1991 Annual Report

CENTERIOR ENERGY

Financial Summary

	1991	1990	% Change
Earnings Per Share of Common Stock	$ 1.71	$ 1.90	(10.0)
Dividends Declared Per Share of Common Stock	$ 1.60	$ 1.60	0.0
Book Value Per Share of Common Stock at Year End	$ 20.37	$ 20.30	0.3
Closing Common Stock Price at Year End	$ 19⅞	$ 18	10.4
Common Stock Share Owners at Year End	17[illegible],5[illegible]	18[illegible],723	(3.[illegible])
Common Stock Shares Outstanding at Year End (000)	140,180	138,401	1.3
Operating Revenues (000)	$2,560,1[illegible]2	$2,427,441	5.5
Operating Expenses (000)	$1,990,282	$1,923,021	3.0
Net Income (000)	$ 237,240	$ 264,459	(10.3)
Return on Average Common Stock Equity	[illegible]%	9.7%	--
Kilowatt-hour Sales (Millions of Kilowatt-hours)			
Residential	6,873	6,566	4.7
Commercial	7,176	6,848	4.8
Industrial	12,559	12,168	(5.0)
Wholesale	2,[illegible]	2,487	9.8
Other	[illegible]	959	9.3
Total	29,475	29,128	1.2
Employees at Year End	8,852	8,517	3.9

QUARTERLY RANGE OF COMMON STOCK PRICES

1991	High	Low	1990	High	Low
1st Quarter	$19⅝	$16⅞	1st Quarter	$21⅛	$18
2nd Quarter	19⅝	16⅛	2nd Quarter	19½	17⅝
3rd Quarter	18⅜	15	3rd Quarter	19⅝	16⅛
4th Quarter	20⅝	17⅞	4th Quarter	18⅝	16⅜

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1991 Highlights

.... Although reported earnings were down 10%, to $1.71 per share, the common dividend was maintained at $1.60 per share and cash flow continued to improve.

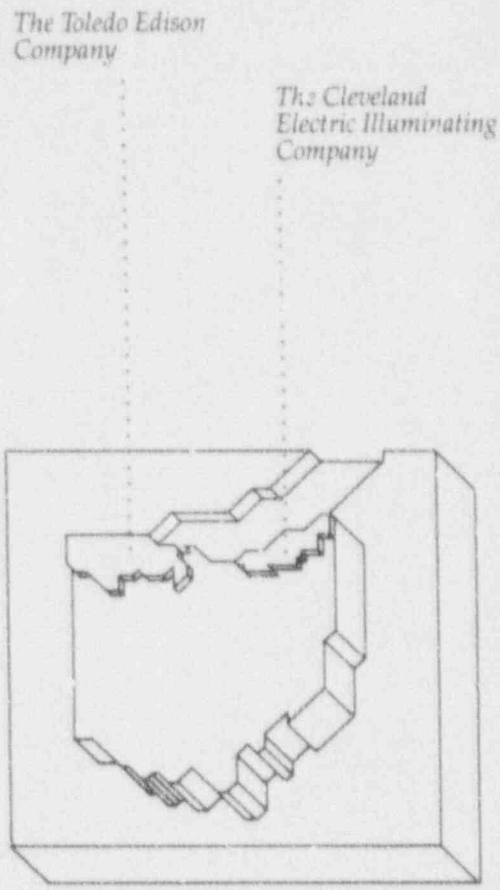
.... A commitment to cost control helped to reduce operation and maintenance expense (excluding fuel and purchased power) by $62 million. Also, construction expenditures were about $47 million lower than 1990.

.... The final step of the three-year rate phase-in plan under the January 1989 rate agreement went into effect on February 1, 1991. The 6% scheduled increase was reduced to 4.35% for Cleveland Electric and to 2.74% for Toledo Edison as we shared our cost reductions with our customers. Toledo Edison later waived the increase and reduced its rates twice in 1991 for certain customers.

.... While the City of Toledo continued to review the option to create a municipal electric system, two other communities rejected the municipalization option in 1991. A third, home to one of our five largest customers, undertook a study of the issue.

.... With only Davis-Besse having a refueling outage during the year, our three nuclear units had an average availability of 90% in 1991, far exceeding the average for all nuclear plants in the country.

.... Power sales to other utilities produced a record $33.4 million of revenue in excess of the related costs. These sales amounted to 9% of total kilowatt-hour sales.



Centerior Energy Corporation was formed in April 1986 upon the affiliation of The Cleveland Electric Illuminating Company and The Toledo Edison Company. With assets of over $12 billion, Centerior Energy is one of the largest electric utility systems in the nation. The Centerior operating companies serve 2.6 million people in a combined service area of 4,200 square miles in Northern Ohio. Centerior Energy is an equal opportunity employer.

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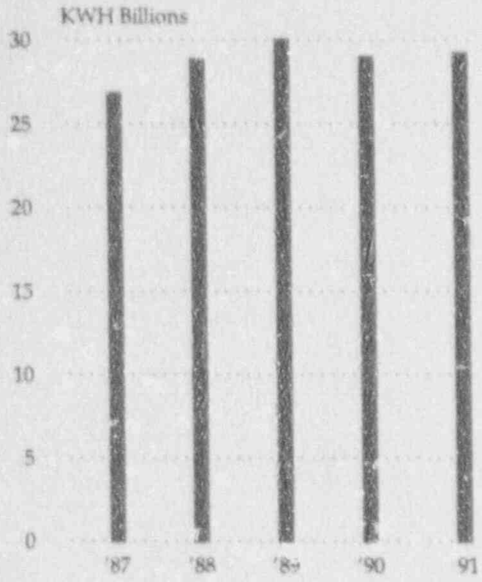
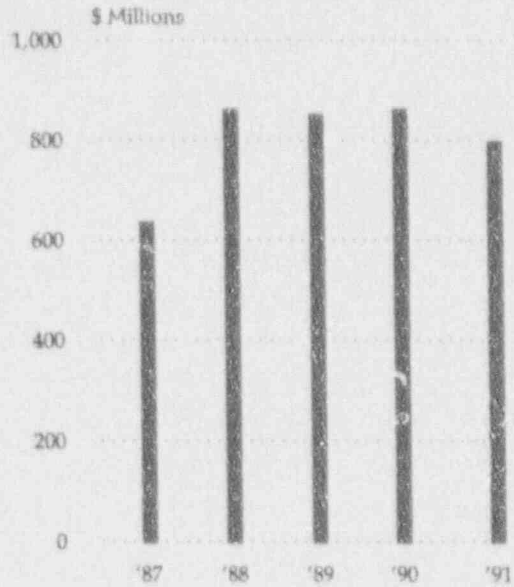
Total Kilowatt-Hour Sales



(1987-1990 Restated)

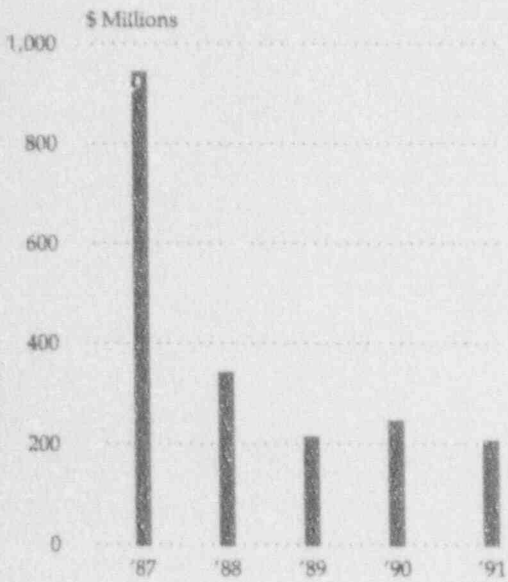
Despite the impact of the recession on our industrial customers, total sales in 1991 increased 1% on the strength of continued growth in the commercial sector, a hot summer and increased sales to other utilities.

Operation & Maintenance Expense (Excluding Fuel & Purchased Power)



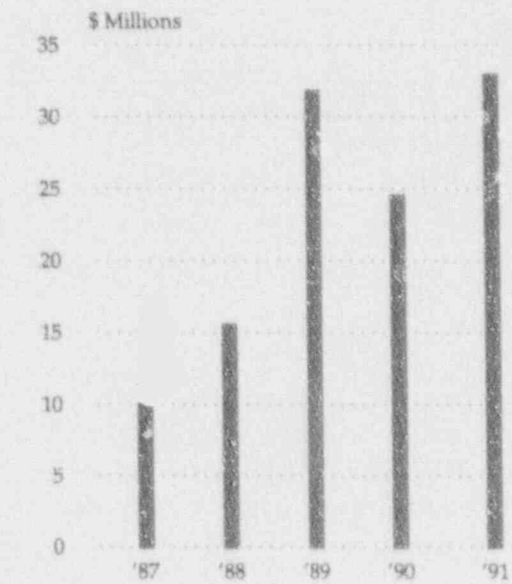
We achieved a significant reduction in O&M expense in 1991. The reduction was attained by implementing the recommendations of a management audit completed in 1990 and our ongoing commitment to minimize costs.

Construction Expenditures
(Including AFUDC and Excluding Nuclear Fuel)



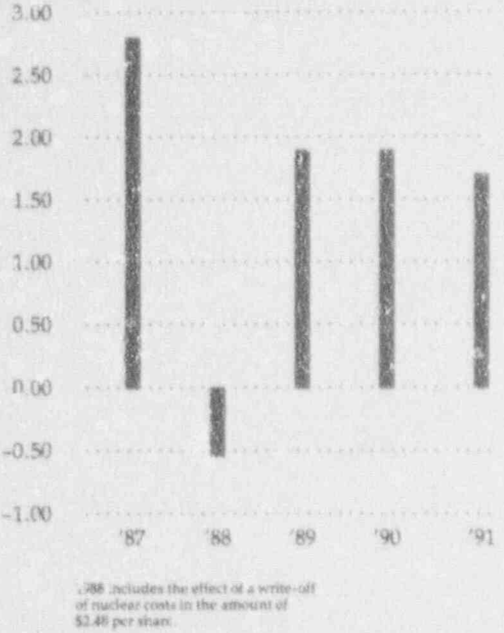
With the completion of our nuclear construction program in 1987, construction expenditures have dropped dramatically, averaging about $224 million the past three years. We expect that our costs to comply with the new clean air legislation will be significantly less than other Midwest utilities.

Excess Revenue over Cost from Off-System Sales



The increased availability of our nuclear and fossil generating units, in conjunction with lower average production costs, has made us more competitive in the marketplace for sales of power to other utilities. Revenues from those sales in 1991 exceeded the related costs by a record $33 million.

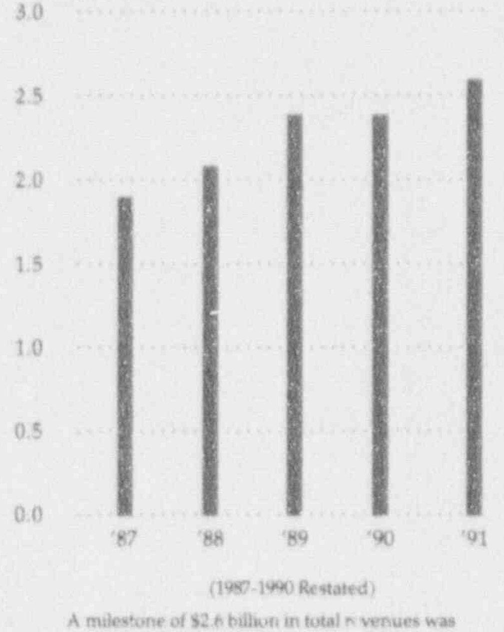
Earnings Per Share



1988 includes the effect of a write-off of nuclear costs in the amount of $2.46 per share.

Although earnings per share declined to $1.71 in 1991, the quality of our earnings continued to improve, as it has since 1988. Noncash credits continue to have a decreasing effect on earnings.

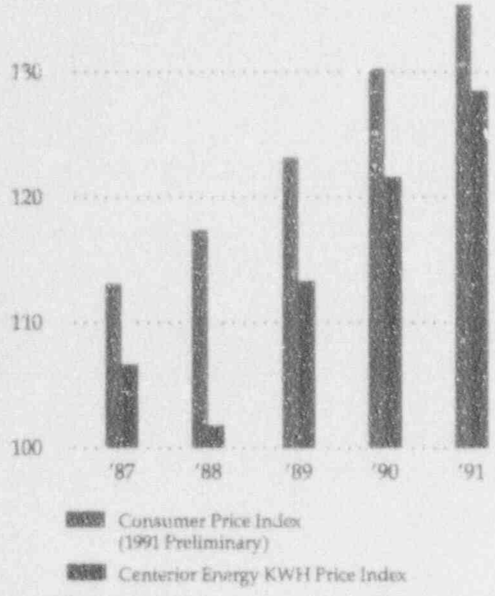
Total Electric Operating Revenues



(1987-1990 Restated)

A milestone of $2.6 billion in total revenues was reached in 1991 as we implemented the last of three annual rate increases.

Average Retail Price Per KWH Compared with the Consumer Price Index
(1982-1984 = 100)

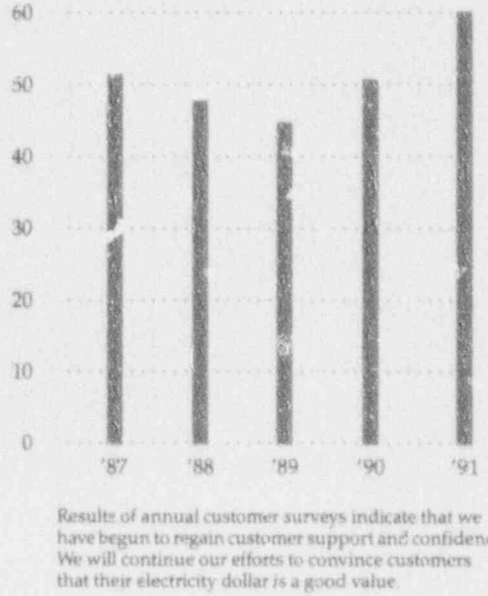


Consumer Price Index (1991 Preliminary)

Centerior Energy KWH Price Index

Despite the rate increases we have implemented over the past several years, the cost of our product remains a smaller segment of most of our customers' budget dollars than a decade ago.

Customer Favorability



Results of annual customer surveys indicate that we have begun to regain customer support and confidence. We will continue our efforts to convince customers that their electricity dollar is a good value.

Dear Share Owner:

Our corporate mission is to provide quality electric service to customers while earning a fair return for our investors. The year 1991 was highlighted by several achievements consistent with that mission:

- *Although reported earnings of $1.71 per share were down from the $1.90 per share reported in the two previous years, we maintained the common stock dividend of $1.60 per share and our cash flow continued to improve.*

- *We reduced operation and maintenance expense (excluding fuel and purchased power) for 1991 by $62 million, or 7%, from the 1990 amount.*

- *We were successful in obtaining approval from The Public Utilities Commission of Ohio (PUCO) of three accounting requests designed to more closely align our accounting for operating and capital costs to amounts currently being recovered in rates.*

- *Our three nuclear generating units performed very well. They accounted for 43% of the electricity we generated in 1991. Two of the units far exceeded the industry average for availability; the third was nearly average. Our coal-fired units also performed well, thus helping us maintain reliable service to our more than one million customers.*

- *Our favorability rating with customers for 1991 climbed almost 10 percentage points from the previous year. According to the survey analyses, the gain reflects customer appreciation of the value of electricity and customer awareness of our efforts to stabilize rates and reduce costs.*

We are pleased with these achievements. We also are well aware of our continuing challenges.

The electric utility business is in a state of transition—from a tightly regulated and somewhat protected business to one that is increasingly more competitive. We are especially challenged by proponents of municipal electric systems—a challenge intensified by the current availability of low-cost power in the wholesale market.

In this unrelenting climate, we are endeavoring to keep our electric rates stable, even though inflation, operating demands and state and local tax increases continue to put downward pressure on our earnings.

Robert J. Farling *Richard A. Miller*

We implemented a rate phase-in plan in three annual steps starting in 1989 to begin recovering our allowed investment in the two nuclear generating units completed in 1987. Those units will provide an environmentally compatible source of electric power for years to come. However, our prices are now higher than those of many other investor-owned utilities in our region.

We are working hard to narrow that price gap. In the 1989 rate agreement, which was reached with customer representatives and approved by the PUCO, we committed to using our best efforts to delay the need for further rate increases after the one implemented in February 1991. At the same time, we are committed to rewarding your confidence in Centerior Energy as an investment.

To satisfy both commitments, we have charted a course for the future based on specific strategies to achieve these primary objectives:

- ***To maintain earnings and the current dividend through continued cost containment, sales and revenue enhancement and the further pursuit of appropriate accounting treatment for investments and costs not reflected in current rates.***

- ***To meet the competition by holding the line on electric rates, offering customers the best possible value for their energy dollar and working for the economic development of the communities we serve.***

- ***To strive for continuous improvement in operations, thus attaining optimal use of existing facilities while maintaining our commitment to the environment.***

The text that follows describes our challenges and our strategies in more detail. We believe that the course we have charted will enable us to fulfill our ultimate responsibility to you—namely to justify the confidence you have placed in us and to enhance the value of your investment.

On March 1, 1992, Dick Miller will retire from his position as Chairman and Chief Executive Officer, completing 31 years of dedicated service to Cleveland Electric and Centerior Energy. He will continue as a member of the Board of Directors. Bob Farling will succeed Dick as Chairman and CEO.

Centerior Energy will continue working to be recognized as a top-level performer in the energy marketplace. That is the vision we share for our Company. We have a strong management organization and a team of skilled, dedicated employees of whom we are justifiably proud. They give us the confidence that our vision will become a reality.

Sincerely,

Richard A. Miller

Robert J. Farling

February 17, 1992

HISTORICAL PERSPECTIVE

Our financial picture continues to be influenced by the 1989 rate agreement. That agreement was critical to our fortunes. It allowed us a three-step rate increase for each of our operating companies, the last step implemented February 1, 1991, to recognize in rates our allowed investment in Unit 1 of the Perry Nuclear Power Plant and Unit 2 of the Beaver Valley Power Station. The two nuclear generating units were completed in 1987.

To help moderate the negative earnings impact of phasing in our large investment in these units, the agreement included a 10-year phase-in plan for each of our two operating companies allowing us to defer a portion of the nuclear-related operating expenses and carrying charges in the first five years of the plan. In the latter five years, as that investment base decreases and revenues increase as a result of sales growth, the deferred operating expenses and carrying charges are to be amortized to expense.

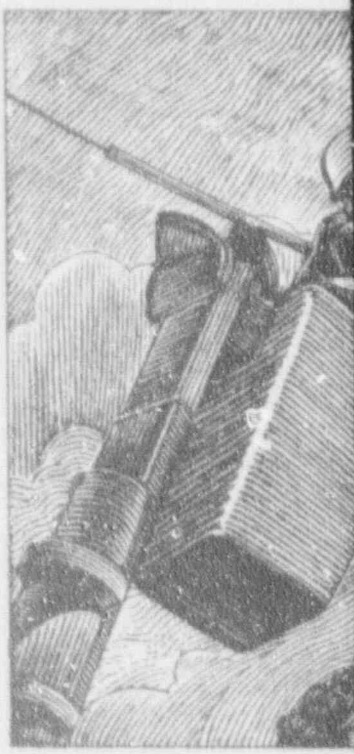
In this way, the phase-in plans adequately provide for recovery of the costs associated with our investment in Perry Unit 1 and Beaver Valley Unit 2. But we are not currently recovering costs associated with *new* investments or increases in other expenses that have occurred *since* the 1989 rate agreement. Investment that was not in rate base at the end of 1991 amounted to about $400 million. Unrecognized investment and our commitment to delay further rate increases continue to affect earnings adversely.

RESULTS FOR 1991

Earnings for 1991 were $1.71 per share, down from the previous two years. However, the quality of our earnings has improved dramatically since 1988 as evidenced by the continuing decrease in the portion of earnings related to noncash credits.

Our cash flow in 1991, after payment of dividends, was sufficient to pay substantially all new cash construction needs. While cash flow will level off in 1992 due to the absence of a rate increase, we expect it to provide nearly the same percentage of construction expenditures as it did in 1991.

Throughout 1991, we worked to lessen earnings erosion by following three primary strategies: reducing costs, expanding wholesale revenues and achieving regulatory approval of appropriate accounting requests to better align our accounting for operating and capital costs to the amounts being recovered in rates.



POSITIVE IMPACT OF COST REDUCTIONS

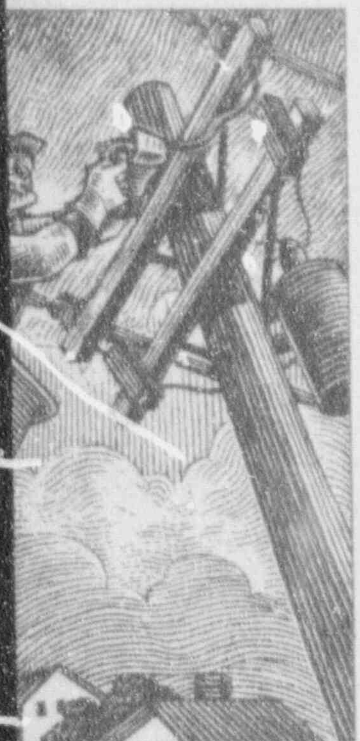
In this Report a year ago, we stated that we expected to achieve significant reductions in our costs of doing business. In 1991, we reduced other operation and maintenance expense by $62 million, or 7%. We also refinanced $310 million of high-cost debt and preferred stock for a net annual savings of $9 million in interest costs and preferred dividends. Our cost reduction efforts continue.

Since mid-1990, about 1,500 employee, consultant and contractor positions have been eliminated, representing 14% of the 1988 total. Most employees left through an early retirement program; the rest received equitable separation benefits.

We have implemented, or plan to implement, many other cost-reduction initiatives. For example, we have centralized training, testing and access-authorization for employees and contractors during refueling and maintenance outages at the Davis-Besse Nuclear Power Station to save $480,000 during those outages. At the Perry Plant, employees instead of contractors will perform the periodic refurbishment of safety relief valves in main steam lines. This is estimated to save at least $113,000 during each

refueling and maintenance outage at Perry Unit 1.

Among additional examples, we expect improved scheduling practices and work procedures to reduce overtime and save $250,000 annually in transmission and distribution operations. A better method for detecting cracks in power plant piping will save an estimated $100,000 annually. We saved $40,000 at the Ashtabula Plant in 1991 by having employees rather than contractors perform a turbine inspection. Improvements in materials management will reduce inventories and help save an estimated $1 million in 1992 in our transmission and distribution operations.



Achieving these savings while maintaining quality service to customers was made possible only through the extraordinary commitment of our employees. They also contributed, individually, to the cost-reduction effort. Their suggestions offered through our "Bright Ideas" program, which included some of the above improvements, contributed $3.5 million to annual savings in 1991.

As noted, our refinancing activities also contribute to overall cost reductions. We expect optional and mandatory redemptions in 1992 to result in another $9 million in annual savings in interest costs and preferred dividends.

Perhaps of singular importance to ongoing cost reductions, we have committed our organization to the "Total Quality" process that is improving the performance and profitability of some of the top corporations world-wide. Total Quality instills the training and tools necessary to make continuous improvement a routine part of every employee's job. We have quality improvement teams organized throughout the Company and several joint teams set up with major customers and suppliers as well.

WHOLESALE REVENUES

Just as cost reductions helped earnings, so did our kilowatt-hour sales to other utilities. We sold 2.7 billion kilowatt-hours to other utilities in 1991. Revenues from those sales in 1991 exceeded the related costs by $33 million. We are aggressively seeking opportunities for long-term power contracts to achieve maximum benefit from our generating capacity.

POSITIVE IMPACT OF ACCOUNTING ORDERS

During 1991, the PUCO issued orders approving three accounting requests designed to more closely align our accounting for operating and capital costs to amounts recovered in rates, thus slowing earnings erosion. Each order was retroactive to January 1, 1991.

One order allowed us to change the depreciation method for our three operating nuclear units from units-of-production to straight-line. This change contributed $.20 per share to annual earnings in 1991. The second order reduced from about 3% to 2.5% the depreciation rate for nuclear units, contributing $.15 per share to 1991 earnings. The third permitted us to record additional cost deferrals based on a provision in the 1989 rate agreement that permits such action when our kilowatt-hour sales are lower than the agreement projected, as occurred in 1991. This contributed $.13 per share to 1991 earnings.

In seeking regulatory approval for the latter two items, we were joined by many of the customer representative groups who had participated in the 1989 rate agreement. On our part, we agreed not to seek any base rate increase to be effective before January 1, 1993, thus extending by nearly a year the rate moratorium included in the 1989 agreement.

Regulatory approval and customer support for such accounting requests underscore our confidence that pursuing these strategies is a prudent business practice. We believe that the customer representative groups and the regulatory commission will continue to support our longer-term operating and financial objectives provided we continue to achieve our projected cost reductions.

BEYOND 1991

We will continue our efforts to maintain earnings by seeking further cost savings, advantageous business transactions, additional wholesale power revenues and appropriate accounting options.

For example, we are seeking support from the customer representative groups for our request to the PUCO to permit us to capitalize the carrying charges and to defer depreciation on investment placed in service since February 1988 until it is reflected in rates.

Complementing these strategies, our "Total Quality" commitment will help us further reduce costs. We also expect it to improve our operating performance and quality of service to customers—two critical factors in our strategy to compete in today's challenging energy market.

Meeting the Competition

THE MUNICIPALIZATION CHALLENGE

Rate recovery of our investment in Perry Unit 1 and Beaver Valley Unit 2 resulted in rate increases in 1989, 1990 and 1991 totaling about 20% for Cleveland Electric customers and 16-19% for Toledo Edison customers, depending on the type of customer. Our rates in both service areas are higher today than those of many other investor-owned utilities in our region. As a result, a few communities in our service area are considering creating their own municipal electric systems in hopes of realizing lower electric bills.

In response, we have increased our personal contacts and developed special communications programs for community officials and citizens' groups in these communities. We provide information on the financial risks and uncertainties of creating a municipal electric system and stress the superior reliability, service quality and value to the community of an investor-owned company.

Most municipal systems today serve solely as distribution systems that buy power at wholesale costs from other utilities. The current availability of low-cost, wholesale power is expected to decline in years to come. Very little new electric generating capacity is under construction in our region. Old generating units, especially high polluters, are expected to be retired or equipped with costly pollution controls.

Developing an electric power system involves many complexities: constructing the electrical facilities, controlling the dispatch of power, providing back-up capabilities, meeting environmental requirements and training a workforce to safely operate, maintain and repair highly complex equipment. Such costly endeavors would severely drain a community's financial resources which could be better spent to maintain safety forces and improve other municipal services.

In the City of Toledo, where municipalization has been under review since 1989, a citizens' review committee is expected to make a recommendation soon to City Council. A consultant's report in mid-1991 contended that a municipal electric system could save customers up to 20% of the costs expected to be paid to Toledo Edison over the next 20 years. We provided evidence to refute that assessment.

Defiance, one of the largest cities in the Toledo Edison territory, completed a $100,000 municipalization study in 1991. After thorough review, the City Council's utility task force recommended that the City *not* proceed with creation of its own electric system because the risks were judged to be greater than the potential gains. In Cleveland Electric's service area, the Village of Orwell also turned down the municipalization option in 1991.

However, creation of a municipal electric system has been recently proposed in Brook Park, a community that is home to one of our five largest industrial customers, Ford Motor's Brook Park plant, and some 8,000 residential customers. We are meeting with Ford representatives and City officials in efforts to seek resolution.

Our long-time competitor, Cleveland Public Power (CPP), continues an expansion program announced in 1986. CPP is essentially a distribution system now serving about 50,000 customers. CPP officials expect the expansion to acquire about 20,000, or 1.9%, of our customers by the end of 1992. We consider that estimate overly optimistic. Most of their target customers are residential; however, the CPP expansion already has taken three City-operated water pumping stations, typically high energy users. The loss of the 20,000 customers, in addition to the three pumping stations, would reduce our annual revenues by $16 million, or 0.6%, offset somewhat by lower operating expenses and taxes.

INCENTIVE PRICING

Incentive pricing is one strategy we employ to remain competitive and, at the same time, help our customers keep energy costs down.

During 1990 and 1991, we negotiated ordinances in the Toledo Edison service area under which municipalities agreed to retain us as sole electricity supplier for five years in exchange for rate benefits for residential and small commercial customers. All municipalities signed the ordinances except the City of Toledo. We expect to resume talks with the City later in 1992.

For many decades, we have made reduced rates available to industrial and large commercial customers in recognition of their special load characteristics that make them less costly to serve. Such characteristics include interruptibility, high load factor and off-peak demand. In turn, these customers commit to purchasing all their electric power from Cleveland Electric or Toledo Edison for the length of the contract.

During 1991, we stepped up our efforts to help industrial and commercial customers attain the best possible energy pricing in these challenging economic times. These efforts sometimes mean reduced revenues for us in the short term, but they benefit us in the long run by retaining customers, keeping jobs in the community and increasing sales once economic conditions improve and businesses grow.

As an example, in 1989, we began offering incentive pricing packages to select Toledo Edison customers which were considering expansion or reorganization. This economic development incentive has since encouraged more than 50 industrial customers to make about $150 million in capital investments. This, in turn, retained or created some 1,800 jobs and 23,000 kilowatts of load. It also had positive implications for commercial and residential sales.

ADDED VALUE FOR CUSTOMERS

We always have valued our customers and placed the highest priority on serving their needs. Today, we are endeavoring even more to strengthen programs that demonstrate the added value inherent in our service.

We serve as consultants to communities to help them retain existing businesses and attract new ones. We are equipped to advise communities on infrastructure, land access, tax incentives and environmental requirements. We provide similar consulting services for prospective customers. Through our Partners in Productivity campaign in the Cleveland Electric area, we introduce local enterprises to the newest electrotechnologies to help make them more competitive.

Our three Customer Advisory Panels help us keep attuned to current attitudes and needs. Today's customers are seeking new ways to increase their energy efficiency and realize more value from their energy dollar. We offer demand-side management programs to respond to that need. These programs encourage customers to shift some electricity consumption from high-use to low-use periods, with incentive pricing reducing the customer's overall energy cost. Our Company, in turn, benefits as these programs slow the growth in peak demand, enabling us to delay costly investment in new power plants.

We plan to invest about $90 million in demand-side management programs this decade. We are moving prudently to allow time for us to assess customer needs and acceptance levels for various programs. To encourage demand-side management, the PUCO allows recovery through rates of a utility's investment in demand-side projects for customers as well as recovery of some associated carrying charges and lost revenues. The PUCO also allows utilities 10% of the savings resulting from the investment.

We are helping commercial customers install high-efficiency lighting, thermal storage cooling and energy management systems. In 1991, we launched a demand-side management demonstration program in conjunction with the Toledo Area Small Business Association. Ultimately, initiatives from this program are expected to reach 28,000 commercial customers. This is one of the largest energy-efficiency efforts ever undertaken in Ohio.

We are more than an electricity supplier—we are a full-service energy company, offering our customers experience, technical expertise and a broad range of special programs to suit their needs. Customers are our reason for being in business. Our goal is to achieve the highest possible level of customer satisfaction.

Corporate citizenship is another aspect of the added value in our electric service. In 1991 alone, our corporate contributions to civic, cultural, educational, health and social service agencies totaled $2.1 million. In addition, Centerior employees pledged $1.65 million to the United Way, an average of about $200 per employee. Our Speakers Bureau reached audiences totaling 60,000. Five thousand school children attended our electrical safety presentations. More than 2,400 Centerior employees volunteered for community programs in 1991.

Such activities and programs substantiate our Company's value to Northern Ohio communities as do the taxes we pay to support schools and city services. We stress these points in our discussions with communities considering municipalization.

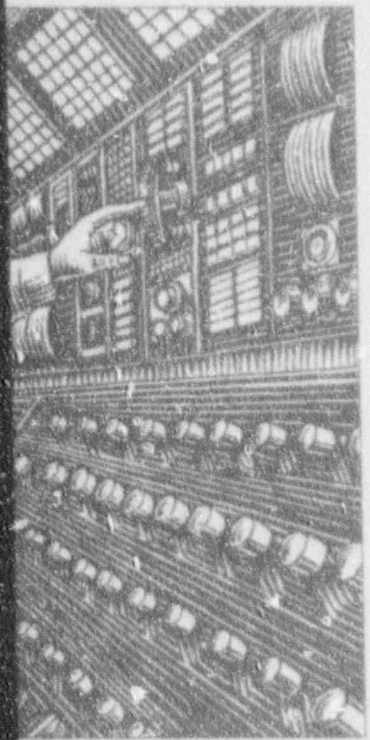
Continuous Improvement in Operations

PLANT PERFORMANCE EXCELS

Our three nuclear units performed very well in 1991, and we are working to continue this performance.

An important measure of unit performance is operational availability, which is the percentage of time a unit is available to generate electricity.

For the three years ended December 31, 1991, Davis-Besse attained an availability average of 83%, as did Beaver Valley Unit 2. Those results were significantly better than the industry's most recent three-year average of 74% for units with pressurized water reactors. Perry Unit 1 attained a three-year availability average of 70%, coming close to the 72% industry average for units with boiling water reactors. Nuclear energy accounted for 43 percent of the electricity we generated in 1991.



The 883,000-kilowatt Davis-Besse station is fully owned by Centerior. The station returned to service from a 10-week refueling and maintenance outage on November 8, 1991. Since completing an extensive refurbishment in 1988, Davis-Besse has become a top performer among the nation's 111 nuclear power units. Davis-Besse earned its highest marks ever in the Nuclear Regulatory Commission's (NRC) most recent Systematic Assessment of Licensee Performance (SALP) Report. This is a critical NRC evaluation issued every 12 to 18 months for each nuclear power unit in the nation. On a SALP performance scale of 1 to 3, Davis-Besse earned a Category 1 rating, the top result possible, in three of seven evaluated areas and, for the other four areas, a Category 2 rating which signifies a level of performance above that needed to meet regulatory requirements. Additionally, Davis-Besse was commended for improvement in three of the latter four areas.

Perry Unit 1 is a 1,194,000-kilowatt unit of which we own 51%. The Perry unit also earned high marks in the NRC's recent SALP Report, receiving a Category 1 rating in two areas and a Category 2 rating in all others.

Beaver Valley Unit 2 is an 820,000-kilowatt unit operated by Duquesne Light Company. We have 44% ownership and leasehold interests in the unit. Like Davis-Besse, Beaver Valley Unit 2 received its highest ratings ever in the NRC's most recent SALP Report. This latest assessment places it among the top 10 nuclear power units in the nation.

Our fossil-fueled generating units also performed well in 1991. They achieved a combined operating availability average of 80%. This considerably exceeds the minimum performance standard of 64.9% availability which was stipulated in the 1989 rate agreement.

The future of Perry Unit 2 is a continuing uncertainty. Construction of this unit has been suspended since 1985 pending consideration of various options including resumed construction, conversion to a nonnuclear design, sale of all or part of our ownership share or cancellation. The unit is about 50% complete.

Our net investment in Perry Unit 2 would have to be written off if the unit were canceled. If it were converted to a nonnuclear design, we would have to write off the cost of unusable nuclear equipment and facilities.

To keep open all options regarding Perry Unit 2, we have applied to the NRC for a 10-year extension of the construction permit. It was to expire in November 1991 but remains in effect while the application is pending. Additionally, Cleveland Electric recently agreed to purchase Duquesne Light Company's 13.74% ownership share of the unit at a purchase price of about $3 million. Duquesne had stated it would not agree to resume construction. The purchase will give us a 64.76% share of the unit with the remainder owned by Ohio Edison Company and its subsidiary, Pennsylvania Power Company.

OUR ENVIRONMENTAL COMMITMENT

Through 1991, we continued evaluating the complex options for complying with the Clean Air Act Amendments of 1990. The legislation requires substantial reductions in sulfur dioxide (SO_2) emissions from coal-fired power plants, to be achieved in two phases.

The combined SO_2 emissions from Cleveland Electric and Toledo Edison power plants already have been cut by about 50% from the 1977 level. That puts us well ahead of many other Midwest utilities which, like us, depend largely on coal. Nevertheless, the legislation requires us to reduce emissions further, achieving the first phase of reductions by 1995; the second phase, by the year 2000.

Our aim is to achieve those reductions at the lowest possible cost to customers. Consequently, we are taking a multi-dimensioned approach which emphasizes flexibility. Our approach includes the additional use of low-sulfur coal, maximum use of our emission allowances, demand-side management of customer load and, after 2001, the installation of a scrubber or other sulfur emission reduction technology at one plant. We will seek PUCO review of our compliance plans in 1992.

Thanks to our previous SO_2 reductions and our broad-based strategy, we expect to comply with both phases of the 1990 legislation at comparatively moderate cost. Our anticipated capital expenditures and other expenses represent the potential for a 1-2% rate increase in the late 1990s and another increase after the year 2000, for an aggregate increase of about 3-6%. Many other coal-dependent utilities in our region face emission-reduction costs two or three times higher. As they absorb those higher costs into their rates, our prices will become more competitive.

Reducing emissions is just one of many ways we maintain our commitment to the environment. We have a broad range of corporate programs to re-use, recycle and reduce waste. Of the 600,000 tons of fly ash produced from coal combustion each year, we market more than 10% to concrete manufacturers for use in building and highway construction. We plan to participate in a research project testing a fly ash-compost combination as a topsoil replacement. We are seeking additional opportunities to find uses for fly ash, thus reducing landfill requirements and disposal costs. Each year we also sell about two million pounds of used aluminum and copper, just two of many materials we recycle.

Many customers share our environmental commitment. Our mid-1991 offer of recycling information kits to customers at no charge drew 150,000 requests representing about 15% of our customer total.

In 1991, the Board of Directors created an Environmental and Public Policy Committee to oversee the status and compliance with environmental laws and make recommendations to management regarding environmental programs. We are preparing a report on our environmental performance that will be offered this spring at no charge to interested share owners and customers.

THE NORTHERN OHIO MARKET

We expect electricity sales in Northern Ohio to increase about 2% annually over the next several years. We also expect the fastest growth to occur in the commercial sector where growth has occurred every year since 1978 for an aggregate increase of 39%.

The recession may have put a temporary damper on economic growth, but our Northern Ohio service area has suffered less than other regions. The local unemployment rate was lower than the national average during the second half of

1991. Northern Ohio industries learned from the recession of the early 1980s and have since improved operating efficiencies, thus contributing to a more resilient manufacturing base.

In Cleveland, LTV Steel has installed major new production facilities at one of its plants. This expansion, now complete, will provide us with $8 million in additional annual revenues.

LTV has announced plans for a similar installation in its other Cleveland plant to become operational in the mid-1990s. Ford Motor will complete expansion of its Avon Lake plant to begin production of Mercury Villager minivans in 1992. This will add $5 million to our annual revenues.

Industrial sales in the Toledo Edison area will be boosted in 1992 when Chrysler shifts its Wrangler production from Canada to the local Jeep Assembly Plant. BP America plans to spend more than $100 million at its Toledo refinery for a process to reduce sulfur in diesel fuel. The new facility will add $4-5 million to our annual revenues beginning in 1993.

In the commercial sector in 1991, Cleveland Electric began service to some seven million square feet of new building space, nearly half of it electrically heated. Major new customers include downtown Cleveland's Bank One, Society Center and Marriott Hotel. Preparations are moving ahead for construction of the $350 million Gateway sports complex in Cleveland's downtown. It will include a stadium with enclosed portions featuring electric heating and cooling provided by Cleveland Electric.

In the Toledo area, expansions are planned at the Franklin Park Mall shopping center, the Medical College of Ohio and the University of Toledo. Downtown Toledo's Portside market, closed in 1989, may reopen to house a Center of Science and Industry museum. Burlington Air Express' new international cargo hub was completed in 1991 giving Toledo Express Airport new air cargo and truck freight links.

In the residential sector, we continue promoting use of the heat pump for electric heating and cooling in the home. New electric heat pump installations added some $860,000 to annual revenues in 1991 and are expected to contribute nearly $1 million to revenues in 1992. Increased heat pump saturation also helps to raise system load factor, which means we get more use from our generating equipment.

OUR DIRECTION FOR THE FUTURE

Centerior Energy adheres to the traditions of service reliability, concern for customers and responsiveness to share owners. We also believe in the worth of creativity, innovation and resourcefulness. This is reflected in our willingness to pioneer new approaches to improve financial results, build relationships with our customers and meet new technological demands.

We are living in very challenging times, but we are set on a course of action that we believe will meet those challenges. We often have said that our employees are our single most important resource. They have contributed significantly to corporate achievements in the past year and we count on them for further contributions in the years to come.

With the help of this dedicated workforce and the cooperation of customer representative groups and regulators, we are confident we can achieve our strategic objectives: maintaining earnings and the current dividend, meeting the competition and improving operations. We also are confident that, in doing so, we will fulfill our prime responsibility to you—that of enhancing the value of your investment.

Management's Statement of Responsibility for Financial Statements

The management of Centerior Energy Corporation is responsible for the consolidated financial statements in this Annual Report. The statements were prepared in accordance with generally accepted accounting principles. Under these principles, some of the recorded amounts are based on estimates which are, in turn, based on an analysis of the best information available.

We maintain a system of internal accounting controls designed to assure that the financial records are substantially complete and accurate. The controls also are designed to help protect the assets and their related records. We structure our control procedures such that their costs do not exceed their benefits.

Our internal audit program monitors the internal accounting controls. This program gives us the opportunity to assess the adequacy and effectiveness of existing controls and to identify and institute changes where needed. In addition, an examination of our financial statements is conducted by Arthur Andersen & Co., independent public accountants, whose report appears below.

Our Board of Directors is responsible for determining whether management and the independent public accountants are carrying out their responsibilities. The Board is also responsible for making changes in management or independent public accountants if needed.

The Board has appointed an Audit Committee, comprised entirely of outside directors, which met three times in 1991. The Committee recommends annually to the Board the firm of independent public accountants to be retained for the ensuing year and reviews the audit approach used by the accountants plus the results of their audits. It also oversees the adequacy and effectiveness of our internal accounting controls and ensures that our accounting system produces financial statements which present fairly our financial position.

E H Maugans

E. H. MAUGANS
Executive Vice President and
Chief Financial Officer

Paul G. Busby

PAUL G. BUSBY
Controller and
Chief Accounting Officer

Report of Independent Public Accountants

ARTHUR ANDERSEN & CO.

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 stock of Centerior Energy Corporation (an Ohio corporation) and subsidiaries as of December 31, 1991 and 1990, and the related consolidated statements of income, retained earnings and cash flows 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 Centerior Energy Corporation and subsidiaries as of December 31, 1991 and 1990, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1991, in conformity with generally accepted accounting principles.

As discussed further in the Summary of Significant Accounting Policies and Note 12, a change was made in the method of accounting for nuclear plant depreciation in 1991, retroactive to January 1, 1991.

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, converting the unit to a nonnuclear design, sale of all or part of the Company's ownership share, 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

Cleveland, Ohio
February 14, 1992

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 management, financial, administrative, engineering, legal and other services at cost 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 preferred stock, first mortgage bonds and other debt obligations 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). As rate-regulated utilities, the Operating Companies are subject to Statement of Financial Accounting Standards 71 which governs accounting for the effects of certain types of rate regulation. 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 Ohio Edison's wholly owned subsidiary, 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. An accrual is made at the end of each month to record the estimated amount of unbilled revenues for kilowatt-hour sales rendered in the current month but not billed by the end of that 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 and adjusted semiannually in a PUCO proceeding.

Operating revenues include certain wholesale power sales revenues in accordance with a FERC clarification of reporting requirements. Prior to 1991, these bulk power sales transactions were netted with purchased power transactions and reported as part of fuel and purchased power expense. The amounts for prior years have also been reclassified to conform with current reporting requirements. See Note 13.

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 AND PHASE-IN DEFERRALS OF OPERATING EXPENSES AND CARRYING CHARGES

The PUCO authorized the Operating Companies to record, as deferred charges, certain operating expenses and carrying charges related to Perry Nuclear Power Plant Unit 1 (Perry Unit 1) and Beaver Valley Power Station Unit 2 (Beaver Valley Unit 2) from their respective in-service dates in 1987 through December 1988. Amortization and recovery of these 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.

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 is depreciated over their estimated useful lives on a straight-line basis. Prior to 1991, only nonnuclear property, plant and equipment was depreciated on a straight-line basis as depreciation expense for the nuclear generating units was based on the units-of-production method.

The annual straight-line depreciation provision for nonnuclear property expressed as a percent of average depreciable utility plant in service was 3.4% in 1991, 3.3% in 1990 and 3.8% in 1989. The rate declined in 1990 because of a PUCO-approved change in depreciation rates effective January 1, 1990, attributable to longer estimated lives for nonnuclear property. See Note 13.

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. See Note 13.

Effective January 1, 1991, the Operating Companies changed their method of accounting for nuclear plant depreciation from the units-of-production method to the straight-line method at about a 3% rate. The PUCO approved this change in accounting method for each Operating Company and subsequently approved a change to lower the 3% rate to 2.5% for the three operating nuclear units retroactive to January 1, 1991. See Notes 12 and 13.

The Operating Companies use 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 significantly 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 $[illegible],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. 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 are attributable to property-related timing differences that the PUCO used to reduce prior years' tax expense for ratemaking purposes whereby no deferred taxes were collected or 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. A substantial portion of this amount relates to differences between the book and tax bases of utility plant. Hence, the recovery of these amounts will take place over the lives of the related assets.

Investment tax credits are deferred and amortized over the estimated lives of the applicable property. The amortization 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 10.7% in 1991, 10.8% in 1990 and 11.2% in 1989.

Maintenance and repairs are charged to expense as incurred. 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.

RECLASSIFICATIONS

Certain reclassifications have been made to prior years' financial statements to make them comparable with the 1991 financial statements and consistent with current reporting requirements. These include reclassifications related to certain wholesale power sales revenues as discussed previously under "Revenues" and accumulated deferred rents as discussed in Note 2.

Management's Financial Analysis

RESULTS OF OPERATIONS

Overview

The January 1989 PUCO rate orders 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 Perry Unit 1 and Beaver Valley Unit 2. The rate orders, which provided for three rate increases, improved revenues and cash flows in 1989, 1990 and 1991 from the 1988 levels. However, as discussed in the first four paragraphs of Note 6, the phase-in plans were not designed to improve earnings 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 deferrals.

Although the phase-in plans had a positive effect on revenues and cash flows, there are a number of factors that exerted a negative influence on earnings in 1991 and will continue to present significant earnings challenges in 1992 and beyond. One such factor is related to facilities placed in service after February 1988 and not included in rate base. The Operating Companies are required to record interest charges and depreciation on these facilities as current expenses even though such items are not yet recovered in rates. We also are facing the challenge of competitive forces, including new initiatives to create municipal electric systems. The need to meet competitive threats, coupled with a desire to encourage economic growth in the service area, is prompting the Operating Companies to enter into an increasing number of contracts having reduced rates with certain large customers. Competitive forces also prompted Toledo Edison to implement rate reductions in 1991 for residential and small commercial customers. Factors beyond our control also having a negative influence on earnings are the economic recession, the effect of inflation and increases in taxes, other than federal income taxes.

We have taken several steps to counter the adverse effects of the factors discussed above. We have implemented most of the recommendations of the management audit discussed in Note 6 and have taken other actions which reduced other operation and maintenance expense by approximately $62,000,000 in 1991. As discussed in the Summary of Significant Accounting Policies and Note 12, we sought and received PUCO approval to lower our nuclear plant depreciation expense in 1991 to a level more closely aligned with the amount being recovered in rates. In addition, we have increased our efforts to sell power to other utilities which, in 1991, resulted in approximately $33,000,000 of revenues in excess of the cost of providing the power.

Despite the positive aspects of the measures discussed above, more must be done to maintain earnings. Continuing cost-reduction efforts will be necessary to lessen the negative pressures on earnings. We are aggressively seeking long-term power contracts with wholesale customers to further enhance revenues. To counter the effects of delays in recovering new investment since 1988 and related costs in rates, we have requested PUCO approval to accrue post-in-service carrying costs and defer depreciation for facilities that are in service but not yet recognized in rates. PUCO action on this request has been postponed under the joint recommendation approved by the PUCO discussed below.

In December 1991, the PUCO approved a joint recommendation of the Operating Companies and customer representative groups involved in the 1989 rate case settlement. The joint recommendation sought to secure an interim resolution of then-pending accounting applications in 1991 and to establish a framework for resolving accounting issues and related matters on a longer-term basis (i.e., 1992-1995). As part of this joint recommendation, the Operating Companies agreed to limit their combined 1992 other operation and maintenance expenses and capital expenditures to $1,050,000,000, exclusive of compliance costs related to the Clean Air Act Amendments of 1990 (Clean Air Act). Other operation and maintenance expenses and capital expenditures totaled $1,005,000,000 in 1991. The Operating Companies and the customer representative groups also agreed to an ongoing review of our business operations, financial condition and accounting practices. This effort, with the participation of the PUCO staff, is directed at the maintenance and ultimate improvement of our financial condition, the improvement of the efficiency of our operations, and the delay and minimization of future rate increases. The Operating Companies also agreed not to seek any base rate increase that would become effective before 1993.

We continually face competitive threats from municipal electric systems within our service territory, a challenge intensified by municipal access to low-cost power currently available on the wholesale market. As part of our competitive strategy, we are strengthening programs that demonstrate the added value inherent in our service, beyond what one might receive from a municipal electric system. Such programs include providing services to communities to help them retain and attract businesses, providing consulting services to customers to improve their energy efficiency and developing demand-side management programs. To counter new municipalization initiatives, we are also stressing the financial risks and uncertainties of creating a municipal system and our superior reliability and service.

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 current competitive pressures, we will utilize our best efforts to minimize future rate increases through cost-reduction and quality-of-service efforts and exploring other innovative options. Eventually, rate increases will be necessary to recognize the cost of our new capital investment and the effect of inflation.

1991 vs. 1990

Factors contributing to the 5.5% increase in 1991 operating revenues are as follows:

Change in Operating Revenue	Increase
Base Rates and Miscellaneous	$ 86,000,000
Sales Volume and Mix	28,000,000
Wholesale Sales	19,000,000
	$133,000,000

The increases in base rates and miscellaneous revenues resulted primarily from the January 1989 PUCO rate orders for the Operating Companies. The PUCO approved rate increases of 7% effective in February 1990 for both companies and rate increases of 4.35% for Cleveland Electric and 2.74% for Toledo Edison effective in February 1991. However, as part of Toledo Edison's efforts to improve its competitive position in its service area, Toledo Edison waived its 2.74% rate increase for residential and small commercial customers and reduced its residential rates by 3% effective in March 1991 and by an additional 1% effective in September 1991. See Note 6. Total kilowatt-hour sales increased 1.2% in 1991. Residential and commercial sales increased 4.7% and 4.8%, respectively, as a result of higher usage of cooling equipment in response to the unusually warm late spring and summer 1991 temperatures. The commercial sales increase was also influenced by some improvement in the economy for the commercial sector. Industrial sales declined 5% largely because of the recession-driven slump in the steel, auto and chemical industries. Other sales increased 9.1% because of increased sales to wholesale customers and public authorities.

Operating expenses increased 3% in 1991. The increase was mitigated by a reduction of $62,000,000 in other operation and maintenance expense, resulting primarily from cost-cutting measures. Offsetting this decrease were an increase in federal income taxes because of higher pretax operating income; an increase in fuel and purchased power expense resulting primarily from increased amortization of previously deferred fuel costs over the amount amortized in 1990; an increase in taxes, other than federal income taxes, resulting from higher property and gross receipt taxes and accruals for Pennsylvania tax increases enacted in August 1991; and lower 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 1991 because a greater share of our investments and leasehold interests in Perry Unit 1 and Beaver Valley Unit 2 were recovered in rates. The federal income tax provision related to nonoperating income increased mainly because the 1990 provision was reduced by $37,522,000 for federal income tax adjustments associated with previously deferred investment tax credits relating to the 1988 write-off of nuclear plant.

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	$152,000,000
Sales Volume and Mix	(54,000,000)
Perry Unit 1 Capacity Sales to Ohio Edison and Pennsylvania Power	(32,000,000)
	$ 66,000,000

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 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 4.1% 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 18.6% as a result of lower wholesale sales caused in part by 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 0.3% in 1990. Depreciation and amortization expense decreased primarily because of lower depreciation rates used in 1990 for nonnuclear and Davis-Besse property 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 operating expense deferrals for Perry Unit 1 and Beaver Valley Unit 2.

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.

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 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.

Income Statement

	For the years ended December 31,		
	1991	1990	1989
	(thousands of dollars, except per share amounts)		
Operating Revenues	$2,560,252	$2,427,441	$2,361,304
Operating Expenses			
Fuel and purchased power	499,672	472,297	472,684
Other operation and maintenance	801,225	862,738	860,138
Depreciation and amortization	242,708	242,153	272,671
Taxes, other than federal income taxes	304,709	283,425	259,871
Phase-in deferred operating expenses	(22,222)	(50,940)	(74,555)
Amortization of pre-phase-in deferred costs	16,529	17,272	16,335
Federal income taxes	137,581	96,076	122,385
	1,980,202	1,923,021	1,929,529
Operating Income	580,050	504,420	431,775
Nonoperating Income			
Allowance for equity funds used during construction	9,351	7,883	16,930
Other income and deductions, net	5,248	145	14,368
Phase-in carrying charges	109,601	205,085	299,159
Federal income taxes — credit (expense)	(30,329)	(12,948)	(73,177)
	93,871	200,165	257,280
Income Before Interest Charges and Preferred Dividends	673,921	704,585	689,055
Interest Charges and Preferred Dividends			
Debt interest	381,280	384,278	369,481
Allowance for borrowed funds used during construction	(5,248)	(5,993)	(12,929)
Preferred dividend requirements of subsidiaries	60,649	61,841	65,617
	436,681	440,126	422,169
Net Income	$ 237,240	$ 264,459	$ 266,886
Average Number of Common Shares Outstanding (thousands)	139,104	138,885	140,468
Earnings Per Common Share	$ 1.71	$ 1.90	$ 1.90
Dividends Declared Per Common Share	$ 1.60	$ 1.60	$ 1.60

Retained Earnings

	For the years ended December 31,		
	1991	1990	1989
	(thousands of dollars)		
Balance at Beginning of Year	$ 654,836	$ 613,774	$ 571,882
Additions			
Net income	237,240	264,459	266,886
Deductions			
Common stock dividends	(222,233)	(222,482)	(224,947)
Other, primarily preferred stock redemption expenses of subsidiaries	(966)	(915)	(47)
Net Increase	14,041	41,062	41,892
Balance at End of Year	$ 668,877	$ 654,836	$ 613,774

The accompanying notes and summary of significant accounting policies are an integral part of these statements.

CAPITAL RESOURCES AND LIQUIDITY

In addition to our need for cash for normal corporate operations, we continue to need cash for an ongoing program of constructing new facilities and modifying existing facilities to meet anticipated demand for electric service, comply with governmental regulations and protect the environment. Cash is also needed for the mandatory retirement of securities. Over the three-year period of 1989-1991, these construction and mandatory retirement needs totaled approximately $1,250,000,000. In addition, we exercised various options to redeem and purchase approximately $480,000,000 of our securities.

As a result of the January 1989 PUCO rate orders, internally generated cash increased in 1989, 1990 and 1991 from the 1988 level. In addition, we raised $1,463,000,000 through security issues and term bank loans during the 1989-1991 period as shown in the Cash Flows statement. During the three-year period, the Operating Companies also utilized their short-term borrowing arrangements (explained in Note 1[illegible] to help meet their cash needs. Proceeds from these financings were used to help pay for our construction program, 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.

Estimated cash requirements for 1992-1994 for Cleveland Electric and Toledo Edison, respectively, are $693,000,000 and $248,000,000 for their construction programs and $464,000,000 and $241,000,000 for the mandatory redemption of debt and preferred stock. Additionally, Cleveland Electric has arranged to refund in 1992 $78,700,000 principal amount of its First Mortgage Bonds, 13⅛% Series due 2012 by issuing an equal principal amount of first mortgage bonds due 2013 having an effective interest cost of 8.25%. Cleveland Electric and Toledo Edison expect to finance externally about 50% of their total 1992 construction and mandatory redemption requirements of approximately $286,000,000 and $180,000,000, respectively. About 50-60% of the Operating Companies' 1993 and 1994 requirements are expected to be financed externally. If economical, additional securities may be redeemed 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 after 1994 will depend on the implementation strategy we choose to achieve compliance with the Clean Air Act. Expenditures for our optimal plan are estimated to be approximately $190,000,000 over the 1992-2001 period. See Note 3(b).

We expect to be able to raise cash as needed. The availability and cost 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
[illegible]		
[illegible]	BBB−	Baa3
[illegible]	BB+	Ba1
[illegible]	BB+	ba2

Barring unforeseen circumstances, we believe that the rate orders and recent regulatory actions, coupled with stringent cost controls, 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, a new alternative minimum tax (AMT) and other changes that resulted in increased tax payments and a reduction in cash flow during 1989, 1990 and 1991 because we were subject to the AMT.

	For the years ended December 31,		
	1991	1990	1989
	(thousands of dollars)		
Cash Flows from Operating Activities (1)			
Net Income	$ 237,240	$ 264,459	$ 266,886
Adjustments to Reconcile Net Income to Cash from Operating Activities:			
Depreciation and amortization	242,708	242,153	272,671
Deferred federal income taxes	85,331	142,190	181,240
Investment tax credits, net	42,860	(34,287)	1,179
Deferred and unbilled revenues	(50,566)	(60,792)	(74,792)
Deferred fuel	17,648	(11,643)	25,086
Carrying charges capitalized	(109,601)	(205,085)	(299,159)
Leased nuclear fuel amortization	122,770	84,150	102,120
Deferred operating expenses, net	(5,693)	(33,663)	(58,220)
Allowance for equity funds used during construction	(9,351)	(7,883)	(16,930)
Amortization of reserve for Davis-Besse refund obligations to customers	—	—	(24,817)
Pension settlement gain	—	(40,966)	—
Changes in amounts due from customers and others, net	14,007	(26,445)	(13,486)
Changes in inventories	(22,175)	(29,015)	(3,029)
Changes in accounts payable	(49,015)	45,654	(28,826)
Changes in working capital affecting operations	18,858	(24,913)	17,120
Other noncash items	1,396	7,184	7,775
Total Adjustments	298,877	46,434	87,932
Net Cash from Operating Activities	536,117	310,893	354,818
Cash Flows from Financing Activities (2)			
Bank loans, commercial paper and other short-term debt	(109,903)	109,888	29
Debt issues:			
First mortgage bonds	—	167,300	123,800
Secured medium-term notes	284,500	337,500	212,500
Term bank loans and other long-term debt	108,365	31,000	40,000
Preferred stock issues	125,000	—	—
Common stock issues	32,028	—	740
Reacquired common stock	(114)	(25,601)	(19,804)
Maturities, redemptions and sinking funds	(311,983)	(395,287)	(370,747)
Nuclear fuel lease and trust obligations	(115,623)	(99,076)	(86,589)
Common stock dividends paid	(222,233)	(222,482)	(224,947)
Premiums, discounts and expenses	(6,991)	(7,360)	(2,622)
Net Cash from Financing Activities	(216,954)	(104,118)	(327,640)
Cash Flows from Investing Activities (2)			
Cash applied to construction	(189,244)	(237,436)	(210,403)
Interest capitalized as allowance for borrowed funds used during construction	(5,248)	(5,993)	(12,929)
Other cash applied	(568)	(13,211)	(31,500)
Net Cash from Investing Activities	(195,060)	(256,640)	(254,832)
Net Change in Cash and Temporary Cash Investments	124,103	(49,865)	(227,654)
Cash and Temporary Cash Investments at Beginning of Year	53,278	103,143	330,797
Cash and Temporary Cash Investments at End of Year	$ 177,381	$ 53,278	$ 103,143

(1) Interest paid (net of amounts capitalized) was $339,000,000, $297,000,000 and $242,000,000 in 1991, 1990 and 1989, respectively. Income taxes paid were $56,728,000, $21,183,000 and $9,058,000 in 1991, 1990 and 1989, 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, 1991	December 31, 1990
	(thousands of dollars)	
ASSETS		
PROPERTY, PLANT AND EQUIPMENT		
Utility plant in service	$ 8,888,219	$ 8,636,219
Less: accumulated depreciation and amortization	2,274,489	2,038,510
	6,613,730	6,597,709
Construction work in progress	215,855	268,386
Perry Unit 2	850,573	865,149
	7,680,158	7,731,244
Nuclear fuel, net of amortization	458,414	522,672
Other property, less accumulated depreciation	44,513	45,452
	8,183,085	8,299,368
CURRENT ASSETS		
Cash and temporary cash investments	177,381	53,278
Amounts due from customers and others, net	228,754	242,761
Unbilled revenues	107,844	80,866
Materials and supplies, at average cost	125,618	108,758
Fossil fuel inventory, at average cost	57,893	52,578
Taxes applicable to succeeding years	234,096	218,444
Other	9,298	9,922
	940,884	766,607
DEFERRED CHARGES		
Amounts due from customers for future federal income taxes	1,145,925	1,165,904
Unamortized loss from Beaver Valley Unit 2 sale	114,174	119,623
Unamortized loss on reacquired debt	75,265	80,564
Carrying charges and operating expenses, pre-phase-in	612,852	629,530
Carrying charges and operating expenses, phase-in	761,571	629,744
Other	208,333	202,895
	2,918,120	2,828,260
Total Assets	$12,042,089	$11,894,235

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

	December 31, 1991	December 31, 1990
	(thousands of dollars)	
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION		
Common shares, without par value (stated value of $221,477,000 and $189,460,000 for 1991 and 1990, respectively): 180,000,000 authorized; 140,160,000 (excluding 2,522,000 shares in Treasury) and 138,401,000 (excluding 2,511,000 shares in Treasury) outstanding in 1991 and 1990, respectively	$ 2,185,607	$ 2,155,197
Retained earnings	668,877	654,836
Common stock equity	2,854,484	2,810,033
Preferred stock		
With mandatory redemption provisions	332,031	237,490
Without mandatory redemption provisions	427,334	427,334
Long-term debt	3,841,355	3,729,237
	7,455,204	7,204,094
OTHER NONCURRENT LIABILITIES		
Nuclear fuel lease obligations	340,507	427,295
Other	83,147	81,399
	423,654	508,694
CURRENT LIABILITIES		
Current portion of long-term debt and preferred stock	216,333	214,138
Current portion of lease obligations	144,620	114,943
Notes payable to banks and others	191	110,094
Accounts payable	147,810	196,825
Accrued taxes	350,550	323,716
Accrued interest	84,495	84,778
Other	57,683	73,801
	1,001,682	1,118,295
DEFERRED CREDITS		
Unamortized investment tax credits	366,047	336,136
Accumulated deferred federal income taxes	1,784,749	1,730,954
Reserve for Perry Unit 2 allowance for funds used during construction	212,693	212,693
Unamortized gain from Bruce Mansfield Plant sale	602,456	626,493
Accumulated deferred rents for Bruce Mansfield Plant and Beaver Valley Unit 2	131,082	114,888
Other	64,522	41,988
	3,161,549	3,063,152
Total Capitalization and Liabilities	$12,042,089	$11,894,235

	1991 Shares Outstanding	Current Call Price	December 31, 1991	December 31, 1990
			(thousands of dollars)	
CLEVELAND ELECTRIC				
Without par value, 4,000,000 preferred shares authorized				
Subject to mandatory redemption:				
$ 7.35 Series C	170,000	$ 101.00	$ 17,000	$ 18,000
88.00 Series E	27,000	1,030.61	27,000	30,000
75.00 Series F	—	—	—	2,384
145.00 Series I	—	—	—	13,779
113.50 Series K	—	—	—	10,0[illegible]
Adjustable Series M	400,000	102.00	39,200	49,000
9.125 Series N	750,000	105.07	73,968	73,968
91.50 Series Q	75,000	—	75,000	—
88.00 Series R	50,000	—	50,000	—
			282,168	197,131
Less: Current maturities			13,800	25,969
			268,368	171,162
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 and $25 par value, 12,000,000 preferred shares authorized				
Subject to mandatory redemption:				
$100 par $11.00	24,825	101.00	2,483	3,483
9.375	133,450	103.46	13,345	15,010
25 par 2.81	2,000,000	26.56	50,000	50,000
			65,828	68,493
Less: Current maturities			2,165	2,165
			63,663	66,328
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	25.25	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	25.75	30,000	30,000
			210,000	210,000
CENTERIOR ENERGY				
Without par value, 5,000,000 preferred shares authorized, none outstanding			—	—
Total Preferred Stock, with Mandatory Redemption Provisions			$ 332,031	$237,490
Total Preferred Stock, without Mandatory Redemption Provisions			$ 427,334	$427,334

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

(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 costs of these generating units is included in the Income Statement. Property, plant and equipment at December 31, 1991 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 Megawatts	Power Source	Plant in Service	Construction Work in Progress and Suspended	Accumulated Depreciation
					(thousands of dollars)		
In Service:							
Seneca Pumped Storage	1970	80.00%	312	Hydro	$ 57,733	$ 1,021	$ 19,855
Eastlake Unit 5	1972	68.80	411	Coal	151,150	2,199	—
Perry Unit 1 and Common Facilities	1987	51.02	609	Nuclear	2,546,326	5,687	310,601
Beaver Valley Unit 2 and Common Facilities (Note 2)	1987	26.12	214	Nuclear	1,358,606	7,159	167,083
Construction Suspended:							
Perry Unit 2 (Note 3(c))	Uncertain	51.02	615	Nuclear	—	850,573	—
					$4,113,815	$866,639	$497,539

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

Effective May 1, 1991, FERC approved an agreement under which Cleveland Electric is selling the power from its share of the Seneca Power Plant to two subsidiaries of General Public Utilities Corporation through 1993. Revenues from this transaction were $16,000,000 in 1991.

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 in 1989.

The ownership share of Perry Unit 2 set forth above does not reflect Cleveland Electric's acquisition of Duquesne's 13.74% ownership share in February 1992. See Note 3(c).

(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), 4[illegible].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.

Future minimum lease payments under these operating leases at December 31, 1991 are summarized as follows:

Year	Amount (thousands of dollars)
1992	$ 173,000
1993	174,000
1994	174,000
1995	174,000
1996	174,000
Later Years	3,996,000
Total Future Minimum Lease Payments	$4,865,000

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

Rental expense is accrued on a straight-line basis over the terms of the leases. The amounts recorded in 1991, 1990 and 1989 as annual rental expense for the Mansfield Plant leases and the Beaver Valley Unit 2 lease were $114,564,000 and $72,276,000, respectively. Amounts charged to expense in excess of the lease payments are now classified as accumulated deferred rents on the Balance Sheet. Previously, the excess was included in accounts payable.

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 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 1992-1994 period is $991,000,000, including AFUDC of $50,000,000 and excluding nuclear fuel.

In an agreement approved by the PUCO, the Operating Companies have agreed to limit their combined 1992 other operation and maintenance expenses and capital expenditures to $1,050,000,000, exclusive of compliance costs related to the Clean Air Act. Within this limitation, capital expenditures are budgeted at $250,000,000, exclusive of the Clean Air Act compliance costs.

(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.

We have developed a compliance strategy which will be submitted to the PUCO for review in April 1992. We will also seek United States Environmental Protection Agency approval of Phase I plans in 1993. The compliance plan which results in the least cost and the greatest flexibility provides for compliance with both phases through 2001 by greater use of low sulfur coal at some of our units and the banking of emission allowances. The plan would require capital expenditures over the 1992-2001 period of approximately $190,000,000 for nitrogen oxide control equipment, emission monitoring equipment and plant modifications. In addition, higher fuel and other operation and maintenance expenses would be incurred. The least cost plan also calls for Cleveland Electric to place in service after 2001 a scrubber or other sulfur emission reduction technology at one of its generating plants. The rate increase associated with the capital expenditures and higher expenses would be about 1-2% in the late 1990s and another increase after the year 2000, for an aggregate rate increase in the range of 3-6%. Cleveland Electric would incur substantially more of these costs than Toledo Edison.

Our final compliance plan will depend upon future environmental regulations and input from the PUCO, other regulatory bodies and other concerned entities. If a plan other than the least cost plan is required, significantly higher capital expenditures could be required during the 1992-2001 period.

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

(c) PERRY UNIT 2

Perry Unit 2, including its share of the common facilities, is approximately 50% complete. Construction of Perry Unit 2 was suspended in 1985 pending future consideration of various options, including resumption of full construction with a revised estimated cost, conversion to a nonnuclear design, sale of all or part of our ownership share, or cancellation. No option may be implemented without the unanimous approval of the owners. In October 1991, Cleveland Electric, the company responsible for the construction of Perry Unit 2, applied for a ten-year extension of the construction permit which was to expire in November 1991. Under NRC regulations, the construction permit will remain in effect while the application is pending. We expect the NRC to grant the extension.

In February 1992, Cleveland Electric purchased Duquesne's 13.74% ownership share of Perry Unit 2 for $3,324,000. This purchase increased the Operating Companies' ownership share of the unit to 64.76%, with the remainder owned by Ohio Edison and Pennsylvania Power. The purchase does not signal any plans to resume construction of Perry Unit 2, but rather our intent to keep our options open. Duquesne had stated that it would not agree to resumption of construction of the unit.

If Perry Unit 2 were to be canceled, then our net investment in the unit (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, 1991 and after adjustment for the February 1992 purchase of Duquesne's ownership share, would have been about $438,000,000, after taxes. See Notes 10(d) and (e) for a discussion of potential consequences of such a write-off.

If a decision is made to convert Perry Unit 2 to a nonnuclear design in the future, we would expect to write-off at that time a portion of our investment for nuclear plant construction costs not transferable to the nonnuclear construction project.

Beginning in July 1985, Perry Unit 2 AFUDC was credited to a deferred income account until January 1, 1988, when the accrual of AFUDC 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. The Operating Companies have recorded reserves based on estimates of their proportionate responsibility for these 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 or disallowing certain construction or maintenance costs. 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 the Davis-Besse, Perry and Beaver Valley sites (including leased fuel and clean-up costs). Coverage amounted to $2,515,000,000 for each site as of January 1, 1992. 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 extra expense insurance coverage which includes the incremental cost of any replacement power purchased (over the costs which would have been incurred had the units been operating) and other incidental expenses after the occurrence of certain types of accidents at our nuclear units. The amounts of the coverage are 100% of the estimated extra expense 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 amount and duration of extra expense 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 as a nuclear generating unit.

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 $509,000,000 ($309,000,000 from intermediate-term notes and $200,000,000 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. The bank credit arrangements are cancelable on two years' notice by the lenders. As of December 31, 1991, $490,000,000 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 $147,000,000, $87,000,000 and $33,000,000, respectively, as of December 31, 1991. The nuclear fuel amounts financed and capitalized also included interest charges incurred by the lessors amounting to $21,000,000 in 1991, $33,000,000 in 1990 and $34,000,000 in 1989. The estimated future lease amortization payments based on projected consumption are $96,000,000 in 1992, $99,000,000 in 1993, $91,000,000 in 1994, $78,000,000 in 1995 and $82,000,000 in 1996.

(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. As discussed below, the 6% increase effective February 1, 1991 was reduced to 4.35% for Cleveland Electric and 2.74% for Toledo Edison, which later waived its 2.74% increase and reduced its rates on two occasions in 1991 for certain customers. The resulting annualized revenue increases in 1989, 1990 and 1991 associated with the rate orders were $120,700,000, $105,700,000 and $71,400,000, respectively, for Cleveland Electric and $50,700,000, $44,300,000 and $1,600,000, respectively, for Toledo Edison. Toledo Edison's $1,600,000 increase in 1991 reflects the net of $18,600,000 of annualized revenues authorized for the 2.74% increase less $17,000,000 for the waiver and rate reductions.

Under the January 1989 rate orders, phase-in plans 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 first five 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 deferred federal income taxes that result from the use of accelerated tax depreciation, the amount of revenues required to provide a fair return also declines. Pursuant to such

phase-in plans, the Operating Companies deferred the following:

	1991	1990	1989
	(thousands of dollars)		
Deferred Operating Expenses	$ 22,222	$ 50,940	$ 74,555
Carrying Charges:			
Debt	$ 30,601	$ 72,782	$111,714
Equity	79,000	132,303	187,445
	$109,601	$205,085	$299,159

The amount of deferred operating expenses and carrying charges scheduled to be recorded in 1992 and 1993 total $84,000,000 and $24,000,000, respectively. Beginning in the sixth year (1994) and continuing through the tenth 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 the amortization of the deferred operating expenses and carrying charges recorded during the earlier years of the plans. All phase-in deferrals relating to these two units will be amortized and recovered by December 31, 1998.

The phase-in plans were also designed so that fluctuations in sales should not affect the level of earnings. The phase-in plans permit the Operating Companies to request PUCO approval of increases or decreases in the phase-in plan deferrals to compensate for the effects of fluctuations in sales levels, as compared to the levels projected in the rate orders, and for 50% of the net after-tax savings in 1989 and 1990 identified by the management audit as discussed below. Pursuant to these provisions of the orders, the Operating Companies recorded no adjustments to the cost deferrals in 1989 and recorded adjustments to increase the cost deferrals by approximately $10,000,000 and $28,000,000 in 1990 and 1991, respectively.

In connection with the 1989 orders, the Operating Companies and the Service Company have undergone a management audit, which was completed in April 1990. The audit identified potential annual savings in operating expenses in the amount of $98,160,000 from 1989 budget levels, 55% ($53,988,000) for Cleveland Electric and 45% ($44,172,000) for Toledo Edison. The Operating Companies realized a large part of the savings in 1991.

Fifty percent of the savings identified by the management audit were used to reduce the 6% rate increase scheduled to be effective 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 with the PUCO's approval. The rate impact was different for the two companies because much of the savings were expected to be achieved in areas such as nuclear operations in which Toledo Edison was to achieve greater savings relative to its size.

In late 1990 in a move to become more competitive in Northwest Ohio, Toledo Edison 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 called 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 agreed 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, accepted the rate reduction package. In March 1991, Toledo Edison obtained 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. Annualized revenues were reduced by about $17,000,000 as a result of these rate reduction packages. The revenue reductions do not adversely affect the phase-in plans as the decrease in revenues is mitigated by the cost reductions resulting from the management audit.

The 1989 orders also set nuclear performance standards through 1998. The Operating Companies could be required to refund incremental replacement power costs if the standards are not met. No refund was required in 1991 nor is one expected for 1992. The Operating Companies banked $2,800,000 in benefits in 1991 for above-average nuclear performance based on industry standards for operating availability established in the 1989 orders. These banked benefits are not recorded in the financial statements as they can only be used in future years, if necessary, to offset disallowances of incremental replacement power costs.

Under the 1989 orders, 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 systemwide availability factor of at least 64.9% annually. This standard was exceeded in 1989, 1990 and 1991, with availability at approximately 80% for each year.

(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,		
	1991	1990	1989
		(thousands of dollars)	
Book Income Before Federal Income Tax	$465,799	$435,324	$528,065
Tax on Book Income at Statutory Rate	$158,372	$148,010	$179,542
Increase (Decrease) in Tax:			
Accelerated depreciation	996	6,287	10,415
Investment tax credits on disallowed nuclear plant	—	(37,522)	—
Taxes, other than federal income taxes	(2,373)	(12,116)	(107)
Other items	10,915	4,365	5,712
Total Federal Income Tax Expense	$167,910	$109,024	$195,562

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

	For the years ended December 31,		
	1991	1990	1989
		(thousands of dollars)	
Operating Expenses:			
Current Tax Provision	$ 88,189	$ 42,685	$ 51,869
Changes in Accumulated Deferred Federal Income Tax:			
Accelerated depreciation and amortization	17,137	41,777	44,144
Alternative minimum tax credit	(45,902)	(24,340)	(12,874)
Sale and leaseback transactions and amortization	3,844	8,617	4,348
Property tax expense	—	(14,891)	—
Reacquired debt costs	22,403	1,355	(1,250)
Deferred CWIP revenues	6,972	20,486	22,731
Deferred fuel costs	(8,729)	742	(4,384)
Davis-Besse replacement power	—	—	9,191
Other items	14,970	16,994	6,830
Investment Tax Credits	38,697	2,651	1,780
Total Charged to Operating Expenses	137,581	96,076	122,385
Nonoperating Income:			
Current Tax Provision	(46,089)	(42,256)	(39,341)
Changes in Accumulated Deferred Federal Income Tax:			
Write-off of nuclear costs	(379)	(22,143)	—
AFUDC and carrying charges	40,769	74,447	114,300
Net operating loss carryforward	35,014	—	—
Other items	1,014	2,900	(1,782)
Total Expense Charged to Nonoperating Income	30,329	12,948	73,177
Total Federal Income Tax Expense	$167,910	$109,024	$195,562

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 $402,407,000 are available to reduce future taxable income and will expire in 2003 through 2005. The 34% tax effect of the NOLs generated is $136,818,000 and is reflected 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.

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 $82,851,000 are available to offset future regular tax. The credits may be carried forward indefinitely.

(8) RETIREMENT INCOME PLANS AND OTHER POSTRETIREMENT BENEFITS

(a) RETIREMENT INCOME PLANS

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.

In 1990, we offered a 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 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 1989 through 1991 were comprised of the following components:

	1991	1990	1989
	(millions of dollars)		
Pension Costs (Credits):			
Service cost for benefits earned during the period	$ 14	$ 15	$ 14
Interest cost on projected benefit obligation	36	37	35
Actual return on plan assets	(129)	5	(73)
Net amortization and deferral	65	(65)	13
Net pension credits	(14)	(8)	(11)
VEROP cost	—	15	—
Settlement gain	—	(41)	—
Net credits	$(14)	$(34)	$(11)

The following table presents a reconciliation of the funded status of the plans at December 31, 1991 and 1990.

	December 31, 1991	December 31, 1990
	(millions of dollars)	
Actuarial present value of benefit obligations:		
Vested benefits	$ 301	$ 330
Nonvested benefits	33	24
Accumulated benefit obligation	334	354
Effect of future compensation levels	113	72
Total projected benefit obligation	447	426
Plan assets at fair market value	757	653
Surplus of plan assets over projected benefit obligation	310	227
Unrecognized net gain due to variance between assumptions and experience	(177)	(101)
Unrecognized prior service cost	13	13
Transition asset at January 1, 1987 being amortized over 19 years	(106)	(113)
Net prepaid pension cost included in other deferred charges on the Balance Sheet	$ 40	$ 26

The settlement (discount) rate assumption was 8.5% for both December 31, 1991 and December 31, 1990. The long-term rate of annual compensation increase assumption was 5% for both December 31, 1991 and December 31, 1990. The long-term rate of return on plan assets assumption was 8.5% in 1991 and 8% in 1990.

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

(b) OTHER POSTRETIREMENT BENEFITS

The Financial Accounting Standards Board has issued a new accounting standard for postretirement benefits other than pensions. The new standard would require the accrual of the expected cost of such benefits during the employees' years of service. The assumptions and calculations involved in determining the accrual closely parallel pension accounting requirements.

We currently provide certain postretirement health care, death and other benefits and expense such costs as these benefits are paid, which is consistent with current ratemaking practices. Such costs totaled $9,700,000 in 1991, $8,200,000 in 1990 and $6,500,000 in 1989, which include medical benefits of $8,500,000 in 1991, $6,500,000 in 1990 and $5,000,000 in 1989.

We expect to adopt the new standard prospectively effective January 1, 1993. We plan to amortize the discounted present value of the accumulated postretirement benefit obligation to expense over a twenty-year period. We have engaged actuaries who have made a preliminary review using 1990 data. Based on this preliminary review, the accumulated postretirement benefit obligation as of December 31, 1991, measured in accordance with the new standard, is estimated in the range of $150,000,000 to $230,000,000. Had the new standard been adopted in 1991, the preliminary study indicated that the additional postretirement benefit cost in 1991 would have been in the range of $17,000,000 to $30,000,000 (pretax). We believe the effect of actual adoption in 1993 may be similar, although it could be significantly different because of changes in health care costs, the assumed health care cost trend rate, work force demographics, interest rates, or plan provisions between now and 1993.

We do not know what action the PUCO may take with respect to these incremental costs. However, we believe the PUCO will either allow a means of current recovery of such incremental costs or provide for deferral of such costs until recovered in rates. We do not expect adoption of the new standard to have a material adverse effect on our financial condition or results of operations.

(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, 1991, after giving effect to a refinancing completed on January 2, 1992 by one of the mining companies, the principal amount of the mining companies' loan and lease obligations guaranteed by the Operating Companies was $102,000,000.

(10) CAPITALIZATION

(a) CAPITAL STOCK TRANSACTIONS

Shares sold, retired and purchased for treasury during the three years ended December 31, 1991 are listed in the following table.

	1991	1990	1989
	(thousands of shares)		
Centerior Energy Common Stock:			
Dividend Reinvestment and Stock Purchase Plan	1,422	—	—
Employee Savings Plan	348	—	—
Employee Purchase Plan	—	—	36
1978 Key Employee Stock Option Plan	—	—	17
Total Common Stock Sales	1,770	—	53
Treasury Shares	(11)	(1,391)	(1,082)
Net Change	1,759	(1,391)	(1,029)
Cumulative Preferred and Preference Stock of Subsidiaries Subject to Mandatory Redemption:			
Cleveland Electric Sales			
Preferred:			
$ 91.50 Series Q	75	—	—
88.00 Series R	50	—	—
Cleveland Electric Retirements			
Preferred:			
[illegible] Series C	(10)	(10)	(10)
[illegible] Series E	(3)	(3)	(3)
[illegible] Series F	(2)	—	(1)
[illegible] Series G	—	(1)	(2)
[illegible] Series H	—	(14)	(4)
145.00 Series I	(14)	(4)	(4)
113.50 Series K	(10)	—	—
Adjustable Series M	(100)	—	—
Preference:			
$ 77.50 Series 1	—	—	(6)
Toledo Edison Retirements			
Preferred:			
$100 par $11.00	(10)	(10)	(5)
9.375	(17)	(17)	(17)
Net Change	(41)	(59)	(52)

Shares of common stock required for our four stock plans in 1991 were either acquired in the open market or issued as new shares of common stock when the common stock price reached a predetermined threshold for such transactions.

We began a program in July 1991 to purchase up to 1,500,000 shares of our common stock by June 30, 1992 in the open market when the common stock price is below a predetermined level. As of December 31, 1991, 38,000 shares had been purchased at a total cost of $610,000. We had a similar program to purchase up to 3,000,000 shares of our common stock in the period March 28, 1989 through March 31, 1991. Under this program, 2,510,000 shares were 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 2,828,848 and 21,423 shares, respectively, at December 31, 1991. At the April 1992 Annual Meeting, share owners will be asked to authorize an additional 500,000 common shares for the Employee Purchase Plan.

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, 1991 ranged from $14.09 to $17.41 per share. Shares and price ranges of outstanding options held by employees were as follows:

	1978 Key Employee Stock Option Plan		
	1991	1990	1989
Options Outstanding at December 31:			
Shares	179,798	168,655	215,187
Option Prices	$1[illegible].09 to $20.73	$14.09 to $20.73	$14.09 to $20.73

(c) EQUITY DISTRIBUTION RESTRICTIONS

At December 31, 1991, 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 $16,000,000 in 1992, $41,000,000 in 1993, $41,000,000 in 1994, $52,000,000 in 1995 and $42,000,000 in 1996.

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
Adjustable Series M	100,000	1991	100
9.125 Series N	150,000	1993	100
91.50 Series Q	10,714	1995	1,000
88.00 Series R	50,000	2001*	1,000
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

*All outstanding shares to be redeemed December 1, 2001.

The annualized cumulative preferred dividend requirement as of December 31, 1991 is $66,000,000.

The preferred dividend rates on Cleveland Electric's Series L, M and P and Toledo Edison's Series A and B fluctuate based on prevailing interest rates and market conditions, with the dividend rates for these issues averaging 8.26%, 7.61%, 6.24%, 8.82% and 9.67%, respectively, in 1991.

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, 1991, Toledo Edison could not issue additional preferred stock. 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.

Preference stock authorized for the Operating Companies are 3,000,000 shares without par value for Cleveland Electric and 5,000,000 shares with a $25 par value for Toledo Edison. No preference shares are currently outstanding for either company.

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, 1991	December 31, 1990
		(thousands of dollars)	
First mortgage bonds:			
1992	15.25 %	$ —	$ 20,000
1992	10.58	—	40,000
1992	13.75	—	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	11.25	—	60,000
1995	13.75	4,334	4,334
1995	7.00	750	750
1996	13.75	4,334	4,334
1996	7.00	750	750
1996	9.375	100,000	100,000
1997-2001	9.36	127,798	127,798
2002-2006	8.98	251,801	251,801
2007-2011	8.79	387,250	387,250
2012-2016	8.97	439,085	439,085
2017-2021	8.53	635,180	635,180
2022-2023	7.68	322,100	322,100
		2,387,050	2,511,384
Term bank loans due 1993-1996	8.46	196,700	127,900
Medium-term notes due 1993-2021	9.15	834,500	550,000
Notes due 1993-1997	11.01	102,142	219,430
Debentures due 1997	11.25	125,000	125,000
Pollution control notes due 1993-2015	9.70	189,900	190,860
Other — net	—	6,063	4,663
Total Long-Term Debt		$3,841,355	$3,729,237

Long-term debt matures during the next five years as follows: $200,000,000 in 1992, $318,000,000 in 1993, $89,000,000 in 1994, $278,000,000 in 1995 and $343,000,000 in 1996.

During the 1989-1991 period, the Operating Companies issued $834,500,000 aggregate principal amount of secured medium-term notes. The notes are secured by first mortgage bonds. At December 31, 1991, Toledo Edison has $15,500,000 aggregate principal amount of secured medium-term notes registered with the SEC and available for issuance.

Cleveland Electric has arranged to refund in July 1992 $78,700,000 principal amount of a public authority's tax-exempt bonds due 2012 and having a 13⅛% interest rate with the proceeds from the sale in July 1992 of an equal principal amount of the authority's bonds due 2013 and having an effective interest cost of 8.25%. Cleveland Electric's first mortgage bonds collaterally secure both issues. 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, $3,400,000 in 1991 and approximately $3,000,000 in 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 $335,000,000 of bonds based upon available bondable property at December 31, 1991. Cleveland Electric also would have been permitted to issue approximately $214,000,000 of bonds based upon refundable bonds at December 31, 1991. If Perry Unit 2 had been canceled and written off as of December 31, 1991, Cleveland Electric would not have been permitted to issue any bonds based upon available bondable property, but would have been permitted to issue approximately $214,000,000 of bonds based upon refundable bonds.

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 $164,000,000 of bonds at an assumed interest rate of 11% based upon available bondable property at December 31, 1991. Toledo Edison also would have been permitted to issue approximately $186,000,000 of bonds based upon refundable bonds at December 31, 1991. If Perry Unit 2 had been canceled and written off as of December 31, 1991, 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, 1991 were as follows:

	Cleveland Electric	Toledo Edison	Service Company	Total
	(thousands of dollars)			
Bank Lines of Credit	$152,000	$70,400	$8,000	$230,400

There were no borrowings under these bank credit arrangements at December 31, 1991. 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 Operating Companies' bank accounts satisfied informal compensating balance arrangements.

At December 31, 1991, the Operating Companies had no commercial paper outstanding. If commercial paper were outstanding, it would be backed by at least an equal amount of unused bank lines of credit.

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) CHANGES IN ACCOUNTING FOR NUCLEAR PLANT DEPRECIATION

In June 1991, the Operating Companies changed the method used to accrue nuclear plant depreciation from the units-of-production method to the straight-line method retroactive to January 1, 1991. The good performance of the nuclear generating units over the past several years had resulted in units-of-production depreciation expense being significantly higher than the amount implicit in current electric rates. The straight-line method better matches revenue and expense, tends to levelize periodic depreciation expense for nuclear plant and is more consistent with industry practice.

The PUCO approved the change for each Operating Company and authorized them to accrue depreciation for their three operating nuclear generating units at an accrual rate of about 3% of their plant investment based upon the units' forty-year operating licenses from the NRC. This change in method decreased 1991 depreciation expense $35,946,000 and increased 1991 net income $27,952,000 (net of $7,994,000 of income taxes) and earnings per share $.20 from what they otherwise would have been.

In December 1991, the PUCO approved for each Operating Company a reduction in the straight-line depreciation accrual rate from about 3% to 2.5% for each of their three operating nuclear units retroactive to January 1, 1991. We believe the lower depreciation accrual rate is appropriate and reduces combined annual depreciation expense to a level more closely aligned with the total amount currently being recovered in customers' rates for these units. This change in rate decreased 1991 depreciation expense $27,762,000 and increased 1991 net income $21,419,000 (net of $6,343,000 of income taxes) and earnings per share $.15 from what they otherwise would have been.

Depreciation expense recorded in prior years was not affected. Current electric rates were also unaffected by the PUCO orders.

(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, 1991.

	Quarters Ended			
	March 31,	June 30,	Sept. 30,	Dec. 31,
	(thousands of dollars, except per share amounts)			
1991				
Operating Revenues	$608,583	$645,355	$716,070	$590,244
Operating Income	$129,003	$145,709	$182,085	$123,253
Net Income	$ 35,470	$ 51,736	$ 95,333	$ 54,701
Average Common Shares (thousands)	138,404	138,881	139,336	139,737
Earnings Per Common Share	$ .26	$ .37	$ .68	$ .39
Dividends Paid Per Common Share	$ .40	$ .40	.40	$ .40
1990				
Operating Revenues	$566,725	$586,164	$699,499	$575,053
Operating Income	$116,169	$ 86,743	$171,684	$129,824
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	$ .35	$ .40	$ .72	$ .43
Dividends Paid Per Common Share	$ .40	$ .40	$ .40	$ .40

Operating revenues for the first three quarters of 1991 and the four quarters of 1990 were restated to comply with current FERC revenue reporting requirements, as discussed in the Summary of Significant Accounting Policies. This restatement had no effect on earnings results for the applicable quarter. The unaudited quarterly results for the quarter ended March 31, 1991 were also restated to reflect the change in accounting for nuclear plant depreciation to the straight-line method (at about a 3% accrual rate) as discussed in Note 12.

Earnings for the quarter ended December 31, 1991 were increased as a result of year-end adjustments of $27,762,000 to reduce depreciation expense for the year for the change in the nuclear plant straight-line depreciation rate to 2.5% (see Summary of Significant Accounting Policies and Note 12) and $28,215,000 to increase phase-in carrying charges for the adjustment to 1991 cost deferrals (see Note 6). The total of these adjustments increased quarterly earnings by $40,041,000, or $.29 per share.

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 for the change in depreciation rates for nonnuclear and Davis-Besse property (see Summary of Significant Accounting Policies), $10,169,000 to increase phase-in carrying charges for the adjustment to 1990 cost deferrals (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.

Executives of Centerior Energy Corporation and Centerior Service Company

CENTERIOR ENERGY CORPORATION

Chairman and Chief Executive Officer ...... *Richard A. Miller**

President and Chief Operating Officer ...... *Robert J. Farling***

Executive Vice President .... *Murray R. Edelman*

Executive Vice President .... *Edgar H. Maugans*

Executive Vice President ...... *Lyman C. Phillips*

Vice President-Legal & Corporate Affairs .... *Fred J. Lange, Jr.****

Controller .... *Paul G. Busby*

Treasurer .... *Gary M. Hawkinson*

Secretary .... *E. Lyle Pepin*

CENTERIOR SERVICE COMPANY

Chairman and Chief Executive Officer ...... *Richard A. Miller**

President and Chief Operating Officer ...... *Robert J. Farling***

Executive Vice President-Power Generation .... *Murray R. Edelman*

Executive Vice President-Finance & Administration .... *Edgar H. Maugans*

Executive Vice President-Customer Operations (and Chairman & CEO of Toledo Edison and President & CEO of Cleveland Electric) .... *Lyman C. Phillips*

Vice President-Fossil Operations .... *Richard P. Crouse*

Vice President-Transmission and Distribution Engineering & Services .... *Gary J. Greben*

Vice President-Customer Service & Community Affairs .... *Jacquita K. Hauserman*

Vice President-System Engineering & Control ...... *Alvin Kaplan*

Vice President-Legal & Corporate Affairs .... *Fred J. Lange, Jr.****

Vice President-Human Resources & Strategic Planning .... *John S. Levicki*

Vice President-Legal & General Counsel .... *Terrence G. Linnert*****

Vice President-Nuclear-Perry.. *Michael D. Lyster*

Vice President-Transmission & Distribution Operations ..... *David L. Monseau*

Vice President-Marketing ..... *Thomas M. Quinn*

Vice President (and President of Toledo Edison) .... *Donald H. Saunders*

Vice President-Nuclear-Davis-Besse .... *Donald C. Shelton*

Controller .... *Paul G. Busby*

Treasurer .... *Gary M. Hawkinson*

Secretary .... *E. Lyle Pepin*

*Retired effective March 1, 1992.

**Elected Chairman, President and Chief Executive Officer effective March 1, 1992.

***Elected Senior Vice President-Legal, Human & Corporate Affairs effective March 1, 1992.

****Elected effective March 1, 1992.

Financial and Statistical Review

Operating Revenues (thousands of dollars)

Year	Residential	Commercial	Industrial	Other	Total Retail	Wholesale *(a)*	Total Electric	Steam Heating & Gas	Total Operating Revenues
1991	*$777 273*	*723 318*	*782 747*	*188 026*	*2 471 364*	*88 888*	*2 560 252*	—	*$2 560 252*
1990	719 078	668 910	779 391	189 754	2 357 123	70 308	2 427 441	—	2 427 441
1989	685 735	616 902	746 534	204 769	2 253 940	107 364	2 361 304	—	2 361 304
1988	637 329	537 861	675 584	84 524	1 935 298	119 505	2 054 803	—	2 054 803
1987	629 663	531 682	689 959	36 272	1 887 576	45 275	1 932 851	13 371	1 946 222
1981	449 190	354 471	538 344	60 314	1 402 319	71 450	1 473 769	19 627	1 493 396

Operating Expenses (thousands of dollars)

Year	Fuel & Purchased Power *(a)*	Other Operation & Maintenance	Depreciation & Amortization	Taxes, Other Than FIT	Phase-in & Pre-phase-in Deferred, Net	Federal Income Taxes	Total Operating Expenses
1991	*$499 672*	*801 225*	*242 708 (b)*	*304 709*	*(5 693)*	*137 581*	*$1 980 202*
1990	472 297	862 738	242 153	283 425	(33 668)	96 076	1 923 021
1989	472 684	[illegible] 138	272 671	259 871	(58 220)	122 385	1 929 529
1988	408 644	86[illegible] 632	264 824	268 550	(188 209)	123 697	1 743 138
1987	491 332	642 594	214 421	207 521	(87 623)	105 912	1 574 157
1981	512 323	319 894	128 721	128 347	—	108 417	1 197 702

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	Preferred & Preference Stock Dividends
1991	*$580 050*	*9 351*	*5 248*	*109 601*	*(30 329)*	*673 921*	*381 280*	*(5 248)*	*60 649*
1990	504 420	7 [illegible]	145	205 085	(12 948)	704 585	384 278	(5 993)	61 841
1989	431 775	16 930	14 368	299 159	(73 177)	689 055	369 481	(12 929)	65 617
1988	311 665	1? 504	(489 047) *(c)*	372 155	131 254	339 531	378 292	(6 137)	69 489
1987	372 065	299 308	(57 821)	39 599	121 122	774 273	435 042	(137 257)	86 135
1981	295 694	81 468	19 469	—	25 741	422 372	233 022	(49 521)	58 459

Income (Loss) (thousands of dollars) — Common Stock (dollars per share & %)

Year	Income (Loss) Before Cumulative Effect of an Accounting Change or Extraordinary Gain	Cumulative Effect of an Accounting Change or Extraordinary Gain	Net Income (Loss)	Average Shares Outstanding (thousands)	Earnings (Loss)	Return on Average Common Stock Equity	Dividends Declared	Book Value
1991	*$237 240*	—	*$237 240*	*139 104*	*$ 1.71*	*8.4%*	*$1.60*	*$20.37*
1990	264 459	—	264 459	138 885	1.90	9.4	1.60	20.30
1989	266 886	—	266 886	140 468	1.90	9.6	1.60	19.99
1988	(102 113)	28 153 *(d)*	(73 960)	140 778	(0.53)	(2.5)	1.84	19.68
1987	390 353	—	390 353	138 395	2.82	12.8	2.56	22.10
1981	180 412	10 807 *(e)*	191 219	74 679 *(f)*	2.56 *(f)*	13.0	2.00 *(f)*	19.29 *(f)*

NOTE: 1981 data is the result of combining and restating Cleveland Electric and Toledo Edison data.

(a) Wholesale revenues, fuel and purchased power, wholesale electric sales and purchased power amounts are restated for 1990 and prior years to reflect a change in reporting of bulk power sales transactions in accordance with FERC requirements.

(b) In 1991, the Operating Companies adopted a change in accounting for nuclear plant depreciation, changing from the units-of-production method to the straight-line method at a 2.5% rate.

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

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

	Electric Sales (millions of KWH)						Electric Customers (year end)				Residential Usage		
Year	Residential	Commercial	Industrial	Wholesale (a)	Other	Total	Residential	Commercial	Industrial & Other	Total	Average KWH Per Customer	Average Price Per KWH	Average Revenue Per Customer
1991	*6 981*	*7 176*	*11 559*	*2 711*	*1 048*	*29 475*	*921 995*	*96 449*	*12 843*	*1 031 287*	*7 410*	*11.16¢*	*$827.10*
1990	6 666	6 848	12 168	2 487	959	29 128	918 965	94 522	12 906	1 026 393	7 079	10.82	765.93
1989	6 806	6 830	12 520	3 235	996	30 387	914 020	93 833	12 763	1 020 616	7 295	10.08	737.58
1988	6 920	6 577	12 793	1 828	946	29 064	909 182	92 132	12 305	1 013 619	7 462	9.21	690.06
1987	6 659	6 350	11 985	1 166	949	27 109	903 365	90 148	12 240	1 005 753	7 217	9.46	685.43
1981	6 295	5 472	11 360	2 170	808	26 105	884 588	84 287	11 530	980 405	6 939	7.16	490.57

	Load (MW & %)				Energy (millions of KWH)					Fuel	
					Company Generated						
Year	Operable Capacity at Time of Peak	Peak Load	Capacity Margin	Load Factor	Fossil	Nuclear	Total	Purchased Power (a)	Total	Fuel Cost Per KWH	Efficiency—BTU Per KWH
1991	*6 453*	*5 361*	*16.9%*	*62.9%*	*18 041*	*13 454*	*31 495*	*40*	*31 535*	*1.48¢*	*10 442*
1990	6 437	5 261	18.3	63.6	21 114	9 481	30 595	413	31 008	1.52	10 354
1989	6 430	5 389	26.2	63.3	20 174	12 122	32 296	21	32 317	1.47	10 435
1988	5 525 (g)	5 673	(2.7)	60.8	21 576	7 805	29 381	1 885	31 266	1.59	10 410
1987	5 955	5 173	13.1	63.6	20 894	6 907	27 801	1 368	29 169	1.53	10 466
1981	6 440	4 762	26.1	63.6	20 573	4 397	24 970	2 945	27 915	1.60	10 490

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
1991	*$8 888 219*	*2 274 489*	*6 613 730*	*1 066 428*	*502 927*	*$8 183 085*	*$203 843*	*$12 042 089*
1990	8 636 219	2 038 510	6 597 709	1 133 535	568 124	8 299 368	251 312	11 894 235
1989	8 397 638	1 823 520	6 574 118	1 157 273	591 692	8 323 083	217 319	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
1981	3 874 628	873 663	3 000 965	1 645 098	143 590 (h)	4 789 653	610 277	5 378 446

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
1991	*$2 854 484*	*38%*	*332 031*	*4%*	*427 334*	*6%*	*3 841 355*	*52%*	*$7 455 204*
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	3 551 614	51	7 054 473
1987	3 109 060	41	343 985	4	457 334	6	3 718 249	49	7 628 628
1981	1 545 829	36	420 500	10	245 071	5	2 090 988	49	4 302 388

(e) In 1981, Toledo Edison realized an extraordinary gain from the exchange of common stock for bonds.

(f) Average shares outstanding and related per share computations reflect the Cleveland Electric 1.11-for-one exchange ratio and the Toledo Edison one-for-one exchange ratio for Centerior Energy shares at the date of affiliation, April 29, 1986.

(g) Capacity data reflects extended generating unit outage for renovation and improvements.

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

Board of Directors

Richard P. Anderson President and Chief Executive Officer of The Andersons Management Corporation, a grain, farm supply and retailing firm.

Albert C. Bersticker President and Chief Executive Officer of Ferro Corporation, a producer of specialty chemical materials for manufactured products.

Leigh Carter Retired President and Chief Operating Officer of The BFGoodrich Company, a producer of chemicals, plastics and aerospace products. Retired Chairman of Tremco, Incorporated, a manufacturer of specialty chemical products and a wholly owned subsidiary of The BFGoodrich Company.

Thomas A. Commes President and Chief Operating Officer of The Sherwin-Williams Company, a manufacturer of paints and painting supplies.

Wayne R. Embry Executive Vice President and General Manager of the Cleveland Cavaliers, a professional basketball team. Chairman of Michael Alan Lewis Company, a fabricator of hardboard, fiberglass and carpeting materials for the automotive industry.

*Robert J. Farling** President and Chief Operating Officer of the Company and Centerior Service Company.

Robert M. Ginn Executive in Residence at John Carroll University. Chairman Emeritus and retired Chairman and Chief Executive Officer of the Company.

George H. Kaull Chairman of Premix, Inc., a developer, manufacturer and fabricator of thermoset reinforced composite materials.

*Richard A. Miller*** Chairman and Chief Executive Officer of the Company and Centerior Service Company.

Frank E. Mosier Vice Chairman of the Advisory Board of BP America Inc., a producer and refiner of petroleum products.

Sister Mary Marthe Reinhard, SND Director of Development for the Sisters of Notre Dame of Cleveland, Ohio. Former President of Notre Dame College of Ohio.

Robert C. Savage President and Chief Executive Officer of Savage & Associates, Inc., an insurance, financial planning and estate planning firm.

Paul M. Smart Attorney and retired Vice Chairman of the Company and The Toledo Edison Company.

William J. Williams Chairman of Huntington National Bank.

John P. Williamson Chairman Emeritus

*Elected Chairman, President and Chief Executive Officer effective March 1, 1992.

**Retired as Chairman and Chief Executive Officer effective March 1, 1992.

Committees of the Board

Audit	*Capital Expenditures*	*Environmental and Public Policy*	*Executive*	*Finance*	*Human Resources*	*Nominating*	*Nuclear*
T.A. Commes, Chairman	G.H. Kaull Chairman	Sr. M.M. Reinhard, Chairman	R.A. Miller, Chairman	R.A. Miller, Chairman	W.J. Williams, Chairman	F.E. Mosier, Chairman	R.P. Anderson, Chairman
W.R. Embry	A.C. Bersticker	L. Carter	L. Carter	R.P. Anderson	L. Carter	R.P. Anderson	A.C. Bersticker
P.M. Smart	R.J. Farling	W.R. Embry	R.M. Ginn	T.A. Commes	G.H. Kaull	A.C. Bersticker	L. Carter
W.J. Williams	R.M. Ginn	R.J. Farling	W.J. Williams	W.R. Embry	F.E. Mosier	L. Carter	R.J. Farling
	R.A. Miller	R.A. Miller		R.J. Farling	R.C. Savage	T.A. Commes	R.M. Ginn
	F.E. Mosier	P.M. Smart		R.C. Savage		W.R. Embry	R.A. Miller
	Sr. M.M. Reinhard			P.M. Smart		R.M. Ginn	Sr. M.M. Reinhard
						G.H. Kaull	
						R.A. Miller	
						Sr. M.M. Reinhard	
						R.C. Savage	
						P.M. Smart	
						W.J. Williams	

Share Owner Information

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

The Company has a Dividend Reinvestment and Stock Purchase Plan which provides share owners of record and customers of the Company's subsidiaries a convenient means of purchasing shares of Company common stock by investing all or a part of their quarterly dividends as well as making cash investments. In addition, individuals may establish an individual retirement account (IRA) which invests in Company common stock through the Plan. Information relating to the Plan and the CX•IRA may be obtained from Share Owner Services at the Company.

SHARE OWNER SERVICES

Communications regarding stock transfer requirements, lost certificates, dividends and changes of address should be directed to Share Owner Services at the Company. To reach Share Owner Services by phone, call:

In Cleveland area 642-6900 or 447-2400

Outside Cleveland area 1-800-433-7794

Please have your account number ready when calling.

INVESTOR RELATIONS

Inquiries from security analysts and institutional investors should be directed to Terrence R. Moran, Manager-Investor Relations, at the Company's mail address or by telephone at (216) 447-2882.

TRANSFER AGENT

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

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

EXECUTIVE OFFICES

Centerior Energy Corporation
6200 Oak Tree Boulevard
Independence, Ohio
Telephone: (216) 447-3100
FAX: (216) 447-3240

MAIL ADDRESS

Centerior Energy Corporation
P.O. Box 94661
Cleveland, Ohio 44101-4661

REGISTRAR

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

CX•IRA CUSTODIAN

All communications about an existing CX•IRA should be directed to the Custodian at the address or telephone numbers listed below:

Ameritrust Company National Association
Custodian, CX•IRA
P. O. Box 6477
Cleveland, Ohio 44101

In Cleveland area 737-5742 or 737-5744

Elsewhere in Ohio
1-800-362-0697, Extension 5742

Outside Ohio
1-800-321-1355, Extension 5742

INDEPENDENT ACCOUNTANTS

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

COMMON STOCK

Listed on the New York, Midwest and Pacific Stock Exchanges. Options are traded on The Pacific Stock Exchange. New York Stock Exchange symbol—CX. Newspaper abbreviation—CentEn or CentrEngy.

ANNUAL MEETING

The 1992 annual meeting of the share owners of the Company will be held at 10 a.m. on April 28, 1992 at Executive Caterers at Landerhaven in Mayfield Heights, Ohio. Owners of common stock as of February 26, 1992, the record date for the meeting, will be eligible to vote on matters brought up for share owners' consideration.

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. Requests should be directed to the Secretary of the Company.

AUDIO CASSETTES AVAILABLE

Share owners with impaired vision may obtain audio cassettes of the Company's Quarterly Reports and Annual Report. To obtain a cassette, simply write or call Share Owner Services. There is no charge for this service.

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

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New York, N.Y. 10004

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6200 Oak Tree Boulevard
Independence, Ohio
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Centerior Energy Corporation
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Cleveland, OH [illegible]

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