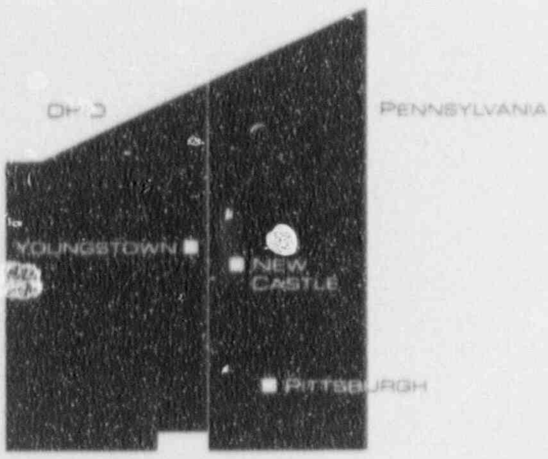
1991 ANNUAL REPORT

PENN POWER

Company Profile

Pennsylvania Power Company Provides Electric Service To 136,000 Customers In Western Pennsylvania. The Company Furnishes Electric Service In 139 Communities, As Well As Rural Areas, And Also Sells Electric Energy At Wholesale To Five Municipalities. The Company's Service Area Has An Estimated Population Of 360,000. The Company, With Headquarters In New Castle, Pennsylvania, Is A Wholly Owned Subsidiary Of Ohio Edison Company.



Contents

FINANCIAL HIGHLIGHTS

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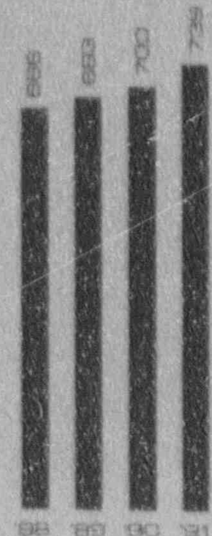
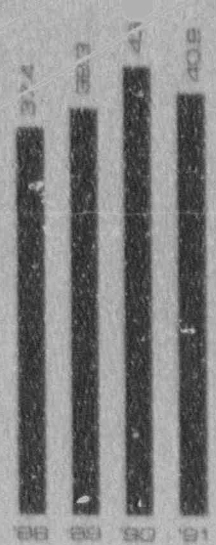
For the Year Ended December 31,	1991	1990	Change
Retail Kilowatt-Hour Sales	3,661.9	3,552.7	+ 3.1%
Operating Revenues	$321.8	$318.[illegible]	+ 1.2%
Operating Expenses and Taxes	240.7	252.1	− 4.5%
Operating Income	81.1	66.0	+ 22.9%
Net Income	40.2	25.5	+ 57.5%
Earnings on Common Stock	32.5	15.5	+ 109.0%
Dividends on Capital Stock	35.4	37.6	− 5.9%
Capital Expenditures:			
Construction of Facilities	$ 22.0	$ 27.8	
Nuclear Fuel	3.1	6.8	
Capital Leases	1.2	1.9	
Total	$ 26.3	$ 36.5	− 27.9%
Internally Generated Cash	$ 75.8	$ 40.1	+ 89.1%
External Financing:			
New Financing	$ 31.7	$ 54.4	
Redemptions and Repayments	124.2	31.9	
Net External Financing	$ (92.5)	$ 22.5	
Return on Average Common Equity	12.2%	5.7%	

NET INCOME
($ millions)

PEAK LOAD
(megawatts)



SALES TO OTHER UTILITIES
($ millions)



We achieved records in commercial and residential sales and growth in industrial sales as our service area outperformed the national economy in 1991.

Strong business activity fueled a 5.5 percent increase in kilowatt-hour sales to our commercial customers—marking six consecutive years of record sales to this growing customer group. Residential sales were up 4.9 percent, driven by new home construction and increased use of air conditioning. Sales to industrial customers were up 1.6 percent as our major steel companies increased their production. Total electric sales were off 2.5 percent due to a 15.4 percent drop in sales to other utilities.

And, for the fifth consecutive year, our customers set a record peak demand for electricity, reaching 735 megawatts on September 16. Since 1986, peak demand has increased 35 percent.

Earnings Recover

For the year, earnings on common stock totaled $32.5 million, compared with $15.5 million in 1990. Strong retail sales and continued cost control helped 1991 earnings recover from a $10-million, after-tax write-off taken in 1990.

As you may recall, the write-off resulted from a disallowance of costs associated with purchases of power from the Perry Nuclear Power Plant. Although we appealed the Pennsylvania Public Utility Commission (PPUC) disallowance, the U.S. Supreme Court refused to hear our appeal.

Also, a $2.5-million, after-tax reserve affected 1991 earnings. We established this reserve following a December 19 ruling by the PPUC requiring us to refund to customers the cost of power purchased in 1979 during a five-month outage at the Beaver Valley Power Station. We are considering an appeal to the Commonwealth Court of Pennsylvania.

Despite that PPUC ruling, earnings continued to benefit from our efforts to reduce costs. We streamlined our operations and reduced our work force to its lowest level since 1978. In addition, we redeemed and refinanced various securities, lowering our annual costs nearly $1.9 million.

In May 1992, we will reduce our electric rates by approximately 18 percent with the completion of a four-year, phased-in rate increase to recover costs associated with the Perry Plant. Under the phase-in plan, we have been stating earnings as if the May 1992 revenue level had been in place since the phase-in began in 1988. As a result, the rate reduction will not adversely affect future earnings.

Positive Sales Outlook

Our local economy is expected to grow further as the businesses and industries we serve become more competitive. Sharon Steel, our largest industrial customer, emerged from bankruptcy and increased production in 1991. Koppel Steel, an important new customer, completed its first full year of operations in 1991 with a surge in year-end orders. At full production, we expect Koppel to be our second largest customer.

Our economic development incentive rates help promote business growth in the communities we serve. We offer energy savings to new and existing customers that meet special requirements for employment and increased electricity use. Since 1984, 70 customers have participated in this program, adding more than 2,700 jobs to the area and $24.9 million in annual electric sales. In addition, we expanded our program of offering price incentives to industries that operate during off-peak hours, reducing their energy costs while adding to our electric sales.

To further increase sales, we are aggressively pursuing a larger share of the space-heating market. In 1991, we captured 56 percent of the commercial space-heating market, compared with 47 percent in 1990. And, we added more than 800 electrically heated homes in our system—an increase of 13 percent over 1990 results.

We also expect to improve sales and increase energy efficiency through our sponsorship of the Good Cents Home program. Good Cents sets high efficiency standards for insulation and electric heating equipment. This program is being well-received by area builders, realtors and home buyers.

LOOKING AHEAD

We look forward to a future that will bring challenge, change and opportunity.

One of the most significant challenges facing our industry is compliance with the new Clean Air Act Amendments. Our Company's past investments in environmental controls should serve us well. Nearly half of our generating capacity will not need additional sulfur-dioxide controls. As a result, we have the time and flexibility to choose from a range of cost-effective compliance strategies for our other plants.

At the New Castle Power Plant, we tested an innovative option that uses refuse-derived fuel (RDF)—primarily waste paper compressed into pellets that can be burned with coal. The RDF project offers the possibility of lower sulfur-dioxide emissions, reduced fuel costs, a new source of revenue from disposal fees, and environmental benefits to local communities.

We are facing another major challenge with proposals in Congress to amend the Public Utility Holding Company Act (PUHCA) and the Federal Power Act. These amendments could have the effect of restructuring the investor-owned electric utility industry. They include provisions for mandatory transmission access, which could enable some privileged customers to bypass local utility service. As a result, the vast majority of businesses and residential customers would be burdened with increased rates and less reliable service.

We support the efforts of Congress and the Administration to develop a sound, comprehensive national energy plan. However, we strongly oppose any strategy—including PUHCA reform or mandatory access—that threatens our country's electric system, the most reliable and economical in the world.

We have similar concerns about calls for additional, costly environmental controls to address global warming. At this point, most credible scientific evidence has shown little or no rise in global temperatures despite increases in man-made, carbon-dioxide emissions. The reason may be obvious: As many scientists recognize, nature itself produces more than 95 percent of all greenhouse gases. This illustrates the need for a more realistic and reasoned approach to environmental issues, one based on a recognition that our limited resources should support only those projects that offer worthwhile benefits to the environment.

In Pennsylvania, we are working with the PPUC on developing an equitable demand-side management program that provides incentives for encouraging customers to use energy efficiently. Later this year, the Commission should complete its review of our program.

We will, of course, continue to take an active role in debates over issues affecting the future of our Company. At the same time, we intend to stick to the business we know, following clear and well-defined goals that will lead to our future success.

Last year, we celebrated Penn Power's 60th anniversary as an operating company, recalling the long history of employee contributions to our success. Over the years, employees have kept us competitive while meeting the changing needs of our customers.

The hard work of employees and their commitment to customers will ensure our success in the years ahead.

Justin T. Rogers, Jr.

Justin T. Rogers, Jr.
Chairman of the Board
and Chief Executive Officer

Robert L. Kensinger

Robert L. Kensinger
President

New Castle, Pennsylvania
March 4, 1992

	1991	1990	1989	1988	1987
REVENUE FROM ELECTRIC SALES (Thousands):					
Residential	**$105,009**	$ [illegible],979	$101,791	$ 91,575	$ [illegible]4,615
Commercial	**61,172**	58,646	57,001	50,648	60,209
Industrial	**87,908**	88,497	90,525	86,225	69,958
Other	**8,645**	8,269	8,640	8,165	6,611
Subtotal	**260,734**	255,301	257,961	236,591	191,393
Parent Company	**14,576**	16,591	11,719	6,541	12,625
Other Utilities	**26,369**	26,718	27,545	30,890	18,120
Total	**$301,679**	$298,610	$297,225	$274,022	$222,138
REVENUE FROM ELECTRIC SALES:					
Residential	**34.1%**	33.5%	34.2%	33.4%	33.6%
Commercial	**20.3**	19.6	19.2	18.5	18.1
Industrial	**29.1**	29.6	30.5	31.4	31.5
Other	**2.9**	2.8	2.9	3.0	3.0
Subtotal	**86.4**	85.5	86.8	86.3	86.2
Parent Company	**4.8**	5.6	3.9	2.4	5.7
Other Utilities	**8.8**	6.9	9.3	11.3	8.1
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%
KILOWATT HOUR SALES (Millions):					
Residential	**1,061**	1,019	1,024	1,008	961
Commercial	**772**	732	698	668	628
Industrial	**1,823**	1,795	1,809	1,878	1,747
Other	**138**	135	137	136	127
Subtotal	**3,794**	3,681	3,668	3,690	3,463
Parent Company	**556**	743	388	313	603
Other Utilities	**790**	847	949	1,332	719
Total	**5,140**	5,271	5,005	5,335	4,785
CUSTOMERS SERVED AT DECEMBER 31:					
Residential	**120,537**	119,530	118,285	116,988	115,795
Commercial	**15,127**	14,948	14,718	14,622	14,261
Industrial	**245**	257	264	264	273
Other	**100**	117	115	150	143
Total	**136,007**	134,852	133,382	132,024	130,470
RESIDENTIAL CUSTOMER AVERAGES:					
Annual Kilowatt-Hours Used	**8,839**	8,585	8,717	8,676	8,357
Price per Kilowatt Hour (Cents)	**11.22**	9.89	8.75	7.91	7.77
Kilowatt-hours Generated (Millions)	**4,135**	4,525	4,040	4,447	4,197
Peak Load (Megawatts)	**739**	700	683	666	611
Cost of Fuel per Million BTU	**$ 1.32**	$ 1.27	$ 1.26	$ 1.27	$ 1.21
Generating Capability:					
[illegible]	**74.6%**	74.6%	74.6%	74.6%	74.6%
[illegible]	**2.8**	2.8	2.8	2.8	2.8
[illegible]	**22.6**	22.6	22.6	22.6	22.6
[illegible]	**100.0%**	100.0%	100.0%	100.0%	100.0%
[illegible] OF ELECTRIC GENERATION:					
[illegible]	**72.9%**	68.4%	76.6%	71.8%	75.0%
Nuclear	**27.1**	31.6	23.4	28.2	25.0
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%
NUMBER OF EMPLOYEES AT DECEMBER 31	**1,432**	1,658	1,675	1,716	1,725

(Dollars in thousands)

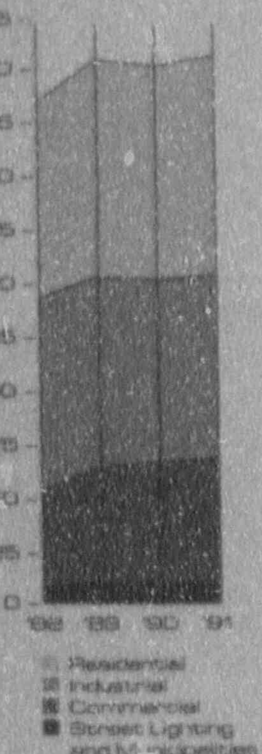
	1991	1990	1989	1988	1987
Operating Revenues	**$ 321,845**	$ 318,056	$ 313,757	$ 284,705	$ 235,822
Operating Income (i)	**81,102**	65,992	73,588	67,054	45,991
Net Income (i) (ii)	**40,197**	25,519	54,660	37,960	37,594
Earnings on Common Stock (i) (ii)	**32,475**	15,537	23,987	26,993	26,511
Cash Dividends on Common Stock	**27,676**	27,676	27,676	27,676	27,676
Total Assets	**1,022,099**	1,091,090	1,065,574	1,014,952	979,890
CAPITALIZATION:					
Common Stockholder's Equity	**$ 266,058**	$ 262,039	$ 274,158	$ 277,839	$ 278,510
Preferred Stock —					
Not Subject to Mandatory Redemption	**41,905**	41,905	41,905	41,905	41,905
Subject to Mandatory Redemption	**34,282**	38,722	59,662	65,102	68,142
Long-Term Debt	**408,443**	431,166	411,473	405,111	422,668
Total Capitalization	**$ 750,688**	$ 773,832	$ 787,198	$ 787,957	$ 811,225
CAPITALIZATION RATIOS					
Common Stockholder's Equity	**35.4%**	33.9%	34.8%	35.3%	34.3%
Preferred Stock —					
Not Subject to Mandatory Redemption	**5.6**	5.4	5.3	5.3	5.2
Subject to Mandatory Redemption	**4.6**	5.0	7.6	8.3	8.4
Long-Term Debt	**54.4**	55.7	52.3	51.1	52.1
Total Capitalization	**100.0%**	100.0%	100.0%	100.0%	100.0%

(i) 1990 includes a $16,400,000 charge resulting from an adverse regulatory decision concerning the recoverability of certain purchased power costs, resulting in a $10,000,000 reduction in operating income, net income and earnings on common stock.

(ii) 1987 includes an $11,000,000 charge resulting from a Supreme Court of Pennsylvania decision concerning the recovery of costs associated with planned nuclear units which were terminated in 1980, resulting in a $7,300,000 reduction in net income and earnings on common stock.

Management's Discussion And Analysis Of Results Of Operations And Financial Condition

System Electric Sales Revenues
($ millions)



Results Of Operations

Operating revenues increased in 1991 as the Company achieved record sales to commercial and residential customers, with kilowatt-hour sales to retail customers increasing 3.1% compared with 1990. Sales to commercial customers were up 5.5%, as a result of strong business activity. New home construction and increased use of air conditioning increased residential sales by 4.0% in 1991 compared with 1990. Sales to industrial customers were up 1.6% as the Company's major steel customers increased their production. However, total kilowatt-hour sales were down 2.5% in 1991 compared with 1990 due to a 15.4% drop in sales to other utilities. Sales to Edison were down 25.2% primarily as a result of decreased availability of power during the 1991 Beaver Valley refueling outage. Sales to non-associated utilities decreased 6.7% due to weak economic conditions in the bulk power market. Total kilowatt-hour sales increased 5.3% in 1990 compared with 1989 principally as a result of an 18.9% increase in sales to other utilities; sales to Edison increased 91.5%, while sales to non-associated utilities decreased 10.7%.

Fuel and purchased power costs in 1990 included a charge of approximately $16,074,000 ($9,994,000 after taxes) resulting from an adverse regulatory decision concerning the recoverability of certain purchased power costs (see Note 1 to the Financial Statements) and was the principal reason for the comparative differences between 1991 and 1989 expenses. Included in fuel and purchased power costs in 1991 was a reserve of approximately $2,434,000 for refunds to the Company's customers ordered by the Pennsylvania Public Utility Commission for purchased replacement power costs incurred during a 1979 outage at Beaver Valley Unit 1 (see Note 1 to the Financial Statements).

The changes in nuclear operating costs were due to variations in the level of refueling outage costs—Beaver Valley Unit 1 was down for refueling in 1991 and Perry Unit 1 was refueled in 1989. Other operating costs were down in 1991 compared with 1990 reflecting credits resulting from retroactive billings to the other Bruce Mansfield Plant owners.

A state tax increase enacted in 1991 (which also included an increase to the corporate net income tax rate) will be recovered through a surcharge on customers' electric bills; therefore, the Company deferred the increased tax costs to be recovered in future periods (see Note 2 to the Financial Statements). The comparison of 1991 general taxes to 1990 was further affected by a higher level of taxes in 1990 due to recognizing the liability for gross receipts taxes on revenue accrued since the inception of the Company's phase-in plan.

The decline in interest on nuclear fuel obligations since 1989 was due to reduced levels of nuclear material in process of conversion, enrichment and fabrication into fuel assemblies. Other interest expense increased in 1991 compared with 1990 as a result of a 1991 provision for interest associated with the outage-related refunds discussed above and estimated interest payable in connection with federal income tax adjustments for prior years, partially offset by decreased interest due to lower short-term borrowing levels. Other interest expense increased in 1990 compared with 1989 as a result of higher short-term borrowing levels.

The Financial Accounting Standards Board (FASB) has issued Statement of Financial Accounting Standards (SFAS) No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." This standard, which must be adopted no later than 1993, will require the Company to change the method of accounting for postemployment benefits, resulting in a substantial increase in the annual expense charged to income for such benefits. The Company expects to seek regulatory approval to defer the increased annual expense resulting from this standard for future collection from customers. If approval is granted, the Company would not expect a material adverse effect to net income as a result of adopting SFAS No. 106. The FASB has also issued SFAS No. 109, "Accounting for Income Taxes," which the Company must adopt by 1993. Adoption of this statement is not expected to have a material adverse effect on net income. Both of these accounting standards are more fully described in Note 1 to the Financial Statements.

The electric utility industry is subject to inflationary pressures similar to those experienced by all other industries. To the extent that the Company incurs additional costs or receives benefits resulting from the effects of inflation, it is anticipated that those effects will ultimately be reflected in the Company's electric rates.

Capital Resources And Liquidity

Net cash provided from operations has continued to increase due to the Company's latest increase in electric rates associated with its four-year phase-in plan.

The May 1991 increase in rates, designed to produce additional annual cash revenue of approximately $31,000,000, was the final increase in the Company's phase-in plan (see further discussion below).

The Company had approximately $4,000,000 of cash and temporary investments at December 31, 1991. Notes payable of $8,000,000 at the end of 1991 were borrowed under a $50,000,000 system funds agreement with Edison. Also available at the end of the year were $65,000,000 of bank lines of credit and bank facilities aggregating $50,000,000 which may be borrowed for up to several days at the banks' discretion.

Capital requirements in 1991 for the Company's construction programs, capital leases and nuclear fuel were approximately $26,000,000. The 1992-1996 construction program and capital lease requirements are currently estimated to be approximately $224,000,000 (excluding nuclear fuel), of which approximately $34,000,000 applies to 1992. The Company has additional cash requirements of approximately $163,000,000 for the 1992-1996 period to meet maturities of, and sinking fund requirements for, long-term debt (excluding nuclear fuel) and preferred stock, of that amount approximately $37,000,000 applies to 1992.

Investments for additional nuclear fuel during the 1992-1996 period are estimated to be approximately $38,000,000, of which approximately $9,000,000 applies to 1992. During the same periods, the Company's nuclear fuel investments are expected to be reduced by approximately $50,000,000 and $13,000,000, respectively, as the nuclear fuel is consumed.

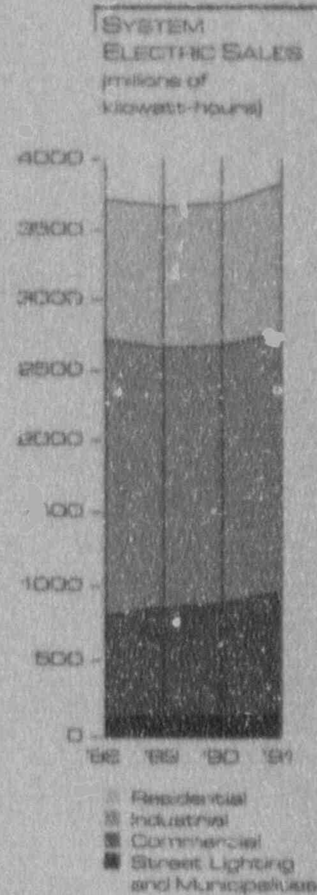
Sales by the Company of first mortgage bonds and of preferred stock require that applicable earnings coverage tests be met. With respect to the issuance of first mortgage bonds, other requirements also apply and are more restrictive than the earnings test at the present time. The Company is currently able to issue $100,000,000 principal amount of first mortgage bonds, with up to $69,000,000 of such amount issuable against property additions (excluding Perry Unit 2 property additions); the remainder could be issued against previously retired bonds. Based upon earnings for 1991, the Company would be permitted, under the earnings coverage test contained in its charter, to issue $93,000,000 of preferred stock at an assumed dividend rate of 8.5%. If the Company were to issue first mortgage bonds or other debt at or prior to the time it issued preferred stock, the amount of preferred stock which would be issuable would be reduced.

The Company will be implementing a base rate decrease approximating $44,000,000 on an annual basis in the second quarter of 1992 in connection with its four year phase-in plan. At that time the Company's electric rates will reflect the same rates that would have been placed into effect in 1988 without the phase-in plan. There will be no material effect to net income resulting from this rate reduction since the Company recognized revenue under the phase-in plan as if the full revenue level had been placed into effect in 1988.

The Clean Air Act Amendments of 1990 present challenges and opportunities to the Company that are being analyzed. The Act requires significant reductions of sulfur dioxide and oxides of nitrogen from the Company's coal-fired generating units. Compliance options include, but are not limited to, installing additional pollution control equipment, burning less polluting fuel, purchasing emission allowances from others, operating existing facilities in a manner which minimizes pollution and retiring facilities. The Company is testing and analyzing various compliance options for feasibility, cost-effectiveness and degree of flexibility.

Congress is considering amendments to the Public Utility Holding Company Act and the Federal Power Act that could have the effect of restructuring the investor-owned electric utility industry. These amendments include provisions for mandatory transmission access, which could jeopardize the reliability of the nation's electrical network and cause the price of electricity to increase for most customers. The Company is not able to predict whether the amendments currently being considered will be enacted, or if enacted, what form such amendments will ultimately take.

As discussed in Note 6 to the Financial Statements, the Company has invested approximately $52,000,000 in Perry Unit 2, a nuclear generating unit whose construction was suspended in 1985. Options under consideration include, but are not necessarily restricted to, resumption of construction, continued suspension or termination. If construction were to resume during the 1992-1996 period, the Company's capital expenditures would be higher than the amount disclosed above for that period. If termination were to occur, the Company would have to write off the difference between its investment in Perry Unit 2 and the estimated present value of revenue to be collected from its customers.



(In thousands)

For the Years Ended December 31,	1991	1990	1989
OPERATING REVENUES (Note 2)	$321,845	$318,056	$315,757
OPERATING EXPENSES AND TAXES:			
Fuel and purchased power	82,647	101,938	80,980
Nuclear operating costs	32,799	27,500	33,703
Other operating costs	52,054	55,994	57,986
Total operation and maintenance expenses	167,500	185,432	172,669
Provision for depreciation and amortization	29,166	29,101	28,594
General taxes	22,698	23,683	19,864
Recoverable tax surcharge costs, net (Note 2)	(2,377)	—	—
Income taxes	23,756	15,848	19,640
Total operating expenses and taxes	240,743	252,064	240,169
OPERATING INCOME	81,102	65,992	75,388
OTHER INCOME	2,461	1,722	2,261
TOTAL INCOME	83,563	67,714	77,649
NET INTEREST:			
Interest on long-term debt	37,867	37,508	36,216
Interest on nuclear fuel obligations	1,013	1,765	3,361
Allowance for borrowed funds used during construction	(1,329)	(1,889)	(3,725)
Other interest expense	5,815	4,811	3,337
Net interest	43,366	42,195	[illegible]
NET INCOME	40,197	25,519	[illegible]
PREFERRED STOCK DIVIDEND REQUIREMENTS	7,722	9,982	[illegible]
EARNINGS ON COMMON STOCK	$ 32,475	$ 15,557	$ 23,987

The accompanying Notes to Financial Statements are an integral part of these statements.

(In thousands)

At December 31,	1991	1990
ASSETS		
UTILITY PLANT:		
In service, at original cost	$1,118,517	$1,095,986
Less—Accumulated provision for depreciation	332,438	317,899
	786,079	778,087
Construction work in progress—		
Electric plant (Note 3)	60,141	64,570
Nuclear fuel	9,383	25,623
	69,524	90,193
	855,603	868,280
OTHER PROPERTY AND INVESTMENTS	17,206	13,906
CURRENT ASSETS:		
Cash and cash equivalents	4,078	8,814
Notes receivable from parent company (Note 5)	—	37,000
Accounts receivable—		
Customers (less accumulated provisions of $419,000 and $881,000, respectively, for uncollectible accounts)	28,633	20,924
Parent company	20,920	18,219
Other	18,040	15,117
Currently receivable accrued customer revenues (Note 2)	19,517	34,774
Materials and supplies, at average cost—		
Fuel	6,341	8,258
Other	10,893	11,044
Prepayments	2,516	1,539
	110,938	155,689
DEFERRED CHARGES:		
Accrued customer revenues (Note 2)	—	18,610
Deferred Perry Unit 1 costs	21,180	21,180
Other	17,172	13,425
	38,352	53,215
	$1,02[illegible]99	$1,091,090
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION (See Statements of Capitalization):		
Common stockholder's equity	$ 266,058	$ 262,059
Preferred stock—		
Not subject to mandatory redemption	41,905	41,905
Subject to mandatory redemption	34,282	38,722
Long-term debt—		
Associated companies	22,164	29,643
Other	386,279	401,503
	750,688	773,832
CURRENT LIABILITIES:		
Currently payable preferred stock and long-term debt—		
Associated companies	12,952	12,516
Other	36,886	65,905
Notes payable (Note 5)—		
Banks	—	37,000
Parent company	8,000	—
Accounts payable—		
Associated companies	8,056	8,555
Other	33,729	28,198
Accrued taxes	21,816	14,757
Accrued interest	10,950	9,819
Other	14,368	13,088
	146,757	189,838
DEFERRED CREDITS:		
Accumulated deferred income taxes	74,782	83,357
Accumulated deferred investment tax credits	35,880	33,096
Other	14,012	10,967
	124,674	127,420
COMMITMENTS, GUARANTEES AND CONTINGENCIES (Notes 3 & 6)		
	$1,022,099	$1,091,090

The accompanying Notes to Financial Statements are an integral part of these balance sheets.

(Dollars in thousands, except per share amounts)

At December 31,	Number of Shares Outstanding		Optional Redemption Price		1991	1990
	1991	1990	Per Share	Aggregate		
COMMON STOCKHOLDER'S EQUITY:						
Common stock, $30 par value, [illegible] shares authorized, 6,290,000 shares outstanding					$188,700	$188,700
Other paid-in capital					41	189
Retained earnings (Note 4a)					77,317	73,170
Total common stockholder's equity					266,058	262,059
PREFERRED STOCK (Note 4b):						
Cumulative, $100 par value						
Authorized—[illegible],200,000 shares						
Not Subject to Mandatory Redemption:						
4.24%-4.64%	141,049	141,049	$102.98-105.00	$14,614	14,105	14,105
7.64%-8.00%	118,000	118,000	102.07-102.96	12,074	11,800	11,800
8.48%-9.16%	160,000	160,000	102.29-103.08	16,429	16,000	16,000
Total not subject to mandatory redemption	419,049	419,049		$43,117	41,905	41,905
Subject to Mandatory Redemption (Note 4c):						
8.24%-10.50%	150,000	155,000	$104.12-106.49	$15,854	15,000	15,500
11.00%-11.50%	94,616	267,616	102.75-103.29	9,763	9,462	26,762
13.00%-15.00%	134,400	150,800	108.45-113.27	14,838	13,440	15,080
Redemption within one year					(3,620)	(18,620)
Total subject to mandatory redemption	379,016	573,416		$40,455	34,282	38,722
LONG-TERM DEBT (Note 4d):						
First mortgage bonds—						
8.10% weighted average interest rate, due 1991 through 1996					83,938	112,316
9.21% weighted average interest rate, due 1997 through 2001					91,717	93,055
8.48% weighted average interest rate, due 2002 through 2006					31,870	32,910
9.54% weighted average interest rate, due 2007 through 2011					29,870	29,870
9.74% weighted average interest rate, due 2012 through 2016					4,870	4,870
9.74% weighted average interest rate, due 2017 through 2019					2,955	2,955
Total first mortage bonds					245,220	275,976
Secured notes and obligation—						
9.93% weighted average interest rate, due 1991 through 1996					57,814	63,465
6.66% weighted average interest rate, due 1997 through 2001					3,651	11,816
11.31% weighted average interest rate, due 2002 through 2006					21,009	39,748
6.75% weighted average interest rate, due 2007 through 2011					3,600	3,600
9.79% weighted average interest rate, due 2012 through 2016					32,150	32,150
7.46% weighted average interest rate, due 2017 through 2021					47,907	15,500
Total secured notes and obligation					166,131	166,279
Other obligations—						
Nuclear fuel					33,784	40,615
Capital leases (Note 3)					10,334	9,248
Total other obligations					44,118	49,863
Net unamortized discount on debt					(828)	(1,171)
Long-term debt due within one year					(46,198)	(59,801)
Total long-term debt					408,443	431,146
TOTAL CAPITALIZATION					$750,688	$773,832

The accompanying Notes to Financial Statements are an integral part of these statements.

Statements Of Retained Earnings

(In thousands)

For the Years Ended December 31,	1991	1990	1989
Balance at beginning of year	**$ 73,170**	$ 85,257	$ 88,930
Net income	**40,197**	25,519	34,660
	113,367	110,776	123,590
Cash dividends on common stock	**27,676**	27,676	27,676
Cash dividends on preferred stock	**7,698**	9,930	10,657
Premium on redemption of preferred stock	**676**	—	—
	36,050	37,606	38,333
Balance at end of year (Note 4a)	**$ 77,317**	$ 73,170	$ 85,257

Statements Of Capital Stock And Other Paid-In Capital

	Common Stock			Preferred Stock: Not Subject to Mandatory Redemption		Preferred Stock: Subject to Mandatory Redemption	
	Number of Shares	Par Value	Other Paid-In Capital	Number of Shares	Par Value	Number of Shares	Par Value
			(Dollars in thousands)				
Balance, January 1, 1989	6,290,000	$188,700	$ 209	419,049	$41,905	678,216	$ 67,822
Redemptions—							
8.24% Series						(5,000)	(500)
11.00% Series						(8,000)	(800)
11.50% Series			(6)			(30,000)	(3,000)
15.00% Series			(2)			(6,400)	(640)
Balance, December 31, 1989	6,290,000	188,700	201	419,049	41,905	632,816	63,282
Redemptions—							
8.24% Series						(5,000)	(500)
11.00% Series						(8,000)	(800)
11.50% Series			(6)			(30,000)	(3,000)
13.00% Series			(4)			(10,000)	(1,000)
15.00% Series			(2)			(6,400)	(640)
Balance, December 31, 1990	6,290,000	188,700	189	419,049	41,905	573,416	57,342
Redemptions—							
8.24% Series						(5,000)	(500)
11.00% Series						(8,000)	(800)
11.50% Series			(148)			(165,000)	(16,500)
13.00% Series						(10,000)	(1,000)
15.00% Series						(6,400)	(640)
Balance, December 31, 1991	6,290,000	$188,700	$ 41	419,049	$41,905	379,016	$ 37,902

The accompanying Notes to Financial Statements are an integral part of these statements.

(In thousands)

For the Years Ended December 31,	1991	1990	1989
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 40,197	$ 25,519	$ 34,660
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	40,227	43,172	37,548
Deferred income taxes, net	(8,575)	(3,085)	21,045
Investment tax credits, net	2,784	2,691	(1,174)
Deferred (accrued) revenue, net	37,757	(2,689)	(32,976)
Allowance for equity funds used during construction	—	—	(428)
Deferred fuel costs, net	(930)	20,979	(3,086)
Recoverable tax surcharge costs, net	(2,377)	—	—
[illegible]nternal cash before dividends	109,083	86,587	55,590
Receiv[illegible]	(11,983)	(7,282)	(3,825)
Materials and supplies	2,048	(2,607)	(521)
Accounts payable	7,449	(8,588)	7,933
Other	4,539	9,556	(3,959)
Net cash provided from operating activities	111,136	77,666	55,218
CASH FLOWS FROM FINANCING ACTIVITIES:			
New Financing—			
Long-term debt	31,696	54,442	19,685
Notes payable, net	—	—	37,000
Redemptions and Repayments—			
Preferred stock	20,223	5,940	4,540
Long-term debt	74,968	21,963	35,433
Notes payable, net	29,000	4,000	—
[illegible]ividend Payments—			
Common stock	27,676	27,676	27,676
Preferred stock	7,698	9,950	10,657
Net cash used for financing activities	127,869	15,067	21,621
[illegible]LOWS FROM INVESTING ACTIVITIES:			
[illegible] additions	24,296	25,123	27,659
[illegible]	—	37,000	—
[illegible]ment from [illegible]nt	(37,000)	—	—
[illegible]	707	526	1,744
[illegible]et cash used for (provided from) investing activities	(11,997)	62,649	29,403
[illegible] increase (decrease) in cash and cash equivalents	(4,736)	(50)	4,194
Cash and cash equivalents at beginning of year	8,814	8,864	4,670
Cash and cash equivalents at end of year	$ 4,078	$ 8,814	$ 8,864
SUPPLEMENTAL CASH FLOWS INFORMATION:			
Cash paid during the year—			
Interest (net of amounts capitalized)	$ 39,852	$ 40,610	$ 41,004
Income taxes	23,649	11,428	3,260

The accompanying Notes to Financial Statements are an integral part of these statements.

(In thousands)

For the Years Ended December 31,	1991	1990	1989
GENERAL TAXES:			
State gross receipts	$11,422	$13,642	$10,017
Real and personal property	6,702	6,171	5,854
State capital stock	2,457	1,967	1,754
Social security and unemployment	1,822	1,712	1,633
Other	295	193	226
Total general taxes	$22,698	$23,685	$19,484
PROVISION FOR INCOME TAXES:			
Currently payable—			
Federal	$20,454	$13,913	$ 1,080
State	10,142	3,054	—
	30,596	16,967	1,080
Deferred, net (see below)—			
Federal	(3,259)	(2,031)	18,532
State	(5,316)	(1,454)	2,511
	(8,575)	(3,485)	21,043
Investment tax credits, net of amortization	2,784	2,691	(1,171)
Total provision for income taxes	$24,805	$16,173	$20,952
INCOME STATEMENT CLASSIFICATION OF PROVISION FOR INCOME TAXES:			
Operating expenses	$23,756	$13,848	$19,644
Other income	1,049	2,325	1,308
Total provision for income taxes	$24,805	$16,173	$20,952
SOURCES OF DEFERRED INCOME TAXES:			
Excess of tax over book depreciation, net	$ 6,756	$ 6,951	$ 7,058
Difference between tax and book revenue, net	(15,363)	(1,216)	12,018
Deferred fuel costs	(1,380)	(8,263)	1,202
Amortization of deferred interest on leased nuclear fuel	(1,125)	(1,064)	(1,125)
Property taxes	—	(1,675)	89
Alternative minimum tax credit utilized (deferred)	2,908	(5,773)	(1,441)
Operating loss carryforward	—	7,395	2,244
Pension costs	1,120	1,443	(96)
Other, net	(1,491)	(1,283)	1,097
Net deferred income taxes	$ (8,575)	$ (3,485)	$21,043
RECONCILIATION OF FEDERAL INCOME TAX EXPENSE AT STATUTORY RATE TO TOTAL PROVISION FOR INCOME TAXES:			
Book income before provision for income taxes	$65,002	$41,692	$55,612
Federal income tax expense at statutory rate	$22,101	$14,175	$18,908
Increases (reductions) in taxes resulting from—			
State income taxes, net of federal income tax benefit	3,185	1,056	1,857
Amortization of investment tax credits	(1,831)	(1,947)	(1,732)
Excess of book over tax depreciation, net	2,067	2,280	1,949
Other, net	(717)	609	(30)
Total provision for income taxes	$24,805	$16,173	$20,952

The accompanying Notes to Financial Statements are an integral part of these statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Company, a wholly owned subsidiary of Ohio Edison Company (Edison), follows the accounting policies and practices prescribed by the Pennsylvania Public Utility Commission (PPUC) and the Federal Energy Regulatory Commission (FERC). Certain financial statement items for periods prior to 1991 have been reclassified to conform to the 1991 presentation.

REVENUES—The Company's retail customers are metered on a cycle basis. Revenue is recognized for electric service based on meters read through the end of the month. Reference is made to Note 2 with respect to the Company's policy of recognizing revenues in connection with a rate phase-in plan. Receivables from customers include sales to residential, commercial and industrial customers located in the Company's service area and sales to wholesale customers. There was no material concentration of receivables at December 31, 1991 or 1990, with respect to any particular segment of the Company's customers.

FUEL COSTS—The Company recovers fuel and net purchased power costs not otherwise recovered through base rates from its customers through an annual "levelized" energy cost rate (ECR). The ECR, which includes adjustment for any over or under collection from customers, is recalculated each year. Accordingly, the Company defers the difference between actual energy costs and the amounts currently recovered from its customers.

In December 1991, the Company was ordered by the PPUC to refund replacement power costs recovered from customers through the ECR during an extended outage at Beaver Valley Unit 1 in 1979. As a result, the Company recorded a liability for the estimated refund of $4,282,000, including $1,828,000 of interest, reducing net income by $2,519,000 during the fourth quarter of 1991. The Company is reviewing this order and may appeal it to the Commonwealth Court of Pennsylvania.

In 1988, the PPUC disallowed costs attributable to the Company's purchase of 12 megawatts of Perry Unit 1 capacity from Cleveland Electric Illuminating Company (CEI) as provided in a 1980 agreement among the Central Area Power Coordination Group (CAPCO) companies. The Company provided a $16,374,000 reserve during the fourth quarter of 1990, which reduced net income by $9,994,000, pending the outcome of appeals relating to this matter. On October 7, 1991, the United States Supreme Court denied the Company's petition for writ of certiorari.

UTILITY PLANT AND DEPRECIATION—Utility plant reflects the original cost of construction, including payroll and related costs such as taxes, pensions and other fringe benefits, administrative and general costs and allowance for funds used during construction (AFUDC).

The Company provides for depreciation on a straight line basis at various rates over the estimated lives of property included in plant in service. The annual composite rate for electric plant was 2.9% during the three years ended December 31, 1991. The Company recognizes estimated future decommissioning costs applicable to its ownership interest in two nuclear generating units as a component of depreciation expense. The Company's share of the future obligation to decommission these units in current dollars is approximately $46,000,000, based on estimates used in the Company's last rate filing. Amounts recovered from customers are invested in external trust funds. If the actual costs of decommissioning the units exceed the accumulated amounts recovered from customers, the Company expects that difference to also be recoverable from its customers.

COMMON OWNERSHIP OF GENERATING FACILITIES—The Company and other CAPCO companies own, as tenants in common, various power generating facilities. Each of the companies is obligated to pay a share of the construction costs of any jointly owned facility in the same proportion as its ownership interest. The Company's portion of operating expenses associated with jointly owned facilities is included in the corresponding operating expenses on the Statements of Income. The amounts reflected on the Balance Sheet under utility plant at December 31, 1991, include the following:

Generating Units	Utility Plant in Service	Accumulated Provision for Depreciation	Construction Work in Progress	Company's Ownership Interest
		(In thousands)		
W. H. Sammis #7	$ 55,200	$ 14,400	$ 100	20.80%
Bruce Mansfield #1, #2 and #3	86,500	34,100	500	5.7 %
Beaver Valley #1	212,300	67,500	1,600	17.50%
Perry #1 and Common Facilities	297,900	26,900	300	5.24%
Perry #2	—	—	52,000	5.24%
Total	$651,900	$142,900	$54,500	

NUCLEAR FUEL—OES Fuel, Incorporated (OES Fuel), a wholly owned subsidiary of Edison, is the sole lessor for the Company's nuclear fuel requirements. Minimum lease payments during the next five years are estimated to be as follows:

1992	$12,661,000
1993	8,675,000
1994	7,535,000
1995	2,6[illegible],000
1996	1,745,000

The Company amortizes the cost of nuclear fuel based on the rate of consumption. The Company's electric rates include amounts for the future disposal of spent nuclear fuel based upon the formula used to compute payments to the United States Department of Energy.

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION—AFUDC represents financing costs capitalized to construction work in progress (CWIP) during the construction period. The borrowed funds portion reflects capitalized interest payments, and the equity funds portion represents the noncash capitalization of imputed equity costs. AFUDC varies according to changes in the level of CWIP and in the cost of capital. The AFUDC rates (excluding nuclear fuel interest) were 6.8%, 8.9% and 10.9% in 1991, 1990 and 1989, respectively. Capitalization rates for interest on nuclear fuel were 6.7%, 8.4% and 10.1% in 1991, 1990 and 1989, respectively.

INCOME TAXES—Details of the total provision for income taxes are shown on the Statements of Taxes. The deferred income taxes result from timing differences in the recognition of revenues and expenses for tax and accounting purposes. The Company expects that deferred taxes which have not been provided will be collected from its customers when the taxes become payable, based upon the established rate making practices of the PPSC and the FERC. As of December 31, 1991, the cumulative net income tax timing differences for which deferred income taxes have not been provided were approximately $100,000,000.

All investment tax credits which were deferred when utilized are being amortized over the estimated life of the related property. The Company also has approximately $17,600,000 of alternative minimum tax credits available to offset future federal income taxes payable; such credits may be carried forward indefinitely.

The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes," which, among other things, requires a change in the method used by enterprises to account for deferred income taxes. Under this standard, deferred income tax liabilities must be recognized at the statutory income tax rates in effect when the liabilities are expected to be paid. The standard also requires recognition of a deferred tax liability for tax benefits that have previously been flowed through to the Company's customers and an assumed deferred tax liability applicable to the equity component of AFUDC. Since the Company expects that the additional deferred tax liabilities will be collected from its customers when the taxes become payable, an asset will be recognized for that probable future revenue. The Company is not required to adopt SFAS No. 109 until 1993. However, if the Company had adopted the standard as of December 31, 1991, total assets would have increased by approximately $200,000,000 with no material effect to net income.

RETIREMENT BENEFITS—The Company's trusteed, noncontributory defined benefit pension plan covers almost all full-time employees. Upon retirement, employees receive a monthly pension based on length of service and compensation. The Company uses the projected unit credit method for funding purposes and was not required to make pension contributions during the three years ended December 31, 1991.

The following sets forth the funded status of the plan and amounts recognized on the Balance Sheets as of December 31:

	1991	1990
	(In thousands)	
Actuarial present value of benefit obligations:		
Vested benefits	$ 54,110	$49,831
Nonvested benefits	4,207	4,493
Accumulated benefit obligation	$ 58,317	$54,324
Plan assets at fair value	$107,689	$92,172
Actuarial present value of projected benefit obligation	75,817	72,511
Plan assets in excess of projected benefit obligation	31,872	19,661
Unrecognized net gain	(19,116)	(9,520)
Unrecognized prior service cost	2,870	3,582
Unrecognized net transition asset	(11,585)	(12,638)
Net pension asset	$ 4,041	$ 1,085

The assets of the plan consist primarily of common stocks, United States government bonds and corporate bonds. Net pension costs for the three years ended December 31, 1991, were computed as follows:

	1991	1990	1989
		(In thousands)	
Service cost—benefits earned during the period	$ 2,852	$ 2,950	$ 3,611
Interest on projected benefit obligation	6,365	5,873	5,908
Return on plan assets	(19,448)	3,320	(17,492)
Net deferral (amortization)	7,335	(15,733)	8,134
Net pension cost	$ (2,896)	$ (3,590)	$ 161

The assumed discount rate used in determining the actuarial present value of the projected benefit obligation was 9% and the assumed rate of increase in future compensation levels used to measure this obligation was 5% in each year. The assumed expected long-term rates of return on plan assets were 11% in 1991 and 1990 and 10% in 1989.

The Company provides a minimum amount of noncontributory life insurance to retired employees in addition to optional contributory insurance. Health care benefits, which include certain employee deductibles and copayments, are also available to retired employees, their dependents and, under certain circumstances, their survivors. The Company pays insurance premiums to cover a portion of these benefits in excess of set limits; all amounts up to the limits are paid by the Company. Expenses associated with health care and life insurance benefits for retirees are charged to income during the applicable payment periods, and amounted to $948,000, $1,035,000 and $526,000 in 1991, 1990 and 1989, respectively.

The FASB has issued SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," which modifies the method to be used by enterprises to account for other postemployment benefits. Under the standard, the Company will be required to recognize the expected cost of providing postemployment benefits to employees and their beneficiaries and covered dependents from the time employees are hired until they become eligible to receive those benefits. The Company expects to adopt this standard prospectively in 1993. Based on current plan demographics, it is estimated that annual postemployment benefit expenses will increase by approximately $5,000,000. The Company expects to seek regulatory approval to defer the increased annual expense resulting from the new standard for future collection from customers. If approval is granted, the Company would not expect a material adverse effect to net income as a result of adopting SFAS No. 106.

TRANSACTIONS WITH AFFILIATED COMPANIES—Transactions with affiliated companies are included on the Statement of Income as follows:

	1991	1990	1989
		(In thousands)	
Operating revenues:			
Electric sales to Edison	$23,292	$26,949	$19,527
Bruce Mansfield Plant administrative and general charges to Edison	3,761	2,991	2,314
Other transactions with Edison	760	578	986
	$27,813	$30,518	$22,827
Fuel and purchased power:			
Power purchased from Edison	$21,339	$17,246	$21,810
Nuclear fuel leased from OES Fuel	12,910	15,890	5,665
	$34,249	$33,136	$27,475
Other operating costs:			
Rental of transmission lines from Edison	$ 1,182	$ 1,174	$ 1,222
Data processing services from Edison	2,461	2,639	2,939
Other transactions with Edison	2,611	2,389	2,478
	$ 6,254	$ 6,202	$ 6,639
Other interest expense:			
Short-term loans from Edison	$ 180	$ 210	$ 2,033

SUPPLEMENTAL CASH FLOWS INFORMATION—All temporary cash investments purchased with an initial maturity of three months or less are reported as cash equivalents on the Balance Sheets. The Company records temporary cash investments at cost, which approximates their market value. Noncash financing and investing activities included capital lease transactions amounting to $4,343,000, $8,739,000 and $8,997,000 for the years 1991, 1990 and 1989, respectively.

2. RATE PHASE-IN PLAN AND SURCHARGE:

The PPUC granted the Company a base rate increase, effective May 4, 1988, designed to produce approximately $67,100,000 of additional annual operating revenues. The increase was phased in over several years, such that all amounts deferred during the phase-in period will be fully recovered by the end of the fourth year. Under this phase-in plan, the Company's rates were initially increased to produce approximately $24,000,000 in additional cash revenue; the second year increase of $28,000,000 was implemented in 1989. The difference between revenues actually billed and revenues that would have been billed absent the phase-in plan was recognized as additional accrued revenue for financial reporting purposes. The Company began recovering revenues previously deferred in 1990, when rates were increased approximately $28,000,000 on an annual basis; the final increase of $31,000,000 occurred in May 1991. Accumulated revenues and associated interest remaining to be collected in 1992 in connection with the plan amounted to approximately $19,517,000 as of December 31, 1991.

On August 24, 1991, the Commonwealth of Pennsylvania increased certain state tax rates retroactive to January 1, 1991. In conjunction with this increase, the Company deferred the increase in taxes for collection from customers in the form of a surcharge on electric bills. The balance remaining to be collected from customers at December 31, 1991, amounted to approximately $2,377,000.

3. LEASES:

The Company leases certain transmission facilities, computer equipment, office space and other property and equipment under cancelable and noncancelable leases. Consistent with the regulatory treatment, rental payments for capital and operating leases are charged to operating expenses on the Statements of Income. Such costs for the three years ended December 31, 1991, are summarized as follows:

	1991	1990	1989
		(In thousands)	
Amortization of capital leases	$1,277	$1,124	$2,103
Interest on capital leases	1,191	1,108	1,199
Operating leases	1,049	1,950	1,294
Total rental payments	$3,517	$4,182	$4,596

The future minimum lease payments as of December 31, 1991 are:

	Capital Leases	Operating Leases
	(In thousands)	
1992	$ 2,679	$ 145
1993	2,469	135
1994	2,356	100
1995	2,157	88
1996	1,630	81
Years thereafter	17,555	2,576
Total minimum lease payments	28,826	$3,125
Executory costs	5,373	
Net minimum lease payments	23,453	
Interest portion	13,119	
Present value of net minimum lease payments	10,334	
Less current portion	1,174	
Noncurrent portion	$ 9,160	

4. CAPITALIZATION:

(a) RETAINED EARNINGS—Under the Company's Charter, the Company's retained earnings unrestricted for payment of cash dividends on the Company's common stock were $58,936,000 at December 31, 1991.

(b) PREFERRED STOCK—The Company's 13% and 15% series of preferred stock have restrictions preventing early redemption through new issuances of securities having interest or dividend rates less than the dividend rates of the series being redeemed. All other preferred stock may be redeemed in whole, or in part, with at least 30 days but not more than 60 days notice. The optional redemption prices shown on the Statements of Capitalization will decline to eventual minimums per share according to the Charter provisions that establish each series.

(c) Preferred Stock Subject To Mandatory Redemption — Annual sinking fund provisions for the Company's preferred stock are as follows:

Series	Shares	Date
8.24 %	5,000	December 1
11.00 %	4,000	January 1
15.00 %	3,200	July 15
11.50 %	35,000	July 15
13.96 %	5,000	July 1
10.50 %	100,000	April 1, 20[illegible]

Preferred shares are retired at $100 per share plus accrued dividends. The Company's sinking fund requirements for the next five years are:

1992	$3,620,000
1993	3,220,000
1994	3,220,000
1995	3,182,000
1996	2,826,000

Amounts shown above for 1992 include $400,000 of 11 % Series preferred stock optionally redeemed in January 1992.

(d) Long-Term Debt — The mortgage and its supplements, which secure all of the Company's first mortgage bonds, serve as direct first mortgage liens on substantially all property and franchises, other than specifically excepted property, owned by the Company.

Based on the amount of bonds authenticated by the Trustee through December 31, 1991, the Company's annual sinking and improvement fund requirement for all bonds issued under the mortgage amounts to $1,220,000. The Company expects to satisfy this requirement in 1992 by certifying unfunded property additions at 166 2/3 % of the required amount.

Sinking fund requirements for certain series of first mortgage bonds and maturing long-term debt (excluding capital leases) for the next five years are:

1992	$32,364,000
1993	11,395,000
1994	2,598,000
1995	42,598,000
1996	52,598,000

Amounts shown above for 1992 include $1,048,000 of first mortgage bonds optionally redeemed in January 1992.

The weighted average interest rates shown on the Statements of Capitalization relate to long-term debt outstanding at December 31, 1991. The Company's obligations to repay certain pollution control revenue bonds are secured by series of first mortgage bonds and, in some cases, by subordinate liens on the related pollution control facilities.

5. Short-Term Financing Arrangements:

The Company has lines of credit with banks that provide for borrowings of up to $65,000,000 under various interest rate options. Short-term borrowings may be made under these lines of credit on the Company's unsecured notes. To assure the availability of these lines, the Company is required to pay commitment fees of 1/8 % to 1/2 %. Of these total lines, $5,000,000 expire in December 1992 and may be canceled by the banks at any time if unused; the remaining lines of credit are noncancelable and expire in May 1993.

The Company also has a credit agreement with Edison whereby either company can borrow funds from the other by issuing unsecured notes at the prevailing prime or similar interest rate. Under the terms of this agreement the maximum borrowing is limited only by the availability of funds; however, the Company's borrowing under this agreement is currently limited by the PPUC to a total of $50,000,000. Either company can terminate the agreement with six months' notice.

6. Commitments, Guarantees And Contingencies:

Construction Program — The Company's current budget forecast reflects expenditures of approximately $224,000,000 for property additions and improvements from 1992 through 1996, of which approximately $34,000,000 is applicable to 1992.

The status of Perry Unit 2 continues to be under review. Currently, no significant work is being performed on the Unit and the Company does not capitalize AFUDC. Until review of the status of Perry Unit 2 has been completed, there will be no defined schedule for its completion. The construction estimate for the 1992-1996 period does not include any amounts applicable to Perry Unit 2 if construction of the Unit were to be resumed. Possible alternatives being reviewed with respect to Unit 2 include indefinite suspension of construction on the Unit, resumption of work on the Unit and termination of the Unit. In accordance with the CAPCO arrangements, none of these alternatives may be implemented without the approval of each of the owners of the Unit. In February 1992, CEI purchased Duquesne Light Company's ownership share of Perry Unit 2.

As of December 31, 1991, the Company had invested approximately $52,000,000 applicable to Perry Unit 2. Delay in the completion of Perry Unit 2 can be expected to increase its total cost by amounts which are not presently determinable. If a decision were made to terminate Unit 2, certain costs which are currently assigned to Unit 1 would be reassigned, where appropriate, to Unit 1. Pending completion of the ongoing review, the Company is unable to predict whether the construction on Unit 2 will continue or, if continued, on what basis such continuation will proceed.

Based on Section 520 of the Pennsylvania Public Utility Code, the Company believes it could recover its investment in Perry Unit 2 with respect to its PPUC jurisdictional customers if a decision were made to terminate the Unit. The Company's reported net income would be reduced at that time by the difference between the cost of Perry Unit 2 and the present value of revenue to be collected from retail jurisdictional customers applicable to the Unit.

The FERC has revised its policy with respect to recovering the costs of terminated construction projects. As a result, if Perry Unit 2 were terminated, the Company would be required to write off one-half of its investment applicable to its FERC jurisdictional customers if and to the extent that the FERC revised policy is applicable. Under such circumstances, the remaining costs, plus a return on the unamortized investment, would be recovered from its FERC jurisdictional customers.

NUCLEAR INSURANCE—The Price-Anderson Act limits the public liability relative to a single incident at a nuclear power plant to $7,445,000,000. The amount is covered by a combination of private insurance and an industry retrospective rating plan. Based on its present ownership interests in Beaver Valley Unit 1 and Perry Unit 1, the Company's maximum potential assessment under the industry retrospective rating plan (assuming the other CAPCO companies were to contribute their proportionate share of any assessments under the retrospective rating plan) would be $14,326,000 per incident but not more than $2,274,000 in any one year for each incident. The Company is also subject to an additional surcharge assessment under this plan aggregating approximately $716,000.

The Company is also insured as to its interest in Beaver Valley Unit 1 and the Perry Plant under policies issued to the operating company for each plant. Under these policies, up to $2,715,000,000 is provided for property damage and decontamination and decommissioning costs. The Company has also obtained approximately $34,420,000 of insurance coverage for replacement power costs for its interests in Beaver Valley Unit 1 and Perry Unit 1. Under these policies, the Company can be assessed a maximum of approximately $1,420,000 for accidents occurring during a policy year which are in excess of accumulated funds available to the insurer.

The Company intends to maintain insurance against nuclear risks as described above as long as it is available. To the extent that replacement power, property damage, decontamination, decommissioning, repair and replacement costs and other such costs arising from a nuclear incident at any of the Company's plants exceed the policy limits of the insurance from time to time in effect with respect to that plant, to the extent a nuclear incident is determined not to be covered by the Company's insurance policies, or to the extent such insurance becomes unavailable in the future, the Company would remain at risk for such costs.

GUARANTEES—The Company, together with the other CAPCO companies, has several guarantees of certain debt and lease obligations in connection with a coal supply contract for the Bruce Mansfield Plant. As of December 31, 1991, the Company's share of the guarantee was $15,566,000. The price under the coal supply contract, which includes certain minimum payments, has been determined to be sufficient to satisfy the debt and lease obligations. The Company's total payments under the coal supply contract amounted to $12,041,000, $12,835,000 and $11,376,000 during 1991, 1990 and 1989, respectively. Under the coal supply contract, the Company's future minimum payments are:

1992	$ 3,893,000
1993	3,923,000
1994	3,946,000
1995	3,970,000
1996	3,993,000
Years thereafter	12,036,000

ENVIRONMENTAL MATTERS—Various federal, state and local authorities regulate the Company with regard to air and water quality and other environmental matters. The Company has estimated additional capital expenditures for environmental compliance of approximately $11,000,000, which is included in the construction forecast under "Construction Program" for 1992 through 1996.

The Clean Air Act Amendments of 1990 require significant reductions of sulfur dioxide (SO_2) and oxides of nitrogen from the Company's coal-fired generating units by 1995 and additional emission reductions by 2000. Compliance options include, but are not limited to, installing additional pollution control equipment, burning less polluting fuel, purchasing emission allowances from others, operating existing facilities in a manner which minimizes pollution and retiring facilities. The Company is required to submit compliance plans to the Environmental Protection Agency (EPA) by February 1993, indicating how the Company anticipates its facilities will comply. These compliance plans must be consistent with regulations that the EPA is to promulgate by May 1992. In addition, the EPA is required to perform studies, the first of which is due by November 1993, of the potential hazards to public health anticipated to occur as a result of the emission by electric utilities of certain potentially hazardous air pollutants. The EPA is to submit the results of these studies to Congress together with recommendations for further control requirements, if needed. The Company is testing and analyzing various compliance options for feasibility, cost-effectiveness and degree of flexibility.

In April 1988, several states, the Province of Ontario, and several environmental groups petitioned the EPA to conduct a rulemaking under Section 115 of the Clean Air Act. Section 115

is that portion of the Clean Air Act which addresses pollution across international boundaries. The petitioners claim that the EPA has already determined that sources in midwestern states contribute to air pollution which they allege is endangering public health and welfare in Canada. The EPA is being asked to officially confirm this determination. The EPA has informed the petitioners that it does not currently have sufficient information to act on the petitions. The Company is unable to predict the outcome of this proceeding.

During the past several years, the U.S. Court of Appeals for the District of Columbia reversed several significant portions of the EPA's regulations on the methods used by the EPA to determine the amount of stack height credit for establishing individual source emission limits for SO_2. Portions of the latest EPA regulations were reversed and remanded by the Court in January 1988 as a result of appeals by the Company, Edison and others. After the EPA promulgates new regulations in conformity with the final Court decision in this matter, Pennsylvania and Ohio must then review their emission limits to ensure conformance with the new EPA regulations. Such review could result in more stringent emission limits for some existing plants and increased capital costs and operating expenses. The Company is currently unable to predict the outcome of these proceedings.

In June 1987, the EPA announced regulations covering small particulate matter emissions from utility boilers. Although the Company has an ownership interest in a generating unit in one of the two counties in Ohio where EPA computer modeling predicts that excessive small particulate emissions will be found, the Company is unable to predict the ultimate effect of these regulations.

In February 1990, the Pennsylvania Department of Environmental Resources issued proposed regulations dealing with the storage, treatment, transportation and disposal of residual waste such as coal ash and scrubber sludge. The Company submitted detailed comments on the proposed regulations objecting to and proposing changes to certain provisions. Final regulations incorporating certain of the Company's concerns were approved on January 21, 1992, and are expected to become effective in the second quarter of 1992. The final regulations impose additional requirements relating to permitting, ground water monitoring, leachate collection systems, closure, liability insurance and operating matters. The new requirements will increase capital and operating costs at existing sites by an undetermined amount.

With respect to the environmental matters described above, the Company expects that any resulting additional capital costs which may be required, as well as any required increase in operating costs, would ultimately be recovered from its customers.

7. SUMMARY OF QUARTERLY FINANCIAL DATA (UNAUDITED):

The following summarizes certain operating results by quarter for 1991 and 1990.

Three Months Ended	March 31, 1991	June 30, 1991	September 30, 1991	December 31, 1991
		(In thousands)		
Operating Revenues	$81,174	$78,416	$81,610	$80,845
Operating Expenses and Taxes	58,991	59,216	61,947	60,589
Operating Income	22,183	19,200	19,463	20,256
Other Income	719	981	491	270
Net Interest	10,323	10,029	10,531	12,483
Net Income	$12,579	$10,152	$ 9,423	$ 8,043
Earnings on Common Stock	$10,523	$ 8,200	$ 7,559	$ 6,195

Three Months Ended	March 31, 1990	June 30, 1990	September 30, 1990	December 31, 1990
		(In thousands)		
Operating Revenues	$81,110	$77,604	$81,270	$78,072
Operating Expenses and Taxes (Note 1)	61,507	57,865	61,224	71,468
Operating Income	19,603	19,739	20,046	6,604
Other Income	173	419	690	440
Net Interest	10,328	10,552	10,595	10,720
Net Income (Loss)	$ 9,448	$ 9,606	$10,141	$(3,676)
Earnings (Loss) Applicable to Common Stock	$ 6,885	$ 7,043	$ 7,505	$(6,092)

Report Of Independent Public Accountants

To the Board of Directors of
Pennsylvania Power Company:

We have audited the accompanying balance sheets and statements of capitalization of Pennsylvania Power Company (a Pennsylvania corporation and wholly-owned subsidiary of Ohio Edison Company) as of December 31, 1991 and 1990, and the related statements of income, retained earnings, capital stock and other paid-in capital, cash flows and taxes for each of the three years in the period ended December 31, 1991. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pennsylvania Power Company as of December 31, 1991 and 1990, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1991, in conformity with generally accepted accounting principles.

As discussed in Note 6 to the financial statements, the status of Perry Unit 2 is currently being reviewed. Possible alternatives being considered include indefinite suspension, resumption of work and termination of the Unit. Because the Company is unable to predict the results of the review, it cannot now predict if construction of Perry Unit 2 will be terminated and, if terminated, to what extent the Company's investment will be recoverable.

Arthur Andersen & Co.

ARTHUR ANDERSEN & CO.

New York, N.Y.
February 4, 1992

Board Of Directors

H. Peter Burg
Senior Vice President and Chief Financial Officer of the Company's parent, Ohio Edison Company, Akron, Ohio.

Robert H. Carlson
Retired, formerly President and Chief Executive Officer of Universal-Rundle Corporation, a plumbing fixture manufacturer, New Castle, Pennsylvania.

James R. Edgerly
Vice President, Secretary and General Counsel of the Company, New Castle, Pennsylvania.

Willard R. Holland
President and Chief Operating Officer of the Company's parent, Ohio Edison Company, Akron, Ohio.

Robert L. Kensinger
President of the Company, New Castle, Pennsylvania.

Joseph J. Nowak
Executive Vice President, Operations, Cyclops Industries, Inc., a manufacturer of steel products, Pittsburgh, Pennsylvania.

Robert F. Randall
President and Chief Executive Officer of TRACO, a manufacturer of aluminum windows and doors, Warrendale, Pennsylvania.

William F. Reeher
Vice President of the Company, New Castle, Pennsylvania.

Justin T. Rogers, Jr.
Chairman of the Board and Chief Executive Officer of the Company, New Castle, Pennsylvania, and its parent, Ohio Edison Company, Akron, Ohio.

Douglas W. Tschappat
Vice Chairman of the Board of the Company's parent, Ohio Edison Company, Akron, Ohio.

Director Emeritus

G. Leo Winger

Management Changes

In June 1991, Penn Power's Board of Directors elected Robert L. Kensinger president of the Company, succeeding James E. Markle, who retired after 43 years of distinguished service.

Willard R. Holland, president, chief operating officer and Board member of the Company's parent, Ohio Edison, was elected to the Company's Board in August 1991.

Officers

Justin T. Rogers, Jr.
Chairman of the Board

Robert L. Kensinger
President

James R. Edgerly
Vice President, Secretary and General Counsel

William F. Reeher
Vice President

Robert P. Wushinske
Vice President and Treasurer

Angeline Comparone
Assistant Secretary

Francis A. Fazzone
Assistant Treasurer

Clarence H. Kauffman
Assistant Treasurer

Mr. Rogers is Chairman of the Board and Chief Executive Officer of the Company's parent. The principal employment of all other officers is with the Company.

REGISTRAR for Preferred Stock:
Integra National Bank/North, Washington Centre, New Castle, Pennsylvania 16101-1547

TRANSFER AGENT for Preferred Stock:
Office of the Company, New Castle, Pennsylvania 16103-0891

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PENN POWER

1991 Annual Report