THE CLEVELAND ELECTRIC ILLUMINATING COMPANY

1990 ANNUAL *REPORT*

A Subsidiary of Centerior Energy Corporation

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About Cleveland Electric

The Company, a wholly owned subsidiary of Centerior Energy Corporation, provides electric service to an area of northeastern Ohio extending 100 miles along the southern shore of Lake Erie from Pennsylvania on the east through the city of Avon Lake on the west. The southern boundary of the service area is approximately 17 miles south of Lake Erie. The complete boundary prescribes an area of about 1,700 square miles. Total population served is about 1,860,000. Although the principal city in the service area is Cleveland, the Company derives about 74% of its total electric revenue from customers outside of the city. The Company's 4,500 employees serve about 742,000 customers.

Executive Offices

The Cleveland Electric Illuminating Company
55 Public Square
Cleveland, OH
(216) 622-9800

Mail Address

P.O. Box 5000
Cleveland, OH 44101

Directors

Robert J. Farling, President and Chief Operating Officer of Centerior Energy Corporation and Centerior Service Company.

Richard A. Miller, Chairman and Chief Executive Officer of Centerior Energy Corporation and Centerior Service Company.

Lyman C. Phillips, President and Chief Executive Officer of the Company, Chairman and Chief Executive Officer of The Toledo Edison Company and Executive Vice President of Centerior Energy Corporation.

Officers

President and Chief Executive Officer	*Lyman C. Phillips*
Vice President & Chief Financial Officer	*Edgar H. Maugans*
Vice President	*Fred J. Lange, Jr.*
Controller	*Paul G. Busby*
Treasurer	*Gary M. Hawkinson*
Secretary	*E. Lyle Pepin*

Report of Independent Public Accountants

ARTHUR ANDERSEN & CO.

To the Share Owners of
The Cleveland Electric Illuminating Company

We have audited the accompanying consolidated balance sheet and consolidated statement of cumulative preferred and preference stock of The Cleveland Electric Illuminating Company (a wholly owned subsidiary of Centerior Energy Corporation) and subsidiaries as of December 31, 1990 and 1989, and the related consolidated statements of income, retained earnings and cash flows for each of the three years in the period ended December 31, 1990. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Cleveland Electric Illuminating Company and subsidiaries as of December 31, 1990 and 1989, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1990, in conformity with generally accepted accounting principles.

As discussed further in the Summary of Significant Accounting Policies and Notes 7 and 12, a change was made in the methods of accounting for income taxes and unbilled revenues in 1988, retroactive to January 1, 1988.

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

Cleveland, Ohio
February 12, 1991

Arthur Andersen & Co.

Summary of Significant Accounting Policies

GENERAL

The Cleveland Electric Illuminating Company (Company) is an electric utility and a wholly owned subsidiary of Centerior Energy Corporation (Centerior Energy). The Company follows the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC) and adopted by The Public Utilities Commission of Ohio (PUCO). The financial statements include the accounts of the Company's wholly owned subsidiaries, which in the aggregate are not material.

The Company is a member of the Central Area Power Coordination Group (CAPCO). Other members include The Toledo Edison Company (Toledo Edison), Duquesne Light Company (Duquesne), Ohio Edison Company (Ohio Edison) and Pennsylvania Power Company (Pennsylvania Power). The members have constructed and operate generation and transmission facilities for the use of the CAPCO companies. Toledo Edison is also a wholly owned subsidiary of Centerior Energy.

RELATED PARTY TRANSACTIONS

Operating revenues, operating expenses and interest charges include those amounts for transactions with affiliated companies in the ordinary course of business operations.

The Company's transactions with Toledo Edison are primarily for interchange power, transmission line rentals and jointly owned power plant operations and construction. See Notes 1 and 2.

Centerior Service Company (Service Company), the third wholly owned subsidiary of Centerior Energy, provides, at cost, management, financial, administrative, engineering, legal and other services to the Company and other affiliated companies. The Service Company billed the Company $106,000,000, $92,000,000 and $79,000,000 in 1990, 1989 and 1988, respectively, for such services.

REVENUES

Customers are billed on a monthly cycle basis for their energy consumption based on rate schedules or contracts authorized by the PUCO. Effective January 1, 1988, the Company changed its method of accounting to accrue the estimated amount of unbilled revenues (as defined in Note 12) at the end of each month.

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

FUEL EXPENSE

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

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

PRE-PHASE-IN DEFERRALS OF OPERATING EXPENSES AND CARRYING CHARGES

The PUCO authorized the Company to record, as deferred charges, operating expenses (including lease payments, depreciation and taxes) and interest carrying charges for Beaver Valley Power Station Unit 2 (Beaver Valley Unit 2) from its commercial-in-service date in November 1987 through December 1988. After the PUCO determined that Perry Nuclear Power Plant Unit 1 (Perry Unit 1) was considered "used and useful" in May 1987 for regulatory purposes, the PUCO authorized the Company to defer operating expenses (including depreciation and taxes) for Perry Unit 1 from June 1987 through December 1987, when these costs began to be recovered in rates. The PUCO also authorized the deferral of interest and equity carrying charges, exclusive of those associated with operating expenses, for Perry Unit 1 from June 1987 through December 1987 and the deferral of only interest carrying charges from January 1988 through December 1988. The amounts deferred for Perry Unit 1 pursuant to these PUCO accounting orders were included in property, plant and equipment through the commercial-in-service date in November 1987. Subsequent to that date, amounts deferred for Perry Unit 1 were recorded as deferred charges. Amortization of these Beaver Valley Unit 2 and Perry Unit 1 deferrals (called pre-phase-in deferrals) began in January 1989 in accordance with the January 1989 PUCO rate order discussed in Note 6. The amortizations will continue over the lives of the related property.

PHASE-IN DEFERRALS OF OPERATING EXPENSES AND CARRYING CHARGES

As discussed in Note 6, the January 1989 PUCO rate order for the Company included an approved rate phase-in plan for the Company's investments in Perry Unit 1 and Beaver Valley Unit 2. On January 1, 1989, the Company began recording the deferrals of operating expenses and interest and equity carrying charges on deferred rate based investment pursuant to the phase-in plan. These deferrals (called phase-in deferrals) will be recovered by December 31, 1998.

DEPRECIATION AND AMORTIZATION

The cost of property, plant and equipment, except for the nuclear generating units, is depreciated over their estimated useful lives on a straight-line basis. The annual straight-line depreciation provision expressed as a percent of average depreciable utility plant in service was 3.3% in 1990 and 3.9% in 1989 and 1988.

The 1990 rate declined because of a change in depreciation rates attributable to longer estimated lives for nonnuclear property. The PUCO approved this change in depreciation rates effective January 1, 1990 which reduced depreciation expense for 1990 by $12,070,000 and increased earnings $9,000,000.

Depreciation expense for the nuclear units is based on the units-of-production method. In 1990, the Nuclear Regulatory Commission (NRC) approved a six-year extension of the operating license for the Davis-Besse Nuclear Power Station (Davis-Besse). The PUCO approved a change in the units-of-production depreciation rate for Davis-Besse effective January 1, 1990 which recognized the life extension. This change reduced depreciation expense for 1990 by $5,960,000 and increased earnings $4,000,000.

Effective July 1988, the Company began the external funding of future decommissioning costs for its operating nuclear units pursuant to a PUCO order. Cash contributions are made to the funds on a straight-line basis over the remaining licensing period for each unit. Amounts currently in rates are based on past estimates of decommissioning costs for the Company of $63,000,000 in 1986 dollars for Davis-Besse and $44,000,000 and $35,000,000 in 1987 dollars for Perry Unit 1 and Beaver Valley Unit 2, respectively. Actual decommissioning costs are expected to exceed these estimates. It is expected that increases in the cost estimates will be recoverable in rates resulting from future rate proceedings. The current level of expense being funded and recovered from customers over the remaining licensing periods of the units is approximately $4,000,000 annually.

FEDERAL INCOME TAXES

The financial statements reflect the liability method of accounting for income taxes as a result of adopting a new standard for accounting for income taxes in 1988. The liability method requires that the Company's deferred tax liabilities be adjusted for subsequent tax rate changes and that the Company record deferred taxes for all temporary differences between the book and tax bases of assets and liabilities. A portion of these temporary differences relate to timing differences that the PUCO used to reduce prior years' tax expense for ratemaking purposes whereby no deferred taxes were recorded. Since the PUCO practice permits recovery of such taxes from customers when they become payable, the net amount due from customers has been recorded as a regulatory asset in deferred charges.

For certain property, the Company received investment tax credits which have been accounted for as deferred credits. The amortization of these investment tax credits is reported as a reduction of depreciation expense under the liability method. See Note 7.

DEFERRED GAIN FROM SALE OF UTILITY PLANT

The Company entered into a sale and leaseback transaction in 1987 for the coal-fired Bruce Mansfield Generating Plant (Mansfield Plant) as discussed in Note 2. The transaction resulted in a net gain which was deferred. The Company is amortizing the applicable deferred gain over the term of the leases under the sale and leaseback agreement. The amortization and the lease expense amount are recorded as other operation and maintenance expense.

INTEREST CHARGES

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

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

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at original cost less any amounts ordered by the PUCO to be written off. Included in the cost of construction are items such as related payroll taxes, pensions, fringe benefits, management and general overheads and allowance for funds used during construction (AFUDC). AFUDC represents the estimated composite debt and equity cost of funds used to finance construction. This noncash allowance is credited to income, except for certain AFUDC for Perry Nuclear Power Plant Unit 2 (Perry Unit 2). See Note 3(c). The gross AFUDC rate was 10.48%, 10.91% and 11.23% in 1990, 1989 and 1988, respectively.

Maintenance and repairs are charged to expense as incurred. Certain maintenance and repair expenses for Perry Unit 1 and Beaver Valley Unit 2 are being deferred pursuant to the PUCO accounting orders discussed above. The cost of replacing plant and equipment is charged to the utility plant accounts. The cost of property retired plus removal costs, after deducting any salvage value, is charged to the accumulated provision for depreciation.

Management's Financial Analysis

RESULTS OF OPERATIONS

Overview

The January 1989 PUCO rate order which provided for three rate increases for the Company, as discussed in Note 6, was designed to enable us to begin recovering in rates the cost of, and earn a fair return on, our allowed investment in Beaver Valley Unit 2 and Perry Unit 1. The rate order improved revenues and cash flow in 1989 and 1990 and is expected to continue to improve them in 1991. However, as discussed more fully in the fourth and fifth paragraphs of Note 6, the phase-in plan was not designed to improve earnings significantly because gains in revenues from the higher rates and assumed sales growth are initially offset by a corresponding reduction in the deferral of nuclear plant operating expenses and carrying charges and are subsequently offset by the amortization of such cost deferrals and carrying charges.

Despite the positive effect the new rates have on revenues and cash flow and the relatively neutral impact they have on earnings, we face a number of other factors which will exert a negative influence on earnings in 1991 and beyond. These include inflation, the current economic recession and competitive forces. The latter, coupled with a desire to encourage economic growth, has prompted the Company in recent years to enter into contracts having reduced rates with certain large customers. Two other factors are having a negative influence on earnings. First, the Company is currently recording depreciation on nuclear units at a higher level than that which is reflected in rates because of the good performance of the units over the last several years. Second, with respect to facilities placed in service after February 1988 and not included in rate base, the Company is currently required to record interest charges and depreciation as current expenses even though such items are not yet reflected in rates.

We are taking several steps to counter the adverse effects of the factors discussed above. We are implementing the management audit recommendations discussed in the sixth paragraph of Note 6 which are expected to reduce operating expenses by about $54,000,000 annually. We have already shared 50% of the expected savings with customers by reducing the 1991 rate increase granted under the 1989 rate order. However, continuing cost reduction efforts will be necessary to help offset the effect of inflation. Also, the Company is seeking PUCO approval to accrue nuclear plant depreciation at a level which is more closely aligned with the amount currently being recovered in rates by switching to the straight-line method. The Company also will seek approval to accrue post-in-service interest carrying charges and defer depreciation charges for facilities that are in service but not yet recognized in rates. Inability to obtain approval of the first accounting request would reduce earnings by as much as $35,000,000 in 1991, and more or less in subsequent years, depending on the performance of the units. Inability to obtain approval of the second request would reduce earnings by as much as $21,000,000 in 1991, and even more in subsequent years.

The Company has agreed to use its best efforts, such as these two requests for accounting orders, to avoid rate increases in the years immediately following 1991. Eventually, rate increases will be necessary to recognize the cost of our new capital investment and the effect of inflation.

Annual sales growth is expected to average about 2% for the next several years, contingent on future economic events. Recognizing the limitations imposed by these sales projections and competitive constraints, we will utilize our best efforts to minimize future rate increases through maximizing our cost reduction and quality of service efforts and exploring other innovative options. We will concentrate our efforts on retaining customers and adding new ones through innovative marketing and service initiatives.

1990 vs. 1989

Factors contributing to the 4% increase in 1990 operating revenues are as follows:

Change in Operating Revenues	Increase (Decrease)
Base Rates and Miscellaneous	$121,000,000
Sales Volume and Mix	(25,000,000)
Sales to Ohio Edison and Pennsylvania Power	(32,000,000)
	$ 64,000,000

The major factor accounting for the increase in operating revenues was related to the January 1989 rate order. The PUCO approved annual rate increases for the Company of 9% effective in February 1989 and 7% effective in February 1990. The associated revenue increase in 1990 was partially offset by reduced revenues resulting from a 2.1% decrease in total kilowatt-hour sales. Industrial sales decreased 2.6% because of the recession beginning in 1990. Residential sales decreased 1.5% as seasonal temperatures were more moderate in comparison to the prior year's temperatures, resulting in reduced customer heating and cooling-related demand. Commercial sales increased 0.5% as increased demand from new all-electric office and retail space was offset by the effects of mild weather. The increase in revenues was also partially offset by the loss of revenues related to the May 1989 expiration of the Company's agreement to sell a portion of its share of Perry Unit 1 capacity to Ohio Edison and Pennsylvania Power.

Operating expenses increased 0.2% in 1990 caused mainly by lower nuclear operating expense deferrals for Perry Unit 1 and Beaver Valley Unit 2 pursuant to the January 1989 PUCO rate order and by an increase in taxes, other than federal income taxes, resulting from higher property and gross receipts taxes. These increases in operating expenses were partially offset by a decrease in depreciation and amortization expense primarily because of lower depreciation rates used in 1990 for nonnuclear property and Davis-Besse attributable to longer estimated lives and because of longer nuclear generating unit refueling and maintenance outages in 1990 than in 1989. Federal income taxes decreased primarily because of a decrease in pretax operating income.

Credits for carrying charges recorded in nonoperating income decreased in 1990 because a greater share of our investments in Perry Unit 1 and Beaver Valley Unit 2 were recovered in rates. The decrease in the federal income tax provision related to nonoperating income was the result of a decrease in pretax nonoperating income and federal income tax adjustments of $18,712,000 associated with previously deferred investment tax credits relating to the 1988 write-off of nuclear plant. Interest expense increased in 1990 because of the higher level of debt outstanding which was partially offset by refinancings.

1989 vs. 1988

Factors contributing to the 9.7% increase in 1989 operating revenues are as follows:

Change in Operating Revenues	Increase (Decrease)
Base Rates and Miscellaneous	$112,000,000
Deferred CWIP Revenues	43,000,000
Fuel Cost Recovery Revenues	21,000,000
Sales Volume and Mix	16,000,000
Sales to Ohio Edison and Pennsylvania Power	(52,000,000)
	$140,000,000

The January 1989 rate order for the Company was primarily responsible for two major factors impacting the increase in revenues. The PUCO granted the Company a 9% rate increase effective in February 1989. The increase in revenues attributable to deferred construction work in progress (CWIP) revenues in 1989 resulted from the reduction in the amount of deferred credits for the mirror CWIP refund obligations to customers. Fuel cost recovery revenues increased in 1989 because of a significant rise in the fuel cost recovery factors compared to 1988. The lower 1988 factors recognized a greater amount of refunds to customers ordered by the PUCO for certain replacement fuel and purchased power costs collected from customers during a 1985-1986 Davis-Besse outage. Total kilowatt-hour sales decreased 2.3% in 1989. The comparatively moderate summer weather in 1989 lowered sales because of reduced air conditioning usage. Residential sales decreased 1.3%. Commercial sales increased 4.2% as a result of continuing growth from new office buildings and retail outlets. Industrial sales decreased 2.6% principally because of an 8.5% reduction in sales to large primary metals and automotive customers. Sales to other industrial customers increased 2.5%. The decrease in revenues from sales to Ohio Edison and Pennsylvania Power was the result of the May 1989 expiration of the Company's agreement to sell a portion of its share of Perry Unit 1 capacity.

Operating expenses increased 9.2% in 1989. Lower deferrals of nuclear operating expense for Perry Unit 1 and Beaver Valley Unit 2 resulted in a $56,000,000 increase in expense. Fuel and purchased power expense increased largely because of the matching of expense with higher fuel cost recovery revenues discussed in the preceding paragraph. Improved nuclear unit availability enabled the Company to sell power to other utilities. The excess of revenues over cost is treated as a reduction in purchased power expense which cushioned the increase in fuel and purchased power expense for the year. Depreciation expense increased, reflective of the increased generation from the Company's nuclear units since their depreciation is recorded based on units-of-production.

Nonoperating income credits for carrying charges increased in 1989 because the phase-in and pre-phase-in carrying charges recorded in 1989 were greater than the pre-phase-in carrying charges recorded in 1988. Interest expense increased in 1989 because of the higher level of debt outstanding. Preferred and preference dividend requirements decreased in 1989 because of stock redemptions.

EFFECT OF INFLATION

Although the rate of inflation has eased in recent years, we are still affected by even modest inflation since the regulatory process introduces a time-lag during which increased costs of our labor, materials and services are not reflected in rates and fully recovered. Moreover, regulation allows only the recovery of historical costs of plant assets through depreciation even though the costs to replace these assets would substantially exceed their historical costs in an inflationary economy.

Changes in fuel costs do not affect our results of operations since those costs are deferred until reflected in the fuel cost recovery factor included in customers' bills.

RETAINED EARNINGS

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES

	For the years ended December 31,		
	1990	1989	1988
		(thousands of dollars)	
Balance at Beginning of Year	**$ 507,375**	$ 459,709	$ 604,516
Additions			
Net income	**242,328**	250,219	95,085
Deductions			
Dividends declared:			
Common stock	**(149,199)**	(161,662)	(198,445)
Preferred stock	**(36,205)**	(40,769)	(41,203)
Preference stock	**—**	(124)	(638)
Other, primarily preferred stock redemption expenses	**(740)**	2	394
Net Increase (Decrease)	**56,184**	47,666	(144,807)
Balance at End of Year	**$ 563,559**	$ 507,375	$ 459,709

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

INCOME STATEMENT

	For the years ended December 31,		
	1990	1989	1988
		(thousands of dollars)	
Operating Revenues	**$1,655,844**	$1,591,662	$1,451,578
Operating Expenses			
Fuel and purchased power(1)	**377,082**	384,543	307,014
Other operation and maintenance	**514,186**	508,151	524,478
Depreciation and amortization	**175,654**	193,279	189,731
Taxes, other than federal income taxes	**197,454**	183,120	184,813
Phase-in deferred operating expenses	**(33,960)**	(52,020)	—
Pre-phase-in deferred operating expenses	**3,948**	3,888	(104,396)
Federal income taxes	**75,099**	85,275	94,654
	1,309,463	1,306,236	1,196,294
Operating Income	**346,381**	285,426	255,284
Nonoperating Income			
Allowance for equity funds used during construction	**4,531**	8,362	8,052
Other income and deductions, net	**1,836**	7,934	14,103
Write-off of nuclear costs	**—**	—	(257,400)
Phase-in carrying charges	**161,598**	216,851	—
Pre-phase-in carrying charges	**—**	17,937	224,585
Federal income taxes — credit (expense)	**(20,401)**	(55,699)	53,162
	147,564	195,385	42,502
Income Before Interest Charges	**493,945**	480,811	297,786
Interest Charges			
Debt interest	**254,936**	238,042	228,879
Allowance for borrowed funds used during construction	**(3,319)**	(7,450)	(4,304)
	251,617	230,592	224,575
Income Before Cumulative Effect of an Accounting Change	**242,328**	250,219	73,211
Cumulative Effect on Prior Years (to December 31, 1987) of an Accounting Change for Unbilled Revenues (Net of Income Taxes of $14,552,000)	**—**	—	21,874
Net Income	**242,328**	250,219	95,085
Preferred and Preference Dividend Requirements	**36,682**	40,227	42,506
Earnings Available for Common Stock	**$ 205,646**	$ 209,992	$ 52,579

(1) Includes purchased power expense of $102,773,000, $104,127,000 and $31,774,000 in 1990, 1989 and 1988, respectively, related to capacity purchases from Toledo Edison.

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

Management's Financial Analysis

CAPITAL RESOURCES AND LIQUIDITY

We continue to need cash for an ongoing program of constructing new facilities and modifying existing facilities to meet anticipated demand for electric service, to comply with governmental regulations and to improve the environment. Cash is also needed for mandatory retirement of securities. Over the three-year period of 1988-1990, these construction and mandatory retirement needs totaled approximately $775,000,000. In addition, we exercised various options to redeem and purchase approximately $400,000,000 of our securities.

During the 1988-1990 period, the Company issued $356,430,000 of first mortgage bonds and obtained $56,000,000 of term bank loans. In 1989 and 1990, the Company also issued $550,000,000 of secured medium-term notes. The Company utilized its short-term borrowing arrangements (explained in Note 11) which resulted in the Company having $87,110,000 of commercial paper and $17,000,000 in notes payable to affiliates outstanding at December 31, 1990. Proceeds from these financings were used to pay our construction program costs, to repay portions of short-term debt incurred to finance the construction program, to retire, redeem and purchase outstanding securities, and for general corporate purposes.

The Company was granted rate increases effective in 1989, 1990 and 1991 pursuant to the January 1989 PUCO rate order. See Note 6 for a discussion of the rate order which provides for specific levels of rate increases through 1991. Although the rate order required us to write off certain assets in 1988 which lowered our earnings base, our current cash flow was not impaired. Internally generated cash increased in 1989 and 1990 from the 1988 level as a result of the rate increases.

Estimated cash requirements for 1991-1993 are $605,000,000 for our construction program and $515,000,000 for the mandatory redemption of debt and preferred stock. We expect to finance externally about 33% of our 1991 construction and mandatory redemption requirements of approximately $267,000,000. We expect to finance externally about 50% to 60% of our 1992 and 1993 requirements. If economical, we may also redeem additional securities under optional redemption provisions. See Notes 10(c) and (d) for information concerning limitations on the issuance of preferred and preference stock and debt.

Our capital requirements will increase after 1994 as a result of the Clean Air Act of 1990 (Clean Air Act). Our future capital spending will depend on the implementation strategy we choose to achieve compliance with the new law. See Note 3(b).

We expect to be able to raise cash as needed. The availability of capital to meet our external financing needs, however, depends upon such factors as financial market conditions and our credit ratings. Current securities ratings for the Company are as follows:

	Standard & Poor's Corporation	Moody's Investors Service
First mortgage bonds	BBB–	Baa2
Preferred stock	BB+	baa2

A write-off of the Company's investment in Perry Unit 2, as discussed in Note 3(c), would not reduce retained earnings sufficiently to impair the Company's ability to declare dividends and would not affect cash flow.

The Tax Reform Act of 1986 (1986 Tax Act) provided for a 34% income tax rate in 1988 and thereafter, the repeal of the investment tax credit, scheduled reductions in investment tax credit carryforwards, less favorable depreciation rates, a new alternative minimum tax (AMT) and other items. These changes had no significant cash flow impact in 1988 because we had a net operating loss for tax purposes. However, the changes resulted in increased tax payments and a reduction in cash flow during 1989 and 1990 because we were subject to the AMT.

CASH FLOWS

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES

	For the years ended December 31,		
	1990	1989	1988
	(thousands of dollars)		
Cash Flows from Operating Activities (1)			
Net Income	**$ 242,328**	$ 250,219	$ 95,085
Adjustments to Reconcile Net Income to Cash from Operating Activities:			
Depreciation and amortization	**175,654**	193,279	189,731
Deferred federal income taxes	**111,029**	108,261	18,650
Investment tax credits, net	**(17,224)**	(58)	(10,607)
Write-off of nuclear costs	**—**	—	257,400
Deferred and unbilled revenues	**(38,134)**	(32,168)	9,200
Deferred fuel	**(11,410)**	8,827	(33,908)
Carrying charges capitalized	**(161,598)**	(234,788)	(224,585)
Leased nuclear fuel amortization	**47,028**	55,712	44,911
Deferred operating expenses, net	**(30,012)**	(48,132)	(104,396)
Allowance for equity funds used during construction	**(4,531)**	(8,362)	(8,052)
Amortization of reserve for Davis-Besse refund obligations to customers	**—**	(12,162)	(20,341)
Pension settlement gain	**(34,517)**	—	—
Cumulative effect of an accounting change	**—**	—	(21,874)
Changes in amounts due from customers and others, net	**(16,878)**	(9,251)	(7,967)
Changes in inventories	**(22,494)**	(4,919)	9,379
Changes in accounts payable	**39,051**	(6,694)	45,601
Changes in working capital affecting operations	**(5,195)**	29,504	5,825
Other noncash items	**(16,275)**	(16,215)	(17,657)
Total Adjustments	**14,494**	22,834	131,310
Net Cash from Operating Activities	**256,822**	273,053	226,395
Cash Flows from Financing Activities (2)			
Bank loans, commercial paper and other short-term debt	**86,688**	29	(36,555)
Notes payable to affiliates	**(157,200)**	90,200	73,000
Debt issues:			
First mortgage bonds	**100,000**	67,700	188,730
Secured medium-term notes	**337,500**	212,500	—
Term bank loans	**16,000**	40,000	—
Equity contributions from parent	**—**	—	(95)
Maturities, redemptions and sinking funds	**(211,810)**	(305,741)	(162,411)
Nuclear fuel lease and trust obligations	**(56,129)**	(47,574)	(44,911)
Dividends paid	**(185,851)**	(202,444)	(241,422)
Premiums, discounts and expenses	**(5,515)**	(1,697)	(313)
Net Cash from Financing Activities	**(76,317)**	(147,027)	(223,977)
Cash Flows from Investing Activities (2)			
Cash applied to construction	**(156,769)**	(158,585)	(199,983)
Interest capitalized as allowance for borrowed funds used during construction	**(3,319)**	(7,450)	(4,304)
Loans to affiliates	**(11,000)**	—	—
Cash withdrawn from sale and leaseback and other trusts	**—**	—	264,109
Other cash received (applied)	**(6,699)**	(7,298)	510
Net Cash from Investing Activities	**(177,787)**	(173,333)	60,332
Net Change in Cash and Temporary Cash Investments	**2,718**	(47,307)	62,750
Cash and Temporary Cash Investments at Beginning of Year	**28,330**	75,637	12,887
Cash and Temporary Cash Investments at End of Year	**$ 31,048**	$ 28,330	$ 75,637

(1) Interest paid was $244,000,000, $240,000,000 and $224,000,000 in 1990, 1989 and 1988, respectively. Income taxes paid were $18,589,000, $29,106,000 and $84,007,000 in 1990, 1989 and 1988, respectively.
(2) Increases in nuclear fuel and nuclear fuel lease and trust obligations in the Balance Sheet resulting from the noncash capitalizations under nuclear fuel agreements are excluded from this statement.

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

Balance Sheet

	December 31, 1990	December 31, 1989
	(thousands of dollars)	
ASSETS		
PROPERTY, PLANT AND EQUIPMENT		
Utility plant in service	$6,041,878	$5,878,825
Less: accumulated depreciation and amortization	1,410,051	1,264,570
	4,631,827	4,614,255
Construction work in progress	175,232	203,639
Perry Unit 2	521,464	523,294
	5,328,523	5,341,188
Nuclear fuel, net of amortization	300,824	309,182
Other property, less accumulated depreciation	43,428	45,192
	5,672,775	5,695,562
CURRENT ASSETS		
Cash and temporary cash investments	31,048	28,330
Amounts due from customers and others, net	179,184	162,320
Amounts due from affiliates	19,542	6,252
Unbilled revenues	60,700	55,193
Materials and supplies, at average cost	76,092	56,481
Fossil fuel inventory, at average cost	37,000	34,117
Taxes applicable to succeeding years	155,069	145,668
Other	6,926	9,312
	565,561	497,673
DEFERRED CHARGES		
Amounts due from customers for future federal income taxes	671,450	681,809
Unamortized loss on reacquired debt	53,160	47,460
Carrying charges and operating expenses, pre-phase-in	379,575	383,527
Carrying charges and operating expenses, phase-in	464,434	268,871
Other	138,202	95,503
	1,706,821	1,477,170
Total Assets	$7,945,157	$7,670,405

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

	December 31,	
	1990	1989
	(thousands of dollars)	
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION		
Common shares, without par value: 105,000,000 authorized; 79,591,000 outstanding in 1990 and 1989	**$1,242,074**	$1,242,074
Other paid-in capital	**78,625**	78,625
Retained earnings	**563,559**	507,375
Common stock equity	**1,884,258**	1,828,074
Preferred stock:		
With mandatory redemption provisions	**171,162**	212,362
Without mandatory redemption provisions	**217,334**	217,334
Long-term debt	**2,631,911**	2,336,379
	4,904,665	4,594,149
OTHER NONCURRENT LIABILITIES, primarily nuclear fuel lease obligations	**279,850**	305,328
CURRENT LIABILITIES		
Current portion of long-term debt and preferred stock	**97,988**	102,836
Current portion of lease obligations	**64,554**	56,577
Notes payable to banks and others	**86,894**	206
Accounts payable	**177,963**	138,912
Accounts and notes payable to affiliates	**59,884**	211,971
Accrued taxes	**225,666**	233,531
Accrued interest	**53,113**	45,157
Dividends declared	**12,560**	13,006
Accrued payroll and vacations	**17,042**	17,638
Current portion of refund obligations to customers	**—**	32,627
Other	**8,095**	8,607
	803,759	861,068
DEFERRED CREDITS		
Unamortized investment tax credits	**252,759**	278,576
Accumulated deferred federal income taxes	**1,159,199**	1,057,189
Reserve for Perry Unit 2 allowance for funds used during construction	**124,398**	124,398
Unamortized gain from Bruce Mansfield Plant sale	**389,658**	408,268
Other	**30,869**	41,429
	1,956,883	1,909,860
Total Capitalization and Liabilities	**$7,945,157**	$7,670,405

Statement of Cumulative Preferred and Preference Stock

	1990 Shares Outstanding	Current Call Price	December 31, 1990	December 31, 1989
			(thousands of dollars)	
Without par value, 4,000,000 preferred shares authorized; and without par value, 3,000,000 preference shares authorized, none outstanding				
Preferred, subject to mandatory redemption:				
$ 7.35 Series C	180,000	$ 101.00	**$ 18,000**	$ 19,000
88.00 Series E	30,000	1,034.43	**30,000**	33,000
75.00 Series F	2,384	1,000.00	**2,384**	2,384
80.00 Series G	—	—	**—**	800
145.00 Series H	—	—	**—**	14,244
145.00 Series I	13,779	—	**13,779**	17,717
113.50 Series K	10,000	—	**10,000**	10,000
Adjustable Series M	500,000	103.00	**49,000**	49,000
9.125 Series N	750,000	106.08	**73,968**	73,968
			197,131	220,113
Less: Current maturities			**25,969**	7,751
Total Preferred Stock, with Mandatory Redemption Provisions			**$171,162**	$212,362
Preferred, not subject to mandatory redemption:				
$ 7.40 Series A	500,000	101.00	**$ 50,000**	$ 50,000
7.56 Series B	450,000	102.26	**45,071**	45,071
Adjustable Series L	500,000	103.00	**48,950**	48,950
Remarketed Series P	750	100,000.00	**73,313**	73,313
Total Preferred Stock, without Mandatory Redemption Provisions			**$217,334**	$217,334

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

Notes to the Financial Statements

(1) PROPERTY OWNED WITH OTHER UTILITIES AND INVESTORS

The Company owns, as a tenant in common with other utilities and those investors who are owner-participants in various sale and leaseback transactions (Lessors), certain generating units as listed below. Each owner owns an undivided share in the entire unit. Each owner has the right to a percentage of the generating capability of each unit equal to its ownership share. Each utility owner is obligated to pay for only its respective share of the construction and operating costs. Each Lessor has leased its capacity rights to a utility which is obligated to pay for such Lessor's share of the construction and operating costs. The Company's share of the operating expense of these generating units is included in the Income Statement. Property, plant and equipment at December 31, 1990 includes the following facilities owned by the Company as a tenant in common with other utilities and Lessors:

Generating Unit	In-Service Date	Ownership Share	Ownership Megawatts	Power Source	Plant in Service	Construction Work in Progress	Accumulated Depreciation
					(thousands of dollars)		
In Service:							
Seneca Pumped Storage	1970	80.00%	305	Hydro	$ 58,344	$ 554	$ 19,527
Eastlake Unit 5	1972	68.80	411	Coal	154,589	1,699	—
Davis-Besse	1977	51.38	452	Nuclear	646,948	37,055	131,801
Perry Unit 1 and Common Facilities	1987	31.11	371	Nuclear	1,606,310	5,845	155,529
Beaver Valley Unit 2 and Common Facilities (Note 2)	1987	24.47	201	Nuclear	1,168,653	5,207	120,183
Construction Suspended (Note 3(c)):							
Perry Unit 2	Uncertain	31.11	375	Nuclear	—	521,464	—
					$3,634,844	$571,824	$427,040

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

Ohio Edison and Pennsylvania Power purchased 80 megawatts of the Company's capacity entitlement in Perry Unit 1 from November 1987 through May 1989. Revenues from this transaction were $31,831,000 and $84,068,000 in 1989 and 1988, respectively.

(2) UTILITY PLANT SALE AND LEASEBACK TRANSACTIONS

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

As co-lessee with Toledo Edison, the Company is also obligated for Toledo Edison's lease payments. If Toledo Edison is unable to make its payments under the Mansfield Plant and Beaver Valley Unit 2 leases, the Company would be obligated to make such payments. No payments have been made on behalf of Toledo Edison to date.

Future minimum lease payments under these operating leases at December 31, 1990 are summarized as follows:

Year	For the Company	For Toledo Edison
	(thousands of dollars)	
1991	$ 63,000	$ 107,000
1992	63,000	110,000
1993	63,000	111,000
1994	63,000	111,000
1995	63,000	111,000
Later Years	$1,579,000	$2,592,000
Total Future Minimum Lease Payments	$1,894,000	$3,142,000

Semiannual lease payments conform with the payment schedule for each lease.

Rental expense is accrued on a straight-line basis over the terms of the leases. The amounts recorded by the Company as rental expense for the Mansfield Plant leases were $70,008,000 in both 1990 and 1989 and $68,010,000 in 1988.

The Company and Toledo Edison are responsible under these leases for paying all taxes, insurance premiums, operation and maintenance costs and all other similar costs for their interests in the units sold and leased back. The Company and Toledo Edison may incur additional costs in connection with capital improvements to the units. The Company and Toledo Edison have options to buy the interests back at the end of the leases for the fair market value at that time or to renew the leases. Additional lease provisions provide other purchase options along with conditions for mandatory termination of the leases (and possible repurchase of the leasehold interests) for events of default. These events of default include noncompliance with several financial covenants affecting the Company, Toledo Edison and Centerior Energy contained in an agreement relating to a letter of credit issued in connection with the sale and leaseback of Beaver Valley Unit 2, as amended in 1989. See Note 10(d).

Toledo Edison is selling 150 megawatts of its Beaver Valley Unit 2 leased capacity entitlement to the Company. This sale commenced in November 1988 and we anticipate that it will continue at least until 1998. Purchased power expense for this transaction was $102,773,000, $104,127,000 and $18,533,000 in 1990, 1989 and 1988, respectively. In 1988, a portion ($16,061,000) of the purchased power expense was recorded in a deferred charge account pursuant to a PUCO accounting order. This amount is being amortized to expense over the life of the lease beginning in 1989. The future minimum lease payments associated with Beaver Valley Unit 2 aggregate $1,936,000,000.

(3) CONSTRUCTION AND CONTINGENCIES

(a) CONSTRUCTION PROGRAM

The estimated cost of the Company's construction program for the 1991-1993 period is $[illegible]48,000,000, including AFUDC of $43,000,000 and excluding nuclear fuel.

(b) CLEAN AIR LEGISLATION

The Clean Air Act will require, among other things, significant reductions in the emission of sulfur dioxide and nitrogen oxides by the Company's fossil-fueled electric generating units. The Clean Air Act will require that sulfur dioxide emissions be reduced in two phases over a ten-year period. Centerior Energy's preliminary analysis indicates that compliance with the Clean Air Act may require additional aggregate capital expenditures by the Company after 1994 in the range of $370,000,000 to $665,000,000. Compliance also is expected to result in somewhat higher fuel and operation and maintenance expenses in phase one and even higher operation and maintenance expenses in phase two (after 1999).

The aggregate rate increases needed to fund compliance with the first of the two phases could be in the range of 2% to 4% by 1999. Total compliance costs of the Clean Air Act for both phases could result in aggregate rate increases in the range of 7% to 8% by 2004. A more specific compliance cost estimate will become available when Centerior Energy's compliance strategy for the Company and Toledo Edison is further developed.

We believe that Ohio law would permit the recovery of compliance costs from customers in rates.

(c) PERRY UNIT 2

Perry Unit 2, including its share of the common facilities, is over 50% complete. Construction of Perry Unit 2 was suspended in 1985 by the CAPCO companies pending future consideration of various options, including resumption of full construction with a revised estimated cost and completion date or cancellation. No option may be implemented without the approval of each of the CAPCO companies. Duquesne, a 13.74% owner of Perry Unit 2, has advised the Pennsylvania Public Utility Commission that it will not agree to resumption of construction of Perry Unit 2. The NRC construction permit for Perry Unit 2 expires in November 1991. The Company, which is responsible for the construction of Perry Unit 2, plans to apply for an extension of the construction permit prior to the expiration date. Under NRC regulations, this action will cause the construction permit to remain in effect while the application is pending.

If Perry Unit 2 were to be canceled, then the Company's net investment in Perry Unit 2 (less any tax saving) would have to be written off. We estimate that such a write-off, based on the Company's investment in this unit as of December 31, 1990, would have been about $268,000,000, after taxes. See Note 10(d) for a discussion of other potential consequences of such a write-off.

Beginning in July 1985, Perry Unit 2 AFUDC was credited to a deferred income account until January 1, 1988, when the practice was discontinued.

(d) SUPERFUND SITES

The Comprehensive Environmental Response, Compensation and Liability Act of 1980 as amended (Superfund) established programs addressing the cleanup of hazardous waste disposal sites, emergency preparedness and other issues. The Company is aware of its potential involvement in the cleanup of seven hazardous waste sites. We believe that the ultimate outcome of these matters will not have a material adverse effect on the Company's financial condition or results of operations.

(4) NUCLEAR OPERATIONS AND CONTINGENCIES

(a) OPERATING NUCLEAR UNITS

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

(b) NUCLEAR INSURANCE

The Price-Anderson Act limits the liability of the owners of a nuclear power plant to the amount provided by private insurance and an industry assessment plan. In the event of a nuclear incident at any unit in the United States resulting in losses in excess of the level of private insurance (currently $200,000,000), the Company's maximum potential assessment under that plan (assuming the other CAPCO companies were to contribute their proportionate share of any assessment) would be $70,754,000 (plus any inflation adjustment) per incident, but is limited to $10,696,000 per year for each nuclear incident.

The CAPCO companies have insurance coverage for damage to property at Davis-Besse, Perry and Beaver Valley (including leased fuel and clean-up costs). Coverage amounted to $2,325,000,000 for each site as of January 1, 1991. Damage to property could exceed the insurance coverage by a substantial amount. If it does, the Company's share of such excess amount could have a material adverse effect on the Company's financial condition and results of operations.

The Company also has insurance coverage for the incremental cost of any replacement power purchased (over the costs which would have been incurred had the units been operating) after the occurrence of certain types of accidents at the Company's nuclear units. The amounts of the coverage are 100% of the estimated incremental cost per week during the 52-week period starting 21 weeks after an accident, 67% of such estimate per week for the next 52 weeks and 33% of such estimate per week for the next 52 weeks. The cost and duration of replacement power could substantially exceed the insurance coverage.

(5) NUCLEAR FUEL

The Company has inventories for nuclear fuel which should provide an adequate supply into the mid-1990s. Substantial additional nuclear fuel must be obtained to supply fuel for the remaining useful lives of Davis-Besse, Perry Unit 1 and Beaver Valley Unit 2. More nuclear fuel would be required if Perry Unit 2 were completed.

In 1989, existing nuclear fuel financing arrangements for the Company and Toledo Edison were refinanced through leases from a special-purpose corporation. The total amount of financing currently available under these lease arrangements is $609,000,000 ($309,000,000 from intermediate-term notes and $300,000,000 from bank credit arrangements), although financing in an amount up to $900,000,000 is permitted. The intermediate-term notes mature in the period 1993-1997. Beginning in 1991, the bank credit arrangements are cancelable on two years' notice by the lenders. As of December 31, 1990, $314,000,000 of nuclear fuel was financed for the Company. The Company and Toledo Edison severally lease their respective portions of the nuclear fuel and are obligated to pay for the fuel as it is consumed in a reactor. The lease rates are based on various intermediate-term note rates, bank rates and commercial paper rates.

The amounts financed for the Company include nuclear fuel in the Davis-Besse, Perry Unit 1 and Beaver Valley Unit 2 reactors with remaining lease payments of $65,000,000, $28,000,000 and $33,000,000, respectively, as of December 31, 1990. The Company's nuclear fuel amounts financed and capitalized also included interest charges incurred by the lessors amounting to $19,000,000 in 1990, $25,000,000 in 1989 and $23,000,000 in 1988. The estimated future lease amortization payments based on projected consumption are $63,000,000 in both 1991 and 1992, $66,000,000 in 1993, $62,000,000 in 1994 and $56,000,000 in 1995. As these payments are made, the amount of credit available to the lessor becomes available to finance additional nuclear fuel, assuming the lessor's intermediate-term notes and bank credit arrangements continue to be outstanding.

(6) REGULATORY MATTERS

On January 31, 1989, the PUCO issued an order which provided for three annual rate increases for the Company of approximately 9%, 7% and 6% effective with bills rendered on and after February 1, 1989, 1990 and 1991, respectively. The 6% increase effective February 1, 1991 has been reduced to 4.35% as discussed below.

The annualized revenue increases in 1989 and 1990 associated with the rate order were $120,700,000 and $105,700,000, respectively. In 1991, the estimated annualized revenue increase resulting from the order, as adjusted, is $71,400,000.

The January 1989 rate order provided for the permanent exclusion from rate base of a portion of the Company's investment in Perry Unit 1 and Beaver Valley Unit 2. The exclusion resulted in a write-off by the Company of $212,000,000 ($140,000,000 after tax) in 1988. Since the order effectively eliminated the possibility of the Company recovering its remaining investment in four nuclear construction projects canceled in 1980 and recovering certain deferred expenses for Davis-Besse, additional write-offs totaling $45,000,000 ($28,000,000 after tax) were recorded by the Company in 1988, bringing the total write-off of nuclear costs as a consequence of the order to $257,000,000 ($168,000,000 after tax).

The phase-in plan under the January 1989 rate order was designed so that the three rate increases, coupled with then-projected sales growth, would provide revenues sufficient to recover all operating expenses and provide a fair rate of return on the Company's allowed investment in Perry Unit 1 and Beaver Valley Unit 2 for ten years beginning January 1, 1989. In the early years of the plan, the revenues were expected to be less than that required to recover operating expenses and provide a fair return on investment. Therefore, the amounts of operating expenses and return on investment not currently recovered are deferred and capitalized as deferred charges. Since the unrecovered investment will decline over the period of the phase-in plan because of depreciation and federal income tax benefits that result from the use of accelerated tax depreciation, the amount of revenues required to provide a fair return also declines. Beginning in the sixth year, the revenue levels authorized pursuant to the phase-in plan were designed to be sufficient to recover that period's operating expenses, a fair return on the unrecovered investment, and amortization of deferred operating expenses and carrying charges recorded during the earlier years of the plan. All phase-in deferrals after December 31, 1988 relating to these two units will be recovered by December 31, 1998. Pursuant to such phase-in plan, the Company deferred the following:

	1990	1989
	(thousands of dollars)	
Deferred Operating Expenses	$ 33,960	$ 52,020
Carrying Charges		
Debt	$ 51,421	$ 81,097
Equity	110,177	135,754
	$161,598	$216,851

Under the January 1989 rate order, the amount of deferred operating expenses and carrying charges scheduled to be recorded in 1991 through 1993 total $80,000,000, $51,000,000 and $9,000,000, respectively. The phase-in plan was designed so that fluctuations in sales should not affect the level of

earnings. The order accomplishes this by allowing the Company to seek PUCO approval to adjust cost deferrals if actual revenues are higher or lower than amounts projected in the order. The order also provides for the adjustment of deferrals to reflect 50% of the net after-tax savings in 1989 and 1990 identified by the management audit and approved by the PUCO as discussed in the following paragraphs. No change was made in the cost deferrals for 1989. The Company deferred an additional $24,102,000 of carrying charges in 1990 and will request PUCO approval of the deferral.

In connection with the Company's 1989 order and a similar order for Toledo Edison, the Company, Toledo Edison and the Service Company have undergone a management audit to assure that operation and maintenance expense savings are maximized. The audit was conducted under the direction of an Audit Advisory Panel (Audit Panel) comprised of representatives of Centerior Energy, the Ohio Office of Consumers' Counsel and the Industrial Energy Consumers. In April 1990, the Audit Panel announced that it had identified potential annual savings in operating expenses in the amount of $98,160,000 from Centerior Energy's 1989 budget level. The amount of potential savings attributable to the Company is 55% ($53,988,000). The Company expects to begin realizing most of the savings identified by the audit by the end of 1991.

Fifty percent of the savings identified by the Audit Panel were used to reduce the 6% rate increase scheduled to go into effect on February 1, 1991. As discussed previously, the Company's rates increased 4.35% under this provision as approved by the PUCO in January 1991.

The Company has entered into an agreement with other members of the Audit Panel in which the Company has agreed to use its best efforts to avoid rate increases in the years immediately following 1991.

The 1989 order also sets nuclear performance standards through 1998. Beginning in 1991, the Company could be required to refund incremental replacement power costs if the standards are not met. We do not believe any refund will be required for the Company for 1991. Fossil-fueled power plant performance may not be raised as an issue in any rate proceeding before February 1994 as long as the Company and Toledo Edison achieve a system-wide availability factor of at least 65% annually. This standard was exceeded in 1989 and 1990.

(7) FEDERAL INCOME TAX

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

	For the years ended December 31,		
	1990	1989	1988
	(thousands of dollars)		
Book Income Before Federal Income Tax	$337,828	$391,193	$151,129
Tax on Book Income at Statutory Rate	$114,862	$133,006	$ 51,384
Increase (Decrease) in Tax:			
Accelerated depreciation	7,140	4,422	6,300
Investment tax credits on disallowed nuclear plant	(16,712)	—	—
Organization costs	—	—	3,343
Taxes, other than federal income taxes	(9,469)	—	(2,202)
Other items	1,679	3,546	(2,781)
Total Federal Income Tax Expense	$ 95,500	$140,974	$ 56,044

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

	For the years ended December 31, 1990	1989	1988
		(thousands of dollars)	
Operating Expenses:			
Current Tax Provision	$ 26,934	$ 63,447	$ 82,766
Changes in Accumulated Deferred Federal Income Tax:			
Accelerated depreciation and amortization	40,197	35,380	24,445
Alternative minimum tax credit	(18,86[illegible])	(34,874)	—
Sale and leaseback transactions and amortization	3,496	3,893	(1,175)
Property tax expense	(10,880)	—	(7,069)
Deferred CWIP revenues	11,093	11,005	(4,122)
Deferred fuel costs	4,763	(3,155)	11,529
System development costs	403	348	5,518
Davis-Besse replacement power	—	4,136	6,916
Federal income tax return adjustments	—	—	(19,349)
Reacquired debt costs	1,887	(872)	(872)
Deferred operating expenses	1,458	2,289	10,874
Other items	13,119	3,620	(4,200)
Investment Tax Credits	1,489	58	(10,607)
Total Charged to Operating Expenses	75,099	85,275	94,654
Nonoperating Income:			
Current Tax Provision	(25,225)	(31,29[illegible])	(48,413)
Changes in Accumulated Deferred Federal Income Tax:			
Davis-Besse replacement power	—	—	3,015
Write-off of nuclear costs	(11,986)	—	(91,643)
AFUDC and carrying charges	57,612	87,[illegible]1	80,923
Taxes, other than federal income taxes	—	—	5,520
Other items	—	(544)	(2,564)
Total Expense (Credit) to Nonoperating Income	20,401	55,699	(53,162)
Federal Income Tax Included in Cumulative Effect of an Accounting Change for Unbilled Revenues	—	—	14,552
Total Federal Income Tax Expense	$ 95,500	$140,974	$ 56,044

The Company joins in the filing of a consolidated federal income tax return with its affiliated companies. The method of tax allocation approximates a separate return result for each company.

In 1988, a change was made in accounting for income taxes from the deferred to the liability method. This change did not impact net income as the additional deferred taxes recorded were offset by a regulatory asset on the Balance Sheet.

Federal income tax expense adjustments in 1990, associated with previously deferred investment tax credits relating to the 1988 write-off of nuclear plant investments, decreased the net tax provision related to nonoperating income by $18,712,000.

The favorable resolution of an issue concerning the appropriate year to recognize a property tax deduction resulted in an adjustment which reduced federal income tax expense in 1990 by $10,100,000 ($8,207,000 in the fourth quarter).

For tax purposes, net operating loss (NOL) carryforwards of approximately $43,279,000, $47,448,000 and $140,833,000 were generated in 1990, 1989 and 1988, respectively. The NOL carryforwards are available to reduce future taxable income and will expire in 2003 through 2005. The 34% tax effect of the NOLs generated in each year ($14,7[illegible]5,000, $16,132,000 and $47,884,000 in 1990, 1989 and 1988, respectively) is included in the above table as a reduction to deferred federal income tax relating to accelerated depreciation and amortization. Future utilization of these tax NOL carryforwards would result in recording the related deferred taxes.

Approximately $11,504,000 of unused general business tax credits are available to reduce future tax obligations. The unused credits expire in varying amounts in 2001 through 2005. Utilization of these unused credits is limited by provisions of the 1986 Tax Act and the level of future taxable income to which such credits may be applied.

The 1986 Tax Act provides for an AMT credit to be used to reduce the regular tax to the AMT level should the regular tax exceed the AMT. AMT credits of $18,860,000 and $34,874,000 were generated in 1990 and 1989, respectively.

(8) RETIREMENT INCOME PLAN AND OTHER POSTRETIREMENT BENEFITS

The Company and Service Company jointly sponsor a noncontributing pension plan which covers all employee groups. The amount of retirement benefits generally depends upon the length of service. Under certain circumstances, benefits can begin as early as age 55. The plan also provides certain death, medical and disability benefits. The Company's and Service Company's funding policy is to comply with the Employee Retirement Income Security Act of 1974 guidelines.

During 1990, the Company and Service Company offered their second Voluntary Early Retirement Opportunity Program (VEROP). Operating expenses for both companies included $8,000,000 of pension plan accruals to cover enhanced VEROP benefits plus an additional $20,000,000 of pension costs for VEROP benefits being paid to retirees from both companies' corporate funds. The $20,000,000 is not included in the pension data reported below. Operating expenses for 1990 for both companies also included a credit of $36,000,000 resulting from a settlement of pension obligations through lump sum payments to a substantial number of VEROP retirees. Net pension and VEROP costs (credits) for 1988 through 1990 for the plan were comprised of the following components:

	1990	1989	1988
	(millions of dollars)		
Pension Costs (Credits)			
Service cost for benefits earned during the period	$ 10	$ 10	$ 8
Interest cost on projected benefit obligation	26	25	24
Actual return on plan assets	(6)	(56)	(58)
Net amortization and deferral	(41)	9	14
Net pension credits	(11)	(12)	(12)
VEROP cost	8	—	4
Settlement gain	(36)	—	—
Net credits	$(39)	$(12)	$ (8)

The following table presents a reconciliation of the funded status of the plan at December 31, 1990 and 1989.

	December 31,	
	1990	1989
	(millions of dollars)	
Actuarial present value of benefit obligations		
Vested benefits	$ 229	$ 236
Nonvested benefits	18	21
Accumulated benefit obligation	247	257
Effect of future compensation levels	50	84
Total projected benefit obligation	297	341
Plan assets at fair market value	502	587
Surplus of plan assets over projected benefit obligation	205	246
Unrecognized net gain due to variance between assumptions and experience	(68)	(128)
Unrecognized prior service cost	8	3
Transition asset at January 1, 1987 being amortized over 19 years	(103)	(118)
Net prepaid pension cost	$ 42	$ 3

The settlement (discount) rate assumption was 8.5% for December 31, 1990 and 8% for December 31, 1989. The long-term rate of annual compensation increase assumption was 5% for both December 31, 1990 and December 31, 1989. The long-term rate of return on plan assets assumption was 8% in 1990 and 1989.

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

The cost of postretirement medical benefits amounted to $4,100,000 in 1990, $2,900,000 in 1989 and $2,200,000 in 1988. Consistent with current ratemaking practices, these costs are recorded when paid.

In December 1990, a new accounting standard for postretirement benefits other than pensions was issued. This standard requires employers to accrue the expected cost of such benefits during the employees' years of service. The standard also requires the recording of a cumulative transition obligation adjustment which can be recognized immediately, subject to certain limitations, or amortized over the longer of 20 years or the average remaining service period of active employees expected to receive benefits. The Company and Service Company are required to adopt the new standard no later than 1993. Although we have not completed an analysis to determine the effect of adopting the new standard, we do not expect adoption to have a material adverse effect on the Company's financial condition or results of operations because of expected future regulatory treatment. Any liabilities recorded pursuant to the standard may be essentially offset by regulatory assets to reflect anticipated future revenues associated with recovery through rates.

(9) GUARANTEES

Under two long-term coal purchase arrangements, the Company has guaranteed certain loan and lease obligations of two mining companies. One of these arrangements also requires payments to the mining company for any actual out-of-pocket idle mine expenses (as advance payments for coal) when the mines are idle for reasons beyond the control of the mining company. At December 31, 1990, the principal amount of the mining companies' loan and lease obligations guaranteed by the Company was $85,000,000.

(10) CAPITALIZATION

(a) CAPITAL STOCK TRANSACTIONS

Preferred and preference stock shares retired during the three years ended December 31, 1990 are as follows:

	1990	1989	1988
	(thousands of shares)		
Cumulative Preferred and Preference Stock Subject to Mandatory Redemption:			
Preferred			
$ 7.35 Series C	(10)	(10)	(10)
88.00 Series E	(3)	(3)	(3)
75.00 Series F	—	(1)	(14)
80.00 Series G	(1)	(2)	(5)
145.00 Series H	(14)	(4)	(4)
145.00 Series I	(4)	(4)	(4)
Preference			
$ 77.50 Series 1	—	(6)	(7)
Total	(32)	(30)	(47)

(b) EQUITY DISTRIBUTION RESTRICTIONS

At December 31, 1990, consolidated retained earnings were $563,559,000. The retained earnings were available for the declaration of dividends on the Company's preferred and common shares. All of the Company's common shares are held by Centerior Energy.

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

(c) CUMULATIVE PREFERRED AND PREFERENCE STOCK

Amounts to be paid for preferred stock which must be redeemed during the next five years are $26,000,000 in 1991, $16,000,000 in 1992 and $31,000,000 in each year 1993 through 1995.

The annual mandatory redemption provisions are as follows:

	Shares To Be Redeemed	Beginning in	Price Per Share
Preferred:			
$ 7.35 Series C	10,000	1984	$ 100
88.00 Series E	3,000	1981	1,000
75.00 Series F	2,384*	1985	1,000
145.00 Series I	1,969	1986	1,000
113.50 Series K	10,000	1991**	1,000
Adjustable Series M	100,000	1991	100
9.125 Series N	150,000	1993	100

* Represents remaining shares to be redeemed March 1, 1991.

**All outstanding shares to be redeemed June 1, 1991.

The annualized cumulative preferred dividend requirement as of December 31, 1990 is $35,000,000.

The preferred dividend rates on the Company's Series L and M fluctuate based on prevailing interest rates, with the dividend rates for these issues averaging 8.38% and 7.71%, respectively, in 1990. The dividend rate on Remarketed Series P averaged 8.01% in 1990.

There are no restrictions on the Company's ability to issue preferred or preference stock.

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

(d) LONG-TERM DEBT AND OTHER BORROWING ARRANGEMENTS

Long-term debt, less current maturities, was as follows:

Year of Maturity	Actual or Average Interest Rate	December 31, 1990	1989
		(thousands of dollars)	
First mortgage bonds:			
1991	8.375%	$ —	$ 35,000
1991	13.75	—	4,334
1992	15.25	20,000	20,000
1992	10.58	40,000	40,000
1992	13.75	4,334	4,334
1993	3.875	30,000	30,000
1993	8.55	50,000	50,000
1993	13.75	4,334	4,334
1994	4.375	25,000	25,000
1994	13.75	4,334	4,334
1995	13.75	4,334	4,334
1995	7.00	720	720
1995	7.00	15	15
1995	7.00	15	15
1996-2000	11.42	53,420	53,420
2001-2005	9.68	132,410	132,410
2006-2010	8.83	221,750	221,750
2011-2015	9.38	448,435	533,435
2016-2020	9.01	692,880	592,880
2021-2023	8.22	174,300	174,300
		1,906,281	1,930,615
Term bank loans due 1992-1996	8.70	114,400	130,000
Notes due 1993-1999	9.32	550,000	212,500
Pollution control notes due 1992-2012	6.30	54,260	54,770
Other — net	—	6,970	8,494
Total Long-Term Debt		$2,631,911	$2,336,379

Long-term debt matures during the next five years as follows: $72,000,000 in 1991, $99,000,000 in 1992, $271,000,000 in 1993, $42,000,000 in 1994 and $206,000,000 in 1995.

In 1989 and 1990, the Company issued $550,000,000 aggregate principal amount of secured medium-term notes with various maturities ranging from 1993 to 1999 and annual interest rates ranging from 8.95% to 9.8%. The notes are secured by first mortgage bonds.

During 1990, the Company arranged to refund in 1992 $78,700,000 principal amount of its First Mortgage Bonds, 13⅛% Series due 2012, which are collateral security for pollution control refunding bonds issued by a public authority. The authority's bonds will be refunded at the same time. To effect the refund of its bonds, the authority entered into a contract with two institutions to deliver in 1992 $78,700,000 aggregate principal amount of its tax-exempt pollution control bonds due December 1, 2013 with an interest rate of 8% at a price of 97.496% for an effective interest cost of 8.25%. The authority's bonds will be

secured by $78,700,000 principal amount of the Company's First Mortgage Bonds, 8% Series due 2013-B. The proceeds will be used to redeem the authority's outstanding bonds and refund the 13⅛% Series First Mortgage Bonds in July 1992. The PUCO authorized the Company to record interest expense equal to a blend of the higher rate on the outstanding bonds with the lower rate on the new bonds for an interest expense reduction of $1,000,000 in 1990 and approximately $6,000,000 total in 1991 and 1992.

The Company's mortgage constitutes a direct first lien on substantially all property owned and franchises held by the Company. Excluded from the lien, among other things, are cash, securities, accounts receivable, fuel and supplies.

Additional first mortgage bonds may be issued by the Company under its mortgage on the basis of bondable property additions, cash or substitution for refundable first mortgage bonds. The issuance of additional first mortgage bonds by the Company on the basis of property additions is limited by two provisions of its mortgage. One relates to the amount of bondable property available and the other to earnings coverage of interest on the bonds. Under the more restrictive of these provisions (currently, the amount of bondable property available), the Company would have been permitted to issue approximately $369,000,000 of bonds based upon available bondable property at December 31, 1990. The Company also would have been permitted to issue approximately $159,000,000 of bonds based upon refundable bonds at December 31, 1990. If Perry Unit 2 had been canceled and written off as of December 31, 1990, the Company would have been permitted to issue approximately $20,000,000 of bonds based upon available bondable property and approximately $159,000,000 of bonds based upon refundable bonds at December 31, 1990.

An agreement relating to a letter of credit issued in connection with the sale and leaseback of Beaver Valley Unit 2 (as amended in 1989) contains several financial covenants affecting the Company, Toledo Edison and Centerior Energy. Among these are covenants relating to earnings coverage ratios and capitalization ratios. The Company, Toledo Edison and Centerior Energy are in compliance with these covenant provisions. We believe the Company, Toledo Edison and Centerior Energy will continue to meet these covenants in the event of a write-off of the Company's and Toledo Edison's investments in Perry Unit 2, barring unforeseen circumstances.

(11) SHORT-TERM BORROWING ARRANGEMENTS

The Company had $152,000,000 of bank lines of credit arrangements at December 31, 1990. This included a $30,000,000 line of credit which provided a $5,000,000 line of credit to be available to the Service Company if unused by the Company. There were no borrowings under these bank credit arrangements at December 31, 1990.

Short-term borrowing capacity authorized by the PUCO is $300,000,000. The Company and Toledo Edison have been authorized by the PUCO to borrow from each other on a short-term basis.

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

At December 31, 1990, the Company had $87,110,000 of commercial paper outstanding. The commercial paper was backed by at least an equal amount of unused bank lines of credit.

(12) CHANGE IN ACCOUNTING FOR UNBILLED REVENUES

Prior to 1988, revenues were recorded in the accounting period during which meters were read. Utility service rendered after monthly meter reading dates through the end of a calendar month (unbilled revenues) became a part of operating revenues in the following month. In January 1988, the Company adopted a change in accounting for revenues in order to accrue the estimated amount of unbilled revenues at the end of each month.

The adoption of this accounting method increased 1988 net income $3,363,000 (net of $1,733,000 of income taxes) before the cumulative effect on periods prior to January 1, 1988. The cumulative effect of the change on the periods prior to January 1, 1988 was $21,874,000 (net of $14,552,000 of income taxes) and was included in 1988 net income.

(13) **QUARTERLY RESULTS OF OPERATIONS** (UNAUDITED)

The following is a tabulation of the unaudited quarterly results of operations for the two years ended December 31, 1990.

	Quarters Ended			
	March 31	June 30	Sept. 30	Dec. 31
	(thousands of dollars)			
1990				
Operating Revenues	$386,116	$401,850	$478,384	$389,494
Operating Income	76,273	57,599	130,348	82,161
Net Income	43,831	43,019	95,005	60,473
Earnings Available for Common Stock	34,280	33,682	86,043	51,641
1989				
Operating Revenues	$381,835	$401,772	$448,091	$359,964
Operating Income	79,766	91,486	111,372	2,802
Net Income	71,113	63,273	89,560	26,273
Earnings Available for Common Stock	60,586	52,761	79,729	16,916

Earnings for the quarter ended June 30, 1990 were increased as a result of federal income tax expense adjustments associated with deferred investment tax credits relating to the 1988 write-off of nuclear plant investments. See Note 7. The adjustments increased quarterly earnings by $18,391,000.

Earnings for the quarter ended December 31, 1990 were increased as a result of year-end adjustments of $18,030,000 to reduce depreciation expense for the year (see Summary of Significant Accounting Policies), $24,102,000 to increase phase-in carrying charges (see Note 6) and $8,207,000 to reduce federal income tax expense (see Note 7). The total of these adjustments increased quarterly earnings by $37,000,000.

Financial and Statistical Review

Operating Revenues (thousands of dollars)

Year	Residential	Commercial	Industrial	Other	Total Retail	Wholesale	Total Electric	Steam Heating	Total Operating Revenues
1990	**$495 158**	**$494 370**	**$543 813**	**$122 701**	**$1 656 042**	**$ (198)**	**$1 655 844**	**$ —**	**$1 655 844**
1989	469 803	452 911	519 854	117 220	1 559 788	31 874	1 591 662	—	1 591 662
1988	436 413	395 165	475 063	59 804	1 367 445	84 133	1 451 578	—	1 451 578
1987	428 786	389 297	470 861	12 322	1 301 266	9 378	1 310 644	13 371	1 324 015
1986	410 153	382 773	461 408	60 245	1 314 579	192	1 314 771	12 953	1 327 724
1980	268 787	220 677	323 764	25 454	838 682	39 819	878 501	15 065	893 566

Operating Expenses (thousands of dollars)

Year	Fuel & Purchased Power	Other Operation & Maintenance	Depreciation & Amortization	Taxes Other Than FIT	Phase-in & Pre-phase in Deferred, Net	Federal Income Taxes	Total Operating Expenses
1990	**$377 082**	**$514 186**	**$175 654**	**$197 454**	**$ (30 012)**	**$75 099**	**$1 309 463**
1989	384 543	508 151	193 279	183 120	(48 132)	85 275	1 306 236
1988	307 014	524 478	189 731	184 813	(104 396)	94 654	1 196 294
1987	330 290	425 938	148 918	146 407	(47 826)	83 179	1 086 906
1986	363 518	388 388	103 179	143 495	—	97 074	1 095 654
1980	359 388	195 840	64 619	81 630	—	41 574	743 051

Income (thousands of dollars)

Year	Operating Income	AFUDC—Equity	Other Income & Deductions, Net	Carrying Charges	Federal Income Taxes—Credit (Expense)	Income Before Interest Charges
1990	**$346 381**	**$ 4 531**	**$ 1 836**	**$161 598**	**$(20 401)**	**$493 945**
1989	285 426	8 362	7 934	234 788	(55 699)	480 811
1988	255 284	8 052	(243 297)(a)	224 585	53 162	297 786
1987	237 109	177 170	(41 940)	24 610	79 606	476 555
1986	232 070	178 826	(6 255)	—	64 544	469 185
1980	150 515	40 873	7 605	—	13 962	212 955

Income (thousands of dollars)

Year	Debt Interest	AFUDC—Debt	Income Before Cumulative Effect of an Accounting Change	Cumulative Effect of an Accounting Change	Net Income	Preferred & Preference Stock Dividends	Earnings Available for Common Stock
1990	**$254 936**	**$ (3 319)**	**$242 328**	**$ —**	**$242 328**	**$36 682**	**$205 646**
1989	238 042	(7 450)	250 219	—	250 219	40 227	209 992
1988	228 879	(4 304)	73 211	21 874(b)	95 085	42 506	52 579
1987	249 958	(82 985)	309 582	—	309 582	43 386	266 196
1986	232 133	(62 832)	299 884	—	299 884	39 784	260 100
1980	112 623	(25 051)	125 383	—	125 383	27 711	97 672

(a) Includes write-off of nuclear costs in the amount of $257,400,000 in 1988.

(b) In 1988, a change in the method of accounting for unbilled revenues was adopted.

Year	Electric Sales (millions of KWH) Residential	Commercial	Industrial	Wholesale	Other	Total	Electric Customers (year end) Residential	Commercial	Industrial & Other	Total	Residential Usage Average KWH Per Customer	Average Price Per KWH	Average Revenue Per Customer
1990	**4 716**	**5 234**	**8 551**	**—**	**463**	**18 964**	**665 000**	**68 700**	**8 351**	**742 051**	**6 867**	**10.53¢**	**$723.15**
989	4 789	5 208	8 780	87	501	19 365	660 786	68 030	8 329	737 145	7 025	9.81	691.83
1988	4 852	4 998	9 013	481	472	19 816	657 592	66 606	8 203	732 401	7 152	8.99	646.35
1987	4 682	4 818	8 396	55	485	18 436	654 021	64 978	8 155	727 154	6 927	9.16	637.46
1986	4 586	4 744	7 927	—	460	17 717	651 327	63 292	8 008	722 627	6 810	8.94	611.34
1980	4 463	4 149	8 062	1 070	416	18 160	642 845	60 070	7 642	710 557	6 686	6.05	404.37

Year	Load (MW & %) Operable Capacity at Time of Peak	Peak Load	Capacity Margin	Load Factor	Energy (millions of KWH) Company Generated Fossil	Nuclear	Total	Net Purchased Power	Total	Fuel Fuel Cost Per KWH	Efficiency-BTU Per KWH
1990	**4 685**	**3 778**	**19.4%**	**63.3%**	**15 579**	**5 262**	**20 841**	**(643)**	**20 198**	**1.52¢**	**10 417**
1989	4 536	3 866	14.8	65.2	14 968	6 570	21 538	(777)	20 761	1.49	10 506
1988	4 468**(c)**	4 067	9.0	59.8	15 756	4 480	20 236	1 091	21 327	1.59	10 517
1987	4 257	3 722	12.6	62.5	14 978	3 689	18 667	1 248	19 915	1.56	10 596
1986	3 775**(c)**	3 601	4.6	62.2	16 277	12	16 289	2 863	19 152	1.78	10 464
1980	4 353	3 325	23.6	64.3	14 486	1 083	15 569	3 894	19 463	1.67	10 635

Investment (thousands of dollars)

Year	Utility Plant in Service	Accumulated Depreciation & Amortization	Net Plant	Construction Work in Progress & Perry Unit 2	Nuclear Fuel and Other	Total Property Plant and Equipment	Utility Plant Additions	Total Assets
1990	**$6 041 878**	**$1 410 051**	**$4 631 827**	**$ 696 696**	**$344 252**	**$5 672 775**	**$164 619**	**$7 945 157**
1989	5 878 825	1 264 570	4 614 255	726 933	354 374	5 695 562	153 440	7 670 405
1988	5 704 746	1 081 758	4 622 988	763 628	380 573	5 767 189	211 060	7 456 198
1987	5 787 603	905 297	4 882 306	633 433	389 281	5 905 020	566 947	7 089 026
1986	3 196 730	951 917	2 244 813	3 067 837	383 542	5 696 192	670 585	6 209 692
1980	2 404 255	557 859	1 846 396	811 084	62 259**(d)**	2 719 739	398 088	3 135 584

Capitalization (thousands of dollars & %)

Year	Common Stock Equity		Preferred & Preference Stock, with Mandatory Redemption Provisions		Preferred Stock, without Mandatory Redemption Provisions		Long-Term Debt		Total
1990	**$1 884 258**	**38%**	**$171 162**	**3%**	**$217 334**	**4%**	**$2 631 911**	**55%**	**$4 904 665**
1989	1 828 074	40	212 362	4	217 334	5	2 336 379	51	4 594 149
1988	1 780 408	40	232 626	5	217 334	5	2 260 170	50	4 490 538
1987	1 925 719	41	270 645	6	217 334	4	2 317 957	49	4 731 655
1986	1 843 974	40	339 017	7	144 021	3	2 311 455	50	4 638 467
1980	912 731	37	260 500	11	95 071	4	1 211 528	48	2 479 830

(c) Capacity data reflects extended generating unit outages for renovation and improvements.

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

Investor Information

SHARE OWNER INFORMATION

INQUIRIES

Questions regarding the Company or stock accounts should be directed to Share Owner Services at Centerior Energy Corporation at the address and telephone numbers indicated below for the Stock Transfer Agent.

Please have your account number ready when calling.

STOCK TRANSFER AGENT

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

In Cleveland area 642-6900 or 447-2400
Outside Cleveland area 1-800-433-7794

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

STOCK REGISTRAR

Ameritrust Company National Association
Corporate Trust Division
P.O. Box 6477
Cleveland, OH 44101

EXCHANGE LISTINGS

Preferred Stock Series A, B and L are listed on the New York Stock Exchange.

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

Centerior Energy Corporation has a Dividend Reinvestment and Stock Purchase Plan which provides Cleveland Electric share owners of record and other investors a convenient means of purchasing shares of Centerior common stock by investing a part or all of their quarterly dividends as well as making cash investments. In addition, individuals may establish an Individual Retirement Account (IRA) which invests in Centerior common stock through the Plan. Information relating to the Plan and the IRA may be obtained from Centerior Share Owner Services.

INDEPENDENT ACCOUNTANTS

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

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 Centerior Energy Corporation at the address of the Stock Transfer Agent.

BONDHOLDER INFORMATION

BOND TRUSTEE

Morgan Guaranty Trust Company of New York
Corporate Trust Administration
60 Wall Street
New York, NY 10260
Telephone Number (212) 587-6092

BOND PAYING AGENT

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 below.

Co-paying agents for
3⅞% Series due 1993 4⅛% Series due 1994

Manufacturers Hanover Trust Company
40 Wall Street
New York, NY 10015

Ameritrust Company National Association
900 Euclid Avenue
Cleveland, OH 44114

Paying agent for all other series of bonds—

Morgan Guaranty Trust Company of New York
60 Wall Street
New York, NY 10260

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY
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