The Cleveland Electric Illuminating Company

1984 Annual Report

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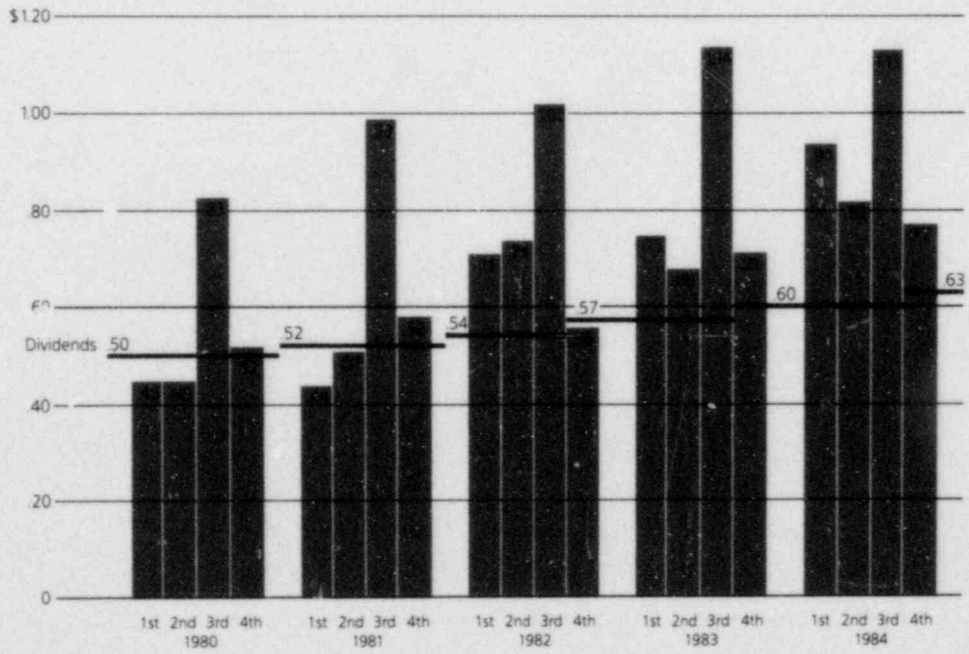
Cover

The keystone of the Company's construction program is Unit 1 of the Perry Nuclear Power Plant. Unit 1 is scheduled to be completed and generating electricity around the end of 1985. Beneath the Unit 1 reactor vessel, Company technologist James Magoon (left) and engineering aide Mary MacKinnon inspect the electrical cables that carry the signals from the position indicator probes to the control room. The probes give the position of the control rods in the reactor vessel.

Quarterly Earnings and Dividends Per Share of Common Stock
(dollars)



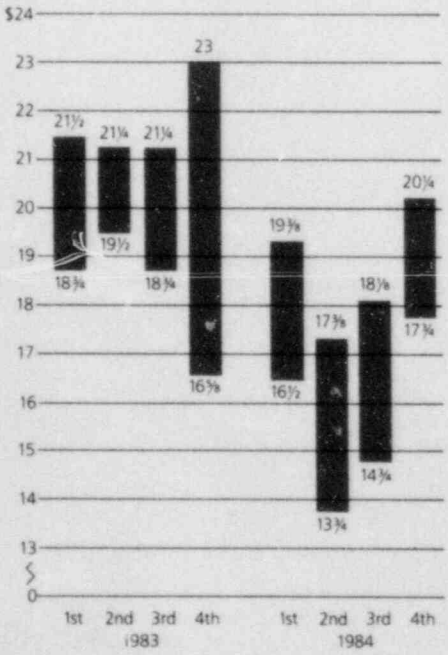
1984 Highlights

- Earnings per share for the year reached a record high of $3.64, up 11% from 1983.
- Common Stock quarterly dividend per share was increased 3¢ effective in November 1984. Total payment of $2.43 represents a 5.2% increase over 1983.
- Perry Unit 1 and common facilities construction was more than 97% complete at year end 1984. The unit is scheduled to be completed around the end of 1985.
- Nearly $56 million was raised through the Dividend Reinvestment and Stock Purchase Plan, including $21 million from more than 25,000 participants in the Customer Stock Purchase Program.
- We became the first company in the nation to offer its customers and share owners the opportunity to set up an IRA to invest in its own stock.
- A record one-year total of about $500 million of new capital was raised through financings and stock plans in 1984.
- The Davis-Besse Nuclear Power Station generated 13% of the Company's electricity in 1984 and saved our customers about $50 million between refuelings.
- In 1984 we had the fewest complaints per customer filed with the PUCO of any energy utility in Ohio.

Financial Summary

	1984	1983	Percent Change
Earnings Per Share of Common Stock	$ 3.64	$ 3.28	11.0
Dividends Paid Per Share of Common Stock	$ 2.43	$ 2.31	5.2
Book Value Per Share of Common Stock	$ 21.51	$ 20.79	3.5
Common Stock Share Owners	131,998	132,378	(0.3)
Operating Revenues (000)	$1,215,353	$1,210,316	0.4
Operating Expenses (000)	$ 953,242	$ 951,954	0.1
Net Income (000)	$ 291,632	$ 246,026	18.5
Earnings Available for Common Stock (000)	$ 248,279	$ 207,600	19.6
Kilowatthour Sales (Millions of Kilowatthours)			
Residential	4,446	4,412	0.8
Commercial	4,397	4,265	3.1
Industrial	7,997	7,514	6.4
Other	433	446	(2.9)
Total	17,273	16,637	3.8

Quarterly High and Low Prices of Common Stock
(dollars)



Dear Share Owner:

In his inaugural address on January 21, President Reagan said to the American people: ***"We are creating a nation once again vibrant, robust and alive. But there are many mountains left to climb."***

Those sentiments are as appropriate for our Company and Northeast Ohio as they are for the nation as a whole. In many ways, our service area is a microcosm of the United States. The recession hit us hard. We aren't out of the woods yet. But a new vitality is infusing this region. In 1984, Northeast Ohio made dramatic progress toward economic recovery.

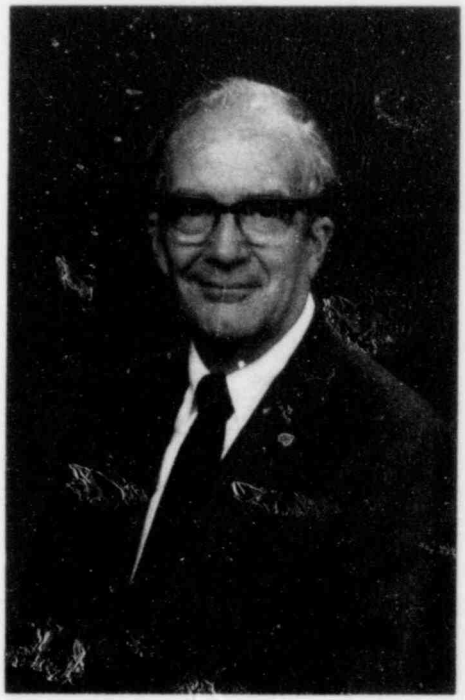
For The Illuminating Company, that welcome trend translated into higher demand for electricity and increased sales to all major classes of customers. Annual earnings reached a record level. The common stock dividend was raised for the 26th consecutive year.

This Company is supplying the electricity essential to this area's economic development. Our innovative reduction of rates for off-peak energy is helping industries regain their competitive edge in the market. The application of electric-powered technologies that produce greater energy efficiency enables commercial and residential customers to reduce overall costs. In 1985, new programs will be implemented to give residential customers greater selectivity in their electricity usage and more control over their energy costs.

Providing electric energy is our job, but, as this Annual Report illustrates, we cannot carry out that function with a narrow viewpoint. We believe we are more than just an electricity supplier. We are a full-service electric energy company.

"...once again vibrant, robust and alive."

To meet the electric power needs of Northeast Ohio for many years to come, we have an ongoing construction program to meet increased demand and



Robert M. Ginn

to replace aging facilities. To help fund that construction, the Company raised a record amount in financings during 1984. Some of our innovative financing strategies are detailed in this report. One example is our new CEI•IRA, the first Individual Retirement Account in the nation offered by a company which invests in its own stock.

Some 55,000 customers are share owners of the electric company that serves them. Through a customer stock purchase program started in 1983, The Illuminating Company has made ownership in a corporation both prudent and affordable for thousands of people with modest incomes, thus contributing to the promise of America's free enterprise system.

"...But there are many mountains left to climb."

That statement, too, is true for Northeast Ohio and for this Company. Our service area has yet to regain its former economic strength. But the area is favored with many basic assets that will sustain the momentum of recovery. The Company will continue its efforts to stimulate business and industrial expansion. Additionally, we will continue to support the many civic, cultural and educational activities that contribute to the quality of life in Northeast Ohio.

The Company, too, faces its own share of challenges. Along with many others in our industry, we chose nuclear technology for new power generation at the time it held its greatest promise. Constantly changing regulatory requirements, soaring capital costs and unrelenting negative publicity over the past decade have diminished, but not destroyed, the benefits of nuclear energy. To date, we have made good progress towards completion of Unit 1 of the Perry Nuclear Power Plant. We are moving toward fuel load in mid-1985. We have successfully passed many hurdles that tripped up nuclear projects elsewhere in the nation. Our success gives us confidence that we can make nuclear energy work for the benefit of share owners and customers alike.

Richard A. Miller

Harold L. Williams

The acid rain issue presents a second major challenge. In the past, most of the blame for acid rain has fallen unfairly on Midwestern power plants. Such simplistic views of the problem led to proposed solutions that carried high price tags but offered no assurance of benefits. Newer, more comprehensive studies by a broad range of scientific authorities show that the problem of acid rain is more pervasive and the solutions are more elusive than previously thought.

Given reasonable time, electric utilities will do their part by developing new generating techniques for the cleaner burning of coal. Such an approach promises a far more productive use of capital and a more effective elimination of pollutants than putting scrubbers on existing generating units. It also will spare our customers unnecessary rate increases, thus keeping our industrialized service area more competitive and more replete with job opportunities.

A third challenge continues to be our troubled relations with the City of Cleveland. The City's Municipal Electric Light Plant, known locally as Muny Light, continues its competitive policies and has announced plans to further its wasteful duplication of electric facilities.

In the summer of 1984, the Company nearly reached an agreement with the City administration. It would have ended the destructive, tax-subsidized efforts of a department of municipal government to take business away from a tax-paying investor-owned utility. Regrettably, the mayor rebuffed that agreement. Nevertheless, we have continued in good faith to negotiate some resolution with Cleveland's City Council. As of this writing, the Council has a proposed agreement under review.

Certainly, there are ***"mountains left to climb."*** But the year 1984 was one of significant achievement for this Company and the customers it serves.

In our stewardship of The Illuminating Company, we balance time-tested management prudence with the flexibility needed in today's world of transition. The following pages of this Annual Report tell how our engineering specialists are applying the newest technological advances to the production of electricity. This report illustrates that our employees are meeting competition from other energy sources by recognizing that the quality of our service to customers determines our own Company's well-being.

Our Company, our investors and our employees have been meeting challenges and achieving success for more than a century. We are confident that this pattern will continue.

Sincerely,

Robert M. Ginn
Chairman

Richard A. Miller
President

Harold L. Williams
Executive Vice President

February 15, 1985

The Year in Review

Economic recovery was clearly evident throughout Northeast Ohio in 1984. Company operations geared up to meet an increase in electricity demand. Earnings reached a record level and the dividend was increased. Construction neared the final stage on a 1,205-megawatt generating unit at the Perry Nuclear Power Plant—the keystone in our building program to power Northeast Ohio into the 1990s.

Advanced Technologies Help Company Meet Higher Demand

As the Northeast Ohio economy accelerated in 1984, so did the demand for electricity from all major classes of customers, most significantly the industrial sector.

Kilowatthour sales to industries increased 6.4 percent over those of 1983. Commercial sales rose 3.1 percent and residential sales were up 0.8 percent, for an increase in total sales of 3.8 percent.

Northeast Ohio is favored with a solid industrial base and broad diversity in its manufacturing. The Company's 7,500 industrial customers typically account for 45 percent of total sales. The impressive gain in industrial sales gave the Company's financial results a boost in 1984.

Automotive production increased. Renewed vigor also was evident among manufacturers of heavy machinery, appliances, electrical components, plastics, chemicals, biochemicals, brass, aluminum and other products.

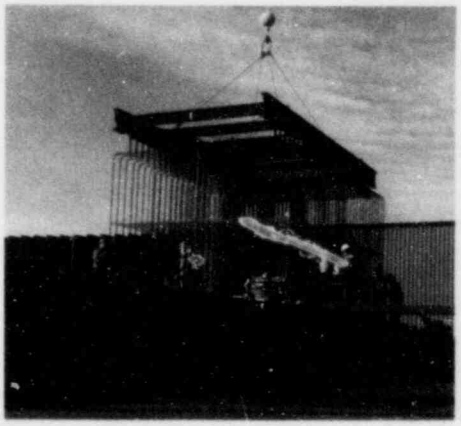
Power Generation Upgraded

In 1984, the Company carried out several equipment-upgrade projects to increase the availability of coal-fired units, to enable them to generate more electricity from less fuel and to extend their service lives.

The Company's computerized system of performance evaluation and testing of power plant equipment and its preventive maintenance program continued to keep equipment downtime to a minimum while saving on operating costs.

Substantial progress was made in 1984 on a $90 million program designed to increase the availability of three of the Company's largest generating units. The boilers for Avon Lake Unit 9, Eastlake Unit 5 and Lake Shore Unit 18 are being converted from pressurized operation to a balanced draft system that will significantly reduce maintenance costs and downtime for each unit. Two of the conversions are scheduled to be completed in 1985 and the other in 1987.

The Davis-Besse Nuclear Power Station, which we own with its operator, The Toledo Edison Company, continued its strong performance in 1984. During the 11 months preceding an outage in September for refueling, maintenance and improvement projects, Davis-Besse saved our customers about $50 million through the price advantage of nuclear fuel over coal. Davis-Besse returned to service in January with a new configuration for uranium fuel which will enable it to operate for about 18 months between refuelings instead of the previous maximum of about 12 months.



Environmental improvement is a continuing Company challenge—one on which we have spent about $485 million in the past decade alone. Completion in 1985 of this new, $50 million precipitator for Unit 9 of the Avon Lake Plant will enable us to run Avon Lake's largest coal-fired unit at full capacity and still stay within tough government limits on fly ash emissions.

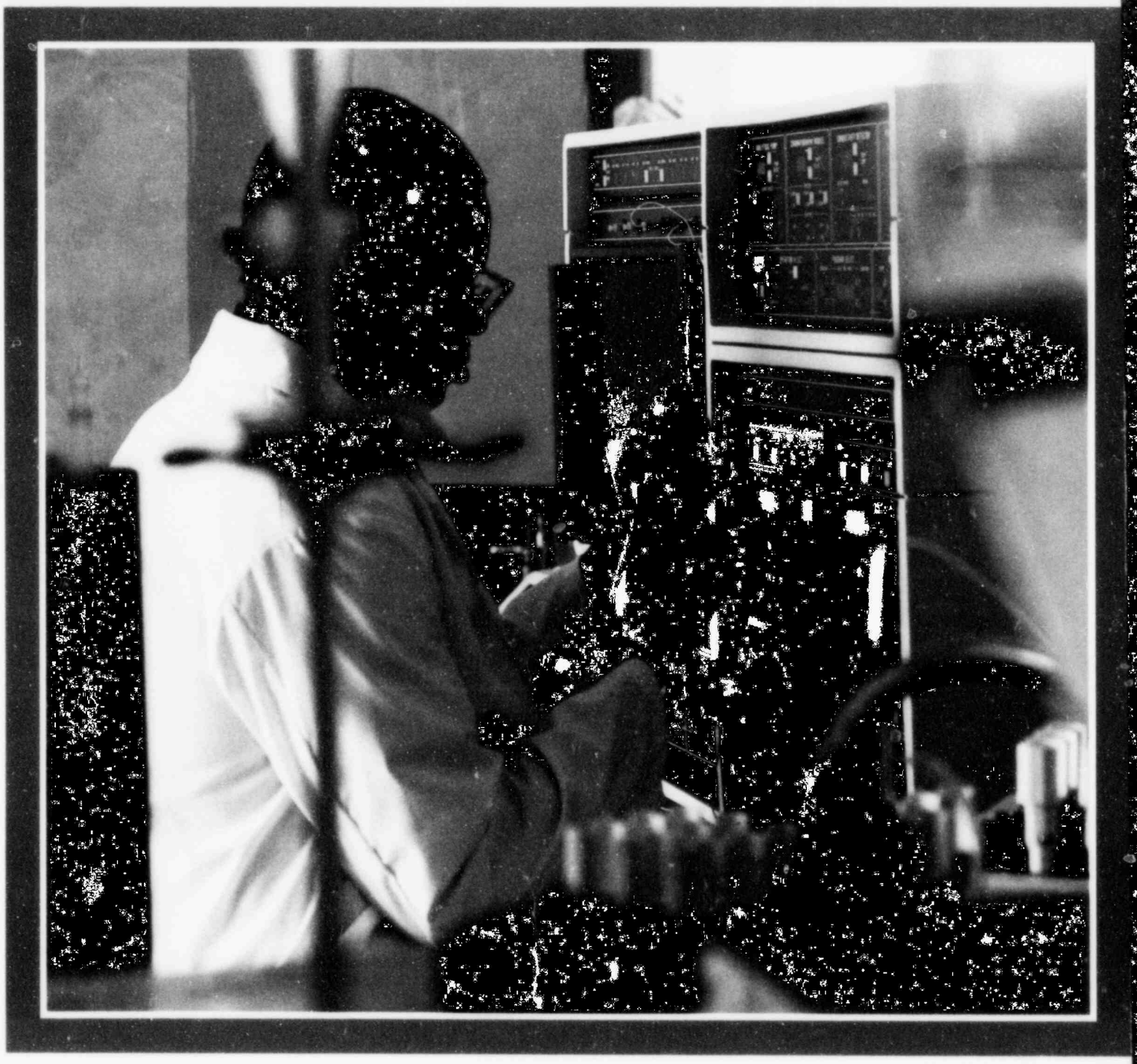
System Reliability Enhanced

In 1984, the Company continued its program to automate major substations, to improve its transmission system and to upgrade distribution facilities.

Plans are under way for new computers at our System Operation Center that will capitalize on today's technological advances. Among other benefits, the new equipment will extend monitoring capabilities on the nine-state, regional network of interconnected power sources to which we have access through the East Central Area Reliability Council.

The Illuminating Company pioneered computerized system operations 15 years ago to effectively meet routine and unexpected fluctuations in electricity demand. Our current facility monitors electrical load and equipment operations and scans for potential problems. As demand increases, computers determine which generating units can supply the needed power most economically. The end result is reliable service to customers at the lowest possible cost.

The Company applies modern technology to improve service. Locating faults in underground cables once was a difficult job that prolonged customer power outages. Today, vibration monitoring equipment, used here by underground cable splicers Gerald Parrish (left) and Jim Nageotte, quickly locates the trouble spot allowing faster repair.



Many of the tests needed to hold down costs are performed by Company technicians at our own laboratory. Erskine Dye, a laboratory test technician, analyzes a power plant water sample to help prevent deposits and corrosion in piping.

Exterior lighting that enhances the beauty of architecture and increases security is gaining popularity among our customers. Here, the Amasa Stone Chapel, located on the campus of Case Western Reserve University, is lit by high-pressure sodium units, today's most cost-efficient lighting. Company marketing representatives work with customers to design these dramatic lighting installations.

Environmental Improvements Continue

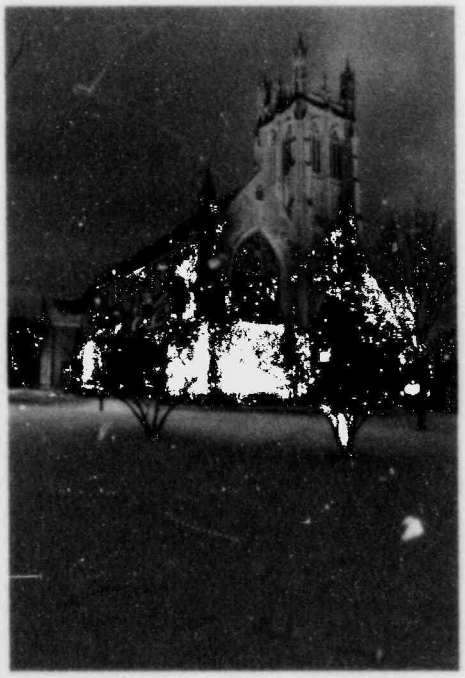
In 1984, the Company spent $32 million to meet federal and state air and water quality standards at coal-fired power plants. Over the past 10 years, about $485 million has been spent on pollution control programs.

One current project is a $50 million precipitator being installed on Unit 9 at the Avon Lake Plant. By removing nearly 100 percent of the fly ash residue produced in the coal-burning process, the new precipitator will allow Avon Lake's largest generator to operate at full capacity while still meeting government fly ash emission limitations. The project is scheduled for completion by the end of 1985.

The U.S. Environmental Protection Agency is under court order to revise its stack height regulations regarding power plant sulfur emissions. The Company already has reduced sulfur emissions by 41 percent in the past decade. New rules, which may be issued in mid-1985, could require further significant reductions in sulfur emissions at our two largest power plants.

Research Looks to the Future

Because 10 to 15 years are needed to build new power plants, we must plan now to meet the energy needs of our service area in the mid to late 1990s. We are exploring various generation options to find the most cost-effective means of providing electricity.

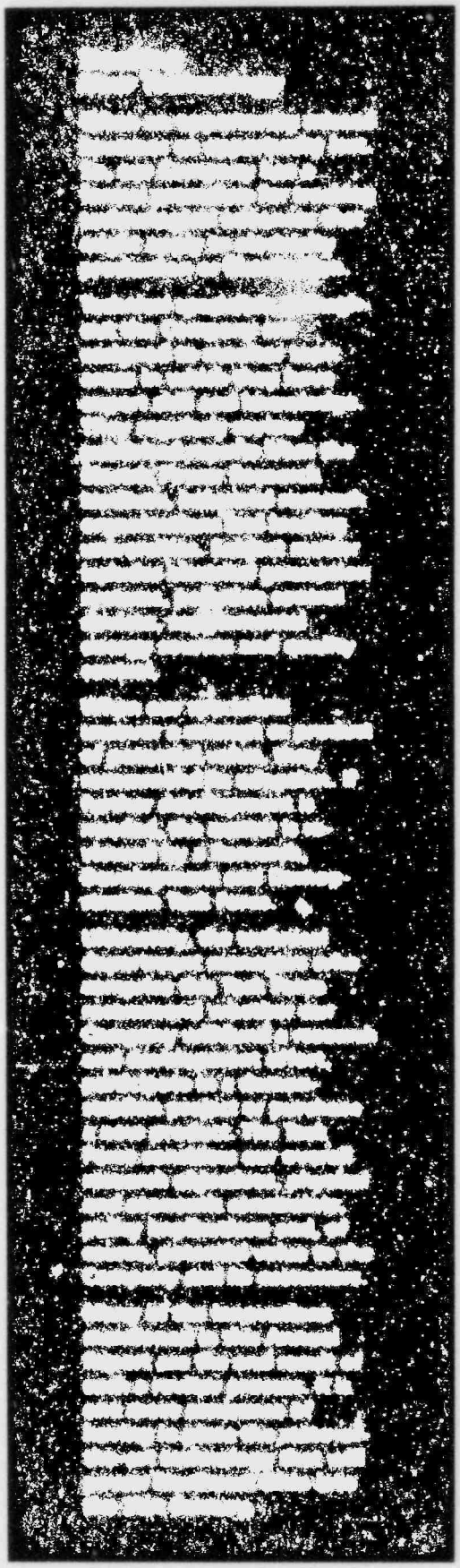


While nuclear power is an economical, safe and clean energy source, constantly changing regulatory requirements continue to cause construction delays and higher capital investment. At the same time, public concerns over acid rain and sulfur emissions from coal-burning power plants could adversely affect our ability to generate electricity from coal. Thus, we are studying several new technologies that would allow continued use of Ohio coal with substantial reductions in sulfur emissions.

Two promising options that could be used for new plants are coal gasification, which removes sulfur during the conversion of coal to gas, and fluidized bed combustion, which introduces limestone into the combustion process to draw out sulfur.

Company engineers also are investigating two technologies that could be applied to either new or existing units. One is coal-cleaning, which separates sulfur from coal before combustion. The other is a double-alkali scrubber process that removes sulfur from the combustion gases. The Company is helping to fund a demonstration plant now testing the double-alkali system. It promises simplified maintenance, less waste products and smaller space requirements than conventional scrubbers.

Compressed air energy storage is another major focus of Company research. It could provide a relatively low-cost way to meet peak demand. In a compressed air system, the most efficient coal and nuclear units would be used to pump air into an underground cavern during low-demand periods. At high-demand times, the air would be released and mixed with fuel to drive combustion turbines.



Industry Coalition Adds to Research Capabilities

The Illuminating Company is a member of the Electric Power Research Institute (EPRI), our industry's national center for administration of research and development relating to electric utility operations.

Through EPRI, our Company has access to the most up-to-date advances in electrical systems, generating technologies, rate design, customer service and other activities common to our industry.

Developments by this research institute have done much to improve the efficiency, safety and reliability of both nuclear and fossil-fuel power plants, saving the industry and its customers millions of dollars.

Additionally, EPRI provides a wide range of computer programs. These have helped the Company improve transmission tower design, increase the efficiency of underground cable installation, better formulate long-range plans, train operating personnel and plan for the most economical and safe operation of nuclear plants.

Financial Condition Remains Sound

Earnings Reach Record Level

Even with no increase in electric base rates during 1984, the Company achieved record earnings per share of $3.64, up 11 percent from 1983. The earnings improvement came primarily from an increase in the allowance for funds used during construction (AFUDC), higher sales and lower fuel and purchased power expenses charged to operations. The increase in AFUDC was partially offset by higher interest charges and preferred dividends and an increase in outstanding common shares. AFUDC is a non-cash credit for money invested in facilities under construction but not yet in the rate base.

Sales were up 3.8 percent from the 1983 level, with a strong increase coming in the first half of the year because of the economic recovery and colder than normal weather. During the second half, sales declined slightly relative to the second half of 1983 because of slower economic growth and cooler than normal weather, particularly when compared to the unusually hot summer of 1983.

Effective in November, the Company raised the quarterly common stock dividend to 63 cents per share, up from 60 cents, for a new indicated annual rate of $2.52. Dividends paid in 1984 were 5.2 percent higher than those paid in the previous year. The year 1984 marked the 26th consecutive year of dividend increases and the 83rd straight year of cash dividend payments on common stock. Those records are matched by few other electric utilities in the country.

1984 Financings Raise Record Amount

We ended 1984 with a balanced capital structure of 41 percent common equity, 48 percent debt and 11 percent preferred and preference stock. Those results are consistent with Company objectives of 40-42 percent common equity, a maximum of 48 percent debt, and 10-12 percent preferred and preference stock.

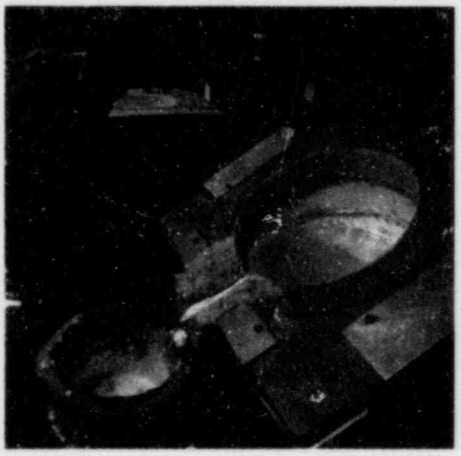
Our balanced structure at the beginning of 1984 gave us the flexibility to do the types of financings we wanted to do when we wanted to do them to obtain the best terms available. To further keep down the cost of capital, we structured the terms and size of some financings to appeal to specific institutional demands. In addition, we took advantage of various techniques for offering and timing security sales. This enabled us to select the best method of sale when demand was high and rates were favorable.

The Company raised a record one-year total of about $500 million through security issues in 1984. These included about $91 million from two common stock issues, about $163 million through three sales by public authorities of tax-exempt bonds to finance pollution control facilities, $175 million from three sales of first mortgage bonds and $64 million through our Dividend Reinvestment and Stock Purchase Plan and employee stock purchase plans.

In the Spring of 1984, we also increased our outstanding bank term loans to $175 million from the $134 million outstanding for most of 1983. The overall terms were extended at reduced interest rates.

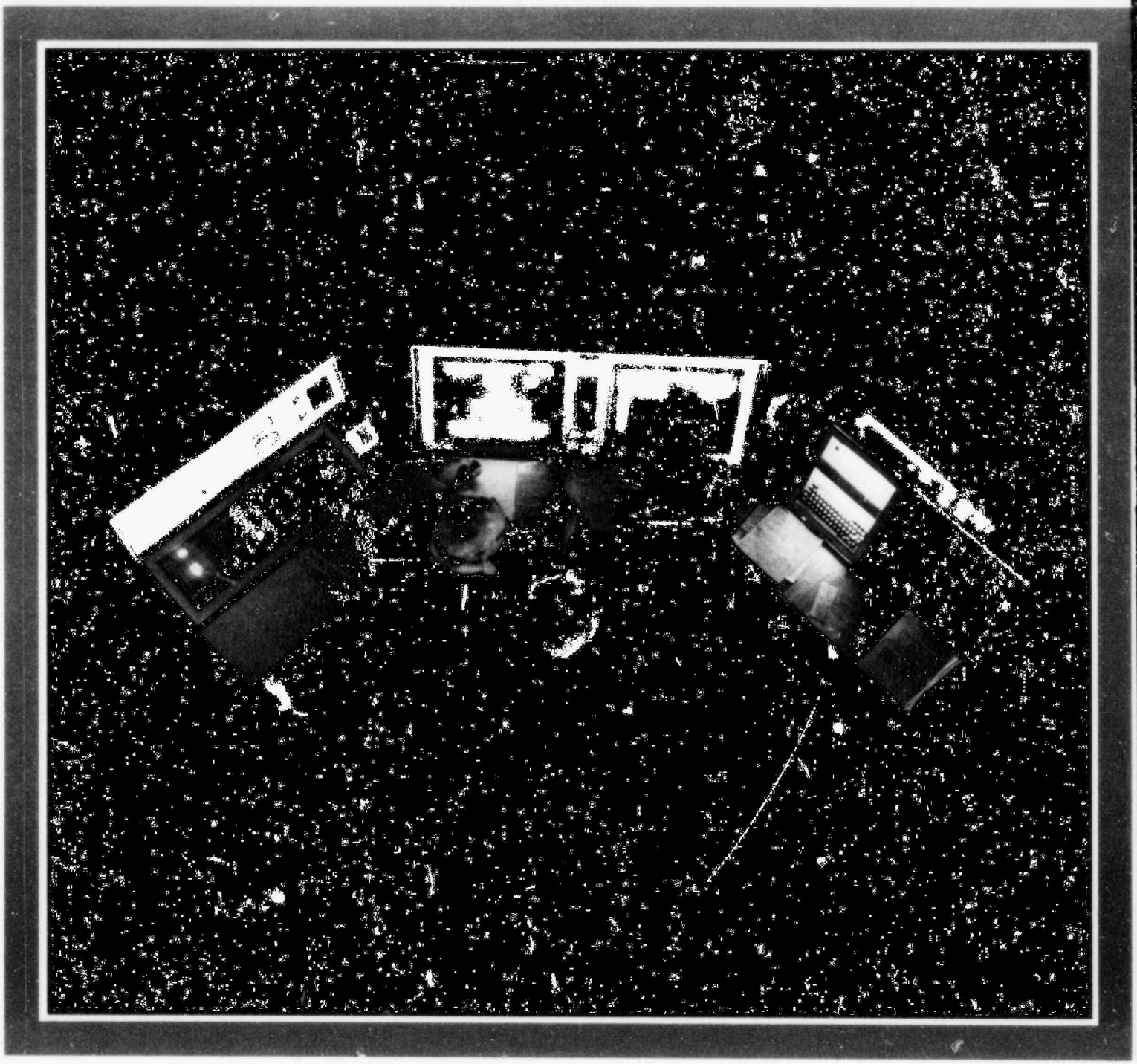
1985 Financing Needs Lower than 1984

In 1985, we expect to raise about $290 million through several security offerings. We plan to raise funds through the sale of first mortgage bonds, from tax-exempt bonds issued through public authorities and through the sale of preferred stock. Unlike past years, we expect to meet all of our needs for common equity capital through the Dividend Reinvestment and Stock Purchase Plan and various employee stock purchase programs.



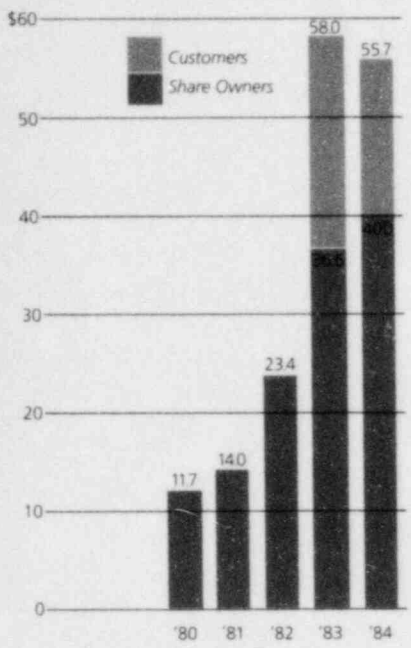
Our technical experts worked with those of the Adalet Division of Scott Fetzer to find the best electrical and economic solutions to their induction melting furnace requirements. The result is high energy efficiency and improved productivity for this Cleveland manufacturer of aluminum castings.

The nation's second largest steel producer, LTV Steel, is headquartered in Cleveland and is the Company's largest customer. With assistance from Company engineers, LTV Steel boosted the efficiency of its electric arc furnaces, more than doubling their productivity over the past 25 years.



The Company's computerized System Operation Center is manned around the clock to help ensure reliable electric service. System dispatchers such as Arnold Harvan monitor the flow of electricity in our service area from the screen of a video terminal.

Dollars Raised Through Dividend Reinvestment and Stock Purchase Plan *(millions)*



Credit Ratings Remain at Investment Grade

The Company's first mortgage bond ratings remain at investment grade levels despite having been lowered by the credit rating agencies in 1984. Moody's Investors Service lowered its rating on our bonds from A2 to A3, preferred stock from A3 to Baa and commercial paper from P1 to P2. Standard & Poor's Corporation lowered its rating on our first mortgage bonds twice during the year, from A to A– and then to BBB+. Standard & Poor's, however, did affirm the rating on our preferred stock at BBB and on our commercial paper at A2. These ratings changes have increased borrowing costs.

In taking its action to lower our credit ratings, Standard & Poor's cited the increased cost of our nuclear construction program and the "largely indifferent tenor of Ohio regulation." Once Perry Unit 1 is completed and fully included in rate base, more than half of our planned nuclear generating capacity will be earning a return. This should improve the Company's cash flow, an important consideration in determining credit ratings.

CEI•IRA Offered in Late 1984

We believe we are the only company in the nation to offer an Individual Retirement Account (IRA) which invests solely in its own stock. The new CEI•IRA allows investors to combine IRA tax benefits with the high yield offered by our common stock. It achieves all the tax benefits of other IRAs—deduction of cash investments from taxable income and deferral of taxes on both dividends and any capital gains.

Rate Case Decision Expected in February

In April 1984, the Company filed with The Public Utilities Commission of Ohio for a $180 million, or 15 percent, electric rate increase. The request includes construction work in progress for Perry Unit 1 in addition to that amount already in rate base. A decision is expected in late February.

Ohio Retains CWIP with Changes

We view as a positive move the passage of a law which continues to authorize the construction-work-in-progress (CWIP) allowance in Ohio. This allowance provides utilities the opportunity to begin recovering through rates the financing costs for construction work nearing completion. The law resolves the uncertainty that had surrounded CWIP. While the new measure is more restrictive than previous law, it is far more favorable than alternatives that had been proposed.

The new law reaffirms the discretion of the Commission to include CWIP in rate base for construction projects that are at least 75 percent complete. A major change from previous law is to limit allowances to 10 percent of a utility's rate base (excluding CWIP) instead of the 20 percent allowed before, with one exception. The allowance for sulfur and nitrous oxide pollution control equipment projects is permitted up to the old maximum of 20 percent. However, the total CWIP allowance cannot exceed 20 percent.

Employees as Innovators

Many Company innovations result from ideas of employees. They have the closest insight into the details of Company operations. They have the best opportunities to see what changes need to be made and to evaluate the benefits of new equipment or procedures. They understand the need to keep costs down. We not only [redacted] suggestions from employees, [redacted] them through [redacted] improvement [redacted] started nearly 30 [redacted] and still going [redacted] ingenuity [redacted] reaching implications. [redacted] than 97,000 employee proposals have been put into action in the past 30 years. Cumulative savings total $57 million. [redacted] costs, the Operations Improvement Program is a proven success.

Under the new law, CWIP can be included in rate base for as long as 48 months before completion of the project (longer under certain conditions). Once the construction project is completed and in rate base, the revenues derived from CWIP are credited back to customers over a period equal to the time CWIP had been included. This is done by excluding the amount of CWIP from rate base during this payback period so that rates will produce less revenues. During this payback period, an allowance equivalent to AFUDC on the CWIP amount excluded is added to rate base to be recovered in rates after the payback period over the remaining life of the project. The effect of these provisions is to phase into rate base the total cost of the project from the time CWIP starts to the time the payback period ends.

Five-Year Construction Budget Announced

We project a two percent annual increase in peak electrical demand in our service area. Compounded over the next 20 years, that growth rate will mean about a 50 percent increase in demand. In addition to completing Perry Unit 1 and Beaver Valley Unit 2, we are studying various alternatives to meet that demand and to replace aging generating units. The alternatives include combinations of the following: using the new technologies discussed above, extending the life of some existing generating capacity, long-term power purchases and completing the second unit of the Perry Nuclear Power Plant.

Many factors are being considered to determine the most economical alternative. These include not only capital investment but also operation, maintenance and fuel expense, potential acid rain legislation and the possibility of bulk power sales to other utilities in the 1990s.

Our current estimate of construction program expenditures for the 1985-1989 period, including the alternatives discussed above, ranges between $1.9 and $2.4 billion, including AFUDC. Most of the five-year budget is for the completion of Perry Unit 1 and Beaver Valley Unit 2. The lower estimate assumes that no significant expenditures will be made on Perry Unit 2 in 1986 through 1989; the higher estimate assumes construction of the unit will resume during the period with completion in 1993. The status of Perry Unit 2 is discussed below. Expenditures for 1985 are expected to range from $550 to $600 million; 1984 expenditures totaled $582 million.

Perry Unit 1 Nears Completion

By year end, Unit 1 of the Perry Nuclear Power Plant was 97 percent complete. The 1,205-megawatt unit is scheduled to be completed around the end of 1985. The schedule is tight, but we believe it is achievable.

The Company owns Perry Unit 1 with the four other member companies of the Central Area Power Coordination Group (CAPCO). The Company is the plant's builder and operator, with a 31 percent share of the project, or 375 megawatts.

At year end, 433 of Unit 1's 455 systems had been turned over from construction to testing. Moreover, 221 of its systems already have passed testing and either are already in operation or are ready for operation.

The Company's share of Perry Unit 1, following budget increases announced in 1984, is estimated at about $1.2 billion, including AFUDC. The total cost for all five CAPCO companies is now estimated at about $3.9 billion.

Several milestones in Unit 1's construction and licensing were passed in 1984. The Nuclear Regulatory Commission again reported that it found no significant weaknesses in our construction or quality assurance programs. Additionally, the Commission stated that it would schedule its licensing review activities to coincide with our completion schedule.

In September, we reached another milestone at Perry when a hydrostatic test of the reactor vessel was successfully completed. The reactor vessel and its supporting systems make up the single most important system at Perry. The test was done to verify that the system would hold water at levels higher than normal operating pressures.

In November, the Company passed another major requirement for obtaining an operating license for Unit 1. During an evaluated exercise, teams from the Nuclear Regulatory Commission and the Federal Emergency Management Agency assessed our ability and that of municipal and county authorities within a 10-mile radius of Perry to safeguard the public in the unlikely event of a serious accident at the plant. Participating in the exercise were hundreds of Company employees as well as hundreds of others from state, county and local governments and health and social service agencies.

The Company is confident that licensing progress will continue on schedule in 1985. Originally, intervenors raised 46 issues with the Atomic Safety and Licensing Board. The Board admitted 16,

Electric heat pumps are providing cost-effective space conditioning in thousands of homes throughout our service area. This home uses an electric geothermal heat pump to achieve comfortable warmth and efficient cooling year-round.

of which 11 already have been resolved. We believe we can resolve the five remaining issues in a timely manner.

The Company is proud of the progress made at Perry in 1984. We do not expect the final months of construction, testing and licensing to be easy, and unforeseen problems can arise, but we have confidence in our ability to meet the challenge.

Work Remains Minimal on Perry Unit 2

Throughout 1984, construction was kept to a minimum on the second unit at Perry, a 1,205-megawatt unit the Company also owns with its CAPCO partners. Our share of the unit is 375 megawatts. We are primarily doing only the Unit 2 work necessary to the operation of Unit 1. Perry Unit 2 with its share of facilities common with Unit 1 is about 57 percent complete. As announced in April 1984, there are many uncertainties regarding the future of Perry Unit 2. The CAPCO companies are continuing to evaluate all options with respect to Unit 2. See Note L of "Notes to Consolidated Financial Statements."

Beaver Valley Unit 2 Construction Progress

In addition to Perry, the Company owns about 25 percent, or 204 megawatts, of Beaver Valley Unit 2 now under construction by our CAPCO partner, Duquesne Light Company. By year end 1984, that unit was 83 percent complete.

As announced in January 1985, the CAPCO companies decided to reduce their 1985 cash expenditures for Beaver Valley Unit 2 by about $100 million. Our share of the reduction is about $25 million, bringing our estimated 1985 expenditures for the unit down to about $86 million, excluding AFUDC.

As a consequence and also to recognize construction delays encountered to meet regulatory requirements, the estimated completion date of the unit has been changed from late 1986 to about the end of 1987. The schedule provides more time between the in-service dates of Beaver Valley Unit 2 and Perry Unit 1. The additional time permits the CAPCO companies to concentrate resources on the completion of Perry Unit 1 and increases the time between the addition of the units to rate base.

As a result of the changes announced in January 1985, the Company's share of the estimated cost of Beaver Valley Unit 2 is now about $1 billion, including AFUDC. Total estimated cost of the project for the CAPCO companies is about $3.9 billion.

Marketing Program Helps Customers Stay Competitive

As part of the Company's marketing program in 1984, we continued advising industrial and commercial customers on the newest equipment, systems and technologies to best meet their needs. Our marketing representatives help customers utilize new electrical systems and processes. These result in more cost-effective ways to use electricity because we recognize that efficient use of energy will improve their competitive position. A goal of our marketing effort is to seek electric applications for our customers that will benefit both the customer and the Company.

Using computer programs, we are expanding our market research efforts to determine how various marketing strategies and long-term energy options will affect large segments of customers.

We also are continuing to develop innovative rate designs to encourage commercial and industrial customers to increase their energy use in off-peak periods. The rate designs permit more efficient use of facilities while reducing average energy costs.

Industrial Sector Benefits From Electric-Powered Technologies

More manufacturers in Northeast Ohio are turning to laser systems, robotics, electric furnaces, induction heating, ion nitriding, plasma-arc cutting and other innovative electric-powered technologies to improve productivity and lower costs.

For example, by recommending operating and equipment changes, Company engineers helped LTV Steel, headquartered in Cleveland, more than double its output from two electric arc furnaces over the past 25 years. Now, LTV Steel, the nation's second largest steel producer, plans to install a $130 million steel galvanizing line in one of its local facilities. By using a new electro-galvanizing technology that coats steel on both sides, LTV Steel expects to produce a more rust-resistant, flat-rolled steel for the automotive industry. This new operation is expected to add some 50 megawatts to our load in late 1986.

In another marketing project, Company representatives worked with Ford engineers on the installation of induction holding furnaces that have helped Ford's casting plant improve both production and quality.

On our recommendation, the Southerly Waste Water Treatment Plant of the Northeast Ohio Regional Sewer District now heats eight buildings with electric heat pumps that draw waste heat from processed sewage. This innovative system is providing significant fuel-cost savings by eliminating the need for oil or natural gas for space heating.

Studies by Company engineers persuaded the Regional Transit Authority (RTA) to use an electric earth-storage heating system to meet the unique needs of its new central rail maintenance facility. That system already has saved substantially on operating expenses, while increasing RTA's off-peak electricity use.

Major office construction throughout our service area signals the future growth in commercial electricity sales. One example is this new headquarters building for the Standard Oil Company of Ohio being built on Cleveland's Public Square. It was added to our system in 1984 and will be the downtown area's largest consumer of electricity. Reflected on the building's facade is a Cleveland landmark, the Terminal Tower.

New Office Construction Heralds Commercial Growth

The 45-story Sohio headquarters building under construction on Cleveland's Public Square was added to our system during 1984. This 1.5 million-square-foot, ultra-modern complex is scheduled for completion in mid-1985. It is the largest single office building in Ohio and will be downtown Cleveland's largest consumer of electricity.

Also changing the downtown Cleveland skyline is the first structure in the North Point office complex. This 235,000-square-foot building, scheduled for occupancy in mid-1985, relies on a variety of electric systems to provide both its heating and cooling needs. It is the first of three buildings that will ultimately total 750,000 square feet.

Suburban commercial construction continued at a brisk pace in 1984. The 137,000-square-foot Summit I office building, for example, reflects the vitality of the rapidly growing suburb of Independence. Company marketing representatives helped the owners develop an all-electric design. Two additional buildings are planned for the Summit complex.

Scheduled for completion early in 1985 is the first of several buildings planned for the Great Northern Corporate Center complex in North Olmsted, a suburb of Cleveland. Long-range plans —which include a hotel, convention center and office buildings totaling two million square feet—will make this the largest suburban complex in our service area.

Recognizing the growth potential in the fast food restaurant market, our representatives developed an energy-efficient, all-electric system for Burger King that serves as a model for the many fast food chains in Northeast Ohio. The restaurant incorporates a heat recovery system that uses waste heat from refrigeration equipment to heat water and also reclaims heat from the ventilating system. Energy costs of the new system are 10 percent lower than a gas system.

Residential Programs Meet Competition

Natural gas companies stepped up their competition with us for residential customers and aggressively promoted use of natural gas heating among

The Company and its employees play a leading role in many community service projects. Through the Community Involvement Program started in 1984 (see story on the next page), the Company supported the volunteer efforts of one of its employees to assist in providing the Julie Billiart School in Lyndhurst with computer facilities for learning-impaired students.

existing and prospective customers. To meet this competition, we strengthened our mass media communications and Company marketing personnel expanded their activities with service area builders.

We developed new rate designs for residential customers as a financial incentive to those willing to limit or shift specific loads to off-peak hours.

We intensified research efforts in the residential market, placing major emphasis on innovative applications such as closed-loop, groundwater heat pumps and dual fuel systems.

To demonstrate our commitment to customer service, Company home economists communicated with over 78,000 people involving hundreds of presentations to community groups and visited all-electric homes to provide information about efficient use of electricity.

Customer and Community Relations Programs Expanded

New Programs Enhance Customer Relations

In 1984, the Company increased cost-effective customer communication through radio, television and newspaper messages, the Company Speakers Bureau, notices on electric bills and special meetings and mailings.

A new printer that uses a laser beam to shoot images onto paper allows us to include timely messages to customers on monthly electric bills without sacrificing our economical postcard-style billing format. We are among the first utilities in the country to use this cost-effective approach.

The Company has the best record of any major energy utility in the state for resolving customer concerns without formal intervention by The Public Utilities Commission of Ohio. One reason is the Company's special hotline connecting our offices to the Commission's headquarters in Columbus.

Recognizing that many Northeast Ohio families are still recovering from the recession, we made special efforts in 1984 to help those having difficulty paying their electric bills. As one example, we made deferred payment arrangements for nearly 25,000 customers. We also granted time extensions for many accounts and advised customers on how to apply for state and federal energy assistance programs.

Employees Promote Company and Community Growth

Some 5,800 employees are the Company's most important link to customers and to the many communities within our service area.

Each year, the Company provides a broad range of training and educational assistance programs to help hundreds of employees enhance their skills. Many of our employees hold memberships in business and professional organizations to help refine their skills and keep up-to-date on new developments in their respective fields.

To help employees gain maximum benefit from the computer processes available to them in performing their jobs, the Company set up a walk-in information center in 1984.

Also in 1984, the Company purchased a modern, 262,000-square-foot office building in Independence. Some 200 employees have moved to this new facility, easing overcrowded conditions at the downtown Cleveland headquarters. Further moves will be made in 1985. The Independence building offers new flexibility in long-term planning. Further, it provides the parking and security features needed for 24-hour staffing and has the required space for computers, word processors and other modern office equipment.

Many employees actively participated in community service groups, local government and many other worthwhile activities during 1984. Encouraging such interaction is a Community Involvement Program established in 1984. Through this program, the Company now contributes funds to qualified service, educational, welfare and community projects in which employees are involved. (See article on this page).

As another sign of community involvement, Company employees in 1984 pledged donations to the United Way campaigns in their home communities that went over the $1 million mark for the third year in a row.

Through the Company's Affirmative Action Program, equal employment opportunity is ensured for all.

The people who work at The Illuminating Company are strongly committed to top-quality performance both on and off the job. They share their Company's commitment to customers and to the betterment of Northeast Ohio.

The Community Involvement Program

Utility companies are more dependent on the vitality of their service areas than are most businesses. Our fortunes are intertwined with [illegible] serve.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Capital Resources and Liquidity

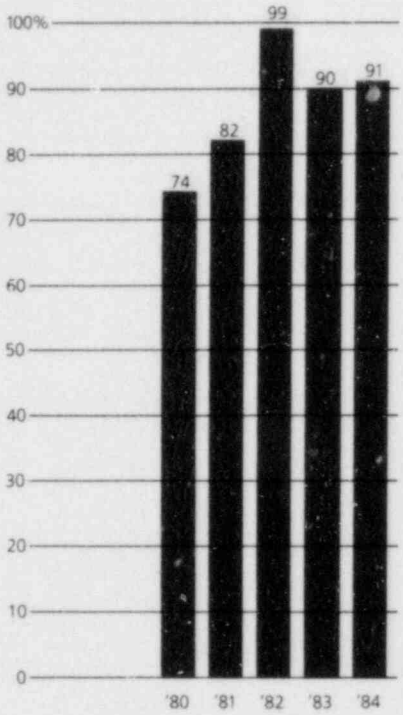
We carry on a continuous program of constructing new facilities to meet anticipated demand for electricity in our service area, to replace worn-out facilities and to comply with pollution control regulations. For the three years ended December 31, 1984, our capital requirements for our construction program were approximately $1.5 billion. This amount includes an allowance for funds used during construction (AFUDC) which is explained in Note A of "Notes to Consolidated Financial Statements." For a discussion of our commitments and related risks at year end 1984, including those involved with our construction program, see Note L of "Notes to Consolidated Financial Statements."

As discussed elsewhere in this Annual Report, the cost of our 1985-1989 construction program is estimated to range from $1.9 billion to $2.4 billion (including AFUDC, but excluding nuclear fuel). Substantial additional expenditures may be necessary if we are required to modify or add to our existing facilities to comply with future pollution control regulations.

To finance construction, we rely on external sources of money to supplement our internally generated funds. Over the 1982-1984 period, we raised about 60% of our construction expenditures through bank borrowings and security sales. At year end 1984, we had about $130,000,000 of cash and temporary cash investments available. Assuming adequate and timely rate relief, we expect to finance about one-third to one-half of our construction program over the next five years through the issuance of securities, with larger proportions in the earlier years.

The capital requirements of our construction program and our need to maintain an appropriate mix of debt and equity capital have resulted in the sale of common stock at prices below book value during the 1982-1984 period. These sales have resulted in dilution of the book value of outstanding common shares. We are continuing to issue common stock below book value through our share owner, customer and employee stock purchase plans. It may be necessary to issue additional common stock below book value through public offerings in the future to maintain a balanced capital structure.

Ratio of Market Price to Book Value
Year End
(percent)



In 1984, Moody's Investors Service and Standard & Poor's Corporation lowered their ratings of certain securities of the Company as discussed elsewhere in this Annual Report, thereby increasing our borrowing costs.

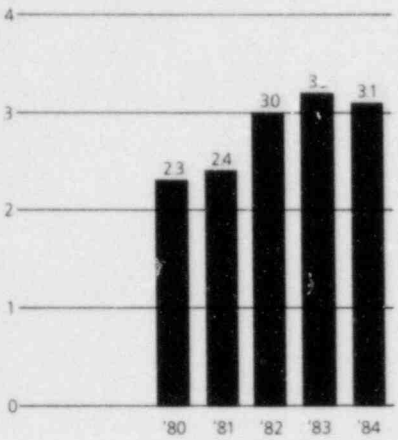
Our ability to finance is contingent upon obtaining sufficient and timely rate increases. Without adequate rates, it would be impossible to earn a fair return for our common stock share owners. Inadequate rates also would impair our ability to generate funds internally and could result in a further lowering of our securities ratings, thereby increasing the cost of and the difficulty in obtaining external funds. We have filed a request with The Public Utilities Commission of Ohio (PUCO) for a $180,000,000, or 15%, increase in electric rates. An order is expected in late February 1985. We will continue our diligence in seeking fair rate levels in order to maintain as strong a financial position as possible. See "Results of Operations" and Note M of "Notes to Consolidated Financial Statements" for discussions of our recent rate increases and other rate matters.

One of our financial objectives is to maintain a balanced capital structure. Our financing activity is planned to achieve a capitalization structure of 40-42% common equity, a maximum of 48% debt and 10-12% preferred and preference stock. At year end 1984, our capitalization structure was 41% common equity, 48% debt and 11% preferred and preference stock. Although common equity is our most expensive form of permanent financing, we believe that it is important to maintain its level at 40-42% of total capitalization in order to support the credit ratings of our senior securities. Financing plans for 1985 are discussed elsewhere in this Annual Report. The types, amounts and timing of financings beyond 1985 cannot be determined at this time.

Over the 1985-1989 period, in addition to our construction program financing needs, we must refinance $290,627,000 of maturing debt and preferred stock. Also, we are required to offer to purchase $127,600,000 of preferred and preference stock during the same period. See Notes E, G and H of "Notes to Consolidated Financial Statements" for further information regarding our first mortgage bonds and preferred stock. A portion of the debt which matures in the five-year period has very low interest rates. We expect that investors in new issues of long-term debt and preferred stock will continue to demand relatively high interest and dividend rates in the future and that our embedded cost of capital will continue to increase as we replace maturing low-cost securities with more expensive debt and equity.

The amount of first mortgage bonds the Company can issue is limited by our Mortgage and Deed of Trust. See Note E of "Notes to Consolidated Financial Statements" for a discussion regarding the amount of additional first mortgage bonds we were permitted to issue at December 31, 1984. There are no restrictions on issuing additional authorized preferred stock and preference stock.

Fixed Charges Coverage Ratio
(times earned)



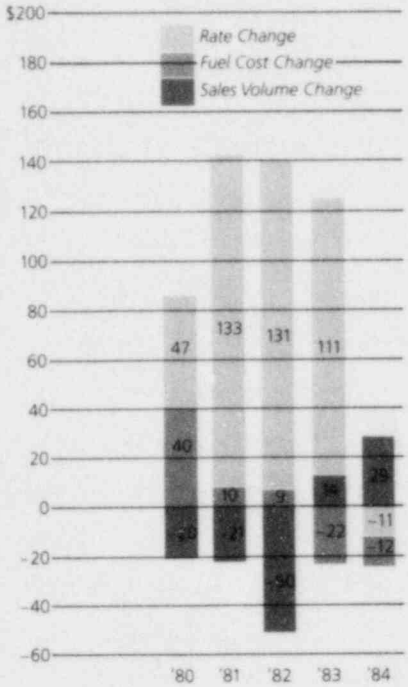
We use short-term financing such as bank lines of credit and the sale of commercial paper to give us flexibility in timing our long-term financings. Money raised through these short-term arrangements is primarily used to finance temporarily our construction program. We have a total short-term borrowing capability of $206,300,000 in the form of bank lines of credit and revolving loan commitments. Some of these lines are held in reserve to ensure that we will be able to pay off commercial paper and variable interest notes when they are due. See Note J of "Notes to Consolidated Financial Statements" for details of our credit arrangements.

Results of Operations

The following chart shows the factors which have affected our electric revenues in each of the last five years.

The economic recovery in our service area which began in 1983 continued through 1984. Evidence of this recovery in our local economy is that in 1984, for

Sources of Electric Revenue Increases
(millions of dollars)



the second straight year, we experienced growth in kilowatthour sales to our industrial customers. After a 14.5% decline in industrial sales in 1982 as a result of the recession which began in 1981, our industrial sales were up 6.1% in 1983 and 6.4% in 1984. The 1984 gain in industrial sales reflects continuing improvement in the local manufacturing sector.

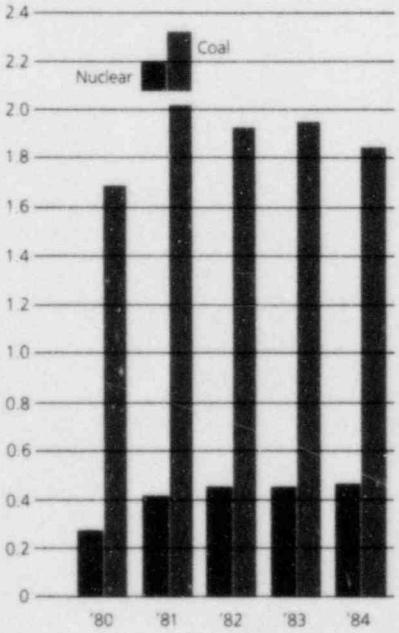
The harsh winter our service area experienced in early 1984 more than offset the effect of a relatively mild summer, thereby contributing to increases in residential and commercial sales in 1984 of 0.8% and 3.1%, respectively, over the 1983 levels. Total sales increased 3.8% in 1984. The improving economy and an extremely hot summer in 1983 had benefited residential and commercial sales that year. Residential sales were up 1.8% in 1983 after a 0.9% decline in 1982. Sales in the commercial sector grew 1.7% in 1983 compared with 0.4% growth in 1982. Total sales in 1983 increased 2.9% versus a 7.7% decline in 1982.

The PUCO granted us electric rate increases of 10% in March 1982 and 7.4% in January 1983. In October 1983, electric rates were reduced 1%. For further details on matters affecting rates, see Note M of "Notes to Consolidated Financial Statements." We did not seek an increase in electric rates for 1984 because of the cost containment and deferral program we implemented early in 1983. This program, which carried into the first quarter of 1984, placed strict controls on hirings and promotions, sharply reduced overtime and limited expenditures for materials and supplies. These measures enabled us to defer our need for additional rate relief until 1985.

Our net rate increases over the 1982-1984 period and higher kilowatthour sales in 1983 and 1984, coupled with effective cost control and higher AFUDC, offset the effects of inflation on operating expenses, lower kilowatthour sales in 1982, higher interest expense, stock sales and the delay between the time our costs go up and the time we receive a rate increase to cover those increased costs. Consequently, earnings per share rose in each of the last three years, reaching a record level of $3.64 in 1984. The ratio of earnings to fixed charges (SEC method) rose to 3.0 in 1982 and 3.2 in 1983 and declined slightly to 3.1 in 1984.

Fuel and purchased power expense accounted for about one-third of our

Fuel Costs
(cents per kilowatthour)



total operating expenses in 1984. Total fuel expense for the year was down 11% from 1983 due to a combination of lower unit fuel costs, greater fuel efficiency experienced in the operation of our generating units and a reduction in the provision for deferred fuel costs. See Note A of "Notes to Consolidated Financial Statements" for a discussion of fuel costs.

Purchased power expense represents the net cost of our energy exchanges with other utilities. The amount varies from year to year depending upon the availability of our power plants, the energy demands of our customers, the price of electricity available from other utilities and opportunities for the sale of energy. In 1984, net purchased power expense was up from 1983 because of increased demand and more generating unit outages. It was more economical for us to replace the lost generation and meet the demand with power purchases rather than with our other generating units.

In 1983, net purchased power expense was up from 1982. The effect of decreased unit fuel costs exceeded the impact of higher kilowatthour sales and resulted in a slight decrease in total fuel expense from 1982.

Nuclear generation accounted for 10%, 15% and 13% of our total fuel-fired electric generation in 1982, 1983 and 1984, respectively.

Other significant items affecting earnings per share were increased payments of interest and preferred stock dividends and a greater number of outstanding common shares resulting from additional external financing. The impact of the increases in these items partially offset the related increases in the amount of AFUDC. The amount of AFUDC reflected in earnings per share has grown because of increased investment in construction work in progress, primarily at Perry and Beaver Valley Unit 2. AFUDC was 69% of our earnings in 1984 compared to 55% in 1983 and 61% in 1982. For a further discussion of AFUDC and for information concerning the continuation of AFUDC accruals for Perry Unit 2, see Notes A and L, respectively, of "Notes to Consolidated Financial Statements."

For a discussion of how we are affected by inflation, see "Supplementary Information Concerning the Effects of Inflation."

Management's Statement of Responsibility for Financial Statements

The management of The Cleveland Electric Illuminating Company is responsible for the consolidated financial statements which appear in this Annual Report. The statements were prepared in accordance with generally accepted accounting principles which are appropriate in the circumstances. These principles require that certain amounts must be recorded based on estimates. Such estimates are based on an analysis of the best information available regarding the amounts to be estimated.

We maintain a system of internal accounting controls. The control procedures are designed to assure that the financial records are reasonably complete and accurate. They also are designed to help protect the assets and their related records. We make an effort to ensure that the costs of our control procedures do not exceed the benefits.

We have an internal audit program which monitors the internal accounting controls. This program is designed to examine whether the controls are adequate and effective. Also, an examination of the financial statements is conducted by Price Waterhouse, independent accountants, whose opinion appears at the right.

The Board of Directors of the Company is responsible for determining whether management and the independent accountants are carrying out their responsibilities. The Board has appointed an Audit Committee, comprised entirely of outside directors. The responsibilities of the Audit Committee are described elsewhere in this Annual Report.

Report of Independent Accountants

Price Waterhouse

To the Board of Directors and the Share Owners of The Cleveland Electric Illuminating Company:

We have examined the consolidated balance sheet and the statement of capitalization of The Cleveland Electric Illuminating Company and its subsidiaries at December 31, 1984 and 1983 and the related consolidated statements of income, retained earnings, and of changes in financial position for each of the three years in the period ended December 31, 1984. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note L to the consolidated financial statements, the Company cannot now predict when, if ever, or at what cost Perry 2 will be completed; and, if not completed, whether The Public Utilities Commission of Ohio will allow recovery of costs associated with the Unit.

In our opinion, subject to the effects on the 1984 consolidated financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, the financial statements referred to above present fairly the financial position of The Cleveland Electric Illuminating Company and its subsidiaries as of December 31, 1984 and 1983, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1984, in conformity with generally accepted accounting principles consistently applied.

Price Waterhouse

Cleveland, Ohio

February 8, 1985

Income Statement

The Cleveland Electric Illuminating Company and Subsidiaries

	For the Year Ended December 31,		
	1984	1983	1982
		(Thousands of Dollars)	
OPERATING REVENUES			
Electric	$1,200,465	$1,194,162	$1,091,054
Steam	14,888	16,154	17,517
Total Operating Revenues	1,215,353	1,210,316	1,108,571
OPERATING EXPENSES			
Operation			
Fuel	285,188	320,792	330,674
Purchased power	28,224	12,185	(1,395)
Other	190,563	182,439	168,802
	503,975	515,416	498,081
Maintenance	90,325	88,029	81,789
Depreciation and amortization	95,274	94,196	86,588
Taxes, other than Federal income tax	132,313	126,883	106,804
Federal income tax	131,355	127,430	106,382
Total Operating Expenses	953,242	951,954	879,644
NET OPERATING INCOME	262,111	258,362	228,927
NONOPERATING INCOME			
Allowance for equity funds used during construction	130,421	87,052	76,896
Other income and deductions, net	3,680	3,805	(2,481)
Federal income tax — credit	35,099	23,291	22,254
Total Nonoperating Income	169,200	114,148	96,669
INCOME BEFORE INTEREST CHARGES	431,311	372,510	325,596
INTEREST CHARGES			
Long-term debt	177,246	151,257	134,250
Short-term bank loans, commercial paper and other	3,618	2,717	9,822
Allowance for borrowed funds used during construction	(41,185)	(27,490)	(27,440)
Total Interest Charges	139,679	126,484	116,632
NET INCOME	291,632	246,026	208,964
Dividend requirements on preferred and preference stock	43,353	38,426	38,295
EARNINGS AVAILABLE FOR COMMON STOCK	$ 248,279	$ 207,600	$ 170,699
EARNINGS PER COMMON SHARE	$ 3.64	$ 3.28	$ 3.01
DIVIDENDS DECLARED PER COMMON SHARE	$ 2.43	$ 2.31	$ 2.19

Retained Earnings Statement

	For the Year Ended December 31,		
	1984	1983	1982
		(Thousands of Dollars)	
BALANCE AT BEGINNING OF YEAR	$ 388,217	$ 325,463	$ 280,285
ADDITIONS			
Net income	291,632	246,026	208,964
DEDUCTIONS			
Dividends declared			
Preferred stock	39,799	33,636	33,900
Preference stock	4,197	4,418	4,418
Common stock	164,690	145,077	124,841
Costs of issuing equity securities	—	141	627
Total Deductions	208,686	183,272	163,786
BALANCE AT END OF YEAR	$ 471,163	$ 388,217	$ 325,463

The accompanying notes are an integral part of these financial statements.

Balance Sheet at December 31

ASSETS	1984	1983
	(Thousands of Dollars)	
PROPERTY AND PLANT		
Utility plant		
Electric in service	$2,864,332	$2,794,873
Steam in service	44,561	43,262
	2,908,893	2,838,135
Less accumulated depreciation and amortization	798,979	722,492
	2,109,914	2,115,643
Construction work in progress	2,113,650	1,616,653
	4,223,564	3,732,296
Nuclear fuel in trust	67,418	58,599
Other property, less accumulated depreciation	27,859	11,545
	4,318,841	3,802,440
POLLUTION CONTROL CONSTRUCTION FUNDS — unexpended	61,422	18,618
CURRENT ASSETS		
Cash and temporary cash investments	130,711	42,693
Amounts due from customers and others, net	116,477	111,928
Materials and supplies, at average cost	31,028	29,640
Fossil fuel inventory, at average cost	78,033	58,870
Taxes applicable to succeeding years	101,678	99,884
Other	3,802	3,612
	461,729	346,627
DEFERRED CHARGES		
Unamortized costs of terminated projects	46,089	49,154
Accumulated deferred Federal income taxes	7,597	12,240
Other	30,763	38,348
	84,449	99,742
	$4,926,441	$4,267,427
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION (See statement of Capitalization)		
Long-term debt	$1,883,648	$1,518,883
Serial preferred stock		
With mandatory redemption provisions	247,218	261,000
Without mandatory redemption provisions	144,021	144,021
Serial preference stock with mandatory redemption provisions	45,600	57,000
Common stock equity	1,592,810	1,355,488
	3,913,297	3,336,392
OTHER NONCURRENT LIABILITIES	81,361	68,941
CURRENT LIABILITIES		
Current portion of long-term debt and preferred stock	49,483	59,410
Notes payable to banks and others	19,100	19,100
Accounts payable	143,378	121,198
Accrued payroll and vacations	17,904	16,119
Federal income taxes	10,860	12,301
Other taxes	129,402	125,016
Interest	40,272	36,322
Other	6,932	7,251
	417,331	396,717
DEFERRED CREDITS		
Unamortized investment tax credits	265,365	218,589
Accumulated deferred Federal income taxes	215,362	192,483
Other	33,725	54,305
	514,452	465,377
COMMITMENTS AND CONTINGENCIES — See Note L		
	$4,926,441	$4,267,427

The accompanying notes are an integral part of these financial statements.

Capitalization at December 31

The Cleveland Electric Illuminating Company and Subsidiaries

	1984	1983	1984	1983
	(Thousands of Dollars)		(Percent of Capitalization)	
LONG-TERM DEBT(a)				
First mortgage bonds — maturing through 2020 at rates of 2¾% to 16⅝% (Less $43,291,000 in 1984 and $55,000,000 in 1983 classified as current)	$1,609,800	$1,315,191		
Collateral pledge notes — secured by First Mortgage Bonds maturing in 2012 at semiannual equivalent rates of 11.72% to 14.57%	47,120	43,370		
Term bank loans — maturing 1986-1993 at variable rates (Average rates were 11.49% in 1984 and 10.10% in 1983)	175,000	106,000		
Pollution control notes — maturing through 2012 at rates of 5.6% to 6.7% (Less $410,000 in 1984 and 1983 classified as current)	57,020	57,430		
Other — net	(5,292)	(3,108)		
Total Long-term Debt	1,883,648	1,518,883	48	45
SERIAL PREFERRED AND PREFERENCE STOCK — cumulative, without par value, 4,000,000 and 3,000,000 authorized shares, respectively				
Preferred Stock without mandatory redemption provisions				
Series A, Annual Dividend Rate $7.40, 1984 Shares Outstanding 500,000	50,000	50,000		
Series B, Annual Dividend Rate $7.56, 1984 Shares Outstanding 450,000	45,071	45,071		
Series L, Annual Dividend Rate Adjustable(b), 1984 Shares Outstanding 500,000	48,950	48,950		
	144,021	144,021		

Preferred and Preference Stock with mandatory redemption provisions (Less $5,782,000 in 1984 and $4,000,000 in 1983 classified as current)

Series	Annual Dividend Rate	1984 Shares Outstanding	Annual Mandatory Redemption Provisions(c): Beginning on	Price	Shares to be Redeemed	Shares to be Redeemed at Holders' Option	1984	1983
Preferred:								
C	$ 7.35	230,000	8-1-84	$ 100	10,000	—	23,000	24,000
E	$ 88.00	45,000	6-1-81	$1,000	3,000	—	45,000	48,000
F	$ 75.00	50,000	11-1-85(d)	$1,000	—	16,667	50,000	50,000
G	$ 80.00	32,000	8-1-84(d)	$1,000	—	8,000	32,000	40,000
H	$145.00	26,718	6-1-85	$1,000	1,782	—	26,718	28,500
I	$145.00	31,500	6-1-86	$1,000	1,969	—	31,500	31,500
J	$113.50	29,000	6-1-87	$1,000	5,800	—	29,000	29,000
K	$113.50	10,000	6-1-91	$1,000	10,000	—	10,000	10,000
							247,218	261,000
Preference:								
1	$ 77.50	45,600	4-1-84(d)	$1,000	—	11,400	45,600	57,000
Total Preferred and Preference Stock							436,839	462,021

	1984	1983	1984	1983
COMMON STOCK EQUITY				
Common shares, without par value, 85,000,000 authorized; 74,040,175 and 65,198,089 outstanding in 1984 and 1983, respectively	1,121,647	967,271		
Retained earnings(e)	471,163	388,217		
Total Common Stock Equity	1,592,810	1,355,488	41	41
TOTAL CAPITALIZATION	$3,913,297	$3,336,392	100	100

(a) Long-term debt matures during the next five years as follows: $43,701,000 in 1985 (classified as a current liability on the consolidated Balance Sheet), $40,410,000 in 1986, $13,410,000 in 1987, $14,410,000 in 1988 and $124,510,000 in 1989.

(b) The adjustable rate is based on the highest of certain factors but not more than 13% or less than 7%. The average rate was 12.89% in 1984.

(c) Amounts to be paid for preferred stock which must be redeemed during the next five years are: $5,782,000 in 1985 (classified as a current liability on the consolidated Balance Sheet), $7,751,000 in 1986 and $13,551,000 in 1987, 1988 and 1989. In addition, the Company must offer to purchase preferred stock having a redemption price up to $19,400,000 in 1985, $36,067,000 in both 1986 and 1987, $36,066,000 in 1988 and none in 1989.

(d) This is the date the Company must offer to redeem. Any resulting redemption would occur four months later.

(e) As of December 31, 1984 there was no restriction on the right of the Company to pay dividends in any amount up to all of the earnings retained in the business.

The accompanying notes are an integral part of these financial statements.

Changes in Financial Position

The Cleveland Electric Illuminating Company and Subsidiaries

	For the Year Ended December 31,		
	1984	1983	1982
		(Thousands of Dollars)	
FINANCIAL RESOURCES PROVIDED			
Net Income	$291,632	$246,026	$208,964
Items not affecting working capital			
Depreciation and amortization	95,625	94,336	86,622
Deferred Federal income tax	73,467	89,125	72,103
Allowance for equity funds used during construction	(130,421)	(87,052)	(76,896)
Other	783	620	918
Total financial resources provided from operations	331,086	343,055	291,711
Sales of securities			
First mortgage bonds	337,900	125,000	277,600
Preferred stock	—	48,950	—
Common stock	154,377	65,638	179,711
Total sales of securities	492,277	239,588	457,311
Term bank loans and collateral pledge notes	72,750	37,270	6,100
Nuclear fuel trust obligations	8,819	5,848	52,751
Pollution control funds expended	66,196	—	18,559
Working capital decrease(a)	—	59,957	—
Other	—	7,591	6,007
Total Financial Resources Provided	$971,128	$693,309	$832,439
FINANCIAL RESOURCES USED			
Additions to utility plant	$582,288	$490,705	$422,170
Allowance for equity funds used during construction	(130,421)	(87,052)	(76,896)
	451,867	403,653	345,274
Retirement of debt and preferred stock	78,810	99,105	121,600
Dividends	208,686	183,130	163,786
Pollution control construction funds deposited	109,000	840	—
Deferred fuel costs	9,790	—	—
Nuclear fuel in trust	8,819	5,848	52,751
Decrease in short-term debt and other borrowings	—	40	76,200
Working capital increase(a)	84,560	—	72,828
Other	19,596	693	—
Total Financial Resources Used	$971,128	$693,309	$832,439
SUMMARY OF CHANGES IN WORKING CAPITAL(a)			
Cash and temporary cash investments	$ 88,018	$ (16,624)	$ 34,621
Amounts due from customers and others, net	4,549	10,070	7,451
Fossil fuel inventory	19,163	(16,533)	6,630
Taxes applicable to succeeding years	1,794	12,754	23,520
Accounts payable and accrued payroll and vacations	(23,965)	(30,782)	12,120
Federal income and other taxes payable	(2,945)	(17,157)	(8,229)
Other	(2,054)	(1,685)	(3,285)
Change in Working Capital(a)	$ 84,560	$ (59,957)	$ 72,828

(a) Other than short-term borrowings and current portion of long-term debt.

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

Note A — Summary of Significant Accounting Policies

We are required to follow the accounting principles and rules set by The Public Utilities Commission of Ohio (PUCO) and the Federal Energy Regulatory Commission (FERC). A description of our significant accounting principles follows.

Consolidation

Our financial statements include the accounts of three wholly-owned subsidiaries, which in the aggregate are immaterial.

Property and Plant

Electric and Steam Utility Plant is carried on the books at original cost as defined by the FERC. The costs of maintenance and repairs are charged to Operating Expense as incurred. The cost of replacing or improving property is charged to Property and Plant. The cost of property retired, plus any removal cost, less any salvage realized, is charged to Accumulated Depreciation and Amortization.

Depreciation

We report depreciation expense on our income statement as a current cost of doing business to account for the normal using up of our property. Depreciation is deducted in equal amounts over the estimated useful life of the property. For example, if we estimate that an item will be useful for 10 years, we charge one-tenth of its value to depreciation expense each year. However, in the case of the Davis-Besse Nuclear Power Station (Davis-Besse), we utilize the units-of-production depreciation method which bases depreciation on the ratio of the amount of electrical energy it produces in the accounting period to its total estimated energy production over its useful life.

Terminated Projects

Costs associated with terminated nuclear generating units are being amortized over a period approximating 15 years, which began in 1983. See Note D.

Allowance for Funds Used During Construction

The PUCO and the FERC allow us to include as part of the total cost of constructing new assets the cost of money paid on funds which are tied up in construction projects. This is called Allowance for Funds Used During Construction (AFUDC) .

When a construction project is completed or, to the extent the PUCO allows it in rate base after it is at least 75% completed, the funds invested in it are no longer considered tied up in construction and we stop recording AFUDC. The cost of the project at that time, including AFUDC, is treated as a new asset and is included in a subsequent rate case to determine the rates we charge our customers for service. Because the resulting rates include a factor for all these costs, we are being allowed to recover in cash all costs of the property, including AFUDC, over the useful life of the property.

The amount of AFUDC for an accounting period is determined by applying a rate of AFUDC to the funds tied up in construction. The annual AFUDC percentage rate is determined by a formula set by the FERC. The rate represents an average of the cost of money paid on funds tied up in construction. The rate is compounded semiannually. The part of the rate which represents interest is reduced to recognize that interest is tax deductible.

The amount of AFUDC is reflected in two parts of our income statement: an addition to Nonoperating Income as the Allowance for Equity Funds Used During Construction and a reduction of Interest Charges as the Allowance for Borrowed Funds Used During Construction. On the balance sheet, the AFUDC becomes part of Construction Work in Progress.

The amount of AFUDC recorded in each accounting period varies. The variation occurs because of (1) the number of dollars spent on construction, (2) the length of the construction period and (3) the rate used in computing AFUDC. The rates were 10.66% in 1984, 10.35% in 1983 and 10.00% in 1982.

Federal Income Tax

The depreciation expense we report on our income statement is different from the depreciation expense we use to calculate Federal income tax. There are several reasons for this difference. First, AFUDC and certain overheads are excluded from the cost of assets which we are allowed to depreciate for tax purposes. However, these costs are included in the cost of assets we depreciate on our income statement (book depreciation). Second, the portion of depreciation expense representing nuclear unit decommissioning costs (see Note C) is not deductible for tax purposes until cash payments are made. Third, the period of time over which the Internal Revenue Service (IRS) allows the cost of assets to be depreciated is shorter than the period of time (useful life) we use. Finally, the IRS allows some of the depreciation we are entitled to in future years to be used early. Beginning with property additions made in October 1976, the tax reductions resulting from these differences are not applied to reduce tax expense on the income statement in the periods we obtain them. They are deferred for allocation to income over the useful life of property through a procedure called normalization. At December 31, 1984, the cumulative net amount of income tax timing differences for which deferred income taxes have not been provided amounted to about $500,000,000.

When we place new property in service during the year, the IRS allows us a credit against taxes due for 10% of the investment we have made in the new asset. This is called the investment tax credit. We record Federal income tax on our income statement as though it were not reduced by this credit. We recognize the tax savings from this credit over the life of the property involved through the normalization procedure.

Our Federal income taxes are lowered because we can deduct our interest charges from income. This reduction of taxes is split between Operating Income and Nonoperating Income. The tax reductions resulting from interest actually paid on funds invested in property currently being constructed are recorded in Nonoperating Income. The tax reductions of interest paid on all other funds are recorded in Operating Income.

Notes to Consolidated Financial Statements

Revenues

Customer meters are read or estimated and billed on a monthly basis. Operating revenues are recorded in the accounting period during which the meters are read.

A fuel factor is added to our base rates for electric service. This fuel factor is designed to recover from customers what we actually pay for fuel. It is changed every six months after a hearing before the PUCO. Our steam fuel rate is adjusted each month for what we paid for fuel in the preceding month.

Fuel

When we make a payment for coal or oil, it is recorded on the balance sheet as Fossil Fuel Inventory. When we make a lease payment for nuclear fuel, we record it on the balance sheet as Deferred Charges — Other. As the fossil and nuclear fuel is used, we transfer the cost to the income statement as fuel expense. Nuclear fuel expense also includes a factor for the cost of the ultimate disposal of spent nuclear fuel which is being recovered through rates.

Any difference between the cost of fuel actually used and the amount collected from customers through the rate fuel factor is deferred. The deferred amount is taken into account to adjust the fuel factor for a subsequent six-month period.

Accounts Receivable

Amounts due from customers and others was reduced by the allowance for uncollectible accounts of $3,226,000 and $2,247,000 in 1984 and 1983, respectively.

Note B — Federal Income Tax

Federal income tax, computed by multiplying the income before taxes by the statutory rate of 46%, is reconciled to the amount of Federal income tax recorded on our books as follows:

	1984 (Thousands of Dollars)	% of Pre-Tax Income	1983 (Thousands of Dollars)	% of Pre-Tax Income	1982 (Thousands of Dollars)	% of Pre-Tax Income
Book income before Federal income tax	$387,887		$350,165		$293,093	
Tax on book income at statutory rate	$178,428	46.0	$161,056	46.0	$134,803	46.0
Decreases in tax due to:						
Allowance for funds used during construction	78,939	20.4	52,689	15.0	47,994	16.4
Other items	3,233	0.8	4,228	1.3	2,681	0.9
	82,172	21.2	56,917	16.3	50,675	17.3
Total Federal income tax expense	$ 96,256	24.8	$104,139	29.7	$ 84,128	28.7

Federal income tax expense is shown in the income statement as follows:

	1984 (Thousands of Dollars)	1983 (Thousands of Dollars)	1982 (Thousands of Dollars)
Operating Expenses			
Current tax provision	$ 56,029	$ 38,309	$ 34,279
Changes in accumulated deferred Federal income tax:			
Accelerated depreciation and amortization	23,957	20,727	19,498
Other items	4,594	3,387	1,461
Investment tax credit deferred, less amounts amortized	46,775	65,007	51,144
Total charged to operating expenses	131,355	127,430	106,382
Nonoperating Income			
Current tax provision	(33,240)	(22,763)	(22,254)
Deferred tax provision	(1,859)	(528)	—
Total Federal income tax expense	$ 96,256	$104,139	$ 84,128

The income tax we paid in 1984 and 1983 was reduced by investment tax credits of $54,881,000 and $71,201,000, respectively.

Note C — Depreciation

We compute book depreciation on all of our utility plant, with the exception of Davis-Besse, using the straight-line method of deducting from revenue the total cost of property in equal installments each year over its estimated useful life. The amount depreciated takes into account our estimate of the money expected to be received when we dispose of the property (salvage) and our estimate of the cost of dismantling and removing it (removal cost).

When a nuclear unit is retired from service, we will have additional costs called decommissioning costs. For Davis-Besse, decommissioning is assumed to occur in 2011 when the radioactive components and structure will be sealed in a vault-like enclosure and, at a later date, the entire facility will be removed from the site. The depreciation for Davis-Besse which we currently record on the books and recover in rates includes a factor for our share of these decommissioning costs. The factor used during the 1982 through 1984 period was authorized by the PUCO in 1980 and is based on an estimate of $27,000,000 representing such costs expressed in 1980 dollars.

At December 31, 1984, the reserve for Accumulated Depreciation and Amortization included $4,200,000 for such decommissioning costs. There are no restrictions on the use of funds currently being recovered from customers through rates.

Annual depreciation provisions as a percentage of the depreciable cost of plant are as follows:

	1984	1983	1982
Electric plant	3.3%	3.4%	3.2%
Steam plant	2.6%	2.6%	2.6%

Note D — Terminated Projects

In January 1980, the CAPCO companies terminated their plans to construct four nuclear generating units which were in various stages of construction start-up. Our rate case orders provide specific revenue to recover these costs through the method used to calculate the allowed rate of return on rate base and authorize us to amortize the unamortized terminated unit costs. Ohio law does not permit recovery of these costs through rates as an operating expense. The unamortized costs of the terminated units are not included in our rate base.

Note E — First Mortgage Bonds

Condensed information on outstanding first mortgage bonds is as follows:

Year of Maturity	Interest Rate	At December 31, 1984	At December 31, 1983
		(Thousands of Dollars)	
1984	7.55%	$ —	$ 25,000
1984-A	12.25%	—	30,000
1985	2.75%	25,000	25,000
1985-A	11.50%	18,291	18,291
1986	3.375%	25,000	25,000
1986-A and B	5.25%	5,000	5,000
1989	3.00%	20,000	20,000
1989-A	15.25%	40,000	40,000
1989-B	14.375%	50,000	—
1990 Through 1994	10.58%(a)	296,970	171,970
1995 Through 1999	10.02%(a)	10,675	10,675
2000 Through 2004	8.39%(a)	18,675	18,675
2005 Through 2009	8.36%(a)	198,425	198,425
2010 Through 2020	10.72%(a)	945,055	782,155
		$1,653,091	$1,370,191
Less amounts classified as current		43,291	55,000
		$1,609,800	$1,315,191

(a) Percentages are weighted average rates for the period.

The first mortgage bonds are issued under our Mortgage which places a first lien on almost all the property we own and franchises we hold to secure the repayment of the first mortgage bonds.

The issuance of additional first mortgage bonds is limited by two provisions of the Mortgage. Under the more restrictive of these provisions, we would have been permitted at December 31, 1984 to issue approximately $91[illegible]00,000 of additional first mortgage bonds. This amount fluctuates depending upon the remaining amount of bondable property and upon earnings and interest rates. If Perry 2 had been canceled at the end of 1984, this amount would have been about $225,000,000 less. See Construction Program under Note L for a discussion of the status of Perry 2.

Note F — Leases

We have existing agreements for the leasing of certain vehicles, unit trains and other equipment, buildings and nuclear fuel.

When the PUCO determines what rates are to be charged to our customers, it treats the rents on all the above leases as an operating expense. Accordingly, we record those rents as an operating expense on the income statement. Statements of Financial Accounting Standards No. 13 and No. 71 require that not later than 1987 we account for certain leased assets as though we owned them. At that time, only our nuclear fuel leases will result in any significant increase in the assets and liabilities reported on our balance sheet.

All the rental payments we make for nuclear fuel and unit trains are recorded initially in balance sheet fuel accounts. As the fuel is used, these costs are transferred to fuel

expense on the income statement. We paid rent of $14,767, 000 in 1984, $12,388,000 in 1983 and $8,180,000 in 1982 for nuclear fuel and unit train leases. Lease payments under all other leases were not material.

Some of our leases have noncancelable terms of more than one year. We have to make the following payments under these leases after December 31, 1984:

Year	Amount (Thousands of Dollars)
1985	$ 4,130
1986	3,676
1987	3,048
1988	1,540
1989	1,501
Later Years	4,622
Total	$18,517

We did not include in the above table the payments we must make under our nuclear fuel leasing arrangements. Since the payments are made when fuel is used, we do not know the timing or total amount of the rental payments. See Nuclear Fuel under Note L for a description of our nuclear fuel leases and commitments.

Note G — Serial Preferred and Preference Stock with Mandatory Redemption Provisions

We have assured the owners of our Series F Preferred Stock a minimum dividend return of 6.96% on their investment after deducting any Federal income tax on the dividends received on the stock. If certain income tax laws are changed such that their after-tax return is lower, we would have the option to do one of two things: buy back the Series F at $1,000 per share plus accrued dividends or exchange Series F for a new series of preferred stock with a dividend rate high enough to provide a 6.96% after-tax return.

We have the right to buy back and retire shares of Serial Preferred and Preference Stock which have mandatory redemption provisions. The redemption prices (plus dividends accrued to the redemption dates) are as follows:

Series	Price at December 31, 1984	Through	Eventual Minimum
Preferred:			
C	$ 103.00	7-31-88	$ 100.00
E	$1,088.00	5-31-86	$1,000.00
F	$1,015.00	2-28-86	$1,000.00
G	$1,026.67	11-30-85	$1,000.00
H	(a)	5-31-91	$1,000.00
I	(b)	5-31-92	$1,000.00
J	(c)	5-31-87	$1,000.00
Preference:			
1	$1,019.38	7-31-85	$1,000.00

(a) Beginning June 1, 1990 at $1,068.68.
(b) Beginning June 1, 1991 at $1,068.68.
(c) Beginning June 1, 1986 at $1,050.44.

We can exercise our right to buy back Series E Preferred Stock before June 1, 1986 only under certain conditions. Series E Preferred Stock cannot be redeemed prior to June 1, 1986 as part of a refunding involving the use of proceeds of sales of debt, other preferred stock or stock ranking higher than the Series E with an effective annual cost of less than 8.8%. In addition, we may not refund through the sale of stock which is junior to the Series E.

A total of 3,000 shares of Series E Stock was bought back and retired annually in 1982, 1983 and 1984 pursuant to its mandatory redemption provision.

A total of 8,000 shares of Series G Stock was bought back and retired in 1984 pursuant to its mandatory offer to repurchase provision.

There are no restrictions on our right to issue and sell authorized shares of Serial Preferred or Preference Stock.

Note H — Serial Preferred Stock without Mandatory Redemption Provisions

In December 1983, we sold 500,000 shares of Series L Preferred Stock which did not have mandatory redemption provisions. Series L Preferred Stock cannot be redeemed prior to January 1, 1989 as part of a refunding involving the use of the proceeds of sales of debt or preferred stock with an effective annual cost of less than the annual dividend of the Series L Preferred Stock.

We have the right to buy back and retire Serial Preferred Stock which does not have mandatory redemption provisions. The redemption prices (plus dividends accrued to the redemption dates) are as follows:

Series	Price at December 31, 1984	Through	Eventual Minimum
A	$102.50	11-30-86	$101.00
B	$103.78	7-31-87	$102.26
L	$111.36(a)	12-31-84(a)	$100.00

(a) The redemption price of Series L changes on January 1, 1985 to $109.69 and remains in effect until December 31, 1985.

Note I — Common Shares Issued and Reserved for Issue

Shares of Common Stock sold during the three years ended December 31, 1984 were as follows:

	1984	1983	1982
Public Sale	5,000,000	—	9,000,000
Dividend Reinvestment and Stock Purchase Plan	3,329,015	3,021,125	1,362,141
Employee Savings Plan	419,318	298,584	282,162
Employee Thrift Plan	92,538	71,767	75,775
Key Employee Incentive Stock Plan	335	20,471	—
1978 Key Employee Stock Option Plan	880	11,560	—
Total Shares	8,842,086	3,423,507	10,720,078

Stock options held by employees to purchase unissued shares of Common Stock under the Key Employee Incentive Stock Plan and the 1978 Key Employee Stock Option Plan are granted at 100% of the fair market value on the date of the grant. The shares which were actually bought during the three years ended December 31, 1984 were sold at option prices ranging from $15.69 to $18.59. Shares under outstanding options held by employees were as follows:

	Key Employee Incentive Stock Plan (a)		
	1984	1983	1982
Options Outstanding at December 31			
Shares	87,645	122,601	148,642
Option Price	$18.59 to $22.43	$17.63 to $22.43	$17.63 to $22.43

	1978 Key Employee Stock Option Plan		
	1984	1983	1982
Options Outstanding at December 31			
Shares	519,727	389,007	374,705
Option Price	$15.63 to $20.25	$15.69 to $20.25	$15.69 to $20.25

(a) Under the terms of the Key Employee Incentive Stock Plan, no further options may be granted. Accordingly, only those shares relating to options outstanding at December 31, 1984 may be issued.

We calculate earnings per share based on the average number of shares outstanding throughout the year. The weighted average shares outstanding in each of the last three years are as follows:

1982	56,739,806
1983	63,213,562
1984	68,190,548

Note J — Short-Term Borrowing Arrangements

Available bank credit arrangements are as follows:

Type	At December 31, 1984	At December 31, 1983
	(Thousands of Dollars)	
Bank lines of credit (borrowings at or near prime interest rate)	$156,300	$170,300
Eurodollar revolving credit agreement	$ 30,000	$ 30,000
Variable interest note agreements	$ 20,000	$ 20,000

Any borrowings under the Eurodollar agreement are made and paid back in U.S. dollars. There are no requirements that minimum cash balances (compensating balances) be maintained at the banks involved. However, a fee of 3/16% to 3/8% per year is paid on any unused part of this borrowing agreement. The interest rate on borrowings is 1/8% to 5/8% (depending on usage) above the rate which specified banks pay for Eurodollar deposits in the London interbank market.

Borrowings under the variable interest note agreements must be paid back whenever the bank requests such repayment. Interest is based on the rate for high quality commercial paper in the 30-180 day maturity range.

Commercial paper and variable interest notes outstanding are backed by at least an equal amount of unused bank lines of credit to ensure our ability to repay them.

The unused portion of the above credit arrangements, after deducting $19,100,000 of outstanding borrowings under the variable interest note agreements and an equal amount of bank lines held to cover such borrowings, amounted to $168,100,000 at December 31, 1984.

Most borrowings under short-term bank lines of credit do not require compensating balances but do require a fee of approximately 0.3% per year to be paid on any unused portion of the lines of credit. The average daily cash balance in our bank accounts satisfied informal compensating balance arrangements under which we maintain balances at banks depending on what we borrow.

Note K — Property Owned with Other Utilities

Some of the generating units which we own or are building are owned with other utilities. Each company owns an undivided share in the entire unit. All the owners are tenants in common. This means that each company has the right to a percentage of the generating capability of each unit equal to its ownership share. We are obligated to pay for our share of the construction and operating costs of each unit. We are not responsible for the other owners' shares. See Construction Program under Note L.

Utility Plant at December 31, 1984 includes the following facilities owned as tenants in common with other utilities:

Facility	Company Ownership: Percent	Electric Plant in Service	Construction Work in Progress
		(Thousands of Dollars)	
Davis-Besse	51.38	$460,259	$ 14,556
Bruce Mansfield 1	6.50	25,977	179
Bruce Mansfield 2	28.60	117,151	647
Bruce Mansfield 3	24.47	156,851	465
Beaver Valley 2	24.47	—	640,435
Perry 1 and Common Facilities	31.11	—	981,991
Perry 2	31.11	—	321,988
Eastlake 5	68.80	114,238	1,731
Seneca Pumped Storage Hydroelectric Plant	80.00	54,840	366
		$929,316	$ 1,962,358

Separate depreciation records are kept for Davis-Besse property and Seneca property. The accumulated

depreciation for Davis-Besse at December 31, 1984 was $67,284,000. The accumulated depreciation for Seneca at December 31, 1984 was $13,415,000. Depreciation on all other in-service property owned with other utilities has been accumulated on an account basis along with all other depreciable property rather than by specific units of depreciable property. Our share of the operating expense of properties owned with others is included in our income statement.

Note L — Commitments and Contingencies

Construction Program

We carry on a continuous program of constructing facilities needed to meet anticipated demand for electric service. The major part of our current construction program is our share of three nuclear generating unit projects — Perry 1 and 2 and Beaver Valley 2. They are being constructed by the five CAPCO companies, including the Company, Duquesne Light Company (Duquesne), Ohio Edison Company, Pennsylvania Power Company and The Toledo Edison Company. The scheduling, voluntary delay or cancelation of a project must be approved by all the CAPCO companies. We are constructing Perry 1 and 2 and Duquesne is constructing Beaver Valley 2 for the CAPCO companies. Our share of the three units and the amounts we invested in them (including AFUDC) at December 31, 1984 are set forth in Note K.

Perry 1 and the facilities to be used in common with Perry 2 are about 97% complete and are scheduled for completion around the end of 1985. The estimated cost of our 375-megawatt share is about $1.2 billion, including AFUDC. The completion schedule for Perry 1 and common facilities is tight, but we believe it is achievable. The operating license proceedings are well along. However, a few issues remain to be resolved, perhaps with hearings in which intervenors may participate and could appeal resulting in delay. We believe, based on our knowledge of the quality of construction, recent inspections and reviews by the Nuclear Regulatory Commission and other regulatory agencies and the merits of the issues, that we should be permitted to load fuel and receive a full operating license without significant delay.

Beaver Valley 2 is about 83% complete. In early 1985, the CAPCO companies decided to reduce their 1985 expenditures for Beaver Valley 2. As a result, our estimated 1985 expenditures for the Unit are reduced by $25,000,000 to $86,000,000, excluding AFUDC. Because of the reduced level of expenditures and also to recognize construction delays encountered to meet regulatory requirements, the estimated completion date of the Unit was delayed from late 1986 to about the end of 1987. The effect was to increase the estimated total cost of Beaver Valley 2. The estimated cost of our 204-megawatt share increased by $100,000,000 to about $1 billion, including AFUDC. Approximately $70,000,000 of the increase represents AFUDC. Beaver Valley 2 is progressing toward completion with no reason to believe at this time that an operating license will not be issued.

Perry 2, exclusive of the common facilities, is about 44% complete. Including its share of the common facilities, Perry 2 is 57% complete. The Unit had been scheduled for completion in 1988 and our 375-megawatt share of its cost had been estimated at about $800,000,000, including AFUDC. The CAPCO companies are reviewing several alternatives with respect to Perry 2, including resumption of full construction, with a new estimated cost and completion date, or cancelation. Many factors are being taken into account in this review. These include the increasing costs of construction, the high cost and difficulty of financing and the increased risks associated with construction and licensing. On the other hand, also included are the potentially greater capacity needs nationwide due to increasing demand and cancelations of other generating projects, the probable high cost of retrofitting fossil-fuel units to satisfy possible acid rain pollution control regulations and the comparatively low cost of completing Perry 2. It is uncertain when this review will be completed.

In the meantime, the only significant work being performed on Perry 2 is that necessary to enable Perry 1 to be placed in service. This work is expected to be completed sometime in 1985. Even if the CAPCO companies do not decide during 1985 to increase construction significantly at Perry 2, we plan to continue capitalizing AFUDC for that Unit as construction work in progress because we believe that cost should be recovered through rates if and when the Unit is completed. However, if Perry 2 were to be canceled, recovery of AFUDC for the Unit would be less certain as described in the next paragraph. In consideration of the above factors, we plan to credit AFUDC for Perry 2 to a deferred credit reserve instead of continuing to credit it to income. Absent a change in circumstances, we expect to start such accounting deferral about mid-1985. Such deferral would not affect cash flow, but it would cause an equal reduction in reported earnings from what they otherwise would be. Such reduction could be material depending on the duration of the deferral. The AFUDC for Perry 2 is expected to average about $3,000,000 per month in 1985.

If Perry 2 were canceled, we would seek authorization from the PUCO to recover our investment in that Unit (and cancelation costs, if any) from our customers in rates over a period of years. Ohio law currently allows recovery of such costs as described in Note D. Other methods of recovery also may be available. However, we have no assurance that recovery would be allowed if Perry 2 were canceled. If, at the time of such a cancelation, it appears unlikely that recovery would be allowed, then our investment in Perry 2 (including AFUDC) and any cancelation costs would have to be written off, after adjustment for taxes. The amount to be written off would be reduced to exclude equipment usable for Perry 1 or otherwise. We estimate such a write-off as

of December 31, 1984 would have been about $200,000,000. Based on our current financial position and level of annual income, a write-off of such a magnitude would have a material adverse effect on income in the period in which it were to occur and on retained earnings, but our ability to continue paying dividends would not be impaired solely because of such a write-off.

In September 1983, the Ohio Office of Consumers' Counsel, the City of Cleveland, the Commissioners of Geauga County, Ohio, and certain community groups petitioned the PUCO and the Ohio Power Siting Board to investigate the need for Perry 2. The petition requests an order to cease construction of Perry 2, to cease accruing AFUDC on that Unit and to prohibit the use of proceeds of securities issues to finance Perry 2. We believe the petition is without merit and will oppose it vigorously. Under some circumstances, the request of the petitioners, were it to be granted, could require cancelation of the Unit.

Nuclear generating projects in the electric utility industry, including those of the CAPCO companies, have experienced substantial cost increases, construction delays and, in the case of some non-CAPCO utilities, licensing difficulties. These have been caused by various factors, including inflation, required design changes and rework, allegedly faulty construction, objections by groups and governmental officials, limits on the ability to finance, limits on the use of proceeds of security issues, difficulty in obtaining needed rate increases, reduced forecasts of energy requirements and economic conditions. This experience indicates that the risk of significant cost increases, delays and licensing difficulties remains present through to completion of any project, including Perry 1 and 2 and Beaver Valley 2.

The successful completion of the CAPCO construction program requires the continuing ability of the CAPCO companies to pay for their shares. To continue such ability, each CAPCO company must continue to obtain adequate and timely rate relief. There can be no assurance that such rate relief always will be forthcoming or that some other event will not adversely affect financial markets or nuclear projects generally, or a CAPCO company or nuclear project in particular, so as to impair the ability of a CAPCO company to pay for its share. If any CAPCO company were not to pay for its share, any or all of the other CAPCO companies could, as a practical matter, be forced to accept a solution involving substantial losses or additional financial burdens.

Some regulatory authorities have undertaken proceedings to determine whether recovery in rates of part of the cost of a completed construction project should be disallowed or deferred, due to findings of excess capacity or imprudent management of the project or due to a desire to phase-in over a period of time the rate increase otherwise allowable. There can be no assurance that such proceedings will not be undertaken with respect to Perry 1 or Beaver Valley 2 (or Perry 2, if completed). We believe that any disallowance or deferral of recovery of our share of the costs of those Units would be unjustified, except such deferral of recovery as may be provided by the PUCO under the construction work in progress law of Ohio as described in Note M.

Purchases

Material and services needed to build new plant and equipment must be ordered in advance so that it will be available when needed. At December 31, 1984, such commitments amounted to:

Construction program (including Perry 1 and 2 and Beaver Valley 2)	$254,000,000
Nuclear material acquisition and processing into fuel	$199,000,000

Usually we can cancel advance orders but often we must pay the manufacturers for what they have already spent for labor and materials and sometimes a penalty.

Nuclear Fuel

We have lease and trust arrangements which are financing an inventory of nuclear material and fuel and which will assist in the financing of the commitments for nuclear material stated above. We believe that this inventory and these commitments will provide a nuclear fuel supply lasting into the mid-1990s. When the future of Perry 2 is determined, a more definitive estimate will be made as to how long the supply will last. Substantial additional nuclear material will have to be obtained in the future to supply fuel over the remaining useful life of these Units.

The maximum amount which can be financed by us under one leasing arrangement is $280,000,000. It is a long-term lease with the existing lenders being able to cancel their financing commitments to the lessor after three years' notice. Our share of the other arrangement, leases and a trust combined, is $90,000,000, subject to cancelation by the lessor after one year's notice. The trust must sell material it owns to any of the lessors, the Company or a third party prior to fabrication into nuclear fuel assemblies. The lease and borrowing rates are based on bank prime and commercial paper rates. Under the leases, rental payments are made as the fuel is burned in a generating unit. As these payments are made, the amount of credit available to the lessor is renewed and therefore available to satisfy nuclear fuel commitments.

At December 31, 1984, under these arrangements, the lessors had invested a total of $188,643,000 in nuclear material and costs of processing it into fuel. Included under those leases is nuclear fuel in the Davis-Besse reactor with a remaining cost of $15,752,000 as of December 31, 1984. Nuclear fuel with a cost of $27,997,000 was subsequently added to that reactor in early January 1985. Rental payments are being made for the fuel in the reactor. The trust at December 31,1984 had invested $67,418,000 in nuclear material which is included in Other Noncurrent Liabilities on the balance sheet. Statement of Financial Accounting Standards No. 71 will require balance sheet treatment as described in Note F of all our existing nuclear fuel arrangements not later than 1987.

Guarantees

Under two long-term coal purchase arrangements, we have agreed to guarantee the mining companies' loan and lease obligations. At December 31, 1984, the principal amount of the mining companies' loan and lease obligations was $79,229,000. Under one of these arrangements, we are required to pay the mining company 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.

Nuclear Unit Liability

The owners of Davis-Besse maintain a nuclear insurance program to the maximum extent currently available. The maximum coverages at January 31, 1985 for a nuclear incident at Davis-Besse included $620,000,000 nuclear liability coverage for injury to persons and their property and $1,060,000,000 for damage to the owners' property, including leased fuel, and clean-up costs. The Atomic Energy Act limits the owners' nuclear liability to the amount of the nuclear liability coverage. Damage to our property, leased fuel and clean-up costs combined could exceed the property insurance by a substantial amount. The owners also are obligated to pay retrospective premiums up to $10,000,000 per year to cover any liability insurance claims arising out of a nuclear incident at any nuclear unit in the United States and up to $8,300,000 per nuclear incident to cover any property damage insurance claims.

We have insurance coverage of $1,400,000 per week for the cost of any replacement power purchased during the 52-week period starting 26 weeks after any incident at Davis-Besse and $700,000 per week for the next 52 weeks. The cost and duration of replacement power could substantially exceed the insurance coverage. Also, we are obligated to pay retrospective premiums up to $3,500,000 per nuclear incident to cover any replacement power insurance claims arising out of a nuclear incident at any nuclear unit in the United States.

Similar insurance will be obtained for Perry 1 and 2 and Beaver Valley 2.

Lawsuits

Several lawsuits and governmental actions are pending. We believe, based on the opinion of our counsel, that the ultimate disposition of these matters will not have a material adverse effect on our financial condition or income.

Note M — Rate Matters

The PUCO allowed us to increase electric rates by 10% on March 19, 1982 and by 7.4% on January 7, 1983. The PUCO ordered a 1% reduction in rates starting October 1, 1983. The effect of the amount and timing of these rate orders on each year's change from the preceding year's electric operating revenue was to decrease electric operating revenue by $10,600,000 in 1984 and to increase electric operating revenue by $111,100,000 in 1983 and $131,400,000 in 1982.

On April 3, 1984, we filed an application with the PUCO for a $180,000,000, or 15%, electric rate increase. Any increase granted is expected to be effective in early 1985. Approximately $50,000,000 of this rate increase request is based on including more construction work in progress (CWIP) in rate base for Perry 1. About $30,000,000 of our current annual revenue is derived from Perry 1 CWIP already included in rate base.

Under Ohio law applicable to our pending rate case, CWIP can be included in rate base when construction of the project is at least 75% complete, but only in the aggregate amount of up to 20% of rate base excluding CWIP. Such inclusion is at the discretion of the PUCO.

Ohio law has been amended, effective April 10, 1985, to retain the current discretion of the PUCO to permit inclusion of CWIP in rate base when projects are at least 75% complete, but to limit the amount included to 10% of rate base excluding CWIP, except that up to 20% can be included for sulfur and nitrous oxide pollution control projects. CWIP may be included for a period not longer than 48 consecutive months plus any time needed to comply with changed governmental regulations, standards or approvals, plus up to another 12 months for good cause shown. When the project is completed and included in rate base, an amount equal to the CWIP is excluded from rate base for a period equal to the time it had been included.

The result is to credit back to customers after the project is completed the revenues derived from including the CWIP in rate base before completion. During the period of exclusion, the equivalent of AFUDC accrues on the excluded portion and will be recovered in rates over the useful life of the completed project. The effect of this provision is to phase into rate base the total cost of a project over a period starting when CWIP is first included in rate base and ending when the exclusion period ends. If a project is canceled or is not completed within the allowable period of time after inclusion of its CWIP has started, then CWIP must be excluded from rate base and any revenues which resulted from such prior inclusion must be offset against future revenues over the same period of time as the CWIP had been included. These amendments do not apply to our current rate case and any CWIP previously included in rate base.

Note N — Pension and Postretirement Health and Life Insurance Benefits

We pay the full cost of a pension plan for our employees. Under the plan, an employee who has worked at the Company at least 5, 10 or 20 years (depending on the person's age when leaving the Company) can begin receiving a pension benefit at or after age 55. The amount of the person's benefit depends on length of service and earnings. The benefit is reduced by a portion of social security benefits. The benefit of an employee who retires

after age 65 is determined as if the individual were age 65, except in the case of a retired employee who had been rehired. If the person retires before age 62, and in certain cases before age 65, the employee's benefit is reduced. The plan also pays benefits when an employee dies or is disabled.

We annually deposit money into the plan to fund the cost of benefits arising from employee service and earnings in the current year. We also deposit money to fund each year a portion of the cost of future benefits arising from past service and earnings because of amendments to the plan. In 1984, our total payment to the fund was $15,300,000. We deposited $15,300,000 in 1983 and $12,100,000 in 1982. Of these amounts, we recorded on the income statement $9,570,000 in 1984, $10,211,000 in 1983 and $8,014,000 in 1982. The remainder was recorded on the balance sheet, mostly as construction costs.

The amount we deposited into the pension plan is determined by a method known as the entry age normal method. It is used by many private pension plans. This method takes into account estimated increases in employees' future earnings in an effort to levelize the funding of pension benefits over their working lives. The liability of the plan as of January 1, 1984 determined under this method was slightly more than the value of the assets in the plan on that date.

Statement of Financial Accounting Standards No. 36 (FAS-36) requires us to disclose accumulated pension plan liability without consideration of future increases in employees' earnings, as though the plan were terminated at the dates shown in the table below. Therefore, the disclosures below, required by FAS-36, compare liability of the plan determined on one basis with assets accumulated on a different basis. We and our pension consultants believe that FAS-36 disclosures are very misleading because they understate the amount which the entry age normal method tells us should be in the fund now to provide pension benefits as they become payable under a plan intended to continue indefinitely. We are making the following disclosures only because we are required to do so.

	At January 1,	
	1984	1983
	(Millions of Dollars)	
Actuarial present value of accumulated plan benefits under FAS-36:		
Vested	$167	$143
Nonvested	16	14
Total	$183	$157
Value of assets held in the plan	$296	$244

Under both methods of determining the plan's liability, the one which we use and the FAS-36 method, we estimated that the earnings of the plan would average about 6½% per year over the life of the plan. During 1984, a new mortality table was adopted for the plan to reflect current conditions. The net effect of the change was to increase the present value of accumulated plan benefits by $13,300,000 at January 1, 1984 which is reflected in the above table.

In addition to providing pension benefits, the Company provides certain health care and life insurance benefits for substantially all employees when they retire with pension benefits. The cost of retiree health care and life insurance benefits is recognized as expense as premiums are paid. For 1984, those costs totaled $823,000.

Note O — Quarterly Results of Operations (Unaudited)

The following is a tabulation of the unaudited quarterly results of operations for the two years ended December 31, 1984.

	Quarters Ended			
	March 31	June 30	Sept. 30	Dec. 31
	(Thousands, except per share amounts)			
1983				
Total operating revenues	$299,600	$290,480	$351,041	$269,195
Net operating income	$ 58,935	$ 58,965	$ 87,717	$ 52,745
Net income	$ 56,236	$ 52,192	$ 81,601	$ 55,996
Earnings available for common stock	$ 46,690	$ 42,668	$ 72,121	$ 46,121
Average common shares	62,026	62,568	63,488	64,689
Earnings per common share	$ .75	$ .68	$ 1.14	$ .71
1984				
Total operating revenues	$298,597	$298,009	$333,183	$285,563
Net operating income	$ 67,710	$ 60,244	$ 81,814	$ 52,343
Net income	$ 72,878	$ 65,344	$ 87,637	$ 65,772
Earnings available for common stock	$ 61,978	$ 54,396	$ 76,762	$ 55,143
Average common shares	65,693	66,709	67,722	71,919
Earnings per common share	$ .94	$ .82	$ 1.13	$ .77

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	1984	1983	1982	1981
Income Statement (Thousands of Dollars)				
TOTAL OPERATING REVENUES	1,215,353	1,210,316	1,108,571	1,012,930
Residential	375,597	385,076	348,757	310,409
Commercial	338,625	334,660	304,801	263,608
Industrial	441,285	430,209	393,794	386,805
Other Electric (Includes Sales for Resale)	44,958	44,217	43,702	39,912
Steam Heating	14,888	16,154	17,517	12,196
TOTAL OPERATING EXPENSES	953,242	951,954	879,644	820,226
Fuel and Purchased Power	313,412	332,977	329,279	351,410
Other Operating Expenses	280,888	270,468	250,591	224,299
Depreciation and Amortization	95,274	94,196	86,588	85,294
Taxes Other Than Federal Income Tax	132,313	126,883	106,804	91,648
Federal Income Tax	131,355	127,430	106,382	67,575
NET OPERATING INCOME	262,111	258,362	228,927	192,704
NONOPERATING INCOME	169,200	114,148	96,669	75,712
Allowance for Equity Funds Used During Construction	130,421	87,052	76,896	48,970
Other Income and Deductions	38,779	27,096	19,773	26,742
INCOME BEFORE INTEREST CHARGES	431,311	372,510	325,596	268,416
INTEREST	139,679	126,484	116,632	112,682
Long and Short-term Interest	180,864	153,974	144,072	146,712
Allowance for Borrowed Funds Used During Construction	(41,185)	(27,490)	(27,440)	(34,030)
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	291,632	246,026	208,964	155,734
Cumulative Effect of Change in Depreciation Method on Periods Prior to January 1, 1979	—	—	—	—
NET INCOME (a)	291,632	246,026	208,964	155,734
PREFERRED AND PREFERENCE DIVIDEND REQUIREMENTS	43,353	38,426	38,295	34,917
EARNINGS AVAILABLE FOR COMMON STOCK	248,279	207,600	170,669	120,817
EARNINGS PER SHARE BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	$ 3.64	$ 3.28	$ 3.01	$ 2.52
CUMULATIVE EFFECT PRIOR TO JANUARY 1, 1979	—	—	—	—
TOTAL EARNINGS PER SHARE (a) (b)	$ 3.64	$ 3.28	$ 3.01	$ 2.52
DIVIDENDS PER SHARE (b)	$ 2.43	$ 2.31	$ 2.19	$ 2.08
Balance Sheet Year end (Thousands of Dollars)				
TOTAL ASSETS	4,926,441	4,267,427	3,872,909	3,406,075
Utility Plant—Total	5,022,543	4,454,788	4,010,532	3,610,895
Accumulated Utility Plant Depreciation and Amortization	(798,979)	(722,492)	(679,890)	(621,353)
Other Property	95,277	70,144	64,216	23,870
Current and Other Assets	607,600	464,987	478,051	392,663
TOTAL CAPITALIZATION AND LIABILITIES	4,926,441	4,267,427	3,872,909	3,406,075
Long-term Debt	1,883,648	1,518,883	1,441,822	1,328,404
Preferred and Preference Stock:				
With Mandatory Redemption Provisions	292,818	318,000	322,000	325,000
Without Mandatory Redemption Provisions	144,021	144,021	95,071	95,071
Common Stock Equity	1,592,810	1,355,488	1,227,095	1,002,206
Deferred Federal Income Taxes	480,727	411,072	322,188	236,481
Other Liabilities and Credits	532,417	519,963	464,733	418,913
UTILITY PLANT ADDITIONS (c)	582,288	490,705	422,170	409,277
UTILITY PLANT RETIREMENTS	14,533	46,449	22,533	13,721
NUMBER OF COMMON SHARES (b)	74,040,175	65,198,089	61,774,582	51,054,503
Operating Statistics				
KWHR SALES (Thousands)	17,273,057	16,637,472	16,165,157	17,507,864
Residential	4,446,352	4,412,154	4,335,605	4,375,732
Commercial	4,396,395	4,265,023	4,194,177	4,178,459
Industrial	7,997,000	7,513,673	7,082,261	8,279,700
Other (Includes Sales for Resale)	433,310	446,622	553,114	673,973
ELECTRIC CUSTOMERS—YEAR END	714,768	712,833	711,222	711,325
Residential	644,904	643,065	641,705	642,925
Commercial	61,934	62,075	61,861	60,714
Industrial	7,521	7,274	7,235	7,261
Other	409	419	421	425
RESIDENTIAL SALES DATA				
Average Kwhr per Customer	6,646	6,608	6,490	6,548
Average Revenue per Customer	$ 563.60	$ 579.49	$ 524.63	$ 466.55
Average Revenue per Kwhr	8.48¢	8.77¢	8.08¢	7.12
ELECTRIC PRODUCTION				
Net Available for Service Area (Thousands of Kwhr)	19,096,414	18,461,867	17,677,831	18,936,567
Net Generation (Thousands of Kwhr)	16,818,455	17,152,981	17,032,759	17,297,523
Net Received from Others (Thousands of Kwhr)	2,277,959	1,308,886	645,072	1,639,044
BTU per Kwhr of Net Output	10,416	10,452	10,475	10,582
Fuel Cost per Million BTU	163.28¢	169.08¢	174.72¢	175.14¢
Coal Cost per Ton	$ 44.25	$ 46.66	$ 45.51	$ 46.70
Annual Net 60-Min. Max. Load-KW	3,371,000	3,404,000	3,090,000	3,447,000
Net System Capability—KW—at Time of Peak	4,329,000	4,441,000	4,699,000	4,667,000
STEAM HEATING				
Sales—Pounds (Thousands)	1,306,626	1,281,499	1,501,077	1,612,151
Customers—Year End	256	274	312	337
EMPLOYEES—YEAR END	5,830	5,339	5,411	5,189

(a) The 1978 net income and earnings per share calculated on a pro forma basis to reflect the units-of-production method of depreciation are $102,942,503 and $2.31, respectively. The pro forma effect of the adoption of this depreciation method on 1977 was not material.

1980	1979	1978	1977	1976	1975	1974
893,566	824,267	717,092	659,290	543,148	523,165	463,937
268,787	237,612	213,520	200,765	160,015	154,020	140,030
220,677	194,899	172,251	165,049	129,286	121,653	109,185
323,764	322,909	278,405	251,181	197,189	180,890	177,246
65,273	55,799	42,831	31,611	45,730	55,679	29,946
15,065	13,048	10,085	10,684	10,928	10,923	7,530
743,051	688,788	599,289	542,871	441,401	433,614	375,159
360,347	349,027	307,429	265,771	234,107	246,984	199,362
194,881	162,636	140,996	127,330	102,794	94,539	85,122
64,619	59,443	56,774	43,307	35,874	33,046	31,632
81,630	79,455	68,756	58,807	51,925	48,735	43,653
41,574	38,227	25,334	47,656	16,701	10,310	15,390
150,515	135,479	117,803	116,419	101,747	89,551	88,778
62,440	47,621	42,226	49,484	26,346	17,681	8,472
40,873	33,432	29,890	35,265	24,706	16,983	7,854
21,567	14,189	12,336	14,219	1,640	698	618
212,955	183,100	160,029	165,903	128,093	107,232	97,250
87,572	69,566	61,016	54,175	46,413	42,464	36,509
112,623	85,299	72,071	67,889	56,750	50,511	44,717
(25,051)	(15,733)	(11,055)	(13,714)	(10,337)	(8,047)	(8,208)
125,383	113,534	99,013	111,728	81,680	64,768	60,741
—	4,125	—	—	—	—	—
125,383	117,659	99,013	111,728	81,680	64,768	60,741
27,711	25,587	23,575	22,907	18,005	14,696	10,067
97,672	92,072	75,438	88,821	63,675	50,072	50,674
$ 2.26	$ 2.31	$ 2.20	$ 2.91	$ 2.38	$ 2.11	$ 2.45
—	.11	—	—	—	—	—
$ 2.26	$ 2.42	$ 2.20	$ 2.91	$ 2.38	$ 2.11	$ 2.45
$ 2.00	$ 1.92	$ 1.84	$ 1.76	$ 1.71	$ 1.65	$ 1.60
3,094,462	2,678,786	2,331,541	2,117,135	1,842,999	1,513,247	1,354,065
3,215,339	2,842,253	2,523,996	2,232,111	1,955,701	1,693,614	1,526,659
(557,859)	(521,175)	(476,983)	(429,150)	(396,338)	(373,851)	(355,841)
21,137	19,503	15,034	13,753	12,849	9,942	7,433
415,845	338,205	269,494	300,421	270,787	183,542	175,814
3,094,462	2,678,786	2,331,541	2,117,135	1,842,999	1,513,247	1,354,065
1,211,528	973,991	920,973	885,899	747,392	673,003	553,144
260,500	232,000	232,000	185,000	135,000	75,000	63,000
95,071	95,071	95,071	95,071	95,071	95,071	95,071
912,731	820,411	708,883	633,744	511,333	419,990	346,736
192,452	162,122	140,677	119,299	72,318	63,267	43,348
422,180	395,191	233,937	198,122	281,885	186,916	252,766
398,088	329,869	300,765	286,739	275,524	181,673	173,899
25,002	11,612	8,880	10,329	13,437	14,718	11,362
46,288,629	41,271,574	35,995,365	32,388,055	28,347,544	24,351,499	20,748,110
18,159,754	19,030,453	18,364,437	18,066,428	18,070,291	18,133,826	17,601,686
4,463,147	4,352,983	4,288,865	4,200,116	4,045,158	3,984,004	3,830,305
4,148,990	4,041,134	3,933,586	4,007,123	3,808,897	3,685,878	3,527,382
8,062,172	9,268,600	8,992,919	8,874,796	8,475,983	7,822,419	8,819,205
1,485,445	1,367,736	1,149,067	984,393	1,740,253	2,641,525	1,424,794
710,557	708,219	702,538	696,547	693,425	689,133	684,728
642,845	641,856	637,609	632,740	630,581	627,719	623,988
60,070	58,690	57,310	56,241	55,178	53,765	53,070
7,210	7,232	7,167	7,112	7,206	7,190	7,212
432	441	452	454	460	459	458
6,686	6,557	6,517	6,412	6,187	6,116	5,914
$ 405.09	$ 357.86	$ 324.91	$ 307.11	$ 245.16	$ 237.02	$ 216.69
6.05¢	5.48¢	5.00¢	4.80¢	3.97¢	3.88¢	3.67¢
18,722,616	19,645,001	19,254,857	19,098,231	18,331,384	17,271,169	17,817,763
15,325,948	17,069,914	16,882,669	18,123,528	16,747,626	16,213,012	18,040,100
3,396,668	2,575,087	2,372,188	974,703	1,583,758	1,058,157	(222,337)
10,635	10,634	10,536	10,401	10,322	10,454	10,569
156.92¢	142.51¢	131.80¢	117.50¢	105.55¢	111.14¢	102.26¢
$ 39.31	$ 35.20	$ 30.73	$ 25.72	$ 23.98	$ 24.93	$ 21.53
3,325,000	3,233,000	3,327,000	3,381,000	3,140,000	3,022,000	3,080,000
4,353,000	4,509,000	4,462,000	4,088,000	3,797,000	3,569,000	3,724,000
1,979,397	2,004,680	2,210,886	2,374,510	2,359,677	2,263,645	2,274,925
348	365	369	372	385	399	406
4,991	4,963	4,831	4,790	4,840	4,947	4,982

(b) Adjusted for the 3-for-2 stock split, effective December 16, 1977.
(c) Excludes $56,022,606 of terminated projects reclassified to Deferred Charges in 1979.

Statement of Income from Continuing Operations Adjusted for Changing Prices for the Year Ended December 31, 1984 *(Unaudited)*

The Cleveland Electric Illuminating Company and Subsidiaries

	Conventional Historical Cost	Current Cost Average 1984 Dollars
	(Thousands of Dollars)	
Revenue	$1,215,353	$1,215,353
Operation expense	503,975	503,975
Maintenance expense	90,325	90,325
Depreciation and amortization	95,274	226,793
Taxes other than Federal income tax	132,313	132,313
Federal income tax	131,355	131,355
Nonoperating income	(169,200)	(169,190)
Interest expense	139,679	139,679
	923,721	1,055,250
Net income — continuing operations	$ 291,632	$ 160,103(a)
Increase in specific prices of property and plant (b)		$ 64,580
Adjustment to net recoverable cost		151,890
Increase in general prices		(237,304)
Increase in general prices in excess of increase in specific prices after adjustment to net recoverable cost		(20,834)
Gain from decline in purchasing power of net amounts owed		96,206
Net price level adjustment		$ 75,372

(a) Including the adjustment to net recoverable cost, net income for 1984 would have been $311,993,000 in current cost dollars.

(b) At December 31, 1984, the current cost of property, plant and equipment net of accumulated depreciation was $6,359,281,000 while original (net recoverable) cost was $4,223,564,000.

Supplementary Information Concerning the Effects of Inflation

As required by the Financial Accounting Standards Board, we have prepared information on the effects of inflation on operations. The methods used to compute this data are experimental and subject to change by the Board. These data do not reflect the "current value" of our assets. They do not measure all the effects of inflation on our operations or predict our future cash requirements. The effects described herein are not recognized for income tax or ratemaking purposes.

General

Current cost data reflects the cost of current replacement of existing assets. The current cost of assets was estimated by applying the Handy-Whitman Index of Public Utility Construction Costs to the original cost of structures and equipment. Original cost of land was trended using the Consumer Price Index for All Urban Consumers. Certain other property was trended to current cost using other industry indices.

Revenues and Expenses

Revenues and expenses (except for depreciation) were assumed to accumulate evenly throughout the year. No adjustments were made to the figures reported in the primary financial statements. No adjustments were made to Federal income tax expense.

Depreciation

A restated depreciation reserve was used to compute the current cost estimate of property and plant net of depreciation. The reserve was obtained by applying current depreciation rates by account to restated property and plant figures by vintage year. The depreciation provision was obtained by applying current depreciation rates to the average of beginning and end-of-year restated depreciable property.

Materials and Supplies

Balance sheet items such as fuel in stock, materials and supplies were treated as cash type items. Fuel inventory is subject to rapid turnover.

As such, we believe the original cost of this item fairly represents its current cost.

Adjustment to Net Recoverable Cost

Under Ohio law, we can recover only what we paid for plant and equipment, so the values of these items under the current cost method were adjusted to reflect the original cost amount.

Five-Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices *(Unaudited)*

The Cleveland Electric Illuminating Company and Subsidiaries

	Year Ended December 31,				
	1984	1983	1982	1981	1980
	(Average 1984 dollars in thousands, except per share amounts)				
Revenue					
as reported	$1,215,353	$1,210,316	$1,108,571	$1,012,930	$ 893,566
as adjusted	$1,215,353	$1,261,827	$1,192,931	$1,156,837	$1,126,371
Net Income — Continuing Operations					
as reported	$ 291,632	$ 246,026	$ 208,964	$ 155,734	$ 125,383
as adjusted	$ 160,103	$ 115,800	$ 87,394	$ 49,135	$ 30,617
Income (Loss) per Common Share					
as reported	$ 3.64	$ 3.28	$ 3.01	$ 2.52	$ 2.26
as adjusted	$ 2.35	$ 1.20	$ 0.82	$ 0.19	$ (0.10)
Net Assets at Year End					
as reported	$1,592,810	$1,355,488	$1,227,095	$1,002,206	$ 912,731
as adjusted	$1,570,597	$1,389,431	$1,305,571	$1,107,589	$1,098,880
Increase in general prices in excess of increase in specific prices after adjustment to net recoverable cost	$ 20,834	$ (4,057)	$ (13,146)	$ 140,456	$ 238,018
Gain from decline in purchasing power of net amounts owed	$ 96,206	$ 86,642	$ 83,285	$ 181,332	$ 237,786
Cash Dividends Declared per Common Share					
as reported	$ 2.43	$ 2.31	$ 2.19	$ 2.08	$ 2.00
as adjusted	$ 2.43	$ 2.41	$ 2.36	$ 2.38	$ 2.52
Market Price per Common Share at Year End					
as reported	$ 19.50	$ 18.63	$ 19.75	$ 16.00	$ 14.63
as adjusted	$ 19.23	$ 19.09	$ 21.01	$ 17.68	$ 17.61
Average Consumer Price Index	311.1	298.4	289.1	272.4	246.8

Increase in General Prices in Excess of Increase in Specific Prices After Adjustment to Net Recoverable Cost

The increase in general prices as measured by the Consumer Price Index for All Urban Consumers during 1984 exceeded the overall increase in prices of our property and plant. However, when the current cost of plant was adjusted to reflect net recoverable cost, the difference between these price measures was significantly reduced.

Gain from Decline in Purchasing Power of Net Amounts Owed

With inflation, holding cash type assets such as money and receivables results in a loss in purchasing power. Holding cash type liabilities such as long-term debt results in a gain in purchasing power. Preferred stock and deferred tax balances were treated as cash type liabilities for this computation.

Effects of Inflation on the Company

Our 1984 revenue remained about the same as in 1983 despite an increase in unit sales of electricity, while revenue in average 1984 dollars declined somewhat. This happened because fuel cost per kilowatthour, a major component of revenue, was lower in the current year and because there was a slight decrease in base rates in October 1983. See Note M.

Net income from operations once again increased in 1984 on both historical and current cost bases. These measures of income are different because we are not permitted to recover the higher current cost depreciation through rates. Ohio law restricts recovery of investment through depreciation charges to the original cost of plant. The part of current cost we could not recover was only partly offset by the gain from holding cash type liabilities.

We have to raise new capital to meet growth needs at inflated costs of construction and to replace worn-out items at higher replacement costs. If rate adjustments fail to compensate for the cost of new capital, especially during times of inflation, a regular erosion of the return on equity will occur. As a result, there will be a regular need for rate relief.

We continue to seek proper and timely rate increases and a regulatory environment which is responsive to the effects of inflation on our investment.

Board of Directors

Leigh Carter
Vice Chairman of the Board and Operating Officer of The BFGoodrich Company, a producer of rubber, tires, chemicals and plastics. Also Chairman of Tremco, Inc., manufacturer of specialty chemical products and a wholly-owned subsidiary of The BFGoodrich Company

Robert M. Ginn
Chairman and Chief Executive Officer of the Company

Roy H. Holdt
Chairman and Chief Executive Officer of White Consolidated Industries, Inc., manufacturer of products for the home, principally major appliances, and machinery and equipment for industry

Richard A. Miller
President of the Company

Sister Mary Marthe Reinhard, SND
President of Notre Dame College of Ohio

Karl H. Rudolph
Chairman of the Executive Committee of the Board and retired Chairman and Chief Executive Officer of the Company

Craig R. Smith
Former Chairman of Bendix Automation of Bendix Corporation, a wholly-owned subsidiary of Allied Corporation. Bendix Automation is a producer of machines and accessories for the metalworking industry

Charles E. Spahr
Director of several companies and retired Chairman and Chief Executive Officer of The Standard Oil Company (Ohio), manufacturer of petroleum products, chemicals, plastics and metals and supplier of coal

Herbert E. Strawbridge
Chairman of the Finance Committee and retired Chairman and Chief Executive Officer of The Higbee Company, a department store

Allan J. Tomlinson, Jr.
Chairman, President and Chief Executive Officer of SDS Biotech Corporation, a developer of new technologies and products in the field of biotechnology

Richard B. Tullis
Chairman of the Executive Committee and retired Chairman and Chief Executive Officer of Harris Corporation, manufacturer of communication and information processing equipment

Harold L. Williams
Executive Vice President of the Company

William J. Williams
Director and President of the Northeast Ohio region of Huntington National Bank and director and Executive Vice President of Huntington Bancshares Incorporated

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Ralph M. Besse
Chairman Emeritus of the Board of Directors

Elmer L. Lindseth
Chairman Emeritus of the Board of Directors

Committees of the Board of Directors

Audit Committee The Audit Committee recommends to the Board the firm of independent accountants to be retained for the ensuing year and reviews the results of their examination of the Company's financial statements and the audit practices employed by them and the Company. The Committee oversees the establishment and administration by management of effective internal accounting controls and an accounting system designed to produce financial statements which present fairly the financial position of the Company.

C. E. Spahr (Chairman), Sr. M. M. Reinhard, C. R. Smith, H. E. Strawbridge, W. J. Williams

Compensation Committee The Compensation Committee reviews and approves the Company's overall Compensation Plan, including the pension and employee stock purchase plans and, in particular, recommends the remuneration of the Chairman, President and all Vice Presidents.

L. Carter (Chairman), R. H. Holdt, A. J. Tomlinson, Jr., W. J. Williams

Executive Committee The Executive Committee acts on behalf of the Board at times other than regular Board meetings when it is impracticable to call together the entire Board. The Committee has the same authority as the Board, except that it may not elect officers (other than assistant secretaries and assistant treasurers), fill vacancies on the Board or on the Executive Committee or authorize the issuance of first mortgage bonds.

K. H. Rudolph (Chairman), R. M. Ginn, R. H. Holdt, H. E. Strawbridge

Finance Committee The Finance Committee reviews and recommends long-range financial policies and objectives and specific actions to achieve these objectives. The Committee, acting for the Company as administrator of the Company's Pension Plan and Investment Program of the Employee Savings Plan, also reviews the investment performance of the pension fund trustee, other pension fund investment managers and the Employee Savings Plan trustee and establishes objectives for the investment of Pension Plan and Employee Savings Plan assets.

R. A. Miller (Chairman), R. M. Ginn, K. H. Rudolph, C. R. Smith, C. E. Spahr, R. B. Tullis

Nominating Committee The Nominating Committee recommends to the Board candidates to be nominated for election as directors at the annual meeting and to fill any vacancies on the Board. When reviewing potential candidates, the Committee considers suggestions made by share owners.

H. E. Strawbridge (Chairman), L. Carter, R. M. Ginn, R. H. Holdt, Sr. M. M. Reinhard, K. H. Rudolph, C. R. Smith, C. E. Spahr, A. J. Tomlinson, Jr., R. B. Tullis, W. J. Williams

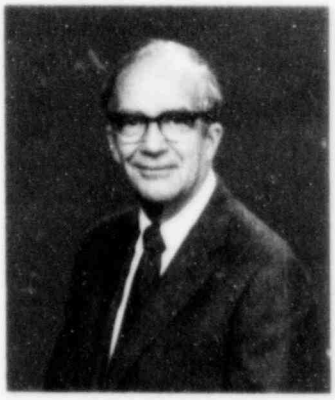
Nuclear Committee The Nuclear Committee monitors, consults with and makes recommendations to both management and the Board regarding (1) progress of the Perry Nuclear Power Plant and Beaver Valley Power Station Unit 2 construction projects and all objectives and strategies relating to their completion and (2) the operation of all nuclear units in which the Company has an ownership interest or other output entitlement.

C. R. Smith (Chairman), C. E. Spahr, A. J. Tomlinson, Jr.

Planning Committee The Planning Committee advises and consults with management and the Board on long-range strategic planning. Responsibilities of the Committee include reviewing long-range objectives and the strategies, manpower and overall corporate organization appropriate to meet those objectives.

R. M. Ginn (Chairman), L. Carter, R. A. Miller, A. J. Tomlinson, Jr., H. L. Williams

Principal Officers and Executives



Robert M. Ginn
Chairman

Richard A. Miller
President

Harold L. Williams
Executive Vice President

Murray R. Edelman
Vice President-Nuclear

Robert J. Farling
Vice President-Administrative Services

John W. Fenker
Vice President-Power Supply

Frank A. Kender
Vice President-Marketing

Edgar H. Maugans
Vice President-Finance

John J. Misic
Vice President-Distribution & Services

Alan D. Wright
Vice President-Public Affairs & Legal

Alvin Kaplan
Vice President-Nuclear Operations Division

Newton D. Flack
Division Manager-Steam Power Division

Victor F. Greenslade
General Counsel & Director of Governmental Affairs

Charles C. Chopp
Controller

Andrew R. Felmer
Treasurer

E. Lyle Pepin
Secretary

General Information

Dividend Reinvestment and Stock Purchase Plan
The Company has a Dividend Reinvestment and Stock Purchase Plan which provides share owners of record and customers a convenient means of purchasing shares of Company common stock at no additional cost by investing a part or all of their quarterly dividends and cash payments. Dividends reinvested in Company common stock under the Plan qualify for the tax deferral provisions of The Economic Recovery Tax Act of 1981. In addition, share owners and customers may establish Individual Retirement Accounts (IRAs) which invest in Company common stock through the Plan. Information and a prospectus relating to the Plan and the IRA may be obtained from Share Owner Services at the Company.

Form 10-K The Company will furnish to share owners, without charge, a copy of its most recent annual report to the Securities and Exchange Commission (Form 10-K) and, upon payment of a reasonable fee, a copy of each exhibit to Form 10-K. Requests should be directed to the Secretary of the Company.

Independent Accountants
Price Waterhouse, 1900 Central National Bank Building, Cleveland, Ohio 44114

Bond Trustee and Registrar
Morgan Guaranty Trust Company of New York for all series.

Communications regarding bond registration requirements and lost certificates should be directed to Morgan Guaranty Trust Company of New York, 30 West Broadway, New York, N.Y. 10015. Telephone Number (212) 587-6469.

Bond Paying Agent
Manufacturers Hanover Trust Company, 40 Wall Street, New York, N.Y. 10015 and AmeriTrust Company National Association, 900 Euclid Avenue, Cleveland, Ohio 44114—Co-paying agents for the
2¾% Series due 1985
3⅜% Series due 1986
3% Series due 1989
3⅞% Series due 1993
4⅜% Series due 1994

Morgan Guaranty Trust Company of New York, 30 West Broadway, New York, N.Y. 10015—Paying agent for the
11½% Series due 1985-A
15¼% Series due 1989-A
14⅜% Series due 1989-B
7⅛% Series due 1990
8⅜% Series due 1991
14% Series due 1991-A
15¼% Series due 1992
15⅛% Series due 1994-A
8¾% Series due 2005
9¼% Series due 2009
9.85% Series due 2010
8⅜% Series due 2011
8⅜% Series due 2012
16⅝% Series due 2012-A
12¾% Series due 2012-D
12¼% Series due 2013-A

Inquiries regarding interest payments should be directed to either Manufacturers Hanover Trust Company or Morgan Guaranty Trust Company of New York for the series of bonds for which each acts as paying agent as noted above.

Common Stock
Listed on the New York, Midwest and Pacific Stock Exchanges; unlisted trading on the Boston, Philadelphia-Baltimore-Washington and Cincinnati Stock Exchanges. New York Stock Exchange symbol—CVX.

Preferred Stock
Listed on the New York Stock Exchange.

Registrar
For Common Stock, Preference Stock and Preferred Stock
AmeriTrust Company National Association
900 Euclid Avenue
Cleveland, Ohio 44114

Transfer Agent
For Common Stock, Preference Stock and Preferred Stock
The Cleveland Electric Illuminating Company
Share Owner Services
P.O. Box 5000, Cleveland, Ohio 44101

Stock transfers may be presented at Wells Fargo Securities Clearance Corporation, 45 Broad Street, New York, N.Y. 10004.

Share Owner Inquiries
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 the following numbers:

Local calls in
Cleveland area 622-9800, ext. 3700

Elsewhere
in Ohio 1-800-362-1237
Outside Ohio 1-800-321-3206

Please have your account number ready when calling.

Executive Offices
Illuminating Building
55 Public Square
Cleveland, Ohio
Telephone Number (216) 622-9800

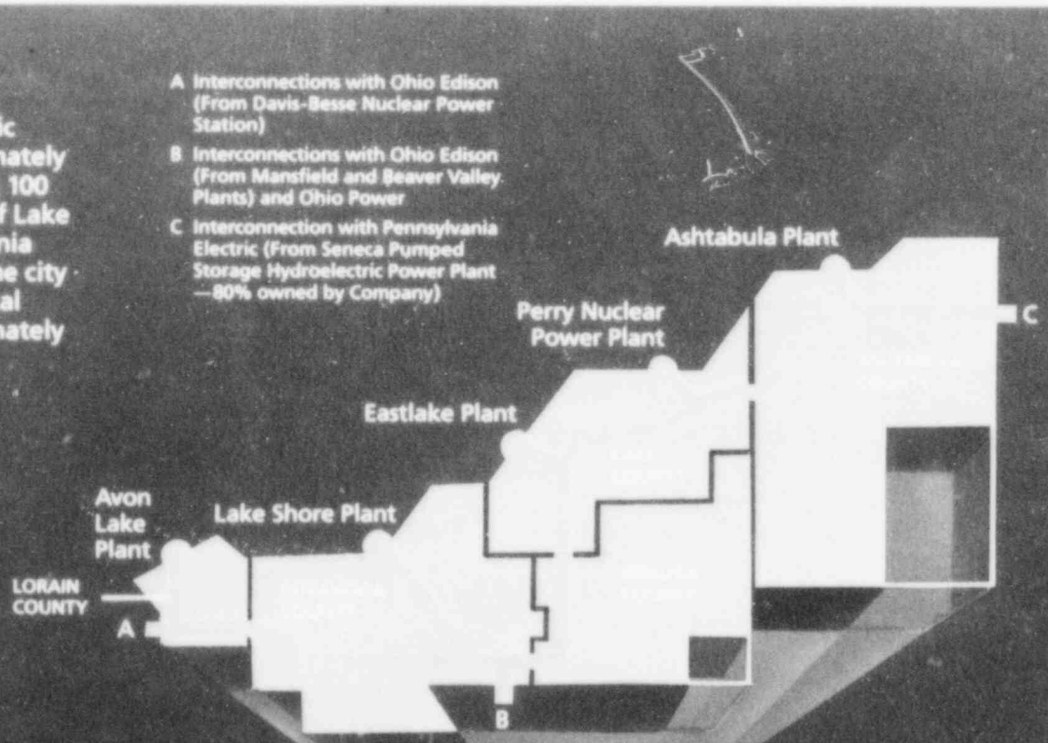
Mail Address
Post Office Box 5000
Cleveland, Ohio 44101

The annual meeting of the share owners of the Company will be held April 23, 1985. Owners of common stock as of February 22, 1985, the record date for the meeting, will be entitled to vote on the issues. The official notice, proxy statement and proxy will be mailed to share owners on or about March 15, 1985.

Notice: The annual report and the financial statements herein are for the general information of the share owners of the Company and are not intended to be used in connection with any sale or purchase of securities.

Service Area

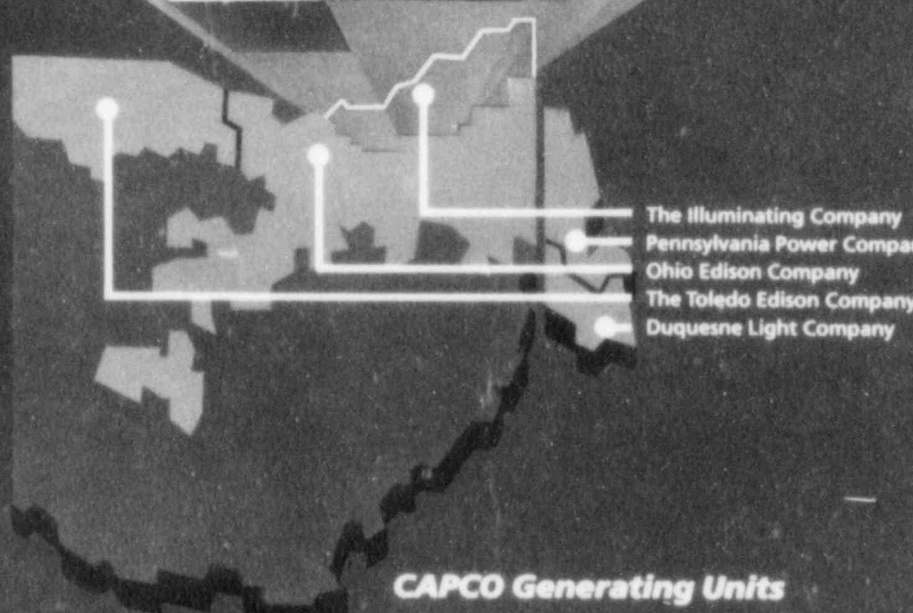
The Company furnishes electric service to an area of approximately 1,700 square miles, extending 100 miles along the south shore of Lake Erie from the Ohio-Pennsylvania border on the east through the city of Avon Lake on the west. Total population served is approximately 1,850,000.



Capco

The Company is a member of the Central Area Power Coordination Group (CAPCO), formed by regional utility companies to assure greater reliability of interconnections, back-up in case of emergencies and better economies of operation. Other members include Duquesne Light Company, Ohio Edison Company, Pennsylvania Power Company and The Toledo Edison Company. The members are constructing power generation and transmission facilities.

Through interconnections shown above with CAPCO members, Pennsylvania Electric Company and Ohio Power Company, the Company's service area is part of an interconnected system linking continental U.S.A. and major portions of Canada. This interconnection network further enhances the reliability and economy of our customers' electric service.



CAPCO Generating Units

	Project	Expected Net Demonstrated Capability (Kilowatts) Total	Company Share	Year of Scheduled Completion	Construction and Operation Responsibility
Eastlake	■ Unit #5	648,000	446,000	In Service	The Illuminating Company
Sammis	■ Unit #7	600,000	—0—	In Service	Ohio Edison Company
Mansfield	■ Unit #1	780,000	51,000	In Service	Pennsylvania Power Company
	Unit #2	780,000	223,000	In Service	
	Unit #3	800,000	196,000	In Service	
Davis-Besse	●	880,000	452,000	In Service	The Toledo Edison Company
Perry	● Unit #1	1,205,000	375,000	1985	The Illuminating Company
	Unit #2	1,205,000	375,000	Under Review	
Beaver Valley	● Unit #1	810,000	—0—	In Service	Duquesne Light Company
	Unit #2	833,000	204,000	1987	

■ Coal-Fired ● Nuclear

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY
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