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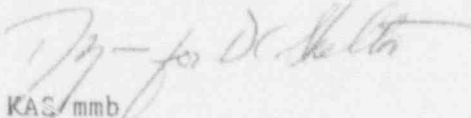
United States Nuclear Regulatory Commission
Document Control Desk
Washington, D. C. 20555

Subject: Annual Financial Report

Gentlemen:

In accordance with 10CFR50.71(b) Toledo Edison hereby submits its annual financial report, including the certified financial statements. Attached are the Toledo Edison Company 1990 Annual Report and Form 10-K, the Annual Report to the Securities and Exchange Commission for the fiscal year ended December 31, 1990.

Very truly yours,


KAS/mmb

attachments

cc: P. M. Byron, DB-1 NRC Senior Resident Inspector
A. B. Davis, Regional Administrator, NRC Region III
J. R. Hall, NRC Senior Project Manager
M. D. Lynch NRC Senior Project Manager
Utility Radiological Safety Board

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Operating Companies
Cleveland Electric Illuminating
Toledo Edison

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-K

(Mark One)

☒ [X]

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED)

For the fiscal year ended December 31, 1990

OR

☐ []

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

For the transition period from _____ to _____

Commission
File Number

Registrant; State of Incorporation;
Address; and Telephone Number

I.R.S. Employer
Identification No.

1-9130

CENTERIOR ENERGY CORPORATION
(An Ohio Corporation)
6200 Oak Tree Boulevard
Independence, Ohio 44131
Telephone (216) 447-3100

34-1479083

1-2323

THE CLEVELAND ELECTRIC ILLUMINATING
COMPANY
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Telephone (216) 622-9800

34-0150020

1-3583

THE TOLEDO EDISON COMPANY
(An Ohio Corporation)
300 Madison Avenue
Toledo, Ohio 43652
Telephone (419) 249-5000

34-4375005

Indicate by check mark whether each of the registrants (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ X No ☐

The aggregate market value of Centerior Energy Corporation Common Stock, without par value, held by non-affiliates was \$2,577,819,162.75 on February 28, 1991 based on the closing sale price as quoted for that date on a composite transactions basis in *The Wall Street Journal* and on the 138,406,398 shares of Common Stock outstanding on that date. Centerior Energy Corporation is the sole holder of the 79,590,689 shares and 39,133,887 shares of the outstanding common stock of The Cleveland Electric Illuminating Company and The Toledo Edison Company, respectively.

Securities registered pursuant to Section 12(b) of the Act:

<u>Registrant</u>	<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Centerior Energy Corporation	Common Stock, without par value	New York Stock Exchange Midwest Stock Exchange Pacific Stock Exchange
The Cleveland Electric Illuminating Company	Cumulative Serial Preferred Stock, without par value: \$7.40 Series A \$7.56 Series B Adjustable Rate, Series 1.	New York Stock Exchange New York Stock Exchange New York Stock Exchange
	First Mortgage Bonds:	
	8-3/8% Series due 1991	New York Stock Exchange
	3-7/8% Series due 1993	New York Stock Exchange
	4-3/8% Series due 1994	New York Stock Exchange
	8-3/4% Series due 2005	New York Stock Exchange
	9-1/4% Series due 2009	New York Stock Exchange
	9.85% Series due 2010	New York Stock Exchange
	8-3/8% Series due 2011	New York Stock Exchange
	8-3/8% Series due 2012	New York Stock Exchange
The Toledo Edison Company	Cumulative Preferred Stock, par value \$100 per share: 4-1/4% Series 8.32% Series 7.76% Series 10% Series	American Stock Exchange American Stock Exchange American Stock Exchange American Stock Exchange
	Cumulative Preferred Stock, par value \$25 per share: 8.84% Series \$2.365 Series Adjustable Rate, Series A Adjustable Rate, Series B \$2.81 Series	New York Stock Exchange New York Stock Exchange New York Stock Exchange New York Stock Exchange New York Stock Exchange
	First Mortgage Bonds:	
	9% Series due 2000	New York Stock Exchange
	7-1/2% Series due 2002	New York Stock Exchange
	8% Series due 2003	New York Stock Exchange
	9.65% Series due 2006	New York Stock Exchange
	9-5/8% Series due 2008	New York Stock Exchange

TABLE OF CONTENTS

	<u>Page Number</u>
Glossary of Terms	v
PART I	
Item 1. Business	1
The Centerior System	1
Industry Problems and Financial Uncertainties	2
CAPCO Group	3
Construction and Financing Programs	3
Construction Program	3
Financing Program	5
General Regulation	6
Holding Company Regulation	6
State Utility Commissions	7
Ohio Power Siting Board	8
Federal Energy Regulatory Commission	8
Nuclear Regulatory Commission	8
Other Regulation	8
Environmental Regulation	9
General	9
Air Quality Control	9
Water Quality Control	11
Waste Disposal	11
Electric Rates	12
General	12
1989 Rate Orders	13

	<u>Page Number</u>
Operations	13
Sales of Electricity	13
Operating Statistics	14
Operating Nuclear Units	17
Nuclear Unit Concerns	18
Competitive Conditions	18
General	18
Cleveland Electric	18
Toledo Edison	20
Fuel Supply	21
Coal	21
Nuclear	22
Oil	23
Executive Officers of the Registrants and the Service Company .	23
Item 2. Properties	32
General	32
The Centerior System	32
Cleveland Electric	33
Toledo Edison	33
Title to Property	34
Item 3. Legal Proceedings	35
Item 4. Submission of Matters to a Vote of Security Holders . . .	36
PART II	
Item 5. Market for Registrants' Common Equity and Related Stockholder Matters	36
Centerior Energy	36
Market Information	36
Share Owners	36
Dividends	36
Cleveland Electric and Toledo Edison	37

	<u>Page Number</u>
Item 6. Selected Financial Data	37
Centerior Energy	37
Cleveland Electric	37
Toledo Edison	37
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	37
Centerior Energy	37
Cleveland Electric	37
Toledo Edison	37
Item 8. Financial Statements and Supplementary Data	37
Centerior Energy	37
Cleveland Electric	37
Toledo Edison	38
Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	38
 PART III	
Item 10. Directors and Executive Officers of the Registrants . .	38
Centerior Energy	38
Cleveland Electric	38
Toledo Edison	39
Item 11. Executive Compensation	39
Centerior Energy Executive Compensation	39
Salaries and Insurance	40
Pension Plan Benefits	43
Employee Stock Plan Transactions	44
(a) Employee Purchase Plan	44
(b) Employee Savings Plan	44
(c) 1978 Key Employee Stock Option Plan	46
(d) Employee Stock Ownership Plan	47
Item 12. Security Ownership of Certain Beneficial Owners and Management	48
Centerior Energy	48
Cleveland Electric	49
Toledo Edison	49

	<u>Page Number</u>
Item 13. Certain Relationships and Related Transactions	50
Centerior Energy and Toledo Edison	50
Cleveland Electric	50
PART IV	
Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K	50
Signatures	52
Index to Selected Financial Data; Management's Discussion and Analysis of Financial Condition and Results of Operations; and Financial Statements	F-1
Index to Schedules	S-1
Exhibit Index	E-1

This combined Form 10-K is separately filed by Centerior Energy Corporation, The Cleveland Electric Illuminating Company and The Toledo Edison Company. Information contained herein relating to any individual registrant is filed by such registrant on its own behalf. No registrant makes any representation as to information relating to any other registrant, except that information relating to either or both of the Centerior Utilities is also attributed to Centerior Energy.

GLOSSARY OF TERMS

The following terms and abbreviations used in the text of this report are defined as indicated:

<u>Term</u>	<u>Definition</u>
AFUDC	Allowance for Funds Used During Construction.
AMP-Ohio	American Municipal Power-Ohio, Inc., an Ohio not-for-profit corporation, the members of which are certain Ohio municipal electric systems.
Beaver Valley Unit 2	Unit 2 of the Beaver Valley Power Station, in which the Centerior Utilities have ownership and leasehold interests.
CAPCO Group	Central Area Power Coordination Group.
Centerior Energy or Centerior	Centerior Energy Corporation.
Centerior System	Centerior Energy, the Centerior Utilities and the Service Company.
Centerior Utilities (individually, Centerior Utility)	Cleveland Electric and Toledo Edison.
Clean Air Act	Federal Clean Air Act of 1970 as amended.
Clean Air Act Amendments	November 1990 Amendments to the Clean Air Act.
Clean Water Act	Federal Water Pollution Control Act as amended.
Cleveland Electric	The Cleveland Electric Illuminating Company, an electric utility subsidiary of Centerior Energy and a member of the CAPCO Group.
Consol	Consolidation Coal Company.

<u>Term</u>	<u>Definition</u>
Consumers Power	Consumers Power Company, an electric utility subsidiary of CMS Energy Corporation.
CPP	Cleveland Public Power, a municipal electric system operated by the City of Cleveland.
CWIP	Construction Work in Progress.
Davis-Besse	Davis-Besse Nuclear Power Station.
Detroit Edison	Detroit Edison Company, an electric utility.
District of Columbia Circuit Appeals Court	United States Court of Appeals for the District of Columbia Circuit.
DOE	United States Department of Energy.
Duff & Phelps	Duff & Phelps, Incorporated.
Duquesne	Duquesne Light Company, an electric utility subsidiary of DQE, Inc and a member of the CAPCO Group.
ECAR	East Central Area Reliability Coordination Group.
FERC	Federal Energy Regulatory Commission.
FICA	Federal Insurance Contributions Act.
GPU	General Public Utilities Corporation, an electric utility holding company.
Ludington Plant	Ludington Pumped Storage Power Plant, a pumped-storage, hydro-electric generating station jointly owned by Detroit Edison and Consumers Power.
Mansfield Plant	Bruce Mansfield Generating Plant, a coal-fired power plant, in which the Centerior Utilities have leasehold interests as joint and several lessees.
Moody's	Moody's Investors Service.
Note or Notes	Note or Notes to the Financial Statements in the Centerior Energy, Cleveland Electric and Toledo Edison Annual Reports for 1990 (Note or Notes, where used, refers to all three companies unless otherwise specified).

<u>Term</u>	<u>Definition</u>
NOV	Notice of Violation issued by the U.S. EPA.
NPDES	National Pollutant Discharge Elimination System.
NRC	United States Nuclear Regulatory Commission.
Ohio EBR	Ohio Environmental Board of Review.
Ohio Edison	Ohio Edison Company, an electric utility and a member of the CAPCO Group.
Ohio EPA	Ohio Environmental Protection Agency.
Ohio Power	Ohio Power Company, an electric utility subsidiary of American Electric Power Company, Inc.
Ohio Valley	The Ohio Valley Coal Company, the successor corporation to The Nacco Mining Company and a subsidiary of Ohio Valley Resources, Inc.
Operating Companies	The Centerior Utilities.
OPSB	Ohio Power Siting Board.
PaPUC	Pennsylvania Public Utility Commission.
Penelec	Pennsylvania Electric Company, an electric utility subsidiary of GPU.
Pennsylvania Power	Pennsylvania Power Company, an electric utility subsidiary of Ohio Edison and a member of the CAPCO Group.
Perry Plant	Perry Nuclear Power Plant.
Perry Unit 1 and Perry Unit 2	Unit 1 and Unit 2 of the Perry Plant, in which the Centerior Utilities have ownership interests.
PUCO	The Public Utilities Commission of Ohio.
Purchase Plan	Centerior Energy's Employee Purchase Plan.
Quarto	Quarto Mining Company, a subsidiary of Consol.
Savings Plan	Centerior Energy's Employee Savings Plan.
SEC	Securities and Exchange Commission.

<u>Term</u>	<u>Definition</u>
Seneca Plant	Seneca Power Plant, a pumped-storage, hydro-electric generating station jointly owned by Cleveland Electric and Penelec.
Service Company	Centerior Service Company, a service subsidiary of Centerior Energy.
Sixth Circuit Appeals Court	United States Court of Appeals for the Sixth Circuit.
S&P	Standard & Poor's Corporation.
Superfund	Comprehensive Environmental Response, Compensation and Liability Act of 1980 and the Superfund Amendments and Reauthorization Act of 1986.
Toledo Edison	The Toledo Edison Company, an electric utility subsidiary of Centerior Energy and a member of the CAPCO Group.
U.S. EPA	United States Environmental Protection Agency.

PART I

Item 1. Business

THE CENTERIOR SYSTEM

Centerior Energy is a public utility holding company and the parent company of the Centerior Utilities and the Service Company. Centerior was incorporated under the laws of the State of Ohio in 1985 for the purpose of enabling Cleveland Electric and Toledo Edison to affiliate by becoming wholly owned subsidiaries of Centerior. The affiliation of the Centerior Utilities became effective on April 29, 1986. The consolidated operating revenues of the Centerior System are derived primarily from the sale of electric energy by Cleveland Electric and Toledo Edison.

The Centerior Utilities' combined service areas encompass approximately 4,200 square miles in northeastern and northwestern Ohio with an estimated population of about 2,600,000. At December 31, 1990, the Centerior System had 8,517 employees. Centerior Energy has no employees.

Cleveland Electric, which was incorporated under the laws of the State of Ohio in 1892, is a public utility engaged in the generation, purchase, transmission, distribution and sale of electric energy in an area of approximately 1,700 square miles in northeastern Ohio, including the City of Cleveland. Cleveland Electric also provides electric energy at wholesale to other electric utility companies and to two municipal electric systems in its service area. Cleveland Electric serves approximately 742,000 customers and derives approximately 74% of its total electric revenue from customers outside the City of Cleveland. Principal industries served by Cleveland Electric include those producing steel and other primary metals; automotive and other transportation equipment; chemicals; electrical and nonelectrical machinery; fabricated metal products; and rubber and plastic products. Cleveland Electric's operating revenues are derived primarily from the sale of electric energy. At December 31, 1990, Cleveland Electric had 4,490 employees. Cleveland Electric has a collective bargaining agreement with one union.

Toledo Edison, which was incorporated under the laws of the State of Ohio in 1901, is a public utility engaged in the generation, purchase, transmission, distribution and sale of electric energy in an area of approximately 2,500 square miles in northwestern Ohio, including the City of Toledo. Toledo Edison also provides electric energy at wholesale to other electric utility companies and to 13 municipally owned distribution systems (through AMP-Ohio) and one rural electric cooperative distribution system in its service area. Toledo Edison serves approximately 284,000 customers and derives approximately 53% of its total electric revenue from customers outside the City of Toledo. Among the principal industries served by Toledo Edison are metal casting, forming and fabricating; petroleum refining; automotive equipment and assembly; food processing; and glass. Toledo Edison's operating revenues are derived primarily from the sale of electric energy. At December 31, 1990, Toledo Edison had 2,548 employees. Toledo Edison has collective bargaining agreements with three unions.

The Service Company, which was incorporated in 1986 under the laws of the State of Ohio, is also a wholly owned subsidiary of Centerior Energy. It provides management, financial, administrative, engineering, legal, governmental and public relations and other services to Centerior Energy and the Centerior Utilities. At December 31, 1990, the Service Company had 1,479 employees.

INDUSTRY PROBLEMS AND FINANCIAL UNCERTAINTIES

The Centerior System has experienced in recent years some of the significant problems confronting the electric utility industry in general, including: the effects of fluctuating economic conditions and customer conservation practices upon electricity usage; increased competition from municipal systems; difficulty in accurately forecasting demand for electric service; difficulty in obtaining adequate and timely rate relief, including disallowance or deferral of construction costs in rates and the consequent write-offs of investments in nuclear generating facilities; adverse changes in rate-making law; increasing operating costs; increasing costs of and delays in construction; increasing costs of complying with evolving governmental regulations, in particular, environmental and nuclear plant regulations; uncertainty associated with the operation of nuclear units; and a reduction in common stock dividends.

Now and in the future, the Centerior System may have to contend with many of the problems listed above as well as the following: difficulty in financing construction due to high costs of capital, uncertain financial markets and financing limitations contained in articles of incorporation, indentures and certain financial agreements; increasing scrutiny of, and the involvement in management of, company operations by state utility commissions and state consumer advocates; increasing pressure from the threat of municipalization for utilities to reduce rates; and the emerging need for utilities to reduce electrical peak load growth through the integration of demand-side and supply-side energy management programs.

See Note 3(c) and Note 4 for discussions of uncertainties associated with Perry Unit 2 and the Centerior Utilities' operating nuclear units. The likelihood of the occurrence of any of the matters discussed under these Notes which would have a financial impact on the Centerior Utilities cannot be determined at this time. Based on each Centerior Utility's and Centerior's current financial condition and level of annual income, a write-off of either Centerior Utility's investment in Perry Unit 2 would have a material adverse effect on such Centerior Utility's and Centerior's results of operations in the period in which it were to occur and on retained earnings, but would not affect such company's cash flow. Such a write-off could reduce Toledo Edison's retained earnings sufficiently such that Toledo Edison's ability to declare dividends, under Ohio law, might be impaired. However, such a write-off would not reduce retained earnings sufficiently to impair, under Ohio law, Centerior's or Cleveland Electric's ability to declare dividends. Whether dividends would be declared in such event cannot be determined at this time.

For a discussion of the financial consequences associated with the January 1989 PUCO rate orders which established a 10-year rate phase-in plan for recovering the Centerior Utilities' investments in Perry Unit 1 and Beaver Valley Unit 2 and of the impact of current economic conditions and competitive pressures, see Note 6 and also Management's Financial Analysis contained under Item 7 of this Report.

CAPCO GROUP

Cleveland Electric and Toledo Edison are members of the CAPCO Group, a power pool created in 1967 with Duquesne, Ohio Edison and Pennsylvania Power. This pool affords greater reliability and lower cost of providing electric service through coordinated generating unit operations and maintenance and generating reserve back-up among the five companies. In addition, the CAPCO Group has completed programs to construct larger, more efficient electric generating units and to strengthen interconnections within the pool.

The CAPCO Group companies have placed in service nine major generating units, of which the Centerior Utilities have ownership or leasehold interests in seven (three nuclear and four coal-fired). Construction of another nuclear generating unit (Perry Unit 2) has been suspended (see Note 3(c)). Each company owns, as a tenant-in-common, or leases a portion of certain of these generating units. Each company has the right to the net capability and associated energy of its respective ownership and leasehold portions of the units and is, severally and not jointly, obligated for the capital and operating costs equivalent to its respective ownership and leasehold portions of the units and the required fuel, except that the obligations of Pennsylvania Power are the joint and several obligations of that company and Ohio Edison and except that the leasehold obligations of Cleveland Electric and Toledo Edison are joint and several. (See "Operations--Fuel Supply".) The company in whose service area a generating unit is located is responsible for the operation of that unit for all the owners, except for the procurement of nuclear fuel for a nuclear generating unit. Each company owns the necessary interconnecting transmission facilities within its service area, and the other CAPCO Group companies contribute toward fixed charges and operating costs of those transmission facilities.

All of the CAPCO Group companies are members of ECAR, which is comprised of 28 electric companies located in nine contiguous states. ECAR's purpose is to improve reliability of bulk power supply through coordination of planning and operation of member companies' generation and transmission facilities.

CONSTRUCTION AND FINANCING PROGRAMS

Construction Program

Although the Centerior System has completed its generating unit construction program, it is carrying on a continuous program of constructing transmission, distribution and general facilities and modifying existing generating facilities to meet anticipated demand for electric service, to comply with governmental regulations and to improve the environment. The Centerior System's integrated resource plan for the 1990s combines demand-side management programs with maximum utilization of existing generating capacity to postpone the need for new generating units until later in the decade. Demand-side management programs, such as direct load control, residential appliance interlocks, curtailable load, thermal storage and energy management, are expected to reduce peak load growth and increase energy usage in off-peak periods. The next increment of generating capacity to be constructed by the Centerior Utilities is expected to be relatively small, 100,000-150,000-kilowatt units with short construction lead times. According to the current long-term integrated resource plan, and assuming construction on Perry Unit 2 is not resumed in the interim (see Note 3(c)), the Centerior System plans to put into service 110,000 kilowatts of such generating capacity in 1999 or 2000.

The following table shows, categorized by major components, the construction expenditures by Cleveland Electric and Toledo Edison and, by aggregating them, for the Centerior System during 1988, 1989 and 1990 and the estimated cost of their construction programs for 1991, 1992 and 1993, in each case including AFUDC and excluding nuclear fuel:

	Actual			Estimated		
	1988	1989	1990	1991	1992	1993
(Millions of Dollars)						
<u>Cleveland Electric</u>						
Perry Unit 1	\$ 21	\$ 5	\$ 0	\$ 0	\$ 0	\$ 0
Beaver Valley Unit 2	0	4	0	0	0	0
Perry Unit 2*	0	0	0	0	0	0
Transmission, Distribution and General Facilities	65	87	82	94	107	130
Renovation and Modification of Generating Units						
Perry Unit 1	13	5	8	11	14	17
Beaver Valley Unit 2	24	3	(3)	5	4	4
Davis-Besse	56	25	40	15	12	10
Non-Nuclear Units	<u>33</u>	<u>24</u>	<u>37</u>	<u>59</u>	<u>80</u>	<u>86</u>
Total	\$ <u>212</u>	\$ <u>153</u>	\$ <u>164</u>	\$ <u>184</u>	\$ <u>217</u>	\$ <u>247</u>

	Actual			Estimated		
	1988	1989	1990	1991	1992	1993
(Millions of Dollars)						
<u>Toledo Edison</u>						
Perry Unit 1	\$ 9	\$ 1	\$ 0	\$ 0	\$ 0	\$ 0
Beaver Valley Unit 2	0	3	0	0	0	0
Perry Unit 2*	0	2	0	0	0	0
Transmission, Distribution and General Facilities	26	28	29	32	41	50
Renovation and Modification of Generating Units						
Perry Unit 1	22	3	5	7	9	11
Beaver Valley Unit 2	20	2	(2)	5	4	4
Davis-Besse	51	29	39	15	12	10
Non-Nuclear Units	<u>2</u>	<u>10</u>	<u>16</u>	<u>7</u>	<u>17</u>	<u>28</u>
Total	\$ <u>130</u>	\$ <u>78</u>	\$ <u>87</u>	\$ <u>66</u>	\$ <u>83</u>	\$ <u>103</u>

Note: The footnote to the table is on the following page.

Centerior System	Actual			Estimated		
	1988	1989	1990	1991	1992	1993
	(Millions of Dollars)					
Perry Unit 1	\$ 30	\$ 6	\$ 0	\$ 0	\$ 0	\$ 0
Beaver Valley Unit 2	0	7	0	0	0	0
Perry Unit 2*	0	2	0	0	0	0
Transmission, Distribution and General Facilities	91	115	111	126	148	180
Renovation and Modification of Generating Units						
Perry Unit 1	35	8	13	18	23	28
Beaver Valley Unit 2	44	5	(5)	10	8	8
Davis-Besse	107	54	79	30	24	20
Non-Nuclear Units	<u>35</u>	<u>34</u>	<u>53</u>	<u>66</u>	<u>97</u>	<u>114</u>
Total	<u>\$ 342</u>	<u>\$ 231</u>	<u>\$ 251</u>	<u>\$ 250</u>	<u>\$ 300</u>	<u>\$ 350</u>

*Construction of Perry Unit 2 has been suspended. The amount shown for Perry Unit 2 in 1989 for Toledo Edison and the Centerior System is the result of a reallocation of previous years' costs between Perry Unit 1 and Perry Unit 2 for Toledo Edison.

See "Environmental Regulation--General" for estimated pollution control expenditures.

Each company in the CAPCO Group is responsible for financing the portion of the capital costs of nuclear fuel equivalent to its ownership and leased interest in the unit in which the fuel will be utilized. See "Operations--Fuel Supply--Nuclear" for information regarding nuclear fuel supplies and Note 5 regarding leasing arrangements to finance nuclear fuel capital costs. Nuclear fuel capital costs incurred by Cleveland Electric, Toledo Edison and the Centerior System during 1988, 1989 and 1990 and their estimated nuclear fuel capital costs for 1991, 1992 and 1993 are as follows:

	Actual			Estimated		
	1988	1989	1990	1991	1992	1993
	(Millions of Dollars)					
Cleveland Electric	\$ 37	\$ 29	\$ 38	\$ 43	\$ 20	\$ 29
Toledo Edison	\$ 34	\$ 21	\$ 24	\$ 34	\$ 15	\$ 20
Centerior System	\$ 71	\$ 50	\$ 62	\$ 77	\$ 35	\$ 49

Financing Program

Reference is made to Centerior Energy's, Cleveland Electric's and Toledo Edison's Management's Financial Analysis contained under Item 7 of this Report and to Notes 10 and 11 for discussions of the Centerior System's financing activity in 1990; debt and preferred stock redemption requirements during the 1991-1993 period; expected external financing needs during such period; restrictions on the issuance of additional debt securities and preferred and preference stock; and short-term and long-term financing capability.

Financing activity for Cleveland Electric in 1991 is expected to consist of the periodic issuance over approximately 12 months, starting in the second quarter, of \$150,000,000 of notes secured by first mortgage bonds and the issuance of \$100,000,000-\$125,000,000 of preferred stock.

In January 1991, Toledo Edison issued \$25,000,000 of unsecured notes pursuant to a bank term loan agreement. In March 1991, Toledo Edison sold \$99,500,000 of notes secured by first mortgage bonds. Toledo Edison's financing plans for the remainder of 1991 include the periodic issuance over approximately 12 months of an additional \$50,500,000 of notes secured by first mortgage bonds and the possible issuance of \$80,000,000 of unsecured notes in the second quarter of the year pursuant to bank term loan agreements.

Centerior plans to return to the sale of authorized but unissued common stock under certain of its employee and share owner stock purchase plans in 1991 and expects to raise about \$40,000,000-\$45,000,000 during the year through such common stock sales.

Toledo Edison's first mortgage bonds and preferred stock are rated below investment grade by Duff & Phelps and its preferred stock and unsecured notes are rated below investment grade by both Moody's and S&P. Cleveland Electric's preferred stock is currently rated below investment grade by both Duff & Phelps and S&P. The current securities ratings for the Centerior Utilities are as follows:

	<u>S&P</u>	<u>Moody's</u>	<u>Duff & Phelps</u>
Cleveland Electric			
First Mortgage Bonds	BBB-	Baa2	BBB-
Preferred Stock	BB+	baa2	BB
Toledo Edison			
First Mortgage Bonds	BBB-	Baa3	B3+
Preferred Stock	BB+	ba2	1B-
Unsecured Notes	BB+	Ba1	--

GENERAL REGULATION

Holding Company Regulation

Centerior Energy is currently exempt from regulation under the Public Utility Holding Company Act of 1935.

State Utility Commissions

The Centerior Utilities are subject to the jurisdiction of the PUCO with respect to rates, service, accounting, issuance of securities and other matters. Under Ohio law, municipalities may regulate rates, subject to appeal to the PUCO if not acceptable to the utility. See "Electric Rates--General" for a description of certain aspects of Ohio rate-making law. The Centerior Utilities are also subject to the jurisdiction of the PaPUC in certain respects relating to their ownership interests in generating facilities located in Pennsylvania.

The PUCO is composed of five commissioners appointed by the Governor of Ohio from nominees recommended by a Public Utility Commission Nominating Council. Nominees must have at least three years' experience in one of several disciplines. Not more than three commissioners may belong to the same political party.

Under Ohio law, a public utility must file annually with the PUCO a long-term forecast of customer loads, facilities needed to serve those loads and prospective sites for those facilities. This forecast must include the following:

- (1) Demand Forecast--the utility's 20-year forecast of sales and peak demand, including and excluding the effect of demand-side management programs.
- (2) Integrated Resource Plan (required biennially)--the utility's projected mix of resource options to meet the projected demand.
- (3) Short-Term Implementation Plan and Status Report (required biennially)--the utility's discussion of how it plans to implement its integrated resource plan over the next four years. Estimates of annual expenditures and security issuances associated with the integrated resource plan over the four-year period must also be provided.

The PUCO must hold a public hearing on the long-term forecast at least once every five years to determine the reasonableness of such forecast. The PUCO and the OPSB are required to consider the record of such hearings in proceedings for approving facility sites, changing rates, approving security issues and initiating energy conservation programs. Centerior expects the PUCO to hold a public hearing on the Centerior Utilities' 1992 long-term forecast.

The PUCO has jurisdiction over certain transactions by companies in an electric utility holding company system if it includes at least one Ohio electric utility and is exempt from regulation under Section 3(a)(1) or (2) of the Public Utility Holding Company Act of 1935. An Ohio electric utility in such a holding company system, such as Centerior, must obtain PUCO approval to invest in, lend funds to, guarantee the obligations of or otherwise finance or transfer assets to any nonutility company in that holding company system, unless the transaction is in the ordinary course of business operations in which one company acts for or with respect to another company. Also, the holding company in such a holding company system must obtain PUCO approval to

make any investment in any nonutility subsidiaries, affiliates or associates of the holding company if such investment would cause all such capital investments to exceed 15% of the consolidated capitalization of the holding company unless such funds were provided by nonutility subsidiaries, affiliates or associates.

The PUCO has a reserve capacity policy for electric utilities in Ohio stating that (i) 20% of service area peak load excluding interruptible load is an appropriate generic benchmark for an electric utility's reserve margin; (ii) a reserve margin exceeding 20% gives rise to a presumption of excess capacity, but may be appropriate if it confers a positive net present benefit to customers or is justified by unique system characteristics; and (iii) appropriate remedies for excess capacity (possibly including disallowance of costs in rates) will be determined by the PUCO on a case-by-case basis. Excess capacity was not an issue for the Centerior Utilities in their February 1991 rate increases. See "Electric Rates--1989 Rate Orders".

Ohio Power Siting Board

The OPSB has state-wide jurisdiction, except to the extent pre-empted by Federal law, over the location, need for and certain environmental aspects of electric generating units with a capacity of 50,000 kilowatts or more and transmission lines with a rating of at least 125 kV.

Federal Energy Regulatory Commission

The Centerior Utilities are each subject to the jurisdiction of the FERC with respect to the transmission and sale of power at wholesale in interstate commerce, interconnections with other utilities, accounting and certain other matters. Cleveland Electric is also subject to FERC jurisdiction with respect to its ownership and operation of the Seneca Plant.

Nuclear Regulatory Commission

The nuclear generating units in which the Centerior Utilities have an interest are subject to regulation by the NRC. The NRC's jurisdiction encompasses broad supervisory and regulatory powers over the construction and operation of nuclear reactors, including matters of health and safety, antitrust considerations and environmental impacts.

Owners of nuclear units are required to purchase the full amount of nuclear liability insurance available. See Note 4(b) for a description of nuclear insurance coverages.

Other Regulation

The Centerior Utilities are subject to regulation by Federal, state and local authorities with regard to the location, construction and operation of certain facilities. The Centerior Utilities are also subject to regulation by local authorities with respect to certain zoning and planning matters.

ENVIRONMENTAL REGULATION

General

The Centerior Utilities are subject to regulation with respect to air quality, water quality and waste disposal matters. Federal environmental legislation affecting the operations and properties of the Centerior Utilities includes the Clean Air Act, the Clean Air Act Amendments, the Clean Water Act, the Resource Conservation and Recovery Act of 1976 and Superfund. The requirements of these statutes and related state and local laws are continually changing due to the promulgation of new or revised regulations, the results of judicial and agency proceedings and frequent amendment of these statutes. Compliance with such laws and regulations may require the Centerior Utilities to modify, supplement, abandon or replace facilities and may delay or impede construction and operation of facilities, all at costs which could be substantial. The Centerior Utilities expect that the impact of such costs would eventually be reflected in their respective rate schedules. Cleveland Electric and Toledo Edison plan to spend, during the period 1991-1993, \$30,000,000 and \$4,000,000, respectively, for pollution control facilities.

The Centerior Utilities believe that they are currently in compliance in all material respects with all applicable environmental laws and regulations, or to the extent that one or both of the Centerior Utilities may dispute the applicability or interpretation of a particular environmental law and regulation, the affected company has filed an appeal or has applied for permits, revisions in requirements, variances or extensions of deadlines.

Concerns have been raised regarding the possible health effects associated with electromagnetic fields. Scientific research has yielded inconclusive results. Additional studies are being conducted. If electromagnetic fields are ultimately found to pose a health risk, the Centerior Utilities may be required to modify transmission and distribution lines or other facilities.

Air Quality Control

Under the Clean Air Act, the Ohio EPA has adopted Ohio emission limitations for particulate matter and sulfur dioxide for each of the Centerior Utilities' plants. The Clean Air Act provides for civil penalties of up to \$25,000 per day for each violation of an emission limitation. The U.S. EPA has approved the Ohio EPA's emission limitations and the related implementation plans except for fugitive dust emissions and certain sulfur dioxide emissions. The U.S. EPA has adopted separate sulfur dioxide emission limitations for each of the Centerior Utilities' plants. In November 1990, the Clean Air Act Amendments were signed into law imposing restrictions on nitrogen oxides and making sulfur dioxide limitations significantly more severe beginning in 1995. A variety of options will be available to meet the new requirements, including switching to lower sulfur fuel, purchasing emission allowances from other companies, installing scrubbers or reducing generation. See Note 3(b). The Clean Air Act Amendments also require studies to be conducted on the emission of air toxics from utilities. The results of these studies may lead, if deemed necessary by the U.S. EPA, to the promulgation of regulations to control the emission of air toxics from utilities.

The Centerior Utilities' fossil fuel-fired generating units in Ohio comply with the current U.S. EPA and Ohio EPA limitations on emissions of particulate matter and sulfur dioxide applicable to those plants. Currently, the U.S. EPA enforcement policy and Ohio regulations allow compliance with sulfur dioxide emission limitations to be based on a 30-day averaging period.

In 1985, the U.S. EPA issued revised regulations specifying the extent to which stack height may be incorporated into the establishment of an emission limitation. Pursuant to the revised regulations, the Centerior Utilities submitted to the Ohio EPA information intended to support continuation of the stack height credit received under the previous regulations for stacks at Cleveland Electric's Avon Lake and Eastlake Plants and Toledo Edison's Bay Shore Station. The Ohio EPA has accepted the submissions and forwarded them to the U.S. EPA for approval. In January 1988, the District of Columbia Circuit Appeals Court remanded portions of the 1985 regulations to the U.S. EPA for further consideration. The Centerior Utilities cannot predict what action the U.S. EPA may take or whether the ultimate outcome will have a material adverse effect on either of the Centerior Utilities.

In 1986, the Sixth Circuit Appeals Court ruled on a challenge filed by an environmental group and several states east of Ohio seeking to overturn the Federal sulfur dioxide emission limitations for the Eastlake and Avon Lake Plants. The Court ruled that the validity of the air quality model used by the U.S. EPA to set the sulfur dioxide emission limitations for those plants had not been adequately established. The Court permitted the Ohio sulfur dioxide emission limitations to remain in effect while the U.S. EPA completed its review of the application of the air quality model. The U.S. EPA, along with Centerior, demonstrated the validity of the model used to establish the sulfur dioxide emission limitations for those plants. In January 1990, the U.S. EPA proposed to reinstate the overturned emission limitations; however, final action has not been taken by the U.S. EPA.

In July 1990, the U.S. EPA informed Centerior that it had changed the factor used to calculate sulfur dioxide emissions from coal-fired units. This change made it more difficult for fossil-fueled power plants to comply with emission limitations. In August 1990, the U.S. EPA issued an NOV against Toledo Edison stating that the Bay Shore Station had violated its sulfur dioxide limitation at various times in 1989 and 1990. Based upon discussions with the U.S. EPA, Toledo Edison believes that no fine will be levied as a result of the NOV. If the method of calculating sulfur dioxide emissions is changed as the U.S. EPA has indicated, Toledo Edison believes it will incur additional operating costs but does not believe that such additional costs will result in a material adverse effect on its financial condition or results of operations.

Congress is considering legislation to reduce emissions of gases that are thought to cause global warming. The burning of coal is thought to be a cause of global warming. The cost of operating coal-fired plants could increase significantly and coal-fired generating capacity could decrease significantly if such legislation is adopted.

Water Quality Control

The Clean Water Act requires that power plants obtain permits that contain certain effluent limitations (that is, limits on discharges of pollutants into bodies of water). It also provides that permits for new power plants include even more stringent effluent limitations, including zero discharges, where practicable. The Clean Water Act also requires that cooling water intake structures for power plants incorporate the best available technology for minimizing adverse environmental impact. The Clean Water Act requires the states to establish water quality standards (which could result in more stringent effluent limitations for facilities than those described above) and a permit system to be approved by the U.S. EPA. Violators of effluent limitations and water quality standards are subject to a civil penalty not to exceed \$25,000 per day for each such violation.

The Clean Water Act permits thermal effluent limitations to be established for a facility which are less stringent than those which otherwise would apply if the owner can demonstrate that such less stringent limitations are sufficient to assure the protection and propagation of aquatic and other wildlife in the affected body of water. By 1978, the Centerior Utilities had submitted to the Ohio EPA such demonstrations for review with respect to their Ashtabula, Avon Lake, Lake Shore, Eastlake, Acme and Bay Shore plants. The Ohio EPA has taken no action on the submittals.

Cleveland Electric's Ashtabula, Avon Lake, Eastlake and Lake Shore Plants and Toledo Edison's Bay Shore Station and Davis-Besse have received NPDES permit renewals from the Ohio EPA which incorporate applicable effluent limitations. Applications have been filed with the Ohio EPA for the renewal of NPDES permits for Cleveland Electric's Perry Plant and Toledo Edison's Acme Plant, but have not yet been approved. However, Acme and Perry may continue to operate under the expired permits while the applications for renewal are pending. Cleveland Electric has appealed the NPDES permit granted for the Ashtabula Plant to the Ohio EBR because the Ohio EPA imposed more stringent limitations. Violations of these NPDES permits are considered to be violations of the Clean Water Act subject to the penalty discussed above.

In 1990, the Ohio EPA issued revised water quality standards applicable to Lake Erie and waters of the State of Ohio. The most recent NPDES renewals did not contain any additional effluent limitations resulting from the revised standards. However, the revised standards may serve as the basis for more stringent effluent limitations in future NPDES permits. Such limitations could result in the installation of additional pollution control equipment and increased operating expenses.

Waste Disposal

Superfund established programs addressing the clean-up of hazardous waste disposal sites, emergency preparedness and other issues. Cleveland Electric is aware of its potential involvement in the clean-up of seven hazardous waste sites, and Toledo Edison is aware of its potential involvement in the clean-up of two hazardous waste sites. The majority of these nine sites are subject to Superfund. Centerior and the Centerior Utilities believe that the ultimate outcome of these matters will not have a material adverse effect on their respective financial conditions or results of operations.

The Federal Resource Conservation and Recovery Act exempts certain electric utility waste products from hazardous waste disposal requirements until the U.S. EPA has completed a study of these wastes and existing disposal methods. The Centerior Utilities are unable to predict whether the results of the study would affect them or, if affected, the costs relating to any required changes in the operations of the Centerior Utilities.

ELECTRIC RATES

General

Under Ohio law, rate base is the original cost less depreciation of a utility's total plant adjusted for certain items. The law permits the PUCO, in its discretion, to include CWIP in rate base when a construction project is at least 75% complete, but limits the amount included to 10% of rate base excluding CWIP or, in the case of a project to construct pollution control facilities which would remove sulfur and nitrous oxide from flue gas emissions, 20% of rate base excluding CWIP. When a project is completed, the portion of its cost which had been included in rate base as CWIP is excluded from rate base until the revenue received due to the CWIP inclusion is offset by the revenue lost due to its exclusion. During this period of time, an AFUDC-type credit is allowed on the portion of the project cost excluded from rate base. Also, the law permits inclusion of CWIP for a particular project for a period not longer than 48 consecutive months, plus any time needed to comply with changed governmental regulation, standards or approvals. The PUCO is empowered to permit inclusion for up to another 12 months for good cause shown. If a project is canceled or not completed within the allowable period of time after inclusion of its CWIP has started, then CWIP is excluded from rate base and any revenues which resulted from such prior inclusion are offset against future revenues over the same period of time as the CWIP was included.

Current Ohio law further provides that requested rates can be collected by a public utility, subject to refund, if the PUCO does not make a decision within 275 days after the rate request application is filed. If the PUCO does not make its final decision within 545 days, revenues collected thereafter are not subject to refund. A notice of intent to file an application for a rate increase cannot be filed before the issuance of a final order in any prior pending application for a rate increase or until 275 days after the filing of the prior application, whichever is earlier. The minimum period by which the notice of intent to file must precede the actual filing is 30 days. The test year for determining rates may not end more than nine months after the date the application for a rate increase is filed.

Under Ohio law, electric rates are adjusted every six months, after a PUCO hearing, to reflect changes in fuel costs. Any difference between actual fuel costs during a six-month period and the fuel revenues recovered in that period is deferred and is taken into account in setting the fuel recovery factor for a subsequent six-month period.

The PUCO has authorized the Centerior Utilities to adjust their rates on a seasonal basis such that electric rates are higher in the summer.

Also, under Ohio law, municipalities may regulate rates, subject to appeal to the PUCO if not acceptable to the utility. If municipally fixed rates are accepted by the utility, such rates are binding on both parties for the specified term and cannot be changed by the PUCO. See "Operations--Competitive Conditions--Toledo Edison" for a discussion of Toledo Edison's rate contract with AMP-Ohio.

1989 Rate Orders

In March 1988, the Centerior Utilities separately filed with the PUCO applications requesting rate increases. Each Centerior Utility proposed a gradual increase in its rates so as to "phase in" full recovery of all its allowable costs of Perry Unit 1 and Beaver Valley Unit 2 over a 10-year period.

On January 11, 1989, the Centerior Utilities entered into a settlement agreement with the majority of those parties who had intervened in the Centerior Utilities' then-pending electric rate cases, and, on January 31, 1989, the PUCO issued orders to the Centerior Utilities which adopted, in its entirety, the January 11 settlement. Subsequently, all pending prudence investigations and litigation involving the Centerior Utilities' nuclear investments were terminated. A complete discussion of the rate increases and other major provisions of the PUCO's January 31, 1989 orders is included in Note 6. As discussed in the ninth paragraph of Note 6 to Centerior's and Toledo Edison's Financial Statements, Toledo Edison planned to reduce electric rates in the City of Toledo and the rest of Toledo Edison's service area which had not agreed to the rate reduction package described in the eighth paragraph of such Note 6. The request was made to the PUCO, and the PUCO approved the rate reduction effective March 1, 1991. Also, as discussed in the third paragraph of Centerior's, Cleveland Electric's and Toledo Edison's Management's Financial Analysis contained under Item 7 of this Report, the Centerior Utilities planned to request the PUCO to authorize the accrual of nuclear plant depreciation on a straight-line basis and the accrual of post-in-service interest carrying charges and deferral of depreciation for facilities that are in service but not yet recognized in rates. The requests were filed with the PUCO on March 22, 1991.

OPERATIONS

Sales of Electricity

Kilowatthour sales by the Centerior Utilities follow a seasonal pattern marked by increased customer usage in the summer for air conditioning and in the winter for heating. Historically, Cleveland Electric has experienced its heaviest demand for electric service during the summer months because of a significant air conditioning load on its system and a relatively low amount of electric heating load in the winter. Toledo Edison, although having a significant electric heating load, has experienced in recent years its heaviest demand for electric service during the summer months because of heavy air conditioning usage.

The Centerior System's largest customer is a major steel manufacturer which has two major steel producing facilities served by Cleveland Electric. Sales to this customer in 1990 accounted for 3% and 4% of the 1990 total electric operating revenues of Centerior Energy and Cleveland Electric, respectively. The loss of this customer (and the resultant loss of another large customer

whose primary product is purchased by the two steel producing facilities) would reduce Centerior Energy's and Cleveland Electric's net income by about \$39,000,000 based on 1990 sales levels.

The largest customer served by Toledo Edison is a major automobile manufacturer. Sales to this customer in 1990 accounted for 1% and 3% of the total electric operating revenues of Centerior Energy and Toledo Edison, respectively. The loss of this customer would reduce Centerior Energy's and Toledo Edison's net income by about \$11,000,000 based on 1990 sales levels.

Operating Statistics

Centerior System

	<u>Years Ended December 31,</u>		
	<u>1990</u>	<u>1989</u>	<u>1988</u>
Energy Generated (Millions of kWh):			
Net Generation	30,595	32,296	29,381
Net Purchases	(1,926)	(2,785)	920
Total Energy	<u>28,669</u>	<u>29,511</u>	<u>30,301</u>
Electric Sales (Millions of kWh):			
Residential	6,666	6,806	6,920
Commercial	6,848	5,830	6,577
Industrial	12,168	12,520	12,793
Wholesale	148	429	863
Other	959	996	946
Total Electric Sales	<u>26,789</u>	<u>27,581</u>	<u>28,099</u>
Customers (End of Period):			
Residential	918,965	914,020	909,182
Commercial	94,522	93,833	92,132
Industrial & other	12,906	12,763	12,305
Total Electric Customers	<u>1,026,393</u>	<u>1,020,616</u>	<u>1,013,619</u>
Operating Revenues (In Thousands):			
Residential	\$ 719,078	\$ 685,735	\$ 637,329
Commercial	668,910	616,302	537,861
Industrial	779,391	746,534	675,584
Other	189,754	204,769	84,524
Total Retail	<u>2,357,133</u>	<u>2,253,940</u>	<u>1,935,298</u>
Wholesale	10,542	48,496	102,262
Total Operating Revenues	<u>\$2,367,675</u>	<u>\$2,302,436</u>	<u>\$2,037,560</u>

Cleveland Electric

	Years Ended December 31,		
	<u>1990</u>	<u>1989</u>	<u>1988</u>
Energy Generated (Millions of kWh):			
Net Generation	20,841	21,538	20,236
Net Purchases	(643)	(777)	1,091
Total Energy	<u>20,198</u>	<u>20,761</u>	<u>21,327</u>
Electric Sales (Millions of kWh):			
Residential	4,716	4,789	4,852
Commercial	5,234	5,208	4,998
Industrial	8,551	8,780	9,013
Wholesale	-	87	481
Other	463	501	472
Total Electric Sales	<u>18,964</u>	<u>19,365</u>	<u>19,816</u>
Customers (End of Period):			
Residential	665,000	660,786	657,592
Commercial	68,700	68,030	66,606
Industrial & Other	8,351	8,329	8,203
Total Electric Customers	<u>742,051</u>	<u>737,145</u>	<u>732,401</u>
Operating Revenues (In Thousands):			
Residential	\$ 495,158	\$ 469,803	\$ 436,413
Commercial	494,370	452,911	395,165
Industrial	543,813	519,854	476,063
Other	122,701	117,220	59,804
Total Retail	<u>1,656,042</u>	<u>1,559,788</u>	<u>1,367,445</u>
Wholesale	(198)	31,874	84,133
Total Operating Revenues	<u>\$1,655,844</u>	<u>\$1,591,662</u>	<u>\$1,451,578</u>

Toledo Edison

	Years Ended December 31,		
	<u>1990</u>	<u>1989</u>	<u>1988</u>
Energy Generated (Millions of kWh):			
Net Generation	9,754	10,758	9,145
Net Purchased	(499)	(1,175)	385
Total Energy	<u>9,255</u>	<u>9,583</u>	<u>9,530</u>
Electric Sales (Millions of kWh):			
Residential	1,950	2,017	2,068
Commercial	1,614	1,622	1,579
Industrial	3,617	3,740	3,780
Wholesale	932	1,175	938
Other	496	495	474
Total Electric Sales	<u>8,609</u>	<u>9,049</u>	<u>8,839</u>
Customers (End of Period):			
Residential	253,965	253,234	251,590
Commercial	25,822	25,803	25,526
Industrial & Other	4,555	4,434	4,102
Total Electric Customers	<u>284,342</u>	<u>283,471</u>	<u>281,218</u>
Operating Revenues (In Thousands):			
Residential	\$223,920	\$215,932	\$200,916
Commercial	174,540	163,991	142,696
Industrial	235,578	220,680	199,521
Other	79,535	99,451	34,961
Total Retail	<u>713,573</u>	<u>706,054</u>	<u>578,094</u>
Wholesale	113,513	120,749	49,903
Total Operating Revenues	<u>\$827,086</u>	<u>\$826,803</u>	<u>\$627,997</u>

Operating Nuclear Units

The Centerior Utilities' generating facilities include, among others, three nuclear units owned or leased by the CAPCO Group--Perry Unit 1, Beaver Valley Unit 2 and Davis-Besse. These three units are in commercial operation. Cleveland Electric has responsibility for operating Perry Unit 1, Duquesne has responsibility for operating Beaver Valley Unit 2 and Toledo Edison has responsibility for operating Davis-Besse. Cleveland Electric and Toledo Edison own, respectively, 31.11% and 19.91% of Perry Unit 1, 24.47% and 1.65% of Beaver Valley Unit 2 and 51.38% and 48.62% of Davis-Besse. Cleveland Electric and Toledo Edison also lease, as joint lessees, another 18.26% of Beaver Valley Unit 2 as a result of a September 1987 sale and leaseback transaction (see Note 2).

Davis-Besse was placed in commercial operation in 1977, and its operating license expires in 2017. Perry Unit 1 and Beaver Valley Unit 2 were placed in commercial operation in 1987, and their operating licenses expire in 2026 and 2027, respectively.

The nuclear plant performance standards set for the Centerior Utilities for the 1991-1998 period as a result of the PUCO's January 1989 rate orders (see "Electric Rates--1989 Rate Orders" and Note 6) will be based on rolling three-year industry averages of operating availability for pressurized water reactors and for boiling water reactors. Operating availability is the ratio of the number of hours a unit is available to generate electricity (whether or not the unit is operated) to the number of hours in the period, expressed as a percentage. At year-end 1990, the industry three-year average operating availability for pressurized water reactors such as Davis-Besse and Beaver Valley Unit 2 was 73% and for boiling water reactors such as Perry Unit 1 was 73%. Initially, the averages of the Centerior nuclear units over the 1988-1990 period will be the basis for comparison against the appropriate industry average over the same period. As of January 1991, the three-year average operating availability of the Centerior Utilities' pressurized water reactors was 80% and boiling water reactor was 65%. These averages will produce a banked performance benefit of between \$3,000,000 and \$4,000,000 under the terms of the PUCO's January 1989 rate orders for the first three-year accounting period. This banked benefit can be used to offset future below-standard performance if that should occur.

In the spring of 1990, Davis-Besse had a modification and refueling outage which lasted about five months. The long duration was required to fulfill the Centerior Utilities' commitment to the NRC to complete its Performance Improvement Program in an expeditious manner. As a result, Davis-Besse had an operating availability of 55.2% for 1990. In September 1990, Perry Unit 1 and Beaver Valley Unit 2 commenced refueling and maintenance outages which lasted until January 1991 and November 1990, respectively. These outages resulted in operating availabilities for 1990 of 55.3% for Perry Unit 1 and 76.9% for Beaver Valley Unit 2. Since their return to service, all three units have experienced high availability factors. The situation where all three nuclear units are down for refueling in the same year will repeat itself every three years due to Centerior's 18-month fuel cycle operating strategy and the

spring/fall outage schedule, with Davis-Besse in the opposite season from Perry Unit 1 and Beaver Valley Unit 2. Only Davis-Besse is scheduled for refueling in 1991, and that will be a fall outage. The next refueling outages for Perry Unit 1 and Beaver Valley Unit 2 are scheduled for spring 1992.

Cleveland Electric has responsibility for maintaining Perry Unit 2, whose construction was suspended by the CAPCO Group companies in 1985 (see Note 3(c)). Cleveland Electric and Toledo Edison own 31.11% and 19.91%, respectively, of Perry Unit 2.

Nuclear Unit Concerns

See Note 4 for a discussion of potential problems facing owners of nuclear generating units.

Competitive Conditions

General. The Centerior Utilities compete in their respective service areas with suppliers of natural gas for space, water and process heating and appliances. The Centerior Utilities also are engaged in competition to a lesser extent with suppliers of oil and liquified natural gas for heating purposes and with suppliers of cogeneration equipment.

The Centerior Utilities also compete with municipally owned electric systems within their respective service areas. Certain municipal officials in several of the municipalities served by the Centerior Utilities have suggested that their municipalities investigate the economic feasibility of establishing and operating municipally owned electric systems. With the exception of Clyde, Ohio, as discussed below under "Competitive Conditions--Toledo Edison", none of those municipalities has obtained authorization to establish such a system.

The Centerior Utilities face continuing competition from locations outside their service areas which are promoted by governmental and private agencies in attempts to influence potential and existing commercial and industrial customers to locate in their respective areas.

Cleveland Electric and Toledo Edison also periodically compete with other producers of electricity for sales to electric utilities which are in the market for bulk power purchases. The Centerior Utilities have interconnections with other electric utilities (see "Item 2 Properties--General") and provide a transmission system for wheeling power from the Midwest to the East. Revenue from these types of sales are excluded from the operation of the rate phase-in plans discussed in Note 6 and in Management's Financial Analysis contained under Item 7 of this Report.

Cleveland Electric. The City of Cleveland operates CPP in competition with Cleveland Electric. CPP is primarily an electric distribution system which supplies electric power in approximately 35% of the City's area and to approximately 23% (about 50,000) of the electric consumers in the City--equal to about 7% of all customers served by Cleveland Electric. CPP's kilowatthour sales and revenues are equal to about 3% of Cleveland Electric's kilowatthour sales and revenues. Much of the area served by CPP overlaps that of Cleveland Electric. Cleveland Electric is obligated to make available up to 100,000

kilowatts of CPP's energy requirements over two 138 kV interconnections. However, in recent years, CPP has not made significant power purchases from Cleveland Electric. In 1990, Cleveland Electric provided less than 1% of CPP's energy requirements. The balance of CPP's power is purchased from other sources and transmitted or "wheeled" over Cleveland Electric's transmission system. For all classes of customers, Cleveland Electric's rates are higher than CPP's rates due largely to lower-cost power available to CPP and to the exemption from taxation enjoyed by CPP. In 1983, CPP announced its intention to convert some of Cleveland Electric's customers to its service. In 1987, the City of Cleveland sold \$50,000,000 of special obligation bonds payable only from revenues of CPP. CPP stated that it plans to use the proceeds primarily to construct by 1992 new transmission and distribution facilities extending into easterly portions of Cleveland, comprising over 20% of the area of the City, which now are served exclusively by Cleveland Electric. The construction schedule of CPP is intended to enable it to start offering service in that area as early as 1991 to residential and commercial customers (including some classified as small industrial by Cleveland Electric) and various City facilities. The expansion, as now planned, could take away about 20,000 of Cleveland Electric's customers, primarily residential users, over the next several years. This could reduce Cleveland Electric's revenues by about \$10,000,000 although there would be partially offsetting reductions in operating expenses and taxes. Cleveland Electric has retained large commercial and industrial customers in Cleveland despite CPP's expansion efforts, primarily because of Cleveland Electric's higher level of reliability. Over the past three years, Cleveland Electric has experienced the net loss of an insignificant number of customers (about 2,400), which were primarily residential, to the CPP system.

In May 1988, the Ohio Supreme Court ruled that CPP must pay back the loan of approximately \$29,400,000 it had received from tax revenues of the City of Cleveland, which loan was subsequently forgiven by the City. Cleveland Electric had filed a suit in August 1984 on behalf of itself and all other taxpayers in the City of Cleveland claiming that the transfer of tax funds from the City to CPP was in violation of the City's charter. The Ohio Supreme Court agreed with Cleveland Electric and remanded the case to the trial court for a determination of a repayment plan for the reimbursement of tax funds with proper interest. In June 1990, a Cuyahoga County Common Pleas Court ruled that CPP must repay at least \$20,000,000 to the City plus interest to be determined by that Court. In July 1990, the City announced that it would appeal the Court's ruling, but authorized an increase in CPP's electric rates to cover the repayment if the appeal proves unsuccessful. In November 1990, the Common Pleas Court affirmed the repayment plan submitted by the City of Cleveland which requires CPP to repay the City about \$46,900,000 over a period ending in 2000. The repayment plan has been appealed to the Cuyahoga County Court of Appeals by both the City and Cleveland Electric.

Also in November 1990, voters in the City of Cleveland approved an amendment to the City's Charter which would allow the City to transfer tax monies to support municipal utility departments, including CPP, without requiring the repayment of such transfers.

The City of Painesville owns and operates an electric generation and distribution system which supplies electric power exclusively to customers in the City of Painesville. It also serves small portions of Painesville and Perry Townships which also are served by Cleveland Electric. The number of customers served by the Painesville system is approximately 1% of the number of customers served by Cleveland Electric. Cleveland Electric has a 138 kV interconnection with the City of Painesville and provides power for emergency purposes only.

Currently, two commercial customers and one industrial customer of Cleveland Electric have cogeneration installations. A number of customers have inquired about cogeneration applications although there were no new installations in 1990. Cogeneration vendors continue to be active in Cleveland Electric's service area.

Toledo Edison. Located wholly or partly within Toledo Edison's service area are six rural electric cooperatives, five of which are supplied with power, transmitted in some cases over Toledo Edison's facilities, by Buckeye Power, Inc. (an affiliate of a number of Ohio rural electric cooperatives) and the sixth is supplied by Toledo Edison.

Also located within Toledo Edison's service area are 16 municipally owned electric distribution systems, three of which are supplied by other electric systems. Toledo Edison serves the other 13 municipalities at wholesale rates through AMP-Ohio. In December 1989, Toledo Edison commenced billing AMP-Ohio under a new agreement which is in the process of being approved by the FERC. Under this new 20-year agreement, Toledo Edison will supply certain power requirements of AMP-Ohio and transmission service for 13 of its municipal members. Rates under the proposed contract are permitted to increase annually to compensate for increased costs of operation. Less than 2% of Toledo Edison's total electric operating revenues in 1990 was derived from sales under the AMP-Ohio contract.

The municipalities which have entered into an agreement with AMP-Ohio have been purchasing some of their power needs from other sources at rates lower than Toledo Edison's and transmitting and delivering such power through Toledo Edison's transmission and distribution systems.

In November 1987, the City of Clyde, Ohio, initiated plans to establish and operate a municipally owned electric distribution system. Toledo Edison's largest customer in Clyde, which accounted for about 75% of Toledo Edison's total sales to Clyde and represented over \$5 million in annual revenues, converted to the Clyde system in March 1989. As of March 1991, the distribution system was 90% complete, and about 1,900 Toledo Edison customers in Clyde (over 80% of the total) have converted or have requested conversion to Clyde Light & Power. For most customer classes, Toledo Edison's rates are significantly higher than Clyde's rates.

In October 1989, the City of Toledo adopted an ordinance establishing an Electric Franchise Review Committee for the purpose of studying Toledo Edison's franchise agreement with the City to determine if alternate energy sources are available. The committee is investigating the feasibility of establishing a municipal electric system within the City of Toledo and the

feasibility of utilizing other alternative electric power sources. Consultants have been hired to assist in these studies. Toledo Edison is continuing to make an effort to address the City's concerns. See "Electric Rates--1989 Rate Orders".

Two municipalities currently served by Toledo Edison have authorized or completed studies on the feasibility of establishing municipal electric systems within such municipalities. However, both of these municipalities have entered into five-year rate ordinances with Toledo Edison whereby they have agreed that the lower rates shall remain in effect as long as Toledo Edison is the sole supplier, as discussed generally in Centerior's and Toledo Edison's Note 6.

Currently, one commercial customer of Toledo Edison has a cogeneration operation. Two commercial cogeneration installations have ceased operation in 1990 due to PUCO approval of rate incentive agreements. However, cogeneration vendors continue to be active in Toledo Edison's service area.

Fuel Supply

Generation by type of fuel for 1990 was 75% coal-fired and 25% nuclear for Cleveland Electric; was 57% coal-fired and 43% nuclear for Toledo Edison; and was 69% coal-fired and 31% nuclear for the Centerior System.

Coal. In 1990, Cleveland Electric and Toledo Edison burned 6,426,000 tons and 2,142,000 tons of coal, respectively, for electric generation. Each utility normally maintains a reserve supply of coal sufficient for about 40 days of normal operations. On March 1, 1991, this reserve was about 44 days for plants operated by Cleveland Electric, 59 days for plants operated by Toledo Edison and 85 days for the Mansfield Plant, which is operated by Pennsylvania Power.

In 1990, about 49% of Cleveland Electric's coal requirements was purchased under long-term contracts with the longest remaining term being almost 10 years. In most cases, these contracts provide for adjusting the price of the coal on the basis of changes associated with coal quality and mining costs. The sulfur content of the coal purchased under the long-term contracts ranges from about 2% to about 4%. The balance of Cleveland Electric's coal was purchased on the spot market with sulfur content ranging from less than 1% to 3.5%.

In 1990, about 98% of Toledo Edison's coal requirements was purchased under long-term contracts with the longest remaining term being almost 10 years. In most cases, these contracts provide for adjusting the price of the coal on the basis of changes associated with coal quality and mining costs. The sulfur content of the coal purchased under the long-term contracts ranges from less than 1% to 4%. The balance of Toledo Edison's coal was purchased on the spot market with sulfur content of about 1%.

One of Cleveland Electric's long-term coal supply contracts is with Ohio Valley. Cleveland Electric has agreed to pay Ohio Valley certain amounts to cover Ohio Valley's costs regardless of whether coal is actually delivered. Included in those costs are amounts sufficient to service certain long-term debt and lease obligations incurred by Ohio Valley. If the coal sales

agreement is terminated for any reason, including the inability to use the coal, Cleveland Electric must assume certain of Ohio Valley's debt and lease obligations and may incur other expenses. Cleveland Electric believes that the cost of assuming such obligations and incurring such expenses would not have a material adverse effect upon its financial position. The principal amount of debt and termination values of leased property covered by Cleveland Electric's agreement was \$42,288,000 at December 31, 1990. Centerior and Cleveland Electric expect that Ohio Valley revenues from sales of coal to Cleveland Electric will continue to be sufficient for Ohio Valley to meet its debt and lease obligations. The contract with Ohio Valley expires in 1997.

The CAPCO Group companies, including the Centerior Utilities, have a long-term contract with Quarto and Consol for the supply of about 75%-85% of the annual coal needs of the Mansfield Plant. The contract runs through at least the end of 1999, and the price of coal is adjustable to reflect changes in labor, materials, transportation and other costs. The CAPCO Group companies have guaranteed, severally and not jointly, the debt and lease obligations incurred by Quarto to develop, equip and operate two of the mines which supply the Mansfield Plant. At December 31, 1990, the total dollar amount of Quarto's debt and lease obligations guaranteed by Cleveland Electric was \$42,805,000 and by Toledo Edison was \$24,065,000. Centerior, Cleveland Electric and Toledo Edison expect that Quarto revenues from sales of coal to the CAPCO Group companies will continue to be sufficient for Quarto to meet its debt and lease obligations.

Compliance with the Clean Air Act Amendments will probably require the Centerior Utilities to increase their usage of low-sulfur coal. The Centerior Utilities believe that adequate supplies of low-sulfur coal will be available at prices which should not be substantially greater than the prices that the Centerior Utilities would otherwise expect to pay.

Nuclear. The acquisition and utilization of nuclear fuel involves six distinct steps: (i) supply of uranium oxide raw material, (ii) conversion to uranium hexafluoride, (iii) enrichment, (iv) fabrication into fuel assemblies, (v) utilization as fuel in a nuclear reactor and (vi) storing and reprocessing or disposing of spent fuel. The Centerior Utilities have inventories of raw material sufficient to provide nuclear fuel through 1994 for the operation of their nuclear generating units and have contracts for conversion of that fuel and fabrication services for most of that fuel. The CAPCO Group companies have a 30-year contract with the DOE which will supply up to all of the needed enrichment services for their nuclear units' fuel supply for that period. The additional required fabrication services are available. Substantial additional fuel will have to be obtained in the future over the remaining useful lives of the units and if Perry Unit 2 is completed. There is a plentiful supply of uranium oxide raw material to meet the industry's nuclear fuel needs.

Spent fuel reprocessing is not commercially available. Off-site disposal of spent nuclear fuel is also unavailable, but the CAPCO Group companies have contracts with the DOE which provide for the future acceptance of spent fuel for disposal by the Federal government. Pursuant to the Nuclear Waste Policy Act of 1982, the Federal government has indicated it will begin accepting spent fuel from utilities by the year 2010. On-site storage capacity at Davis-Besse and Beaver Valley Unit 2 should be sufficient through 1996 and

2009, respectively. On-site storage capacity at the Perry Plant should be sufficient through 2006 for Perry Unit 1. Any additional storage capacity needed for the period until the government accepts the fuel can be provided for either on-site or off-site by the time it is needed.

Oil. The Centerior Utilities each have adequate supplies of oil and fuel for their oil-fired electric generating units which are used primarily as reserve and peaking capacity.

EXECUTIVE OFFICERS OF THE REGISTRANTS AND THE SERVICE COMPANY

Set forth below are the names, ages as of March 15, 1991, positions and brief accounts of the business experience during the past five years of the executive officers of Centerior Energy, the Service Company, Cleveland Electric and Toledo Edison. Positions currently held are designated with an asterisk (*).

Centerior Energy Executive Officers

<u>Name</u>	<u>Age</u>	<u>Business Experience (Positions as Indicated)</u>	<u>Effective Date of Position</u>
Richard A. Miller	64	*Chairman of the Board and Chief Executive Officer of Centerior and the Service Company	October 1988
		Vice Chairman of the Board and Chief Executive Officer of the Service Company and Cleveland Electric and Chairman of the Board and Chief Executive Officer of Toledo Edison	July 1988
		President of the Service Company	April 1986
		President of Centerior	February 1986
		President of Cleveland Electric	September 1983
Robert J. Farling	54	Chairman of the Board and Chief Executive Officer of Cleveland Electric	February 1989
		*President of Centerior	October 1988
		Chairman of the Board and Chief Executive Officer of Toledo Edison	October 1988
		*President of the Service Company	July 1988
		President of Cleveland Electric	April 1986
		Executive Vice President of Centerior	February 1986
		Vice President-Administrative Services of Cleveland Electric	July 1980

<u>Name</u>	<u>Age</u>	<u>Business Experience (Positions as Indicated)</u>	<u>Effective Date of Position</u>
Murray R. Edelman	51	*Executive Vice President- Power Generation of the Service Company	April 1990
		*Executive Vice President of Centerior	July 1988
		President of Toledo Edison	July 1988
		Vice President-Nuclear of the Service Company and Senior Vice President-Nuclear of Cleveland Electric	April 1986
		Vice President-Nuclear of Cleveland Electric	December 1982
Edgar H. Maugans	56	*Executive Vice President of Centerior and *Executive Vice President-Finance & Administration of the Service Company	April 1990
		*Vice President and Chief Financial Officer of Cleveland Electric and Toledo Edison	April 1990
		Senior Vice President-Finance of Centerior	April 1988
		Senior Vice President-Finance of the Service Company	April 1986
		Vice President-Finance of Centerior	February 1986
		Vice President-Finance of Cleveland Electric	February 1979
Lyman C. Phillips	51	*Executive Vice President- Customer Operations of the Service Company and *Chairman of the Board and Chief Executive Officer of Toledo Edison and *Chief Executive Officer of Cleveland Electric	April 1990
		*Executive Vice President of Centerior and *President of Cleveland Electric	July 1988
		Executive Vice President of Toledo Edison and Senior Vice President of Centerior	June 1987
		Senior Vice President- Administration of the Service Company	April 1986
		Senior Vice President, Administration of Toledo Edison	January 1984

<u>Name</u>	<u>Age</u>	<u>Business Experience (Positions as Indicated)</u>	<u>Effective Date of Position</u>
Fred J. Lange, Jr.	41	*Vice President-Legal & Corporate Affairs of Centerior and the Service Company and *Vice President of Cleveland Electric and Toledo Edison	April 1990
		General Attorney and Senior Director of Governmental Affairs of the Service Company	July 1989
		Assistant General Counsel and Principal Corporate Counsel of the Service Company	November 1986
		Secretary of Toledo Edison	June 1986
		General Counsel of Toledo Edison	May 1986
		Partner of Fuller & Henry	July 1980
Paul G. Busby	42	*Controller of Cleveland Electric and Toledo Edison	April 1990
		*Controller of Centerior	April 1988
		*Controller of the Service Company	June 1986
		Controller of Toledo Edison	April 1979
Gary M. Hawkinson	42	*Treasurer of Cleveland Electric and Toledo Edison	April 1990
		Assistant Treasurer of Cleveland Electric	August 1987
		Assistant Treasurer of Toledo Edison	September 1986
		*Treasurer of the Service Company	April 1986
		*Treasurer of Centerior	February 1986
		Assistant Secretary of Toledo Edison	April 1984- April 1986
		Assistant Treasurer of Toledo Edison	March 1979- April 1986
E. Lyle Pepin	49	*Secretary of Cleveland Electric and Toledo Edison	October 1988
		*Secretary of the Service Company	April 1986
		Assistant Secretary of Cleveland Electric and Toledo Edison	April 1986
		*Secretary of Centerior	February 1986
		Secretary of Cleveland Electric	October 1982

Service Company Executive Officers

<u>Name</u>	<u>Age</u>	<u>Business Experience (Positions With the Service Company Unless Otherwise Indicated)</u>	<u>Effective Date of Position</u>
Richard A. Miller	64	*Chairman of the Board and Chief Executive Officer See listing under Centerior Energy Executive Officers for additional business experience.	October 1988
Robert J. Farling	54	*President See listing under Centerior Energy Executive Officers for additional business experience.	July 1988
Murray R. Edelman	51	*Executive Vice President- Power Generation See listing under Centerior Energy Executive Officers for additional business experience.	April 1990
Edgar H. Maugans	56	*Executive Vice President- Finance & Administration See listing under Centerior Energy Executive Officers for additional business experience.	April 1990
Lyman C. Phillips	51	*Executive Vice President- Customer Operations See listing under Centerior Energy Executive Officers for additional business experience.	April 1990
Richard P. Crouse	51	*Vice President-Fossil Operations Senior Vice President of Toledo Edison Vice President-Fossil Engineering & Operations Senior Vice President, Engineering & Operations of Toledo Edison Senior Vice President, Operations of Toledo Edison	April 1990 April 1988 August 1987 June 1986 July 1985

<u>Name</u>	<u>Age</u>	<u>Business Experience (Positions With the Service Company Unless Otherwise Indicated)</u>	<u>Effective Date of Position</u>
Gary J. Greben	53	*Vice President-Transmission and Distribution Engineering & Services Vice President-Marketing of Cleveland Electric Manager-Business Ventures of Cleveland Electric	April 1990 July 1987 November 1984
Jacquita K. Hauserman	48	*Vice President-Customer Service & Community Affairs Vice President-Administration of Cleveland Electric Director-Consumer Services Dept. of Cleveland Electric Senior Corporate Planning Advisor of Cleveland Electric	April 1990 October 1988 April 1986 August 1985
Alvin Kaplan	52	*Vice President-System Engineering & Control Vice President-Nuclear of Cleveland Electric Vice President-Nuclear Operations Division of Cleveland Electric	April 1990 December 1987 February 1984
Fred J. Lange, Jr.	41	*Vice President-Legal & Corporate Affairs See listing under Centenor Energy Executive Officers for additional business experience.	April 1990
John S. Levicki	51	*Vice President-Human Resources & Strategic Planning Vice President-Public Affairs & Rates Vice President-Finance, Administration & Legal of Cleveland Electric Vice President-Finance & Administration of Cleveland Electric Manager-Consumer Services Dept. of Cleveland Electric	April 1990 October 1988 January 1988 April 1986 September 1981

<u>Name</u>	<u>Age</u>	<u>Business Experience (Positions With the Service Company Unless Otherwise Indicated)</u>	<u>Effective Date of Position</u>
Michael D. Lyster	47	*Vice President-Nuclear-Perry	April 1990
		General Manager-Perry	March 1988
		Plant Operations Dept. of Cleveland Electric	December 1987
		Director-Perry Plant	October 1984
		Operations Dept. of Cleveland Electric	
		Manager-Perry Plant	
		Operations Dept. of Cleveland Electric	
David L. Monseau	50	*Vice President- Transmission & Distribution Operations	April 1990
		Vice President-Customer Operations of Toledo Edison	September 1987
		Director-Human Resources Dept. of the Service Company	April 1986
		Manager-Personnel Dept. of Cleveland Electric	June 1980
Thomas M. Quinn	51	*Vice President-Marketing	April 1990
		Vice President-Marketing of Toledo Edison	September 1987
		General Manager-Consumer Services Dept. of Toledo Edison	August 1986
		Manager-Southern District of Toledo Edison	January 1979
Donald H. Saunders	55	*Vice President and *President of Toledo Edison	April 1990
		Vice President-Administra- tion & Governmental Affairs of Toledo Edison	January 1990
		Vice President-Finance & Administration of Toledo Edison	July 1986
		Treasurer of Toledo Edison	March 1979

<u>Name</u>	<u>Age</u>	<u>Business Experience (Positions With the Service Company Unless Otherwise Indicated)</u>	<u>Effective Date of Position</u>
Donald C. Shelton	57	*Vice President-Nuclear- Davis-Besse Vice President-Nuclear of Toledo Edison Project Manager-Stone and Webster Engineering Corp.	April 1990 August 1986 January 1983
Paul G. Busby	42	*Controller See listing under Centerior Energy Executive Officers for additional business experience.	June 1986
Gary M. Hawkinson	42	*Treasurer See listing under Centerior Energy Executive Officers for additional business experience.	April 1986
E. Lyle Pepin	49	*Secretary See listing under Centerior Energy Executive Officers for additional business experience.	April 1986

Cleveland Electric Executive Officers

<u>Name</u>	<u>Age</u>	<u>Business Experience (Positions With Cleveland Electric Unless Otherwise Indicated)</u>	<u>Effective Date of Position</u>
Lyman C. Phillips	51	*Chief Executive Officer *President See listing under Centerior Energy Executive Officers for additional business experience.	April 1990 July 1988
Fred J. Lange, Jr.	41	*Vice President See listing under Centerior Energy Executive Officers for additional business experience.	April 1990

<u>Name</u>	<u>Age</u>	<u>Business Experience (Positions With Cleveland Electric Unless Otherwise Indicated)</u>	<u>Effective Date of Position</u>
Edgar H. Maugans	56	*Vice President & Chief Financial Officer See listing under Centerior Energy Executive Officers for additional business experience.	April 1990
Paul G. Busby	42	*Controller See listing under Centerior Energy Executive Officers for additional business experience.	April 1990
Gary M. Hawkinson	42	*Treasurer See listing under Centerior Energy Executive Officers for additional business experience.	April 1990
E. Lyle Pepin	49	*Secretary See listing under Centerior Energy Executive Officers for additional business experience.	October 1988

Toledo Edison Executive Officers

<u>Name</u>	<u>Age</u>	<u>Business Experience (Positions With Toledo Edison Unless Otherwise Indicated)</u>	<u>Effective Date of Position</u>
Lyman C. Phillips	51	*Chairman of the Board and Chief Executive Officer See listing under Centerior Energy Executive Officers for additional business experience.	April 1990
Donald H. Saunders	55	*President See listing under Service Company Executive Officers for additional business experience.	April 1990

<u>Name</u>	<u>Age</u>	<u>Business Experience (Positions With Toledo Edison Unless Otherwise Indicated)</u>	<u>Effective Date of Position</u>
Fred J. Lange, Jr.	41	*Vice President See listing under Centerior Energy Executive Officers for additional business experience.	April 1990
Edgar H. Maugans	56	*Vice President and Chief Financial Officer See listing under Centerior Energy Executive Officers for additional business experience.	April 1990
Paul G. Busby	42	*Controller See listing under Centerior Energy Executive Officers for additional business experience.	April 1990
Gary M. Hawkinson	42	*Treasurer See listing under Centerior Energy Executive Officers for additional business experience.	April 1990
E. Lyle Pepin	49	*Secretary See listing under Centerior Energy Executive Officers for additional business experience.	October 1988

All of the executive officers of Centerior Energy, the Service Company, Cleveland Electric and Toledo Edison are elected annually for a one-year term by the Board of Directors of Centerior, the Service Company, Cleveland Electric or Toledo Edison, as the case may be.

No family relationship exists among any of the executive officers and directors of any of the Centerior System companies.

Item 2. Properties

GENERAL

The Centerior System

The wholly owned, jointly owned and leased electric generating facilities of the Centerior Utilities in commercial operation as of December 31, 1990 provide the Centerior System with a net demonstrated capability of 6,694,000 kilowatts during the winter. These facilities include 28 generating units (4,390,000 kilowatts) at seven fossil-fired steam electric generation stations; three nuclear generating units (1,860,000 kilowatts); a 305,000 kilowatt share of the Seneca Plant; seven combustion turbine generating units (135,000 kilowatts) and one diesel generator (4,000 kilowatts). All of the Centerior System's generating facilities are located in Ohio and Pennsylvania.

The Centerior System's net 60-minute peak load of its service area for 1990 was 5,261,000 kilowatts and occurred on August 28. At the time of the 1990 peak load, the operable capacity available to serve the load was 6,437,000 kilowatts. The Centerior System's 1991 service area peak load is forecasted to be 5,490,000 kilowatts. The operable capacity expected to be available to serve the Centerior System's 1991 peak is 6,461,000 kilowatts. Over the 1991-1993 period, Centerior Energy forecasts its operable capacity margins at the time of the projected Centerior System peak loads to range from 10% to 15%.

Each Centerior Utility owns the electric transmission and distribution facilities located in its respective service area. Cleveland Electric and Toledo Edison are interconnected by 345 kV transmission facilities, some portions of which are owned and used by Ohio Edison. The Centerior Utilities have a long-term contract with the CAPCO Group companies, including Ohio Edison, relating to the use of these facilities. These interconnection facilities provide for the interchange of power between the two Centerior Utilities. The Centerior System is interconnected with Ohio Edison, Ohio Power, Penelec and Detroit Edison Company.

Cleveland Electric has entered into an agreement with GPU under which Cleveland Electric will sell the power from its 305,000-kilowatt share of the Seneca Plant (about 3,000,000 kilowatthours annually) to two subsidiaries of GPU from the time FERC approval is received through 1993. For the same time period, Toledo Edison has entered into separate agreements with Consumers Power and Detroit Edison under which Toledo Edison will purchase 312,000 kilowatts (about 2,500,000 kilowatthours annually) from their Ludington Plant. Toledo Edison will then sell to Cleveland Electric power equivalent to the amount that Toledo Edison purchases from the Ludington Plant. The net result of the power purchase and sale agreements will be economically beneficial for Cleveland Electric and economically neutral for Toledo Edison. Requests for approval of these transactions are pending before the FERC. The FERC is expected to consider such requests in the second quarter of 1991.

Cleveland Electric

The wholly owned, jointly owned and leased electric generating facilities of Cleveland Electric in commercial operation as of December 31, 1990 provide a net demonstrated capability of 4,592,000 kilowatts during the winter. These facilities include 21 generating units (3,197,000 kilowatts) at five fossil-fired steam electric generation stations; its share of three nuclear generating units (1,028,000 kilowatts); a 305,000 kilowatt share of the Seneca Plant; two combustion turbine generating units (58,000 kilowatts) and one diesel generator (4,000 kilowatts). All of Cleveland Electric's generating facilities are located in Ohio and Pennsylvania.

The net 60-minute peak load of Cleveland Electric's service area for 1990 was 3,778,000 kilowatts and occurred on August 28. The operable capacity at the time of the 1990 peak was 4,685,000 kilowatts. Cleveland Electric's 1991 service area peak load is forecasted to be 4,000,000 kilowatts. The operable capacity, which includes firm purchases, expected to be available to serve Cleveland Electric's 1991 peak is 4,703,000 kilowatts. Over the 1991-1993 period, Cleveland Electric forecasts its operable capacity margins at the time of its projected peak loads to range from 9% to 15%.

Cleveland Electric owns the facilities located in the area it serves for transmitting and distributing power to all its customers. Cleveland Electric has interconnections with Ohio Edison, Ohio Power and Penelec. The interconnections with Ohio Edison provide for the interchange of electric power with the other CAPCO Group companies and for transmission of power from the tenant-in-common owned or leased CAPCO Group generating units as well as for the interchange of power with Toledo Edison. The interconnection with Penelec provides for transmission of power from Cleveland Electric's share of the Seneca Plant. In addition, these interconnections provide the means for the interchange of electric power with other utilities.

Cleveland Electric also has interconnections with the Painesville Municipal Light Plant and CPP.

Toledo Edison

The wholly owned, jointly owned and leased electric generating facilities of Toledo Edison in commercial operation as of December 31, 1990 provide a net demonstrated capability of 2,102,000 kilowatts during the winter. These facilities include nine generating units (1,193,000 kilowatts) at three fossil-fired steam electric generation stations; its share of three nuclear generating units (832,000 kilowatts) and five combustion turbine generating units (77,000 kilowatts). All of Toledo Edison's generating facilities are located in Ohio and Pennsylvania.

The net 60-minute peak load of Toledo Edison's service area for 1990 was 1,516,000 kilowatts and occurred on August 28. The operable capacity at the time of the 1990 peak was 1,752,000 kilowatts. Toledo Edison's 1991 service area peak load is forecasted to be 1,510,000 kilowatts. The operable capacity, which includes the effect of firm sales, expected to be available to serve Toledo Edison's 1991 peak is 1,758,000 kilowatts. Over the 1991-1993 period, Toledo Edison forecasts its operable capacity margins at the time of its projected peak loads to range from 12% to 14%.

Toledo Edison owns the facilities located in the area it serves for transmitting and distributing power to all its customers. Toledo Edison has interconnections with Ohio Edison, Ohio Power and Detroit Edison. The interconnection with Ohio Edison provides for the interchange of electric power with the other CAPCO Group companies and for transmission of power from the tenant-in-common owned or leased CAPCO Group generating units as well as for the interchange of power with Cleveland Electric. In addition, these interconnections provide the means for the interchange of electric power with other utilities.

Toledo Edison has interconnections with each of the municipal systems operating within its service area.

TITLE TO PROPERTY

The generating plants and other principal facilities of the Centenor Utilities are located on land owned in fee by them, except as follows:

- (1) Cleveland Electric and Toledo Edison lease from others for a term of about 29-1/2 years starting on October 1, 1987 undivided 6.5%, 45.9% and 44.38% tenant-in-common interests in Units 1, 2 and 3, respectively, of the Mansfield Plant located in Shippingport, Pennsylvania. Cleveland Electric and Toledo Edison lease from others for a term of about 29-1/2 years starting on October 1, 1987 an 18.26% undivided tenant-in-common interest in Beaver Valley Unit 2 located in Shippingport, Pennsylvania. Cleveland Electric and Toledo Edison own another 24.47% interest and 1.65% interest, respectively, in Beaver Valley Unit 2 as a tenant-in-common. Cleveland Electric and Toledo Edison continue to own as a tenant-in-common the land upon which the Mansfield Plant and Beaver Valley Unit 2 are located, but have leased to others certain portions of that land relating to the above-mentioned generating unit leases.
- (2) Most of the facilities of Cleveland Electric's Lake Shore Plant are situated on artificially filled land, extending beyond the natural shoreline of Lake Erie as it existed in 1910. As of December 31, 1990, the cost of Cleveland Electric's facilities, other than water intake and discharge facilities, located on such artificially filled land aggregated approximately \$113,987,000. Title to land under the water of Lake Erie within the territorial limits of Ohio (including artificially filled land) is in the State of Ohio in trust for the people of the State for the public uses to which it may be adapted, subject to the powers of the United States, the public rights of navigation, water commerce and fishery and the rights of upland owners to wharf out or fill to make use of the water. The State is required by statute, after appropriate proceedings, to grant a lease to an upland owner, such as Cleveland Electric, which erected and maintained facilities on such filled land prior to October 13, 1955. Cleveland Electric does not have such a lease from the State with respect to the artificially filled land on which its Lake Shore Plant facilities are located, but Cleveland Electric's position, on advice of counsel for Cleveland Electric, is that its facilities and occupancy may not be disturbed because they do not interfere with the free flow of commerce in navigable channels and constitute (at least in part) and are on land filled pursuant to the exercise by it of its

property rights as owner of the land above the shoreline adjacent to the filled land. Cleveland Electric holds permits, under Federal statutes relating to navigation, to occupy such artificially filled land.

- (3) The facilities of Cleveland Electric's Seneca Plant in Warren County, Pennsylvania, are located on land owned by the United States and occupied by Cleveland Electric and Penelec pursuant to a license issued by the FERC for a 50-year period starting December 1, 1965 for the construction, operation and maintenance of a pumped-storage hydroelectric plant.
- (4) The water intake and discharge facilities at the electric generating plants of Cleveland Electric and Toledo Edison located along Lake Erie, the Maumee River and the Ohio River are extended into the lake and rivers under their property rights as owners of the land above the water line and pursuant to permits under Federal statutes relating to navigation.
- (5) The transmission systems of the Centerior Utilities are located on land, easements or rights-of-way owned by them. Their distribution systems also are located, in part, on interests in land owned by them, but, for the most part, their distribution systems are located on lands owned by others and on streets and highways. In most cases, permission has been obtained from the apparent owner of the property or, if the distribution system is located on streets and highways, from the apparent owner of the abutting property. Their electric underground transmission and distribution systems are located, for the most part, in public streets. The Pennsylvania portions of the main transmission lines from the Seneca Plant, the Mansfield Plant and Beaver Valley Unit 2 are not owned by Cleveland Electric or Toledo Edison.

All Cleveland Electric and Toledo Edison properties, with certain exceptions, are subject to the lien of their respective mortgages.

The fee titles which Cleveland Electric and Toledo Edison acquire as tenant-in-common owners, and the leasehold interests they have as joint lessees, of certain generating units do not include the right to require a partition or sale for division of proceeds of the units without the concurrence of all the other owners and their respective mortgage trustees and the trustees under Cleveland Electric's and Toledo Edison's mortgages.

Item 3. Legal Proceedings

Regulatory Proceedings and Suits Contesting Sulfur Dioxide Emission Limitations and Related Regulations Applicable to the Centerior Utilities--See "Item 1. Business--Environmental Regulation--Air Quality Control".

Taxpayer Suit Filed by Cleveland Electric Challenging Transfer of Funds by City of Cleveland to CPP--See "Item 1. Business--Operations--Competitive Conditions--Cleveland Electric".

Item 4. Submission of Matters to a Vote of Security Holders

CENTERIOR ENERGY, CLEVELAND ELECTRIC AND TOLEDO EDISON

None.

PART II

Item 5. Market for Registrants' Common Equity and Related Stockholder Matters

CENTERIOR ENERGY

Market Information

Centerior Energy's common stock is traded on the New York, Midwest and Pacific Stock Exchanges. The quarterly high and low prices of Centerior common stock (as reported on the composite tape) in 1989 and 1990 were as follows:

	<u>1989</u>		<u>1990</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
1st Quarter	16-1/4	13-3/8	21-1/8	18
2nd Quarter	18-1/4	15-5/8	19-1/2	17-3/8
3rd Quarter	19-1/8	17-1/4	19-1/8	16-1/8
4th Quarter	20-7/8	17-7/8	18-1/2	16-1/2

Share Owners

As of March 12, 1991, Centerior Energy had 180,461 common stock share owners.

Dividends

See Note 13 to Centerior's Financial Statements for quarterly dividend payments in the last two years.

See Centerior's "Management's Financial Analysis--Capital Resources and Liquidity" contained under Item 7 of this Report for a discussion of the payment of future dividends by Centerior.

At December 31, 1990, Centerior had earnings retained in the business of about \$655,000,000 and capital surplus of about \$1,966,000,000, both of which were available to pay dividends. Cleveland Electric and Toledo Edison can make cash available for the funding of Centerior's common stock dividends by paying dividends on their own common stocks. At December 31, 1990, Cleveland Electric had about \$564,000,000 of retained earnings and about \$1,321,000,000 of capital surplus and Toledo Edison had about \$83,000,000 of retained earnings available under Ohio law for the declaration of dividends on their respective preferred and common stocks. However, the payment of dividends out of capital surplus by Cleveland Electric may be restricted under the Federal Power Act.

CLEVELAND ELECTRIC AND TOLEDO EDISON

The information required by this Item is not applicable to Cleveland Electric or Toledo Edison because all of their common stock is held solely by Centerior Energy.

Item 6. Selected Financial Data

CENTERIOR ENERGY

The information required by this Item is contained on Pages F-23 and F-24 attached hereto.

CLEVELAND ELECTRIC

The information required by this Item is contained on Pages F-46 and F-47 attached hereto.

TOLEDO EDISON

The information required by this Item is contained on Pages F-68 and F-69 attached hereto.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

CENTERIOR ENERGY

The information required by this Item is contained on Pages F-5, F-6 and F-8 attached hereto.

CLEVELAND ELECTRIC

The information required by this Item is contained on Pages F-28, F-29 and F-31 attached hereto.

TOLEDO EDISON

The information required by this Item is contained on Pages F-51, F-52 and F-54 attached hereto.

Item 8. Financial Statements and Supplementary Data

CENTERIOR ENERGY

The information required by this Item is contained on Pages F-2 through F-4, F-6, F-7 and F-9 through F-22 attached hereto.

CLEVELAND ELECTRIC

The information required by this Item is contained on Pages F-25 through F-27, F-29, F-30 and F-32 through F-45 attached hereto.

TOLEDO EDISON

The information required by this Item is contained on Pages F-48 through F-50, F-52, F-53 and F-55 through F-67 attached hereto.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

CENTERIOR ENERGY, CLEVELAND ELECTRIC AND TOLEDO EDISON

None.

PART III

Item 10. Directors and Executive Officers of the Registrants

CENTERIOR ENERGY

The information required by this Item for Centerior regarding directors is incorporated herein by reference to Pages 5 through 9 of Centerior's definitive proxy statement dated March 6, 1991. Reference is also made to "Executive Officers of the Registrants and the Service Company" in Part I of this report for information regarding the executive officers of Centerior Energy.

CLEVELAND ELECTRIC

Set forth below is the name and other directorships of each director of Cleveland Electric. The year in which the director was first elected to Cleveland Electric's Board of Directors is set forth in parentheses. Reference is made to "Executive Officers of the Registrants and the Service Company" in Part I of this report for information regarding the directors and executive officers of Cleveland Electric.

Robert J. Farling*

Mr. Farling is a director of National City Bank. (1986)

Richard A. Miller*

Mr. Miller is a director of The Lubrizol Corporation, Bank One, Cleveland, N.A., and Bank One Ohio Trust Co., N.A. (1977)

Lyman C. Phillips

Mr. Phillips is a director of Society National Bank. (1988)

*Also a director of Centerior Energy and the Service Company.

TOLEDO EDISON

Set forth below is the name and other directorships held, if any, of each director of Toledo Edison. The year in which the director was first named to Toledo Edison's Board of Directors is set forth in parentheses. Reference is made to "Executive Officers of the Registrants and the Service Company" in Part I of this report for information regarding the directors and the executive officers of Toledo Edison.

Robert J. Farling*

Mr. Farling is a director of National City Bank. (1988)

Richard A. Miller*

Mr. Miller is a director of The Lubrizol Corporation, Bank One, Cleveland, N.A., and Bank One Ohio Trust Co., N.A. (1996)

Lyman C. Phillips

Mr. Phillips is a director of Society National Bank. (1990)

Donald H. Saunders

(1988)

*Also a director of Centerior Energy and the Service Company.

Item 11. Executive Compensation

CENTERIOR ENERGY EXECUTIVE COMPENSATION

The information required by this Item for Centerior is incorporated herein by reference to the information concerning compensation of directors on Page 10, and the information concerning employee stock plan transactions of executive officers on Pages 15 through 17, of Centerior's definitive proxy statement dated March 6, 1991.

SALARIES AND INSURANCE

Centerior Energy

The following information summarizes (1) compensation paid by the Centerior System to the five highest paid executive officers of Centerior Energy or the Service Company for services rendered in all capacities in 1990 while an executive officer of Centerior Energy or the Service Company and (2) the aggregate compensation paid by the Centerior System to all executive officers of Centerior Energy or the Service Company as a group for such services:

To Whom Paid and Principal Capacities in Which Served (1)	Cash Compensation	
	Salaries and Incentive Compensation (1)	Other (2)
Richard A. Miller	\$ 460,441	\$ 5,772
Robert J. Farling	264,725	3,542
Lyman C. Phillips	227,847	3,195
Murray R. Edelman	225,819	3,121
Edgar H. Maugans	192,614	2,787
All 23 executive officers (including the above officers) as a group	3,103,210	50,941

- (1) Data are included for the portion of 1990 during which the persons were executive officers of Centerior Energy or the Service Company and includes cash compensation paid or accrued in all capacities with the Centerior System as listed in "Business--Executive Officers of the Registrants" for that period. Includes Incentive Compensation awarded on March 26, 1991 for services rendered in 1990.
- (2) Centerior pays long-term disability benefits and premiums for life, accident and personal liability insurance benefits for executive officers to the extent those benefits exceed the benefits uniformly available to salaried employees under the Centerior System's benefit plans. No such long-term disability benefits were paid in 1990. In addition, Centerior provides additional compensation to certain executive officers to purchase other employee benefits.

Centerior Energy has a deferred compensation plan under which employees designated by the Compensation Committee of Centerior's Board of Directors may elect to defer the receipt of up to 25% of salary or up to all incentive compensation until a year selected by the employee not later than the year in which the employee attains age 70 or, if it occurs earlier, at retirement, 12 months after death or at other termination of employment. Amounts deferred by Centerior's executive officers in 1990 have been included in the cash compensation table.

Cleveland Electric

The following information summarizes (1) compensation paid by the Centerior System to the five highest paid executive officers of Cleveland Electric for services rendered in all capacities in 1990 while an executive officer of Cleveland Electric or Centerior Energy and (2) the aggregate compensation paid to all Cleveland Electric executive officers as a group for such services:

To Whom Paid and Principal Capacities in Which Served (1) (2)	Cash Compensation	
	Salaries and Incentive Compensation (2)	Other (3)
Richard A. Miller	\$ 460,441	\$ 5,772
Robert J. Farling	264,725	3,542
Lyman C. Phillips	227,847	3,195
Murray R. Edelman	225,819	3,121
Edgar H. Maugans	192,614	2,787
All 17 executive officers (including the above officers) as a group	2,042,726	31,544

- (1) Includes the executive officers of Centerior Energy regardless of whether they are officers of Cleveland Electric because they are key policymakers of Cleveland Electric.
- (2) Data are included for the portion of 1990 during which the persons were executive officers of Cleveland Electric or Centerior Energy and includes cash compensation paid or accrued in all capacities with the Centerior System as listed in "Business--Executive Officers of the Registrants" for that period. Includes Incentive Compensation awarded on March 26, 1991 for services rendered in 1990.
- (3) Centerior pays long-term disability benefits and premiums for life, accident and personal liability insurance benefits for executive officers to the extent those benefits exceed the benefits uniformly available to salaried employees under the Centerior System's benefit plans. No such long-term disability benefits were paid in 1990.

Cleveland Electric has a deferred compensation plan under which employees designated by the Compensation Committee of Centerior's Board of Directors may elect to defer the receipt of up to 25% of salary or up to all incentive compensation until a year selected by the employee not later than the year in which the employee attains age 70 or, if it occurs earlier, at retirement, 12 months after death or at other termination of employment. Any amounts deferred by executive officers in 1990 have been included in the cash compensation table.

The directors of Cleveland Electric received no remuneration in their capacity as directors.

Toledo Edison

The following information summarizes (1) compensation paid by the Centerior System to the five highest paid executive officers of Toledo Edison for services rendered in all capacities in 1990 while an executive officer of Toledo Edison or Centerior Energy and (2) the aggregate compensation paid to all Toledo Edison executive officers as a group for such services:

To Whom Paid and Principal Capacities in Which Served (1) (2)	Cash Compensation	
	Salaries and Incentive Compensation (2)	Other (3)
Richard A. Miller	\$ 460,441	\$ 5,772
Robert J. Farling	264,725	3,542
Wymon C. Phillips	227,847	3,195
Murray R. Edelman	225,819	3,121
Edgar H. Maugans	192,614	2,787
All 16 executive officers (including the above officers) as a group	2,095,912	33,697

- (1) Includes the executive officers of Centerior Energy regardless of whether they are officers of Toledo Edison because they are key policymakers of Toledo Edison.
- (2) Data are included for the portion of 1990 during which the persons were executive officers of Toledo Edison or Centerior Energy and includes cash compensation paid or accrued in all capacities with the Centerior System as listed in "Business--Executive Officers of the Registrants" for that period. Includes Incentive Compensation awarded on March 26, 1991 for services rendered in 1990.
- (3) Centerior pays long-term disability benefits and premiums for life, accident and personal liability insurance benefits for executive officers to the extent those benefits exceed the benefits uniformly available to salaried employees under the Centerior System's benefit plans. No such long-term disability benefits were paid in 1990.

Toledo Edison has a deferred compensation plan under which employees designated by the Compensation Committee of Centerior's Board of Directors may elect to defer the receipt of up to 25% of salary or up to all incentive compensation until a year selected by the employee not later than the year in which the employee attains age 70 or, if it occurs earlier, at retirement, 12 months after death or at other termination of employment. Any amounts deferred by executive officers in 1990 have been included in the cash compensation table.

The directors of Toledo Edison received no remuneration in their capacity as directors.

PENSION PLAN BENEFITS

Centerior System employees, including officers of Cleveland Electric and Toledo Edison, are covered by Centerior's pension program. The pension program is a noncontributory fixed-benefit program which provides benefits upon retirement at or after age 55. The annual amount of the pension is based primarily upon the monthly average straight-time salary and incentive compensation in the 60 consecutive highest paid months ("covered compensation") and the number of years of service. The resulting benefit is reduced by a percentage (based on the number of years of service) of the average FICA wage base. The pension is reduced in the event of retirement prior to age 62 and in certain cases prior to age 65. Appropriate reductions are made if the employee elects a joint and survivor, guaranteed years certain, lump sum or other form of pension in place of payments for life. To the extent limits imposed by Federal law apply to reduce a pension which otherwise would be payable under the pension program, the amount of the reduction will be paid, as permitted by Federal law, directly by Centerior, except to the extent it is paid out of a trust established by Centerior. The following table shows the annual amount of payment-for-life pension payable to salaried employees who retire under the pension program at or after age 62 at stated levels of covered compensation and years of service:

<u>Covered Compensation</u>	<u>Years of Service</u>		
	<u>25</u>	<u>30</u>	<u>35</u>
\$100,000	\$ 45,711	\$ 51,253	\$ 53,524
150,000	69,711	78,253	81,774
200,000	93,711	105,253	110,024
250,000	117,711	132,253	138,274
300,000	141,711	159,253	166,524
350,000	165,711	186,253	194,774
400,000	189,711	213,253	223,024

Centerior Energy, Cleveland Electric and Toledo Edison

The following table sets forth the years of service and the covered compensation as of year-end 1990 of the five highest paid executive officers of Centerior Energy, Cleveland Electric and Toledo Edison:

<u>Executive Officer</u>	<u>Years of Service</u>	<u>Covered Compensation</u>
Richard A. Miller	30	\$350,069
Robert J. Farling	31	212,143
Lyman C. Phillips	29	178,759
Murray R. Edelman	29	175,567
Edgar H. Maugans	34	146,658

EMPLOYEE STOCK PLAN TRANSACTIONS

(a) Employee Purchase Plan

All employees, including officers, of Centerior, the Service Company, Cleveland Electric (and its participating subsidiaries) and Toledo Edison (except certain of its union-represented employees) are eligible to participate in the Purchase Plan. A participant may contribute to purchase U.S. Savings Bonds up to 100% of his straight-time pay less (1) payroll withholding tax and other payroll deductions, (2) any other contribution he makes into the Purchase Plan and (3) any contribution he makes into the Savings Plan. A participant also may contribute up to 8% of his pay, less any Basic Contribution he makes into the Savings Plan, to purchase Centerior common stock at a price 15% below the fair market value on the semiannual dates of purchase, March 15 and September 15. The Bonds and common stock are distributed to the participant immediately after purchase. Centerior's contribution into the Purchase Plan is the 15% discount on the price of the common stock. The 15% discount is taxable ordinary income to the participant in the tax year the common stock is purchased and is deductible by Centerior.

Cleveland Electric

None of the five named officers of Cleveland Electric acquired Centerior common stock through the Purchase Plan in 1990. All 17 executive officers of Cleveland Electric as a group, including the five named officers, purchased a total of 42 shares at an aggregate purchase price of \$693.00. The aggregate market value of the stock on the purchase date was \$805.88.

Toledo Edison

None of the 16 executive officers of Toledo Edison, including the five named officers, acquired Centerior common stock through the Purchase Plan in 1990.

(b) Employee Savings Plan

All employees, including officers, of Centerior, the Service Company, Cleveland Electric (and its participating subsidiaries) and Toledo Edison (except certain of its union-represented employees) may participate in the Savings Plan by means of payroll deduction contributions. The Savings Plan consists of two parts: the After Tax Part and the Before Tax Part. The After Tax Part receives a participant's contributions after they have been taxed as pay. The Before Tax Part receives a participant's contributions before they have been taxed as pay; however, they will be taxed when withdrawn from the Savings Plan.

The combined maximum employee contribution into both Parts of the Savings Plan is 16% of pay. A participant may contribute up to 6% of his straight-time pay as a Basic Contribution and up to another 10% as a Supplemental Contribution into the After Tax and Before Tax Parts combined. The minimum contribution is 1% of pay. Centerior contributes out of current income or retained earnings an amount equal to 50% of the

employee's Basic Contribution. Contributions of highly compensated employees and Centerior's matching contributions are reduced when necessary to keep the contributions within the limits of Federal tax law.

Contributions are placed in a tax-exempt trust administered by a corporate trustee. The trust invests in (1) Centerior common stock, (2) a diversified group of common stocks, excluding Centerior common stock and (3) fixed income debt or stock investments, which currently are deposits under insurance company contracts at fixed rates of interest. A participant may allocate his contributions into the three funds in such portions as he designates. Centerior Stock Fund contributions and earnings are invested in Centerior common stock purchased by the trustee from Centerior at its fair market value or in the open market. Centerior's contributions are invested in the same funds and in the same portions as a participant's contributions. Centerior contributions and the earnings thereon become 100% vested in the participant after the participant makes at least 36 months of contributions in the After Tax Part, but become immediately vested in the Before Tax Part.

Cleveland Electric

The following table presents information relating to the acquisition of Centerior common stock by executive officers of Cleveland Electric under the Savings Plan during 1990:

<u>Executive Officer</u>	<u>Centerior Contributions</u>
Richard A. Miller	\$ 3,567
Robert J. Farling	7,289
Lyman C. Phillips	2,203
Murray R. Edelman	1,052
Edgar H. Maugans	5,438
All 17 executive officers (including the above officers) as a group	37,180

Toledo Edison

The following table presents information relating to the acquisition of Centerior common stock by executive officers of Toledo Edison under the Savings Plan during 1990:

<u>Executive Officer</u>	<u>Centerior Contributions</u>
Richard A. Miller	\$ 3,567
Robert J. Farling	7,289
Lyman C. Phillips	2,203
Murray R. Edelman	1,052
Edgar H. Maugans	5,438
All 16 executive officers (includ- ing the above officers) as a group	38,700

(c) 1978 Key Employee Stock Option Plan

Prior to becoming a subsidiary of Centerior, options to buy Cleveland Electric common stock were granted at various times by Cleveland Electric to certain of its key employees pursuant to its 1978 Key Employee Stock Option Plan. When Cleveland Electric became a subsidiary of Centerior, the Plan was changed to provide for the sale of Centerior common stock instead of Cleveland Electric common stock upon exercise of those options, and Centerior assumed all the obligations of Cleveland Electric under those options and the plan. No additional options can be granted under the Plan.

Cleveland Electric

The following table presents information relating to the exercise of options by the eligible executive officers of Cleveland Electric under the 1978 Key Employee Stock Option Plan during 1990:

<u>Executive Officer</u>	<u>Options Exercised</u>	
	<u>Number of Shares</u>	<u>Excess of Market Value Over Exercise Price</u>
Richard A. Miller	5,548	\$17,330
Robert J. Farling	3,105	11,919
Murray R. Edelman	666	2,526
Edgar H. Maugans	5,550	22,464
All 10 eligible executive officers (including the above officers) as a group	18,853	70,071

Toledo Edison

The following table presents information relating to the exercise of options by the eligible executive officers of Toledo Edison under the 1978 Key Employee Stock Option Plan during 1990:

<u>Executive Officer</u>	<u>Options Exercised</u>	
	<u>Number of Shares</u>	<u>Excess of Market Value Over Exercise Price</u>
Richard A. Miller	5,548	\$17,330
Robert J. Farling	3,105	11,919
Murray R. Edelman	666	2,526
Edgar H. Maugans	5,550	22,464
All 6 eligible executive officers (including the above officers) as a group	15,701	57,290

(d) Employee Stock Ownership Plan

Under the Toledo Edison Employee Stock Ownership Plan, common stock of Toledo Edison was, and since 1986 Centerior common stock is, allocable to the accounts of all eligible employees of Toledo Edison in proportion to their compensation from Toledo Edison. Toledo Edison made contributions in 1977, 1984, 1986 and 1988, in each case for the preceding tax year. Participants are always fully vested in the common stock credited to their accounts. Upon the affiliation of Cleveland Electric and Toledo Edison, the Toledo Edison common stock in the Plan was converted into Centerior common stock.

Cleveland Electric

At December 31, 1990, under the Employee Stock Ownership Plan, 541 shares of Centerior common stock were held in the account of Lyman C. Phillips and 1,227 shares were held in the accounts of the three eligible Cleveland Electric executive officers (including Mr. Phillips) as a group.

Toledo Edison

At December 31, 1990, under the Employee Stock Ownership Plan, 541 shares of Centerior common stock were held in the account of Lyman C. Phillips and 1,826 shares were held in the accounts of the four eligible Toledo Edison executive officers (including Mr. Phillips) as a group.

Item 12. Security Ownership of Certain Beneficial Owners and Management

CENTERIOR ENERGY

The following table sets forth the beneficial ownership of Centerior common stock by individual directors of Centerior and all directors and officers of Centerior Energy and the Service Company as a group as of February 28, 1991:

<u>Name of Beneficial Owner</u>	<u>Number of Common Shares Owned (1)</u>
Richard P. Anderson	1,112
Albert C. Bersticker	1,000
Leigh Carter	2,257
Thomas A. Commes	5,000
Wayne R. Embry	1,000
Robert J. Farling	33,044 (2)
Robert M. Ginn	32,071
Roy H. Holdt	1,731
George H. Kaul	4,640
Richard A. Miller	45,563 (2)
Frank E. Mosier	1,225
Sister Mary Marthe Reinhard, SND	2,220 (3)
Robert C. Savage	1,000
Paul M. Smart	3,342
William J. Williams	1,270
All directors and officers as a group	243,772 (2)

- (1) Beneficially owned shares include any shares with respect to which voting or investment power is attributed to a director or officer because of joint or fiduciary ownership of the shares or relationship to the record owner, such as a spouse, even though the director or officer does not consider himself or herself the beneficial owner. On February 28, 1991, all directors and officers of Centerior Energy and the Service Company as a group were considered to own beneficially 0.2% of Centerior's common stock and none of the preferred stock of Cleveland Electric and Toledo Edison, except for one officer who owns 50 shares of Toledo Edison preferred stock. Certain directors and officers disclaim beneficial ownership of some of those shares.
- (2) Includes the following numbers of shares which are not owned but could have been purchased within 60 days after February 28, 1991 upon exercise of options to purchase shares of Centerior common stock: Mr. Farling - 21,730; Mr. Miller - 32,743, and all other officers as a group - 58,731. None of those options have been exercised as of March 27, 1991.
- (3) Owned by the Sisters of Notre Dame.

CLEVELAND ELECTRIC

The following table sets forth the beneficial ownership of Centerior common stock by individual directors of Cleveland Electric and all directors and officers of Cleveland Electric as a group as of February 28, 1991:

<u>Name of Beneficial Owner</u>	<u>Number of Common Shares Owned (1)</u>
Robert J. Farling	33,044 (2)
Richard A. Miller	45,563 (2)
Lyman C. Phillips	2,696
All directors and officers as a group	108,524 (2)

(1) Beneficially owned shares include any shares with respect to which voting or investment power is attributed to a director or officer because of joint or fiduciary ownership of the shares or relationship to the record owner, such as a spouse, even though the director or officer does not consider himself or herself the beneficial owner. On February 28, 1991, all directors and officers of Cleveland Electric as a group were considered to own beneficially 0.1% of Centerior's common stock and none of Cleveland Electric's serial preferred stock. Certain directors and officers disclaim beneficial ownership of some of those shares.

(2) Includes the following numbers of shares which are not owned but could have been purchased within 60 days after February 28, 1991 upon exercise of options to purchase shares of Centerior common stock: Mr. Farling - 21,730; Mr. Miller - 32,743; and all other officers as a group - 9,807. None of those options have been exercised as of March 27, 1991.

TOLEDO EDISON

The following table sets forth the beneficial ownership of Centerior common stock by individual directors of Toledo Edison and all directors and officers of Toledo Edison as a group as of February 28, 1991:

<u>Name of Beneficial Owner</u>	<u>Number of Common Shares Owned (1)</u>
Robert J. Farling	33,044 (2)
Richard A. Miller	45,563 (2)
Lyman C. Phillips	2,696
Donald H. Saunders	1,194
All directors and officers as a group	109,694 (2)

- (1) Beneficially owned shares include any shares with respect to which voting or investment power is attributed to a director or officer because of joint or fiduciary ownership of the shares or relationship to the record owner, such as a spouse, even though the director or officer does not consider himself or herself the beneficial owner. On February 28, 1991, all directors and officers of Toledo Edison as a group were considered to own beneficially 0.1% of Centerior's common stock and none of Toledo Edison's preferred stock. Certain directors and officers disclaim beneficial ownership of some of these shares.
- (2) Includes the following numbers of shares which are not owned but could have been purchased within 60 days after February 28, 1991 upon exercise of options to purchase shares of Centerior common stock: Mr. Farling - 21,730; Mr. Miller - 32,743; and all other officers as a group - 9,807. None of those options have been exercised as of March 27, 1991.

Item 13. Certain Relationships and Related Transactions

CENTERIOR ENERGY AND TOLEDO EDISON

The information required by this Item is incorporated herein by reference to Page 10 of Centerior's definitive proxy statement dated March 6, 1991.

CLEVELAND ELECTRIC

None.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) Documents Filed as a Part of the Report

1. Financial Statements:

Financial Statements for Centerior Energy, Cleveland Electric and Toledo Edison are listed in the Index to Selected Financial Data; Management's Discussion and Analysis of Financial Condition and Results of Operations; and Financial Statements. See Page F-1.

2. Financial Statement Schedules:

Financial Statement Schedules for Centerior Energy, Cleveland Electric and Toledo Edison are listed in the Index to Schedules. See Page S-1.

3. Exhibits:

Exhibits for Centerior Energy, Cleveland Electric and Toledo Edison are listed in the Exhibit Index. See Page E-1.

(b) Reports on Form 8-K

Centerior Energy, Cleveland Electric and Toledo Edison did not file a Current Report on Form 8-K during the fourth quarter of 1990.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CENTERIOR ENERGY CORPORATION Registrant

March 28, 1991

By *RICHARD A. MILLER, Chairman of the
Board and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated:

<u>Signature</u>	<u>Title</u>	<u>Date</u>
Principal Executive Officer:)	
*RICHARD A. MILLER	Chairman of the Board and Chief Executive Officer)
Principal Financial Officer:)	
*EDGAR H. MAUGANS	Executive Vice President)
Principal Accounting Officer:)	
*PAUL G. BUSBY	Controller)
Directors:)	
*RICHARD E. ANDERSON	Director)
*ALBERT C. BERSTICKER	Director)
*LEIGH CARTER	Director)
*THOMAS A. COMMES	Director) March 28, 1991
*WAYNE R. EMBRY	Director)
*ROBERT J. FARLING	Director)
*ROBERT M. GINN	Director)
*ROY H. HOLDT	Director)
*GEORGE H. KAULL	Director)
*RICHARD A. MILLER	Director)
*FRANK E. MOSIER	Director)
*SR. MARY MARTHE FEINHARD, SND	Director)
*ROBERT C. SAVAGE	Director)
*PAUL M. SMART	Director)
*WILLIAM J. WILLIAMS	Director)

*By J. T. PERCIO
J. T. Percio, Attorney-in-Fact

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY
Registrant

March 28, 1991

By *LYMAN C. PHILLIPS, President and Chief
Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated:

<u>Signature</u>	<u>Title</u>	<u>Date</u>
Principal Executive Officer:)	
*LYMAN C. PHILLIPS	President and Chief Executive Officer)
Principal Financial Officer:)	
*EDGAR H. MAUGANS	Vice President and Chief Financial Officer) March 28, 1991
Principal Accounting Officer:)	
*PAUL G. BUSBY	Controller)
Directors:)	
*ROBERT J. FARLING	Director)
*RICHARD A. MILLER	Director)
*LYMAN C. PHILLIPS	Director)

*By J. T. PERCIO
J. T. Percio, Attorney-in-Fact

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE TOLEDO EDISON COMPANY Registrant

March 28, 1991

By *LYMAN C. PHILLIPS, Chairman of the
Board and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated:

<u>Signature</u>	<u>Title</u>	<u>Date</u>
Principal Executive Officer:)	
*LYMAN C. PHILLIPS	Chairman of the Board and Chief Executive Officer)))
Principal Financial Officer:)	
*EDGAR H. MAUGANS	Vice President and Chief Financial Officer)))
Principal Accounting Officer:)	March 28, 1991
*PAUL G. BUSBY	Controller)
Directors:)	
*ROBERT J. FARLING	Director)
*RICHARD A. MILLER	Director)
*LYMAN C. PHILLIPS	Director)
*DONALD H. SAUNDERS	Director)

*By J. T. PERCIO
J. T. Percio, Attorney-in-Fact

**INDEX TO
SELECTED FINANCIAL DATA; MANAGEMENT'S DISCUSSION
AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF
OPERATIONS; AND FINANCIAL STATEMENTS**

	<u>Page</u>
Centerior Energy Corporation and Subsidiaries:	
Report of Independent Public Accountants	F-2
Summary of Significant Accounting Policies	F-3
Management's Financial Analysis	F-5/F-8
Retained Earnings for the years ended December 31, 1990, 1989 and 1988	F-6
Income Statement for the years ended December 31, 1990, 1989 and 1988	F-7
Cash Flows for the years ended December 31, 1990, 1989 and 1988	F-9
Balance Sheet as of December 31, 1990 and 1989	F-10
Statement of Cumulative Preferred and Preference Stock at December 31, 1990 and 1989	F-12
Notes to the Financial Statements	F-13
Financial and Statistical Review	F-23
The Cleveland Electric Illuminating Company and Subsidiaries:	
Report of Independent Public Accountants	F-25
Summary of Significant Accounting Policies	F-26
Management's Financial Analysis	F-28/F-31
Retained Earnings for the years ended December 31, 1990, 1989 and 1988	F-29
Income Statement for the years ended December 31, 1990, 1989 and 1988	F-30
Cash Flows for the years ended December 31, 1990, 1989 and 1988	F-32
Balance Sheet as of December 31, 1990 and 1989	F-34
Statement of Cumulative Preferred and Preference Stock at December 31, 1990 and 1989	F-36
Notes to the Financial Statements	F-37
Financial and Statistical Review	F-46
The Toledo Edison Company:	
Report of Independent Public Accountants	F-48
Summary of Significant Accounting Policies	F-49
Management's Financial Analysis	F-51/F-54
Retained Earnings for the years ended December 31, 1990, 1989 and 1988	F-52
Income Statement for the years ended December 31, 1990, 1989 and 1988	F-53
Cash Flows for the years ended December 31, 1990, 1989 and 1988	F-55
Balance Sheet as of December 31, 1990 and 1989	F-56
Statement of Cumulative Preferred and Preference Stock at December 31, 1990 and 1989	F-58
Notes to the Financial Statements	F-59
Financial and Statistical Review	F-68

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Centerior Energy Corporation and subsidiaries as of December 31, 1990 and 1989, and the results of their operations and their cash flows for

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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.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of Centerior Energy Corporation and subsidiaries listed in the Index to Schedules are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Cleveland, Ohio
February 12, 1991

Arthur Andersen & Co.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL

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

Centerior Energy and the Operating Companies follow the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC) and adopted by The Public Utilities Commission of Ohio (PUCO). The Service Company follows the Uniform System of Accounts for Mutual Service Companies prescribed by the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935.

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

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

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

The PUCO authorized the Operating Companies 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 Operating Companies 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 orders 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 orders for the Operating Companies included approved rate phase-in plans for their investments in Perry Unit 1 and Beaver Valley Unit 2. On January 1, 1989, the Operating Companies began recording the deferrals of operating expenses and interest and equity carrying charges on deferred rate-based investment pursuant to the phase-in plans. 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 3.8% in 1989 and 1988. The 1990 rate declined because of a change in depreciation rates attributable to longer estimated lives for fossil-fueled electric generating units. The PUCO approved this change in depreciation rates effective January 1, 1990 which reduced depreciation expense for 1990 by \$16,000,000 and increased earnings per share \$0.08.

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 \$9,790,000 and increased earnings per share \$0.04.

Effective July 1988, the Operating Companies began the external funding of future decommissioning costs for their 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 Operating Companies of \$122,000,000 in 1986 dollars for Davis-Besse and \$72,000,000 and \$63,000,000 in 1987 dollars for Perry Unit 1 and Beaver Valley Unit 2, respectively. Actual decommissioning costs are expected to exceed these estimates. It is expected that increases in the cost estimates will be recoverable in rates resulting from future rate proceedings. The current level of expense being funded and recovered from customers over the remaining licensing periods of the units is approximately \$8,000,000 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 our deferred tax liabilities be adjusted for subsequent tax rate changes and that we 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 Operating Companies 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 Operating Companies 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 Operating Companies are 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 rates averaged 10.8% in 1990, 11.2% in 1989 and 11.4% in 1988.

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 orders which provided for three rate increases for the Operating Companies, as discussed in Note 6, were 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 orders improved revenues and cash flow in 1989 and 1990 and are expected to continue to improve them in 1991. However, as discussed more fully in the fourth and fifth paragraphs of Note 6, the phase-in plans were 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 economic recession and competitive forces. The latter, coupled with a desire to encourage economic growth, has prompted the Operating Companies in recent years to enter into contracts having reduced rates with certain large customers. Competitive forces have also prompted Toledo Edison 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 Operating Companies are 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 Operating Companies are 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 \$100,000,000 annually. We have already shared 50% of the expected savings with customers by reducing the 1991 rate increases granted under the 1989 rate orders. However, continuing cost reduction efforts will be necessary to help offset the effect of inflation. Also, the Operating Companies are 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. We 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 \$58,000,000, or \$ 42 per share, 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 \$36,000,000, or \$ 26 per share, in 1991, and even more in subsequent years.

The Operating Companies have agreed to use their 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 2.8% increase in 1990 operating revenues are as follows:

Change in Operating Revenues	Increase (Decrease)
Base Rates and Miscellaneous	\$151,000,000
Sales Volume and Mix	(54,000,000)
Sales to Ohio Edison and Pennsylvania Power	(32,000,000)
	<u>\$ 65,000,000</u>

The major factor accounting for the increase in operating revenues was related to the January 1989 rate orders for the Operating Companies. The PUCO approved annual rate increases for the Operating Companies of 9% effective in February 1989 and 7% effective in February 1990. The associated revenue increase in 1990 was partially offset by reduced revenues resulting from a 2.9% decrease in total kilowatt-hour sales. Industrial sales decreased 2.8% because of the recession beginning in 1990. Residential sales decreased 2.1% as seasonal temperatures were more moderate in comparison to the prior year's temperatures, resulting in reduced customer heating and cooling-related demand. Commercial sales increased 0.3% as increased demand from new all-electric office and retail space was offset by the effects of mild weather. Other sales activity decreased 22.3% primarily as a result of Toledo Edison's municipal utility customers satisfying a greater portion of their power needs from other sources. The increase in revenues was also partially offset by the loss of revenues related to the May 1989 expiration of Cleveland Electric's agreement to sell a portion of its share of Perry Unit 1 capacity to Ohio Edison and Pennsylvania Power.

Operating expenses decreased 0.4% 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 orders.

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. The decrease in the federal income tax provision related to nonoperating income was the result of a decrease in pretax nonoperating income and federal income tax adjustments of \$37,522,000 associated with previously deferred investment tax credits relating to the 1988 write-off of nuclear plant. Other income and deductions, net, decreased primarily because of less interest income in 1990.

1989 vs. 1988

Factors contributing to the 13% increase in 1989 operating revenues are as follows:

Change in Operating Revenues	Increase (Decrease)
Base Rates and Miscellaneous	\$173,000,000
Deferred CWIP Revenues	88,000,000
Sales to Ohio Edison and Pennsylvania Power	(52,000,000)
Fuel Cost Recovery Revenues	42,000,000
Sales Volume and Mix	14,000,000
	<u>\$265,000,000</u>

The January 1989 rate orders for the Operating Companies were primarily responsible for two major factors impacting the increase in revenues. The PUCO granted both companies 9% rate increases 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 our customers ordered by the PUCO for certain replacement fuel and purchased power costs collected from customers during a 1985-1986 Davis-Besse outage. Total kilowatt-hour sales decreased 1.8% in 1989. The comparatively moderate summer weather in 1989 lowered sales because of reduced air conditioning usage. Residential sales decreased 1.6%.

Commercial sales increased 3.9% as a result of continuing growth from new office buildings and retail outlets. Industrial sales decreased 2.1% principally because of a 7% reduction in sales to large steel and automotive customers. Sales to other industrial customers increased 0.5%. The decrease in revenues from sales to Ohio Edison and Pennsylvania Power was the result of the May 1989 expiration of Cleveland Electric's agreement to sell a portion of its share of Perry Unit 1 capacity.

Operating expenses increased 8.4% in 1989. Lower deferrals of nuclear operating expense for Perry Unit 1 and Beaver Valley Unit 2 resulted in a \$122,000,000 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 Operating Companies to sell power to other utilities. The excess of revenues over cost is treated as a reduction in purchased power expense which cushioned the increase in fuel and purchased power expense for the year. Depreciation expense increased, reflective of the increased generation from our 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 orders. Interest expense and preferred and preference dividend requirements decreased in 1989 because of retirements and refinancings by the Operating Companies.

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

Balance at Beginning of Year

Additions

Net income (loss)

Deductions

Common stock dividends

Other, primarily preferred stock redemption expenses of subsidiaries

Net Increase (Decrease)

Balance at End of Year

CENTERIOR ENERGY CORPORATION AND SUBSIDIARIES For the years ended December 31,

	1990	1989	1988
	(thousands of dollars)		
Balance at Beginning of Year	\$ 613,774	\$ 571,882	\$ 908,611
Additions			
Net income (loss)	264,459	266,886	(73,960)
Deductions			
Common stock dividends	(222,482)	(224,947)	(259,022)
Other, primarily preferred stock redemption expenses of subsidiaries	(915)	(47)	(3,747)
Net Increase (Decrease)	41,062	41,892	(336,729)
Balance at End of Year	\$ 654,836	\$ 613,774	\$ 571,882

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

INCOME STATEMENT

CENTERIOR ENERGY CORPORATION AND SUBSIDIARIES

For the years ended December 31,			
	1990	1989	1988
	(thousands of dollars, except per share amounts)		
Operating Revenues	\$2,367,675	\$2,302,436	\$2,037,560
Operating Expenses			
Fuel and purchased power	412,531	413,816	391,401
Other operation and maintenance	862,738	860,138	865,632
Depreciation and amortization	251,640	280,918	264,824
Taxes, other than federal income taxes	283,425	259,871	268,550
Phase-in deferred operating expenses	(50,940)	(74,555)	—
Pre-phase-in deferred operating expenses	7,629	7,932	(188,209)
Federal income taxes	96,076	122,387	123,697
	<u>1,863,099</u>	<u>1,870,505</u>	<u>1,725,895</u>
Operating Income	504,576	431,931	311,665
Nonoperating Income			
Allowance for equity funds used during construction	7,883	16,930	13,504
Other income and deductions, net	(11)	14,212	45,308
Write-off of nuclear costs	—	—	(534,355)
Phase-in carrying charges	205,085	299,159	—
Pre-phase-in carrying charges	—	—	372,155
Federal income taxes — credit (expense)	(12,948)	(73,177)	131,254
	<u>200,009</u>	<u>257,124</u>	<u>27,866</u>
Income Before Interest Charges	704,585	689,055	339,531
Interest Charges			
Debt interest	384,278	369,481	378,292
Allowance for borrowed funds used during construction	(5,993)	(12,929)	(6,137)
	<u>378,285</u>	<u>356,552</u>	<u>372,155</u>
Income (Loss) After Interest Charges	326,300	332,503	(32,624)
Preferred and preference dividend requirements of subsidiaries	61,841	65,617	69,489
Income (Loss) Before Cumulative Effect of an Accounting Change	264,459	266,886	(102,113)
Cumulative Effect on Prior Years (to December 31, 1987) of an Accounting Change for Unbilled Revenues (Net of Income Taxes of \$18,729,000)	—	—	28,153
Net Income (Loss)	\$ 264,459	\$ 266,886	\$ (73,960)
Average Number of Common Shares Outstanding (thousands)	138,885	140,468	140,778
Earnings (Loss) Per Common Share			
Before cumulative effect of an accounting change	\$ 1.90	\$ 1.90	\$ (73)
Cumulative effect of an accounting change	—	—	20
Total	<u>\$ 1.90</u>	<u>\$ 1.90</u>	<u>\$ (53)</u>
Dividends Declared Per Common Share	\$ 1.60	\$ 1.60	\$ 1.84

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 \$1,210,000,000. In addition, we exercised various options to redeem and purchase approximately \$720,000,000 of our securities.

During the 1988-1990 period, Cleveland Electric and Toledo Edison issued \$356,430,000 and \$174,100,000, respectively, of first mortgage bonds, and obtained \$56,000,000 and \$15,000,000, respectively, of term bank loans. In 1989 and 1990, Cleveland Electric also issued \$550,000,000 of secured medium-term notes. The Operating Companies utilized their short-term borrowing arrangements (explained in Note 11) which resulted in Cleveland Electric and Toledo Edison having \$87,110,000 and \$23,200,000, respectively, of commercial paper 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 Operating Companies were granted rate increases effective in 1989, 1990 and 1991 pursuant to January 1989 PUCO rate orders. See Note 6 for a discussion of those rate orders which provide for specific levels of rate increases through 1991. Although the rate orders 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 our construction program for 1991-1993 are \$605,000,000 for Cleveland Electric and \$235,000,000 for Toledo Edison. In addition, Cleveland Electric and Toledo Edison will require \$515,000,000 and \$297,000,000, respectively, for the mandatory redemption of debt and preferred stock during this period. Cleveland Electric expects to finance externally about 33% of its 1991 construction and mandatory redemption requirements of approximately \$267,000,000. About 75% of Toledo Edison's requirements of approximately \$177,000,000 in 1991 will be financed externally. We expect to finance externally about 60% of our 1992 and 1993 requirements. If economical, we may also redeem

additional securities under optional redemption provisions. See Notes 10(d) and (e) for information concerning limitations on the issuance of preferred and preference stock and debt.

Our capital requirements will increase after 1994 as a result of the Clean Air Act of 1990 (Clean Air Act). Our future capital spending will depend on the implementation strategy we choose to achieve compliance with the new law. Our preliminary estimates for capital expenditures to comply with the Clean Air Act are in the range of \$400,000,000 to \$700,000,000. 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 Operating Companies are as follows:

	Standard & Poor's Corporation	Moody's Investors Service
Cleveland Electric		
First mortgage bonds	BBB-	Baa2
Preferred stock	BB+	baa2
Toledo Edison		
First mortgage bonds	BBB-	Baa3
Unsecured notes	BB+	Ba1
Preferred stock	BB+	ba2

We believe that the rate orders, coupled with stringent cost control, have given us a reasonable opportunity to achieve financial results which should permit Centerior Energy to continue the current quarterly common stock dividend of \$.40 per share. Nevertheless, dividend action by our Board of Directors will continue to be decided on a quarter-to-quarter basis after the evaluation of financial results, potential earning capacity and cash flow. A write-off of our investment in Perry Unit 2, as discussed in Note 3(c), would not reduce our retained earnings sufficiently to impair our ability to declare dividends and would not affect our cash flow.

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

CASH FLOWS

CENTERIOR ENERGY CORPORATION AND SUBSIDIARIES

	For the years ended December 31,		
	1990	1989	1988
	(thousands of dollars)		
Cash Flows from Operating Activities (1)			
Net Income (Loss)	\$ 264,459	\$ 266,886	\$ (73,960)
Adjustments to Reconcile Net Income (Loss) to Cash from Operating Activities:			
Depreciation and amortization	251,640	260,918	264,824
Deferred federal income taxes	142,190	181,240	(37,422)
Investment tax credits, net	(34,287)	1,179	(3,687)
Write-off of nuclear costs	—	—	534,355
Deferred and unbilled revenues	(60,792)	(74,792)	23,842
Deferred fuel	(11,843)	25,086	(54,601)
Carrying charges capitalized	(205,085)	(299,159)	(372,155)
Leased nuclear fuel amortization	84,150	102,120	77,196
Deferred operating expenses, net	(43,311)	(66,623)	(188,209)
Allowance for equity funds used during construction	(7,883)	(16,930)	(13,504)
Amortization of reserve for Davis-Besse refund obligations to customers	—	(24,817)	(41,118)
Pension settlement gain	(40,966)	—	—
Cumulative effect of an accounting change	—	—	(28,153)
Changes in amounts due from customers and others, net	(26,445)	(13,486)	5,384
Changes in inventories	(29,015)	(3,029)	10,283
Changes in accounts payable	63,610	(10,732)	73,765
Changes in working capital affecting operations	(24,913)	17,120	17,058
Other noncash items	(10,772)	(10,319)	(8,510)
Total Adjustments	46,278	87,776	259,348
Net Cash from Operating Activities	310,737	354,662	185,388
Cash Flows from Financing Activities (2)			
Bank loans, commercial paper and other short-term debt	109,888	29	(36,555)
Debt issues:			
First mortgage bonds	167,300	123,800	239,430
Secured medium-term notes	337,500	212,500	—
Term bank loans	31,000	40,000	—
Common stock issues	—	740	1,539
Reacquired common stock	(25,601)	(19,804)	—
Maturities, redemptions and sinking funds	(395,287)	(370,747)	(384,178)
Nuclear fuel lease and trust obligations	(99,076)	(86,589)	(77,196)
Common stock dividends paid	(222,482)	(224,947)	(259,022)
Premiums, discounts and expenses	(7,360)	(2,622)	1,176
Net Cash from Financing Activities	(104,118)	(327,640)	(514,806)
Cash Flows from Investing Activities (2)			
Cash applied to construction	(237,436)	(223,881)	(313,157)
Interest capitalized as allowance for borrowed funds used during construction	(5,993)	(12,929)	(6,137)
Cash withdrawn from sale and leaseback and other trusts	—	—	374,085
Other cash applied	(13,055)	(17,866)	(7,351)
Net Cash from Investing Activities	(256,484)	(254,676)	47,440
Net Change in Cash and Temporary Cash Investments	(49,865)	(227,654)	(281,978)
Cash and Temporary Cash Investments at Beginning of Year	103,143	330,797	612,775
Cash and Temporary Cash Investments at End of Year	\$ 53,278	\$ 103,143	\$ 330,797

- (1) Interest paid was \$375,000,000, \$367,000,000 and \$373,000,000 in 1990, 1989 and 1988, respectively. Income taxes paid were \$21,185,000, \$9,058,000 and \$76,531,000 in 1990, 1989 and 1988, respectively.
- (2) Increases in nuclear fuel and nuclear fuel lease and trust obligations in the Balance Sheet resulting from the noncash capitalizations under nuclear fuel agreements are excluded from this statement.

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

BALANCE SHEET

	December 31	
	1990	1989
	(thousands of dollars)	
ASSETS		
PROPERTY, PLANT AND EQUIPMENT		
Utility plant in service	\$ 8,648,888	\$ 8,411,116
Less: accumulated depreciation and amortization	2,056,244	1,831,767
	6,592,644	6,579,349
Construction work in progress	268,386	288,225
Perry Unit 2	865,149	869,048
	7,726,179	7,736,622
Nuclear fuel, net of amortization	522,672	544,375
Other property, less accumulated depreciation	45,452	47,317
	8,294,303	8,328,314
CURRENT ASSETS		
Cash and temporary cash investments	53,278	103,143
Amounts due from customers and others, net	242,761	216,316
Unbilled revenues	80,866	78,718
Materials and supplies, at average cost	108,758	83,322
Fossil fuel inventory, at average cost	52,578	48,999
Taxes applicable to succeeding years	218,444	207,635
Other	9,922	14,819
	766,607	752,952
DEFERRED CHARGES		
Amounts due from customers for future federal income taxes	1,165,904	1,201,278
Unamortized loss from Beaver Valley Unit 2 sale	119,623	122,911
Unamortized loss on reacquired debt	80,564	75,988
Carrying charges and operating expenses, pre-phase-in	634,595	641,236
Carrying charges and operating expenses, phase-in	629,744	373,714
Other	202,895	170,154
	2,833,325	2,585,281
Total Assets	\$11,894,235	\$11,666,547

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

	December 31	
	1990	1989
	(thousands of dollars)	
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION		
Common shares, without par value (stated value of \$189,460,000 and \$191,710,000 for 1990 and 1989, respectively); 180,000,000 authorized; 138,401,000 (excluding 2,511,000 shares in Treasury) and 139,792,000 (excluding 1,120,000 shares in Treasury) outstanding in 1990 and 1989, respectively	\$ 2,155,197	\$ 2,180,798
Retained earnings	654,836	613,774
Common stock equity	2,810,033	2,794,572
Preferred stock		
With mandatory redemption provisions	237,490	281,352
Without mandatory redemption provisions	427,334	427,334
Long-term debt	3,729,237	3,533,656
	<u>7,204,094</u>	<u>7,036,914</u>
OTHER NONCURRENT LIABILITIES		
Refund obligations to customers	—	23,779
Other, primarily nuclear fuel lease obligations	508,694	557,789
	<u>508,694</u>	<u>581,568</u>
CURRENT LIABILITIES		
Current portion of long-term debt and preferred stock	214,138	217,706
Current portion of lease obligations	114,943	101,057
Notes payable to banks and others	110,094	206
Accounts payable	311,713	248,103
Accrued taxes	323,716	329,440
Accrued interest	84,778	84,232
Dividends declared	13,972	13,693
Accrued payroll and vacations	28,555	27,692
Current portion of refund obligations to customers	23,888	58,752
Other	7,386	22,072
	<u>1,233,183</u>	<u>1,103,153</u>
DEFERRED CREDITS		
Unamortized investment tax credits	336,136	381,925
Accumulated deferred federal income taxes	1,730,954	1,622,458
Reserve for Perry Unit 2 allowance for funds used during construction	212,693	212,693
Unamortized gain from Bruce Mansfield Plant sale	626,493	655,573
Other	41,988	72,263
	<u>2,948,264</u>	<u>2,944,912</u>
Total Capitalization and Liabilities	<u>\$11,894,235</u>	<u>\$11,666,547</u>

STATEMENT OF CUMULATIVE PREFERRED AND PREFERENCE STOCK

CENTERIOR ENERGY CORPORATION AND SUBSIDIARIES

		1990 Shares Outstanding	Current Call Price	December 31	
				1990	1989
(thousands of dollars)					
CLEVELAND ELECTRIC					
Without par value, 4,000,000 preferred shares authorized, and without par value, 3,000,000 preference shares authorized, none outstanding					
Preferred, subject to mandatory redemption:					
\$ 7.35 Series C	180,000	\$ 101.00	\$ 18,000	\$ 19,000	
88.00 Series E	30,000	1,034.43	30,000	33,000	
75.00 Series F	2,384	1,000.00	2,384	2,384	
80.00 Series G	—	—	—	800	
145.00 Series H	—	—	—	14,244	
145.00 Series I	13,779	—	13,779	17,717	
113.50 Series K	10,000	—	10,000	10,000	
Adjustable Series M	500,000	103.00	49,000	49,000	
9.125 Series N	750,000	106.08	73,968	73,968	
			197,131	220,113	
Less: Current maturities			25,969	7,751	
			171,162	212,362	
Preferred, not subject to mandatory redemption:					
\$ 7.40 Series A	500,000	101.00	50,000	50,000	
7.56 Series B	450,000	102.26	45,071	45,071	
Adjustable Series L	500,000	103.00	48,950	48,950	
Remarketed Series P	750	100,000.00	73,313	73,313	
			217,334	217,334	
TOLEDO EDISON					
\$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	
			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	
			210,000	210,000	

CENTERIOR ENERGY

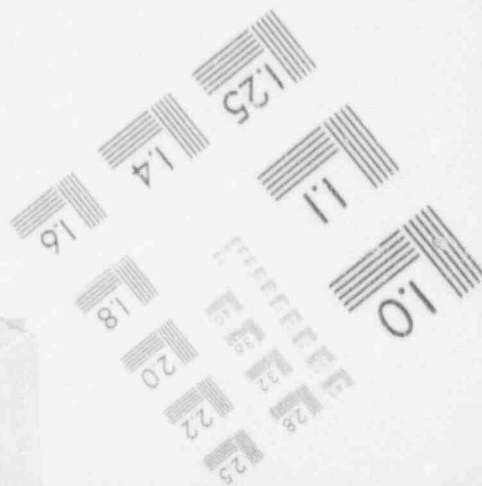
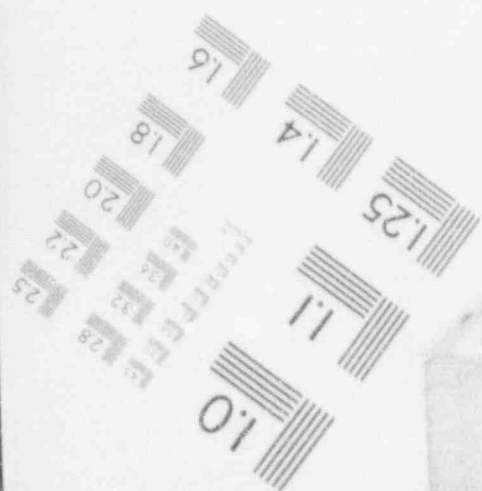
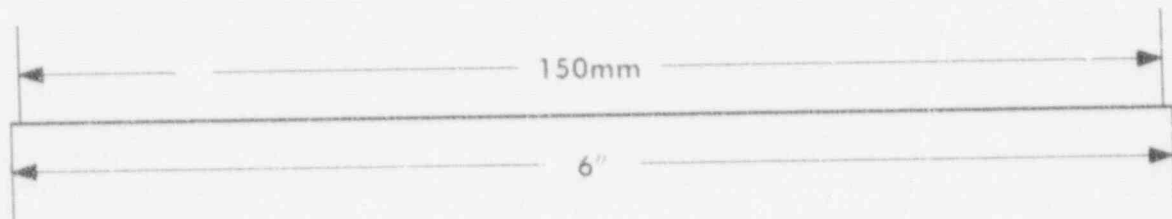
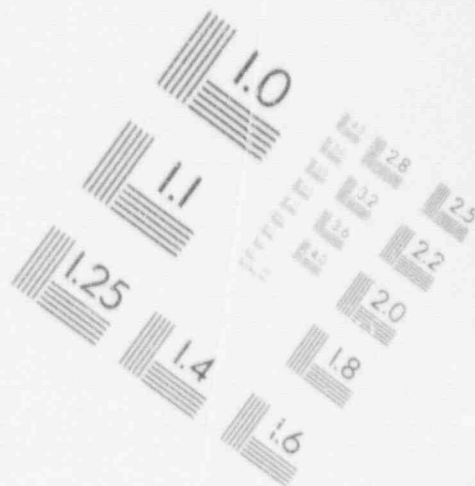
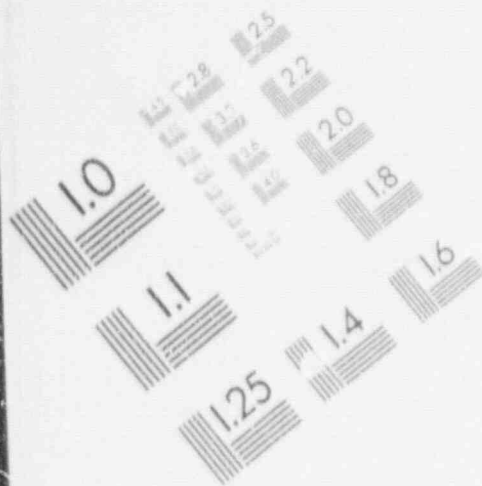
Without par value, 5,000,000 preferred
shares authorized

Total Preferred Stock, with Mandatory Redemption Provisions	<u>\$237,490</u>	<u>\$281,352</u>
Total Preferred Stock, without Mandatory Redemption Provisions	<u>\$427,334</u>	<u>\$427,334</u>

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

1

IMAGE EVALUATION
TEST TARGET (MT-3)



NOTES TO THE FINANCIAL STATEMENTS

(1) PROPERTY OWNED WITH OTHER UTILITIES AND INVESTORS

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

Generating Unit	In-Service Date	Ownership Share	Ownership: Mega-watts	Power Source	Plant in Service	Construction Work in Progress	Accumulated Depreciation
(thousands of dollars)							
In Service							
Seneca Pumped Storage	1970	80.00%	305	Hydro	\$ 58,344	\$ 554	\$ 19,527
Eastlake Unit 5	1972	68.80	411	Coal	154,589	1,699	—
Perry Unit 1 and Common Facilities	1987	51.02	609	Nuclear	2,524,249	10,902	257,825
Beaver Valley Unit 2 and Common Facilities (Note 2)	1987	26.12	214	Nuclear	1,350,451	8,797	139,075
Construction Suspended (Note 3(c))							
Perry Unit 2	Uncertain	51.02	615	Nuclear	—	865,149	—
					<u>\$4,087,633</u>	<u>\$887,101</u>	<u>\$416,427</u>

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

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

(2) UTILITY PLANT SALE AND LEASEBACK TRANSACTIONS

As a result of sale and leaseback transactions completed in 1987, the Operating Companies are co-lessees of 18.26% (150 megawatts) of Beaver Valley Unit 2 and 6.5% (51 megawatts), 45.9% (358 megawatts) and 44.18% (355 megawatts) of Units 1, 2 and 3 of the Mansfield Plant, respectively, all for terms of about 29½ years.

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

Year	Amount
	(thousands of dollars)
1991	\$ 170,000
1992	173,000
1993	174,000
1994	174,000
1995	174,000
Later Years	4,171,000
Total Future Minimum Lease Payments	<u>\$5,036,000</u>

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 as rental expense for the Mansfield Plant leases were \$114,564,000 in both 1990 and 1989 and \$111,105,000 in 1988. Rental expense for the Beaver Valley Unit 2 lease was \$72,276,000 in both 1990 and 1989. Rental expense for Beaver Valley Unit 2 of

\$70,300,000 in 1988 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. Additional rental expense amounts, which were not deferred but were charged to expense in 1988, were not significant.

The Operating Companies 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 Operating Companies may incur additional costs in connection with capital improvements to the units. The Operating Companies have options to buy the interests back at the end of the leases for the fair market value at that time or to renew the leases. Additional lease provisions provide other purchase options along with conditions for mandatory termination of the leases (and possible repurchase of the leasehold interests) for events of default. These events of default include noncompliance with several financial covenants affecting Centerior Energy and the Operating Companies 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(e).

Toledo Edison 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.

(3) CONSTRUCTION AND CONTINGENCIES

(a) CONSTRUCTION PROGRAM

The estimated cost of our construction program for the 1991-1993 period is \$900,000,000, including AFUDC of \$60,000,000 and excluding nuclear fuel.

(b) CLEAN AIR LEGISLATION

The Clean Air Act will require, among other things, significant reductions in the emission of sulfur dioxide and nitrogen oxides by fossil-fueled electric generating units. The Clean Air Act will require that sulfur dioxide emissions be reduced in two phases over a ten-year period. Our preliminary analysis indicates that compliance with the Clean Air Act may require additional aggregate capital expenditures in the range of \$400,000,000 to \$700,000,000 by the Operating Companies and is expected to result in higher fuel and operation and maintenance expenses.

The aggregate rate increases needed to fund compliance with the first of the two phases could be in the range of 2% to 4% by the year 1999. Total compliance costs of the Clean Air Act for both phases could result in aggregate rate increases in the range of 7% to 8% by the year 2004. Capital expenditures will be incurred after 1994. The financial impact is expected to be substantially greater on Cleveland Electric than on Toledo Edison. A more specific compliance cost estimate will become available when our compliance strategy is further developed.

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

(c) PERRY UNIT 2

Perry Unit 2, including its share of the common facilities, is over 50% complete. Construction of Perry Unit 2 was suspended in 1985 by the CAPCO companies pending future consideration of various options, including resumption of full construction with a revised estimated cost and completion date or cancellation. No option may be implemented without the approval of each of the CAPCO companies. Duquesne, a 13.74% owner of Perry Unit 2, has advised the Pennsylvania Public Utility Commission that it will not agree to resumption of construction of Perry Unit 2. The NRC construction permit for Perry Unit 2 expires in November 1991. 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 our 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 our investment in this unit as of December 31, 1990, would have been about \$441,000,000, after taxes. See Notes 10(d) and (e) 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 Operating Companies are aware of their potential involvement in the cleanup of nine hazardous waste sites. We believe that the ultimate outcome of these matters will not have a material adverse effect on our financial condition or results of operations.

(4) NUCLEAR OPERATIONS AND CONTINGENCIES

(a) OPERATING NUCLEAR UNITS

Our interests in nuclear units may be impacted by activities or events beyond our control. Operating nuclear generating units have experienced unplanned outages or extensions of scheduled outages because of equipment problems or new regulatory requirements. A major accident at a nuclear facility anywhere in the world could cause the NRC to limit or prohibit the operation, construction or licensing of any nuclear unit. If one of our nuclear units is taken out of service for an extended period of time for any reason, including an accident at such unit or any other nuclear facility, we cannot predict whether regulatory authorities would impose unfavorable rate treatment such as taking our affected unit out of rate base. An extended outage of one of our nuclear units coupled with unfavorable rate treatment could have a material adverse effect on our 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), our maximum potential assessment under that plan (assuming the other CAPCO companies were to contribute their proportionate share of any assessment) would be \$129,257,000 (plus any inflation adjustment) per incident, but is limited to \$19,540,000 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, our share of such excess amount could have a material adverse effect on our financial condition and results of operations.

We also have 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 our 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 Operating Companies have inventories for nuclear fuel which should provide an adequate supply into the mid-1990s. Substantial additional nuclear fuel must be obtained to supply fuel for the remaining useful lives of 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 Operating Companies 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, \$547,000,000 of nuclear fuel was financed. The Operating Companies severally lease their respective portions of the nuclear fuel and are obligated to pay for the fuel as it is consumed in a reactor. The lease rates are based on various intermediate-term note rates, bank rates and commercial paper rates.

The amounts financed include nuclear fuel in the Davis-Besse, Perry Unit 1 and Beaver Valley Unit 2 reactors with remaining lease payments of \$127,000,000, \$46,000,000 and \$59,000,000, respectively, as of December 31, 1990. The nuclear fuel amounts financed and capitalized also included interest charges incurred by the lessors amounting to \$33,000,000 in 1990, \$44,000,000 in 1989 and \$41,000,000 in 1988. The estimated future lease amortization payments based on projected consumption are \$112,000,000 in both 1991 and 1992, \$116,000,000 in 1993, \$110,000,000 in 1994 and \$99,000,000 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 orders which provided for three annual rate increases for the Operating Companies of approximately 9%, 7% and 6% effective with bills rendered on and after February 1, 1989, 1990 and 1991, respectively. The 6% increase effective February 1, 1991 has been reduced to 4.35% for Cleveland Electric and 2.74% for Toledo Edison as discussed below.

The annualized revenue increases in 1989 and 1990 associated with the rate orders were \$120,700,000 and \$105,700,000, respectively, for

Cleveland Electric and \$50,700,000 and \$44,300,000, respectively, for Toledo Edison. In 1991, the estimated annualized revenue increases resulting from the orders, as adjusted, are \$71,400,000 for Cleveland Electric and \$18,600,000 for Toledo Edison before giving effect to the rate reduction proposals discussed below.

The January 1989 rate orders provided for the permanent exclusion from rate base of a portion of the Operating Companies' combined investment in Perry Unit 1 and Beaver Valley Unit 2 which resulted in a write-off of \$454,000,000 (\$300,000,000 after tax) in 1988. Since the orders effectively eliminated the possibility of the Operating Companies recovering their remaining investment in four nuclear construction projects canceled in 1980 and recovering certain deferred expenses for Davis-Besse, additional write-offs totaling \$80,000,000 (\$49,000,000 after tax) were recorded in 1988, bringing the total write-off of nuclear costs as a consequence of the orders to \$534,000,000 (\$349,000,000 after tax).

The phase-in plans under the January 1989 rate orders were 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 Operating Companies' allowed investments in Perry Unit 1 and Beaver Valley Unit 2 for ten years beginning January 1, 1989. In the early years of the plans, 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 plans 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 plans were designed to be sufficient to recover that period's operating expenses, a fair return on the unrecovered investments, and amortization of deferred operating expenses and carrying charges recorded during the earlier years of the plans. 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 plans, the Operating Companies deferred the following:

	1990	1989
	(thousands of dollars)	
Deferred Operating Expenses	\$ 50,940	\$ 74,555
Carrying Charges:		
Debt	\$ 72,782	\$111,714
Equity	132,303	187,445
	<u>\$205,085</u>	<u>\$299,159</u>

Under the January 1989 rate orders, the amount of deferred operating expenses and carrying charges scheduled to be recorded in 1991 through 1993 total \$104,000,000, \$84,000,000 and \$24,000,000, respectively. The phase-in plans were designed so that fluctuations in sales should not affect the level of

earnings. The orders accomplish this by allowing the Operating Companies to seek PUCO approval to adjust cost deferrals if actual revenues are higher or lower than amounts projected in the orders. The orders also provide for the adjustment of deferrals to reflect 50% of the net after-tax savings in 1989 and 1990 identified by the management audit and approved by the PUCO as discussed in the following paragraphs. No change was made in the cost deferrals for 1989. The Operating Companies deferred an additional \$10,69,000 of carrying charges in 1990 and will request PUCO approval of the deferral.

In connection with the 1989 orders, the Operating Companies 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 1989 budget levels. The amount of potential savings attributable to Cleveland Electric is 55% (\$53,988,000) and the amount attributable to Toledo Edison is 45% (\$44,172,000). The Operating Companies expect 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 for each of the Operating Companies. As discussed previously, Cleveland Electric rates increased 4.35% and Toledo Edison rates increased 2.74% under this provision as approved by the PUCO in January 1991. The rate impact is different for the two companies because much of the savings will be achieved in areas such as nuclear operations in which Toledo Edison stands to achieve greater savings relative to its size.

In a move to become more competitive in Northwest Ohio, Toledo Edison has proposed a rate reduction

package to all incorporated communities in Toledo Edison's service area which are served exclusively by Toledo Edison 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 Toledo Edison as their sole supplier of electricity for a period of five years. The package also permits Toledo Edison 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 Toledo Edison's service area, except the City of Toledo, have accepted the rate reduction package.

Toledo Edison 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 Toledo Edison 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 plans as the decrease in revenues will be mitigated by the cost reductions discussed above.

The Operating Companies have entered into an agreement with other members of the Audit Panel in which the Operating Companies have agreed to use their best efforts to avoid rate increases in the years immediately following 1991.

The 1989 orders also set nuclear performance standards through 1998. Beginning in 1991, the Operating Companies could be required to refund incremental replacement power costs if the standards are not met. The Operating Companies do not believe any refund will be required 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 Operating Companies 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 the income before taxes and preferred and preference dividend requirements of subsidiaries by the statutory rates, is reconciled to the amount of federal income tax recorded on the books as follows:

	For the years ended December 31		
	1990	1989	1988
	(thousands of dollars)		
Book Income Before Federal Income Tax	\$435,324	\$528,065	\$ 6,701
Tax on Book Income at Statutory Rate	\$148,010	\$179,542	\$ 2,278
Increase (Decrease) in Tax:			
Accelerated depreciation	6,287	10,415	6,829
Investment tax credits on disallowed nuclear plant	(37,522)	—	—
Organization costs	—	—	5,617
Taxes, other than federal income taxes	(12,116)	(107)	2,090
Other items	4,365	5,712	(5,642)
Total Federal Income Tax Expense	\$109,024	\$195,562	\$ 11,172

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	\$ 42,685	\$ 51,869	\$ 79,520
Changes in Accumulated Deferred Federal Income Tax:			
Accelerated depreciation and amortization	41,777	44,144	26,168
Alternative minimum tax credit	(21,340)	(12,874)	—
Sale and leaseback transactions and amortization	1,617	4,348	13,588
Property tax expense	(14,891)	—	(12,127)
Deferred CWIP revenues	20,186	22,731	(8,453)
Deferred fuel costs	42	(4,384)	16,227
System development costs	651	555	9,157
Davis-Besse replacement power	—	9,191	15,291
Federal income tax return adjustments	—	—	(19,621)
Reacquired debt costs	1,355	(1,250)	3,774
Deferred operating expenses	2,454	1,021	14,913
Net operating loss carryforward	—	—	(2,545)
Other items	13,889	5,254	(8,508)
Investment Tax Credits	2,651	1,780	(3,687)
Total Charged to Operating Expenses	96,076	122,385	123,697
Nonoperating Income			
Current Tax Provision	(42,256)	(39,341)	(46,432)
Changes in Accumulated Deferred Federal Income Tax:			
Davis-Besse replacement power	—	—	5,724
Write-off of nuclear costs	(22,143)	—	(188,920)
AFUDC and carrying charges	74,447	114,300	133,637
Taxes, other than federal income taxes	—	—	5,520
Net operating loss carryforward	—	—	(36,831)
Other items	2,900	(1,782)	(3,952)
Total Expense (Credit) to Non-operating Income	12,948	73,177	(131,254)
Federal Income Tax Included in Cumulative Effect of an Accounting Change for Unbilled Revenues	—	—	18,729
Total Federal Income Tax Expense	\$109,024	\$195,562	\$ 11,172

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

Federal income tax expense adjustments in 1990, associated with previously deferred investment tax credits relating to the 1988 write-off of nuclear plant investments, decreased the net tax provision related to nonoperating income by \$37,522,000 and increased earnings per share by \$.27.

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 \$14,011,000 (\$10,375,000 in the fourth quarter) and increased earnings per share by \$.10 (\$.07 in the fourth quarter).

For tax purposes, net operating loss (NOL) carryforwards of approximately \$74,627,000, \$71,532,000 and \$327,852,000 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 (\$25,373,000) and 1989 (\$24,321,000) 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 (\$111,470,000) is included in the above table as reductions to deferred federal income tax relating to accelerated depreciation and amortization (\$72,094,000) 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 \$31,665,000 of unused general business tax credits are available to reduce future tax obligations. The unused credits expire in varying amounts in 2001 through 2005. Utilization of these unused credits is limited by provisions of the 1986 Tax Act and the level of future taxable income to which such credits may be applied.

The 1986 Tax Act provides for an AMT credit to be used to reduce the regular tax to the AMT level should the regular tax exceed the AMT. AMT credits of \$24,340,000 and \$12,874,000 were generated in 1990 and 1989, respectively.

(8) RETIREMENT INCOME PLANS AND OTHER POSTRETIREMENT BENEFITS

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

During 1990, we offered our second Voluntary Early Retirement Opportunity Program (VEROP). Operating expenses for 1990 included \$15,000,000 of pension plan accruals to cover enhanced VEROP benefits plus an additional \$28,000,000 of pension costs for VEROP benefits being paid to retirees from corporate funds. The \$28,000,000 is not included in the pension data reported below. Operating expenses for 1990 also included a credit of \$41,000,000 resulting from a settlement of pension obligations through lump sum payments to a substantial number of VEROP retirees. Net pension and VEROP costs (credits) for 1988 through 1990 were comprised of the following components:

	1990	1989	1988
	(millions of dollars)		
Pension Costs (Credits):			
Service cost for benefits earned during the period	\$ 15	\$ 14	\$ 12
Interest cost on projected benefit obligation	37	35	33
Actual return on plan assets	(8)	(7)	(7)
Net amortization and deferral	(52)	13	19
Net pension credits	(8)	(11)	(12)
VEROP cost	15	—	6
Settlement gain	(41)	—	—
Net credits	<u>\$ (34)</u>	<u>\$ (11)</u>	<u>\$ (6)</u>

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

	December 31	
	1990	1989
	(millions of dollars)	
Actuarial present value of benefit obligations:		
Vested benefits	\$ 330	\$ 328
Nonvested benefits	24	28
Accumulated benefit obligation	354	356
Effect of future compensation levels	72	117
Total projected benefit obligation	426	473
Plan assets at fair market value	653	761
Surplus of plan assets over projected benefit obligation	227	288
Unrecognized net gain due to variance between assumptions and experience	(88)	(163)
Unrecognized prior service cost	13	8
Transition asset at January 1, 1987 being amortized over 19 years	(126)	(141)
Net prepaid (accrued) pension cost included in other deferred charges (credits) on the Balance Sheet	<u>\$ 26</u>	<u>\$ (8)</u>

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

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

The cost of postretirement medical benefits amounted to \$6,500,000 in 1990, \$5,000,000 in 1989 and \$3,800,000 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. We are required to adopt the new standard no later than 1993. Although we have not completed an analysis to determine the effect of adopting the new standard, we do not expect adoption to have a material adverse effect on our financial condition or results of operations because of expected future regulatory treatment. Any liabilities recorded pursuant to the standard may be essentially offset by regulatory assets to reflect anticipated future revenues associated with recovery through rates.

(9) GUARANTEES

Under two long-term coal purchase arrangements, Cleveland Electric has guaranteed certain loan and lease obligations of two mining companies. Toledo Edison is also a party to one of these guarantee arrangements. This arrangement requires payments to the mining company for any actual out-of-pocket idle mine expenses (as advance payments for coal) when the mines are idle for reasons beyond the control of the mining company. At December 31, 1990, the principal amount of the mining companies' loan and lease obligations guaranteed by the Operating Companies was \$109,000,000.

(10) CAPITALIZATION

(a) CAPITAL STOCK TRANSACTIONS

Shares sold, retired and purchased for treasury during the three years ended December 31, 1990 are listed in the following table:

	1990	1989	1988
	(thousands of shares)		
Common Stock:			
Employee Savings Plan	—	—	7
Employee Purchase Plan	—	36	82
1978 Key Employee Stock Option Plan	—	17	27
Total Common Stock Sales	—	53	116
Treasury Shares	(1,391)	(1,062)	(2)
Net Change	(1,391)	(1,029)	114
Cumulative Preferred and Preference Stock of Subsidiaries Subject to Mandatory Redemption:			
Cleveland Electric Retirements Preferred:			
\$ 7.35 Series C	(10)	(10)	(10)
88.00 Series E	(3)	(3)	(3)
75.00 Series F	—	(1)	(14)
80.00 Series G	(1)	(2)	(5)
145.00 Series H	(14)	(4)	(4)
145.00 Series I	(4)	(4)	(4)
Preference:			
\$ 77.50 Series J	—	(6)	(7)
Toledo Edison Retirements Preferred:			
\$100 par \$11.00	(10)	(5)	(5)
9.375	(17)	(17)	(17)
Total	(59)	(52)	(69)
Cumulative Preferred Stock of Subsidiaries Not Subject to Mandatory Redemption:			
Toledo Edison Retirements:			
\$25 par 3.47	—	—	(1,200)
Total	—	—	(1,200)

Shares of common stock required for the Employee Savings Plan and the Employee Purchase Plan are being acquired in the open market.

Centerior Energy began a program in 1989 to purchase up to 3,000,000 shares of its common stock at prevailing prices in the open market in the period between March 28, 1989 and March 31, 1991. As of December 31, 1990, 2,510,000 shares had been purchased at a total cost of \$46,198,000. Such shares are being held as treasury shares.

(b) COMMON SHARES RESERVED FOR ISSUE

Common shares reserved for issue under the Employee Savings Plan and the Employee Purchase Plan were 3,176,727 and 21,448 shares, respectively, at December 31, 1990.

Stock options to purchase unissued shares of common stock under the 1978 Key Employee Stock Option Plan were granted at an exercise price of 100% of the fair market value at the date of the grant. No additional options may be granted. The exercise prices of option shares purchased during the three years ended December 31, 1990 ranged from \$14.09 to \$17.41 per share. Shares and price ranges of

outstanding options held by employees were as follows:

Options Outstanding at December 31:	1978 Key Employee Stock Option Plan		
	1990	1989	1988
Shares	168,655	215,187	314,693
Option Prices	\$14.09 to \$20.73	\$14.09 to \$20.73	\$14.09 to \$20.73

(c) EQUITY DISTRIBUTION RESTRICTIONS

At December 31, 1990, consolidated retained earnings were comprised almost entirely of the undistributed retained earnings of the Operating Companies. Substantially all of their retained earnings were available for the declaration of dividends on their respective preferred and common shares. All of their common shares are held by Centerior Energy.

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

(d) CUMULATIVE PREFERRED AND PREFERENCE STOCK

Amounts to be paid for preferred stock which must be redeemed during the next five years are \$28,000,000 in 1991, \$18,000,000 in 1992 and \$43,000,000 in each year 1993 through 1995.

The annual mandatory redemption provisions are as follows:

	Annual Mandatory Redemption Provisions		
	Shares To Be Redeemed	Beginning in	Price Per Share
Cleveland Electric Preferred:			
\$ 7.35 Series C	10,000	1984	\$ 100
88.00 Series E	3,000	1981	1,000
75.00 Series F	2,384*	1985	1,000
145.00 Series I	1,969	1986	1,000
113.50 Series K	10,000	1991**	1,000
Adjustable Series M	100,000	1991	100
9.125 Series N	150,000	1993	100
Toledo Edison Preferred:			
\$100 par \$11.00	5,000	1979	100
9.375	16,650	1985	100
25 par 2.81	400,000	1993	25

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

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

The annualized cumulative preferred dividend requirement as of December 31, 1990 is \$60,000,000.

The preferred dividend rates on Cleveland Electric's Series L and M and Toledo Edison's Series A and B fluctuate based on prevailing interest rates, with the dividend rates for these issues averaging 8.38%, 7.71%, 9.06% and 9.84%, respectively, in 1990. The dividend rate on Cleveland Electric's Remarketed Series P averaged 8.01% in 1990.

Under its articles of incorporation, Toledo Edison cannot issue preferred stock unless certain earnings

coverage requirements are met. Based on earnings for the 12 months ended December 31, 1990, Toledo Edison 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, Toledo Edison 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 Cleveland Electric's ability to issue preferred or preference stock or Toledo Edison's ability to issue preference stock.

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

(e) LONG-TERM DEBT AND OTHER BORROWING ARRANGEMENTS

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

Year of Maturity	Actual or Average Interest Rate	December 31,	
		1990	1989
(Thousands of dollars)			
First mortgage bonds			
1991	8.375%	\$ —	\$ 35,000
1991	15.00	—	70,000
1991	13.75	—	4,334
1992	15.25	20,000	20,000
1992	10.58	40,000	40,000
1992	13.75	4,334	4,334
1993	3.875	30,000	30,000
1993	8.55	50,000	50,000
1993	13.75	4,334	4,334
1994	4.375	25,000	25,000
1994	13.75	4,334	4,334
1995	10.125	—	36,800
1995	11.25	60,000	60,000
1995	13.75	4,334	4,334
1995	7.00	720	720
1995	7.00	15	15
1995	7.00	15	15
1996-2000	9.35	219,798	219,798
2001-2005	9.08	194,135	194,135
2006-2010	9.08	323,650	323,650
2011-2015	9.38	448,435	533,435
2016-2020	8.92	760,180	592,880
2021-2023	8.09	322,100	322,100
		2,511,384	2,575,218
Term bank loans due			
1992-1996	8.71	127,900	130,000
Notes due 1992-1999 ..	9.70	769,430	474,215
Debentures due 1997 ..	11.25	125,000	125,000
Pollution control notes due 1992-2015	9.69	190,860	221,250
Other — net	—	4,663	7,973
Total Long-Term Debt		\$3,729,237	\$3,533,656

Long-term debt matures during the next five years as follows: \$186,000,000 in 1991, \$220,000,000 in

1992, \$317,000,000 in 1993, \$63,000,000 in 1994 and \$292,000,000 in 1995.

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

During 1990, Cleveland Electric arranged to refund in 1992 \$78,700,000 principal amount of its First Mortgage Bonds, 13 1/4% Series due 2012, which are collateral security for pollution control refunding bonds issued by a public authority. The authority's bonds will be refunded at the same time. To effect the refund of its bonds, the authority entered into a contract with two institutions to deliver in 1992 \$78,700,000 aggregate principal amount of its tax-exempt pollution control bonds due December 1, 2013 with an interest rate of 8% at a price of 97.496% for an effective interest cost of 8.25%. The authority's bonds will be secured by \$78,700,000 principal amount of Cleveland Electric's First Mortgage Bonds, 8% Series due 2013-B. The proceeds will be used to redeem the authority's outstanding bonds and refund the 13 1/4% Series First Mortgage Bonds in July 1992. The PUCO authorized Cleveland Electric to record interest expense equal to a blend of the higher rate on the outstanding bonds with the lower rate on the new bonds for an interest expense reduction of \$1,000,000 in 1990 and approximately \$6,000,000 total in 1991 and 1992.

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

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

The issuance of additional first mortgage bonds by Toledo Edison also is limited by provisions in its mortgage similar to those in Cleveland Electric's mortgage. Under the more restrictive of these provisions (currently, the earnings coverage test),

Toledo Edison would have been permitted to issue approximately \$177,000,000 of bonds based upon available bondable property at December 31, 1990. Toledo Edison 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 Toledo Edison would not have changed.

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

(11) SHORT-TERM BORROWING ARRANGEMENTS

Our bank credit arrangements at December 31, 1990 were as follows:

	Cleveland Electric	Toledo Edison	Service Company	Total
	(thousands of dollars)			
Bank Lines of Credit	\$152,000	\$75,550	\$8,000	\$235,550

There were no borrowings under these bank credit arrangements at December 31, 1990. An additional \$5,000,000 line of credit is available to the Service Company under a \$30,000,000 Cleveland Electric line of credit, if unused by Cleveland Electric. The \$5,000,000 line of credit is included in the Cleveland Electric total.

Short-term borrowing capacity authorized by the PUCO is \$300,000,000 for Cleveland Electric and \$150,000,000 for Toledo Edison. The Operating Companies have been authorized by the PUCO to borrow from each other on a short-term basis.

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

At December 31, 1990, Cleveland Electric and Toledo Edison had \$87,110,000 and \$23,200,000, respectively, of commercial paper outstanding. The commercial paper was backed by at least an equal amount of unused bank lines of credit for both Operating Companies.

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

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

(12) 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, we adopted a change in accounting for revenues in order to accrue the estimated amount of unbilled revenues at the end of each month.

The adoption of this accounting method increased 1988 net income \$3,581,000 (net of \$1,845,000 of income taxes) and earnings per share \$.03 before the cumulative effect of periods prior to January 1, 1988. The cumulative effect of the change on the periods prior to January 1, 1988 was \$28,153,000 (net of \$18,729,000 of income taxes), or \$.20 per share, 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, except per share amounts)				
1990				
Operating Revenues	\$560,594	\$577,505	\$673,015	\$556,561
Operating Income	\$116,208	\$ 86,782	\$171,723	\$129,863
Net Income	\$ 50,509	\$ 54,921	\$ 99,749	\$ 59,280
Average Common Shares (thousands)	139,486	138,980	138,610	138,441
Earnings Per Common Share	\$.36	\$.40	\$.72	\$.43
Dividends Paid Per Common Share	\$.40	\$.40	\$.40	\$.40
1989				
Operating Revenues	\$555,230	\$577,303	\$637,619	\$532,284
Operating Income	\$112,968	\$129,708	\$152,796	\$ 36,459
Net Income	\$ 67,690	\$ 77,807	\$108,857	\$ 12,532
Average Common Shares (thousands)	140,829	140,752	140,391	139,990
Earnings Per Common Share	\$.48	\$.55	\$.78	\$.09
Dividends Paid Per Common Share	\$.40	\$.40	\$.40	\$.40

Earnings for the quarter ended June 30, 1990 were increased as a result of federal income tax expense adjustments associated with deferred investment tax credits relating to the 1988 write-off of nuclear plant investments. See Note 7. The adjustments increased quarterly earnings by \$36,298,000, or \$.26 per share.

Earnings for the quarter ended December 31, 1990 were increased as a result of year-end adjustments of \$25,790,000 to reduce depreciation expense for the year (see Summary of Significant Accounting Policies), \$10,169,000 to increase phase-in carrying charges (see Note 6) and \$10,375,000 to reduce federal income tax expense (see Note 7). The total of these adjustments increased quarterly earnings by \$35,000,000, or \$.25 per share.

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	\$719 078	\$668 910	\$779 391	\$189 754	\$2 357 133	\$ 10 542	\$2 367 675	\$ —	\$2 367 675
1989	685 735	616 902	746 534	204 769	2 253 940	48 496	2 302 436	—	2 302 436
1988	637 329	537 861	675 584	84 524	1 935 298	102 262	2 037 560	—	2 037 560
1987	629 663	531 682	689 959	36 272	1 887 576	24 409	1 911 985	13 371	1 925 356
1986	599 445	516 614	675 682	79 716	1 871 457	11 381	1 882 838	12 953	1 895 791
1980	394 872	301 513	461 624	53 633	1 211 642	36 966	1 248 608	22 047	1 270 655

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	\$412 531	\$862 738	\$251 640	\$283 425	\$ (43 311)	\$ 96 076	\$1 863 099
1989	413 816	860 138	280 918	259 871	(66 623)	122 385	1 870 505
1988	391 401	865 632	264 824	268 550	(188 209)	123 697	1 725 895
1987	470 466	642 594	214 421	207 521	(87 623)	105 912	1 553 291
1986	522 281	550 874	141 009	194 925	—	138 181	1 547 270
1980	490 659	280 722	90 621	112 832	—	64 950	1 039 784

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	Debt Interest	AFUDC—Debt	Income (Loss) After Interest Charges
1990	\$504 576	\$ 7 883	\$ (11)	\$205 085	\$ (12 948)	\$704 585	\$384 278	\$ (5 993)	\$326 300
1989	431 931	16 930	14 212	299 159	(73 177)	689 055	369 481	(12 929)	332 503
1988	311 665	13 504	(489 047) (a)	372 155	131 254	339 531	378 292	(6 137)	(32 624)
1987	372 065	299 308	(57 821)	39 599	121 122	774 273	435 042	(137 257)	476 488
1986	348 521	308 405	(8 108)	—	116 422	765 240	406 465	(118 145)	476 920
1980	230 871	69 316	8 484	—	27 180	335 851	183 489	(40 199)	192 561

Income (Loss) (thousands of dollars)

Common Stock (dollars per share & %)

Year	Preferred & Preference Stock Dividends	Income (Loss) Before Cumulative Effect of an Accounting Change	Cumulative Effect of an Accounting Change (b)	Net Income (Loss)	Average Shares Outstanding (c) (thousands)	Earnings (Loss) (c)	Return on Average Common Stock Equity	Dividends Declared (c)	Book Value (c)
1990	\$61 841	\$ 264 459	\$ —	\$264 459	138 885	\$ 1.90	9.4%	\$1.60	\$20.30
1989	65 617	266 886	—	266 886	140 468	1.90	9.6	1.60	19.99
1988	69 489	(102 113)	28 153	(73 960)	140 778	(0.53)	(2.5)	1.84	19.68
1987	86 135	390 353	—	390 353	138 395	2.82	12.8	2.56	22.10
1986	85 027	391 893	—	391 893	128 927	3.04	13.7	2.48	22.13
1980	45 732	146 829	—	146 829	67 185	2.19	11.2	1.92	19.37

NOTE 1980 data is the result of combining and restating Cleveland Electric and Toledo Edison data

(a) Includes write-off of nuclear costs in the amount of \$534,355,000 in 1988

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

(c) Outstanding shares for the periods prior to April 29, 1986 reflect the Cleveland Electric 1.11-for-one exchange ratio and the Toledo Edison one-for-one exchange ratio for Centerior Energy shares

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	6 666	6 848	12 168	148	959	26 789	918 965	94 522	12 906	1 026 393	7 079	10.82¢	\$765.93
1989	6 806	6 830	12 520	429	996	27 581	914 020	93 833	12 753	1 020 616	7 295	10.08	737.58
1988	6 920	6 577	12 793	863	946	28 099	909 182	92 132	12 305	1 013 619	7 482	9.21	690.06
1987	6 659	6 350	11 985	399	949	26 342	903 385	90 148	12 240	1 005 753	7 217	9.46	685.43
1986	6 527	6 239	11 409	242	909	25 326	898 583	87 947	12 012	998 542	7 108	9.18	654.99
1980	6 434	5 431	11 227	1 630	826	25 548	882 987	83 602	11 460	978 049	7 111	6.16	437.98

Load (MW & %)

Energy (millions of KWH)

Fuel

Year	Operable Capacity at Time of Peak	Peak Load	Capacity Margin	Load Factor	Company Generated			Net Purchased Power	Total	Fuel Cost Per KWH	Efficiency-BTU Per KWH
					Fossil	Nuclear	Total				
1990	6 437	5 261	18.3%	63.6%	21 114	9 481	30 595	(1 926)	28 669	1.52¢	10 354
1989	6 430	5 389	16.2	63.3	20 174	12 122	32 296	(2 785)	29 511	1.47	10 435
1988	5 525(d)	5 673	(2.7)	60.8	21 576	7 805	29 381	920	30 301	1.59	10 410
1987	5 955	5 173	13.1	63.6	20 894	6 907	27 801	601	28 402	1.53	10 466
1986	5 199(d)	5 021	3.4	63.0	22 739	24	22 763	4 552	27 315	1.79	10 292
1980	6 113	4 635	24.2	64.3	20 015	2 114	22 129	5 246	27 375	1.66	10 519

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	\$8 648 888	\$2 056 244	\$6 592 644	\$1 133 535	\$568 124	\$8 294 303	\$ 251 312	\$11 894 235
1989	8 411 116	1 831 767	6 579 349	1 167 273	591 692	8 328 314	230 797	11 666 547
1988	8 143 673	1 569 304	6 574 369	1 222 732	643 087	8 440 188	343 143	11 573 098
1987	8 388 114	1 324 446	7 063 668	1 007 707	656 350	8 727 725	947 921	11 349 836
1986	4 639 542	1 367 662	3 271 880	5 237 782	652 564	9 182 226	1 133 748	10 011 932
1980	3 602 029	778 488	2 823 541	1 331 323	89 683(e)	4 244 547	633 999	4 827 944

Capitalization (thousands of dollars & %)

Year	Common Stock Equity		Preferred & Preference Stock, with Mandatory Redemption Provisions		Preferred Stock, without Mandatory Redemption Provisions		Long-Term Debt		Total
1990	\$2 810 033	39%	\$237 490	3%	\$427 334	6%	\$3 729 237	52%	\$7 204 094
1989	2 794 572	40	281 352	4	427 334	6	3 533 656	50	7 036 914
1988	2 771 744	39	303 781	4	427 334	6	3 551 814	51	7 054 473
1987	3 109 060	41	343 985	4	457 334	6	3 718 249	49	7 628 628
1986	2 991 341	39	487 814	7	404 021	5	3 792 402	49	7 675 578
1980	1 385 229	36	327 000	8	246 071	6	1 925 934	50	3 883 234

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

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

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Share Owners of
The Cleveland Electric Illuminating Company

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Cleveland Electric Illuminating Company and subsidiaries as of December 31, 1990

Cleveland, Ohio
February 12, 1991

ARTHUR
ANDERSEN
& CO.

and 1989, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1990, in conformity with generally accepted accounting principles.

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

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

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of The Cleveland Electric Illuminating Company and subsidiaries listed in the Index to Schedules are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Arthur Andersen & Co.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL

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

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

RELATED PARTY TRANSACTIONS

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

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

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

REVENUES

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

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

FUEL EXPENSE

The cost of fossil fuel is charged to fuel expense based on inventory usage. The cost of nuclear fuel, including an interest component, is charged to fuel expense based on the rate of consumption. Estimated future

nuclear fuel disposal costs are being recovered through the base rates.

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

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

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

PHASE-IN DEFERRALS OF OPERATING EXPENSES AND CARRYING CHARGES

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

DEPRECIATION AND AMORTIZATION

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

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

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

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

FEDERAL INCOME TAXES

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

For certain property, the Company received investment tax credits which have been accounted for as deferred credits. The amortization of these investment tax credits is reported as a reduction of

depreciation expense under the liability method. See Note 7.

DEFERRED GAIN FROM SALE OF UTILITY PLANT

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

INTEREST CHARGES

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

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

PROPERTY, PLANT AND EQUIPMENT

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

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

MANAGEMENT'S FINANCIAL ANALYSIS

RESULTS OF OPERATIONS

Overview

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

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

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

would reduce earnings by as much as \$21,000,000 in 1991, and even more in subsequent years.

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

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

1990 vs. 1989

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

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

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

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

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

1989 vs. 1988

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

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

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

metals and automotive customers. Sales to other industrial customers increased 2.5%. The decrease in revenues from sales to Ohio Edison and Pennsylvania Power was the result of the May 1989 expiration of the Company's agreement to sell a portion of its share of Perry Unit 1 capacity.

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

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

EFFECT OF INFLATION

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

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

RETAINED EARNINGS

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES

For the years ended December 31,

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

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

INCOME STATEMENT

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES

For the years ended December 31,

1990 1989 1988

(thousands of dollars)

Operating Revenues	\$1,655,844	\$1,591,662	\$1,451,578
Operating Expenses			
Fuel and purchased power (1)	377,082	384,543	307,014
Other operation and maintenance	514,186	508,151	524,478
Depreciation and amortization	175,654	193,279	189,731
Taxes, other than federal income taxes	197,454	183,120	184,813
Phase-in deferred operating expenses	(33,960)	(52,020)	—
Pre-phase-in deferred operating expenses	3,948	3,888	(104,396)
Federal income taxes	75,099	85,275	94,654
	<u>1,309,463</u>	<u>1,306,236</u>	<u>1,196,294</u>
Operating Income	346,381	285,426	255,284
Nonoperating Income			
Allowance for equity funds used during construction	4,531	8,362	8,052
Other income and deductions, net	1,836	7,934	14,103
Write-off of nuclear costs	—	—	(257,400)
Phase-in carrying charges	161,598	216,851	—
Pre-phase-in carrying charges	—	17,937	224,583
Federal income taxes — credit (expense)	(20,401)	(55,699)	53,162
	<u>147,564</u>	<u>195,385</u>	<u>42,502</u>
Income Before Interest Charges	493,945	480,811	297,786
Interest Charges			
Debt interest	254,936	238,042	228,879
Allowance for borrowed funds used during construction	(3,319)	(7,450)	(4,304)
	<u>251,617</u>	<u>230,592</u>	<u>224,575</u>
Income Before Cumulative Effect of an Accounting Change	242,328	250,219	73,211
Cumulative Effect on Prior Years (to December 31, 1987) of an Accounting Change for Unbilled Revenues (Net of Income Taxes of \$14,552,000)	—	—	21,874
Net Income	242,328	250,219	95,085
Preferred and Preference Dividend Requirements	36,682	40,227	42,506
Earnings Available for Common Stock	\$ 205,646	\$ 209,992	\$ 52,579

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

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

MANAGEMENT'S FINANCIAL ANALYSIS

CAPITAL RESOURCES AND LIQUIDITY

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

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

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

Estimated cash requirements for 1991-1993 are \$605,000,000 for our construction program and \$515,000,000 for the mandatory redemption of debt and preferred stock. We expect to finance externally about 33% of our 1991 construction and mandatory

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

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

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

	Standard & Poor's Corporation	Moody's Investors Service
First mortgage bonds	BBB-	Baa2
Preferred stock	A-1	Baa2

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

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

CASH FLOWS

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES

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

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

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

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BALANCE SHEET

	December 31,	
	1990	1989
	(thousands of dollars)	
ASSETS		
PROPERTY, PLANT AND EQUIPMENT		
Utility plant in service	\$6,041,878	\$5,878,825
Less: accumulated depreciation and amortization	1,410,051	1,264,570
	<u>4,631,827</u>	<u>4,614,255</u>
Construction work in progress	175,232	203,639
Perry Unit 2	521,464	523,294
	<u>5,328,523</u>	<u>5,341,188</u>
Nuclear fuel, net of amortization	300,824	309,182
Other property, less accumulated depreciation	43,429	45,192
	<u>5,672,775</u>	<u>5,695,562</u>
CURRENT ASSETS		
Cash and temporary cash investments	31,048	28,330
Amounts due from customers and others, net	179,184	162,320
Amounts due from affiliates	19,542	6,252
Unbilled revenues	60,700	55,193
Materials and supplies, at average cost	76,092	56,481
Fossil fuel inventory, at average cost	37,000	34,117
Taxes applicable to succeeding years	155,069	145,668
Other	6,926	9,312
	<u>565,561</u>	<u>497,673</u>
DEFERRED CHARGES		
Amounts due from customers for future federal income taxes	671,450	681,809
Unamortized loss on reacquired debt	53,160	47,460
Carrying charges and operating expenses, pre-phase-in	379,575	383,527
Carrying charges and operating expenses, phase-in	464,434	268,871
Other	138,202	95,503
	<u>1,706,821</u>	<u>1,477,170</u>
 Total Assets	 <u>\$7,945,157</u>	 <u>\$7,670,405</u>

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

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

STATEMENT OF CUMULATIVE PREFERRED AND PREFERENCE STOCK

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES

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

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

NOTES TO THE FINANCIAL STATEMENTS

(1) PROPERTY OWNED WITH OTHER UTILITIES AND INVESTORS

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

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

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

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

(2) UTILITY PLANT SALE AND LEASEBACK TRANSACTIONS

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

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

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

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

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

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

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

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

(3) CONSTRUCTION AND CONTINGENCIES

(a) CONSTRUCTION PROGRAM

The estimated cost of the Company's construction program for the 1991-1993 period is \$648,000,000, including AFUDC of \$43,000,000 and excluding nuclear fuel.

(b) CLEAN AIR LEGISLATION

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

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

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

(c) PERRY UNIT 2

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

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

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

(d) SUPERFUND SITES

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

(4) NUCLEAR OPERATIONS AND CONTINGENCIES

(a) OPERATING NUCLEAR UNITS

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

(b) NUCLEAR INSURANCE

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

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

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

(5) NUCLEAR FUEL

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

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

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

(6) REGULATORY MATTERS

On January 31, 1989, the PUCO issued an order which provided for three annual rate increases for the Company of approximately 9%, 7% and 6% effective with bills rendered on and after February 1, 1989, 1990

and 1991, respectively. The 6% increase effective February 1, 1991 has been reduced to 4.35% as discussed below.

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

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

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

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

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

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

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

potential savings attributable to the Company is 55% (\$53,988,000). The Company expects to begin realizing most of the savings identified by the audit by the end of 1991.

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

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

The 1989 order also sets nuclear performance standards through 1995. Beginning in 1991, the Company could be required to refund incremental replacement power costs if the standards are not met. We do not believe any refund will be required for the Company for 1991. Fossil-fueled power plant performance may not be raised as an issue in any rate proceeding before February 1994 as long as the Company and Toledo Edison achieve a system-wide availability factor of at least 65% annually. This standard was exceeded in 1989 and 1990.

(7) FEDERAL INCOME TAX

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

	For the years ended December 31,		
	1990	1989	1988
	(thousands of dollars)		
Book Income Before Federal Income Tax	\$337,828	\$391,193	\$151,129
Tax on Book Income at Statutory Rate	\$114,562	\$133,006	\$ 51,384
Increase (Decrease) in Tax			
Accelerated depreciation	7,140	4,422	6,300
Investment tax credits on disallowed nuclear plant	(18,712)	—	—
Organization costs	—	—	3,343
Taxes, other than federal income taxes	(9,469)	—	(2,202)
Other items	1,679	3,546	(2,781)
Total Federal Income Tax Expense	\$ 95,500	\$140,974	\$ 56,044

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

	For the years ended December 31		
	1990	1989	1988
	(thousands of dollars)		
Operating Expenses			
Current Tax Provision	\$ 26,934	\$ 63,447	\$ 82,766
Changes in Accumulated Deferred Federal Income Tax:			
Accelerated depreciation and amortization	40,197	35,380	24,445
Alternative minimum tax credit	(18,860)	(34,874)	—
Sale and leaseback transactions and amortization	3,496	3,893	(1,175)
Property tax expense	(10,880)	—	(7,069)
Deferred CWIP revenues	11,093	11,005	(4,122)
Deferred fuel costs	4,763	(3,155)	11,529
System development costs	403	348	5,518
Davis-Besse replacement power	—	4,136	6,916
Federal income tax return adjustments	—	—	(19,349)
Reacquired debt costs	1,887	(872)	(872)
Deferred operating expenses	1,458	2,289	10,874
Other items	13,119	3,620	(4,200)
Investment Tax Credits	1,489	58	(10,607)
Total Charged to Operating Expenses	75,099	85,275	94,654
Nonoperating Income			
Current Tax Provision	(25,225)	(31,298)	(48,413)
Changes in Accumulated Deferred Federal Income Tax:			
Davis-Besse replacement power	—	—	3,015
Write-off of nuclear costs	(11,986)	—	(91,643)
AFUDC and carrying charges	57,612	87,541	80,923
Taxes, other than federal income taxes	—	—	5,520
Other items	—	(544)	(2,564)
Total Expense (Credit) to Nonoperating Income	20,401	55,699	(53,162)
Federal Income Tax included in Cumulative Effect of an Accounting Change for Unbilled Revenues	—	—	14,552
Total Federal Income Tax Expense	\$ 95,500	\$ 140,974	\$ 56,044

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

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

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

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

For tax purposes, net operating loss (NOL) carryforwards of approximately \$43,279,000, \$47,448,000 and \$140,833,000 were generated in 1990, 1989 and 1988, respectively. The NOL carryforwards are available to reduce future taxable income and will expire in 2003 through 2005. The 34% tax effect of the NOLs generated in each year (\$14,715,000, \$16,132,000 and \$47,884,000 in 1990, 1989 and 1988, respectively) is included in the above table as a reduction to deferred federal income tax relating to accelerated depreciation and amortization. Future utilization of these tax NOL carryforwards would result in recording the related deferred taxes.

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

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

(8) RETIREMENT INCOME PLAN AND OTHER POSTRETIREMENT BENEFITS

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

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

	1990	1989	1988
	(millions of dollars)		
Pension Costs (Credits):			
Service cost for benefits earned during the period	\$ 10	\$ 10	\$ 8
Interest cost on projected benefit obligation	26	25	24
Actual return on plan assets	(6)	(56)	(58)
Net amortization and deferral	(41)	9	14
Net pension credits	(11)	(12)	(12)
VEROP cost	8	—	4
Settlement gain	(36)	—	—
Net credits	<u>\$ (39)</u>	<u>\$ (12)</u>	<u>\$ (18)</u>

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

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

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

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

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

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

(9) GUARANTEES

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

(10) CAPITALIZATION

(a) CAPITAL STOCK TRANSACTIONS

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

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

(b) EQUITY DISTRIBUTION RESTRICTIONS

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

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

(c) CUMULATIVE PREFERRED AND PREFERENCE STOCK

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

The annual mandatory redemption provisions are as follows:

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

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

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

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

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

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

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

(d) LONG-TERM DEBT AND OTHER BORROWING ARRANGEMENTS

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

Year of Maturity	Actual or Average Interest Rate	December 31, 1990	December 31, 1989
(thousands of dollars)			
First mortgage bonds:			
1991	8.375%	\$ —	\$ 35,000
1991	13.75	—	4,334
1992	15.25	20,000	20,000
1992	10.58	40,000	40,000
1992	13.75	4,334	4,334
1993	8.875	30,000	30,000
1993	8.55	50,000	50,000
1993	13.75	4,334	4,334
1994	4.375	25,000	25,000
1994	13.75	4,334	4,334
1995	13.75	4,334	4,334
1995	7.00	720	720
1995	7.00	15	15
1995	7.00	15	15
1996-2000	11.42	53,420	53,420
2001-2005	9.68	132,410	132,410
2006-2010	8.83	221,750	221,750
2011-2015	9.38	448,435	533,435
2016-2020	9.01	692,880	592,880
2021-2023	8.22	174,300	174,300
		1,906,281	1,930,615
Term bank loans due:			
1992-1996	8.70	114,400	130,000
Notes due 1993-1999	9.32	550,000	212,500
Pollution control notes due 1992-2012	8.30	54,770	54,770
Other — net	—	6,970	8,494
Total Long-Term Debt		\$2,631,911	\$2,336,379

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

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

During 1990, the Company arranged to refund in 1992 \$78,700,000 principal amount of its First Mortgage Bonds, 13 1/4% Series due 2012, which are collateral security for pollution control refunding bonds issued by a public authority. The authority's bonds will be refunded at the same time. To effect the refund of its bonds, the authority entered into a contract with two institutions to deliver in 1992 \$78,700,000 aggregate principal amount of its tax-exempt pollution control bonds due December 1, 2013 with an interest rate of 8% at a price of 97.496% for an effective interest cost of 8.25%. The authority's bonds will be

secured by \$78,700,000 principal amount of the Company's First Mortgage Bonds, 8% Series due 2013-B. The proceeds will be used to redeem the authority's outstanding bonds and refund the 13% Series First Mortgage Bonds in July 1992. The PUCO authorized the Company to record interest expense equal to a blend of the higher rate on the outstanding bonds with the lower rate on the new bonds for an interest expense reduction of \$1,000,000 in 1990 and approximately \$6,000,000 total in 1991 and 1992.

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

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

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

these covenants in the event of a write-off of the Company's and Toledo Edison's investments in Perry Unit 2, barring unforeseen circumstances.

(11) SHORT-TERM BORROWING ARRANGEMENTS

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

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

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

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

(12) CHANGE IN ACCOUNTING FOR UNBILLED REVENUES

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

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

(13) QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

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

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

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

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

FINANCIAL AND STATISTICAL REVIEW

Operating Revenues (thousands of dollars)

Year	Residential	Commercial	Industrial	Other	Total Retail	Wholesale	Total Electric	Steam Heating	Total Operating Revenues
1990	\$495 158	\$494 370	\$543 813	\$122 701	\$1 656 042	\$ (198)	\$1 655 844	\$ —	\$1 655 844
1989	469 803	452 911	519 854	117 220	1 559 788	31 874	1 591 662	—	1 591 662
1988	436 413	395 165	476 063	59 804	1 367 445	84 133	1 451 578	—	1 451 578
1987	428 786	389 297	470 861	12 322	1 301 266	9 378	1 310 644	13 371	1 324 015
1986	410 153	382 773	461 408	60 245	1 314 579	192	1 314 771	12 953	1 327 724
1980	268 787	220 677	323 764	25 454	838 682	39 819	878 501	15 065	893 566

Operating Expenses (thousands of dollars)

Year	Fuel & Purchased Power	Other Operation & Maintenance	Depreciation & Amortization	Taxes Other Than FIT	Phase-in & Pre-phase-in Deferred, Net	Federal Income Taxes	Total Operating Expenses
1990	\$377 062	\$514 186	\$175 654	\$197 454	\$ (30 012)	\$75 099	\$1 309 463
1989	384 543	508 151	193 279	183 120	(48 132)	85 275	1 306 236
1988	307 014	524 478	189 731	184 813	(104 396)	94 654	1 196 294
1987	330 290	425 938	148 918	146 407	(47 826)	83 179	1 086 906
1986	363 518	388 388	103 179	143 495	—	97 074	1 095 654
1980	359 388	195 840	64 619	81 630	—	41 574	743 051

Income (thousands of dollars)

Year	Operating Income	AFUDC—Equity	Other Income & Deductions, Net	Carrying Charges	Federal Income Taxes—Credit (Expense)	Income Before Interest Charges
1990	\$346 381	\$ 4 531	\$ 1 836	\$161 598	\$(20 401)	\$493 945
1989	285 426	8 362	7 934	234 788	(55 699)	480 811
1988	255 284	8 052	(243 297)(a)	224 585	53 162	297 786
1987	237 109	177 170	(41 940)	24 610	79 606	476 555
1986	232 070	178 826	(6 255)	—	64 544	469 185
1980	150 515	40 873	7 605	—	13 952	212 955

Income (thousands of dollars)

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

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

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

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	4 716	5 234	8 551	—	463	18 964	665 000	68 700	8 351	742 051	6 867	10.53¢	\$723.15
1989	4 789	5 208	8 780	87	101	19 365	660 786	68 030	8 329	737 145	7 025	9.81	691.83
1988	4 852	4 998	9 013	481	472	19 816	657 592	66 606	8 202	732 401	7 152	8.99	646.35
1987	4 682	4 818	8 396	55	485	18 436	654 021	64 978	8 155	727 154	6 927	9.16	637.46
1986	4 586	4 744	7 927	—	460	17 717	651 327	63 292	8 008	722 627	6 810	8.94	611.34
1980	4 463	4 149	8 062	—	416	18 160	642 845	60 070	7 842	710 557	6 686	6.05	404.37

Load (MW & %)

Energy (millions of KWH)

Fuel

Year	Operative Capacity at Time of Peak	Peak Load	Capacity Margin	Load Factor	Company Generated			Net Purchased Power	Total	Fuel Cost Per KWH	Efficiency—BTU Per KWH
					Fossil	Nuclear	Total				
1990	4 685	3 778	19.4%	63.3%	15 579	5 262	20 841	(643)	20 198	1.52¢	10 417
1989	4 536	3 866	14.8	65.2	14 968	6 570	21 538	(777)	20 761	1.49	10 506
1988	4 488(c)	4 067	9.0	59.8	15 756	4 480	20 236	1 091	21 327	1.59	10 517
1987	4 257	3 722	12.6	62.5	14 978	3 685	18 667	1 248	19 915	1.56	10 596
1986	3 775(c)	3 601	4.6	62.2	16 277	12	16 289	2 863	19 152	1.78	10 464
1980	4 353	3 325	23.6	64.3	14 486	1 083	15 569	3 894	19 463	1.67	10 635

Investment (thousands of dollars)

Year	Utility Plant in Service	Accumulated Depreciation & Amortization	Net Plant	Construction Work in Progress & Ferry Unit 2	Nuclear Fuel and Other	Total Property, Plant and Equipment	Utility Plant Additions	Total Assets
1990	\$6 041 878	\$1 410 051	\$4 631 827	\$ 696 696	\$344 252	\$5 672 775	\$164 619	\$7 945 157
1989	5 878 825	1 264 570	4 614 255	726 933	354 374	5 695 562	153 440	7 670 405
1988	5 704 746	1 081 758	4 622 988	763 628	380 573	5 767 180	211 060	7 456 198
1987	5 787 603	905 297	4 882 306	633 433	389 261	5 905 020	566 947	7 089 026
1986	3 196 730	951 917	2 244 813	3 067 837	383 542	5 696 192	670 385	6 209 692
1980	2 404 255	557 859	1 846 396	811 084	62 259(d)	2 719 739	398 088	3 135 584

Capitalization (thousands of dollars & %)

Year	Common Stock Equity		Preferred & Preference Stock, with Mandatory Redemption Provisions		Preferred Stock, without Mandatory Redemption Provisions		Long-Term Debt		Total
1990	\$1 884 258	38%	\$171 162	3%	\$217 334	4%	\$2 631 911	55%	\$4 904 665
1989	1 828 074	40	212 362	4	217 334	5	2 336 379	51	4 594 149
1988	1 780 408	40	232 626	5	217 334	5	2 260 170	50	4 490 538
1987	1 925 719	41	270 645	6	217 334	4	2 312 957	49	4 731 655
1986	1 843 974	40	339 017	7	184 321	3	2 313 455	50	4 638 467
1980	912 731	37	260 500	11	95 071	4	1 211 528	48	2 479 830

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

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

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 and the schedules referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. These 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

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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.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of The Toledo Edison Company listed in the Index to Schedules are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

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 in part 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 economic recession and competitive forces in the market, coupled with a desire to encourage efficiency with, 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)
	<u>\$ 300,000</u>

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	12,000,000
	<u>\$199,000,000</u>

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	<u>\$ 82,956</u>	<u>\$ 99,965</u>	<u>\$ 89,614</u>

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

INCOME STATEMENT

THE TOLEDO EDISON COMPANY

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
	<u>674,644</u>	<u>684,486</u>	<u>575,644</u>
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)	8,064	(21,563)	86,244
	<u>61,652</u>	<u>89,674</u>	<u>(25,394)</u>
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)
	<u>132,670</u>	<u>139,313</u>	<u>148,690</u>
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

THE TOLEDO EDISON COMPANY

	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	(51,585)	(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	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
	<u>2,621,528</u>	<u>2,632,752</u>
CURRENT ASSETS		
Cash and temporary cash investments	12,107	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
	<u>249,597</u>	<u>408,636</u>
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
	<u>1,130,393</u>	<u>1,097,458</u>
Total Assets	<u>\$4,001,518</u>	<u>\$4,138,846</u>

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
	<u>2,154,438</u>	<u>2,374,060</u>

OTHER NONCURRENT LIABILITIES

Refund obligations to customers	—	23,780
Other, primarily nuclear fuel lease obligations	228,844	252,460
	<u>228,844</u>	<u>276,240</u>

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
	<u>510,918</u>	<u>453,823</u>

DEFERRED CREDITS

Unamortized investment tax credits	33,377	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
	<u>1,007,318</u>	<u>1,034,723</u>
Total Capitalization and Liabilities	<u>\$4,001,518</u>	<u>\$4,138,846</u>

STATEMENT OF CUMULATIVE PREFERRED AND PREFERENCE STOCK

THE TOLEDO EDISON COMPANY

	1990 Shares Outstanding	Current Call Price	December 31	
			1990	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 Mega-watts	Power Source	Plant in Service	Construction Work in Progress (thousands of dollars)	Accumulated Depreciation
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(d))							
Perry Unit 2	Uncertain	19.91	240	Nuclear	—	343,685	—
					<u>\$1,728,481</u>	<u>\$384,605</u>	<u>\$240,290</u>

(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	<u>\$3,142,000</u>	<u>\$1,894,000</u>

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	\$22,535
Carrying Charges:		
Debt	\$21,361	\$30,617
Equity	22,126	51,691
	<u>\$43,487</u>	<u>\$82,308</u>

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 discussed in the following paragraphs. No change was made in the cost deferrals for 1989. The Company reduced 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 the Company 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	(18,610)	—	—
Organization costs	—	—	2,274
Taxes, other than federal income taxes	(2,647)	(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	(66,244)
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 31, 1989. The long-term rate of annual compensation increase assumption was 5% for both December 31, 1990 and December 31, 1989. The long-term rate of return on plan assets assumption was 8% in 1990 and 1989.

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

The cos. 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	—	—	(1,668)
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	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 that 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	(83 613)	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	\$ 8 149	\$ 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)	129 832	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	Debit Interest	AFUDC—Debit	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	1 014	3 617	932	496	6 609	253 965	25 822	4 555	284 342	7 692	11.484	\$882.99
1989	2 017	1 624	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

Year	Operable Capacity at Time of Peak	Peak Load	Capacity Margin	Load Factor	Company Generated			Net Purchased Power	Total	Fuel Cost Per KWH	Efficiency - BTU Per KWH
					Fossil	Nuclear	Total				
1990	1 752	1 515	13.5%	63.0%	5 535	4 219	9 754	(499)	9 255	1.504	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	\$1 960 917	\$ 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

INDEX TO SCHEDULES

	<u>Page</u>
<u>Centerior Energy Corporation and Subsidiaries:</u>	
Schedule V Property, Plant and Equipment for the Years Ended December 31, 1990, 1989 and 1988	S-2
Schedule VI Accumulated Depreciation and Amortization of Property, Plant and Equipment for the Years Ended December 31, 1990, 1989 and 1988	S-5
Schedule VII Guarantees of Securities of Other Issuers for the Year Ended December 31, 1990	S-8
Schedule VIII Valuation and Qualifying Accounts for the Years Ended December 31, 1990, 1989 and 1988	S-9
Schedule IX Short-Term Borrowings for the Years Ended December 31, 1990, 1989 and 1988	S-10
Schedule X Supplementary Income Statement Information for the Years Ended December 31, 1990, 1989 and 1988	S-11
 <u>The Cleveland Electric Illuminating Company and Subsidiaries:</u>	
Schedule V Property, Plant and Equipment for the Years Ended December 31, 1990, 1989 and 1988	S-12
Schedule VI Accumulated Depreciation and Amortization of Property, Plant and Equipment for the Years Ended December 31, 1990, 1989 and 1988	S-15
Schedule VII Guarantees of Securities of Other Issuers for the Year Ended December 31, 1990	S-18
Schedule VIII Valuation and Qualifying Accounts for the Years Ended December 31, 1990, 1989 and 1988	S-19
Schedule IX Short-Term Borrowings for the Years Ended December 31, 1990, 1989 and 1988	S-20
Schedule X Supplementary Income Statement Information for the Years Ended December 31, 1990, 1989 and 1988	S-21
 <u>The Toledo Edison Company:</u>	
Schedule V Property, Plant and Equipment for the Years Ended December 31, 1990, 1989 and 1988	S-22
Schedule VI Accumulated Depreciation and Amortization of Property, Plant and Equipment for the Years Ended December 31, 1990, 1989 and 1988	S-25
Schedule VII Guarantees of Securities of Other Issuers for the Year Ended December 31, 1990	S-28
Schedule VIII Valuation and Qualifying Accounts for the Years Ended December 31, 1990, 1989 and 1988	S-29
Schedule IX Short-Term Borrowings for the Years Ended December 31, 1990, 1989 and 1988	S-30
Schedule X Supplementary Income Statement Information for the Years Ended December 31, 1990, 1989 and 1988	S-31

Schedules other than those listed above are omitted for the reason that they are not required or are not applicable, or the required information is shown in the financial statements or notes thereto.

CENTERIOR ENERGY CORPORATION AND SUBSIDIARIES

SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT
YEAR ENDED DECEMBER 31, 1990

(Thousands of Dollars)

Classification	Balance at Beginning of Period	Additions at Cost	Retirements or Sales	Other	Balance at End of Period
-----	-----	-----	-----	-----	-----
Utility Plant:					
Electric					
Intangible	\$0	\$22,035	\$0	\$0	\$22,035
Production:					
Steam	\$1,301,892	\$39,495	(\$3,055)	\$0	\$1,338,332
Nuclear	\$5,029,605	\$131,164	(\$24,608)	\$0	\$5,136,161
Hydraulic	\$56,300	\$54	\$0	\$0	\$56,354
Other	\$13,995	\$749	(\$51)	\$0	\$14,693
Transmission	\$680,080	\$15,028	(\$927)	\$0	\$694,181
Distribution	\$1,143,810	\$62,309	(\$6,178)	\$0	\$1,199,941
General	\$185,434	\$3,406	(\$1,649)	\$0	\$187,191
-----	-----	-----	-----	-----	-----
Total Utility Plant	\$8,411,116	\$274,240	(\$36,468)	\$0	\$8,648,888
Perry Unit 2 (a)	\$869,048	(\$3,899)	\$0	\$0	\$865,149
Construction Work in Progress	\$288,225	(\$19,839)	\$0	\$0	\$268,386
Nuclear Fuel	\$864,821	\$62,447	\$0	\$0	\$927,268
Other Plant	\$62,449	\$1,136	(\$22)	(\$39)	\$63,524
-----	-----	-----	-----	-----	-----
Total Property, Plant and Equipment	\$10,495,659	\$314,085	(\$36,490)	(\$39)	\$10,773,215
=====	=====	=====	=====	=====	=====

(a) Includes Perry Unit 2 AFUDC subsequent to July 1985. See Schedule VIII.

CENTERIOR ENERGY CORPORATION AND SUBSIDIARIES

SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT
YEAR ENDED DECEMBER 31, 1989

(Thousands of Dollars)

Classification	Balance at Beginning of Period	Additions at Cost	Retirements or Sales	Other	Balance at End of Period
Utility Plant:					
Electric					
Production:					
Steam	\$1,290,036	\$17,470	(\$5,614)	\$0	\$1,301,892
Nuclear	\$4,833,173	\$208,809	(\$12,377)	\$0	\$5,029,605
Hydraulic	\$56,301	(\$1)	\$0	\$0	\$56,300
Other	\$13,943	\$53	(\$1)	\$0	\$13,995
Transmission	\$677,535	\$3,559	(\$1,014)	\$0	\$680,080
Distribution	\$1,094,766	\$54,837	(\$5,793)	\$0	\$1,143,810
General	\$177,919	\$11,529	(\$4,014)	\$0	\$185,434
Total Utility Plant	\$8,143,673	\$296,256	(\$28,813)	\$0	\$8,411,116
Perry Unit 2 (a)	\$866,911	\$2,137	\$0	\$0	\$869,048
Construction Work in Progress	\$355,821	(\$67,596)	\$0	\$0	\$288,225
Nuclear Fuel	\$815,144	\$49,677	\$0	\$0	\$864,821
Other Plant	\$59,945	\$2,512	(\$30)	\$22	\$62,449
Total Property, Plant and Equipment	\$10,241,494	\$282,986	(\$28,843)	\$22	\$10,495,659
	=====	=====	=====	=====	=====

(a) Includes Perry Unit 2 AFUDC subsequent to July 1985. See Schedule VIII.

CENTRIOR ENERGY CORPORATION AND SUBSIDIARIES

SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT
YEAR ENDED DECEMBER 31, 1988

(Thousands of Dollars)

Classification	Balance at Beginning of Period	Additions at Cost	Retirements or Sales	Other	Balance at End of Period
Utility Plant: Electric					
Production:					
Steam	\$1,241,340	\$53,830	(\$5,134)	\$0	\$1,290,036
Nuclear (b)	\$5,195,992	\$91,211	(\$454,030)(c)	\$0	\$4,833,173
Hydraulic	\$56,306	(\$5)	\$0	\$0	\$56,301
Other	\$15,877	\$76	(\$10)	\$0	\$13,943
Transmission (b)	\$671,701	\$8,101	(\$2,267)	\$0	\$677,535
Distribution	\$1,043,350	\$60,507	(\$9,091)	\$0	\$1,094,766
General	\$165,548	\$16,598	(\$4,227)	\$0	\$177,919
Total Utility Plant	\$8,388,114	\$230,318	(\$474,759)	\$0	\$8,143,673
Perry Unit 2 (a)	\$783,028	\$0	\$0	\$83,883 (d)	\$866,911
Construction Work in Progress	\$224,679	\$117,021	\$0	\$14,121 (d)	\$355,821
Nuclear Fuel	\$750,588	\$64,556	\$0	\$0	\$815,144
Other Plant	\$59,785	\$813	(\$653)	\$0	\$59,945
Total Property, Plant and Equipment	\$10,206,194	\$412,708	(\$475,412)	\$98,004	\$10,241,494

(a) Includes Perry Unit 2 AFUDC subsequent to July 1985. See Schedule VIII.

(b) Includes reclassification of PUCO ordered AFUDC reserve to a refund obligation consistent with terms of the January 1989 PUCO rate order.

(c) Includes \$453,674,000 of PUCO ordered write-off of Perry Unit 1 and Beaver Valley Unit 2 investments.

(d) Results primarily from adoption of a new method of accounting for income taxes which requires the presentation of amounts (previously stated on a net-of-tax basis) on a pretax basis.

CENTERIOR ENERGY CORPORATION AND SUBSIDIARIES

SCHEDULE VI - ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT
YEAR ENDED DECEMBER 31, 1990

(Thousands of Dollars)

Description	Balance at Beginning of Period	Additions		Deductions		Balance at End of Period
		Charged to Income Statement	Other	Retirements	Removal Cost Net of Salvage Add/(Deduct)	
Utility Plant:						
Electric - Depreciation	\$1,828,097	\$258,868	\$2,685 (a)	(\$36,468)	(\$5,011)	\$2,048,171
- Amortization	\$3,670	\$4,403	\$0	\$0	\$0	\$8,073
Total Utility Plant	\$1,831,767	\$263,271 (b)	\$2,685	(\$36,468)	(\$5,011)	\$2,056,244
Other Property - Depreciation	\$15,132	\$2,957 (c)	(\$17)	\$0	\$0	\$18,072
Total	\$1,846,899	\$266,228	\$2,668	(\$36,468)	(\$5,011)	\$2,074,316
Nuclear Fuel - Amortization	\$320,446	\$84,150 (d)	\$0	\$0	\$0	\$404,596

(a) Accumulated depreciation charged to construction work in progress.

(b) Depreciation and amortization as reported in the Income Statement includes approximately \$12 million of amortization of investment tax credits.

(c) Nonutility plant expense charged to other income and deductions, net.

(d) Charged to fuel and purchased power expense.

CENTERIOR ENERGY CORPORATION AND SUBSIDIARIES

SCHEDULE VI - ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT
YEAR ENDED DECEMBER 31, 1989

(Thousands of Dollars)

Description	Balance at Beginning of Period	Additions		Deductions		Balance at End of Period
		Charged to Income Statement	Other (a)	Retirements	Removal Cost Net of Salvage Add/(Deduct)	
Utility Plant:						
Electric - Depreciation	\$1,565,978	\$292,068	\$3,595	(\$28,813)	(\$4,731)	\$1,828,097
- Amortization	\$3,326	\$344	\$0	\$0	\$0	\$3,670
Total Utility Plant	\$1,569,304	\$292,412 (b)	\$3,595	(\$28,813)	(\$4,731)	\$1,831,767
Other Property - Depreciation	\$13,676	\$1,484 (c)	\$0	(\$20)	(\$8)	\$15,132
Total	\$1,582,980	\$293,896	\$3,595	(\$28,833)	(\$4,739)	\$1,846,899
Nuclear Fuel - Amortization	\$218,326	\$102,120 (d)	\$0	\$0	\$0	\$320,446

(a) Accumulated depreciation charged to construction work in progress.

(b) Depreciation and amortization as reported in the Income Statement includes approximately \$12 million of amortization of investment tax credits.

(c) Nonutility plant expense charged to other income and deductions, net.

(d) Charged to fuel and purchased power expense.

CENTERIOR ENERGY CORPORATION AND SUBSIDIARIES

SCHEDULE VI - ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT
YEAR ENDED DECEMBER 31, 1988

(Thousands of Dollars)

Description	Balance at Beginning of Period	Additions		Deductions		Balance at End of Period
		Charged to Income Statement	Other (a)	Retirements	Removal Cost Net of Salvage Add/(Deduct)	
Utility Plant:						
Electric - Depreciation	\$1,321,464	\$267,004	\$3,534	(\$21,034)	(\$4,990)	\$1,569,978
- Amortization	\$2,982	\$344	\$0	\$0	\$0	\$3,326
Total Utility Plant	\$1,324,446	\$267,348 (b)	\$3,534	(\$21,034)	(\$4,990)	\$1,569,304
Other Property - Depreciation	\$12,980	\$1,323 (c)	\$0	(\$620)	(\$7)	\$13,676
Total	\$1,337,426	\$268,671	\$3,534	(\$21,654)	(\$4,997)	\$1,582,980
Nuclear Fuel - Amortization	\$141,043	\$77,283 (d)	\$0	\$0	\$0	\$218,326

(a) Accumulated depreciation charged to construction work in progress.

(b) Depreciation and amortization as reported in the Income Statement includes approximately \$9 million of amortization related to terminated nuclear generating units and \$13 million of amortization of investment tax credits resulting from the change in accounting for income taxes. The unamortized costs related to the terminated units were recorded as deferred charges on the Balance Sheet. The December 31, 1988 balance of \$27.8 million in the deferred charge account was written off at year end.

(c) Nonutility plant expense charged to other income and deductions, net.

(d) Charged to fuel and purchased power expense.

CENTERIOR ENERGY CORPORATION AND SUBSIDIARIES

SCHEDULE VII - GUARANTEES OF SECURITIES OF OTHER ISSUERS
YEAR ENDED DECEMBER 31, 1990

(Thousands of Dollars)

Name of Issuer of Securities Guaranteed	Title of Issue	Principal Amount Guaranteed and Outstanding (a) and (b)	Nature of Guarantee
Quarto Mining Company (b)	Guaranteed Mortgage Bonds, Due 2000		
	Series A 8.25%	\$1,173	Principal and Interest
	Series B 9.70%	1,145	Principal and Interest
	Series C 9.40%	5,723	Principal and Interest
	Series D 12.625%	6,810	Principal and Interest
	Series EA 10.25%	1,362	Principal and Interest
	Series EB 11.70%	1,328	Principal and Interest
	Series EC 11.40%	6,642	Principal and Interest
	Series ED 14.625%	7,263	Principal and Interest
	Series FA 10.50%	1,046	Principal and Interest
	Series FB 11.75%	331	Principal and Interest
	Series FC 11.40%	1,341	Principal and Interest
	Series G 9.05%	17,282	Principal and Interest
	Unsecured Note, Interest at prime (10% at 12/31/90) plus 2%, Due 2000	4,164	Principal and Interest
	Equipment Leases	11,201	Termination Value per Agreements

		66,871	

The Ohio Valley Coal Company	First Mortgage Notes		
	Series D--8.00% Due 1991 to 1997	6,750	Principal and Interest
	Series E--10.25% Due 1991 to 1997	4,125	Principal and Interest
	Equipment Leases	6,321	Stipulated Loss Value per Agreements
	Term Notes--9.53% Due 1991 to 1996	3,193	Principal and Interest
	--10.85% Due 1991 to 1997	21,899	Principal and Interest

		42,288	

		\$109,159	

(a) None of the securities were owned by the Centerior Utilities; none were held in the treasury of the issuer; and none were in default.

(b) The Centerior Utilities and the other CAPCO Group Companies have agreed to guarantee severally, and not jointly, their proportionate shares of Quarto Mining Company debt and lease obligations incurred while developing and equipping the mines. The amounts shown are the Centerior Utilities' proportionate share of the total obligations.

CENTERIOR ENERGY CORPORATION AND SUBSIDIARIES

SCHEDULE VIII - VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 1990, 1989 AND 1988

(Thousands of Dollars)

Description	Balance at Beginning of Period	Additions		Deductions		Balance at End of Period
		Charged to Income Statement	Other	Deductions from Reserves	Other	
Reflected as Reductions to the Related Assets:						
Accumulated Provision for Uncollectible Accounts (Deduction from Amounts Due from Customers and Others)						
1990	\$2,276	\$18,739 (a)	\$2,805 (b)	\$20,794 (a)(c)	\$0	\$3,026
1989	\$7,001	\$9,429 (a)	\$2,000 (b)	\$16,154 (a)(c)	\$0	\$2,276
1988	\$5,629	\$13,075 (a)	\$2,091 (b)	\$13,794 (a)(c)	\$0	\$7,001
Reflected as Reserves on the Balance Sheet:						
Reserve for Perry Unit 2 Allowance for Funds Used During Construction						
1990	\$212,693	\$0	\$0	\$0	\$0	\$212,693
1989	\$212,693	\$0	\$0	\$0	\$0	\$212,693
1988	\$174,600	\$0	\$38,093 (d)	\$0	\$0	\$212,693

(a) Includes a provision and corresponding write-off of uncollectible accounts of \$5,895,000, \$2,598,000 and \$2,003,000 in 1990, 1989 and 1988, respectively, relating to customers which qualify for the PUCO mandated Percentage of Income Payment Plan. Such uncollectible accounts are recovered through a separate PUCO approved surcharge tariff.

(b) Collection of accounts previously written off.

(c) Uncollectible accounts written off.

(d) Results from adoption of a new method of accounting for income taxes which requires the presentation of amounts (previously stated on a net-of-tax basis) on a pretax basis.

CENTERIOR ENERGY CORPORATION AND SUBSIDIARIES

SCHEDULE IX - SHORT-TERM BORROWINGS
FOR THE YEARS ENDED DECEMBER 31, 1990, 1989 AND 1988

(Thousands of Dollars)

Category	Balance at End of Period	Weighted Average Interest Rate at End of Period	Maximum Amount Outstanding During the Period	Average Daily Weighted Amount Outstanding During the Period	Average Daily Weighted Interest Rate During the Period
Commercial Paper					
1990	\$110,310	9.4%	\$163,200	\$88,870 (a)	8.7% (b)
1989	\$0	0.0%	\$55,000	\$5,534 (a)	9.8% (b)
1988	\$0	0.0%	\$123,000	\$21,248 (a)	7.4% (b)

(a) Computed by dividing the total of the daily outstanding balances for the year by 365 days (366 for 1988).

(b) Computed by dividing total interest expense for the year by the average daily balance outstanding.

CENTERIOR ENERGY CORPORATION AND SUBSIDIARIES

SCHEDULE X - SUPPLEMENTARY INCOME STATEMENT INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 1990, 1989 AND 1988

(Thousands of Dollars)

Item	1990	1989	1988
----	-----	-----	-----
Maintenance and Repairs --			
Charged to Operating Expenses	\$202,248	\$187,559	\$199,468
	=====	=====	=====
Taxes, Other Than Payroll and			
Income Taxes:			
Charged to Operating Expenses:			
Real and Personal Property Taxes	\$145,980	\$136,477	\$145,665
Ohio State Excise Taxes	\$101,918	\$92,877	\$91,644
Other	\$8,850	\$9,199	\$11,773
	-----	-----	-----
Total Charged to Operating			
Expenses	\$256,748	\$239,553	\$249,082
Total Charged to Nonoperating Income	\$719	\$759	\$597
	-----	-----	-----
Total	\$257,467	\$239,312	\$249,679
	=====	=====	=====

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES

SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT
YEAR ENDED DECEMBER 31, 1990

(Thousands of Dollars)

Classification	Balance at Beginning of Period	Additions at Cost	Retirements or Sales	Other	Balance at End of Period
Utility Plant:					
Electric					
Intangible	\$0	\$18,499	\$0	\$0	\$18,499
Production:					
Steam	\$1,017,617	\$32,353	(\$3,049)	\$0	\$1,046,921
Nuclear	\$3,355,765	\$80,329	(\$21,322)	\$0	\$3,414,772
Hydraulic	\$56,300	\$54	\$0	\$0	\$56,354
Other	\$7,287	\$731	(\$51)	\$0	\$7,967
Transmission	\$534,813	\$13,381	(\$894)	\$0	\$547,300
Distribution	\$792,438	\$46,167	(\$5,452)	\$0	\$833,153
General	\$114,605	\$3,342	(\$1,035)	\$0	\$116,912
Total Utility Plant	\$5,878,825	\$194,856	(\$31,803)	\$0	\$6,041,878
Perry Unit 2 (a)	\$523,294	(\$1,830)	\$0	\$0	\$521,464
Construction Work in Progress	\$203,639	(\$28,407)	\$0	\$0	\$175,232
Nuclear Fuel	\$482,092	\$38,670	\$0	\$0	\$520,762
Other Plant	\$59,107	\$1,136	(\$22)	\$0	\$60,221
Total Property, Plant and Equipment	\$7,146,957	\$204,425	(\$31,825)	\$0	\$7,319,557

(a) Includes Perry Unit 2 AFUDC subsequent to July 1985. See Schedule VIII.

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES

SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT
YEAR ENDED DECEMBER 31, 1989

(Thousands of Dollars)

Classification	Balance at Beginning of Period	Additions at Cost	Retirements or Sales	Other	Balance at End of Period
-----	-----	-----	-----	-----	-----
Utility Plant:					
Electric					
Production:					
Steam	\$1,013,636	\$9,595	(\$5,614)	\$0	\$1,017,617
Nuclear	\$3,235,716	\$120,049	\$0	\$0	\$3,355,765
Hydraulic	\$56,301	(\$1)	\$0	\$0	\$56,300
Other	\$7,287	\$1	(\$1)	\$0	\$7,287
Transmission	\$526,820	\$9,004	(\$1,011)	\$0	\$534,813
Distribution	\$754,650	\$43,212	(\$5,424)	\$0	\$792,438
General	\$110,336	\$8,275	(\$4,006)	\$0	\$114,605
	-----	-----	-----	-----	-----
Total Utility Plant	\$5,704,746	\$190,135	(\$16,056)	\$0	\$5,878,825
 Perry Unit 2 (a)	 \$523,785	 (\$491)	 \$0	 \$0	 \$523,294
Construction Work in Progress	\$239,843	(\$36,204)	\$0	\$0	\$203,639
Nuclear Fuel	\$453,654	\$28,438	\$0	\$0	\$482,092
Other Plant	\$56,625	\$2,512	(\$30)	\$0	\$59,107
	-----	-----	-----	-----	-----
 Total Property, Plant and Equipment	 \$6,978,653	 \$184,390	 (\$16,086)	 \$0	 \$7,146,957
	=====	=====	=====	=====	=====

(a) Includes Perry Unit 2 AFUDC subsequent to July 1985. See Schedule VIII.

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES

SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT
YEAR ENDED DECEMBER 31, 1988

(Thousands of Dollars)

Classification	Balance at Beginning of Period	Additions at Cost	Retirements or Sales	Other	Balance at End of Period
Utility Plant:					
Electric					
Production:					
Steam	\$967,557	\$50,877	(\$4,798)	\$0	\$1,013,636
Nuclear	\$3,415,183	\$32,127	(\$211,594)(b)	\$0	\$3,235,716
Hydraulic	\$56,306	(\$5)	\$0	\$0	\$56,301
Other	\$7,221	\$76	(\$10)	\$0	\$7,287
Transmission	\$521,893	\$6,569	(\$1,642)	\$0	\$526,820
Distribution	\$719,330	\$41,096	(\$5,776)	\$0	\$754,650
General	\$100,113	\$12,775	(\$2,552)	\$0	\$110,336
Total Utility Plant	\$5,787,603	\$143,515	(\$226,372)	\$0	\$5,704,746
Perry Unit 2 (a)	\$476,458	\$0	\$0	\$47,327 (c)	\$523,785
Construction Work in Progress	\$156,975	\$68,747	\$0	\$14,121 (c)	\$239,843
Nuclear Fuel	\$416,786	\$36,868	\$0	\$0	\$453,654
Other Plant	\$56,616	\$639	(\$630)	\$0	\$56,625
Total Property, Plant and Equipment	\$6,894,438	\$249,769	(\$227,002)	\$61,448	\$6,978,653

(a) Includes Perry Unit 2 AFUDC subsequent to July 1985. See Schedule VIII.

(b) FNUO ordered write-off of Perry Unit 1 and Beaver Valley Unit 2 investments.

(c) Results primarily from adoption of a new method of accounting for income taxes which requires the presentation of amounts (previously stated on a net-of-tax basis) on a pretax basis.

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES

SCHEDULE VI - ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT
YEAR ENDED DECEMBER 31, 1990

(Thousands of Dollars)

Description	Balance at Beginning of Period	Additions		Deductions		Balance at End of Period
		Charged to Income Statement	Other (a)	Retirements	Removal Cost Net of Salvage Add/(Deduct)	
Utility Plant:						
Electric - Depreciation	\$1,260,900	\$180,872	\$843	(\$31,803)	(\$7,939)	\$1,402,873
- Amortization	\$3,670	\$3,508	\$0	\$0	\$0	\$7,178
Total Utility Plant	\$1,264,570	\$184,380 (b)	\$843	(\$31,803)	(\$7,939)	\$1,410,051
Other Property - Depreciation	\$13,915	\$2,878 (c)	\$0	\$0	\$0	\$16,793
Total	\$1,278,485	\$187,258	\$843	(\$31,803)	(\$7,939)	\$1,426,844
Nuclear Fuel - Amortization	\$172,910	\$47,028 (d)	\$0	\$0	\$0	\$219,938

(a) Accumulated depreciation charged to construction work in progress.

(b) Depreciation and amortization as reported in the Income Statement includes approximately \$9 million of amortization of investment tax credits.

(c) Nonutility plant expense charged to other income and deductions, net.

(d) Charged to fuel and purchased power expense.

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES

SCHEDULE VI - ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT
YEAR ENDED DECEMBER 31, 1989

(Thousands of Dollars)

Description	Balance at Beginning of Period	Additions		Deductions		Balance at End of Period
		Charged to Income Statement	Other (a)	Retirements	Removal Cost Net of Salvage Add/(Deduct)	
Utility Plant:						
Electric - Depreciation	\$1,078,432	\$200,541	\$1,737	(\$16,056)	(\$3,754)	\$1,260,900
- Amortization	\$3,326	\$344	\$0	\$0	\$0	\$3,670
Total Utility Plant	\$1,081,758	\$200,885 (b)	\$1,737	(\$16,056)	(\$3,754)	\$1,264,570
Other Property - Depreciation	\$12,508	\$1,435 (c)	\$0	(\$20)	(\$8)	\$13,915
Total	\$1,094,266	\$202,320	\$1,737	(\$16,076)	(\$3,762)	\$1,278,485
Nuclear Fuel - Amortization	\$117,198	\$55,712 (d)	\$0	\$0	\$0	\$172,910

(a) Accumulated depreciation charged to construction work in progress.

(b) Depreciation and amortization as reported in the Income Statement includes approximately \$8 million of amortization of investment tax credits.

(c) Nonutility plant expense charged to other income and deductions, net.

(d) Charged to fuel and purchased power expense.

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES

SCHEDULE VI - ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT
YEAR ENDED DECEMBER 31, 1988

(Thousands of Dollars)

Description	Balance at Beginning of Period	Additions		Deductions		Balance at End of Period
		Charged to Income Statement	Other (a)	Retirements	Removal Cost Net of Salvage Add/(Deduct)	
Utility Plant:						
Electric - Depreciation	\$902,315	\$192,354	\$1,700	(\$14,778)	(\$3,159)	\$1,078,432
- Amortization	\$2,982	\$344	\$0	\$0	\$0	\$3,326
Total Utility Plant	\$905,297	\$192,698 (b)	\$1,700	(\$14,778)	(\$3,159)	\$1,081,758
Other Property - Depreciation	\$11,834	\$1,274 (c)	\$0	(\$600)	\$0	\$12,508
Total	\$917,131	\$193,972	\$1,700	(\$15,378)	(\$3,159)	\$1,094,266
Nuclear Fuel - Amortization	\$72,287	\$44,911 (d)	\$0	\$0	\$0	\$117,198

(a) Accumulated depreciation charged to construction work in progress.

(b) Depreciation and amortization as reported in the Income Statement includes approximately \$6 million of amortization related to terminated nuclear generating units and \$10 million of amortization of investment tax credits resulting from the change in accounting for income taxes. The unamortized costs related to the terminated units were recorded as deferred charges on the Balance Sheet. The December 31, 1988 balance of \$17.6 million in the deferred charge account was written off at year end.

(c) Nonutility plant expense charged to other income and deductions, net.

(d) Charged to fuel and purchased power expense.

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES

SCHEDULE VII - GUARANTEES OF SECURITIES OF OTHER ISSUERS
YEAR ENDED DECEMBER 31, 1990

(Thousands of Dollars)

Name of Issuer of Securities Guaranteed	Title of Issue	Principal Amount Guaranteed and Outstanding (a) and (b)	Nature of Guarantee
Quarto Mining Company (b)	Guaranteed Mortgage Bonds, Due 2000		
	Series A 8.25%	\$786	Principal and Interest
	Series B 9.70%	767	Principal and Interest
	Series C 9.40%	3,834	Principal and Interest
	Series D 12.625%	4,562	Principal and Interest
	Series EA 10.25%	851	Principal and Interest
	Series EB 11.70%	830	Principal and Interest
	Series EC 11.40%	4,152	Principal and Interest
	Series ED 14.625%	4,540	Principal and Interest
	Series FA 10.50%	654	Principal and Interest
	Series FB 11.75%	207	Principal and Interest
	Series FC 11.40%	838	Principal and Interest
	Series G 9.05%	10,639	Principal and Interest
	Unsecured Note, interest at prime (10% at 12/31/90) plus 2%, Due 2000	2,603	Principal and Interest
	Equipment Leases	7,543	Termination Value per Agreements

		42,806	

The Ohio Valley Coal Company	First Mortgage Notes		
	Series D--8.00% Due 1991 to 1997	6,750	Principal and Interest
	Series E--10.25% Due 1991 to 1997	4,125	Principal and Interest
	Equipment Leases	6,321	Stipulated Loss Value per Agreements
	Term Notes--9.53% Due 1991 to 1996	3,193	Principal and Interest
	--10.85% Due 1991 to 1997	21,899	Principal and Interest

		42,288	

		\$85,094	
		=====	

(a) None of the securities were owned by Cleveland Electric; none were held in the treasury of the issuer; and none were in default.

(b) Cleveland Electric and the other CAPCO Group Companies have agreed to guarantee severally, and not jointly, their proportionate shares of Quarto Mining Company debt and lease obligations incurred while developing and equipping the mines. The amounts shown are Cleveland Electric's proportionate share of the total obligations.

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES

SCHEDULE VIII - VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 1990, 1989 AND 1988

(Thousands of Dollars)

Description	Balance at Beginning of Period	Additions		Deductions		Balance at End of Period
		Charged to Income Statement	Other	Deductions from Reserves	Other	
Reflected as Reductions to the Related Assets:						
Accumulated Provision for Uncollectible Accounts (Deduction from Amounts Due from Customers and Others)						
1990	\$926	\$15,207 (a)	\$1,628 (b)	\$15,935 (a)(c)	\$0	\$1,826
1989	\$6,026	\$5,742 (a)	\$1,062 (b)	\$11,904 (a)(c)	\$0	\$926
1988	\$5,126	\$9,307 (a)	\$1,146 (b)	\$9,553 (a)(c)	\$0	\$6,026
Reflected as Reserves on the Balance Sheet:						
Reserve for Perry Unit 2 Allowance for Funds Used During Construction						
1990	\$124,398	\$0	\$0	\$0	\$0	\$124,398
1989	\$124,398	\$0	\$0	\$0	\$0	\$124,398
1988	\$102,903	\$0	\$21,495 (d)	\$0	\$0	\$124,398

(a) Includes a provision and corresponding write-off of uncollectible accounts of \$5,597,000, \$2,007,000 and \$864,000 in 1990, 1989 and 1988, respectively, relating to customers which qualify for the PUCO mandated Percentage of Income Payment Plan. Such uncollectible accounts are recovered through a separate PUCO approved surcharge tariff.

(b) Collection of accounts previously written off.

(c) Uncollectible accounts written off.

(d) Results from adoption of a new method of accounting for income taxes which requires the presentation of amounts (previously stated on a net-of-tax basis) on a pretax basis.

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES

SCHEDULE IX - SHORT-TERM BORROWINGS
FOR THE YEARS ENDED DECEMBER 31, 1990, 1989 AND 1988

(Thousands of Dollars)

Category	Balance at End of Period	Weighted Average Interest Rate at End of Period	Maximum Amount Outstanding During the Period	Average Daily Weighted Amount Outstanding During the Period	Average Daily Weighted Interest Rate During the Period
Commercial Paper					
1990	\$87,110	9.5%	\$140,000	\$87,584 (a)	8.7% (b)
1989	\$0	0.0%	\$5,000	\$5,534 (a)	9.8% (b)
1988	\$0	0.0%	\$123,000	\$21,248 (a)	7.4% (b)

(a) Computed by dividing the total of the daily outstanding balances for the year by 365 days (366 for 1988).

(b) Computed by dividing total interest expense for the year by the average daily balance outstanding.

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES

SCHEDULE X - SUPPLEMENTARY INCOME STATEMENT INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 1990, 1989 AND 1988

(Thousands of Dollars)

Item	1990	1989	1988
----	-----	-----	-----
Maintenance and Repairs --			
Charged to Operating Expenses	\$138,085	\$126,778	\$132,946
	=====	=====	=====
Taxes, Other Than Payroll and			
Income Taxes:			
Charged to Operating Expenses:			
Real and Personal Property Taxes	\$106,776	\$100,007	\$104,601
Ohio State Excise Taxes	\$69,770	\$63,870	\$61,990
Other	\$6,742	\$6,476	\$6,307
	-----	-----	-----
Total Charged to Operating			
Expenses	\$183,288	\$170,353	\$172,898
Total Charged to Nonoperating Income	\$628	\$668	\$494
	-----	-----	-----
Total	\$183,916	\$171,021	\$173,392
	=====	=====	=====

THE TOLEDO EDISON COMPANY

SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT
YEAR ENDED DECEMBER 31, 1990

(Thousands of Dollars)

Classification	Balance at Beginning of Period	Additions at Cost	Retirements or Sales	Other	Balance at End of Period
Utility Plant:					
Electric					
Intangible	\$0	\$3,536	\$0	\$0	\$3,536
Production:					
Steam	\$284,275	\$7,142	(\$6)	\$0	\$291,411
Nuclear	\$1,673,840	\$50,835	(\$3,286)	\$0	\$1,721,389
Other	\$6,708	\$18	\$0	\$0	\$6,726
Transmission	\$145,267	\$1,647	(\$33)	\$0	\$146,881
Distribution	\$351,372	\$16,142	(\$726)	\$0	\$366,788
General	\$70,829	\$64	(\$614)	\$0	\$70,279
Total Utility Plant	\$2,532,291	\$79,384	(\$4,665)	\$0	\$2,607,010
Perry Unit 2 (a)	\$345,754	(\$2,069)	\$0	\$0	\$343,685
Construction Work in Progress	\$84,586	\$8,568	\$0	\$0	\$93,154
Nuclear Fuel	\$382,729	\$23,777	\$0	\$0	\$406,506
Other Plant	\$3,342	\$0	\$0	(\$39)	\$3,303
Total Property, Plant and Equipment	\$3,348,702	\$109,660	(\$4,665)	(\$39)	\$3,453,658

(a) Includes Perry Unit 2 AFUDC subsequent to July 1985. See Schedule VIII.

THE TOLEDO EDISON COMPANY

SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT
YEAR ENDED DECEMBER 31, 1989

(Thousands of Dollars)

Classification	Balance at Beginning of Period	Additions at Cost	Retirements or Sales	Other	Balance at End of Period
-----	-----	-----	-----	-----	-----
Utility Plant:					
Electric					
Production:					
Steam	\$276,400	\$7,875	\$0	\$0	\$284,275
Nuclear	\$1,597,457	\$88,760	(\$12,377)	\$0	\$1,673,840
Other	\$6,656	\$52	\$0	\$0	\$6,708
Transmission	\$150,715	(\$5,445)	(\$3)	\$0	\$145,267
Distribution	\$340,116	\$11,625	(\$369)	\$0	\$351,372
General	\$67,583	\$3,254	(\$8)	\$0	\$70,829
	-----	-----	-----	-----	-----
Total Utility Plant	\$2,438,927	\$106,121	(\$12,757)	\$0	\$2,532,291
 Perry Unit 2 (a)	 \$343,126	 \$2,628	 \$0	 \$0	 \$345,754
Construction Work in Progress	\$115,978	(\$31,382)	\$0	\$0	\$84,586
Nuclear Fuel	\$361,490	\$21,239	\$0	\$0	\$382,729
Other Plant	\$3,320	\$0	\$0	\$22	\$3,342
	-----	-----	-----	-----	-----
Total Property, Plant and Equipment	\$3,262,841	\$98,596	(\$12,757)	\$22	\$3,348,702
	=====	=====	=====	=====	=====

(a) Includes Perry Unit 2 AFUDC subsequent to July 1985. See Schedule VIII.

THE TOLEDO EDISON COMPANY

SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT
YEAR ENDED DECEMBER 31, 1988

(Thousands of Dollars)

Classification	Balance at Beginning of Period	Additions at Cost	Retirements or Sales	Other	Balance at End of Period
Utility Plant:					
Electric					
Production:					
Steam	\$273,783	\$2,953	(\$336)	\$0	\$276,400
Nuclear (b)	\$1,780,809	\$59,084	(\$242,436)(c)	\$0	\$1,597,457
Other	\$6,656	\$0	\$0	\$0	\$6,656
Transmission (b)	\$149,808	\$1,532	(\$625)	\$0	\$150,715
Distribution	\$324,020	\$19,411	(\$3,315)	\$0	\$340,116
General	\$65,435	\$3,823	(\$1,675)	\$0	\$67,583
Total Utility Plant	\$2,600,511	\$86,803	(\$248,387)	\$0	\$2,438,927
Perry Unit 2 (a)	\$306,570	\$0	\$0	\$36,556 (d)	\$343,126
Construction Work in Progress	\$67,704	\$48,274	\$0	\$0	\$115,978
Nuclear Fuel	\$333,802	\$27,688	\$0	\$0	\$361,490
Other Plant	\$3,169	\$174	(\$23)	\$0	\$3,320
Total Property, Plant and Equipment	\$3,311,756	\$162,939	(\$248,410)	\$36,556	\$3,262,841

(a) Includes Perry Unit 2 AFUDC subsequent to July 1985. See Schedule VIII.

(b) Includes reclassification of PUCO ordered AFUDC reserve to a refund obligation consistent with terms of the January 1989 PUCO rate order.

(c) Includes \$242,080,000 of PUCO ordered write-off of Perry Unit 1 investment.

(d) Results primarily from adoption of a new method of accounting for income taxes which requires the presentation of amounts (previously stated on a net-of-tax basis) on a pretax basis.

THE TOLEDO EDISON COMPANY

SCHEDULE VI - ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT
YEAR ENDED DECEMBER 31, 1990

(Thousands of Dollars)

Description	Balance at Beginning of Period	Additions		Deductions		Balance at End of Period
		Charged to Income Statement	Other	Retirements	Removal Cost Net of Salvage Add/(Deduct)	
Utility Plant:						
Electric - Depreciation	\$567,197	\$77,996	\$1,842 (a)	(\$4,665)	\$2,928	\$645,298
- Amortization	\$0	\$895	\$0	\$0	\$0	\$895
Total Utility Plant	\$567,197	\$78,891 (b)	\$1,842	(\$4,665)	\$2,928	\$646,193
Other Property - Depreciation	\$1,217	\$79 (c)	(\$17)	\$0	\$0	\$1,279
Total	\$568,414	\$78,970	\$1,825	(\$4,665)	\$2,928	\$647,472
Nuclear Fuel - Amortization	\$147,536	\$37,122 (d)	\$0	\$0	\$0	\$184,658

(a) Accumulated depreciation charged to construction work in progress.

(b) Depreciation and amortization as reported in the Income Statement includes approximately \$3 million of amortization of investment tax credits.

(c) Workutility plant expense charged to other income and deductions, net.

(d) Charged to fuel and purchased power expense.

THE TOLEDO EDISON COMPANY

SCHEDULE VI - ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT
YEAR ENDED DECEMBER 31, 1989

(Thousands of Dollars)

Description	Balance at Beginning of Period	Additions		Deductions		Balance at End of Period
		Charged to Income Statement	Other (a)	Retirements	Removal Cost Net of Salvage Add/(Deduct)	
Electric Utility Plant - Depreciation	\$487,546	\$91,527 (b)	\$1,858	(\$12,757)	(\$977)	\$567,197
Other Property - Depreciation	\$1,168	\$49 (c)	\$0	\$0	\$0	\$1,217
Total	\$488,714	\$91,576	\$1,858	(\$12,757)	(\$977)	\$568,414
Nuclear Fuel - Amortization	\$101,128	\$46,408 (d)	\$0	\$0	\$0	\$147,536

(a) Accumulated depreciation charged to construction work in progress.

(b) Depreciation and amortization as reported in the Income Statement includes approximately \$4 million of amortization of investment tax credits.

(c) Nonutility plant expense charged to other income and deductions, net.

(d) Charged to fuel and purchased power expense.

THE CHLEDO EDISON COMPANY

SCHEDULE VI - ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT
YEAR ENDED DECEMBER 31, 1988

(Thousands of Dollars)

Description	Balance at Beginning of Period	Additions		Deductions		Balance at End of Period
		Charged to Income Statement	Other (a)	Retirements	Removal Cost Net of Salvage Add/(Deduct)	
Electric Utility Plant - Depreciation	\$419,149	\$74,650 (b)	\$1,834	(\$6,256)	(\$1,831)	\$487,546
Other Property - Depreciation	\$1,146	\$49 (c)	\$0	(\$20)	(\$7)	\$1,168
Total	\$420,295	\$74,699	\$1,834	(\$6,276)	(\$1,838)	\$488,714
Nuclear Fuel - Amortization	\$68,756	\$32,372 (d)	\$0	\$0	\$0	\$101,128

(a) Accumulated depreciation charged to construction work in progress.

(b) Depreciation and amortization as reported in the Income Statement includes approximately \$3 million of amortization related to terminated nuclear generating units and \$3 million of amortization of investment tax credits resulting from the change in accounting for income taxes. The unamortized costs related to the terminated units were recorded as deferred charges on the Balance Sheet. The December 31, 1988 balance of \$10.2 million in the deferred charge account was written off at year end.

(c) Nonutility plant expense charged to other income and deductions, net.

(d) Charged to fuel and purchased power expense.

THE TOLEDO EDISON COMPANY

SCHEDULE VII - GUARANTEES OF SECURITIES OF OTHER ISSUERS
YEAR ENDED DECEMBER 31, 1990

(Thousands of Dollars)

Name of Issuer of Securities Guaranteed	Title of Issue	Principal Amount Guaranteed and Outstanding (a) and (b)	Nature of Guarantee
Quarto Mining Company (b)	Guaranteed Mortgage Bonds, Due 2000		
	Series A 8.25%	\$387	Principal and Interest
	Series B 9.70%	378	Principal and Interest
	Series C 9.40%	1,889	Principal and Interest
	Series D 12.625%	2,248	Principal and Interest
	Series EA 10.25%	511	Principal and Interest
	Series EB 11.70%	498	Principal and Interest
	Series EC 11.40%	2,490	Principal and Interest
	Series ED 14.625%	2,723	Principal and Interest
	Series FA 10.50%	392	Principal and Interest
	Series FB 11.75%	124	Principal and Interest
	Series FC 11.40%	503	Principal and Interest
	Series G 9.05%	6,643	Principal and Interest
	Unsecured Note, Interest at prime (10% at 12/31/90) plus 2%, Due 2000	1,561	Principal and Interest
	Equipment Leases	3,718	Termination Value per Agreements
		\$24,065	

(a) None of the securities were owned by Toledo Edison; none were held in the treasury of the issuer; and none were in default.

(b) Toledo Edison and the other CAPCO Group Companies have agreed to guarantee severally, and not jointly, their proportionate shares of Quarto Mining Company debt and lease obligations incurred while developing and equipping the mines. The amounts shown are Toledo Edison's proportionate share of the total obligations.

THE TOLEDO EDISON COMPANY

SCHEDULE VIII - VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 1990, 1989 AND 1988

(Thousands of Dollars)

Description	Balance at Beginning of Period	Additions		Deductions		Balance at End of Period
		Charged to Income Statement	Other	Deductions from Reserves	Other	
Reflected as Reductions to the Related Assets:						
Accumulated Provision for Uncollectible Accounts (Deduction from Amounts Due from Customers and Others)						
1990	\$1,350	\$3,532 (a)	\$1,177 (b)	\$4,859 (a)(c)	\$0	\$1,200
1989	\$975	\$3,687 (a)	\$938 (b)	\$4,250 (a)(c)	\$0	\$1,350
1988	\$503	\$3,768 (a)	\$945 (b)	\$4,241 (a)(c)	\$0	\$975
Reflected as Reserves on the Balance Sheet:						
Reserve for Perry Unit 2 Allowance for Funds Used During Construction						
1990	\$88,295	\$0	\$0	\$0	\$0	\$88,295
1989	\$88,295	\$0	\$0	\$0	\$0	\$88,295
1988	\$71,697	\$0	\$16,598 (d)	\$0	\$0	\$88,295

(a) Includes a provision and corresponding write-off of uncollectible accounts of \$298,000, \$591,000 and \$1,139,000 in 1990, 1989 and 1988, respectively, relating to customers which qualify for the PUCO mandated Percentage of Income Payment Plan. Such uncollectible accounts are recovered through a separate PUCO approved surcharge tariff.

(b) Collection of accounts previously written off.

(c) Uncollectible accounts written off.

(d) Results from adoption of a new method of accounting for income taxes which requires the presentation of amounts (previously stated on a net-of-tax basis) on a pretax basis.

THE TOLEDO EDISON COMPANY

SCHEDULE IX - SHORT-TERM BORROWINGS
FOR THE YEARS ENDED DECEMBER 31, 1990, 1989 AND 1988

(Thousands of Dollars)

Category	Balance at End of Period	Weighted Average Interest Rate at End of Period	Maximum Amount Outstanding During the Period	Average Daily Weighted Amount Outstanding During the Period	Average Daily Weighted Interest Rate During the Period
Commercial Paper					
1990	\$23,200	9.1%	\$23,200	\$1,285 (a)	9.1% (b)
1989	\$0	0.0%	\$0	\$0 (a)	0.0% (b)
1988	\$0	0.0%	\$0	\$0 (a)	0.0% (b)

(a) Computed by dividing the total of the daily outstanding balances for the year by 365 days (366 for 1988).
(b) Computed by dividing total interest expense for the year by the average daily balance outstanding.

THE TOLEDO EDISON COMPANY

SCHEDULE X - SUPPLEMENTARY INCOME STATEMENT INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 1990, 1989 AND 1988

(Thousands of Dollars)

Item	1990	1989	1988
----	-----	-----	-----
Maintenance and Repairs --			
Charged to Operating Expenses	\$64,163	\$60,781	\$66,522
	-----	-----	-----
Taxes, Other Than Payroll and			
Income Taxes:			
Charged to Operating Expenses:			
Real and Personal Property Taxes	\$39,204	\$36,470	\$41,064
Ohio State Excise Taxes	\$32,148	\$29,007	\$29,654
Other	\$2,325	\$1,902	\$4,492
	-----	-----	-----
Total Charged to Operating			
Expenses	\$73,677	\$67,379	\$75,210
Total Charged to Nonoperating Income			
(Loss)	\$91	\$91	\$103
	-----	-----	-----
Total	\$73,768	\$67,470	\$75,313
	-----	-----	-----

EXHIBIT INDEX

The exhibits designated with an asterisk (*) are filed herewith. The exhibits not so designated have previously been filed with the SEC in the file indicated in parenthesis following the description of such exhibits and are incorporated herein by reference.

COMMON EXHIBITS

(The following documents are exhibits to the reports of Centerior Energy, Cleveland Electric and Toledo Edison.)

<u>Exhibit Number</u>	<u>Document</u>
10b(1)(a)	CAPCO Administration Agreement dated November 1, 1971, as of September 14, 1967, among the CAPCO Group members regarding the organization and procedures for implementing the objectives of the CAPCO Group (Exhibit 5(p), Amendment No. 1, File No. 2-42230, filed by Cleveland Electric).
10b(1)(b)	Amendment No. 1, dated January 4, 1974, to CAPCO Administration Agreement among the CAPCO Group members (Exhibit 5(c)(3), File No. 2-68906, filed by Ohio Edison).
10b(2)	CAPCO Transmission Facilities Agreement dated November 1, 1971, as of September 14, 1967, among the CAPCO Group members regarding the installation, operation and maintenance of transmission facilities to carry out the objectives of the CAPCO Group (Exhibit 5(q), Amendment No. 1, File No. 2-42230, filed by Cleveland Electric).
10b(3)	CAPCO Basic Operating Agreement as Amended September 1, 1980 among the CAPCO Group members regarding coordinated operation of the members' systems (Exhibit 10.24, 1980 Form 10-K, File No. 1-956, filed by Duquesne).
10b(4)	Agreement dated September 1, 1980 for the Termination or Construction of Certain Agreements by and among the CAPCO Group members (Exhibit 10.25, 1980 Form 10-K, File No. 1-956, filed by Duquesne).
10b(5)	Construction Agreement, dated July 22, 1974, among the CAPCO Group members and relating to the Perry Nuclear Plant (Exhibit 5(yy), File No. 2-52251, filed by Toledo Edison).
10b(6)	Contract, dated as of December 5, 1975, among the CAPCO Group members for the construction of Beaver Valley Unit No. 2 (Exhibit 5(g), File No. 2-52996, filed by Cleveland Electric).
10b(7)	Amendment No. 1, dated May 1, 1977, to Contract, dated as of December 5, 1975, among the CAPCO Group members for the construction of Beaver Valley Unit No. 2 (Exhibit 5(d)(4), File No. 2-60109, filed by Ohio Edison).
10b(8)	Contract, dated May 24, 1976, among the CAPCO Group members for the operation of Beaver Valley Unit No. 2 (Exhibit 5(d)(4), File No. 2-56944, filed by Pennsylvania Power).

<u>Exhibit Number</u>	<u>Document</u>
10b(9)	Amendment No. 1, dated May 1, 1977, to Contract, dated May 24, 1976, among the CAPCO Group members for the operation of Beaver Valley Unit No. 2 (Exhibit 5(d)(6), File No. 2-60109, filed by Ohio Edison).
10b(10)	Addendum No. 1, dated November 1, 1980, to Contract, dated May 24, 1976, as amended among the CAPCO Group members for the operation of Beaver Valley Unit No. 2 (Exhibit 10-9, File No. 2-68906, filed by Ohio Edison).
10b(11)	Amendment No. 1, dated August 1, 1981, to CAPCO Basic Operating Agreement as Amended September 1, 1980 among the CAPCO Group members (Exhibit 10.27, 1981 Form 10-K, File No. 1-956, filed by Duquesne).
10b(12)	Amendment No. 2, dated September 1, 1982, to CAPCO Basic Operating Agreement as Amended September 1, 1980 among the CAPCO Group members (Exhibit 10.29, 1982 Form 10-K, File No. 1-956, filed by Duquesne).
10c(1)	Participation Agreement, dated as of October 1, 1973, among Quarto, the CAPCO Group members, Energy Properties, Inc., General Electric Credit Corporation, the Loan Participants listed in Schedules A and B thereto, Central National Bank of Cleveland, as Owner Trustee, National City Bank, as Loan Trustee, and National City Bank, as Bond Trustee (Exhibit 5(z), File No. 2-59794, filed by Toledo Edison).
10c(2)	Amendment No. 1, dated as of September 15, 1978, to Participation Agreement, dated as of October 1, 1973, among the same parties as Exhibit 10c(1) (Exhibit 5(e)(2), File No. 2-68906, filed by Pennsylvania Power).
10c(3)	Participation Agreement No. 2, dated as of August 1, 1974, among the same parties as Exhibit 10c(1) (Exhibit 5(h)(2), File No. 2-53059, filed by Ohio Edison).
10c(4)	Amendment No. 1, dated as of September 15, 1978, to Participation Agreement No. 2, dated as of August 1, 1974, among the same parties as Exhibit 10c(1) (Exhibit 5(e)(4), File No. 2-68906, filed by Pennsylvania Power).
10c(5)	Participation Agreement No. 3, dated as of September 15, 1978, among the same parties as Exhibit 10c(1) (Exhibit 5(uu), File No. 2-64609, filed by Toledo Edison).
10c(6)	Participation Agreement No. 4, dated as of October 31, 1980, among Quarto, the CAPCO Group members, the Loan Participants listed in Schedule A thereto, and National City Bank, as Bond Trustee (Exhibit 10-16, File No. 2-68906, filed by Ohio Edison).
10c(7)	Lease and Agreement, dated as of June 7, 1973, as amended and restated as of October 1, 1973, between Central National Bank of Cleveland, as Trustee, and Quarto, together with Guaranty, dated as October 1, 1973, with respect thereto by the CAPCO Group members (Exhibit 5(aa), File No. 2-59794, filed by Toledo Edison).

Exhibit NumberDocument

- 10c(8) Trust Indenture and Mortgage, dated as of October 1, 1973, between Quarto and National City Bank, as Bond Trustee, together with Guaranty, dated as of October 1, 1973, with respect thereto by the CAPCO Group members (Exhibit 5(bb), File No. 2-59794, filed by Toledo Edison).
- 10c(9) Amendment No. 1, dated as of August 1, 1974, to Trust Indenture and Mortgage, dated as of October 1, 1973, between Quarto and National City Bank, as Bond Trustee, together with Amendment No. 1, dated August 1, 1974, to Guaranty, dated as of October 1, 1973, with respect thereto by the CAPCO Group members (Exhibit 5(L)(2), File No. 2-53059, filed by Ohio Edison).
- 10c(10) Amendment No. 2, dated as of September 15, 1978, to Trust Indenture and Mortgage, dated as of October 1, 1973, as amended, between Quarto and National City Bank, as Bond Trustee, together with Amendment No. 2, dated as of September 15, 1978, to Guaranty, dated as of October 1, 1973, with respect thereto by the CAPCO Group members (Exhibits 5(e)(11) and 5(e)(12), File No. 2-68906, filed by Pennsylvania Power).
- 10c(11) Amendment No. 3, dated as of October 31, 1980, to Trust Indenture and Mortgage, dated as of October 1, 1973, as amended, between Quarto and National City Bank, as Bond Trustee (Exhibit 10-16, File No. 2-68906, filed by Ohio Edison).
- 10c(12) Amendment No. 3, dated as of October 31, 1980, to Guaranty, dated as of October 1, 1973, with respect to the CAPCO Group members (Exhibit 10-18, File No. 2-68906, filed by Ohio Edison).
- 10c(13) Open-End Mortgage, dated as of October 1, 1973, between Quarto and the CAPCO Group members and Amendment No. 1 thereto, dated as of September 15, 1978 (Exhibit 10-5, File No. 2-68906, filed by Ohio Edison).
- 10c(14) Agreement, dated October 20, 1981, among the CAPCO Group members regarding the use of Quarto coal at Mansfield Units 1, 2 and 3 (Exhibit 10(ff), 1981 Form 10-K, File No. 1-3583, filed by Toledo Edison).
- 10c(15) Agreement, dated July 1, 1982, among the CAPCO Group members reallocating the rights and liabilities of the members with respect to certain uranium supply contracts (Exhibit 10(ff), 1982 Form 10-K, File No. 1-3583, filed by Toledo Edison).
- 10d(1)(a) Form of Collateral Trust Indenture among CTC Beaver Valley Funding Corporation, Cleveland Electric, Toledo Edison and Irving Trust Company, as Trustee (Exhibit 4(a), File No. 33-18755, filed by Cleveland Electric and Toledo Edison).
- 10d(1)(b) Form of Supplemental Indenture to Collateral Trust Indenture, including form of Secured Lease Obligation Bond (Exhibit 4(b), File No. 33-18755, filed by Cleveland Electric and Toledo Edison).

<u>Exhibit Number</u>	<u>Document</u>
10d(2)(a)	Form of Collateral Trust Indenture among CTC Mansfield Funding Corporation, Cleveland Electric, Toledo Edison and IBI Schroder Bank & Trust Company, as Trustee (Exhibit 4(a), File No. 33-20128, filed by Cleveland Electric and Toledo Edison).
10d(2)(b)	Form of Supplemental Indenture to Collateral Trust Indenture, including forms of Secured Lease Obligation Bonds (Exhibit 4(b), File No. 33-20128, filed by Cleveland Electric and Toledo Edison).
10d(3)(a)	Form of Facility Lease dated as of September 15, 1987 between The First National Bank of Boston, as Owner Trustee under a Trust Agreement dated as of September 15, 1987 with the limited partnership Owner Participant named therein, Lessor, and Cleveland Electric and Toledo Edison, Lessees (Exhibit 4(c), File No. 33-18755, filed by Cleveland Electric and Toledo Edison).
10d(3)(b)	Form of Amendment No. 1 to Facility Lease constituting Exhibit 10d(3)(a) above (Exhibit 4(e), File No. 33-18755, filed by Cleveland Electric and Toledo Edison).
10d(4)(a)	Form of Facility Lease dated as of September 15, 1987 between The First National Bank of Boston, as Owner Trustee under a Trust Agreement dated as of September 15, 1987 with the corporate Owner Participant named therein, Lessor, and Cleveland Electric and Toledo Edison, Lessees (Exhibit 4(d), File No. 33-18755, filed by Cleveland Electric and Toledo Edison).
10d(4)(b)	Form of Amendment No. 1 to Facility Lease constituting Exhibit 10d(4)(a) above (Exhibit 4(f), File No. 33-18755, filed by Cleveland Electric and Toledo Edison).
10d(5)(a)	Form of Facility Lease dated as of September 30, 1987 between Meridian Trust Company, as Owner Trustee under a Trust Agreement dated as of September 30, 1987 with the Owner Participant named therein, Lessor, and Cleveland Electric and Toledo Edison, Lessees (Exhibit 4(c), File No. 33-20128, filed by Cleveland Electric and Toledo Edison).
10d(5)(b)	Form of Amendment No. 1 to the Facility Lease constituting Exhibit 10d(5)(a) above (Exhibit 4(f), File No. 33-20128, filed by Cleveland Electric and Toledo Edison).
10d(6)(a)	Form of Participation Agreement dated as of September 15, 1987 among the limited partnership Owner Participant named therein, the Original Loan Participants listed in Schedule 1 thereto, as Original Loan Participants, CTC Beaver Valley Funding Corporation, as Funding Corporation, The First National Bank of Boston, as Owner Trustee, Irving Trust Company, as Indenture Trustee, and Cleveland Electric and Toledo Edison, as Lessees (Exhibit 28(a), File No. 33-18755, filed by Cleveland Electric and Toledo Edison).
10d(6)(b)	Form of Amendment No. 1 to Participation Agreement constituting Exhibit 10d(6)(a) above (Exhibit 28(c), File No. 33-18755, filed by Cleveland Electric and Toledo Edison).

Exhibit NumberDocument

- 10d(7)(a) Form of Participation Agreement dated as of September 15, 1987 among the corporate Owner Participant named therein, the Original Loan Participants listed in Schedule I thereto, as Original Loan Participants, CTC Beaver Valley Funding Corporation, as Funding Corporation, The First National Bank of Boston, as Owner Trustee, Irving Trust Company, as Indenture Trustee, and Cleveland Electric and Toledo Edison, as Lessees (Exhibit 28(b), File No. 33-18755, filed by Cleveland Electric and Toledo Edison).
- 10d(7)(b) Form of Amendment No. 1 to Participation Agreement constituting Exhibit 10d(7)(a) above (Exhibit 28(d), File No. 33-18755, filed by Cleveland Electric and Toledo Edison).
- 10d(8)(a) Form of Participation Agreement dated as of September 30, 1987 among the Owner Participant named therein, the Original Loan Participants listed in Schedule II thereto, as Original Loan Participants, CTC Mansfield Funding Corporation, Meridian Trust Company, as Owner Trustee, IBI Schroder Bank & Trust Company, as Indenture Trustee, and Cleveland Electric and Toledo Edison, as Lessees (Exhibit 28(a), File No. 33-20128, filed by Cleveland Electric and Toledo Edison).
- 10d(8)(b) Form of Amendment No. 1 to the Participation Agreement constituting Exhibit 10d(8)(a) above (Exhibit 28(b), File No. 33-20128, filed by Cleveland Electric and Toledo Edison).
- 10d(9) Form of Ground Lease dated as of September 15, 1987 between Toledo Edison, Ground Lessor, and The First National Bank of Boston, as Owner Trustee under a Trust Agreement dated as of September 15, 1987 with the Owner Participant named therein, Tenant (Exhibit 28(e), File No. 33-18755, filed by Cleveland Electric and Toledo Edison).
- 10d(10) Form of Site Lease dated as of September 30, 1987 between Toledo Edison, Lessor, and Meridian Trust Company, as Owner Trustee under a Trust Agreement dated as of September 30, 1987 with the Owner Participant named therein, Tenant (Exhibit 28(c), File No. 33-20128, filed by Cleveland Electric and Toledo Edison).
- 10d(11) Form of Site Lease dated as of September 30, 1987 between Cleveland Electric, Lessor, and Meridian Trust Company, as Owner Trustee under a Trust Agreement dated as of September 30, 1987 with the Owner Participant named therein, Tenant (Exhibit 28(d), File No. 33-20128, filed by Cleveland Electric and Toledo Edison).
- 10d(12) Form of Amendment No. 1 to the Site Leases constituting Exhibits 10d(10) and 10d(11) above (Exhibit 4(f), File No. 33-20128, filed by Cleveland Electric and Toledo Edison).

Exhibit NumberDocument

- 10d(13) Form of Assignment, Assumption and Further Agreement dated as of September 15, 1987 among The First National Bank of Boston, as Owner Trustee under a Trust Agreement dated as of September 15, 1987 with the Owner Participant named therein, Cleveland Electric, Duquesne, Ohio Edison, Pennsylvania Power and Toledo Edison (Exhibit 28(f), File No. 33-18755, filed by Cleveland Electric and Toledo Edison).
- 10d(14) Form of Additional Support Agreement dated as of September 15, 1987 between The First National Bank of Boston, as Owner Trustee under a Trust Agreement dated as of September 15, 1987 with the Owner Participant named therein, and Toledo Edison (Exhibit 28(g), File No. 33-18755, filed by Cleveland Electric and Toledo Edison).
- 10d(15) Form of Support Agreement dated as of September 30, 1987 between Meridian Trust Company, as Owner Trustee under a Trust Agreement dated as of September 30, 1987 with the Owner Participant named there, Toledo Edison, Cleveland Electric, Duquesne, Ohio Edison and Pennsylvania Power (Exhibit 28(e), File No. 33-20128, filed by Cleveland Electric and Toledo Edison).
- 10d(16) Form of Indenture, Bill of Sale, Instrument of Transfer and Severance Agreement dated as of September 30, 1987 between Toledo Edison, Seller, and The First National Bank of Boston, as Owner Trustee under a Trust Agreement dated as of September 15, 1987 with the Owner Participant named therein, Buyer (Exhibit 28(h), File No. 33-18755, filed by Cleveland Electric and Toledo Edison).
- 10d(17) Form of Bill of Sale, Instrument of Transfer and Severance Agreement dated as of September 30, 1987 between Toledo Edison, Seller, and Meridian Trust Company, as Owner Trustee under a Trust Agreement dated as of September 30, 1987 with the Owner Participant named therein, Buyer (Exhibit 28(f), File No. 33-20128, filed by Cleveland Electric and Toledo Edison).
- 10d(18) Form of Bill of Sale, Instrument of Transfer and Severance Agreement dated as of September 30, 1987 between Cleveland Electric, Seller, and Meridian Trust Company, as Owner Trustee under a Trust Agreement dated as of September 30, 1987 with the Owner Participant named therein, Buyer (Exhibit 28(g), File No. 33-20128, filed by Cleveland Electric and Toledo Edison).
- 18 Letter regarding change in accounting principles (Exhibit 18, June 30, 1988 Form 10-Q, File Nos. 1-9330, 1-2323 and 1-3583).
- 28(a) Form 11-K Annual Report of the Centenor Energy Corporation Employee Savings Plan for the fiscal year ended December 31, 1990 (to be filed by amendment).

CENTERIOR ENERGY EXHIBITS

<u>Exhibit Number</u>	<u>Document</u>
3a	Amended Articles of Incorporation of Centerior Energy effective April 29, 1986 (Exhibit 4(a), File No. 33-4790).
3b	Regulations of Centerior Energy effective April 28, 1987 (Exhibit 3b, 1987 Form 10-K, File No. 1-9130).
10a	*Indemnity Agreements between Centerior and certain of its current directors and officers.
10e(1)	Consulting Agreement, dated February 1, 1989, with R. M. Ginn pursuant to which he is to provide consulting services to Centerior for the period March 1, 1989 through February 28, 1990 (Exhibit 10e(1), 1988 Form 10-K, File No. 1-9130).
10e(2)	Employment and Consulting Agreement, dated November 30, 1989, with P. M. Smart regarding his employment with Toledo Edison through August 31, 1990 and his providing consulting services to Centerior and Toledo Edison for the period September 1, 1990 through January 31, 1994 (Exhibit 10e(2), 1989 Form 10-K, File No. 1-9130).
22	List of subsidiaries (Exhibit 22, 1986 Form 10-K, File No. 1-9130).
24a	*Consent of Independent Accountants.
24b	*Consent of Counsel for Centerior Energy.
25	*Powers of Attorney and certified resolution of Centerior Energy's Board of Directors authorizing the signing on behalf of Centerior pursuant to a power of attorney.

CLEVELAND ELECTRIC EXHIBITS

<u>Exhibit Number</u>	<u>Document</u>
3a	Amended Articles of Incorporation of Cleveland Electric, effective October 30, 1987 (Exhibit 3, September 30, 1987 Form 10-Q, File No. 1-2323).
3b	*Regulations of Cleveland Electric, dated April 29, 1981, as amended effective October 1, 1988 and April 24, 1990.

Exhibit NumberDocument

- 4b(1) Mortgage and Deed of Trust between Cleveland Electric and Guaranty Trust Company of New York (now Morgan Guaranty Trust Company of New York), as Trustee, dated July 1, 1940 (Exhibit 7(a), File No. 2-4450).
- Supplemental Indentures between Cleveland Electric and the Trustee, supplemental to Exhibit 4b(1), dated as follows:
- 4b(2) July 1, 1940 (Exhibit 7(b), File No. 2-4450).
- 4b(3) August 18, 1944 (Exhibit 4(c), File No. 2-9887).
- 4b(4) December 1, 1947 (Exhibit 7(d), File No. 2-7306).
- 4b(5) September 1, 1950 (Exhibit 7(c), File No. 2-8587).
- 4b(6) June 1, 1951 (Exhibit 7(f), File No. 2-8994).
- 4b(7) May 1, 1954 (Exhibit 4(d), File No. 2-10830).
- 4b(8) March 1, 1958 (Exhibit 2(a)(4), File No. 2-13839).
- 4b(9) April 1, 1959 (Exhibit 2(a)(4), File No. 2-14753).
- 4b(10) December 20, 1967 (Exhibit 2(a)(4), File No. 2-30759).
- 4b(11) January 15, 1969 (Exhibit 2(a)(5), File No. 2-30759).
- 4b(12) November 1, 1969 (Exhibit 2(a)(4), File No. 2-35008).
- 4b(13) June 1, 1970 (Exhibit 2(a)(4), File No. 2-37235).
- 4b(14) November 15, 1970 (Exhibit 2(a)(4), File No. 2-38460).
- 4b(15) May 1, 1974 (Exhibit 2(a)(4), File No. 2-50537).
- 4b(16) April 15, 1975 (Exhibit 2(a)(4), File No. 2-52995).
- 4b(17) April 16, 1975 (Exhibit 2(a)(4), File No. 2-53309).
- 4b(18) May 28, 1975 (Exhibit 2(c), June 5, 1975 Form 8-A, File No. 1-2323).
- 4b(19) February 1, 1976 (Exhibit 3(d)(6), 1975 Form 10-K, File No. 1-2323).
- 4b(20) November 23, 1976 (Exhibit 2(a)(4), File No. 2-57375).
- 4b(21) July 26, 1977 (Exhibit 2(a)(4), File No. 2-59401).
- 4b(22) September 27, 1977 (Exhibit 2(a)(5), File No. 2-67221).
- 4b(23) May 1, 1978 (Exhibit 2(b), June 30, 1978 Form 10-Q, File No. 1-2323).
- 4b(24) September 1, 1979 (Exhibit 2(a), September 30, 1979 Form 10-Q, File No. 1-2323).
- 4b(25) April 1, 1980 (Exhibit 4(a)(2), September 30, 1980 Form 10-Q, File No. 1-2323).
- 4b(26) April 15, 1980 (Exhibit 4(b), September 30, 1980 Form 10-Q, File No. 1-2323).
- 4b(27) May 28, 1980 (Exhibit 2(a)(4), Amendment No. 1, File No. 2-67221).
- 4b(28) June 9, 1980 (Exhibit 4(d), September 30, 1980 Form 10-Q, File No. 1-2323).
- 4b(29) December 1, 1980 (Exhibit 4(b)(29), 1980 Form 10-K, File No. 1-2323).
- 4b(30) July 28, 1981 (Exhibit 4(a), September 30, 1981, Form 10-Q, File No. 1-2323).
- 4b(31) August 1, 1981 (Exhibit 4(b), September 30, 1981, Form 10-Q, File No. 1-2323).
- 4b(32) March 1, 1982 (Exhibit 4(b)(3), Amendment No. 1, File No. 2-76029).

Exhibit NumberDocument

4b(33)	July 15, 1982 (Exhibit 4(a), September 30, 1982 Form 10-Q, File No. 1-2323).
4b(34)	September 1, 1982 (Exhibit 4(a)(1), September 30, 1982 Form 10-Q, File No. 1-2323).
4b(35)	November 1, 1982 (Exhibit 4(a)(2), September 30, 1982 Form 10-Q, File No. 1-2323).
4b(36)	November 15, 1982 (Exhibit 4(b)(36), 1982 Form 10-K, File No. 1-2323).
4b(37)	May 24, 1983 (Exhibit 4(a), June 30, 1983 Form 10-Q, File No. 1-2323).
4b(38)	May 1, 1984 (Exhibit 4, June 30, 1984 Form 10-Q, File No. 1-2323).
4b(39)	May 23, 1984 (Exhibit 4, May 22, 1984 Form 8-K, File No. 1-2323).
4b(40)	June 27, 1984 (Exhibit 4, June 11, 1984 Form 8-K, File No. 1-2323).
4b(41)	September 4, 1984 (Exhibit 4b(41), 1984 Form 10-K, File No. 1-2323).
4b(42)	November 14, 1984 (Exhibit 4b(42), 1984 Form 10-K, File No. 1-2323).
4b(43)	November 15, 1984 (Exhibit 4b(43), 1984 Form 10-K, File No. 1-2323).
4b(44)	April 15, 1985 (Exhibit 4(a), May 8, 1985 Form 8-K, File No. 1-2323).
4b(45)	May 28, 1985 (Exhibit 4(b), May 8, 1985 Form 8-K, File No. 1-2323).
4b(46)	August 1, 1985 (Exhibit 4, September 30, 1985 Form 10-Q, File No. 1-2323).
4b(47)	September 1, 1985 (Exhibit 4, September 30, 1985 Form 8-K, File No. 1-2323).
4b(48)	November 1, 1985 (Exhibit 4, January 31, 1986 Form 8-K, File No. 1-2323).
4b(49)	April 15, 1986 (Exhibit 4, March 31, 1986 Form 10-Q, File No. 1-2323).
4b(50)	May 14, 1986 (Exhibit 4(a), June 30, 1986 Form 10-Q, File No. 1-2323).
4b(51)	May 15, 1986 (Exhibit 4(b), June 30, 1986 Form 10-Q, File No. 1-2323).
4b(52)	February 25, 1987 (Exhibit 4b(52), 1986 Form 10-K, File No. 1-2323).
4b(53)	October 15, 1987 (Exhibit 4, September 30, 1987 Form 10-Q, File No. 1-2323).
4b(54)	February 24, 1988 (Exhibit 4b(54), 1987 Form 10-K, File No. 1-2323).
4b(55)	September 15, 1988 (Exhibit 4b(55), 1988 Form 10-K, File No. 1-2323).
4b(56)	May 15, 1989 (Exhibit 4(a)(2)(i), File No. 33-32724).
4b(57)	June 13, 1989 (Exhibit 4(a)(2)(ii), File No. 33-32724).
4b(58)	October 15, 1989 (Exhibit 4(a)(2)(iii), File No. 33-32724).
4b(59)	January 1, 1990 (Exhibit 4b(59), 1989 Form 10-K, File No. 1-2323).

<u>Exhibit Number</u>	<u>Document</u>
4b(60)	June 1, 1990 (Exhibit 4(a), September 30, 1990 Form 10-Q, File No. 1-2323).
4b(61)	August 1, 1990 (Exhibit 4(b), September 30, 1990 Form 10-Q, File No. 1-2323).
10a	Indemnity Agreements between Cleveland Electric and certain of its current directors (Exhibit 10a, 1988 Form 10-K, File No. 1-2323).
10a(1)	Key Employee Incentive Stock Plan (Exhibit 4(d), File No. 2-37309).
10a(2)	1978 Key Employee Stock Option Plan (Exhibit 1, File No. 2-61712).
22	List of subsidiaries (Exhibit 22, 1986 Form 10-K, File No. 1-2323).
24a	*Consent of Independent Accountants.
24b	*Consent of Counsel for Cleveland Electric.
25	*Powers of Attorney and certified resolution of Cleveland Electric's Board of Directors authorizing the signing on behalf of Cleveland Electric pursuant to a power of attorney.

TOLEDO EDISON EXHIBITS

<u>Exhibit Number</u>	<u>Document</u>
3a	Amended Articles of Incorporation of Toledo Edison effective September 25, 1986 (Exhibit 3a, 1986 Form 10-K, File No. 1-3583).
3a(1)	Certificate of Amendment effective July 31, 1987 to Amended Articles of Incorporation of Toledo Edison (Exhibit 3a(1), 1988 Form 10-K, File No. 1-3583).
3b	*Code of Regulations of Toledo Edison dated January 28, 1987, as amended effective July 1 and October 1, 1988 and April 24, 1990.
4b(1)	Indenture, dated as of April 1, 1947, between the Company and The Chase National Bank of the City of New York (now The Chase Manhattan Bank (National Association)) (Exhibit 2(b), File No. 2-26908).
	Supplemental Indentures between Toledo Edison and the Trustee, Supplemental to Exhibit 4b(1), dated as follows:

Exhibit NumberDocument

4b(2)	September 1, 1948 (Exhibit 2(d), File No. 2-26903).
4b(3)	April 1, 1949 (Exhibit 2(e), File No. 2-26908).
4b(4)	December 1, 1950 (Exhibit 2(f), File No. 2-26908).
4b(5)	March 1, 1954 (Exhibit 2(g), File No. 2-26908).
4b(6)	February 1, 1956 (Exhibit 2(h), File No. 2-26908).
4b(7)	May 1, 1958 (Exhibit 5(g), File No. 2-59794).
4b(8)	August 1, 1967 (Exhibit 2(c), File No. 2-26908).
4b(9)	November 1, 1970 (Exhibit 2(c), File No. 2-38569).
4b(10)	August 1, 1972 (Exhibit 2(c), File No. 2-44873).
4b(11)	November 1, 1973 (Exhibit 2(c), File No. 2-49428).
4b(12)	July 1, 1974 (Exhibit 2(c), File No. 2-51429).
4b(13)	October 1, 1975 (Exhibit 2(c), File No. 2-54627).
4b(14)	June 1, 1976 (Exhibit 2(c), File No. 2-56396).
4b(15)	October 1, 1978 (Exhibit 2(c), File No. 2-62568).
4b(16)	September 1, 1979 (Exhibit 2(c), File No. 2-65350).
4b(17)	September 1, 1980 (Exhibit 4(s), File No. 2-69190).
4b(18)	October 1, 1980 (Exhibit 4(c), File No. 2-69190).
4b(19)	April 1, 1981 (Exhibit 4(c), File No. 2-71580).
4b(20)	November 1, 1981 (Exhibit 4(c), File No. 2-74485).
4b(21)	June 1, 1982 (Exhibit 4(c), File No. 2-77763).
4b(22)	September 1, 1982 (Exhibit 4(x), File No. 2-87323).
4b(23)	April 1, 1983 (Exhibit 4(c), March 31, 1983 Form 10-Q, File No. 1-3583).
4b(24)	December 1, 1983 (Exhibit 4(x), 1983 Form 10-K, File No. 1-3583).
4b(25)	April 1, 1984 (Exhibit 4(c), File No. 2-90059).
4b(26)	October 15, 1984 (Exhibit 4(z), 1984 Form 10-K, File No. 1-3583).
4b(27)	October 15, 1984 (Exhibit 4(aa), 1984 Form 10-K, File No. 1-3583).
4b(28)	August 1, 1985 (Exhibit 4(dd), File No. 33-1689).
4b(29)	August 1, 1985 (Exhibit 4(ee), File No. 33-1689).
4b(30)	December 1, 1985 (Exhibit 4(c), File No. 33-1689).
4b(31)	March 1, 1986 (Exhibit 4b(31), 1986 Form 10-K, File No. 1-3583).
4b(32)	October 15, 1987 (Exhibit 4, September 30, 1987 Form 10-Q, File No. 1-3583).
4b(33)	September 15, 1988 (Exhibit 4b(33), 1988 Form 10-K, File No. 1-3583).
4b(34)	June 15, 1989 (Exhibit 4b(34), 1989 Form 10-K, File No. 1-3583).
4b(35)	October 15, 1989 (Exhibit 4b(35), 1989 Form 10-K, File No. 1-3583).
4b(36)	May 15, 1990 (Exhibit 4, June 30, 1990 Form 10-Q, File No. 1-3583).
10a	Indemnity Agreements between Toledo Edison and certain of its current directors (Exhibit 10a, 1988 Form 10-K, File No. 1-3583).

Exhibit NumberDocument

- 10e(2) Employment and Consulting Agreement, dated November 30, 1989, with P. M. Smart regarding his employment with Toledo Edison through August 31, 1990 and his providing consulting services to Centerior and Toledo Edison for the period September 1, 1990 through January 31, 1994 (Exhibit 10e(2), 1989 Form 10-K, File No. 1-9130).
- 24a *Consent of Independent Accountants.
- 24b *Consent of Counsel for Toledo Edison.
- 25 *Powers of Attorney and certified resolution of Toledo Edison's Board of Directors authorizing the signing on behalf of Toledo Edison pursuant to a power of attorney.
- 28(b) Form 11-K Annual Report of the Toledo Edison Savings Incentive Plan for the fiscal year ended December 31, 1990 (to be filed by amendment).

Pursuant to Paragraph (b)(4)(iii)(A) of Item 601 of Regulation S-K, the Registrants have not filed as an exhibit to this Form 10-K any instrument with respect to long-term debt if the total amount of securities authorized thereunder does not exceed 10% of the total assets of the applicable Registrant and its subsidiaries on a consolidated basis, but each hereby agrees to furnish to the Securities and Exchange Commission on request any such instruments.

Pursuant to Rule 14a-3(b)(10) under the Securities Exchange Act of 1934, copies of exhibits filed by the Registrants with this Form 10-K will be furnished by the Registrants to share owners upon written request and upon receipt in advance of the aggregate fee for preparation of such exhibits at a rate of \$.25 per page, plus any postage or shipping expenses which would be incurred by the Registrants.

THE
TOLEDO
EDISON
COMPANY

1990
ANNUAL
REPORT

A
Subsidiary
of
Centerior
Energy
Corporation

THE
TOLEDO
EDISON
COMPANY

1990
ANNUAL
REPORT

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of
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Corporation

CONTENTS

- 1 About Toledo Edison
- 1 Directors
- 1 Officers
- 2 Report of Independent Public Accountants
- 3 Summary of Significant Accounting Policies
- 5 Management's Financial Analysis, Financial Statements and Notes
- 22 Financial and Statistical Review
- 24 Investor Information

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.

Cleveland, Ohio
February 12, 1991

ARTHUR
ANDERSEN
& CO.

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.

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)
	<u>\$ 300,000</u>

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)
	<u>\$199,000,000</u>

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	<u>\$ 82,956</u>	<u>\$ 99,965</u>	<u>\$ 89,614</u>

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

INCOME STATEMENT

THE TOLEDO EDISON COMPANY

	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
	<u>674,644</u>	<u>684,486</u>	<u>575,644</u>
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
	<u>61,652</u>	<u>89,674</u>	<u>(25,394)</u>
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)
	<u>132,670</u>	<u>139,313</u>	<u>148,690</u>
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)
Deferred 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

THE TOLEDO EDISON COMPANY

	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	—	(12,555)	(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	4,550	47,059	131,623
Net Cash from Operating Activities	126,774	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	(51,585)	(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

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
	<u>1,960,817</u>	<u>1,965,094</u>
Construction work in progress	93,154	84,586
Perry Unit 2	343,685	345,754
	<u>2,397,656</u>	<u>2,395,434</u>
Nuclear fuel, net of amortization	221,848	235,193
Other property, less accumulated depreciation	2,024	2,125
	<u>2,621,528</u>	<u>2,632,752</u>

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	26,641
Fossil fuel inventory, at average cost	15,578	14,882
Taxes applicable to succeeding years	63,375	61,967
Other	2,473	4,815
	<u>249,597</u>	<u>408,636</u>

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
	<u>1,130,393</u>	<u>1,097,458</u>

Total Assets	<u>\$4,001,518</u>	<u>\$4,138,846</u>
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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
	<u>2,254,438</u>	<u>2,374,060</u>

OTHER NONCURRENT LIABILITIES

Refund obligations to customers	—	23,780
Other, primarily nuclear fuel lease obligations	228,844	252,460
	<u>228,844</u>	<u>276,240</u>

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	31,365	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
	<u>510,918</u>	<u>453,823</u>

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
	<u>1,007,318</u>	<u>1,034,723</u>
Total Capitalization and Liabilities	<u>\$4,001,518</u>	<u>\$4,138,846</u>

STATEMENT OF CUMULATIVE PREFERRED AND PREFERENCE STOCK

THE TOLEDO EDISON COMPANY

		1990 Shares Outstanding	Current Call Price	December 31,			
				1990	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	150,000	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 Mega-watts	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	—
					<u>\$1,728,481</u>	<u>\$384,605</u>	<u>\$240,290</u>

(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	<u>\$3,142,000</u>	<u>\$1,894,000</u>

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	\$22,535
Carrying Charges:		
Debt	\$21,361	\$30,617
Equity	22,126	51,691
	<u>\$43,487</u>	<u>\$82,308</u>

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 discussed in the following paragraphs. No change was made in the cost deferrals for 1989. The Company reduced 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 the Company 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	(2,647)	(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	\$ 58,748	\$(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 31, 1989. The long-term rate of annual compensation increase assumption was 5% for both December 31, 1990 and December 31, 1989. The long-term rate of return on plan assets assumption was 8% in 1990 and 1989.

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

The cost of postretirement medical benefits amounted to \$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	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 available or cash or substitution for refundable first mortgage bonds. The issuance of additional first mortgage bonds by the Company on the basis of property available 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.

(ii) 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 was a change on the periods prior to January 1, 1988, of \$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	\$235 576	\$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	401 869

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	3 761	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

Year	Operable Capacity at Time of Peak	Peak Load	Capacity Margin	Load Factor	Company Generated			Net Purchased Power	Total	Fuel Cost Per KWH	Efficiency - BTU Per KWH
					Fossil	Nuclear	Total				
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 & Ferry 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	267 068	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	1 187 774	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	1 187 277	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	148 787	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, F.fth 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

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

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.

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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