THE CLEVELAND ELECTRIC ILLUMINATING COMPANY
P.O. BOX 5000 - CLEVELAND, OHIO 44101 - TELEPHONE (216) 622-9800 - ILLUMINATING BLDG. — 55 PUBLIC SQUARE
Serving The Best Location in the Nation

Edgar H. Maugans
VICE PRESIDENT-FINANCE

April 11, 1983

Mr. Jerome Saltzman, Chief
Antitrust & Indemnity Group
Nuclear Reactor Regulation
Nuclear Regulatory Commission
Washington, D.C. 20555

Re: Docket No. 50-346
Retrospective Premium Guarantee

Dear Mr. Saltzman:

The Cleveland Electric Illuminating Company hereby provides the documents described below and enclosed herewith as evidence of its guarantee of its share ($5,138,000) of the retrospective premium which may be levied against the Davis-Besse Unit No. 1 reactor licensees during calendar year 1983.

1. The Cleveland Electric Illuminating Company 1982 Annual Report which includes certified financial statements for the calendar year 1982.

2. The Cleveland Electric Illuminating Company 1982 Fourth Quarter Quarterly Review which includes financial statements for the quarter ending December 31, 1982 (the 1983 First Quarter Quarterly Review is not yet available).

3. An Estimate of Cash Position and Source of Funds actual 1982 and projected 1983.

Accordingly, The Cleveland Electric Illuminating Company believes that a cash flow can be generated which would be more than adequate should it be required to pay any retrospective premium in the amount of $5,138,000.

Sincerely,

EHMaugans

E. H. Maugans
Vice President-Finance

RJU:jl
Enclosures

cc: Donald G. Nicholson
Vice President-Finance
Toledo Edison Company

M004
Add: NRR/DL/ADL

8304150408 830411
PDR ADOCK 05000346
I PDR

1983 Internal Cash Flow Projection
for Davis-Besse Unit No. 1 Nuclear Power Station
(Dollars in Thousands)

| | 1982 Actual | 1983 Projected |
|---|---|---|
| Retained Earnings (1) | $ 45,805 | $ -0- |
| Adjustments | | |
| Depreciation and Amortization | 86,622 | 92,952 |
| Deferred Income Taxes and Investment Tax Credits | 72,103 | 88,488 |
| Allowance for Funds Used During Construction | (104,336) | (106,000) |
| Total Adjustments | 54,389 | 75,440 |
| Internal Cash Flow | $100,194 | $ 75,440 |
| Average Quarterly Cash Flow | $ 25,049 | $ 18,860 |
| Percentage Ownership in Unit | Davis-Besse Unit No. 1 = 51.38% | |
| Maximum Total Contingent Liability | $ 5,138 | $ 5,138 |

(1) "Retained Earnings" means net income after income taxes and dividends paid. The Company does not publish its projections of these amounts. Accordingly, net income after taxes and dividends paid used in the 1983 projected data, although contrary to the Company's expectations, has been assumed to be zero. The figures shown for the 1983 projection year are those non-cash items necessary to establish that its maximum total contingent liability can be satisfied from internal cash flow.

## CERTIFICATION

I, Edgar H. Maugans, Vice President-Finance of The Cleveland Electric Illuminating Company, hereby certify that the foregoing Estimate of Cash Position and Source of Funds for calendar year 1983 is derived from accurate data and reasonable assumptions and is a reasonable estimate.

4-11-83
Date

EHMaugans
Edgar H. Maugans

## Revenues, Earnings, Earnings Per Share Set Records in 1982

The Company's 1982 revenues, earnings and earnings per share were at record levels for a calendar year. For 1982, earnings for common stock reached $170.7 million, or $3.01 per share, on revenues of $1.1 billion compared with earnings of $120.8 million, or $2.52 per share, on revenues of $1.0 billion in 1981. While a record for a calendar year, 1982 earnings per share were lower than the $3.06 per share earned for the 12 months ended September 30, 1982. The lower earnings per share reverses an upward trend which began in the Spring of 1981. Clearly, the rate increase received last month was needed to help maintain an adequate earnings level.

Earnings for common stock in the fourth quarter totaled $33.9 million, or 56 cents per share, on revenues of $267.3 million compared with earnings of $29.3 million, or 58 cents per share, on revenues of $248.2 million in last year's fourth quarter.

The higher earnings and revenues are primarily the result of electric rate increases. The gains in earnings per share were achieved in spite of an 18 percent increase in the number of common shares.

## Kilowatthour Sales Off in Quarter, Year

Kilowatthour sales to ultimate customers declined 9.2 percent in the fourth quarter and 7.0 percent for the year. The declines were chiefly due to a recession-related decline in industrial sales, primarily among our machinery manufacturing and steel customers. Residential sales fell 3.4 percent for the fourth quarter and 0.9 percent for the year. The large decline in the fourth quarter reflected abnormally warm weather, including the warmest December of the century. Also, the number of residential customers decreased slightly as housing starts remained depressed. Commercial sales were virtually unchanged for the quarter and the year, again due to milder weather and a weak economy.

**KILOWATTHOUR SALES**
(Millions of kwhrs)

| | fourth quarter 1982 | % change from fourth quarter 1981 | 12 mos. ended 12/31/82 | % change from 12 mos. ended 12/31/81 |
|---|---|---|---|---|
| Residential | 973 | - 3.4 | 4,336 | - 0.9 |
| Commercial | 977 | 1.0 | 4,194 | 0.4 |
| Industrial | 1,560 | - 18.3 | 7,082 | - 14.5 |
| Other | 98 | 7.9 | 414 | 3.8 |
| Sales to Ultimate Customers | 3,608 | - 9.2 | 16,026 | - 7.0 |
| Sales to Utilities | 18 | - 77.1 | 139 | - 49.5 |
| Total | 3,626 | - 10.5 | 16,165 | - 7.7 |

## PUCO Grants Rate Increase

On January 5, 1983, The Public Utilities Commission of Ohio approved an $89.4 million, 7.4 percent electric rate increase, effective January 7, 1983. The new rates are based on a 12.60 percent return on rate base and a 17.33 percent return on common equity.

Of the increase approved, some $58 million allows for earnings on a portion of the construction costs for Unit #1 of the Perry Nuclear Power Plant. For the first time since construction began in 1974, customers will be contributing toward the costs of Unit #1, which is scheduled to begin operating in 1984.

We announced our intention to seek this increase in November 1981 when inflation was continuing to escalate our costs significantly and we saw little indication that this situation would change. Since that time, however, inflation has moderated substantially and interest rates have fallen. While the increase granted was less than requested, we believe effective cost controls will allow us to maintain a sound financial condition.

## Update on Recovery of Terminated Nuclear Projects Costs

As you may recall, in July 1981 the Ohio Supreme Court ruled that the Company could not recover through customer rates, as an operating expense, the amounts it had spent on four nuclear generating construction projects which were terminated in 1980. On January 10, 1983, the United States Supreme Court refused, for the second time, to review that ruling on procedural grounds.

In the proceedings for the rate increase granted to the Company by the PUCO effective March 19, 1982, we again asked the PUCO to permit the Company to recover the costs of the terminated units in rates as an operating expense. The PUCO refused to do so because of the Ohio Supreme Court's ruling. However, the PUCO, in determining the fair rate of return on common stock equity, recognized the added risk incurred by common stock owners as a result of disallowing recovery of the cost of the terminated units as an operating expense. In its order, the PUCO provided specific revenues for recovery of these costs. The PUCO also authorized the Company to amortize these costs over a period not to exceed 15 years. An opponent has appealed to the Ohio Supreme Court the PUCO's recognition of this added risk in rate of return. The Company has appealed the PUCO's refusal to allow recovery of the cost of the terminated units as an operating expense. These appeals are pending. If necessary, the Company plans to appeal this case to the United States Supreme Court on Constitutional grounds in its continuing effort to establish its right to recover these costs.

In the rate increase granted to the Company effective January 7, 1983, the PUCO again denied the Company recovery of these costs in rates as an operating expense. Moreover, in this rate order the PUCO did not provide specific revenues to recover these costs by increasing the rate of return on common stock equity to reflect the added risk to common stock owners as it had done last March. In keeping with generally accepted accounting principles, the Company stopped amortizing the costs of the terminated units as of January 1, 1983.

The unamortized cost of the terminated units at December 31, 1982 net of taxes is $31.5 million, or 51 cents per share. The unamortized cost of the units is being deferred while the Company continues its appeal to establish its right to recover the terminated units costs as an operating expense.

## New Director Elected to Board

William J. Williams, president and chief operating officer of Republic Steel Corporation, has been elected to the Board of Directors, effective February 1, 1983. Mr. Williams fills the vacancy created by the Board's decision to expand its membership from 11 to 12.

Mr. Williams brings to the Board not only his experience as a leader of one of the nation's largest industrial concerns but also his particular knowledge of utility law as a result of his previous law practice. He is active in the business community and in civic, professional and community organizations. His election provided a valuable addition to our Board.

## Tax Status of Dividends

Dividends paid on both common and preferred stock in 1982 are **fully taxable** as dividend income **except** for dividends which are reinvested through the Dividend Reinvestment Plan to the extent allowed by tax regulations.

## New Tax Act Mandates Tax Withholding on Dividends

The Tax Equity and Fiscal Responsibility Act of 1982, while preserving the tax deferral benefits of our Dividend Reinvestment Plan, requires the Company to begin withholding 10 percent of all dividends paid after June 30, 1983. The first checks which will be affected by withholding are as follows:

| | |
|---|---|
| Common stock | August 15, 1983 |
| Series A preferred stock | September 1, 1983 |
| Series B preferred stock | July 1, 1983 |

Dividends reinvested under the Dividend Reinvestment Plan are exempt from the withholding provisions of the 1982 Act. However, share owners who reinvest only a portion of their dividends or who participate in the Plan only on an optional cash basis are subject to the 10% withholding on dividends not reinvested unless they are exempt for another reason. Other exemptions permitted include:

1. Dividends paid to individuals with a Federal tax liability of $600 or less ($1,000 on a joint return) for the prior year.
2. Dividends paid to individuals age 65 or older whose Federal tax liability was $1,500 or less ($2,500 on a joint return) for the prior year. Only one person must satisfy the age requirement if a joint return was filed the preceding year.
3. Dividends paid to certain other entities such as corporations, tax-exempt organizations, nominees or custodians.

Share owners who believe that their dividends may qualify for exemption from the 10 percent withholding requirement must file an exemption certificate with the Company prior to the record date for the dividend. **It is not necessary for you to call or write us for the exemption certificate forms. We will mail one to you in March.** If you have more than one account or own more than one class of securities, you must provide an exemption certificate for each account—one certificate will not apply to all of your accounts.

# The Cleveland Electric Illuminating Company and Subsidiaries

**INCOME STATEMENT**
(Unaudited)

| | THREE MONTHS ENDED DECEMBER 31 | | TWELVE MONTHS ENDED DECEMBER 31 | |
|---|---|---|---|---|
| | 1982 | 1981 | 1982 | 1981 |
| | (thousands of dollars, except per share amounts) | | | |
| OPERATING REVENUES | | | | |
| Electric | $ 263,185 | $ 244,762 | $ 1,091,054 | $ 1,000,734 |
| Steam | 4,140 | 3,441 | 17,517 | 12,196 |
| Total operating revenues | 267,325 | 248,203 | 1,108,571 | 1,012,930 |
| OPERATING EXPENSES | | | | |
| Fuel | 85,101 | 87,982 | 330,674 | 322,154 |
| Purchased power | (5,427) | (3,223) | (1,395) | 29,256 |
| Other operation | 42,189 | 40,270 | 168,802 | 149,374 |
| Maintenance | 21,483 | 19,906 | 81,789 | 74,925 |
| Depreciation and amortization | 25,193 | 22,023 | 86,588 | 85,294 |
| Taxes, other than Federal income taxes | 28,051 | 19,964 | 106,804 | 91,648 |
| Federal income taxes | 21,787 | 17,092 | 106,382 | 67,575 |
| Total operating expenses | 218,377 | 204,014 | 879,644 | 820,226 |
| NET OPERATING INCOME | 48,948 | 44,189 | 228,927 | 192,704 |
| NONOPERATING INCOME | | | | |
| Allowance for equity funds used during construction | 19,834 | 15,028 | 76,896 | 48,970 |
| Other income and deductions | (3,947) | 2,331 | (2,481) | 10,566 |
| Federal income taxes—credit | 5,879 | 4,077 | 22,254 | 16,176 |
| Total nonoperating income | 21,766 | 21,436 | 96,669 | 75,712 |
| INCOME BEFORE INTEREST | 70,714 | 65,625 | 325,596 | 268,416 |
| INTEREST | | | | |
| Long-term debt (net) | 34,424 | 31,449 | 134,250 | 121,040 |
| Short-term bank loans, commercial paper and other | 1,254 | 3,657 | 9,822 | 25,672 |
| Allowance for borrowed funds used during construction | (8,420) | (8,425) | (27,440) | (34,030) |
| Net interest charges | 27,258 | 26,681 | 116,632 | 112,682 |
| NET INCOME | 43,456 | 38,944 | 208,964 | 155,734 |
| PREFERRED AND PREFERENCE DIVIDENDS | 9,547 | 9,612 | 38,295 | 34,917 |
| EARNINGS AVAILABLE FOR COMMON STOCK | $ 33,909 | $ 29,332 | $ 170,669 | $ 120,817 |
| EARNINGS PER COMMON SHARE, based on weighted average outstanding shares | $ .56 | $ .58 | $ 3.01 | $ 2.52 |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING | 60,303,718 | 50,914,129 | 56,739,806 | 48,004,081 |

**CONDENSED BALANCE SHEET**
(Unaudited)

| | December 31 | |
|---|---|---|
| | 1982 | 1981 |
| | (thousands of dollars) | |
| **ASSETS** | | |
| UTILITY PLANT | $4,010,532 | $3,610,895 |
| Less accumulated provision for depreciation | 679,890 | 621,353 |
| Net utility plant | 3,330,642 | 2,989,542 |
| OTHER PROPERTY, INVESTMENTS AND FUNDS | 81,994 | 60,207 |
| CURRENT ASSETS | 353,668 | 278,912 |
| DEFERRED CHARGES | 76,990 | 77,414 |
| Total | $3,843,294 | $3,406,075 |
| **CAPITALIZATION AND LIABILITIES** | | |
| CAPITALIZATION | | |
| Common stock equity | $1,227,095 | $1,002,206 |
| Preferred and preference stocks | | |
| With mandatory redemption requirements | 322,000 | 325,000 |
| Without mandatory redemption requirements | 95,071 | 95,071 |
| Long-term debt | 1,441,822 | 1,328,404 |
| Total capitalization | 3,085,988 | 2,750,681 |
| CURRENT LIABILITIES | 355,536 | 381,471 |
| DEFERRED CREDITS | | |
| Investment tax credits and other Federal income tax credits | 309,414 | 236,481 |
| Other | 92,356 | 37,442 |
| Total credits | 401,770 | 273,923 |
| Total | $3,843,294 | $3,406,075 |

We urge you to consult a tax advisor if you have any questions about your eligibility for exemption. The tax law is complex and provides penalties for those who wrongly claim exemption.

The only exception to the need to file an exemption certificate relates to those share owners who reinvest **all** of their common stock dividends through the Dividend Reinvestment Plan. Those share owners will not be sent an exemption certificate nor are they required to file one with the Company so long as they are enrolled in the Plan on a full dividend basis.

## April 26 Date for Annual Meeting

The 1983 annual meeting of share owners will be held Tuesday, April 26 at 10:00 a.m. in the 10th-floor Auditorium at The Higbee Company in downtown Cleveland. Proxy material and the Company's 1982 annual report will be mailed in March to share owners of record on February 25, 1983. Please complete, sign and return your proxy card as soon as possible.

The Company once again will hold a series of local meetings with share owners in our service area. The meetings provide a valuable opportunity for the exchange of information in an informal atmosphere. The meetings will be held in early May. We will provide more information to share owners in the Cleveland area in the next month or so.

## Financings Raised $436 Million in 1982

The sale of $100 million of 30-year first mortgage bonds in late November brought the total amount of equity and debt financing in 1982 to $436 million. The bonds, which have an interest rate of 12-3/4 percent, were offered to the public to yield 12.80 percent. The effective interest cost to the Company was 12.92 percent. Proceeds from the sale were used to pay $20 million of first mortgage bonds which matured on December 1, 1982, to pay a portion of the Company's construction-related short-term debt and for other corporate purposes.

In November 1982, we agreed to sell 30-year notes periodically over the next two years in varying amounts of $2-$5 million to a major financial institution for inclusion in its publicly-offered bond funds. We issued $60 million of first mortgage bonds as collateral for these notes. Under the agreement, we can sell a total of up to $60 million of notes by November 1984. This new agreement replaces a similar one which expired in April 1982. The advantage of the program is its flexibility. We can average our interest costs over a period of time or decline to sell the notes when interest rates are extremely high. Last year, we raised $10.9 million this way.

We expect to sell $100 million of first mortgage bonds in the first half of 1983. We also may finance pollution control facilities and sell additional preferred stock during the year. We will raise additional common equity through the Share Owner Dividend Reinvestment Plan and our employee stock purchase plans. For the first time since 1974 we have no plans for a public common stock offering.

These financings are consistent with our objective to attain a balanced capitalization structure of 40 to 42 percent common equity, a maximum of 48 percent debt and 10 to 12 percent preferred and preference stock.

## Governor Proposes Utility Excise Tax Increase

In his first State of the State message, delivered as this Quarterly Review was going to press, Ohio's new Governor, Richard F. Celeste, proposed an increase in the utility excise tax which would cost Ohio's utilities some $54 million. The Governor said utilities should not pass the increase along to customers. This means the tax increase would be paid by share owners. We will keep you informed.

## VIEWPOINT

### The Scorecard

In recent years, we increasingly have seen small, special-interest groups dictating political and economic policies which have not been in the best interests of the energy industry or the American public. We recognize the growing need to have the voices of this Company and its share owners heard.

To this end, in the first quarter of 1982, we began a special section called **Viewpoint** in our Quarterly Reviews. Here, we have told you about the important issues confronting us and recommended the course of action we believe best for share owners, customers and our service area. We are pleased that many of you have made your views known to your elected representatives. This is the fourth Quarterly Review to carry **Viewpoint**. Now is an appropriate time to review what happened on the issues discussed last year.

Prior to last November's election, **Viewpoint** expressed opposition to State Issue 3, a proposal to elect The Public Utilities Commission of Ohio. That proposal was defeated by an overwhelming two-to-one margin thanks to a successful effort to inform voters of the negative impact of such a move. That effort attracted many volunteers from among our share owners.

Another **Viewpoint** discussed the nuclear waste legislation under review by the U.S. Congress. Share owners were asked to join those calling for passage of this measure so important to the continuing development of nuclear energy. Late last year Congress enacted the legislation. The nation now has a timetable for the selection and testing of a Federal waste repository and provisions for the transport and monitoring of radioactive wastes. We hope this action by Congress will help dispel the myth that nuclear waste disposal is an unsolvable problem. The technology, in fact, has been known for years. Only governmental action, now taken, was required to solve the problem of political and social resistance to implementation.

Acid rain, the subject of a third **Viewpoint**, is an issue which has not yet been resolved. We maintain that much more needs to be learned about the causes and effects of this phenomenon before properly targeted corrective measures can be taken. The Federal government, operating from a similar view, has provided funds for extensive research into the acid rain phenomenon. Nevertheless, some special interest groups continue to call for immediate action, with midwestern electric utilities as the primary target. These groups are demanding that billions of dollars be spent now for pollution control devices at coal-fired generating plants. This added financial burden would have a serious impact on both the Company's earnings and on customer electric bills. We, too, want a clean environment. We will do our part to control acid rain. But we believe the first step is to complete the research needed to determine what measures will really produce the desired results.

**Viewpoint** will continue to keep you informed on the status of acid rain proposals and other issues of concern. We urge you to continue making your views known to your elected representatives. You, too, can be an influence. You have a right to be heard.

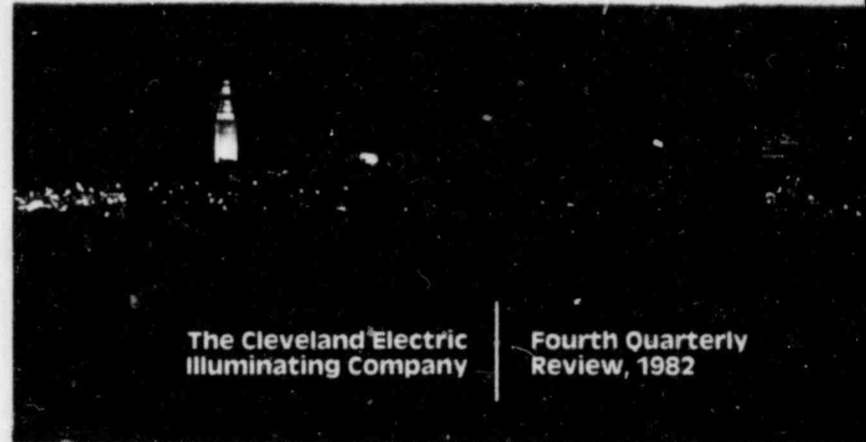

**Executive Offices**
Illuminating Building
55 Public Square
Cleveland, Ohio 44113

**Mail Address**
Post Office Box 5000
Cleveland, Ohio 44101
Phone: 216-622-9800

**Toll-Free Telephone**

| | |
|---|---|
| Local calls in Cleveland Area | 622-9800, Ext. 2325 |
| Ohio Calls | 1-800-362-1237 |
| Outside Ohio | 1-800-321-3206 |

Please have your account number ready when calling.


## Dear Share Owner:

Our Company ended the year 1982 with a comparatively solid earnings performance considering the difficult economic conditions which continued both locally and nationally.

Earnings were at a record high for a calendar year but down slightly from the 12 months ended September 30. This earnings decline, reversing an upward trend which began in June 1981, was due chiefly to a recession-related drop in industrial sales.

A rate increase needed to maintain adequate earnings was received early in January when The Public Utilities Commission of Ohio approved an $89.4 million, 7.4 percent increase in electric rates. Moreover, with inflation moderating and interest rates declining we believe that by continuing to exercise tight cost controls we can maintain an adequate level of earnings with no additional increase in rates until 1984 at the earliest.

We are also optimistic regarding economic recovery for Cleveland-Northeast Ohio and the nation. As we reported to the New York Society of Security Analysts in December, many Cleveland area factories are modern and are expected to participate fully in the national economic recovery.

Detailed information on earnings, kilowatthour sales, the rate increase and other subjects of interest may be found in the following sections of this Quarterly Review. You may be especially interested in the explanation of new tax laws affecting dividends and the announcement of our annual meeting of share owners. I hope to see many of you there.

Sincerely,

Robert M. Ginn

Robert M. Ginn
President

February 3, 1983