THE TOLEDO EDISON COMPANY

1990 ANNUAL REPORT

A Subsidiary of Centerior Energy Corporation

CONTENTS

About Toledo Edison

The Company, a wholly owned subsidiary of Centerior Energy Corporation, provides electric service to about 760,000 people in a 2,500-square mile area of northwestern Ohio, including the City of Toledo. The Company also provides electric energy at wholesale to 13 municipally owned distribution systems and one rural electric cooperative distribution system in its service area. The Company's 2,500 employees serve about 284,000 customers.

Executive Offices

The Toledo Edison Company
300 Madison Avenue
Toledo, OH 43652-0001
(419) 249-5000

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, Chairman and Chief Executive Officer of the Company, President and Chief Executive Officer of The Cleveland Electric Illuminating Company and Executive Vice President of Centerior Energy Corporation.

Donald H. Saunders, President of the Company and Vice President of Centerior Service Company.

Officers

Chairman and Chief Executive Officer	*Lyman C. Phillips*
President	*Donald H. Saunders*
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

To the Share Owners of
The Toledo Edison Company:

We have audited the accompanying balance sheet and statement of cumulative preferred and preference stock of The Toledo Edison Company (a wholly owned subsidiary of Centerior Energy Corporation) as of December 31, 1990 and 1989, and the related 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 Toledo Edison Company as of December 31, 1990 and 1989, and the results of its operations and its 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 Toledo Edison 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 Company is a member of the Central Area Power Coordination Group (CAPCO). Other members include The Cleveland Electric Illuminating Company (Cleveland Electric), Duquesne Light Company (Duquesne), Ohio Edison Company and Pennsylvania Power Company. The members have constructed and operate generation and transmission facilities for the use of the CAPCO companies. Cleveland Electric 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 Cleveland Electric are primarily for firm power, 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 $49,000,000, $40,000,000 and $43,000,000 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 or on ordinances with individual municipalities. 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 and leasehold interests 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 3.6% 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 $3,930,000 and increased earnings $2,500,000.

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 $3,830,000 and increased earnings $2,500,000.

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 $59,000,000 in 1986 dollars for Davis-Besse and $28,000,000 in 1987 dollars each for Perry Unit 1 and Beaver Valley Unit 2. 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. The present funding requirements for Beaver Valley Unit 2 also satisfy a similar commitment made as part of the sale and leaseback transaction discussed in Note 2.

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 AND LOSS FROM SALES OF UTILITY PLANT

The Company entered into sale and leaseback transactions in 1987 for the coal-fired Bruce Mansfield Generating Plant (Mansfield Plant) and Beaver Valley Unit 2 as discussed in Note 2. These transactions resulted in a net gain for the sale of Mansfield Plant and a net loss for the sale of Beaver Valley Unit 2, both of which were deferred. The Company is amortizing the applicable deferred gain and loss over the terms of leases under sale and leaseback agreements. The amortizations along with the lease expense amounts 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 11.17%, 11.45% and 11.62% 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 over 1988 levels. Revenues and cash flow in 1991 are expected to exceed the 1988 levels. 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. Competitive forces have also prompted the Company to offer a rate reduction package to residential and small commercial customers as discussed in the eighth and ninth paragraphs of Note 6. 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 $44,000,000 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 $23,000,000 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 $15,000,000 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 slight increase in 1990 operating revenues are as follows:

Change in Operating Revenues	Increase (Decrease)
Base Rates and Miscellaneous	$ 36,900,000
Sales Volume and Mix	(29,400,000)
Sales for Resale	(7,200,000)
	$ 300,000

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 4.9% decrease in total kilowatt-hour sales. Industrial sales decreased 3.3% because of the recession beginning in 1990. Residential and commercial sales decreased 3.3% and 0.4%, respectively, as seasonal temperatures were more moderate in comparison to the prior year's temperatures, resulting in reduced customer heating and cooling-related demand. Other sales activity decreased 14.5% primarily as a result of the Company's municipal utility customers satisfying a greater portion of their power needs from other sources.

Operating expenses decreased 1.4% in 1990. Depreciation and amortization expense decreased 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. These decreases in operating expenses were partially offset by an increase in taxes, other than federal income taxes, resulting from higher property and gross receipts taxes, and by lower nuclear operating expense deferrals for Perry Unit 1 and Beaver Valley Unit 2 pursuant to the January 1989 PUCO rate order.

Credits for carrying charges recorded in nonoperating income decreased in 1990 because a

greater share of our investments and leasehold interests in Perry Unit 1 and Beaver Valley Unit 2 were recovered in rates. Other income and deductions, net, decreased primarily because of less interest income in 1990.

These decreases were partially offset by an increase in federal income tax credits related to nonoperating income resulting from a decrease in pretax nonoperating income and federal income tax adjustments of $18,810,000 associated with previously deferred investment tax credits relating to the 1988 write-off of nuclear plant. Interest expense decreased in 1990 because of refinancings by the Company and a lower level of debt outstanding.

1989 vs. 1988

Factors contributing to the 31.7% increase in 1989 operating revenues are as follows:

Change in Operating Revenues	Increase (Decrease)
Sales of Capacity to Cleveland Electric	$ 72,000,000
Base Rates and Miscellaneous	63,000,000
Deferred CWIP Revenues	45,000,000
Fuel Cost Recovery Revenues	21,000,000
Sales Volume and Mix	(2,000,000)
	$199,000,000

A primary factor for the increase in operating revenues was a net increase in 1989 in the total sales to Cleveland Electric of a portion of the Company's leased capacity entitlements in Beaver Valley Unit 2 and the Mansfield Plant. The sales from Beaver Valley Unit 2 commenced in November 1988 as discussed in Note 2. The sales from the Mansfield Plant were only for a three-month period in 1988. 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 increased 2.4% in 1989. Commercial sales increased 2.7% as a result of continuing growth from new office buildings and retail outlets. The comparatively moderate summer weather in 1989 lowered sales because of reduced air conditioning usage. Residential sales decreased 2.5%. Industrial sales decreased 1.1% as modest growth in industrial sales activity in 1989 was offset entirely by the impact of the loss of a large industrial customer to a municipal power system in Clyde, Ohio, which began operating in April 1989. That customer accounted for 1.1% of the Company's total electric sales in 1988.

Operating expenses increased 18.9% in 1989. Lower deferrals of nuclear operating expense for Perry Unit 1 and Beaver Valley Unit 2 resulted in a $65,000,000 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 other than Cleveland Electric. 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 AFUDC and carrying charges decreased in 1989 as a result of placing investment in rate base pursuant to the rate order. Interest expense and preferred dividend requirements decreased in 1989 because of retirements and refinancings by the Company.

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 TOLEDO EDISON COMPANY

	For the years ended December 31, 1990	1989	1988
	(thousands of dollars)		
Balance at Beginning of Year	**$ 99,965**	$ 89,614	$ 297,221
Additions			
Net income (loss)	**81,424**	92,678	(115,452)
Deductions			
Dividends declared:			
Common stock	**(73,283)**	(63,285)	(61,711)
Preferred stock	**(25,145)**	(19,036)	(26,269)
Other, primarily preferred stock redemption expenses	**(5)**	(6)	(4,175)
Net Increase (Decrease)	**(17,009)**	10,351	(207,607)
Balance at End of Year	**$ 82,956**	$ 99,965	$ 89,614

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)	$827,086	$826,803	$ 627,997
Operating Expenses			
Fuel and purchased power	138,222	133,400	116,161
Other operation and maintenance	373,374	372,530	358,823
Depreciation and amortization	75,986	87,639	75,093
Taxes, other than federal income taxes	79,320	72,123	80,138
Phase-in deferred operating expenses	(16,980)	(22,535)	—
Pre-phase-in deferred operating expenses	3,681	4,044	(83,813)
Federal income taxes	21,041	37,285	29,242
	674,644	684,486	575,644
Operating Income	152,442	142,317	52,353
Nonoperating Income (Loss)			
Allowance for equity funds used during construction	3,352	8,568	5,452
Other income and deductions, net	6,149	20,361	30,233
Write-off of nuclear costs	—	—	(276,955)
Phase-in carrying charges	43,487	82,308	—
Pre-phase-in carrying charges	—	—	129,632
Federal income taxes — credit (expense)	8,664	(21,563)	86,244
	61,652	89,674	(25,394)
Income Before Interest Charges	214,094	231,991	26,959
Interest Charges			
Debt interest	135,344	144,792	150,523
Allowance for borrowed funds used during construction	(2,674)	(5,479)	(1,833)
	132,670	139,313	148,690
Income (Loss) Before Cumulative Effect of an Accounting Change	81,424	92,678	(121,731)
Cumulative Effect on Prior Years (to December 31, 1987) of an Accounting Change for Unbilled Revenues (Net of Income Taxes of $4,177,000)	—	—	6,279
Net Income (Loss)	81,424	92,678	(115,452)
Preferred Dividend Requirements	25,159	25,390	26,983
Earnings (Loss) Available for Common Stock	$ 56,265	$ 67,288	$(142,435)

(1) Includes revenues from capacity sales to Cleveland Electric of $102,773,000, $104,127,000 and $31,774,000 in 1990, 1989 and 1988, respectively.

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 $435,000,000. In addition, we exercised various options to redeem and purchase approximately $275,000,000 of our securities.

During the 1988-1990 period, the Company issued $174,100,000 of first mortgage bonds and obtained a $15,000,000 term bank loan. The Company utilized its short-term borrowing arrangements (explained in Note 11) which resulted in the Company having $23,200,000 of commercial paper and $16,000,000 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 $235,000,000 for our construction program and $297,000,000 for the mandatory redemption of debt and preferred stock. We expect to finance externally about 75% of our 1991 construction and mandatory redemption requirements of approximately $177,000,000. We expect to finance externally about 60% to 70% 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 1997 by about $30,000,000 to $35,000,000 as a result of the Clean Air Act of 1990 (Clean Air Act). We believe that no further significant capital expenditures will be required to comply 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−	Baa3
Unsecured notes	BB+	Ba1
Preferred stock	BB+	ba2

A write-off of the Company's investment in Perry Unit 2, as discussed in Note 3(c), depending upon the magnitude and timing of such a write-off, could reduce retained earnings sufficiently to impair the Company's ability to declare dividends, but 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. The changes resulted in decreased tax payments and an increase in cash flow during 1989 because the tax savings resulting from available tax deductions were utilized on the consolidated tax return in determining the AMT. In 1990, the changes resulted in increased tax payments and a reduction in cash flow because we were subject to the AMT.

CASH FLOWS

	For the years ended December 31, 1990	1989	1988
	(thousands of dollars)		
Cash Flows from Operating Activities (1)			
Net Income (Loss)	**$ 81,424**	$ 92,678	$(115,452)
Adjustments to Reconcile Net Income (Loss) to Cash from Operating Activities:			
Depreciation and amortization	**75,986**	87,639	75,093
Deferred federal income taxes	**30,642**	79,199	(62,598)
Investment tax credits, net	**(17,063)**	1,237	6,920
Write-off of nuclear costs	**—**	—	276,955
Deferred and unbilled revenues	**(22,658)**	(42,624)	14,642
Deferred fuel	**(433)**	16,259	(20,693)
Carrying charges capitalized	**(43,487)**	(82,308)	(129,632)
Leased nuclear fuel amortization	**37,122**	46,408	32,285
Deferred operating expenses, net	**(13,299)**	(18,491)	(83,813)
Allowance for equity funds used during construction	**(3,352)**	(8,568)	(5,452)
Amortization of reserve for Davis-Besse refund obligations to customers	**—**	(12,655)	(20,777)
Pension settlement gain	**(6,449)**	—	—
Cumulative effect of an accounting change	**—**	—	(6,279)
Changes in amounts due from customers and others, net	**(9,433)**	(4,406)	13,472
Changes in inventories	**(6,521)**	1,890	904
Changes in accounts payable	**17,464**	8,896	19,472
Changes in working capital affecting operations	**1,528**	(30,713)	11,766
Other noncash items	**5,503**	5,896	9,358
Total Adjustments	**45,550**	47,659	131,623
Net Cash from Operating Activities	**126,974**	140,337	16,171
Cash Flows from Financing Activities (2)			
Bank loans, commercial paper and other short-term debt	**23,200**	—	—
Notes payable to affiliates	**16,000**	—	(68,000)
Debt issues:			
First mortgage bonds	**67,300**	56,100	50,700
Term bank loan	**15,000**	—	—
Maturities, redemptions and sinking funds	**(183,477)**	(65,006)	(222,166)
Nuclear fuel lease and trust obligations	**(42,947)**	(39,015)	(32,285)
Dividends paid	**(98,427)**	(88,743)	(89,054)
Premiums, discounts and expenses	**(1,845)**	(925)	1,489
Net Cash from Financing Activities	**(205,196)**	(137,589)	(359,316)
Cash Flows from Investing Activities (2)			
Cash applied to construction	**(80,667)**	(65,296)	(113,174)
Interest capitalized as allowance for borrowed funds used during construction	**(2,674)**	(5,479)	(1,833)
Loans to affiliates	**114,000**	(114,000)	—
Cash withdrawn from sale and leaseback trust	**—**	—	109,976
Other cash received (applied)	**(4,022)**	831	3,947
Net Cash from Investing Activities	**26,637**	(183,944)	(1,084)
Net Change in Cash and Temporary Cash Investments	**(51,565)**	(181,196)	(344,229)
Cash and Temporary Cash Investments at Beginning of Year	**73,692**	254,888	599,117
Cash and Temporary Cash Investments at End of Year	**$ 22,107**	$ 73,692	$ 254,888

(1) Interest paid was $138,000,000, $141,000,000 and $150,000,000 in 1990, 1989 and 1988, respectively. Income taxes paid were $2,272,000 in 1990. No income taxes were paid in 1989 and 1988.

(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	$2,607,010	$2,532,291
Less: accumulated depreciation and amortization	646,193	567,197
	1,960,817	1,965,094
Construction work in progress	93,154	84,586
Perry Unit 2	343,685	345,754
	2,397,656	2,395,434
Nuclear fuel, net of amortization	221,848	235,193
Other property, less accumulated depreciation	2,024	2,125
	2,621,528	2,632,752
CURRENT ASSETS		
Cash and temporary cash investments	22,107	73,692
Amounts due from customers and others, net	63,233	53,800
Accounts receivable from affiliates	29,999	35,114
Notes receivable from affiliates	—	114,000
Unbilled revenues	20,166	23,525
Materials and supplies, at average cost	32,666	26,841
Fossil fuel inventory, at average cost	15,578	14,882
Taxes applicable to succeeding years	63,375	61,967
Other	2,473	4,815
	249,597	408,636
DEFERRED CHARGES		
Amounts due from customers for future federal income taxes	494,454	519,469
Unamortized loss from Beaver Valley Unit 2 sale	119,623	122,911
Unamortized loss on reacquired debt	27,404	28,528
Carrying charges and operating expenses, pre-phase-in	255,020	257,709
Carrying charges and operating expenses, phase-in	165,310	104,843
Other	68,582	63,998
	1,130,393	1,097,458
Total Assets	$4,001,518	$4,138,846

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, $5 par value: 60,000,000 authorized; 39,134,000 outstanding in 1990 and 1989	**$ 195,687**	$ 195,687
Premium on capital stock	**481,082**	481,082
Other paid-in capital	**121,059**	121,059
Retained earnings	**82,956**	99,965
Common stock equity	**880,784**	897,793
Preferred stock:		
With mandatory redemption provisions	**66,328**	68,990
Without mandatory redemption provisions	**210,000**	210,000
Long-term debt	**1,097,326**	1,197,277
	2,254,438	2,374,060
OTHER NONCURRENT LIABILITIES		
Refund obligations to customers	**—**	23,780
Other, primarily nuclear fuel lease obligations	**228,844**	252,460
	228,844	276,240
CURRENT LIABILITIES		
Current portion of long-term debt and preferred stock	**116,150**	114,870
Current portion of lease obligations	**50,389**	44,480
Notes payable to banks and others	**23,200**	—
Accounts payable	**125,802**	108,338
Accounts and notes payable to affiliates	**31,626**	8,311
Accrued taxes	**96,973**	94,990
Accrued interest	**31,665**	39,075
Accrued payroll and vacations	**6,597**	6,885
Current portion of refund obligations to customers	**23,888**	26,125
Other	**4,628**	10,749
	510,918	453,823
DEFERRED CREDITS		
Unamortized investment tax credits	**83,377**	103,349
Accumulated deferred federal income taxes	**571,233**	565,266
Reserve for Perry Unit 2 allowance for funds used during construction	**88,295**	88,295
Unamortized gain from Bruce Mansfield Plant sale	**236,835**	247,305
Other	**27,578**	30,508
	1,007,318	1,034,723
Total Capitalization and Liabilities	**$4,001,518**	$4,138,846

Statement of Cumulative Preferred and Preference Stock

	1990 Shares Outstanding	Current Call Price	December 31, 1990	December 31, 1989
			(thousands of dollars)	
$100 par value, 3,000,000 preferred shares authorized; $25 par value, 12,000,000 preferred shares authorized; and $25 par value, 5,000,000 preference shares authorized, none outstanding				
Preferred, subject to mandatory redemption:				
$100 par $11.00	34,825	$101.00	**$ 3,483**	$ 4,480
9.375	150,100	103.95	**15,010**	16,675
25 par 2.81	2,000,000	26.87	**50,000**	50,000
			68,493	71,155
Less: Current maturities			**2,165**	2,165
Total Preferred Stock, with Mandatory Redemption Provisions			**$ 66,328**	$ 68,990
Preferred, not subject to mandatory redemption:				
$100 par $ 4.25	160,000	104.625	**$ 16,000**	$ 16,000
4.56	50,000	101.00	**5,000**	5,000
4.25	100,000	102.00	**10,000**	10,000
8.32	100,000	102.46	**10,000**	10,000
7.76	150,000	102.437	**15,000**	15,000
7.80	150,000	101.65	**15,000**	15,000
10.00	190,000	101.00	**19,000**	19,000
25 par 2.21	1,000,000	25.90	**25,000**	25,000
2.365	1,400,000	28.45	**35,000**	35,000
Series A Adjustable	1,200,000	25.75	**30,000**	30,000
Series B Adjustable	1,200,000	—	**30,000**	30,000
Total Preferred Stock, without Mandatory Redemption Provisions			**$210,000**	$210,000

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:							
Davis-Besse	1977	48.62%	428	Nuclear	$ 628,744	$ 32,273	$119,102
Perry Unit 1 and Common Facilities	1987	19.91	238	Nuclear	917,939	5,057	102,296
Beaver Valley Unit 2 and Common Facilities (Note 2)	1987	1.65	13	Nuclear	181,798	3,590	18,892
Construction Suspended (Note 3(c)):							
Perry Unit 2	Uncertain	19.91	240	Nuclear	—	343,685	—
					$1,728,481	$384,605	$240,290

(2) UTILITY PLANT SALE AND LEASEBACK TRANSACTIONS

As a result of sale and leaseback transactions completed in 1987, the Company and Cleveland Electric 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 Cleveland Electric, the Company is also obligated for Cleveland Electric's lease payments. If Cleveland Electric is unable to make its payments under the Mansfield Plant leases, the Company would be obligated to make such payments. No payments have been made on behalf of Cleveland Electric to date.

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

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

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 $44,556,000 in both 1990 and 1989 and $43,095,000 in 1988. Rental expense for the Beaver Valley Unit 2 lease was $72,276,000 in both 1990 and 1989 and $71,810,000 in 1988. Of the 1988 rental expense amount for Beaver Valley Unit 2, a portion ($58,254,000) was recorded in a deferred charge account pursuant to PUCO accounting orders. This deferred amount is being amortized to expense over the life of the lease beginning in 1989.

The Company and Cleveland Electric 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 Cleveland Electric may incur additional costs in connection with capital improvements to the units. The Company and Cleveland Electric 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, Cleveland Electric 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).

The Company is selling 150 megawatts of its Beaver Valley Unit 2 leased capacity entitlement to Cleveland Electric. This sale commenced in November 1988 and we anticipate that it will continue at least until 1998. Revenues recorded for this transaction were $102,773,000, $104,127,000 and $18,533,000 in 1990, 1989 and 1988, respectively. 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 $252,000,000, including AFUDC of $17,000,000 and excluding nuclear fuel.

(b) CLEAN AIR LEGISLATION

The Clean Air Act will require, among other things, reductions in the emission of sulfur dioxide and nitrogen oxides by the Company's fossil-fueled electric generating units. Centerior Energy's preliminary analysis indicates that compliance with the Clean Air Act by the Company is expected to result in somewhat higher fuel and operation and maintenance expenses. Furthermore, compliance will require additional aggregate capital expenditures in the range of $30,000,000 to $35,000,000 after 1997 to meet the nitrogen oxide emission limitation and for sulfur dioxide and nitrogen oxide emission monitors. We believe that reduction of sulfur dioxide emissions will not require installation of scrubbers. A more specific compliance cost estimate will become available when Centerior Energy's compliance strategy for the Company and Cleveland Electric is further developed. We believe that Ohio law would permit the recovery of compliance costs from customers in rates. Any rate increase is expected to be minimal.

(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. Cleveland Electric, the company 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 $173,000,000, after taxes. See Notes 10(b), (c) and (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 two 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 $58,503,000 (plus any inflation adjustment) per incident, but is limited to $8,844,000 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 Cleveland Electric 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, $233,000,000 of nuclear fuel was financed for the Company. The Company and Cleveland Electric 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 $62,000,000, $18,000,000 and $26,000,000, 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 $14,000,000 in 1990, $19,000,000 in 1989 and $18,000,000 in 1988. The estimated future lease amortization payments based on projected consumption are $49,000,000 in both 1991 and 1992, $50,000,000 in 1993, $48,000,000 in 1994 and $43,000,000 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 2.74% as discussed below.

The annualized revenue increases in 1989 and 1990 associated with the rate order were $50,700,000 and $44,300,000, respectively. In 1991, the estimated annualized revenue increase resulting from the order, as adjusted, would have been $18,600,000 before giving effect to the rate reduction proposals discussed below.

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. The exclusion resulted in a write-off by the Company of $242,000,000 ($160,000,000 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 $35,000,000 ($21,000,000 after tax) were recorded by the Company in 1988, bringing the total write-off of nuclear costs as a consequence of the order to $277,000,000 ($181,000,000 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	$16,980	$22,[illegible]35
Carrying Charges		
Debt	$21,361	$30,617
Equity	22,126	51,691
	$43,487	$82,308

Under the January 1989 rate order, the amount of deferred operating expenses and carrying charges scheduled to be recorded in 1991 through 1993 total $24,000,000, $33,000,000 and $15,000,000, 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 discusse˙ in the following paragraphs. No change was made ˙ the cost deferrals for 1989. The Company redu˙ its deferral of carrying charges by $13,933,000 in 1990 and will request PUCO approval of the adjustment.

In connection with the Company's 1989 order and a similar order for Cleveland Electric, the Company, Cleveland Electric 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 45% ($44,172,000). 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 2.74% under this provision as approved by the PUCO in January 1991.

In a move to become more competitive in northwest Ohio, the Company has proposed a rate reduction package to all incorporated communities in its service area which are served exclusively by the Company on a retail basis. The package calls for the elimination of the 2.74% rate increase effective February 1, 1991 for all residential and small commercial customers, a reduction in residential rates of 3% on March 1, 1991 and a further residential rate reduction of 1% on September 1, 1991. Communities accepting the package must agree to keep ˙ ˙ompany as their sole supplier of electricity for a period of five years. The package also permits the Company to adjust rates in those communities on February 1, 1994 and February 1, 1995 if inflation exceeds specified levels or under emergency conditions. All eligible communities in the Company's service area, except the City of Toledo, have accepted the rate reduction package.

The Company plans to request PUCO approval to reduce rates to the same levels for the same customer categories in the City of Toledo and the rest of its service area. If all areas now served by the Company receive the benefits of the lower rates, annualized revenues will be reduced by about $17,000,000. The revenue reductions will not adversely affect the phase-in plan as the decrease in revenues will be mitigated by the cost reductions discussed above.

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 Cleveland Electric 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 (Loss) Before Federal Income Tax	$ 93,801	$151,526	$(168,277)
Tax on Book Income (Loss) at Statutory Rate	$ 31,892	$ 51,519	$ (57,214)
Increase (Decrease) in Tax:			
Accelerated depreciation	(853)	5,993	529
Investment tax credits on disallowed nuclear plant	(18,810)	—	—
Organization costs	—	—	2,274
Taxes, other than federal income taxes	(2,047)	(107)	4,292
Other items	2,795	1,443	(2,706)
Total Federal Income Tax Expense (Credit)	$ 12,377	$ 58,848	$ (52,825)

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	$ 17,045	$(11,458)	$ (3,132)
Changes in Accumulated Deferred Federal Income Tax			
Accelerated depreciation and amortization	1,580	8,764	1,723
Alternative minimum tax credit	(5,480)	21,291	—
Sale and leaseback transactions and amortization	5,121	455	14,763
Property tax expense	(4,011)	—	(5,058)
Deferred CWIP revenues	9,393	11,726	(4,331)
Deferred fuel costs	(4,021)	(1,229)	4,698
System development costs	248	207	3,639
Davis-Besse replacement power	—	5,055	8,375
Federal income tax return adjustments	—	—	(272)
Reacquired debt costs	(532)	(378)	4,646
Deferred operating expenses	996	(1,268)	4,039
Net operating loss carryforward	—	—	(2,545)
Other items	(460)	2,398	(4,223)
Investment Tax Credits	1,162	1,722	6,920
Total Charged to Operating Expenses	21,041	37,285	29,242
Nonoperating Income			
Current Tax Provision	(18,242)	(10,129)	—
Changes in Accumulated Deferred Federal Income Tax			
Davis-Besse replacement power	—	—	2,709
Write-off of nuclear costs	(10,157)	—	(97,277)
AFUDC and carrying charges	16,835	32,930	46,543
Net operating loss carryforward	—	—	(36,831)
Other items	2,900	(1,238)	(1,388)
Total Expense (Credit) to Nonoperating Income	(8,664)	21,563	(86,244)
Federal Income Tax Included in Cumulative Effect of an Accounting Change for Unbilled Revenues	—	—	4,177
Total Federal Income Tax Expense (Credit)	$ 12,377	$ 58,848	$(52,825)

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 investment, decreased the net tax provision related to nonoperating income by $18,810,000.

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 $3,911,000 ($2,168,000 in the fourth quarter).

For tax purposes, net operating loss (NOL) carryforwards of approximately $28,101,000, $21,426,000 and $187,019,000 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 1990 ($9,554,000) and 1989 ($7,285,000) is included in the above table as a reduction to deferred federal income tax relating to accelerated depreciation and amortization. The 34% tax effect of the NOL generated in 1988 ($63,586,000) is included in the above table as reductions to deferred federal income tax relating to accelerated depreciation and amortization ($24,210,000) and to deferred federal income tax charged to operating expenses ($2,545,000) and to nonoperating income ($36,831,000). Future utilization of these tax NOL carryforwards would result in recording the related deferred taxes.

Approximately $20,161,000 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. An AMT credit of $5,480,000 was generated in 1990. An AMT credit offset for the consolidated tax return of $21,291,000 was generated in 1989.

(8) RETIREMENT INCOME PLAN AND OTHER POSTRETIREMENT BENEFITS

We 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 funding policy is to comply with the Employee Retirement Income Security Act of 1974 guidelines.

During 1990, the Company offered its second Voluntary Early Retirement Opportunity Program (VEROP). Operating expenses for 1990 included $7,000,000 of pension plan accruals to cover enhanced VEROP benefits plus an additional $8,000,000 of pension costs for VEROP benefits being paid to retirees from corporate funds. The $8,000,000 is not included in the pension data reported below. Operating expenses for 1990 also included a credit of $5,000,000 resulting from a settlement of pension obligations through lump sum payments to a substantial number of VEROP retirees. Net pension and VEROP costs for 1988 through 1990 were comprised of the following components:

	1990	1989	1988
	(millions of dollars)		
Pension Costs:			
Service cost for benefits earned during the period	$ 5	$ 4	$ 4
Interest cost on projected benefit obligation	11	10	9
Actual return on plan assets	(2)	(17)	(18)
Net amortization and deferral	(11)	4	5
Net pension costs	3	1	—
VEROP cost	7	—	2
Settlement gain	(5)	—	—
Net costs	$ 5	$ 1	$ 2

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	$101	$ 92
Nonvested benefits	6	7
Accumulated benefit obligation	107	99
Effect of future compensation levels	22	33
Total projected benefit obligation	129	132
Plan assets at fair market value	151	174
Surplus of plan assets over projected benefit obligation	22	42
Unrecognized net gain due to variance between assumptions and experience	(20)	(35)
Unrecognized prior service cost	5	5
Transition asset at January 1, 1987 being amortized over 19 years	(23)	(23)
Net accrued pension cost included in other deferred credits on the Balance Sheet	$(16)	$(11)

The settlement (discount) rate assumption was 8.5% for December 31, 1990 and 8% for December 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 $2,400,000 in 1990, $2,100,000 in 1989 and $1,600,000 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 is 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 a long-term coal purchase arrangement, the Company has guaranteed the loan and lease obligations of a mining company. This arrangement 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 company's loan and lease obligations guaranteed by the Company was $24,000,000.

(10) CAPITALIZATION

(a) CAPITAL STOCK TRANSACTIONS

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

	1990	1989	1988
	(thousands of shares)		
Cumulative Preferred Stock Subject to Mandatory Redemption:			
$100 par $11.00	(10)	(5)	(5)
9.375	(17)	(17)	(17)
Total	(27)	(22)	(22)
Cumulative Preferred Stock Not Subject to Mandatory Redemption:			
$25 par $3.47	—	—	(1,200)
Total	—	—	(1,200)

Changes in premium on capital stock are summarized as follows:

	1990	1989	1988
	(thousands of dollars)		
Balance at Beginning of Year	$481,082	$481,082	$482,770
Premium, Net of Expense — Preferred Stock	—	—	(1,688)
Balance at End of Year	$481,082	$481,082	$481,082

(b) EQUITY DISTRIBUTION RESTRICTIONS

At December 31, 1990, retained earnings were $82,956,000. Substantially all of 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. A write-off of the Company's investment in Perry Unit 2, depending upon the magnitude and timing of such a write-off, could reduce retained earnings sufficiently to impair the Company's ability to declare dividends. See Note 3(c).

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 $2,000,000 in both 1991 and 1992 and $12,000,000 in each year 1993 through 1995.

The annual mandatory redemption provisions are as follows:

	Shares To Be Redeemed	Beginning in	Price Per Share
Preferred:			
$100 par $11.00	5,000	1979	$100
9.375	16,650	1985	100
25 par 2.81	400,000	1993	25

The annualized cumulative preferred dividend requirement as of December 31, 1990 is $25,000,000.

The preferred dividend rates on the Company's Series A and B fluctuate based on prevailing interest rates, with the dividend rates for these issues averaging 9.06% and 9.84%, respectively, in 1990.

Under its articles of incorporation, the Company cannot issue preferred stock unless certain earnings coverage requirements are met. Based on earnings for the 12 months ended December 31, 1990, the Company could issue at December 31, 1990 approximately $7,500,000 of additional preferred stock at an assumed dividend rate of 11%. If Perry Unit 2 had been canceled and written off as of December 31, 1990, the Company would not have been permitted to issue any additional preferred stock. See Note 3(c). The issuance of additional preferred stock in the future will depend on earnings for any 12 consecutive months of the 15 months preceding the date of issuance, the interest on all long-term debt outstanding and the dividends on all preferred stock issues outstanding.

There are no restrictions on the Company's ability to issue 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	December 31, 1989
		(thousands of dollars)	
First mortgage bonds:			
1991	15.00 %	$ —	$ 70,000
1995	10.125	—	36,800
1995	11.25	60,000	60,000
1996-2000	8.69	166,378	166,378
2001-2005	7.79	61,725	61,725
2006-2010	9.64	101,900	101,900
2016-2020	8.00	67,300	—
2021-2023	7.93	147,800	147,800
		605,103	644,603
Term bank loans due 1992-1996	8.83	13,500	—
Notes due 1992-1997	10.64	219,430	261,715
Debentures due 1997	11.25	125,000	125,000
Pollution control notes due 1992-2015	11.03	136,600	166,480
Other — net	—	(2,307)	(521)
Total Long-Term Debt		$1,097,326	$1,197,277

Long-term debt matures during the next five years as follows: $114,000,000 in 1991, $121,000,000 in 1992, $46,000,000 in 1993, $21,000,000 in 1994 and $86,000,000 in 1995.

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, supplies and automotive equipment.

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 earnings coverage test), the Company would have been permitted to issue approximately $177,000,000 of bonds based upon available bondable property at December 31, 1990. The Company also would have been permitted to issue approximately $56,000,000 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 amount of bonds which could have been issued by the Company would not have changed.

Certain unsecured loan agreements of the Company contain covenants relating to capitalization ratios, earnings coverage ratios and limitations on secured financing other than through first mortgage bonds or certain other transactions. An agreement relating to a letter of credit issued in connection with the sale and leaseback of Beaver Valley Unit 2 (as amended in 1989) contains several financial covenants affecting the Company, Cleveland Electric and Centerior Energy. Among these are covenants relating to earnings coverage ratios and capitalization ratios. The Company, Cleveland Electric and Centerior Energy are in compliance with these covenant provisions. We believe the Company, Cleveland Electric and Centerior Energy will continue to meet these covenants in the event of a write-off of the Company's and Cleveland Electric's investments in Perry Unit 2, barring unforeseen circumstances.

(11) SHORT-TERM BORROWING ARRANGEMENTS

The Company had $75,550,000 of bank lines of credit arrangements at December 31, 1990. There were no borrowings under these bank credit arrangements at December 31, 1990.

Short-term borrowing capacity authorized by the PUCO is $150,000,000. The Company and Cleveland Electric 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 $23,200,000 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 $218,000 (net of $112,000 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 $6,279,000 (net of $4,177,000 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	$203,841	$204,295	$223,201	$195,749
Operating Income	38,771	28,298	39,472	45,901
Net Income	21,604	26,971	19,420	13,429
Earnings Available for Common Stock	15,357	20,660	13,109	7,139
1989				
Operating Revenues	$201,144	$203,436	$219,762	$202,461
Operating Income	32,041	37,149	40,532	32,595
Net Income	24,280	30,284	34,501	3,613
Earnings (Loss) Available for Common Stock	17,857	23,882	28,176	(2,627)

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 investment. See Note 7. The adjustments increased quarterly earnings by $17,907,000.

Earnings for the quarter ended December 31, 1990 were decreased as a result of year-end adjustments. A $13,933,000 reduction in phase-in carrying charges (see Note 6) was partially offset by adjustments of $7,760,000 to reduce depreciation expense for the year (see Summary of Significant Accounting Policies) and $2,168,000 to reduce federal income tax expense (see Note 7). The total of these adjustments decreased quarterly earnings by $2,000,000.

Financial and Statistical Review

Operating Revenues (thousands of dollars)

Year	Residential	Commercial	Industrial	Other	Total Retail	Wholesale	Total Electric	Steam Heating & Gas	Total Operating Revenues
1990	**$223 920**	**$174 540**	**$235 578**	**$79 535**	**$713 573**	**$113 513**	**$827 086**	**$ —**	**$827 086**
1989	215 932	163 991	226 680	99 451	706 054	120 749	826 803	—	826 803
1988	200 916	142 696	199 521	34 961	578 094	49 903	627 997	—	627 997
1987	200 877	142 385	219 098	27 646	590 006	15 031	605 037	—	605 037
1986	189 292	133 841	214 274	23 886	561 293	11 189	572 482	—	572 482
1980	126 085	80 836	137 860	28 458	373 239	21 647	394 886	6 982	401 868

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	**$138 222**	**$373 374**	**$75 986**	**$79 320**	**$ (13,299)**	**$21,041**	**$674 644**
1989	133 400	372 530	87 639	72 123	(18 491)	37 285	684 486
1988	116 161	358 823	75 093	80 138	(83 813)	29 242	575 644
1987	140 176	223 307	65 503	59 658	(39 797)	22 747	471 594
1986	158 763	167 319	37 832	51 398	—	41 150	456 462
1980	155 771	85 161	26 002	31 202	—	23 376	321 512

Income (Loss) (thousands of dollars)

Year	Operating Income	AFUDC—Equity	Other Income & Deductions, Net	Carrying Charges	Federal Income Taxes—Credit (Expense)	Income Before Interest Charges
1990	**$152 442**	**$ 3 352**	**$ 6 149**	**$ 43 487**	**$ 8 664**	**$214 094**
1989	142 317	8 568	20 361	82 308	(21 563)	231 991
1988	52 353	5 452	(246 722)**(a)**	129 632	86 244	26 959
1987	133 443	122 138	(16 904)	14 989	42 726	296 392
1986	116 020	129 578	(1 627)	—	52 029	296 000
1980	80 356	28 443	879	—	13 218	122 896

Income (Loss) (thousands of dollars)

Year	Debt Interest	AFUDC—Debt	Income (Loss) Before Cumulative Effect of an Accounting Change	Cumulative Effect of an Accounting Change	Net Income (Loss)	Preferred Stock Dividends	Earnings (Loss) Available for Common Stock
1990	**$135 344**	**$ (2 674)**	**$ 81 424**	**$ —**	**$ 81,424**	**$25 159**	**$ 56 265**
1989	144 792	(5 479)	92 678	—	92 678	25 390	67 288
1988	150 523	(1 833)	(121 731)	6 279**(b)**	(115 452)	26 983	(142 435)
1987	185 493	(54 272)	165 171	—	165 171	42 749	122 422
1986	174 397	(55 314)	176 917	—	176 917	45 243	131 674
1980	70 866	(15 148)	67 178	—	67 178	18 021	49 157

(a) Includes write-off of nuclear costs in the amount of $276,955,000 in 1988.

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

	Electric Sales (millions of KWH)						Electric Customers (year end)				Residential Usage		
Year	Residential	Commercial	Industrial	Wholesale	Other	Total	Residential	Commercial	Industrial & Other	Total	Average KWH Per Customer	Average Price Per KWH	Average Revenue Per Customer
1990	**1 950**	**1 614**	**3 617**	**932**	**496**	**8 609**	**253 965**	**25 822**	**4 555**	**284 342**	**7 692**	**11.48¢**	**$882.99**
1989	2 017	1 622	3 740	1 175	495	9 049	253 234	25 803	4 434	283 471	7 989	10.71	855.29
1988	2 068	1 579	3 780	938	474	8 839	251 590	25 526	4 102	281 218	8 264	9.72	802.87
1987	1 977	1 532	3 589	344	464	7 906	249 344	25 170	4 085	278 599	7 969	10.16	809.66
1986	1 941	1 495	3 482	242	449	7 609	247 256	24 655	4 004	275 915	7 881	9.75	768.43
1980	1 971	1 282	3 165	560	410	7 388	240 142	23 532	3 818	267 492	8 232	6.40	526.66

	Load (MW & %)				Energy (millions of KWH)					Fuel	
					Company Generated						
Year	Operable Capacity at Time of Peak	Peak Load	Capacity Margin	Load Factor	Fossil	Nuclear	Total	Net Purchased Power	Total	Fuel Cost Per KWH	Efficiency-BTU Per KWH
1990	**1 752**	**1 516**	**13.5%**	**63.0%**	**5 535**	**4 219**	**9 754**	**(499)**	**9 255**	**1.50¢**	**10 220**
1989	1 894	1 526	19.4	65.2	5 206	5 552	10 758	(1 175)	9 583	1.42	10 293
1988	1 057**(c)**	1 614	(52.7)	62.8	5 820	3 325	9 145	385	9 530	1.59	10 174
1987	1 698	1 484	12.6	64.9	5 916	3 218	9 134	(647)	8 487	1.45	10 196
1986	1 740**(c)**	1 423	18.2	64.8	6 462	12	6 474	1 689	8 163	1.82	9 860
1980	1 760	1 310	25.6	68.3	5 529	1 031	6 560	1 352	7 912	1.65	10 245

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	**$2 607 010**	**$646 193**	**$1 960 817**	**$ 436 839**	**$223 872**	**$2 621 528**	**$ 86 693**	**$4 001 518**
1989	2 532 291	567 197	1 965 094	430 340	237 318	2 632 752	77 357	4 138 846
1988	2 438 927	487 546	1 951 381	459 104	262 514	2 672 999	132 083	4 134 672
1987	2 600 511	419 149	2 181 362	374 274	267 069	2 822 705	380 974	4 277 587
1986	1 442 812	415 745	1 027 067	2 169 945	269 022	3 466 034	463 163	3 813 889
1980	1 197 774	220 629	977 145	520 239	27 424**(d)**	1 524 808	235 911	1 701 443

Capitalization (thousands of dollars & %)

Year	Common Stock Equity		Preferred Stock, with Mandatory Redemption Provisions		Preferred Stock, without Mandatory Redemption Provisions		Long-Term Debt		Total
1990	**$ 880 784**	**39%**	**$ 66 328**	**3%**	**$210 000**	**9%**	**$1 097 326**	**49%**	**$2 254 438**
1989	897 793	38	68 990	3	210 000	9	1 197 277	50	2 374 060
1988	887 442	36	71 155	3	210 000	9	1 291 444	52	2 460 041
1987	1 096 737	39	73 340	3	240 000	8	1 400 292	50	2 810 369
1986	1 074 663	36	148 797	5	260 000	9	1 480 947	50	2 964 407
1980	478 993	34	66 500	5	150 000	11	714 406	50	1 409 899

(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—$25 par value—8.84%, $2.365 and $2.81 series, Adjustable Series A and Adjustable Series B—New York Stock Exchange

Preferred—$100 par value—4¼%, 8.32%, 7.76% and 10% series—American 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 Toledo Edison 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.

BOND AND DEBENTURE INFORMATION

BOND TRUSTEE AND PAYING AGENT

The Chase Manhattan Bank, N.A.
Corporate Trust Administration Division
1 New York Plaza, 14th Floor
New York, NY 10018
(212) 676-5850

DEBENTURE TRUSTEE AND PAYING AGENT

National City Bank
1900 East Ninth Street
Cleveland, Ohio 44114
(216) 575-2528

THE TOLEDO EDISON COMPANY
300 Madison Avenue • Toledo, Ohio 43652

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