for improvements in air and water quality. Nevertheless, we will continue to cooperate with State and Federal authorities as we work to improve our natural environment.



The financial environment in which we operate has been turbulent in recent years. High inflation and interest rates continue to increase the cost of doing business. Adequately compensating our investors, meeting our service obligations and securing new capital are more difficult than before.

Our objective is to arrange financing at the lowest possible cost, while maintaining a balanced capital structure and striving to improve our securities ratings.

## Construction Budget

Regulatory lag, high interest rates and a tight money market hinder us from keeping pace with inflation and make the raising of funds for new construction more challenging. We plan to spend about \$1.8 billion on construction over the next five years, about half of which will have to be raised in the capital markets.

The largest items in the budget are our shares of three nuclear generating units — Perry Units 1 and 2 and Beaver Valley Unit 2. Also included in the budget are pollution control equipment and transmission and distribution facilities.

## Ratings

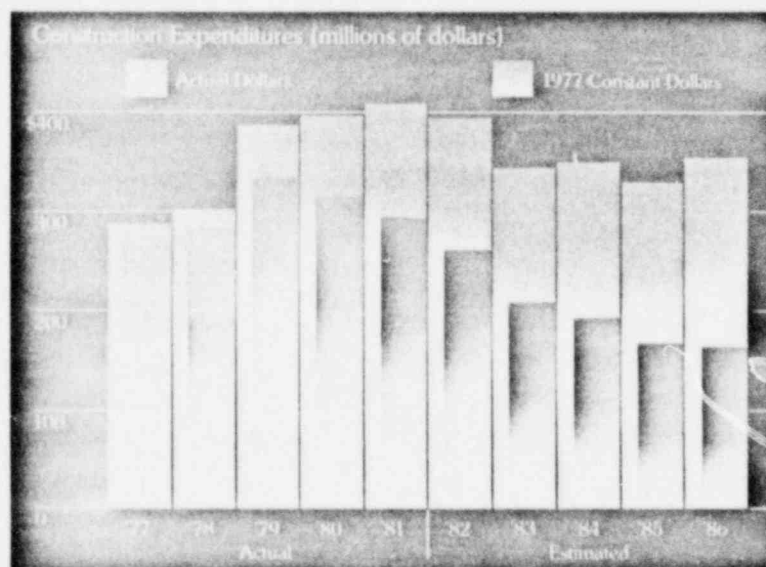
The cost of money for such construction depends, in part, on ratings assigned to Company securities by financial rating agencies. Standard & Poor's Corporation and Moody's Investors Service — two of the major rating agencies — lowered the Company's first mortgage bond ratings from "AA-" and "Aa," respectively, to "A." Standard & Poor's also reduced our preferred stock rating to "BBB" from "A-"; however, Moody's maintained its "a" rating.

## WHO ARE THE BOND RATERS?

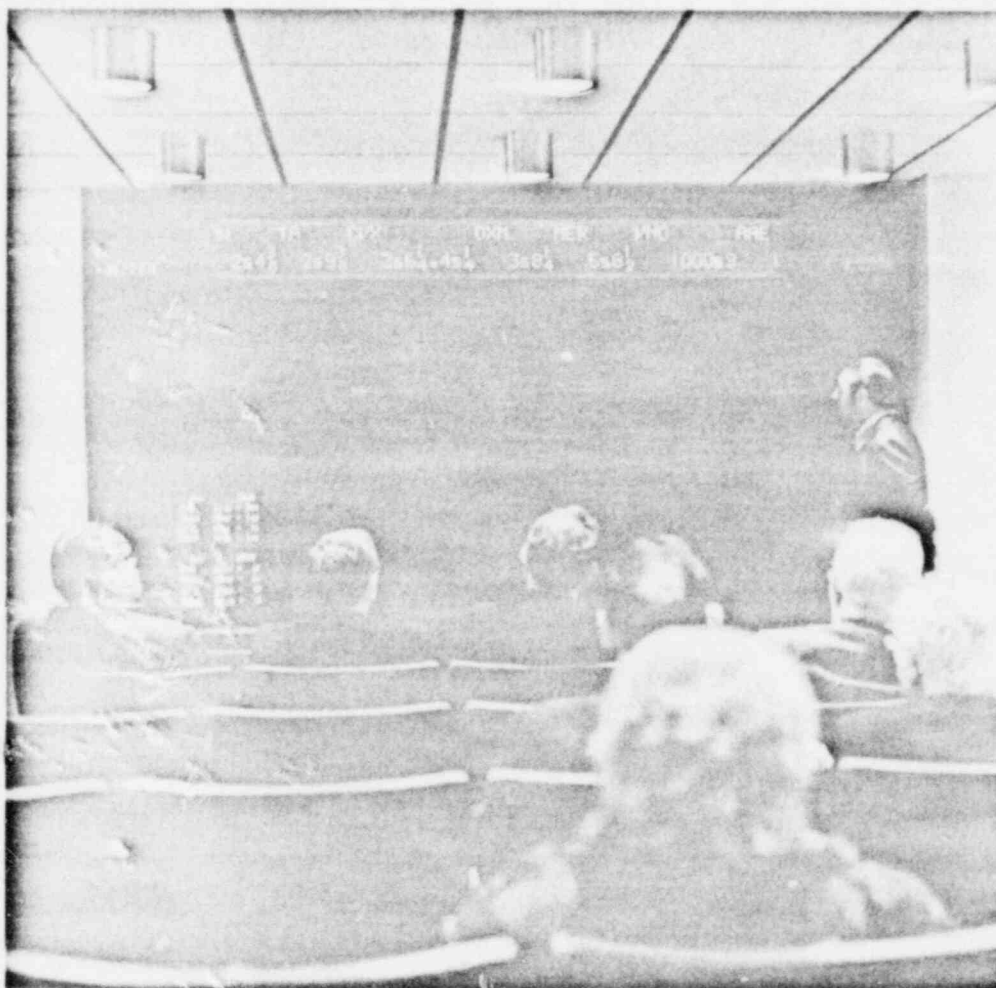
The foundation for the rating system now used to determine the risk level of stocks and bonds was laid in the 1850s by Henry Varnum Poor, a lawyer and magazine editor. Poor believed that investors were entitled to have access to company financial data — information that previously had not been made public. With the support of the New York Stock Exchange, he fought a long battle which eventually led to legislation requiring corporate financial reporting on a regular and uniform basis. In 1941, Standard Statistics Company merged with Poor's Publishing to form Standard & Poor's Corporation.

Moody's Investors Service, started by John Moody in 1900, provides another source of business and financial data for investors.

Standard & Poor's and Moody's are today two of the major corporate rating services. Fitch Investors Service, Inc. and Duff & Phelps are other well-respected institutions which provide rating services. They all have built solid reputations for accuracy and objectivity. Their ratings have become the accepted standard in the evaluation of stocks and bonds.



*The 580-ton steel dome is placed on the first of two reactor containment buildings at the Perry Nuclear Power Plant. The two Perry units are major items in the Company's \$1.8 billion, five-year construction program.*



*The Company must compete successfully in the financial markets because of our continuing need to raise new capital. This requires adequate earnings*

In making their decisions, the agencies cited the Company's low ratio of income to interest charges and the low level of internal cash generation. A contributing factor was last year's Ohio Supreme Court decision not to allow the Company to recover in rates as an operating expense the costs of four terminated nuclear projects. (See Note F in "Notes to Consolidated Financial Statements.")

We are striving to restore our securities ratings to their former levels. In order to do this, we have become

more vigorous in seeking rate increases. We have adjusted our capitalization goals for greater conservatism. At year end 1981, our capitalization structure was 37 per cent common equity, 48 per cent debt and 15 per cent preferred stock. Our long-term goal is a capitalization structure of 40 to 42 per cent common equity, 10 to 12 per cent preferred stock and a maximum of 48 per cent debt.

### **Financings**

Financing activity in 1981 totaled about \$275 million. Our major efforts included two private placements of



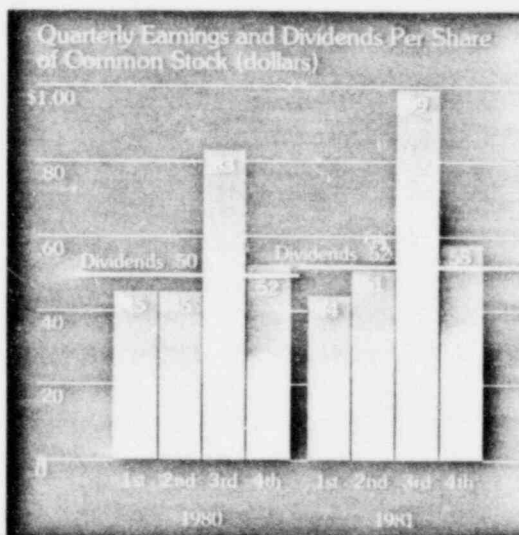
preferred stock totaling \$70.5 million, the raising of \$60 million through private placements of first mortgage bonds and a public offering of 3 1/2 million common shares which raised \$48.8 million. In addition, we raised \$22.2 million from the proceeds of the sale of variable rate, tax-exempt pollution control revenue bonds. Also, we increased our term bank loans by \$50 million.

Late in 1981, we were one of the few utilities which arranged sales of investment tax credits and accelerated cost recovery depreciation rights as provided for in The Economic Recovery Tax Act of 1981. We raised \$25.4 million in two such transactions.

In January 1982, we sold four million shares of common stock to the public which raised \$60.8 million. We also plan to raise \$75 to \$125 million through the public sale of first mortgage bonds in the first half of 1982 and another \$200 million through additional debt and equity financings later in the year. We will continue to raise funds through the sale of common stock under the Company's employee stock purchase plans and our Share Owner Dividend Reinvestment and Stock Purchase Plan. We plan to reduce the average level of short-term debt to give us more financing flexibility.

The new tax law provides an incentive to reinvest dividends in new issue utility common stock through a dividend reinvestment plan so as to encourage capital formation. The income tax on dividends reinvested in our common stock is postponed and dividends are taxed at capital gain rates if the stock is held at least one year. As a result, participation in the Company's Dividend Reinvestment Plan surged about 22 per cent from November 1981 to mid-February 1982. Currently, 21 per cent of our common

stock share owners are participating in the Plan. We expect participation to continue to grow throughout the year.



## Dividend

The Board of Directors raised the quarterly dividend on common stock from 52 cents per share to 54 cents per share on January 5, 1982. It was the 24th consecutive year in which dividends have been increased and the 81st year of uninterrupted cash payments.



## INFLATION HURTS US, TOO

The prices we pay for essential material and equipment have been rising right along with everything else in these years of high inflation. In an average year, we install some 8,600 light poles and about 275 miles of electric cable. Our fleet of vehicles and equipment consumes 1 1/4 million gallons of gasoline a year.

The following table shows how inflation has affected the costs of one kilowatt-hour of electricity and items we use:

	1971	1981	Per Cent Increase
1 kWh	2.64¢	7.12¢	170
Line truck	\$38,130	\$96,000	152
Cable/ft.	\$ .66	\$ 1.90	188
Pole	\$ 153	\$ 560	266
Coal/ton	\$ 9	\$ 46	411
Gas/gal.	\$ .24	\$ 1.32	450

As individuals and companies, inflation is the cruellest tax we pay.

*Violet Burden, a Company share owner, greets the postman as he delivers her quarterly review and dividend check. A great number of our 110,000 share owners depend on dividends to meet their living expenses. Approximately 78% of our share owners own less than 400 shares.*



Operating an electric utility over the past 10 years has been a demanding task. The Company has prevailed in its purpose — to provide continuous electric service to all of its customers at the lowest possible price, consistent with reliability and safety. Elsewhere in this report, we discuss the major influences on our operations by focusing on the financial arena, the regulatory climate and natural environmental concerns. The operating environment in which we work is affected by what is happening in each of the others.

## Construction

Our construction program is the most visible and costly part of our operating environment. Its progress is directly tied to our ability to raise the funds to pay for it. In addition, the Nuclear Regulatory Commission will have a decisive influence on when the nuclear units under construction are completed and when they may be operated. The Federal EPA's actions regarding emission limitations will determine the future availability of our coal-burning plants. The Ohio Power Siting Board will determine the route of future transmission lines and the sites of generating plants, significantly affecting their costs.

Our industrial sales are depressed during the current recession, but most economists predict a recovery during the second half of 1982. The current level of new construction and urban renewal in downtown Cleveland is good evidence that there is a resurging vitality here at the hub of our service area.

Over the longer term, we are planning for slightly more than a two per cent annual sales and load growth. Our construction program is designed to phase in new generating capacity at specific intervals during the Eighties to match this energy demand with adequate reserves. We are committed to coal and uranium as our primary fuel sources through the rest of this century.

## THE ENERGY MAKERS COMMUNICATE

Our employees, the Energy Makers, were very active during the year communicating to improve understanding among the Company and its customers and the general public.

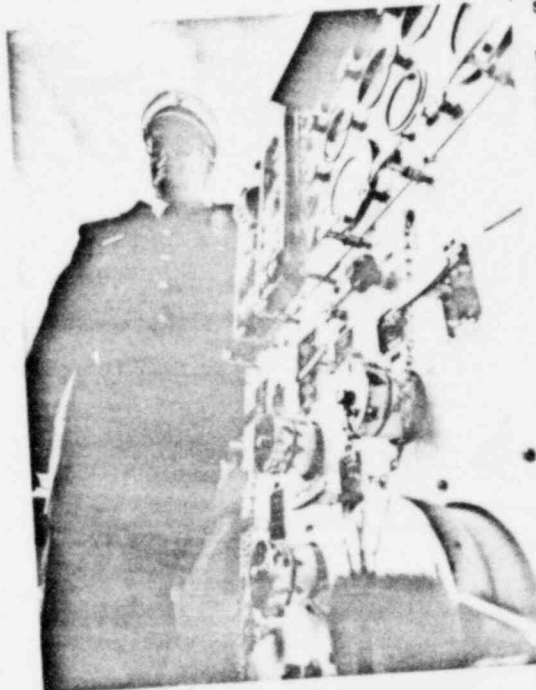
The job of our energy specialists is to counsel our industrial, commercial and residential customers in effective energy management and efficient energy use. During 1981, some 104,000 customers in all three categories were reached by our people. For example, our home economists made more than 300 presentations to more than 16,000 persons, advising them about the efficient use of home appliances and heating and cooling systems. More than 50 seminars on electric heating and proper insulation attracted thousands of people from the construction industry.

Energy specialists also met with customers attending trade shows, seminars and expositions stressing the efficient use of electricity.

Our Speakers Bureau, staffed with 51 volunteer employees, responded to more than 1,500 energy-related program opportunities — giving talks, showing films and slides and telling our story to over 50,000 persons in our service area.

Day in and day out our customer service employees work with individuals, answering questions and helping with problems. During 1981, approximately 740,000 phone calls were handled.

Beyond their job responsibilities, our employees invest freely of their own time in their communities. Many of our employees serve in various positions in local governments and many more work as volunteers in other activities ranging from Little League to Little Theater.



*Jim Pappas (left), Boiler Operator at the Eastlake Power Plant, symbolizes the operating environment. 1981 was an outstanding year from the standpoint of generating efficiency and service reliability.*

*Ed Plomske, supervisor of a line multi-crew unit, serves his community of Bainbridge as a volunteer fire chief.*

## Nuclear

In spite of the unfounded claims of the anti-nuclear groups regarding nuclear safety, the fact remains — and it is indisputable — that America has had 500 reactor years of commercial nuclear power generation without a single nuclear-caused death or injury. We know of no other large-scale industry with such an enviable record of safeguarding the public. Despite the unfortunate consequences of the Three Mile Island (TMI) accident, the safety systems worked. No one died or was even injured. New information derived from a thorough examination of TMI has resulted in further refinements in nuclear technology which make all plants — existing ones and those under construction — even safer than before. The likelihood of financially debilitating shutdowns has also been significantly reduced.

We are committed to nuclear power. We have completed construction of 80 per cent of Perry Unit 1 while Perry Unit 2 is 40 per cent complete. Beaver Valley Unit 2, now 50 per cent complete, is being built by Duquesne Light Company, a CAPCO partner. (See Page 45 for information about CAPCO.) While the construction costs of nuclear plants are greater than those of coal-fired units, their long-term payoff for consumers comes from the much lower cost of nuclear fuel. The electricity we get from Davis-Besse is the lowest cost power in our system. Without Davis-Besse, our customers would have been charged more than \$50 million in additional fuel costs in 1981. Compared with fossil-fueled units, nuclear generation will result in lower bills over the long run.

Our Perry construction project is currently on schedule and on budget. We realized at the time we contracted for the Perry Plant that we would be successful only if we became deeply involved in its construction on a day-to-day basis. Consequently, in the early Seventies, we created a management organization, which was unique in the industry at that time, to assume overall management responsibility for the construction of the Plant.

About 4,000 people are working at the Perry site — over 400 are Company employees and the remainder are consulting contractors and their craftsmen. We are leaving nothing to chance on this project — our own employees are in key positions to see that all work is done properly, safely and on time.

## Performance

The year 1981 was an especially satisfactory operating year. The length of downtimes on generating units was considerably shortened from last year's experience.

Our generating units are complex machines, susceptible to breakdowns. We operate our system with reserve units ready to back up any that fail so that the customer is unaware of the outage. The more our better units run, the more efficient our overall operation. Moreover, the greater the "availability" (the percentage of time units are available), the less is the reserve capacity need in the long run. Overall, availability was improved to 74.8 per cent in 1981 compared with 71.0 per cent in 1980. The only extended equipment outages were those planned to take place during the installation of pollution control equipment.

Efficiency and availability are closely related. In 1981, improved efficiency of our fossil-fueled units reduced our fuel expense by \$2.4 million from the 1980 level. As nuclear power becomes a larger part of our generation, we will be less dependent

*Construction of major new office buildings in downtown Cleveland is illustrative of the vitality of our service area. Pictured here (left to right) are the 28-story Superior Square Office Tower, the 31-story Medical Mutual Center and the 16-story Ohio Bell General Office Building. These buildings, scheduled for completion in 1983, will provide more than 1.5 million square feet of new office space.*





on some of our older, less efficient coal-burning plants, further improving our efficiency.

Reliability is the key measure of service from the customer's perspective. Last year our customers had electric service available on the average of 99.98 per cent of the time. This is typical of the United States where we have the best reliability in the world. Service interruptions experienced by our customers were reduced from the previous year. Average restoration time for those customers whose service was interrupted improved from 100 minutes in 1980 to 67 minutes in 1981, a 33 per cent improvement.

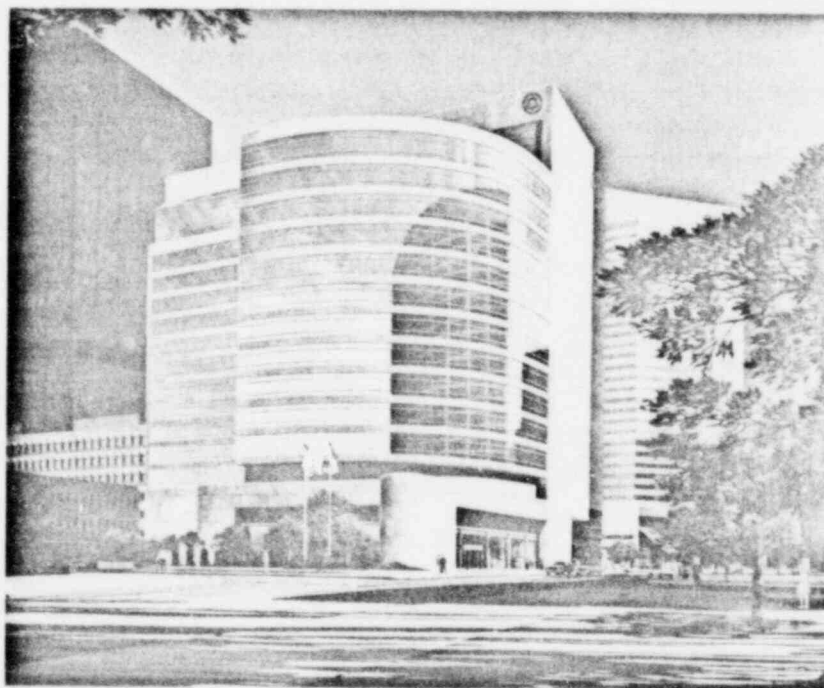
### **System Peak**

On July 9, our customers created a new 60-minute peak demand of 3,362 megawatts, up from 3,304 last year and 12 megawatts higher than the previous record set in 1977. This new high was set in a period of weak economic activity; we expect and must plan for higher peaks in the future.

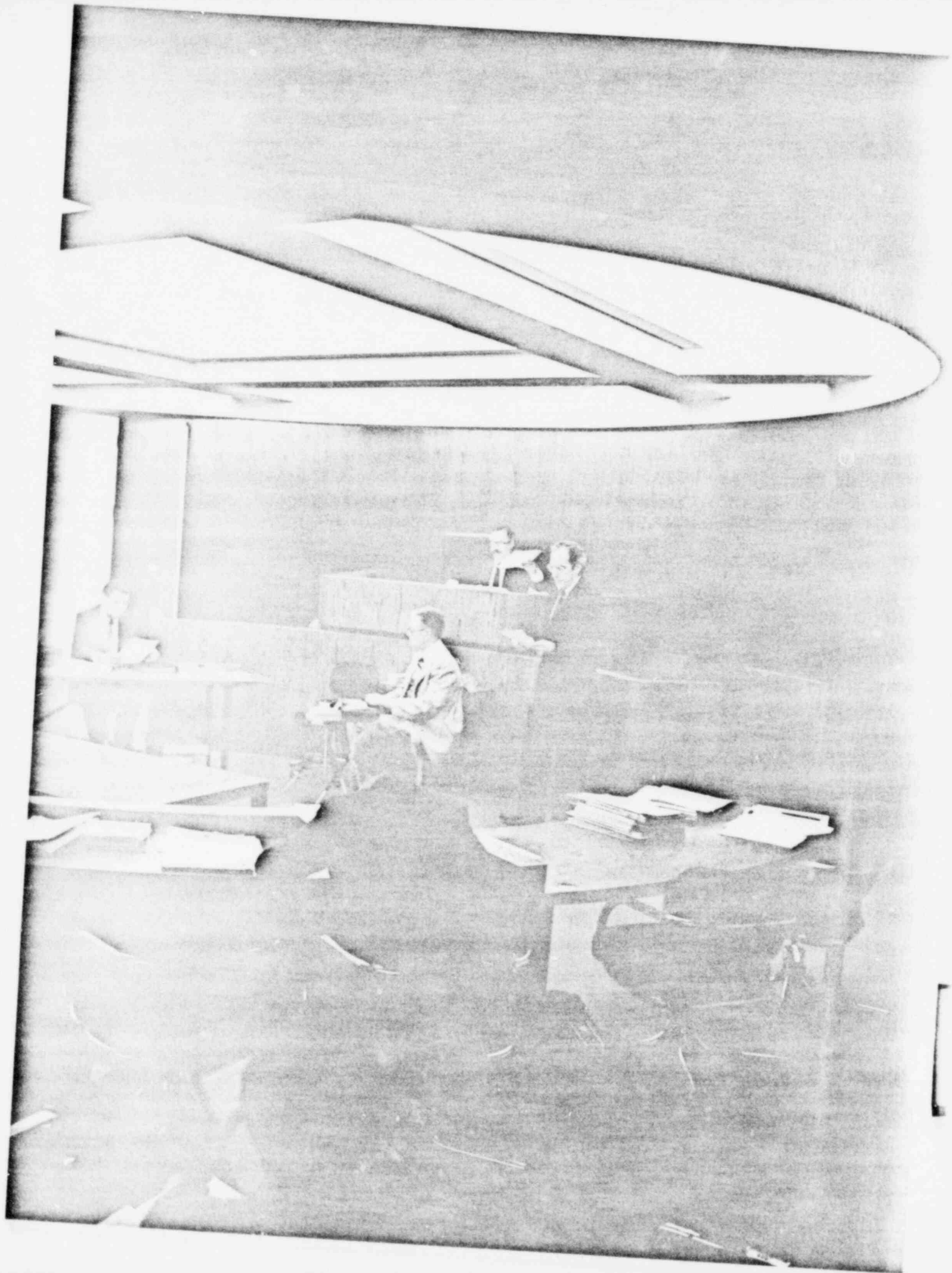
### **Progress**

Our performance in the 1981 operating environment made it our best year ever. Construction progress was on target. Availability, efficiency and reliability were improved. Costs were kept under tight control. We will continue to reinforce our system, improve our services and closely supervise our construction program.

It is a tribute to those who preceded us and a challenge to us today to note that The Cleveland Electric Illuminating Company has provided quality electric service for more than 100 years. We promise the same for the future.







# Rate-setting

The extraordinary efficiency and reliability of the electric utility industry in America didn't just happen. It resulted from the flexibility and adaptability of investor ownership of the electric utilities. An essential ingredient in this process is governmental regulation. The regulation of rates — the price we receive for our product — is a decisive factor in our industry.

## Regulation

Rate regulation makes us different from most other industries. This regulatory process has evolved at Federal and state levels from legislation, administrative practice and judicial review. Specifically, the primary rate-setting environment in which the Company operates today consists of laws passed by the Ohio General Assembly, the administration and application of these laws by The Public Utilities Commission of Ohio (PUCO) and rulings by the Ohio Supreme Court and the U.S. Supreme Court. When our costs increase and we need a higher price for our electricity, we must seek PUCO approval which involves a rate-setting process that takes months to complete. (See story on next page.)

The amount we ask for is what we believe we need to keep the Company financially healthy. This includes a fair return to our investors consistent with the commitment we made to them when they invested their capital with us. We must also provide reliable electric service by maintaining and expanding our generation, transmission and distribution system.

*Charles C. Chopp (seated left), Company Controller, is testifying before The Public Utilities Commission of Ohio in connection with a Company rate increase application.*

## Rates

At least 90 days prior to a formal filing of a new rate case, we must file with the PUCO a "notice of intent" to file for an increase in rates. This is followed by the formal, detailed request for the rate increase.

Each step in a single rate case — a 12-month process which includes notice of intent, formal filing, staff report, public hearings and PUCO decision — is widely reported. The public often hears, reads and sees several media stories and does not realize they are all related to different time frames.

On May 4, 1981, we were granted a 17 per cent, \$144.1 million (later increased to \$147.8 million) electric rate increase based on a request submitted in July 1980. On May 5, 1981, we filed an application for a 12 per cent, \$130 million rate increase which will be settled early in 1982. Then in November, we filed a notice of intent for an increase of 17 per cent, or \$221 million, which will set rates for 1983.

## THE PUCO COMMISSIONERS

More than 100 years ago, the Ohio General Assembly recognized that, in the public interest, certain services should be provided by regulated monopolies. In 1867, the General Assembly singled out railroads and telephone companies and formed an agency to regulate them. It wasn't until 1911 that electric, gas, water and steam heating utilities came under State regulation through the Public Services Commission of Ohio — later renamed The Public Utilities Commission of Ohio (PUCO).

The current commissioners of the PUCO, two Republicans and one Democrat, are appointees of Governor James A. Rhodes.

Jon F. Kelly, 30, (R), is Chairman of the PUCO and was appointed in July 1981. Kelly had been the Governor's legislative liaison to the Ohio General Assembly and had worked closely with the PUCO in coordinating legislative programs involving energy matters. A native Ohioan, he is a graduate of American University, Washington, D.C., and earned his law degree from Capital University in Columbus, Ohio.

Michael Del Bane, 63, (D), a former State representative from Mahoning County, was appointed to the PUCO in February 1979. He resigned from the State legislature, where he was chairman of the House State Government Committee, to accept the appointment. Del Bane served 10 years in the Ohio House, from 1969 to 1978.

Dennis Pines, 38, (R), was appointed in January 1981. Before his appointment, Pines was legal director of the PUCO where he has served since 1976. He also had experience at Union Carbide and General Electric before joining the PUCO. A native of New York City, Pines earned a degree in chemistry at Case Western Reserve University in Cleveland and a law degree from Capital University.

We believe the public would better understand the need for rate increases if our rates, as are prices charged by other businesses, were based on current costs. We have asked the PUCO to consider expenses incurred in a current, or matching, test year (rather than historic) which would promptly recognize the effects of inflation on our operations. Thus, 1982 rates would then be based on 1982 costs.

While our electricity sales are our major revenue source, our steam heating business accounted for more than \$15 million in revenues in 1981. A \$7 million rate request filed in April was granted early in 1982. We filed a request for an additional \$2.4 million in February 1982.

In addition, we have an application for a rate increase covering sales for resale to the Cleveland municipal electric system pending with the Federal Energy Regulatory Commission. We began collecting this \$2.3 million increase in September 1981, subject to refund depending upon the outcome of formal hearings.

Our industry and its regulatory process has been the subject of intense public dialogue. Yet, under regulation, the investor-owned electric utility industry in this country has become the most efficient and dependable in the world. To maintain this unique status, our regulatory process must continue to be responsive to changing economic conditions. This requires prompt and adequate rate increases which provide both full recovery of current costs and competitive compensation to investors.

#### WHAT'S A RATE CASE?

Physically, a rate case is impressive. It stands 18 inches tall, is made up of some 4,500 sheets of paper and weighs about 45 pounds. That's just our direct testimony in the formal filing.

The process by which a rate case is conducted is lengthy and typically consumes about 20,000 manhours of Company staff time. Once a case is filed with the PUCO, the PUCO staff takes about five months examining it. Then, the PUCO staff issues a "Staff Report" which makes a preliminary judgment about how much of the requested rate increase they think should be granted.

Written objections to the Staff Report by the Company and by intervenors frame the issues which are addressed in public hearings. Hearings usually begin about seven months after the initial filing. The hearings, presided over by an examiner who works for the PUCO, take about four to six weeks. During this time, as many as 40 witnesses might be heard. The Company, intervenors and the PUCO staff all may present witnesses. Intervenors may include municipal governments, organizations representing all classes of customers and other special interest groups.

After the hearings, each party to the case writes a brief and submits it to the hearing examiner. Subsequently, the hearing examiner drafts an "Opinion and Order." He submits it to the PUCO commissioners who make the final judgment on the issues and set the amount of the rate increase to be granted.



*Barbara Luethjohn, Treasury Department, stands beside the stack of direct Company testimony required for formal filing of a rate case.*

# Management's discussion and analysis of financial condition and results of operations

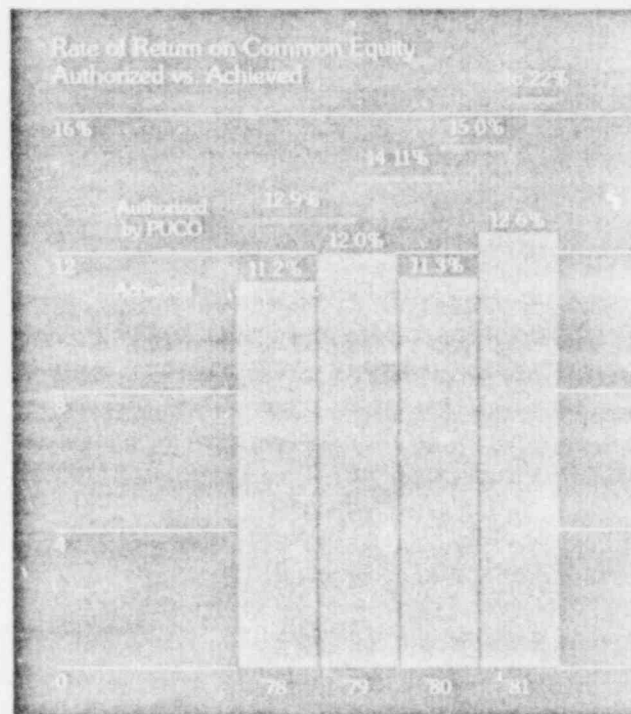
## Capital Resources and Liquidity

We are carrying on a construction program under which new facilities are being built to meet the anticipated growth in demand for electricity in our service area. We also are building facilities needed to comply with pollution control regulations. During the years 1979-1981, we spent approximately \$1.2 billion on our construction program. This amount includes an allowance for funds used during construction which is explained in Note A of "Notes to Consolidated Financial Statements". We estimate that the cost of the program for the next five years (1982-1986) will be about \$1.8 billion. The details on the construction program are described elsewhere in this Annual Report. At December 31, 1981, our purchase commitments totaled \$303,522,000 which relate mainly to the construction program.

After paying our expenses, taxes, interest and dividends, our business does not currently generate all of the funds needed for our construction program. Accordingly, we must raise additional money from investors. In the last three years, about 70% of the money used for construction was raised from sales of securities, such as notes, first mortgage bonds and preferred and common stock, and from bank borrowings. The cost of these funds has been high and the common stock was sold at prices below book value. We also raised funds from two sales of the Federal income tax benefits related to equipment placed in service in 1981. These sales were made possible by changes in the tax treatment of equipment leasing rules contained in The Economic Recovery Tax Act of 1981. We expect to raise approximately one-half of 1982-1986 construction program funds by selling various securities and by borrowing.

In order to be able to attract money from investors on the best terms, we must receive sufficient and timely rate increases to enable us to pay them the return on investment they demand in the form of interest, dividends and increased net worth. The Public Utilities Commission of Ohio ("PUCO") has granted us the following retail electric rate increases in the last three years—9.2% (1979), 9.0% (1980) and 17% (1981). We also received various increases in steam, wholesale power and street lighting rates in the three-year period. These rate increases and higher allowances for funds used during construction offset effects of inflation on operating expenses, higher interest expense, stock sales and the delay between the time our costs go up and the time we receive a rate increase to cover

these increased costs ("regulatory lag"). Consequently, earnings per share have improved slightly since 1979 although the ratio of earnings to fixed charges declined (2.67, 2.33 and 2.37 in 1979, 1980 and 1981, respectively).



We have attempted to minimize the effect of regulatory lag by filing for rate increases as often as allowed by law. In addition, we have asked for rates to be based on costs expected to prevail during the period when the new rates would be in effect rather than on historical costs. Details on rate matters are discussed elsewhere in this Annual Report.

In 1981, ratings on our first mortgage bonds were lowered to "A" by both Moody's Investors Service and Standard & Poor's Corporation. Previously, the bonds were rated "Aa" by Moody's and "AA-" by Standard & Poor's. Our preferred stock rating was maintained at "a" by Moody's, but was dropped to "BBB" from "A-" by Standard & Poor's.

We will continue to be vigorous in seeking fair rate levels in order to maintain as strong a financial position as possible. Without needed rate increases it would be impossible to earn a fair return for our common stock share owners in an inflationary economy. This also could result in further lowering of our securities ratings, thereby increasing the cost of raising money from outside sources. Our rate increase requests and future financing plans are designed to prevent further lowering of our ratings



while maintaining a balanced capital structure of 40-42% common equity, 10-12% preferred and preference stock and a maximum of 48% debt. At year end 1981, our capitalization structure was 37% common equity, 15% preferred and preference stock and 48% debt. Specific financing plans are discussed elsewhere in this Annual Report.

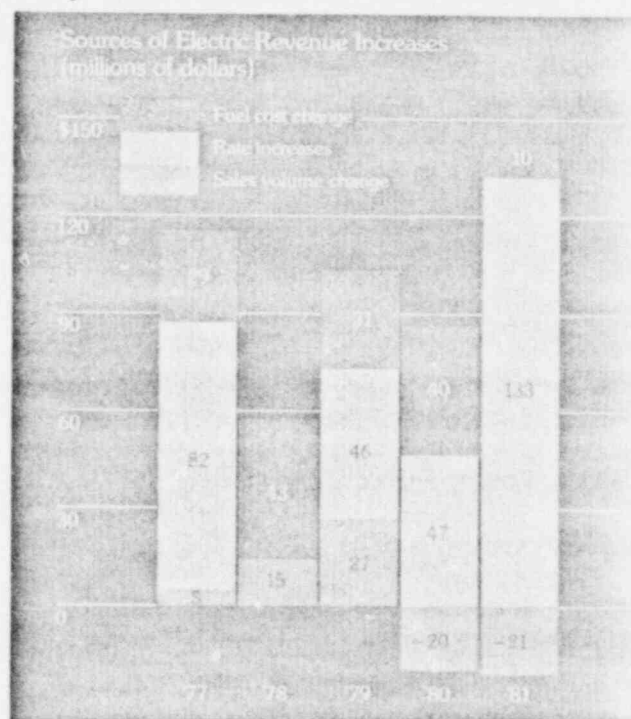
Over the 1982-1986 period, we must refinance \$398,364,000 of maturing debt and preferred stock which was outstanding at December 31, 1981. In addition, we are required to offer to redeem \$19,400,000 of preferred and preference stock in both 1984 and 1985 and \$36,067,000 in 1986. Some of our debt which matures in the five-year period has very low interest rates. Refinancing of this debt will probably be done at much higher rates, thereby increasing our cost of capital.

The amount of First Mortgage Bonds the Company can issue is governed by our Mortgage and Deed of Trust. At December 31, 1981, we had the ability to issue approximately \$646,000,000 of additional first mortgage bonds. This amount fluctuates as new property is acquired and interest rates and earnings change. There are no restrictions on issuing additional authorized preferred stock and preference stock.

We use short-term financing, such as bank lines of credit and the sale of commercial paper, to give us flexibility in timing our long-term financings. Money raised through these means is primarily used to finance temporarily our construction program. We have a total short-term borrowing capability of \$240,000,000 in the form of bank lines of credit and revolving loan commitments. In accordance with customary industry practice, part of these lines are held in reserve to ensure that we will be able to pay off commercial paper when it is due. Our commercial paper has the highest rating given by Moody's. Standard & Poor's rates our commercial paper in the second highest category. Note L of "Notes to Consolidated Financial Statements" gives the details of our credit arrangements. The Balance Sheet shows the amount of short-term debt which is outstanding. At year end 1981, we had on deposit with trustees \$36,337,000 to finance pollution control facilities under construction.

## Results of Operations

The chart below sets forth the factors which caused our electric revenues to increase in each of the last five years.

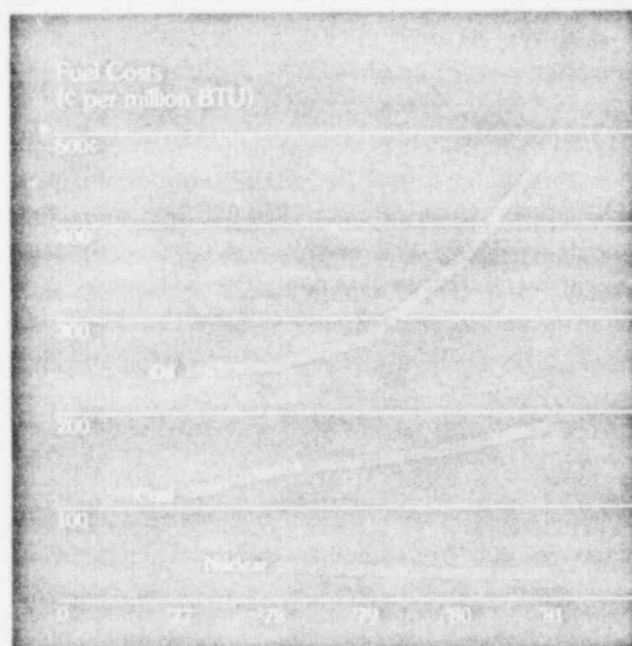


In the last three years, the most significant factor affecting kilowatt-hour sales was the recession which began in 1980. Sales to industrial customers were down 13% in 1980 from 1979. The decline was due primarily to lower sales to automobile and steel manufacturers. In 1981, industrial sales recovered strongly in the first nine months. However, a 12% decline in the fourth quarter resulted in industrial sales increasing only 2.7% in 1981. Economic conditions as well as milder weather were the major factors affecting sales to commercial customers in 1981. As a result, commercial sales increased only 0.7% in 1981, down from the 2.7% increases in both 1979 and 1980. Residential sales were down 2.0% in 1981 after moderate gains in 1979 and 1980. The decrease was due primarily to milder weather. Our sales to other utilities showed a significant decrease relative to 1980 because a sales agreement with another utility was not renewed in 1981. Overall, sales declined 4.6% in 1980 and 3.6% in 1981.

Fuel and purchased power expense is the largest part of our operating expenses. The amount of purchased power varies from year to year depending



upon the availability of our power plants, the energy demands of our customers and the price of electricity available from other utilities. In 1981, we generated more of our energy needs at our plants than in 1980, primarily because of the greater availability of the Davis-Besse Nuclear Power Station. Accordingly, purchased power expense decreased sharply from the preceding year.



Total fuel and purchased power expense increased over the 1979-1981 period despite the decrease in total kilowatthour sales. This increase occurred because of sharply higher prices of coal and oil. Substantial use of nuclear generation, which has a low, relatively stable cost of fuel, partially offset the increases in coal and oil costs. Nuclear generation accounted for 9%, 7% and 13% of our total electric generation in 1979, 1980 and 1981, respectively.

Other significant items affecting earnings per share were increased payments of interest and preferred stock dividends and a greater number of outstanding common shares resulting from additional

external financing and higher interest and preferred dividend rates. The impact of the increases in these items was only partially offset by related increases in the amount of the allowance for funds used during construction.

The significant increase in deferred fuel expense is discussed in Note B of "Notes to Consolidated Financial Statements".

For a discussion of how we are affected by inflation, see "Supplementary Information Concerning the Effects of Inflation".

We could be affected in the future by the resolution of legal proceedings regarding recovery of our investment in generating unit projects which were terminated in January 1980 as described in Note F of "Notes to Consolidated Financial Statements" and the timing of recovery in rates of the cost of coal obtained from the Quarto Mining Company as described in Note B of "Notes to Consolidated Financial Statements." The retrial of the antitrust suit brought by the City of Cleveland against the Company was completed in October 1981. The jury unanimously found in favor of the Company. The City had presented evidence claiming treble damages of about \$160,000,000. On December 2, 1981, the City appealed the decision to the United States Court of Appeals for the Sixth Circuit.

The Company believes that the ultimate resolution of these three matters should not have a material adverse effect upon its financial position, although an adverse final determination in any of them could have a material effect on income for the period in which it occurs.

## Management's statement of responsibility for financial statements

The management of The Cleveland Electric Illuminating Company is responsible for the consolidated financial statements which appear in this Annual Report. The statements were prepared in accordance with generally accepted accounting principles which are appropriate in the circumstances. These principles require that certain amounts must be recorded based on estimates. Such estimates are based on an analysis of the best information available regarding the amount to be estimated.

We maintain a system of internal accounting controls. The control procedures used are designed to assure that our financial records are reasonably complete and accurate. They also are designed to help protect the assets and their related records. We make an effort to ensure that the costs of our control procedures do not exceed the benefits.

We have an internal audit program which monitors the internal accounting controls. This program is designed to examine whether the controls are adequate and effective. Also, an examination of the financial statements is conducted by Price Waterhouse, independent accountants, whose opinion appears below.

The Board of Directors of the Company is responsible for determining whether management and the independent accountants are carrying out their responsibilities. The Board has established an Audit Committee comprised entirely of outside directors. The responsibilities of the Audit Committee are described elsewhere in this Annual Report.

## Report of independent accountants



1900 CENTRAL NATIONAL BANK BUILDING  
CLEVELAND, OH 44114  
216 781-3700

To the Board of Directors and the Share Owners of  
The Cleveland Electric Illuminating Company:

We have examined the consolidated balance sheet and the consolidated statement of capitalization of The Cleveland Electric Illuminating Company and its subsidiaries as of December 31, 1981 and 1980, and the related consolidated statements of income, retained earnings, and changes in financial position for each of the three years in the period ended December 31, 1981. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As more fully described in Note C to the financial statements, the method of computing depreciation for the Davis-Besse Nuclear Power Station was changed in 1979.

In our opinion, the consolidated financial statements examined by us present fairly the financial position of The Cleveland Electric Illuminating Company and its subsidiaries at December 31, 1981 and 1980, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1981, in conformity with generally accepted accounting principles consistently applied during the period except for the change in the method of computing depreciation for the Davis-Besse Nuclear Power Station, with which we concur, referred to in the preceding paragraph.

February 12, 1982

Price Waterhouse

# Income statement

The Cleveland Electric Illuminating Company and Subsidiaries

	For the Year Ended December 31,		
	1981	1980	1979
	(Thousands of Dollars)		
<b>OPERATING REVENUES</b>			
Electric	\$1,000,734	\$878,501	\$811,219
Steam	12,196	15,065	13,048
Total Operating Revenues	1,012,930	893,566	824,267
<b>OPERATING EXPENSES</b>			
Operation			
Fuel	332,837	268,096	272,599
Deferred fuel	(10,683)	959	959
Purchased power	29,256	91,292	75,469
Other	149,374	127,823	108,873
	500,784	488,170	457,900
Maintenance	74,925	67,058	53,763
Depreciation and amortization	85,294	64,619	59,443
Taxes, other than Federal income tax	91,648	81,630	79,455
Federal income tax	67,575	41,574	38,227
Total Operating Expenses	820,226	743,051	688,788
NET OPERATING INCOME	192,704	150,515	135,479
<b>NONOPERATING INCOME</b>			
Allowance for equity funds used during construction	48,970	40,873	33,432
Other income and deductions, net	10,617	7,605	4,889
Federal income tax — credit	16,125	13,962	9,300
Total Nonoperating Income	75,712	62,440	47,621
INCOME BEFORE INTEREST CHARGES	268,416	212,955	183,100
<b>INTEREST CHARGES</b>			
Long-term debt	121,040	95,085	79,534
Short-term bank loans, commercial paper and other	25,672	17,538	5,765
Allowance for borrowed funds used during construction	(34,030)	(25,051)	(15,733)
Total Interest Charges	112,682	87,572	69,566
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	155,734	125,383	113,534
Cumulative effect of change in depreciation method on periods prior to January 1, 1979	—	—	4,125
NET INCOME	155,734	125,383	117,659
Dividend requirements on preferred and preference stock	34,917	27,711	25,587
EARNINGS AVAILABLE FOR COMMON STOCK	\$ 120,817	\$ 97,672	\$ 92,072
<b>EARNINGS PER COMMON SHARE</b>			
Before cumulative effect of accounting change	\$ 2.52	\$ 2.26	\$ 2.31
Cumulative effect of change in depreciation method on periods prior to January 1, 1979	—	—	.11
Total	\$ 2.52	\$ 2.26	\$ 2.42
DIVIDENDS DECLARED PER COMMON SHARE	\$ 2.08	\$ 2.00	\$ 1.92

## Retained earnings statement

	For the Year Ended December 31,		
	1981	1980	1979
	(Thousands of Dollars)		
BALANCE AT BEGINNING OF YEAR	\$ 258,432	\$245,716	\$225,950
ADDITIONS			
Net income	155,734	125,383	117,659
DEDUCTIONS			
Dividends declared			
Preferred stock	29,762	22,949	21,010
Preference stock	4,417	4,417	4,417
Common stock	99,134	85,296	71,842
Costs of issuing equity securities	568	5	624
Total Deductions	133,881	112,667	97,893
BALANCE AT END OF YEAR	\$ 280,285	\$258,432	\$245,716

The accompanying notes are an integral part of these financial statements.

# Balance sheet at December 31 The Cleveland Electric Illuminating Company and Subsidiaries

## Assets

### PROPERTY AND PLANT

Utility plant

Electric in service

Steam in service

Less accumulated depreciation and amortization

Construction work in progress

Other property, less accumulated depreciation

### POLLUTION CONTROL CONSTRUCTION FUNDS — unexpended

### CURRENT ASSETS

Cash

Temporary investments, at cost

Amounts due from customers and others, net

Materials and supplies, at average cost

Fossil fuel inventory, at average cost

Taxes applicable to succeeding years

Other

### DEFERRED CHARGES

Unamortized costs of terminated projects

Deferred fuel

Other

## Capitalization and Liabilities

### CAPITALIZATION (See statement of Capitalization)

Long-term debt

Serial preferred stock

With mandatory redemption provisions

Without mandatory redemption provisions

Serial preference stock with mandatory redemption provisions

Common stock equity

### CURRENT LIABILITIES

Current portion of long-term debt

Notes payable to banks and others

Accounts payable

Accrued payroll and vacations

Federal income taxes

Other taxes

Interest

Other

### DEFERRED CREDITS

Unamortized investment tax credits

Accumulated deferred Federal income taxes

Unamortized tax benefits sold to others

Other

### COMMITMENTS AND CONTINGENCIES — See Note M

1981

1980

(Thousands of Dollars)

\$2,585,892 \$2,372,811

38,546 31,411

2,624,438 2,404,200

621,353 557,859

2,003,085 1,846,341

986,457 811,111

2,989,542 2,657,451

23,870 21,133

3,013,412 2,678,611

36,337 71,942

6,946 9,125

17,750 —

94,407 104,885

25,640 24,515

68,773 67,467

63,610 58,111

1,786 1,482

278,912 265,611

49,598 54,244

11,642 959

16,174 23,080

77,414 78,291

\$3,406,075 \$3,094,462

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The accompanying notes are an integral part of these financial statements.

# Capitalization at December 31 The Cleveland Electric Illuminating Company and Subsidiaries

	1981	1980	1981	1980
	(Thousands of Dollars)		(Per Cent of Capitalization)	
<b>LONG-TERM DEBT (a)</b>				
First Mortgage Bonds — maturing through 2013 at rates of 2¾% to 15¼% (Less \$20,000,000 in 1981 classified as current)	\$1,092,291	\$1,030,091		
Collateral Pledge Notes — maturing in 2010 at semiannual equivalent rates of 11.75% to 15.17%	23,900	19,100		
Term Bank Loans (b) — maturing 1984-1988 at 100% to 105% of prime rate	134,000	84,000		
Promissory Notes — maturing in 1983 at a rate of 14% (Less \$10,000,000 in 1980 at a rate of 15¼% classified as current)	20,000	20,000		
Pollution Control Notes — maturing through 2012 at rates of 5.6% to 6.7% (Less \$105,000 in 1981 and 1980 classified as current)	57,945	58,050		
Other — net	268	287		
<b>Total Long-term Debt</b>	<b>1,328,404</b>	<b>1,211,528</b>	<b>48.2</b>	<b>48.9</b>
<b>SERIAL PREFERRED AND PREFERENCE STOCK —</b> cumulative, without par value, 4,000,000 and 3,000,000 authorized shares, respectively				
<b>Preferred Stock without mandatory redemption provisions</b>				
Series	Annual Dividend Rate	Shares		
A	\$7.40	500,000	50,000	50,000
B	\$7.56	450,000	45,071	45,071
			95,071	95,071
<b>Preferred Stock with mandatory redemption provisions</b>				
Series	Annual Dividend Rate	Shares	Mandatory Redemption Price	
C	\$ 7.35	250,000	\$ 100	25,000
E	\$ 88.00	57,000	\$1,000	57,000
F	\$ 75.00	50,000	\$1,000	50,000
G	\$ 80.00	40,000	\$1,000	40,000
H	\$145.00	28,500	\$1,000	28,500
I	\$145.00	31,500	\$1,000	31,500
J	\$113.50	29,000	\$1,000	29,000
K	\$113.50	10,000	\$1,000	10,000
				271,000
				203,500
<b>Preference Stock with mandatory redemption provisions</b>				
Series	Annual Dividend Rate	Shares	Mandatory Redemption Price	
1	\$77.50	57,000	\$1,000	57,000
				57,000
<b>Total Preferred and Preference Stock</b>				355,571
				15.4
				14.3
<b>COMMON STOCK EQUITY</b>				
Common shares, without par value — 85,000,000 authorized; 51,054,503 and 46,288,629 outstanding in 1981 and 1980, respectively	721,921	654,299		
Retained earnings	280,285	258,432		
<b>Total Common Stock Equity</b>	<b>1,002,206</b>	<b>912,731</b>	<b>36.4</b>	<b>36.8</b>
<b>TOTAL CAPITALIZATION</b>	<b>\$2,753,681</b>	<b>\$2,479,830</b>	<b>100.0</b>	<b>100.0</b>

(a) Long-term debt matures during the next five years as follows: \$20,105,000 in 1982 (classified as a current liability on the consolidated Balance Sheet); \$144,805,000 in 1983; \$82,210,000 in 1984; \$70,501,000 in 1985 and \$57,210,000 in 1986.

(b) The repayment provisions of the Company's term loans outstanding on December 31, 1980 were amended in 1981. The effect of the amendment was to spread over the years 1984-1988 the repayment of the \$24,000,000 due under these loans. Overall interest rates under these loans also were reduced.

The accompanying notes are an integral part of these financial statements.



# Changes in financial position

The Cleveland Electric Illuminating Company and Subsidiaries

	For the Year Ended December 31,		
	1981	1980	1979
	(Thousands of Dollars)		
<b>FINANCIAL RESOURCES PROVIDED</b>			
Income before cumulative effect of accounting change	\$155,734	\$125,383	\$113,534
Items not affecting working capital			
Depreciation and amortization	85,325	64,640	59,437
Deferred Federal income tax	43,931	30,330	21,447
Allowance for equity funds used during construction	(48,970)	(40,873)	(33,432)
Other	1,910	1,636	1,257
Total financial resources provided from operations	237,930	181,116	162,259
Cumulative effect of accounting change	—	—	4,122
Sales of securities			
First mortgage bonds	82,200	171,591	52,000
Preferred stock	70,500	28,500	—
Common stock	67,622	79,604	91,762
Total sales of securities	220,322	279,695	143,762
Term bank loans	50,000	—	60,000
Promissory notes	—	30,000	—
Collateral pledge notes	4,800	19,100	—
Sale of tax benefits to others	25,199	—	—
Pollution control funds expended	57,805	95,255	72,407
Increase in short-term debt and other borrowings	—	80,431	63,522
Working capital decrease (a)	14,591	—	6,077
Other	1,451	—	—
Total Financial Resources Provided	\$612,098	\$685,597	\$511,947
<b>FINANCIAL RESOURCES USED</b>			
Additions to utility plant	\$409,277	\$398,088	\$385,800
Allowance for equity funds used during construction	(48,970)	(40,873)	(33,432)
	360,307	357,215	352,400
Retirement of first mortgage bonds	—	31,831	—
Retirement of preferred stock	3,000	—	—
Retirement of promissory note	10,000	—	—
Dividends	133,312	112,662	97,260
Pollution control construction funds deposited	22,200	123,300	52,000
Deferred fuel costs	11,642	—	—
Decrease in short-term debt and other borrowings	71,637	—	—
Working capital increase (a)	—	51,715	—
Other	—	8,874	10,218
Total Financial Resources Used	\$612,098	\$685,597	\$511,947
<b>SUMMARY OF CHANGES IN WORKING CAPITAL (a)</b>			
Temporary investments	\$ 17,750	\$ (4,300)	\$ 4,300
Amounts due from customers and others, net	(10,477)	26,572	9,784
Fossil fuel inventory	1,306	11,912	15,632
Accounts payable and accrued payroll and vacations	(16,108)	9,634	(23,215)
Federal income and other taxes payable	(5,446)	120	(14,408)
Other	(1,616)	7,777	1,837
Change in Working Capital (a)	\$ (14,591)	\$ 51,715	\$ (6,077)

(a) Other than short-term borrowings and current portion of long-term debt.

The accompanying notes are an integral part of these financial statements.

# Notes to Consolidated Financial Statements

## Note A Summary of Significant Accounting Principles

We are required to follow the accounting principles set by The Public Utilities Commission of Ohio (PUCO) and the Federal Energy Regulatory Commission (FERC). A description of our significant accounting principles follows.

### Consolidation

Our financial statements include the accounts of two minor subsidiaries. We own all of the stock of both. One subsidiary is The CEICO Company which owns nonutility land and provides certain submetering services. The other is CCO Company which coordinates the operation of a five company power pool (which includes the Company) called the Central Area Power Coordination Group (CAPCO). The costs of CCO are shared by all the CAPCO companies.

### Property and Plant

The electric property we own is stated in the financial statements at the cost incurred when first devoted to public utility service. Steam property is stated at the price we paid for it. The cost of making repairs is deducted from revenues in the income statement as maintenance. The cost of replacing or improving property is added to Property and Plant after deducting (retiring) the cost of the replaced property. When we retire property, there is also a reduction in the depreciation reserve (which is labeled "Accumulated Depreciation and Amortization").

### Depreciation

We show depreciation expense as a current cost of doing business to account for the using up of our property. Depreciation is recorded equally over the estimated useful life of the property. For example, if we estimate that an item will be useful for 10 years, we charge one-tenth of its value to depreciation expense each year.

An exception to this principle is the Davis-Besse Nuclear Power Station (Davis-Besse). Davis-Besse depreciation is based on the relationship of the amount of electric energy it produces in the accounting period to the total expected production over its useful life (see Note C).

### Amortization of Terminated Projects

In January 1980, CAPCO decided not to build four planned nuclear generating units. Before that decision was made, considerable planning, engineering and design work was done for these units. As described in Note F, a portion of these costs has been amortized and recovered in rates pursuant to a PUCO order. Recovery of the remainder has been deferred pending the ultimate outcome of our efforts to obtain relief from an Ohio Supreme Court decision denying us the right to recover and amortize such costs. Our share of the unrecovered costs is included in deferred charges on our balance sheet as Unamortized Costs of Terminated Projects.

### Allowance for Funds Used During Construction

We pay interest and dividends to our investors for the use of their money. This is called the "cost of money." The PUCO

and FERC allow us to include a portion of the cost of money as part of the total cost of constructing property. Such cost of money is recorded as the Allowance for Funds Used During Construction (AFUDC).

The amount of AFUDC for an accounting period is determined by applying a rate of AFUDC to the accumulated construction costs. The annual AFUDC percentage is determined by a formula set by FERC. The rate is an average of the cost of money we are using for construction costs. The rate is compounded semiannually. A part of the rate which represents interest is reduced to recognize that interest is tax deductible.

The amount of AFUDC appears on our income statement in two places: under Nonoperating Income as "Allowance for Equity Funds Used During Construction" and under Interest Charges as "Allowance for Bond Funds Used During Construction." On the balance sheet, AFUDC becomes part of "Construction Work in Progress."

When construction is completed, we stop accruing AFUDC. At this point, the total cost of the new property, including AFUDC, is used to determine the rate we charge our customers for service. Since the rates we charge for our product include all these costs, we are building into the rates to recover in cash all costs of the property including AFUDC.

The amount of AFUDC recorded in each accounting period varies. The variation occurs because of (1) the number of dollars being spent on construction, (2) the length of the construction period and (3) the rate used in computing AFUDC. In 1979, the rate was 8%; in 1980, the rate was 8.75%; and in 1981, the rate was 9%.

### Federal Income Tax

The depreciation expense reported on our income statement is different from the depreciation expense we use to calculate Federal income tax. There are several reasons for the difference. First, the Internal Revenue Service does not allow us to include AFUDC and certain other costs in the cost of assets which we depreciate for tax purposes. However, these costs are included in the cost of assets used to determine the depreciation shown on our income statement. Second, the period of time over which the IRS allows the cost of assets to be depreciated is often shorter than the period of time (useful life) we use. Finally, the IRS allows some of the depreciation we are entitled to to be used early. (This difference is called liberalized depreciation and accelerated amortization.) For income tax purposes, the tax reductions resulting from liberalized depreciation and accelerated amortization are recognized in the periods in which we obtain them, rather than deferred to the periods in which we normally would obtain them. The deferred amounts are allocated over the useful life of property through a process called normalization.

When we filed our Federal income tax return for 1980, the costs of our terminated nuclear projects were deducted as an expense. However, on our income statement, these termination costs were amortized over their useful life.

# Notes to Consolidated Financial Statements

years. In order to match the costs with their related Federal income tax effects, the tax savings were deferred and were to be recognized in the income statement over a 10-year period. However, the PUCO issued an order in October 1981 telling us to stop recovering termination costs in rates. We were also told to stop recording the deferred tax (see Note F).

When we place new property in service during the year, the IRS allows us a credit against the tax due. This is called an investment tax credit. We record Federal income tax on our income statement as though it were not reduced by this credit. We recognize the tax savings from this credit over the life of the property involved through the practice of normalization.

The Economic Recovery Tax Act of 1981 allows us to sell to others the tax benefits related to property placed in service on and after January 1, 1981. Monies received from any such sales are being recognized in the income statement as a reduction in taxes over the estimated useful life of the property involved.

Our Federal income taxes are lower because we can deduct our interest charges from income. This reduction of taxes is split between "operating income" and "non-operating income." The tax reductions resulting from interest on funds which are used on assets currently being constructed are allocated to "nonoperating income." The tax reductions resulting from interest paid on all other funds are allocated to "operating income."

## Revenues

Once a month, we either read each customer's meter or estimate his usage and then bill him. We record revenues on the income statement for the month the meter was read or usage estimated, regardless of when the bill is issued or paid.

The rates we charge customers for electricity and steam have been made up of two parts. These parts are a "base rate" and a "fuel rate." Each month, the steam "fuel rate" is based on what we paid for fuel in that month. Prior to September 1, 1981, each month's electric "fuel rate" was based on what we paid for fuel one month earlier.

Ohio law requiring a monthly electric fuel rate has been changed. We were required to comply with this new law on September 1, 1981 (see Note B). The new law requires a fuel factor to be included in base rates. The fuel factor is changed every six months after a hearing before the PUCO.

## Fuel

When we make a payment for coal or oil, it is recorded on the balance sheet as "Fossil Fuel Inventory." When we make a lease payment for nuclear fuel, we record it on the balance sheet as "Deferred Charges--Other." As the fuel is used, we transfer the cost to the income statement as fuel expense.

## Note B Deferred Fuel

We receive coal supplies for Mansfield Units 1, 2 and 3 from the Quarto Mining Company (Quarto). Since May 31, 1980, when the development period of the Quarto mine ended, the price of Quarto coal has included full production costs and deferred development period costs. Quarto coal has been substantially more expensive than comparable coal available in the market.

In January 1981, the PUCO ordered us to eliminate from our fuel factor charged to customers the portion of the cost of Quarto coal which is above the general market price for comparable coal. Since we were not recovering all these costs through revenues, the PUCO also ordered us not to include the unrecovered amount in current operating expense. Accordingly, that portion of fuel expense was deferred. During 1981, about \$21,700,000 of such costs were deferred from expenses and not recovered through rates. This did not result in any change in net income or earnings per share.

The PUCO stated in its order that it would allow recovery of actual Quarto coal costs, including any previously deferred amounts, when the price of Quarto coal for a six-month period drops to about 25% above prevailing market prices for comparable coal. Steps are being taken in an effort to reduce the cost of Quarto coal. The PUCO stated that it would consider in May of 1982 whether to continue in effect, modify or terminate its cost recovery formula.

As described in Note A—Revenues, since September 1, 1981 our rates are adjusted every six months to reflect changes in fuel costs. Under the new law, the differences between the cost of fuel actually used and the costs included in the bills to customers are deferred. The deferred amount is considered in the fuel factor in a subsequent six-month period. We were not allowed to defer such costs (except for the cost of Quarto coal mentioned above) under the previous monthly fuel adjustment method. Since the new fuel recovery method came into effect, actual fuel costs have been below the amount billed. The result was to reduce deferred fuel expense in 1981 by approximately \$10,000,000.

## Note C Depreciation

We calculate depreciation for our electric property by multiplying our depreciable property by a composite depreciation rate. The composite rate is one based on the average life of all our assets. The rate also includes a factor for the money expected to be received when we dispose of the property (salvage) and the cost of dismantling and removing it (removal cost). The composite rate used in 1979 was 3.3%. Since January 1980, the rate used has been 3.4%. The change to a higher rate in 1980 did not result in a material difference in our 1980 reported net income.

Hydroelectric plant and plant held for future use have their own separate depreciation rates. Rates ranging from

1.8% to 8.33% are used for hydroelectric property. A rate of 3.75% is used for plant held for future use.

In 1979, the PUCO allowed us to change the way we calculate depreciation for Davis-Besse. We had been recording depreciation on the plant based on its useful life. Under the new method, we depreciate Davis-Besse in the proportion of the electricity it produced during the accounting period to the total it is expected to produce over its useful life.

By using the new method, our net income and earnings per share were increased \$5,089,000 and 13¢, respectively, in 1979. If we had used the new method before 1979, the net income for prior years would have been higher by \$4,125,000. We added this amount to net income in 1979 as the "cumulative effect of change in

depreciation method on periods prior to January 1, 1979." This amount increased 1979 earnings per share by 11¢.

When a nuclear plant is retired from service, we will have additional costs to shut it down. These costs are called decommissioning costs. From 1979 through 1981, the depreciation recorded for Davis-Besse included a factor for these costs. The factor was determined in 1979 and 1980 estimating that the decommissioning costs would be \$20,000,000 in current dollars. The factor used in 1981 was based on an estimate of \$27,000,000.

We calculate depreciation for our steam property by multiplying our depreciable property by a depreciation rate for each individual steam account. The depreciation rates used range from 2.22% to 3.42%.

#### Note D Federal Income Tax

Federal income tax, computed by multiplying the income before taxes by the statutory rate of 46%, is reconciled to the amount provided as follows:

	1981 (Thousands of Dollars)	% of Pre-Tax Income	1980 (Thousands of Dollars)	% of Pre-Tax Income	1979 (Thousands of Dollars)	% of Pre-Tax Income
Book income before Federal income tax and cumulative effect of accounting change	\$207,184		\$152,995		\$142,461	
Tax on book income computed at statutory rate	\$ 95,285	46.0	\$ 70,358	46.0	\$ 65,513	46.0
Decreases in tax due to:						
Excess of tax depreciation over book depreciation	(2,508)	(1.1)	4,201	2.8	4,377	3.1
Allowance for funds used during construction	38,180	18.4	30,325	19.8	22,616	15.9
Certain overheads capitalized on the books	2,526	1.2	2,267	1.5	3,738	2.6
Other items	5,637	2.7	5,953	3.9	5,855	4.1
	43,835	21.2	42,746	28.0	36,586	25.7
Total Federal income tax expense	\$ 51,450	24.8	\$ 27,612	18.0	\$ 28,927	20.3

Federal income tax expense is shown in the income statement as follows:

	1981 (Thousands of Dollars)	1980 (Thousands of Dollars)	1979 (Thousands of Dollars)
Operating Expenses			
Current tax provision	\$ 23,668	\$ 11,244	\$ 16,783
Changes in accumulated deferred Federal income tax:			
Liberalized depreciation and accelerated amortization	19,747	16,106	12,460
Terminated projects	(1,841)	21,944	—
Other items	8,361	(254)	(2,098)
Investment tax credit deferred, less amounts amortized	17,640	(7,466)	11,082
Total charged to operating expenses	67,575	41,574	38,227
Nonoperating Income			
Current tax provision	(16,125)	(13,962)	(9,300)
Total Federal income tax expense	\$ 51,450	\$ 27,612	\$ 28,927



# Notes to Consolidated Financial Statements

In 1980, we had a loss for Federal income tax purposes. This happened principally because we deducted from taxable income the cost of four nuclear projects which were terminated in January 1980. The resulting loss we had that year was applied against taxable income in prior years.

The income tax we paid in 1979 and 1981 was reduced by investment tax credits of \$13,907,000 and \$22,094,000, respectively. Since we had a loss in 1980, we could not use any investment tax credit in that year. Investment tax credits which are available to the Company and have not been used amount to \$70,274,000. We can use these amounts to reduce tax liability through 1996.

## Note E Average Shares Outstanding

The number of outstanding shares of common stock of the Company changes during the year. We calculate earnings per share based on the average number of shares outstanding throughout the year. The weighted average shares outstanding in each of the last three years were:

1979	38,109,004
1980	43,300,451
1981	48,004,081

## Note F Terminated Projects

As stated in Note A, in 1980 the CAPCO companies terminated their plans to construct four nuclear generating units. The amount spent on these projects through December 31, 1981, was \$56,861,000. The PUCO allowed us to recover almost all of these costs through rates charged to customers over a 10-year period beginning late in July 1980. They also directed us to deduct these costs in the income statement as an operating expense over the same 10-year period (amortization). The portion of the termination costs which have not yet been amortized in the income statement is carried on our balance sheet as "Deferred Charges—Unamortized Costs of Terminated Projects."

In July 1981, the Ohio Supreme Court ruled that the PUCO did not have authority under Ohio law to authorize the Company to recover these costs through rates as an operating expense. As a result, in October 1981, the PUCO ordered us to discontinue amortization of the costs and to reduce our rates accordingly, but not to write off the unamortized amount without further order. Therefore, for service provided on and after October 27, 1981, the Company reduced its rates about 0.7% resulting in an estimated \$6,700,000 reduction in annual revenues. We also stopped amortizing the termination costs. This did not result in any change in net income or earnings per share.

The Company appealed the Ohio Supreme Court ruling to the United States Supreme Court. In January 1982, that Court refused on procedural grounds to hear our appeal. The Company is continuing in the proceedings described below to seek authorization to recover the unamortized termination costs through rates. We intend to raise the issue again in appeals to the United States

Supreme Court, if necessary.

In January 1982, the Company appealed the PUCO's October 1981 order to the Ohio Supreme Court and raised again the issue of recovery of the termination costs. We also have raised this issue in the first of the two rate cases described in the second paragraph of Note N.

At December 31, 1981, \$7,263,000 had been recovered through rates and recorded in the income statement as amortization expense. Accordingly, at that date, \$49,598,000 of termination costs were unrecovered. As stated in Note D, the termination costs were deducted on our 1980 Federal income tax return. When the resulting tax reduction is offset against the termination costs, the net unrecovered amount is reduced to \$30,200,000.

A contractor who worked on these projects has claimed that we owe him \$75,000,000 for costs he incurred. We are negotiating with the contractor to try to settle this matter. We have already paid more than \$15,000,000 towards the claim and this amount is included in the \$56,861,000 mentioned above. We believe that if we owe any additional money, it would be substantially less than the amount claimed after credit for payments already made.

We believe, based on the opinion of our counsel, that ultimately we should not have to write off in one year the unamortized costs. However, if it becomes unlikely that relief can be obtained, then we would have to write off all the unamortized costs (net of tax). Any amount determined to be due the contractor on his claim would similarly have to be written off. A write-off in one year of the unrecovered termination costs (net of tax) would have a material adverse effect on earnings in the year it is made, but would not have a material adverse effect on the financial condition of the Company.

## Note G First Mortgage Bonds

Series Due	Issued	Interest Rate	At December 31,	
			1981	1980
(Thousands of Dollars)				
1982	1947	3%	\$ 20,000	\$ 20,000
1983	1975	8.85%	50,000	50,000
1983-A	1980	9¼%	74,700	74,700
1984	1977	7.55%	25,000	25,000
1984-A	1980	12¼%	30,000	30,000
1985	1950	2¾%	25,000	25,000
1985-A	1980	11½%	18,291	18,291
1986	1951	3½%	25,000	25,000
1986-A	1976	5¼%	4,000	4,000
1986-B	1976	5¼%	1,000	1,000
1989	1954	3%	20,000	20,000
1989-A	1981	15¼%	40,000	—
1990	1969	7%	60,000	60,000
1991	1969	8½%	35,000	35,000
1992	1981	15¼%	20,000	—
1993	1958	3½%	30,000	30,000
1994	1959	4½%	25,000	25,000
2005	1970	8¾%	75,000	75,000
2006-A	1976	7%	14,000	14,000
2009	1974	9¼%	50,000	50,000
2009-A	1979	7%	50,000	50,000
2009-B	1979	7%	1,000	1,000
2009-C	1979	7%	1,000	1,000
2010	1975	9.85%	100,000	100,000
2011	1976	8½%	125,000	125,000
2011-A	1980	(a)	48,600	48,600
2011-B	1981	(b)	22,200	—
2012	1977	8½%	75,000	75,000
2013	1978	6.20%	47,500	47,500
			1,112,291	1,030,091
Less amounts classified as current			20,000	—
			\$1,092,291	\$1,030,091

(a) The interest paid on these bonds is at a variable rate. That rate can be no lower than 6% and no higher than 12%. The average rates in 1980 and 1981 were 10.03% and 9.99%, respectively.

(b) The interest paid on these bonds is at a variable rate. That rate can be no lower than 6% and no higher than 14%. The average rate in 1981 was 10.40%.

First Mortgage Bonds are issued under our Mortgage. That Mortgage creates a direct lien on almost all the property we own and franchises we hold.

The Collateral Pledge Notes included in the Statement of Capitalization were issued under an agreement signed in 1980. The agreement lets us borrow up to \$60,000,000 over a two-year period. The interest rate on any of the borrowings cannot be higher than 15%. We have delivered \$60,000,000 of our First Mortgage Bonds as security for our obligation to pay the Collateral Pledge Notes issued under this agreement. These bonds are not considered to be outstanding on our books. However, they are outstanding under our Mortgage.

## Note H Leases

As part of our operations, we have entered into the following leases:

Type	Remaining Terms
Nuclear fuel	(a)
Unit trains	5-7 years (b)
Office space	6 years (b)
Data processing and office equipment	Mostly short-term having a fixed term of less than one year
Construction and maintenance equipment	

(a) We had a lease for the first core of fuel at Davis-Besse through the middle of 1981. The lease for reload fuel will last as long as it takes us to burn the fuel. For the reload lease, we pay rent whenever the fuel is burned and we pay a monthly interest charge on the value of the fuel we haven't used.

(b) Unit train leases include renewal options through 2011. The lease for office space can be renewed for two five-year periods.

When the PUCO determines what rates are to be charged to our customers, it includes the rents on all of the above leases as an operating expense. Accordingly, we record those rents on our income statement as operating expenses. Financial Accounting Standard No. 13 would treat our leased nuclear fuel and unit train coal delivery equipment as though we owned it. This would require us to record the properties being leased as assets which would be depreciated. Also, we would have to record a long-term debt for the promises to make lease payments. If this accounting treatment were followed, it would not result in any material changes in our balance sheet or our income statement.

All the payments we make for nuclear fuel and unit trains are recorded in balance sheet fuel accounts. The costs in these accounts are transferred to fuel expense on the income statement (see Note A—Fuel) when the fuel is used. We paid \$7,925,000 in 1981, \$7,240,000 in 1980 and \$8,932,000 in 1979 for nuclear fuel and unit train leases. Lease payments under all other leases were not material.

Some of our leases have noncancelable terms of more than one year. We have to make the following payments for these leases after December 31, 1981:

Year	Amount
(Thousands of Dollars)	
1982	\$ 2,839
1983	2,839
1984	2,601
1985	2,344
1986	1,818
Later Years	3,642
Total	<u>\$16,083</u>

We did not include in the above table the payments we must make on our Davis-Besse nuclear fuel reload lease. Since payments are made when fuel is used, we don't know when we will have to make payments. However, we do know we must pay the lessor a remaining total of \$6,694,000 for rent.

# Notes to Consolidated Financial Statements

## Note I Serial Preferred and Preference Stock with Mandatory Redemption Provisions

Some of the Serial Preferred Stock we have issued is subject to mandatory redemption. These provisions require us to buy back and retire outstanding shares on certain dates. The table below lists those redemption obligations:

Series	Shares to be Redeemed Annually	Beginning On	Redemption Prices (a)
C	10,000	8-1-84	\$ 100
E	3,000	6-1-81	\$1,000
H	1,782	6-1-85	\$1,000
I	1,969	6-1-86	\$1,000

(a) Plus dividends accrued to the redemption date

The total amount to be paid for these redeemed shares in each of the next five years is:

1982	\$3,000,000	1985	\$5,782,000
1983	\$3,000,000	1986	\$7,751,000
1984	\$4,000,000		

If for some reason we cannot buy back the shares, the unredeemed shares would be added to the next year's redemption obligation. This would continue to be done until the total obligation to redeem is met.

Some of the Serial Preferred and Preference Stock we have issued includes a provision which requires us to ask the owners of that Stock whether they want us to buy back their shares, as follows:

	Shares Subject to Purchase Annually	Offer Beginning on	Purchase Prices
Preferred Series F	16,667	11-1-85	\$1,000
Preferred Series G	8,000	8-1-84	\$1,000
Preference Series I	11,400	4-1-84	\$1,000

If the owners decide to sell, we must redeem the shares four months after the date we offer to buy. If they decide to sell all the shares which we must offer to buy over the next five years, we would have to pay for those shares \$19,400,000 in both 1984 and 1985 and \$36,067,000 in 1986.

We have assured the owners of our Series F stock a minimum return on their investment of 6.96% after deducting their Federal income tax on the dividends received on the stock. If certain income tax laws are changed such that their after-tax return is lower, we would have the option to do one of two things. We could buy back the Series F at \$1,000 per share plus accrued dividends or we could exchange Series F for a new preferred stock. The new stock would have a dividend rate high enough to provide a 6.96% after-tax return.

We have the right to buy back and retire at certain times shares of Serial Preferred and Preference Stock which have mandatory redemption provisions. The times when this may be done and the prices we would have to

pay (plus dividends accrued to the redemption dates) are as follows:

Series	Date	Redemption Prices
Preferred C	July 31, 1983 and prior August 1, 1983 and thereafter	\$110.00 \$103.00-\$101.00
Preferred E	May 31, 1986 and prior June 1, 1986 and thereafter	\$1,088.00 \$1,049.74-\$1,000.00
Preferred F	February 28, 1982 and prior March 1, 1982 and thereafter	\$1,055.00 \$1,035.00-\$1,000.00
Preferred G	December 1, 1983 through November 30, 1984 December 1, 1984 and thereafter	\$1,035.56 \$1,026.67-\$1,000.00
Preferred H	June 1, 1990 through May 31, 1991 June 1, 1991 and thereafter	\$1,068.68 \$1,061.05-\$1,000.00
Preferred I	June 1, 1991 through May 31, 1992 June 1, 1992 and thereafter	\$1,068.68 \$1,061.05-\$1,000.00
Preferred J	June 1, 1981 through May 31, 1987 June 1, 1987 and thereafter	\$1,050.44 \$1,037.83-\$1,000.00
Preference 1	August 1, 1981 through July 31, 1982 August 1, 1982 and thereafter	\$1,038.75 \$1,032.29-\$1,000.00

We can buy back Series E before June 1, 1986 and Series F before March 1, 1982 only under certain conditions. Any borrowed money we use to buy back the shares cannot be borrowed at an effective interest cost of less than 8.8% for Series E and 7.5% for Series F. Also, we may not use money from the sale of other preferred stock or stock ranking higher than Serial Preferred Stock if its effective dividend cost is less than 8.8% in the case of Series E and 7.5% in the case of Series F. Finally, we may not use money raised through the sale of stock which is junior to the Series E or F.

Sales and retirements of Serial Preferred Stock with mandatory redemption provisions during the three years ended December 31, 1981 were as follows:

Year	Series	Prices	Shares
1980	Preferred H	\$1,000	28,500
1981	Preferred I	\$1,000	31,500
	Preferred J	\$1,000	29,000
	Preferred K	\$1,000	10,000
	Preferred E	\$1,000	13,000

### Note J Serial Preferred Stock Without Mandatory Redemption Provisions

During the last three years, we did not sell or buy back any shares of our Serial Preferred Stock which did not have mandatory redemption provisions. However, we have the right to buy back and retire this Stock. The times when this may be done and the prices (plus dividends accrued to the redemption dates) are as follows:

Series	Date	Redemption Prices
Preferred A	December 1, 1981 and thereafter	\$102.50 - \$101.00
Preferred B	July 31, 1982 and prior August 1, 1982 and thereafter	\$106.35 \$103.78 - \$102.26

### Note K Common Shares Issued and Reserved for Issue

Shares of Common Stock sold during the three years ended December 31, 1981 were as follows:

	1981	1980	1979
Public Sale	3,500,000	4,000,000	4,500,000
Share Owner Dividend Reinvestment and Stock Purchase Plan	926,542	733,188	557,139
Employee Savings Plan	264,605	218,902	164,988
Employee Thrift Plan	74,727	64,496	50,236
Key Employee Incentive Stock Plan	—	469	3,846
Total	4,765,874	5,017,055	5,276,209

In January 1982, the Company sold an additional 4,000,000 shares of Common Stock to the public.

At December 31, 1981, we had five stock purchase plans available for our employees and share owners. The common shares which are set aside to be used for these plans (including unused stock options) are as follows:

Employee Savings Plan	115,981
Employee Thrift Plan	604,102
Share Owner Dividend Reinvestment and Stock Purchase Plan	641,512
Key Employee Incentive Stock Plan	550,250 (a)
1978 Key Employee Stock Option Plan	600,000
	<u>2,511,845</u>

The Company plans to take action, including share owner approval at the April 1982 Annual Meeting, to make an additional 3,000,000 shares available for sale under the Employee Savings Plan.

Stock options held by employees to purchase unissued shares of Common Stock under the Key Employee Incentive

Stock Plan and the 1978 Key Employee Stock Option Plan are granted at 100% of the fair market value on the date of the grant. The shares which were actually bought during the three years ended December 31, 1981 were sold at option prices ranging from \$17.63 to \$18.59. Shares under outstanding options held by employees were as follows:

		Key Employee Incentive Stock Plan (a)		
		1981	1980	1979
Options Outstanding at December 31				
Shares		150,095	154,148	166,849
Option Price		\$17.63 to \$22.43	\$17.63 to \$22.43	\$17.63 to \$22.43
		1978 Key Employee Stock Option Plan		
		1981	1980	1979
Options Outstanding at December 31				
Shares		244,425	251,375	202,775
Option Price		\$16.94 to \$20.25	\$16.94 to \$20.25	\$17.88 to \$20.25

(a) Under the terms of the Key Employee Incentive Stock Plan, no further options may be granted. Accordingly, only those shares relating to options outstanding at December 31, 1981 may be issued.

### Note L Short-Term Borrowing Arrangements

Notes payable to banks and others were as follows:

Type	At December 31,	
	1981	1980
(Thousands of Dollars)		
Bank Loans	\$19,400	\$17,087
Commercial Paper	75,900	149,850
	<u>\$95,300</u>	<u>\$166,937</u>

Available bank credit arrangements are as follows:

Type	At December 31,	
	1981	1980
(Thousands of Dollars)		
Bank lines of credit (borrowings at or near prime interest rate)	\$209,600	\$169,600
Eurodollar revolving credit agreement	\$30,000	\$30,000
Variable interest note agreements	\$20,000	\$20,000

All borrowings under the Eurodollar agreement are made and paid back in U.S. dollars. There are no requirements that minimum cash balances (compensating balances) be maintained at the banks involved. However, a fee of  $\frac{1}{4}\%$  to  $\frac{3}{4}\%$  per year is paid on any unused part of this borrowing agreement. The interest rate on borrowings is  $\frac{1}{4}\%$  above the rate which specified banks pay for Eurodollar deposits in the London interbank market.

Borrowings under the variable interest rate agree-



# Notes to Consolidated Financial Statements

ment must be paid back whenever the bank requests such repayment. Interest is based on the rate for high quality commercial paper in the 30-180 day maturity range.

Commercial paper and variable interest notes outstanding are backed by no less than an equal amount of unused bank lines of credit to ensure the Company's ability to repay them.

The unused portion of the above credit arrangements, after deducting bank lines held to cover outstanding commercial paper and variable interest notes, amounted to \$144,300,000 at December 31, 1981.

The average daily cash balance in bank accounts was \$5,700,000 in 1981 and \$5,700,000 in 1980. This balance satisfied informal compensating balance arrangements under which we maintain balances at banks of \$3,000,000 to \$6,000,000, depending on the amount we borrow.

## Note M Commitments and Contingencies

We plan to add \$1.8 billion of new plant and equipment over the next five years. Some of the material and services needed to build new plant and equipment must be ordered now so it will be ready to be used when needed. At December 31, 1981, such commitments amounted to:

Construction Program	\$206,000,000
Nuclear Fuel Enrichment Services	\$ 97,522,000

Advance orders are necessary in our business. Usually we can cancel orders but we must often pay the manufacturers for what they have already spent for labor and materials and sometimes a penalty.

We have agreements to lease nuclear fuel we expect to need in the future for up to approximately \$213,000,000. The cost which the lessor has already invested in nuclear material was \$91,667,000 at December 31, 1981.

Under two long-term coal purchase arrangements, we have agreed to guarantee the mining companies' loan and lease obligations. At December 31, 1981, the principal amount of the mining companies' loan and lease obligations was \$86,916,000. Under one of these arrangements, we are required to pay the mining company 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.

Several lawsuits and government actions are pending against the Company. We believe, based on the opinion of our counsel, that the ultimate disposition of these matters should not have a material adverse effect on our financial condition, although an adverse final decision in certain instances could have a material effect on income for the period in which it occurs.

## Note N Rate Matters

The PUCO allowed us to raise electric rates by 9.2% on May 8, 1979, by 9% on July 14, 1980 and by 17% on May 6, 1981. Because of these increases, we charged

customers an additional \$46,000,000 in 1979, \$47,000,000 in 1980 and \$133,300,000 in 1981.

In 1981, we asked the PUCO for another \$130,000,000 increase. The PUCO completed public hearings early in 1982. Any increase granted would begin to be collected in the first quarter of 1982. We have also informed the PUCO that we will be seeking an increase of another \$221,000,000. Any increase granted would go into effect early in 1983.

On January 1, 1979, the PUCO allowed us to increase steam rates by 25%. On January 1, 1980, it allowed us another 5% increase in these rates. Because of these increases, we charged customers an additional \$2,300,000 in 1979 and another \$400,000 in 1980. In January 1982, the PUCO approved another 47% increase which amounts to approximately \$7,000,000. In February 1982, we filed an application for an additional annual increase in steam rates of approximately \$2,400,000. Any increase granted will go into effect late in 1982.

In addition to the above, we have an application for a rate increase covering sales for resale to the Cleveland municipal electric system pending with the FERC. We began collecting the requested \$2,300,000 increase in September 1981 subject to refund, dependent on the outcome of formal hearings.

## Note O Property Owned with Other Utilities

Some of the generating units which we own or are building are owned with other utilities. Each company owns an undivided share in the entire unit. All the owners are "tenants in common." Each company has the right to a percentage of the generating capability of each unit equal to his ownership share. We are obligated to pay for our share of the construction and operating costs of each unit. We are not responsible for the other owners' shares.

Utility Plant at December 31, 1981 includes the following facilities owned as tenants in common with other utilities:

Facility	Company Ownership		
	Per Cent	Electric	Construction
		in Service	Work in Progress
(Thousands of Dollars)			
Davis-Besse	51.38	\$392,446	\$ 18,171
Bruce Mansfield 1	6.50	24,503	546
Bruce Mansfield 2	28.60	110,676	2,241
Bruce Mansfield 3	24.47	155,373	911
Beaver Valley 2	24.47	—	279,888
Perry 1	31.11	—	304,703
Perry 2	31.11	—	261,152
Eastlake 5	68.80	109,105	1,236
Seneca Pumped Storage Hydroelectric Plant	80.00	54,704	44
		<u>\$846,807</u>	<u>\$868,892</u>

Separate depreciation records are kept for Davis-Besse property and Seneca property. The accumulated depreciation

for Davis-Besse at December 31, 1981 was \$30,923,000. The accumulated depreciation for Seneca at December 31, 1981 was \$10,354,000. Depreciation on all other property owned with other utilities has been accumulated on a composite basis along with all other depreciable electric property rather than by specific units of depreciable property. Our share of the operating expense of properties owned with others is included in our income statement.

## Note P Pensions

We pay the full cost of a pension plan for our employees. Under this plan, full-time employees who have worked at the Company at least five years and retire between ages 55 and 70 receive pension payments from the pension fund. The employee's pension payments depend on how long he worked with the Company and how much he earned. However, as permitted under The Age Discrimination in Employment Act Amendments of 1978, an employee who works past age 65 does not earn extra credit for that time. If he retires before age 62, his payments are reduced. The plan also pays benefits when an employee dies or is disabled.

We deposit money into the plan to cover the benefits the employees earn currently. We also deposit money to cover the benefits arising from amendments to the plan and adjustments for the investment performance of the pension fund. In 1979, our total payment into the pension fund was about \$8,600,000. We deposited another \$9,300,000 in 1980 and \$10,200,000 in 1981. Of these amounts, we recorded on the income statement as an operating expense \$5,687,000 in 1979, \$6,132,000 in 1980 and \$6,659,000 in 1981. The remainder was recorded in the balance sheet mostly as construction costs.

The amount we put into the pension plan is based on an actuarial formula called entry age normal. Many private

pension plans use this method. This method takes into account changes in an employee's future earnings. It results in an orderly way to try to assure that adequate funds will be available to pay future benefits. By using this method, the assets in the plan at January 1, 1981 were about equal to our total future liabilities under the plan at today's value.

Statement of Financial Accounting Standards No. 36 (FAS-36) requires us to disclose future liabilities ignoring increases in employees' future earnings. Therefore, the disclosures below, required by FAS-36, compare assets accumulated on one basis and liabilities determined on a different basis. We and our external pension consultants believe that the FAS-36 disclosures are misleading because they understate the amount which ultimately will be needed to pay all of the plans' benefits. We are making the following disclosures only because we are required to do so.

	At January 1	
	1981	1980
(millions of dollars)		
Actuarial Present Value of		
Accumulated Plan Benefits:		
Benefits which are vested	\$122	\$110
Benefits which are not vested	12	4
	<u>\$134</u>	<u>\$114</u>
Value of assets held in Plan	<u>\$193</u>	<u>\$163</u>

Under both methods, the one which we use and the FAS-36 method, the expected return on the assets in the plan needed to pay all future benefits was 5% in 1979 and 6½% in 1980 and 1981.

## Note Q Quarterly Results of Operations (Unaudited)

The following is a tabulation of the unaudited quarterly results of operations for the two years ended December 31, 1981.

	Quarters Ended			
	March 31	June 30	Sept 30	Dec 31
(Thousands, except per share amounts)				
1980				
Total operating revenues	\$217,433	\$198,767	\$247,326	\$230,039
Net operating income	\$ 30,047	\$ 30,873	\$ 49,440	\$ 40,154
Net income	\$ 24,913	\$ 25,052	\$ 43,830	\$ 31,587
Earnings available for common stock	\$ 18,516	\$ 18,598	\$ 36,400	\$ 24,157
Average common shares	41,398	41,645	43,860	46,147
Earnings per common share	\$ .45	\$ .45	\$ .83	\$ .52
1981				
Total operating revenues	\$229,625	\$237,320	\$297,783	\$248,203
Net operating income	\$ 38,930	\$ 41,822	\$ 67,759	\$ 44,189
Net income	\$ 27,801	\$ 32,117	\$ 56,872	\$ 38,944
Earnings available for common stock	\$ 20,371	\$ 23,682	\$ 47,432	\$ 29,332
Average common shares	46,445	46,777	47,959	50,914
Earnings per common share	\$ .44	\$ .51	\$ .99	\$ .58

# Financial and Statistical Review 1971-1981

## Income Statement (Thousands of Dollars)

	1981	1980	1979
TOTAL OPERATING REVENUES	1,012,930	893,566	8
Residential	310,409	268,787	2
Commercial	263,608	220,677	1
Industrial	386,805	323,764	3
Other Electric (Includes Sales for Resale)	39,912	65,273	
Steam Heating	12,196	15,065	
TOTAL OPERATING EXPENSES	820,226	743,051	
Fuel and Purchased Power	362,093	359,388	
Other Operating Expenses	213,616	195,840	
Depreciation and Amortization	85,294	64,619	
Taxes Other Than Federal Income Taxes	91,648	81,630	
Federal Income Taxes	67,575	41,574	
NET OPERATING INCOME	192,704	150,515	
NONOPERATING INCOME	75,712	62,440	
Allowance for Equity Funds Used During Construction	48,970	40,873	
Other Income and Deductions	26,742	21,567	
INCOME BEFORE INTEREST CHARGES	268,416	212,955	
INTEREST	112,682	87,572	
Long and Short-term Interest	146,712	112,623	
Allowance for Borrowed Funds Used During Construction	(34,030)	(25,051)	
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	155,734	125,383	7
Cumulative Effect of Change in Depreciation Method on Periods Prior to January 1, 1979	—	—	
NET INCOME (a)	155,734	125,383	7
PREFERRED AND PREFERENCE DIVIDEND REQUIREMENTS	34,917	27,711	
EARNINGS AVAILABLE FOR COMMON STOCK	120,817	97,672	
EARNINGS PER SHARE BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	\$ 2.52	\$ 2.26	\$
CUMULATIVE EFFECT PRIOR TO JANUARY 1, 1979	—	—	
TOTAL EARNINGS PER SHARE (a) (b)	\$ 2.52	\$ 2.26	\$
DIVIDENDS PER SHARE (b)	\$ 2.08	\$ 2.00	\$

## Balance Sheet Year end (Thousands of Dollars)

TOTAL ASSETS	3,406,075	3,094,462	2,6
Utility Plant—Total	3,610,895	3,215,339	2,6
Accumulated Utility Plant Depreciation and Amortization	(621,353)	(557,859)	1,6
Other Property	23,870	21,137	
Current and Other Assets	392,663	415,845	2
TOTAL CAPITALIZATION AND LIABILITIES	3,406,075	3,094,462	2,6
Long-term Debt	1,328,404	1,211,528	1,4
Preferred and Preference Stock:			
With Mandatory Redemption Provisions	328,000	260,500	2
Without Mandatory Redemption Provisions	95,071	95,071	2
Common Stock Equity	1,002,206	912,731	8
Deferred Federal Income Taxes	236,481	192,452	
Current Liabilities and Other Credits	415,913	422,180	4
UTILITY PLANT ADDITIONS (c)	409,277	398,088	2
UTILITY PLANT RETIREMENTS	13,721	25,002	
NUMBER OF COMMON SHARES (b)	51,054,503	46,288,629	41,2

## Operating Statistics

KWH'S SALES (Thousands)	17,507,864	18,159,754	19,1
Residential	4,375,732	4,463,147	4,3
Commercial	4,178,459	4,148,990	4,1
Industrial	8,279,700	8,062,172	9,2
Other (Includes Sales for Resale)	673,973	1,485,445	1,2
ELECTRIC CUSTOMERS—YEAR END	711,325	710,557	7
Residential	642,925	642,845	6
Commercial	60,714	60,070	1
Industrial	7,261	7,210	
Other	425	432	
RESIDENTIAL SALES DATA			
Average Kw/hr per Customer	6.548	6.686	
Average Revenue per Customer	\$ 466.55	\$ 405.09	\$
Average Revenue per Kw/hr	7.12c	6.05c	
ELECTRIC PRODUCTION			
Net Available for Service Area (Thousands)	18,936,567	18,722,616	19,6
Net Generation	17,297,523	15,325,948	17,0
Net Received from Others	1,639,044	3,396,668	2,5
BTU per Kw/hr of Net Output	10,582	10,635	
Fuel Cost per Million BTU	175.14c	156.92c	
Coal Cost per Ton	\$ 46.70	\$ 39.31	\$
Annual Net 60-Min. Max. Load KW Excl. Interruptibles	3,362,000	3,304,000	3,0
Net System Capability—KW—Year End	4,624,000	4,598,000	4,5
STEAM HEATING			
Sales—Pounds (Thousands)	1,612,151	1,979,397	2,0
Customers—Year End	337	348	
EMPLOYEES—YEAR END	5,189	4,991	

(a) The 1978 net income and earnings per share calculated on a pro forma basis to reflect the units-of-production method of depreciation are \$102,942,503 and \$2.31, respectively. The pro forma effect of the adoption of this depreciation method on 1977 was not

The Cleveland Electric Illuminating Company and Subsidiaries

78	1977	1976	1975	1974	1973	1972	1971
17,092	659,290	543,148	523,165	463,937	329,768	293,343	270,721
13,520	200,765	160,015	154,020	140,030	104,379	98,891	93,131
72,251	165,049	129,286	121,653	109,185	80,756	74,992	70,216
78,405	251,181	197,189	180,890	177,246	119,964	99,926	92,519
42,831	31,611	45,730	55,679	29,946	17,832	13,966	10,709
10,135	16,684	10,928	10,923	7,530	5,837	5,568	4,146
99,289	542,871	441,401	433,614	375,159	255,276	224,473	208,397
06,036	259,707	231,564	243,369	218,648	100,450	75,199	69,698
42,389	133,394	105,337	98,154	65,836	72,795	71,722	66,002
56,774	43,307	35,874	33,046	31,632	30,965	27,336	25,433
68,756	58,807	51,925	48,735	43,653	40,906	36,203	32,556
25,334	47,656	16,701	10,310	15,390	10,160	14,013	14,708
17,803	116,419	101,747	89,551	88,778	73,492	68,870	62,324
42,226	49,484	26,346	17,581	8,472	7,642	5,567	4,023
29,890	35,265	24,706	16,983	7,854	6,363	5,958	3,908
12,336	14,219	1,640	698	618	1,279	(391)	115
60,029	165,903	128,093	107,232	97,250	81,134	74,437	66,347
61,016	54,175	46,413	42,464	36,509	31,720	25,365	24,684
72,071	67,889	56,750	50,511	44,717	35,161	27,907	26,697
11,055	(13,714)	(10,337)	(8,047)	(8,208)	(3,441)	(2,542)	(2,013)
99,013	111,728	81,680	64,768	60,741	49,414	49,072	41,663
99,013	111,728	81,680	64,768	60,741	49,414	49,072	41,663
23,575	22,907	18,005	14,696	10,067	7,658	5,118	175
75,438	88,821	63,675	50,072	50,674	41,756	43,954	41,488
2.20	\$ 2.91	\$ 2.38	\$ 2.11	\$ 2.45	\$ 2.03	\$ 2.15	\$ 2.04
2.20	\$ 2.91	\$ 2.38	\$ 2.11	\$ 2.45	\$ 2.03	\$ 2.15	\$ 2.04
1.84	\$ 1.76	\$ 1.71	\$ 1.65	\$ 1.60	\$ 1.55	\$ 1.52	\$ 1.49
31,541	2,117,135	1,842,999	1,513,247	1,354,065	1,152,335	1,057,091	895,641
323,996	2,232,111	1,955,701	1,693,614	1,526,659	1,364,122	1,228,840	1,106,797
176,983	(429,150)	(396,338)	(373,851)	(355,841)	(334,071)	(313,109)	(297,385)
15,034	13,753	12,849	9,942	7,433	5,331	5,340	4,418
269,494	300,421	270,787	183,542	175,814	116,953	136,020	81,811
31,541	2,117,135	1,842,999	1,513,247	1,354,065	1,152,335	1,057,091	895,641
120,973	885,899	747,392	673,003	553,144	502,800	491,304	391,750
232,000	185,000	135,000	75,000	63,000	25,000	—	—
95,071	95,071	95,071	95,071	95,071	95,071	95,071	50,000
708,883	633,744	511,333	419,990	346,736	326,947	314,542	299,539
140,677	119,299	72,318	63,267	43,348	34,312	34,444	30,479
233,937	198,122	281,885	186,916	252,766	168,205	121,730	123,873
300,765	286,739	275,524	181,673	173,899	145,470	134,893	123,241
8,880	10,329	13,437	14,718	11,362	10,188	12,850	12,062
95,365	32,388,055	28,347,544	24,351,499	20,748,110	20,611,034	20,499,420	20,400,326
654,437	18,066,428	18,070,291	18,133,826	17,601,686	17,747,663	15,173,048	14,064,775
288,865	4,200,116	4,045,158	3,984,004	3,830,305	3,910,018	3,730,365	3,530,655
133,586	4,007,123	3,808,897	3,685,878	3,527,382	3,569,689	3,356,419	3,144,640
992,919	8,874,796	8,475,983	7,822,419	8,819,205	9,103,173	7,298,700	6,813,918
149,067	984,393	1,740,253	2,641,525	1,424,794	1,164,783	787,564	575,562
102,538	696,547	693,425	689,133	684,728	678,426	672,165	663,749
37,609	632,740	630,581	627,719	623,988	618,266	612,845	602,889
57,310	56,241	55,178	53,765	53,070	52,291	51,645	50,285
7,167	7,112	7,206	7,190	7,212	7,415	7,222	7,122
452	454	460	459	458	454	453	453
6,517	6,412	6,187	6,116	5,914	6,098	5,864	5,604
324,91	\$ 307,11	\$ 245,16	\$ 237,02	\$ 216,69	\$ 162,69	\$ 155,45	\$ 147,89
5,005	4,804	3,974	3,884	3,674	2,674	2,654	2,644
254,857	19,098,231	18,331,384	17,271,169	17,817,763	18,257,155	16,101,689	15,114,965
482,669	18,123,528	16,747,626	16,213,012	18,040,100	17,326,640	15,404,233	14,953,520
172,188	974,703	1,583,758	1,058,157	(222,337)	930,515	697,456	161,445
10,536	10,401	10,322	10,454	10,569	10,382	10,172	10,256
131,804	117,504	105,554	111,144	102,264	48,404	42,864	40,514
30,73	\$ 25,72	\$ 23,98	\$ 24,93	\$ 21,53	\$ 11,05	\$ 9,94	\$ 9,03
149,000	3,350,000	3,065,000	2,937,000	2,934,000	3,119,000	2,822,000	2,750,000
466,000	4,386,000	3,906,000	3,615,000	3,764,000	3,769,000	3,775,000	3,400,000
110,886	2,374,510	2,359,677	2,263,645	2,274,925	2,154,390	2,450,556	2,390,495
369	372	385	399	406	416	427	450
4,831	4,790	4,840	4,947	4,982	4,853	4,898	4,972

Adjusted for the 3-for-2 stock split, effective December 16, 1977.  
Includes \$56,022,606 of terminated projects reclassified to Deferred Charges in 1979.



# Statement of income from continuing operations adjusted for changing prices for the year ended December 31, 1981 (Unaudited)

	Conventional Historical Cost	Constant Dollar Average 1981 Dollars (Thousands of Dollars)	Current Cost Average 1981 Dollars
Revenue	\$1,012,930	\$1,012,930	\$1,012,930
Operation expense	500,784	500,784	500,784
Maintenance expense	74,925	74,925	74,925
Depreciation and amortization	85,294	171,699	193,006
Taxes other than Federal income tax	91,648	91,648	91,648
Federal income tax	67,575	67,575	67,575
Nonoperating income	(75,712)	(75,712)	(75,712)
Interest expense	112,682	112,682	112,682
	857,196	943,601	969,907
Net income -- continuing operations	\$ 155,734	\$ 69,329 (a)	\$ 43,023 (b)
Increase in specific prices of property and plant (b)			\$ 309,198
Reduction to net recoverable cost		\$ (149,290)	(148,734)
Increase in general prices			(283,448)
Increase in general prices in excess of increase in specific prices after the reduction to net recoverable cost			(122,984)
Gain from decline in purchasing power of net amounts owed		158,775	158,775
Net price level adjustment		\$ 9,485	\$ 35,791

(a) Including the reduction to net recoverable cost, net income (loss) for 1981 would have been \$(79,961,000) in constant dollars and \$(17,711,000) in current cost dollars.

(b) At December 31, 1981, the current cost of property, plant and equipment net of accumulated depreciation was \$5,038,126,000 while original (net recoverable) cost was \$2,989,542,000.

## Supplementary information concerning the effects of inflation

As prescribed by Statement of Financial Accounting Standards No. 33, we have prepared information on the effects of inflation on operations. The methods used to compute this data are experimental and subject to change by the Financial Accounting Standards Board. These data do not reflect the "current value" of our assets. They do not measure all the effects of inflation on our operations or predict our future cash requirements. The effects described herein are not recognized for income tax or ratemaking purposes.

### General

Historical costs adjusted for general inflation are referred to as "constant dollars." The original cost of utility plant and certain other items was converted to constant dollars by applying the Consumer Price Index for All Urban Consumers to the cost of these assets.

Current cost data reflects the cost of current replacement of existing assets. The current cost of assets was estimated by applying the Handy-Whitman Index of Public Utility Construction Costs to the original cost of structures and equipment. Original cost of land was trended using the Consumer Price Index for All Urban Consumers. Certain other property was trended to current cost using other industry indices.

Current cost data differ from constant dollar data mainly because the prices of assets have increased at rates different from the rate of general inflation.

### Revenues and Expenses

Revenues and expenses (except for depreciation) were assumed to accumulate evenly throughout the year. No adjustments were made to the figures reported in the primary financial statements. No adjustments were made to Federal income tax expense.

### Depreciation

The constant dollar and current cost estimates of property and plant were determined by applying the indices noted to original cost. Restated depreciation reserves were used to compute property and plant net of depreciation. They were obtained by applying current depreciation rates by account to restated property and plant figures by vintage year. The depreciation provisions were obtained by applying current depreciation rates to the average of beginning and end-of-year estimated depreciable property.

### Materials and Supplies

Balance sheet items such as fuel in stock, materials and supplies were treated as cash type items. Fuel inventory is

The Cleveland Electric Illuminating Company and Subsidiaries

# Five-year comparison of selected supplementary financial data adjusted for effects of changing prices (Unaudited)

(Average 1981 Dollars)

	Year Ended December 31,				
	1981	1980	1979	1978	1977
	(Thousands, except per share amounts)				
<b>Revenue</b>					
as reported	\$1,012,930	\$893,566	\$ 824,267	\$717,092	\$659,290
in 1981 constant dollars	\$1,012,930	\$986,254	\$1,032,798	\$999,671	\$989,480
<b>Net Income</b>					
as reported — continuing operations	\$ 155,734	\$125,383	\$ 113,534		
in 1981 constant dollars	\$ 69,329	\$ 57,352	\$ 72,182		
in 1981 current cost dollars	\$ 43,023	\$ 26,808	\$ 38,154		
<b>Income (Loss) per Common Share</b>					
as reported — continuing operations	\$ 2.52	\$ 2.26	\$ 2.31		
in 1981 constant dollars	\$ 0.72	\$ 0.62	\$ 1.05		
in 1981 current cost dollars	\$ 0.17	\$ (0.09)	\$ 0.16		
<b>Net Assets at Year End</b>					
as reported	\$1,002,206	\$912,731	\$ 820,411		
at net recoverable cost	\$ 969,808	\$962,183	\$ 972,075		
Increase in general prices in excess of increase in specific prices after reduction to net recoverable cost	\$ 122,984	\$208,409	\$ 237,690		
Gain from decline in purchasing power of net amounts owed	\$ 158,775	\$208,206	\$ 222,056		
<b>Cash Dividends Declared per Common Share</b>					
as reported	\$ 2.08	\$ 2.00	\$ 1.92	\$ 1.84	\$ 1.76
in 1981 constant dollars	\$ 2.08	\$ 2.21	\$ 2.41	\$ 2.57	\$ 2.64
<b>Market Price per Common Share at Year End</b>					
as reported	\$ 16.00	\$ 14.63	\$ 16.25	\$ 16.88	\$ 22.50
in 1981 constant dollars	\$ 15.48	\$ 15.42	\$ 19.25	\$ 22.66	\$ 32.93
Average Consumer Price Index	272.4	246.8	217.4	195.4	181.5

subject to rapid turnover. As such, we believe the original cost of this item fairly represents its current cost.

## Reduction to Net Recoverable Cost

Under Ohio law, we can recover only what we paid for plant and equipment, so the values of these items under both constant dollar and current cost methods were reduced to the lower original cost amount.

## Increase in General Prices in Excess of Increase in Specific Prices After Reduction to Net Recoverable Cost

The overall increase in prices of our property and plant exceeded the increase in general prices as measured by the Consumer Price Index for All Urban Consumers during 1981. However, when the current cost of plant was reduced to the lower original cost amount, this "gain" from specific price increases was more than offset.

## Gain from Decline in Purchasing Power of Net Amounts Owed

With inflation, holding cash type assets such as money and receivables results in a loss in purchasing power. Holding cash type liabilities such as long-term debt results in a gain in purchasing power. Preferred stock and deferred tax balances were treated as cash type liabilities for this computation.

## Effects of Inflation on the Company

Our 1981 revenues increased despite the decline in unit sales of electricity, but revenues in constant dollars remained about the same as in prior years. This shows that inflation reflected in rates by the increasing cost of service was mainly responsible for revenue growth.

Net income from operations increased in 1981 on both constant dollar and current cost bases. The differences between these measures and income as reported occurs because we are not permitted to recover current cost measures of depreciation through rates. Ohio law restricts recovery of investment through depreciation charges to the original cost of plant. The part of current cost we couldn't recover was only partially offset by the gain from holding cash type liabilities.

We have to raise new capital to meet growth needs at inflated costs of construction and to replace worn-out items at higher replacement costs. If rate adjustments fail to compensate for the cost of new capital, especially during times of high inflation, a regular erosion of the return on equity will occur. As a result, there will be a regular need for rate relief.

We continue to seek proper and timely rate increases and a regulatory environment which is responsive to the effects of inflation on our investors.

## Board of Directors

**Leigh Carter (56)**

Chairman, President and Chief Executive Officer of Tremco, Inc., manufacturer of specialty chemical products and a wholly owned subsidiary of The B.F. Goodrich Company

**Robert M. Ginn (58)**

President of the Company

**Roy H. Holdt (61)**

Chairman and Chief Executive Officer of White Consolidated Industries, Inc., manufacturer of products for the home, principally major appliances, and machinery and equipment for industry

**John Lansdale, Jr. (70)**

Partner in the law firm of Squire, Sanders & Dempsey

**Richard A. Miller (55)**

Executive Vice President of the Company

**Karl H. Rudolph (67)**

Chairman of the Executive Committee and retired Chairman and Chief Executive Officer of the Company

**Craig R. Smith (56)**

President of the Industrial Group of Bendix Corporation. The Industrial Group is a producer of machines and accessories for the metalworking industry. Also Chairman, President and Chief Executive Officer of The Warner & Swasey Company, a wholly owned subsidiary of Bendix Corporation

**Charles E. Spahr (68)**

Director of several companies and retired Chairman and Chief Executive Officer of The Standard Oil Company (Ohio), manufacturer of petroleum products, chemicals and plastics and supplier of coal

**Herbert E. Strawbridge (64)**

Chairman and Chief Executive Officer of The Higbee Company, a department store

**Richard B. Tullis (68)**

Chairman of the Executive Committee and retired Chairman and Chief Executive Officer of Harris Corporation, manufacturer of communication and information processing equipment

**Harold L. Williams (55)**

Executive Vice President of the Company

( ) indicates age

**Ralph M. Besse**

Chairman Emeritus of the Board of Directors

**Elmer L. Lindseth**

Chairman Emeritus of the Board of Directors

## Principal Officers and Executives

**Robert M. Ginn (58)** President

**Richard A. Miller (55)** Executive Vice President

**Harold L. Williams (55)** Executive Vice President

**Dalwyn R. Davidson (63)** Vice President-System Engineering & Construction

**John W. Fenker (55)** Vice President-Power Supply

**Robert J. Farling (45)** Vice President-Administrative Services

**Frank A. Kender (54)** Vice President-Energy Application Services

**Edgar H. Maugans (47)** Vice President-Finance

**John J. Misic (60)** Vice President-Distribution & Services

**Alan D. Wright (52)** Vice President-Public Affairs & Legal

**Clement T. Loshing (58)** Treasurer

**Charles C. Chopp (46)** Controller

**Andrew R. Felmer (58)** Secretary

**Newton D. Flack (56)** Division Manager-Steam Power Division

# Committees of the Board of Directors

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**Audit Committee** The Audit Committee recommends to the Board the firm of independent accountants to be retained for the ensuing year and reviews the results of the independent accountants' examination of the Company's financial statements and the audit practices employed by the accountants and the Company. The Committee oversees the establishment and administration by management of effective internal accounting controls and an accounting system designed to produce financial statements which present fairly the financial position of the Company.

*C.R. Smith (Chairman), C.E. Spahr, H.E. Strawbridge, R.B. Tullis*

**Compensation Committee** The Compensation Committee reviews and approves the Company's overall Compensation Plan, including the pension and employee stock plans, and, in particular, fixes the remuneration of the Chairman (if any), President and all Vice Presidents.

*H.E. Strawbridge (Chairman), L. Carter, R.H. Holdt, C.R. Smith, C.E. Spahr, R.B. Tullis*

**Executive Committee** The Executive Committee acts on behalf of the Board at times other than regular Board meetings when it is impracticable to call together the entire Board. The Committee has the same authority as the Board, except that it may not elect officers (other than assistant secretaries and assistant treasurers), fill vacancies on the Board or on the Executive Committee or authorize the issuance of first mortgage bonds.

*K.H. Rudolph (Chairman), L. Carter, R.M. Ginn, C.E. Spahr*

**Finance Committee** The Finance Committee reviews and recommends long-range financial policies and objectives and specific actions to achieve those objectives. The Committee, acting for the Company as administrator of the Company's Pension Plan and Investment Program of the Employee Savings Plan, also reviews the investment performance of the pension fund trustee, other pension fund investment managers and the Employee Savings Plan trustee and establishes objectives for the investment of Pension Plan and Employee Savings Plan assets.

*R.A. Miller (Chairman), R.M. Ginn, R.H. Holdt, K.H. Rudolph, C.E. Spahr, R.B. Tullis*

**Nominating Committee** The Nominating Committee recommends to the Board candidates to be nominated for election as directors at the annual meeting and to fill any vacancies on the Board. When reviewing potential candidates, the Committee considers suggestions made by share owners.

*R.H. Holdt (Chairman), L. Carter, J. Lansdale, Jr., K.H. Rudolph, C.R. Smith, C.E. Spahr, H.E. Strawbridge, R.B. Tullis*

**Planning Committee** The Planning Committee was formed in 1981 to advise and consult with management and the Board on long-range strategic planning. Responsibilities of the Committee include recommending long-range objectives and the strategies, manpower and overall corporate organization appropriate to meet those objectives.

*R.M. Ginn (Chairman), L. Carter, R.A. Miller, R.B. Tullis, H.L. Williams*



# General Information

**Share owner dividend reinvestment and stock purchase plan** The Company has a Share Owner Dividend Reinvestment and Stock Purchase Plan which provides common stock share owners of record a convenient means of purchasing additional shares of Company common stock automatically at no additional cost by investing a part or all of their quarterly dividends and additional cash payments. Dividends reinvested in Company common stock under the Plan qualify for the new tax saving provisions of The Economic Recovery Tax Act of 1981. Information and a prospectus relating to the Plan may be obtained from Share Owner Services at the Company.

**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 (Form 10-K) and, upon payment of a reasonable fee, a copy of each exhibit to Form 10-K. Requests should be directed to the Secretary of the Company.

#### **Independent Accountants**

Price Waterhouse, 1900 Central National Bank Building, Cleveland, Ohio 44114

#### **Bond Trustee and Registrar**

Morgan Guaranty Trust Company of New York for all Series.

Communications regarding bond registration requirements and lost certificates should be directed to Morgan Guaranty Trust Company of New York, 30 West Broadway, New York, N.Y. 10015.

#### **Bond Paying Agents**

Manufacturers Hanover Trust Company, 40 Wall Street, New York, N.Y. 10015 and AmeriTrust Company, Euclid Avenue and East 9th Street, Cleveland, Ohio 44114 — Co-paying agents for the

3% Series, Due 1982	3% Series, Due 1989
2½% Series, Due 1985	3½% Series, Due 1993
3½% Series, Due 1986	4½% Series, Due 1994

Morgan Guaranty Trust Company of New York, 30 West Broadway, New York, N.Y. 10015 — for the

8.85% Series, Due 1983	15½% Series, Due 1992
7.55% Series, Due 1984	8½% Series, Due 2005
12½% Series, Due 1984-A	9½% Series, Due 2009
11½% Series, Due 1985-A	9.85% Series, Due 2010
15½% Series, Due 1989-A	8½% Series, Due 2011
7½% Series, Due 1990	8½% Series, Due 2012
8½% Series, Due 1991	

Inquiries regarding interest payments should be directed to either Manufacturers Hanover Trust Company or Morgan Guaranty Trust Company of New York for the series of bonds for which each acts as paying agent as noted above.

#### **Common Stock**

Listed on the New York, Midwest and Pacific Stock Exchanges, unlisted trading on the Boston, Philadelphia-Baltimore-Washington and Cincinnati Stock Exchanges. New York Stock Exchange symbol — CVX.

#### **Preferred Stock**

Listed on the New York Stock Exchange.

#### **Registrars**

*For Common Stock and Preferred Stock*  
AmeriTrust Company  
Euclid Avenue and East 9th Street  
Cleveland, Ohio 44114

#### **Transfer Agents**

*For Common Stock and Preferred Stock*  
The Cleveland Electric Illuminating Company  
Share Owner Services  
P.O. Box 5000, Cleveland, Ohio 44101

Stock transfers may be presented at Wells Fargo Securities Clearance Corporation, 45 Broad Street, New York, N.Y. 10004.

#### **Share Owner Inquiries**

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 the following numbers:

Local calls in  
Cleveland area 622-9800, ext. 2325

Elsewhere  
in Ohio 1-800-362-1237

Outside Ohio 1-800-321-3206

Please have your account number ready when calling.

#### **Executive Offices**

Illuminating Building  
55 Public Square  
Cleveland, Ohio

Telephone Number (216) 622-9800

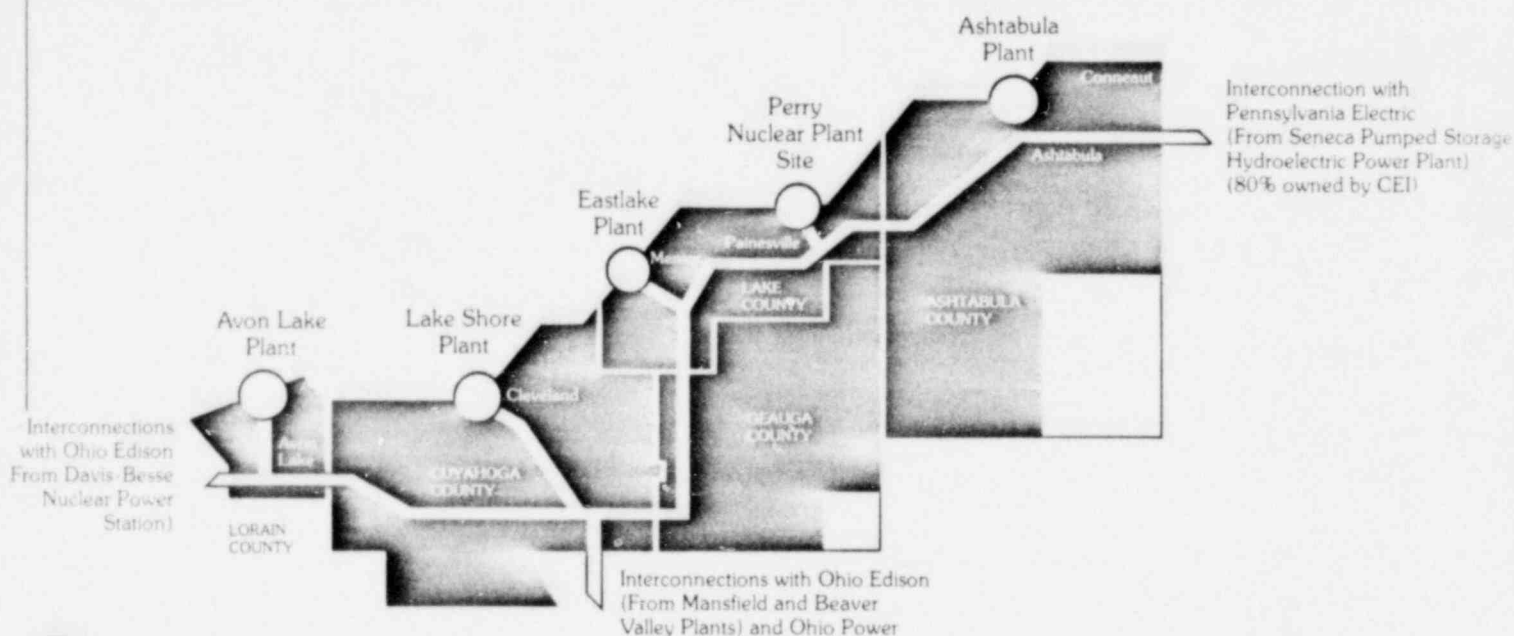
#### **Mail Address**

Post Office Box 5000  
Cleveland, Ohio 44101

**The annual meeting** of the share owners of the Company will be held on April 27, 1982. Owners of common stock as of February 26, 1982, the record date for the meeting, will be entitled to vote on the issues. The official notice, proxy statement and proxy will be mailed to share owners on or about March 18, 1982.

**Notice:** The annual report and the financial statements herein are for the general information of the share owners of the Company and are not intended to be used in connection with any sale or purchase of securities.

# Service area



# Capco generating units

The Company furnishes electric service to an area of approximately 1,700 square miles, extending 100 miles along the south shore of Lake Erie from the Ohio-Pennsylvania border on the east through the city of Avon Lake on the west. Total population served is approximately 1,900,000.

The Company is a member of the Central Area Power Coordination Group (CAPCO), formed by regional utility companies to assure greater reliability of interconnections, back-up in case of emergencies and better economies of operation. Other members include Duquesne

Light Company, Ohio Edison Company, Pennsylvania Power Company and The Toledo Edison Company. The members are constructing power generation and transmission facilities.

Through interconnections with CAPCO members, Pennsylvania Electric Company and Ohio Power Company, the Company's service area is part of an interconnected system linking continental U.S.A. and major portions of Canada. This international network further enhances the reliability and economy of our customers' electric service.



Project	Expected Net Demonstrated Capability (Kilowatts)		Year of Scheduled Completion	Construction and Operation Responsibility
	Total	CEI Share		
Eastlake Unit #5	635,000	437,000	In Service	The Illuminating Company
Sammis Unit #7	600,000	— 0 —	In Service	Ohio Edison Company
Mansfield Unit #1	780,000	51,000	In Service	Pennsylvania Power Company
Unit #2	780,000	223,000	In Service	
Unit #3	800,000	196,000	In Service	
Davis-Besse	890,000	457,000	In Service	The Toledo Edison Company
Perry Unit #1	1,205,000	375,000	1984	The Illuminating Company
Unit #2	1,205,000	375,000	1988	
Beaver Valley Unit #1	833,000	— 0 —	In Service	Duquesne Light Company
Unit #2	833,000	204,000	1986	

● Coal-Fired    ⊗ Nuclear

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY  
P.O. Box 5000 • Cleveland, Ohio 44101