

SHAW, PITTMAN, POTTS & TROWBRIDGE

A PARTNERSHIP OF PROFESSIONAL CORPORATIONS

1800 M STREET, N. W.
WASHINGTON, D. C. 20036

May 24, 1985

TELECOPIER
(202) 822-1099 & 822-1199

TELEX
89-2693 (SHAWLAW WSH)
CABLE "SHAWLAW"

TELEPHONE
(202) 822-1063

JAY E. SILBERG, P.C.

Harold R. Denton, Director
Office of Nuclear Reactor Regulation
U. S. Nuclear Regulatory Commission
Washington, D. C. 20555

Re: The Cleveland Electric Illuminating Co.
(Perry Nuclear Power Plant Units 1 and 2)
Docket Nos. 50-440 and 50-441

Dear Mr. Denton:

Ohio Citizens for Responsible Energy ("OCRE"), in a "Petition for Emergency Action" dated March 8, 1985, requested that the Director of the Office of Inspection and Enforcement take specified actions based on the allegations in OCRE's pleading. The actions included:

1. Immediate suspension of the construction permits for Perry Nuclear Power Plant, Units 1 and 2, "pending an adjudicatory finding of [the Perry construction permit co-holders' ("Permittees")] financial capability."
2. Halting of all nuclear fuel shipments to the Perry site.
3. An investigation of whether the Permittees are financially qualified to design and construct the Perry facility and whether actions resulting from Permittees' alleged financial problems have caused or may cause unsafe conditions at Perry.
4. Suspension of the operating license proceeding pending an adjudicatory finding of financial capability.
5. An investigation of the "true state of readiness of Unit 1 for fuel load."
6. Institution of "a proceeding" to determine Permittees' financial qualifications to design and build the Perry facility.

8505290554 850524
PDR ADOCK 05000440
A PDR

YE-03
111

Mr. Harold R. Denton

May 24, 1985

Page 2

Your letter of April 24, 1985, acknowledged receipt of OCRE's Petition and stated that it would be handled pursuant to 10 C.F.R. §2.206 by the Office of Nuclear Reactor Regulation. Your letter concluded that OCRE's petition did not warrant any emergency relief, pointing out that continued construction did not of itself pose a public health and safety threat, that NRC Staff had favorably assessed the design/construction quality of the facility, and that the physical security for the nuclear fuel had already been extensively reviewed. Your letter also noted that you saw no reason to recommend suspension of the operating license proceedings. A Federal Register notice of OCRE's Petition was published on April 30, 1985, 50 Fed. Reg. 18332.

The five co-holders of the construction permits for the Perry Nuclear Power Plant -- The Cleveland Electric Illuminating Company, Duquesne Light Company, Ohio Edison Company, Pennsylvania Power Company, and The Toledo Edison Company -- have reviewed OCRE's Petition and submit that its arguments are without merit. Based upon the information set forth in the attached Affidavits of Edgar H. Maugans and Murray R. Edelman, and the enclosed financial documents relating to each of the Permittees (identified in Attachment 1 hereto), Permittees respectfully request that OCRE's Petition be denied.

I. LEGAL STANDARDS

OCRE implicitly argues that the legal standard to be applied is that if conditions now exist which would have warranted a refusal by the Commission to grant the original construction permits, then the construction permits should be immediately suspended.

The Commission has rejected this standard and applied a much more reasonable approach. In Maine Yankee Atomic Power Company (Maine Yankee Atomic Power Station), CLI-83-21, 18 N.R.C. 157 (1983), the Commission rejected a similar petition on the grounds that some nexus must be shown^{1/} between claimed financial constraints and unsafe conditions. The Commission

^{1/} Although the Maine Yankee decision was issued in the context of the 1982 financial qualifications rule (which abolished financial qualifications reviews at both the

(Continued next page)

Mr. Harold R. Denton

May 24, 1985

Page 3

held that

a showing that Maine Yankee was undergoing financial difficulties would not by itself require that the Commission halt operations at that plant.

18 N.R.C. at 160. Absent "evidence [or a] claim of actual hazards", there is no possible basis for enforcement action. Id. There is no abuse of discretion "in refusing to take enforcement action based on mere speculation that financial pressures might in some unspecified way undermine the safety" of the plant. Id. The Commission also ruled that even if conditions exist which would have permitted denial of a license in the first instance, license revocation is not required, "especially where means short of license suspension are available to provide continued assurance of public health and safety." Id., n. 5.

These holdings are consistent with Director's Decisions which have held that "[f]inancial constraints, in a vacuum, are an insufficient basis for initiating show-cause proceedings against a utility." Public Service Co. of New Hampshire (Seabrook Nuclear Station, Units 1 and 2), DD-82-8, 16 N.R.C. 394, 395 (1982); Maine Yankee Atomic Power Co. (Maine Yankee Atomic Power Station), DD-83-3, 17 N.R.C. 327, 330 (1983).

II. FINANCIAL QUALIFICATIONS

The bulk of OCRE's Petition is devoted to allegations that the financial qualifications of the five Permittees have "changed drastically" since the NRC Staff's 1977 determination that Permittees were financially qualified to construct the Perry facility. Petition at 2-4.

(Continued)

construction permit and operating license stages), the Commission made clear that its decision did not turn on the effect of the 1982 rule. Thus, the Commission stated that a showing of financial difficulties alone would not suffice, "even had the Commission retained its financial qualifications review requirements." 18 N.R.C. at 160.

Mr. Harold R. Denton
May 24, 1985
Page 4

While many changes have undoubtedly occurred since 1977, OCRE has failed to relate these changes to Permittees' financial ability to complete construction of the Perry facility. OCRE has totally ignored the fact that the largest part of Unit 1 has already been financed. As shown in the attached Affidavit of Mr. Maugans, as of March 31, 1985, Permittees have already invested \$3.347 billion (including \$948 million in allowance for funds used during construction) in Unit 1. Thus, it is of no relevance that the total cost of Unit 1 may now be projected at \$4.3 billion, compared to a 1977 projected cost of \$2.181 billion for both units. OCRE Petition at 2-3. The important fact is that Permittees' projections show the need to raise only an additional \$363 million to complete construction of Unit 1.^{2/}

The appropriate issue to be considered, therefore, is whether OCRE has shown any basis for believing that Permittees cannot secure the \$363 million needed to complete construction of Unit 1. As shown in Mr. Maugan's Affidavit, ¶12, each of the Permittees has identified sources of funds for its construction program. Each Permittee has also arranged, or is in the process of arranging, backup lines of credit to finance the completion of Unit 1 construction even if other sources of funds should become unavailable. The ability to raise the remaining funds is also demonstrated by the financial documents transmitted with this letter, as well as by each company's ability to raise substantial funds through securities issues (See Mr. Maugan's Affidavit, ¶11).

OCRE's attachments and arguments supply no basis for questioning Mr. Maugan's data and conclusions. OCRE's Exhibit 1, a newspaper article on a state rate order denying Cleveland Electric recovery of construction work in progress, says nothing about Permittees' ability to fund the remaining construction of Unit 1. OCRE's Exhibit 2, reporting a decision

^{2/} Since the only significant work being performed on Unit 2 is that needed to place Unit 1 in service, Edelman Affidavit, ¶4, Unit 2's status does not impact on OCRE's current petition. The status of Unit 2 is under study, including the possibilities of resuming full construction and cancellation. At such future time as a decision on its status is made, consideration of a petition such as OCRE's might then be appropriate.

Mr. Harold R. Denton

May 24, 1985

Page 5

by the Public Utilities Commission of Ohio to examine the prudence of Perry construction, is similarly irrelevant. OCRE argues that its Exhibit 3, a March 1984 report by an investment research company, shows that Permittees will be unable to raise money through the sale of securities since "[i]nvestment services have warned against investing in CAPCO." Petition at 4. Aside from being some 14 months old, the cited document itself states that the rating on which OCRE relies "does not constitute a recommendation to buy, hold or sell the shares of a given utility." Exhibit 3, p.3 (original emphasis). OCRE's conclusion is also rebutted by the \$1.7 billion which Permittees raised in 1984 alone. Maugan Affidavit, ¶11. Similarly failing to support OCRE's thesis are its Exhibits 4 and 5, both newspaper articles relying heavily on unnamed, unidentified "analysts". Indeed, OCRE's Exhibit 5 merely confirms Mr. Maugan's discussion of backup lines of credit which would be available to fund the completion of Unit 1 construction in the event that developments occurred which adversely affect the ability to access the identified sources of funds. OCRE's dire predictions are refuted by Permittees' demonstrated ability to raise substantial funds in the capital markets. (Maugan Affidavit, ¶11).

III. SAFETY ISSUES

Notwithstanding the Commission's requirement for something more than "mere speculation", for some showing of "actual hazards", Maine Yankee, supra, 18 N.R.C. at 160, OCRE has provided only conjecture and unsupported supposition that Permittees' asserted financial problems will result in any danger to the public health and safety. The attached affidavit of Murray Edelman makes this clear.

OCRE first claims that Permittees' "financial problems" led to Cleveland Electric obtaining wage concessions from union workers at Perry. Petition at 4. However, not even the newspaper article relied on by OCRE (Exhibit 6) said that the contract change was due to Permittees' "financial problems." As explained in OCRE Exhibit 6 and in the Edelman Affidavit, ¶5, the change from a construction-type to a maintenance-type contract was governed by the status of completion of work at Unit 1.

OCRE next alleges that, based on "confidential sources", employees of the painting/coating contractor at Perry have threatened to mix coatings incorrectly so that they will flake

Mr. Harold R. Denton

May 24, 1985

Page 6

off. Mr. Edelman's Affidavit, ¶6, shows that any improper mixing is very unlikely and that if it occurred it would be readily detected. In any event, OCRE does not even allege that more than "talk" is involved.

OCRE further alleges that CEI has taken delivery of its nuclear fuel too early, which "could expose it to sabotage from disgruntled workers." Petition at 5. Aside from its reliance on misinformation provided by an unidentified "fuel rod expert" to unnamed "OCRE's sources",³ OCRE's allegations are shown by Mr. Edleman's Affidavit to be without substance. The fuel load deliveries are being made on a reasonable schedule. Affidavit, ¶7. And the security plan, inspected and approved by the NRC Staff, provides appropriate assurances against OCRE's speculative threat.⁴ Affidavit, ¶8.

Finally, OCRE asserts that because of Permittees' "desperate need" to place Unit 1 in service by the end of 1985" the "potential exists that the remaining construction and testing may be rushed and compromised." As in the rest of its Petition, OCRE has substituted unsubstantiated possibilities for the evidence or claim of actual hazard. Cf Maine Yankee, supra, 18 N.R.C. at 160. The NRC inspection program, including its on-site resident inspectors, provides a more direct and appropriate method to guard against the situation which OCRE postulates than does the relief proposed by OCRE.

3/ OCRE apparently believes that nuclear fuel is being delivered too early because a "fuel rod expert" told "OCRE's sources" that Unit 1 would not be ready for commercial operation until late 1986. Petition at 5. Needless to say, the timing of nuclear fuel deliveries is not based on commercial operation dates.

4/ The Atomic Safety and Licensing Board in the operating license proceeding, in rejecting OCRE's late-filed contentions on nuclear fuel delivery, observed that OCRE's "argument that [Permittees'] economic condition is so shaky as to endanger its ability to care properly for unirradiated fuel lacks credibility." Memorandum and Order (Late Contentions: Special Nuclear Material License Application), dated July 12, 1983, slip op. at 4. The Licensing Board also found that OCRE had provided no basis for calling into question Permittees' program for safeguarding its fuel. Id. at 3.

Mr. Harold R. Denton

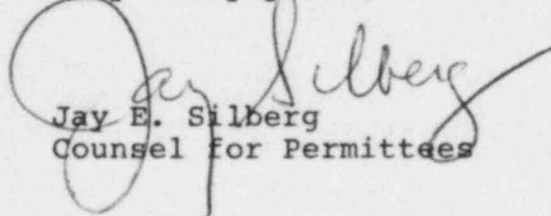
May 24, 1985

Page 7

IV. CONCLUSION

OCRE's Petition for Emergency Action sets forth no supportable grounds justifying any of the actions called for by OCRE. For the reasons set forth herein and in the Affidavits and documents attached hereto, Permittees respectfully submit that OCRE's Petition be denied.

Very truly yours,


Jay E. Silberg
Counsel for Permittees

JES:L

Attachments

PROSPECTUS

50,000 Shares

The Cleveland Electric Illuminating Company

Common Stock

(Without Par Value)

The Company's Common Stock, including the shares offered hereby, is listed on the New York, Midwest and Pacific Stock Exchanges.

In the opinion of counsel for the Company, the Common Stock is exempt from existing Pennsylvania personal property taxes.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The shares of Stock are to be sold from time to time through McDonald & Company Securities, Inc., as sales agent for the Company ("Sales Agent"), by means of (i) ordinary brokers' transactions on the floor of the New York Stock Exchange, the Midwest Stock Exchange, the Pacific Stock Exchange or any other exchange on which the Common Stock may be admitted to trading, including the Boston, Cincinnati or Philadelphia Stock Exchanges ("Exchanges"), (ii) block transactions (which may involve crosses) on the floor of an Exchange, in the over-the-counter market or otherwise, in accordance with the rules of the Exchanges, in which McDonald & Company Securities, Inc. may attempt to sell shares as agent but may position and resell all or a portion of the blocks as principal, (iii) "fixed price offerings" off the floors of the Exchanges in accordance with the rules of the Exchanges or (iv) a combination of any such methods of sale, in each case at market prices prevailing at the time of sale in the case of transactions on an Exchange and at negotiated prices related to prevailing market prices in the case of transactions off the floor of an Exchange. In connection therewith, distributors' or sellers' commissions may be paid or allowed to or through McDonald & Company Securities, Inc. which will not exceed those customary in the types of transactions involved. This Prospectus will be supplemented to set forth the terms of any such "fixed price offerings". If McDonald & Company Securities, Inc. purchases shares of Stock as principal it may resell such shares by any of the methods of sale described above. See "Manner of Offering".

In making this offering on behalf of the Company, McDonald & Company Securities, Inc. and any other broker or dealer may be deemed to be "underwriters", within the meaning of the Securities Act of 1933, as amended ("Act"), and the compensation of McDonald & Company Securities, Inc. and any other broker or dealer may be deemed to be underwriting commissions or discounts. The Company has agreed to indemnify McDonald & Company Securities, Inc. against certain civil liabilities, including liabilities under the Act.

The Company will receive all of the net proceeds from the sale of the Stock. The expenses of the registration and the offerings contemplated hereby are estimated to be \$4,000 and will be paid by the Company.

McDONALD & COMPANY
SECURITIES, INC.

The date of this Prospectus is April 8, 1985.

No dealer, salesman or other person has been authorized to give any information or to make any representation not contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorized by the Company or the Sales Agent. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. The delivery of this Prospectus at any time does not imply that the information herein is correct as of any time subsequent to its date.

AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934 ("Exchange Act") and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission ("Commission"). Such reports, proxy statements and other information can be inspected and copied at the public reference facilities maintained by the Commission at its principal office at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549-1004; Everett McKinley Dirksen Building, 219 South Dearborn Street, Chicago, Ill. 60604; Federal Building, 26 Federal Plaza, New York, N.Y. 10278; and 5757 Wilshire Boulevard, Los Angeles, Calif. 90036-3640. Copies of such material can also be obtained at prescribed rates from the Public Reference Section of the Commission at its principal office. The Common Stock of the Company is listed on the New York, Midwest and Pacific Stock Exchanges. Reports, proxy statements and other information concerning the Company can be inspected at the offices of those Exchanges.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The Company hereby incorporates in this Prospectus by reference the following document heretofore filed with the Commission, pursuant to the Exchange Act, to which reference hereby is made:

1. The Company's Annual Report on Form 10-K for the year ended December 31, 1984 ("Form 10-K").

The consolidated financial statements of the Company and its subsidiaries as of December 31, 1984 and the report (which is subject to the outcome of an uncertainty with respect to Perry 2 as discussed in Note L to the financial statements) of Price Waterhouse dated February 8, 1985 both included in the Form 10-K and incorporated by reference in this Prospectus should be read in conjunction with the matters discussed under Item 1 "Business — Construction and Financing Program — Construction Program" and "Business — Operations — Electric Rates" in the Form 10-K incorporated by reference in this Prospectus.

All documents filed by the Company pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this Prospectus and prior to the termination of this offering shall be deemed to be incorporated in this Prospectus by reference and to be a part hereof from the date of filing of such documents.

The Company hereby undertakes to provide without charge to each person to whom a copy of this Prospectus has been delivered, on the written or oral request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated in this Prospectus by reference, other than exhibits to such documents. Requests for such copies should be directed to E. Lyle Pepin, Secretary, The Cleveland Electric Illuminating Company, P.O. Box 5000, Cleveland, Ohio 44101, or telephone (216) 622-9800.

IN CONNECTION WITH THIS OFFERING, THE SALES AGENT MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMPANY'S COMMON STOCK AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK STOCK EXCHANGE OR ANY OTHER STOCK EXCHANGE ON WHICH THE SECURITIES HAVE BEEN ADMITTED TO TRADING PRIVILEGES, IN THE OVER-THE-COUNTER MARKET OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE COMPANY

The Company was incorporated under the laws of Ohio in 1892 and furnishes electric service to an area of approximately 1,700 square miles in northeastern Ohio, including Cleveland, extending about 100 miles along the south shore of Lake Erie west from Pennsylvania. The Company derives approximately 70% of its total electric revenue from customers outside the City of Cleveland. The Company also provides steam service for heating and other purposes in the downtown area of Cleveland. Approximately 99% of the Company's operating revenues is derived from its electric operations.

The principal offices of the Company are located in The Illuminating Building, P.O. Box 5000, 55 Public Square, Cleveland, Ohio 44101 — Telephone (216) 622-9800.

USE OF PROCEEDS

The net proceeds to the Company from the sale of the Common Stock offered hereby will be added to the general funds of the Company and ultimately will be used to finance the Company's construction program and for general corporate purposes.

CONSTRUCTION AND FINANCING PROGRAM

The Company carries on a continuous program of constructing and financing facilities needed to meet anticipated demand for electric service and to replace aging facilities. A large portion of the Company's construction program is its share of three nuclear generating unit projects — Perry Units 1 and 2 and Beaver Valley Unit 2. They are being constructed by the five utilities in the Central Area Power Coordination Group ("CAPCO Group"), including the Company, Duquesne Light Company ("Duquesne"), Ohio Edison Company, Pennsylvania Power Company and The Toledo Edison Company ("Toledo Edison"). The scheduling of completion or voluntary delay or cancellation of a project must be approved by all the CAPCO Group companies. The Company is constructing Perry Units 1 and 2 and Duquesne is constructing Beaver Valley Unit 2 for the CAPCO Group companies. The Company's share of each Perry unit is 31.11% and of Beaver Valley Unit 2 is 24.47%.

The Company projects a 2% annual increase in peak electrical demand in its service area. Compounded over the next 20 years, that growth would result in about a 50% increase in demand. In addition to completing Perry Unit 1 and Beaver Valley Unit 2 as described below, the Company is studying various alternatives to meet its projected demand and to replace aging generating units. The alternatives include combinations of the following: completing Perry Unit 2; constructing new generating units using new technologies currently being developed; extending the useful life of some existing generating capacity and utilizing long-term power purchases. Many factors are being considered to determine the most reliable and economical alternative. These include not merely construction costs, but also operation, maintenance and fuel costs, the impact of potential acid rain legislation and the possibility of power sales to other utilities in the 1990s. Also being considered in connection with Perry Unit 2 are the costs, uncertainties and risks associated with the construction and licensing of nuclear units as discussed below.

The current estimate of the Company's construction program expenditures for the 1985-1989 period, taking into account the alternatives described above, ranges between \$1,900,000,000 and \$2,400,000,000, including an allowance for funds used during construction ("AFUDC") and excluding nuclear fuel.

Major components of the program are as follows:

	Millions of Dollars	
Perry Unit 1	\$ 245	\$ 245
Beaver Valley Unit 2	402	402
Perry Unit 2	55*	636**
Transmission, distribution and general facilities	415	415
Pollution control facilities	53	53
Generating unit modifications	730	649
	<u>\$1,900</u>	<u>\$2,400</u>

* All in 1985

** Assumes completion of Perry Unit 2 in 1993

Expenditures for all facilities in 1985, including AFUDC and excluding nuclear fuel, are expected to range from \$550,000,000 to \$600,000,000. Should more stringent environmental regulations be adopted, particularly in the area of acid rain pollution control, the Company's estimate of construction program expenditures for pollution control facilities in the 1985-1989 period could increase substantially.

Perry Unit 1 and the facilities to be used in common with Perry Unit 2 are currently about 98% complete and are scheduled for completion around the end of 1985. The estimated cost of the Company's 375,000-kilowatt share is about \$1,200,000,000, including AFUDC. The completion schedule for Perry Unit 1 and common facilities is tight, but the Company believes it is achievable. The operating license proceedings are well along. The NRC has decided in favor of the Company on a number of issues raised by intervenors. Three matters remain to be heard by the NRC in hearings scheduled to start in early April 1985 — emergency evacuation planning, back-up diesel generators and hydrogen control systems. While the Company cannot give assurances, the Company believes, based on its knowledge of the quality of construction, recent inspections and reviews by the NRC and other regulatory agencies and the merits of the issues, that it should be permitted to load fuel and receive a full operating license for Perry Unit 1 without significant delay.

Beaver Valley Unit 2 is currently about 85% complete and is scheduled for completion around the end of 1987. The estimated cost of the Company's 204,000-kilowatt share is about \$1,000,000,000, including AFUDC. No public hearings are expected to be held on the Beaver Valley Unit 2 operating license application because the four intervenors have failed to submit valid contentions. While the Company cannot give assurances, it has no reason to believe at this time that an operating license will not be issued.

Perry Unit 2, exclusive of the common facilities, is about 44% complete. Including its share of the common facilities, it is about 57% complete. The Unit had been scheduled for completion in 1988 and the Company's 375,000-kilowatt share of its cost had been estimated at about \$800,000,000, including AFUDC. The CAPCO Group companies are reviewing several alternatives with respect to Perry Unit 2, including resumption of full construction, with a revised estimated cost and completion date, or cancellation. 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 being considered are the potentially greater capacity needs nationwide, particularly in the Company's region, due to larger-than-anticipated demand and cancellations of other generating projects by other electric utilities, 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 Unit 2. It is uncertain when this review will be completed. In the meantime, the only significant work being performed on Unit

2 is that necessary to place Unit 1 in service. That work should be completed sometime in 1985. See "Additional Information — Perry Unit 2 AFUDC Accrual".

If Perry Unit 2 is cancelled, the Company will seek authorization from The Public Utilities Commission of Ohio ("PUCO") to recover its investment in that Unit (and cancellation costs, if any) from its customers in rates over a period of years. Ohio law currently allows recovery of such costs as described in "Additional Information — Investment in Terminated Nuclear Projects". Other methods of recovery also may be available. However, the Company has no assurance that recovery would be allowed if Perry Unit 2 were cancelled. If, at the time of such a cancellation, it appears unlikely that recovery would be allowed, then the Company's investment in Perry Unit 2 (including AFUDC and any cancellation 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 Unit 1 or otherwise. The Company estimates such a write-off as of December 31, 1984 would have been about \$200,000,000. Based on the Company's 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 the Company's 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 Unit 2. The petition requests an order to cease construction of Perry Unit 2, to cease accruing AFUDC on that Unit and to prohibit the use of proceeds of securities issues to finance Perry Unit 2. The Company believes 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 cancellation of the Unit.

Nuclear generating projects in the electric utility industry, including those of the CAPCO Group companies, have experienced substantial cost increases, construction delays and, in the case of some non-CAPCO Group 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 Units 1 and 2 and Beaver Valley Unit 2.

The successful completion of the CAPCO Group construction program requires the continuing ability of the CAPCO Group companies to pay for their shares. To do so, each CAPCO Group 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 Group company or nuclear project in particular, so as to impair the ability of a CAPCO Group company to pay for its share. If any CAPCO Group company does not pay for its share, any or all of the other CAPCO Group companies could, as a practical matter, be forced to accept a solution involving substantial losses or additional financial burdens.

The financial conditions of the CAPCO Group companies and their abilities to finance their respective construction programs vary. The disclosure documents of each CAPCO Group company, including their respective 1984 Form 10-Ks, should be examined for information regarding the ability of each CAPCO Group company to meet its CAPCO Group construction program commitments.

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. In the announcement of the rate increase recently granted the Company discussed under "Additional Information — Rates", the PUCO stated

that it would start an investigation soon to determine whether any Perry Unit 1 costs are excessive. It also plans in the near future to conduct a study of possible excess electric utility capacity in Ohio and to begin to develop a working policy regarding any such excess capacity. It is possible that an investigation of the costs of Beaver Valley Unit 2 (or Perry Unit 2, if completed) also will be conducted. The Company believes that any disallowance or deferral of recovery of its 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 under "Additional Information — Rates".

As part of its February 19, 1985 decision in Toledo Edison's recent emergency rate case, the PUCO ordered Toledo Edison to analyze the feasibility of reducing the CAPCO Group's generating unit construction program and Toledo Edison's participation in it and to file a report on such analysis by May 1, 1985.

As discussed above, the CAPCO Group nuclear generating unit construction program involves numerous risks in the areas of construction, completion and licensing, the continuing ability of the CAPCO Group companies to pay for their shares and the recovery through rates of the Company's total investment in the units involved. As indicated above, the likelihood of a significantly adverse event occurring in any of these risk areas and the potential severity of any adverse impact of such an event on the Company varies. It should be recognized that an event could occur which could have a material adverse impact on the financial condition and/or results of operations of the Company.

Assuming adequate and timely rate relief, the Company expects to finance, depending on the size of its construction program, about one-third to one-half of its 1985-1989 construction program through the issuance of securities, with larger percentages in the earlier years. The Company's 1985 financing plans include the sale of First Mortgage Bonds and Serial Preferred Stock and the tax-exempt financing of pollution control facilities. The Company expects to continue to raise funds through the sale of Common Stock under its employee stock purchase plans and its Dividend Reinvestment and Stock Purchase Plan. The types, amounts and timing of other future financings have not been determined.

In addition to funds required for the construction program, funds will be required for the retirement of \$290,627,000 of debt and preferred stock during the 1985-1989 period. The Company also is required to offer to purchase \$127,600,000 of preferred and preference stock during the 1985-1989 period.

The issuance of additional First Mortgage Bonds is limited by two provisions of the Company's Mortgage and Deed of Trust. Under the more restrictive of these provisions, the Company would have been permitted at December 31, 1984 to issue approximately \$912,000,000 of additional First Mortgage Bonds. The amount of First Mortgage Bonds which may be issued fluctuates depending upon future bondable property additions, earnings and interest rates. If Perry Unit 2 had been cancelled at the end of 1984, the amount of additional First Mortgage Bonds which could have been issued at that time would have been reduced by about \$225,000,000. There are no restrictions on the issuance of authorized Serial Preferred Stock or Serial Preference Stock.

COMMON STOCK DIVIDENDS

On February 15, 1985, the Company paid a quarterly dividend of 63¢ per share. The Company has increased its dividend payments for 26 consecutive years and has paid cash dividends for 84 consecutive years. The payment of dividends will depend upon future earnings, the financial condition of the Company, business conditions and other relevant factors. At December 31, 1984, all earnings retained in the business (\$471,163,000) were available to pay dividends.

EFFECT OF ISSUANCE OF COMMON STOCK

The book value of Common Stock as of December 31, 1984 was \$21.51 per share. For every dollar below book value that the Common Stock offered hereby is sold, the book value of the Common Stock currently held by share owners will be reduced by less than 0.1¢ per share.

ADDITIONAL INFORMATION

Rates

Effective March 12, 1985, the PUCO granted the Company an increase in electric rates of \$19,500,000, or 1.6%. The Company had requested an increase of \$180,000,000. The allowed rate of return is 12.99% on rate base and 16.85% on common stock equity. The PUCO did not allow any construction work in progress ("CWIP") in rate base for Perry Unit 1. Previously, the Company had been receiving approximately \$30,000,000 of annual revenue for Unit 1 CWIP which had been included in rate base. The Company will request the PUCO to reconsider the denial of CWIP and other matters.

Under Ohio law, the PUCO has discretion to include CWIP in rate base for construction projects which are at least 75% complete. The amount includable for all projects is limited 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, resulting in lower revenues during that period. During the period of exclusion, the equivalent of AFUDC accrues on the excluded portion to 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 cancelled 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.

Perry Unit 2 AFUDC Accrual

As stated under "Construction and Financing Program", the minimal work being performed on Perry Unit 2 should be completed sometime in 1985. Even if the CAPCO Group companies do not decide during 1985 to increase construction significantly at Perry Unit 2, the Company plans to continue capitalizing AFUDC for that Unit as construction work in progress because it believes that cost should be recovered through rates if and when the Unit is completed. However, if Perry Unit 2 is cancelled, recovery of AFUDC for the Unit would be less certain as described in "Additional Information — Investment in Terminated Nuclear Projects". In consideration of these factors, the Company plans to credit AFUDC for Perry Unit 2 to a deferred credit reserve instead of continuing to credit it to income. Absent a change in circumstances, the Company expects 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 Unit 2 is expected to average about \$3,000,000 per month in 1985.

Investment in Terminated Nuclear Projects

In January 1980, the CAPCO Group companies terminated their plans to construct four nuclear generating units which were in various stages of construction start-up. Ohio law does not permit recovery of these costs through rates as an operating expense. However, the Company's 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 the Company to amortize the unamortized terminated unit costs over a period of about 15 years starting in 1983. Accordingly, these costs are being amortized over that period. The unamortized amount at December 31, 1984 was \$46,089,000. The unamortized costs of the terminated units are not included in the Company's rate base.

DESCRIPTION OF COMMON STOCK

The following is a summary of certain terms of the Common Stock. For a complete statement of the terms of the Common Stock, reference is made to the Amended Articles of Incorporation of the Company, as amended, and the General Corporation Law of Ohio.

Dividend Rights

Holders of Common Stock are entitled to dividends as, when and in the amount declared by the Board of Directors, but if and so long as there is any arrearage in the payment of any dividend on, or any required sinking fund redemption of, any outstanding Serial Preferred Stock or Serial Preference Stock, only dividends payable in stock junior to the stock on which the dividends or sinking fund redemption are in arrears may be paid on the Common Stock.

The supplemental indentures covering all of the outstanding First Mortgage Bonds of the Company issued prior to 1971 contain a covenant which under certain circumstances can operate to restrict the amount of the Company's earnings retained in the business available for the payment of dividends.

Voting Rights

Each share of Common Stock is entitled to one vote. Shareholders have the right to cumulate votes for the election of directors if notice is given as provided by law. If the Company should default in the payment of six full quarterly dividends on any series of Serial Preferred Stock, the holders of all the Serial Preferred Stock would be entitled to elect two directors of the Company until all Serial Preferred Stock dividends in arrears are paid. Similarly, if the Company should default in the payment of six full quarterly dividends on any series of Serial Preference Stock, the holders of all the Serial Preference Stock would be entitled to elect two directors of the Company until all Serial Preference Stock dividends in arrears are paid.

The consent of the holders of at least two-thirds of the Serial Preferred Stock is necessary (1) to change the Amended Articles of Incorporation or the Regulations of the Company in a manner adversely affecting the preferences or voting or other rights of the Serial Preferred Stock or (2) to authorize any shares of a class ranking prior to the Serial Preferred Stock. The consent of the holders of at least a majority of the Serial Preferred Stock is necessary for (1) the sale of substantially all the assets of the Company or its consolidation with or merger into another corporation, unless the resulting or surviving corporation will have no shares ranking prior to or on a parity with the Serial Preferred Stock in addition to those outstanding prior to the consolidation or merger or (2) the authorization of any shares ranking on a parity with the Serial Preferred Stock or an increase in the authorized shares of Serial Preferred Stock.

The consent of the holders of at least two-thirds of the Serial Preference Stock is necessary to change the Amended Articles of Incorporation or the Regulations of the Company in a manner adversely affecting the preferences or voting or other rights of the Serial Preference Stock. The consent of the holders of at least a majority of the Serial Preference Stock is necessary for (1) the sale of substantially all the assets of the Company or its consolidation with or merger into another corporation, unless the resulting or surviving corporation will have no shares ranking prior to or on a parity with the Serial Preference Stock in addition to those outstanding prior to the consolidation or merger or (2) the authorization of any shares ranking prior to or on a parity with the Serial Preference Stock or an increase in the authorized shares of Serial Preference Stock.

Liquidation Rights

In the event of liquidation of the Company, holders of the Common Stock are entitled to the assets of the Company, pro rata, which remain after satisfaction of all liabilities and the liquidation rights of any outstanding Serial Preferred Stock and Serial Preference Stock.

Issuance of Additional Stock

The balance of the shares of authorized Common Stock which are not outstanding (other than the shares which have been reserved for issue under the Dividend Reinvestment and Stock Purchase Plan, Employee Thrift Plan, Employee Savings Plan, Key Employee Incentive Stock Plan and 1978 Key Employee Stock Option Plan) may be issued, from time to time, for such amount of consideration as may be fixed by the Board of Directors.

Miscellaneous

The Common Stock does not have any pre-emptive or subscription rights, conversion rights or redemption or sinking fund provisions. The Common Stock offered by this Prospectus will be, when issued, fully paid and non-assessable.

Transfer Agents and Registrars

The Company is the transfer agent and AmeriTrust Company is the registrar for the Common Stock in Cleveland, Ohio. Wells Fargo Securities Clearance Corp., 45 Broad Street, New York, New York 10004, is authorized to receive and transmit to the Company requests for transfer of Common Stock.

MANNER OF OFFERING

The shares of Stock offered hereby are to be sold from time to time through McDonald & Company Securities, Inc., as exclusive sales agent for the Company, by means of (i) ordinary brokers' transactions on the floor of an Exchange, (ii) block transactions (which may involve crosses) on the floor of an Exchange, in the over-the-counter market or otherwise, in accordance with the rules of the Exchanges, in which McDonald & Company Securities, Inc. may attempt to sell shares as agent but may position and resell all or a portion of the blocks as principal, (iii) "fixed price offerings" of shares off the floors of the Exchanges in accordance with the rules of the Exchanges or (iv) a combination of any such methods of sale, in each case at market prices prevailing at the time of sale in the case of transactions on an Exchange and at negotiated prices related to prevailing market prices in the case of transactions off the floor of an Exchange. In connection therewith, distributors' or sellers' commissions may be paid or allowed to or through McDonald & Company Securities, Inc. which will not exceed those customary in the types of transactions involved. If McDonald & Company Securities, Inc. purchases shares as principal it may resell such shares by any of the methods of sale described above.

From time to time McDonald & Company Securities, Inc. may conduct a "fixed price offering" of Stock covered by this Prospectus off the floors of the Exchanges. In such case McDonald & Company Securities, Inc. would purchase a block of shares from the Company and would form a group of selected dealers to participate in the resale of the shares. Any such offering would be described in a supplement to the Prospectus setting forth the terms of the offering and the number of shares being offered.

In making this offering on behalf of the Company, McDonald & Company Securities, Inc. and any other broker or dealer may be deemed to be "underwriters", within the meaning of the Act, and the compensation of McDonald & Company Securities, Inc. and any other broker or dealer may be deemed to be underwriting commissions or discounts. The Company has agreed to indemnify McDonald & Company Securities, Inc. against certain civil liabilities, including liabilities under the Act. The Company has also agreed to reimburse McDonald & Company Securities, Inc. for expenses incurred in connection with this offering. Those expenses are expected to be insignificant.

LEGAL OPINIONS

The legality of the Common Stock offered hereby will be passed upon for the Company by Victor F. Greenslade, Esq., General Counsel and Director of Governmental Affairs of the Company, or Theodore J. Horvath, Esq., Assistant General Counsel and Principal Corporate Counsel of the Company. As of February 28, 1985, Mr. Greenslade owned 833 shares and held options to purchase 9,382 additional shares of the Company's Common Stock and Mr. Horvath owned 3,383 shares and held options to purchase 4,384 additional shares. Also, as participants in the Investment Program of the Company's Employee Savings Plan, Mr. Greenslade and Mr. Horvath owned 1,448 shares and 4,555 shares, respectively, of Common Stock held by the trustee for that Plan.

EXPERTS

The statements as to matters of law and legal conclusions under the headings "General Regulation", "Environmental Regulation", "Title to Property" and "Legal Proceedings" in the Form 10-K, under the headings "Additional Information" and "Description of Common Stock" in this Prospectus and under the heading "Indemnification of Directors and Officers" in this Registration Statement are made on the authority of Victor F. Greenslade, Esq. or Theodore J. Horvath, Esq., as an expert. The statement on the cover page of this Prospectus as to the exemption of the Common Stock offered hereby from existing Pennsylvania personal property taxes is made upon the opinion of Victor F. Greenslade, Esq. or Theodore J. Horvath, Esq., who is relying upon the opinion of McNees, Wallace & Nurick, Pennsylvania counsel.

The consolidated financial statements, as of December 31, 1984, included in the Form 10-K, which statements are incorporated by reference in this Prospectus, have been so incorporated in reliance on the report (which is subject to the outcome of an uncertainty with respect to Perry 2 as discussed in Note L to the financial statements) of Price Waterhouse, independent accountants, given on the authority of said firm as experts in auditing and accounting.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1984

Commission file number 1-2323

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY
(Exact name of registrant as specified in charter)

State of Ohio
(State of Incorporation)

34-0150020
(IRS Identification No.)

The Illuminating Building, P.O. Box 5000,
Cleveland, Ohio
(Address of Principal Executive Offices)

44101
(Zip Code)

(216) 622-9800
(Registrant's Telephone Number)

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

<u>Title of Class</u>	<u>Name of Each Exchange On Which Registered</u>
First Mortgage Bonds:	
11-1/2% Series due June 1, 1985)	
2-3/4% Series due September 1, 1985)	
3-3/8% Series due June 1, 1986)	
3% Series due May 1, 1989)	
7-1/8% Series due January 15, 1990)	
8-3/8% Series due November 1, 1991)	
3-7/8% Series due March 1, 1993)	New York Stock Exchange
4-3/8% Series due April 1, 1994)	
8-3/4% Series due November 15, 2005)	
9-1/4% Series due May 1, 2009)	
9.85% Series due May 1, 2010)	
8-3/8% Series due December 1, 2011)	
8-3/8% Series due August 1, 2012)	
Cumulative Serial Preferred Stock, without par value:	
\$7.40 Series A)	
\$7.56 Series B)	New York Stock Exchange
Adjustable Rate Series L)	
Common Stock, without par value)	New York, Midwest and Pacific Stock Exchanges

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to the filing requirements for the past 90 days. Yes ☒ No ☐

Securities registered pursuant to Section 12(g) of the Act: None.

On February 28, 1985, nonaffiliates owned 100% of the Company's common stock. Based upon the closing price on the consolidated tape on that date, the aggregate market value of those shares was \$1,491,923,036. Directors and officers own 0.5% of the common stock and are not considered affiliates for this purpose.

On February 28, 1985, there were 75,065,310 shares of the Company's common stock outstanding.

Documents Incorporated by Reference

Part of Form 10-K

III

Document Incorporated by Reference

Portions of the registrant's definitive proxy statement dated March 14, 1985

TABLE OF CONTENTS

<u>PART I</u>	<u>Page</u>
Item 1 - Business	
The Company	5
Industry Problems	5
Construction and Financing Program	5
CAPCO Group and Other Intercompany Arrangements	5
Construction Program	6
Financing Program	8
Operations	9
Sales	9
Electric Rates	10
Operating Statistics	11
Electric Generation and Fuel Supply	12
Coal	12
Nuclear	13
Oil	13
Competition	13
General Regulation	15
State Utility Commissions	15
Ohio Department of Development	15
Ohio Power Siting Board	15
Federal Energy Regulatory Commission	15
Nuclear Regulatory Commission	16
Environmental Regulation	16
Air Quality Control	16
Federal and Ohio Regulation	16
Compliance with Ohio EPA Particulate Regulations	17
Compliance with Federal Sulfur Dioxide Regulations for Ohio	17
Pennsylvania Regulation	18
Water Quality Control	18
Waste Disposal	20
Executive Officers of the Registrant	21
Item 2 - Properties	
General	22
Title to Property	22
Item 3 - Legal Proceedings	23
Item 4 - Submission of Matters to a Vote of Security Holders	24

<u>PART II</u>	<u>Page</u>
Item 5 - Market for Registrant's Common Equity and Related Stockholder Matters	
Market Price	25
Share Owners	25
Dividends	25
Item 6 - Selected Financial Data	26
Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations	
Capital Resources and Liquidity	26
Results of Operations	28
Item 8 - Financial Statements and Supplementary Data	
Index to Financial Statements and Schedules	30
Item 9 - Disagreements on Accounting and Financial Disclosure	71
<u>PART III</u>	
Item 10 - Directors and Executive Officers of the Registrant	71
Item 11 - Executive Compensation	71
Item 12 - Security Ownership of Certain Beneficial Owners and Management .	71
Item 13 - Certain Relationships and Related Transactions	71
<u>PART IV</u>	
Item 14 - Exhibits, Financial Statement Schedules and Reports on Form 8-K.	71
Signatures	72
Exhibit Index	73
Exhibit 24a - Consent of Independent Accountants	77
Exhibit 24b - Consent of Counsel for the Company	78

PART I

Item 1. Business

THE COMPANY

The Cleveland Electric Illuminating Company ("Company") was incorporated under the laws of Ohio in 1892 and furnishes electric service to an area of approximately 1,700 square miles in northeastern Ohio, including Cleveland, extending about 100 miles along the south shore of Lake Erie west from Pennsylvania. The Company derives approximately 70% of its total electric revenue from customers outside the City of Cleveland. The Company also provides steam service for heating and other purposes in the downtown area of Cleveland. Approximately 99% of the Company's operating revenues is derived from its electric operations. On February 28, 1985, the Company had 5,921 employees.

The Company operates its electric and steam business pursuant to franchises granted by the State of Ohio and, in some instances, by municipalities. Where the law of Ohio requires the Company to obtain the consent of a municipality to install overhead or underground facilities in its streets, such consent has been obtained.

INDUSTRY PROBLEMS

The Company has experienced and in the future may experience some of the problems confronting the electric utility industry in general, such as the need to construct and finance large amounts of additional facilities, the high cost of capital, difficulties in obtaining adequate and timely rate relief, adverse changes in rate making law, increased costs of and delays in construction, increased costs of complying with evolving environmental and nuclear plant regulations, changes in customer demand and uncertainties associated with the construction and operation of nuclear units.

Also, a major accident at any nuclear plant could have a material adverse effect on the operation, construction or licensing of Company nuclear plants and ultimately on the Company's financial condition.

CONSTRUCTION AND FINANCING PROGRAM

CAPCO Group and Other Intercompany Arrangements

The Company is a member of the Central Area Power Coordination Group ("CAPCO Group"), a power pool created in 1967 with Duquesne Light Company ("Duquesne Light"), Ohio Edison Company ("Ohio Edison"), Pennsylvania Power Company ("Pennsylvania Power"), which is a subsidiary of Ohio Edison, and The Toledo Edison Company ("Toledo Edison"). This pool affords greater reliability and lower cost of providing electric service through coordinated generating unit maintenance and generating reserve back-up among the five companies. In addition, the CAPCO Group has undertaken programs to construct larger, more efficient electric generating units and to strengthen interconnections within the pool. Since 1980, the CAPCO Group has discontinued joint planning with respect to construction of future generating units.

The CAPCO Group companies have placed in service seven major generating units (two nuclear and five coal-fired) with an aggregate net demonstrated capability of 5,298,000 kilowatts. The Company's share of these units is 1,368,000 kilowatts. Three additional nuclear generating units are currently under construction. The scheduling of completion or voluntary delay or cancelation of a project must be approved by all the CAPCO Group companies. (See "Construction Program" below.) Each company owns, as a tenant-in-common, a portion of certain of these ten major generating units. Each company has the right to the net capability and associated energy of its respective ownership portions of the units and is, severally and not jointly, obligated for the capital and operating costs equivalent to its respective ownership portions of the units and the required fuel, except that the obligations of Pennsylvania Power are the joint and several obligations of that company and Ohio Edison. (See Item 1, "Business--Operations--Electric Generation and Fuel Supply".) The company in whose area a generating unit is located is responsible for the construction and operation of that unit for all the owners, except for the procurement of nuclear fuel for a nuclear generating unit. Each company owns the necessary interconnecting transmission facilities within its service area. The other CAPCO Group companies contribute toward fixed charges and operating costs of those transmission facilities.

If any CAPCO Group company were not to pay its share of the capital cost of a generating unit being constructed, any or all of the other CAPCO Group companies could, as a practical matter, be forced to accept a solution involving substantial losses or additional financial burdens.

The financial conditions of the CAPCO Group companies and their abilities to finance their respective construction programs vary. The disclosure documents, including the 1984 Form 10-K, of each CAPCO Group company should be examined for information regarding the ability of each CAPCO Group company to meet its CAPCO Group construction program commitments.

All of the CAPCO Group companies are members of the East Central Area Reliability Coordination Group ("ECAR") which is comprised of 27 electric companies located in nine contiguous states. ECAR's purpose is to improve reliability of bulk power supply through coordination of planning and operation of member companies' generation and transmission facilities.

Construction Program

The Company carries on a continuous program of constructing and financing facilities which are needed to meet anticipated demand for electric service and to replace aging facilities. Expenditures for the program totaled \$582,000,000 in 1984.

A large portion of the Company's 1985-1989 construction program is its share of three nuclear generating unit projects--Perry Units 1 and 2 and Beaver Valley Unit 2--being constructed by the CAPCO Group companies. The Company is constructing Perry Units 1 and 2 and Duquesne Light is constructing Beaver Valley Unit 2 for the CAPCO Group. See below for a discussion of the construction status of Perry Unit 2. The Company's share of each Perry unit is 31.11% and of Beaver Valley Unit 2 is 24.47%.

The Company projects a 2% annual increase in peak electrical demand in its service area. Compounded over the next 20 years, that growth would result in about a 50% increase in demand. In addition to completing Perry Unit 1 and Beaver Valley Unit 2, as described below, the Company is studying various alternatives to meet its projected demand and to replace aging generating units. The alternatives include combinations of the following: completing Perry Unit 2; constructing new generating units using new technologies currently being developed; extending the useful life of some existing generating capacity and utilizing long-term power purchases. Many factors are being considered to determine the most reliable and economical alternative. These include not merely construction costs but also operation, maintenance and fuel costs, the impact of potential acid rain legislation and the possibility of bulk power sales to other utilities in the 1990s. Also being considered in connection with Perry Unit 2 are the costs, uncertainties and risks associated with the construction and licensing of nuclear units, as described in Note L of "Notes to Consolidated Financial Statements".

The current estimate of the Company's construction program expenditures for the 1985-1989 period, taking into account the alternatives described above, ranges between \$1,900,000,000 and \$2,400,000,000, including an allowance for funds used during construction ("AFUDC") and excluding nuclear fuel. (See Note A of "Notes to Consolidated Financial Statements" for an explanation of AFUDC.) Major components of the program are as follows:

	Millions of Dollars	
Perry Unit 1	\$ 245	\$ 245
Beaver Valley Unit 2	402	402
Perry Unit 2	55*	636**
Transmission, Distribution and General Facilities	415	415
Pollution Control Facilities	53	53
Generating Unit Modifications	730	649
	<u>\$1,900</u>	<u>\$2,400</u>

*All in 1985

**Assumes completion of Perry Unit 2 in 1993.

Expenditures for all facilities in 1985, including AFUDC, are expected to range from \$550,000,000 to \$600,000,000, of which about \$89,541,000 has been expended as of February 28, 1985. See Item 1, "Business--Environmental Regulation" for a description of environmental control projects and circumstances which might make it necessary to increase substantially the 1985-1989 expenditures for pollution control facilities. See Item 1, "Business--Operations--Electric Generation and Fuel Supply--Nuclear" for information regarding nuclear fuel supplies and financing.

Perry Unit 1 and the facilities to be used in common with Perry Unit 2 are currently about 98% complete and are scheduled for completion around the end of 1985. The estimated cost of the Company's 375,000-kilowatt share is about \$1,200,000,000, including AFUDC. The completion schedule for Perry Unit 1 and common facilities is tight, but the Company believes it is achievable.

Beaver Valley Unit 2 is currently about 85% complete and is scheduled for completion around the end of 1987. The estimated cost of the Company's 204,000-kilowatt share is about \$1,000,000,000, including AFUDC.

Perry Unit 2, exclusive of the common facilities, is about 44% complete. Including its share of the common facilities, Perry Unit 2 is about 57% complete. The Unit had been scheduled for completion in 1988 and the Company's 375,000-kilowatt share of its cost had been estimated at about \$800,000,000, including AFUDC. The CAPCO Group companies are reviewing several alternatives with respect to Perry Unit 2, including resumption of full construction, with a revised estimated cost and completion date, or cancelation. In the meantime, the only work being done on Unit 2 is that necessary to place Unit 1 in service. For further information regarding this review, the continuation of AFUDC accruals for Perry Unit 2, the effects if Perry Unit 2 is canceled, and a petition relating to the need for Perry Unit 2, see Note L of "Notes to Consolidated Financial Statements".

See Item 1, "Business--General Regulation--Nuclear Regulatory Commission" regarding the status of licensing proceedings for Perry Units 1 and 2 and Beaver Valley Unit 2.

The Company regularly monitors its construction plans and cost estimates. There can be no assurance that the scheduled completion dates of the generating units can be met or that the estimated cost of the Company's 1985-1989 construction program, particularly with respect to the generating units, will not be exceeded.

In its announcement of the most recent rate increase granted to the Company which is discussed under Item 1, "Business--Operations--Electric Rates", The Public Utilities Commission of Ohio ("PUCO") stated that it would start an investigation soon to determine whether any costs at Perry Unit 1 are excessive. It also plans in the near future to conduct a study of possible excess electric utility capacity in Ohio and to begin to develop a working policy regarding any such excess capacity. It is possible that an investigation of the costs of Beaver Valley Unit 2 (or Perry Unit 2, if completed) also will be conducted. The Company believes that any disallowance or deferral of recovery of its share of the costs of those Units would be unjustified, except such deferral of recovery as may be provided by the PUCO under Ohio's CWIP law as described under the last mentioned heading.

As part of its February 19, 1985 decision in Toledo Edison's emergency rate case, the PUCO ordered Toledo Edison to analyze the feasibility of reducing the CAPCO Group's generating unit construction program and Toledo Edison's participation in it and to file a report on such analysis by May 1, 1985.

As discussed under this heading and in Note L of "Notes to Consolidated Financial Statements", the CAPCO Group nuclear generating unit construction program involves numerous risks in the areas of construction, completion and licensing, the continuing ability of the CAPCO Group companies to pay for their shares and the recovery through rates of the Company's total investment in the units involved. As indicated in those discussions, the likelihood of a significantly adverse event occurring in any of these risk areas and the potential severity of any adverse impact of such an event on the Company varies. It should be recognized that an event could occur which could have a material adverse impact on the financial condition and/or results of operations of the Company.

Financing Program

Assuming adequate and timely rate relief, the Company plans to finance, depending on the size of its construction program, about one-third to one-half of its 1985-1989 construction program through the issuance of securities, with larger

percentages in the earlier years. In the second quarter of 1985, the Company plans to sell up to \$100,000,000 of first mortgage bonds and to finance pollution control facilities through tax-exempt bonds issued by public authorities. Later in the year, the Company plans to sell additional first mortgage bonds and preferred stock. The Company expects to meet all its needs for common equity capital in 1985 through the sale of common stock under its employee stock purchase plans and its Dividend Reinvestment and Stock Purchase Plan. The types, amounts and timing of other future financings have not been determined.

See "Financial Statements--Capitalization" and Notes E, G and H of "Notes to Consolidated Financial Statements" for maturities of long-term debt and retirement provisions of preferred and preference stock during the 1985-1989 period. The Company plans to refinance these securities through the sale of additional securities.

In 1984, Moody's Investors Service lowered its ratings on the Company's first mortgage 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 the Company's first mortgage bonds twice during the year, from A to A- and then to BBB+. However, Standard & Poor's did affirm the ratings on the Company's preferred stock and commercial paper at BBB and A2, respectively.

These ratings changes have increased borrowing costs. In taking its action to lower the Company's credit ratings, Standard & Poor's cited the increased cost of the Company's nuclear construction program and the "largely indifferent tenor of Ohio regulation". Both rating agencies announced that the Company's ratings are under review because of the amount of the rate increase received in March 1985 which is discussed under Item 1, "Business--Operations--Electric Rates".

See Note E of "Notes to Consolidated Financial Statements" for details regarding the limitations on the issuance of additional first mortgage bonds. There are no restrictions on the issuance of additional authorized serial preferred stock or serial preference stock.

OPERATIONS

Sales

The Company serves at retail about 714,800 electric customers of which about 90% are classified residential, 9% commercial and 1% industrial and other.

In 1984, 31% of total electric operating revenues was derived from residential sales, 28% from commercial sales, 37% from industrial sales and 4% from other sales, sales to utilities and other electric operating revenue. The Company serves a wide diversity of industries, the principal ones being those producing steel and other primary metals, automotive and other transportation equipment, chemicals, electrical and nonelectrical machinery, fabricated metal products and rubber and plastic products. The loss of any single customer would not have a materially adverse effect on the Company's business.

Kilowatthour sales for 1984 compared with 1983 were as follows:

	1984 (millions of kwhrs)	1983	Percent Change
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

See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of sales results. Customer demand for electric service from the Company is heavier in the summer months due in large part to air conditioning load. Also see Item 1, "Business--Operations--Operating Statistics" for kilowatthour sales and other data for each of the last five years and Item 1, "Business--Operations--Competition".

Electric Rates

Under Ohio law, rate base is the original cost less depreciation of a utility's total plant plus certain other items. The law permits the PUCO, in its discretion, to include in rate base construction work in progress ("CWIP") on construction projects, as discussed below, and to allow utilities to normalize the effects of the tax deferral arising from the use of liberalized depreciation (see Note A of "Notes to Consolidated Financial Statements" for a discussion of tax deferrals and normalization). Also, requested rates can be collected subject to refund if the PUCO does not make a decision within 275 days after the application is filed. If the PUCO does not make its final decision within 545 days, revenues collected thereafter are not subject to refund. A notice of intent to file an application for a rate increase cannot be filed before the issuance of a final order in any prior pending application for a rate increase or until 275 days after the filing of the prior application, whichever is earlier. The minimum period by which the notice of intent to file must precede the actual filing is 30 days. The test year for determining rates may not end more than nine months after the date the application for a rate increase is filed.

CWIP may be included in rate base for construction projects which are at least 75% complete. The amount includable for all projects is limited 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, resulting in lower revenues during that period. During the period of exclusion, the equivalent of AFUDC accrues on the excluded portion to 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.

Effective March 12, 1985, the PUCO granted the Company an increase in electric rates of \$19,500,000, or 1.6%. The Company had requested an increase of \$180,000,000. The allowed rate of return is 12.99% on rate base and 16.85% on common stock equity. The PUCO did not allow any CWIP in rate base for Perry Unit 1. Previously, the Company had been receiving approximately \$30,000,000 of annual revenue for Unit 1 CWIP which had been included in rate base. The Company will request the PUCO to reconsider the denial of CWIP and other matters. See Item 1, "Business--Construction and Financing Program--Construction Program" regarding statements made by the PUCO in its announcement of this rate decision.

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

In June 1983, the Company increased wholesale electric rates by \$716,000. This increase is being collected subject to refund pending the outcome of hearings by the Federal Energy Regulatory Commission ("FERC").

Operating Statistics

	Year Ended December 31,				
	1980	1981	1982	1983	1984
Customers (at end of period)					
Electric					
Residential	642,845	642,925	641,705	643,065	644,904
Commercial	60,070	60,714	61,861	62,075	61,934
Industrial	7,210	7,261	7,235	7,274	7,521
Other	432	425	421	419	409
Total Electric	710,557	711,325	711,222	712,833	714,768
Steam	348	337	312	274	256
Sales					
Electric (in thousands of kilowatthours)					
Residential	4,463,147	4,375,732	4,335,605	4,412,155	4,446,352
Commercial	4,148,990	4,178,459	4,194,177	4,265,023	4,396,395
Industrial	8,062,172	8,279,700	7,082,261	7,513,673	7,997,000
Other	1,485,445	673,973	553,114	446,621	433,310
Total Electric	18,159,754	17,507,864	16,165,157	16,637,472	17,273,057
Steam (in thousands of pounds)	1,979,397	1,612,151	1,501,077	1,281,499	1,306,626
Revenues (in thousands of dollars)					
Electric					
Residential	\$268,787	\$ 310,409	\$ 348,757	\$ 385,076	\$ 375,597
Commercial	220,677	263,608	304,801	334,660	338,625
Industrial	323,764	386,805	393,794	430,209	441,285
Other	65,273	39,912	43,702	44,217	44,958
Total Electric	878,501	1,000,734	1,091,054	1,194,162	1,200,465
Steam	15,065	12,196	17,517	16,154	14,888
Total Electric and Steam	\$893,566	\$1,012,930	\$1,108,571	\$1,210,316	\$1,215,353
Cost of Fuel Burned--					
¢/Million Btu (Electric)	156.9¢	175.1¢	174.7¢	169.1¢	163.3¢

Electric Generation and Fuel Supply

In 1984, approximately 87% of the Company's electric generation was produced from its coal-fired and pumped storage hydroelectric units, 13% from the Davis-Besse Nuclear Power Station ("Davis-Besse") and an insignificant amount from the Company's oil-fired units.

At the time of the Company's peak load in 1984, it had a capacity margin of 24%. Over the 1985-1989 period, the Company forecasts capacity margins at the time of the projected system peak loads ranging from 21% to 26%.

Coal--In 1984, the Company burned 6,171,417 tons of coal for electric generation. The Company normally maintains a reserve supply of coal sufficient for about 50 to 60 days of normal operations. On March 1, 1985, this reserve was about 71 days, but is gradually being returned to normal following resolution of labor contracts in the coal mining industry in 1984.

The Company currently obtains most of its coal from deep mines in southeastern Ohio coal fields. About 69% of the Company's coal requirements are purchased under long-term contracts with the longest remaining term being 15 years. In most cases, these contracts provide for adjusting the price of the coal on the basis of changes associated with coal quality and mining costs. The sulfur content of the coal purchased under the long-term contracts, including those described below, ranges from less than 1% to about 4%. The balance of the Company's coal is purchased on the spot market with sulfur content ranging from less than 1% to 3.5%.

One of the Company's long-term contracts is with The NACCO Mining Company ("Nacco"), a subsidiary of The North American Coal Corporation, to supply the Company with high-sulfur coal through at least 1997. Nacco has developed a deep mine for this purpose in southeastern Ohio. The Company has agreed to make subordinated loans to Nacco if and to the extent necessary to enable it to make principal, interest and rental payments on its long-term debt and leased equipment financing incurred to develop the mine and on its working capital line of credit. If the coal sales agreement is terminated for any reason, including the inability to use the coal, the Company must assume Nacco's debt and lease obligations. The principal amount of debt and termination values of leased property covered by the Company's agreement to make subordinated loans was \$26,353,000 at February 28, 1985.

The CAPCO Group companies have severally guaranteed debt and lease obligations of Quarto Mining Company ("Quarto"), another subsidiary of The North American Coal Corporation, incurred to develop, equip and operate deep mines in southeastern Ohio supplying substantial quantities of high-sulfur coal to the Mansfield Plant through at least 1999. Each of the CAPCO Group companies has agreed, severally and not jointly, to guarantee a portion of the loan and lease obligations, the Company's share being 13.98% at December 31, 1982. Starting January 1, 1983, the Company's share of the guarantee of any new Quarto financing entered into after 1982 increases in equal annual amounts to a maximum of 19.86% effective January 1, 1986. At February 28, 1985, the Company's share of the guaranteed amount of \$363,124,000 was \$52,508,000. The Company expects that the revenues of Quarto from sales of coal to the CAPCO Group companies will continue to be sufficient for Quarto to meet its debt and lease obligations.

See Item 1, "Business--Environmental Regulation--Air Quality Control--Compliance with Federal Sulfur Dioxide Regulations for Ohio" regarding the Company's compliance with applicable sulfur dioxide emission standards. See Item 1, "Business--Environmental Regulation--Air Quality Control--Pennsylvania Regulation" regarding compliance with Pennsylvania air quality regulations applicable to the Mansfield Plant.

Nuclear--The acquisition and utilization of nuclear fuel involves six distinct steps: (i) supply of uranium oxide raw material, (ii) conversion to uranium hexafluoride, (iii) enrichment, (iv) fabrication into fuel assemblies, (v) utilization as fuel in a nuclear reactor and (vi) storing and reprocessing or disposition of spent fuel. The CAPCO Group companies have contracts for the supply of raw material sufficient to provide nuclear fuel through 1994 for the operation of their nuclear generating units, including the initial core for Perry Unit 2, and have contracts for conversion and fabrication services for most of that fuel. The additional required conversion and fabrication services are available. Substantial additional fuel will have to be obtained in the future over the remaining useful life of the units. The CAPCO Group companies have a 30-year contract with the Federal Department of Energy which will supply up to all of the needed enrichment services for the units' fuel supply for that period.

Spent fuel reprocessing is not available, although it is permitted by the Federal government. Off-site disposal of spent fuel currently is not available. However, under the provisions of the Nuclear Waste Policy Act of 1982, the Federal government by January 31, 1998 must commence the disposal of high-level radioactive waste and spent fuel at Federal facilities in accordance with contracts to be entered into between the Federal Department of Energy and electric utilities. The spent fuel storage capacity at Davis-Besse, Beaver Valley Unit 2 and Perry Units 1 and 2 should be sufficient through 1993, 2009 and 1997, respectively. Additional on-site capacity can be constructed by the time it is needed.

Each company in the CAPCO Group is responsible for financing the portion of the capital costs of nuclear fuel equivalent to its ownership interest in the unit in which the fuel will be utilized. The CAPCO Group companies have entered into lease and other arrangements for the financing of up to \$1,293,000,000 of nuclear fuel for Beaver Valley Units 1 and 2 (the Company has no ownership interest in Beaver Valley Unit 1), Davis-Besse and Perry Units 1 and 2, the Company's share being a maximum of \$370,000,000. See Note L of "Notes to Consolidated Financial Statements" for a discussion of these nuclear fuel financing arrangements. As of February 28, 1985, the Company's share of nuclear material financed so far under these arrangements was \$196,711,000. The type and amount of additional permanent financing to be used for the Company's continuing nuclear fuel requirements are expected to be determined and arranged for as the need arises.

Oil--The Company has adequate supplies of oil and fuel for its oil-fired electric generating units which are used primarily as reserve and peaking capacity. Oil also is used at the East 20th Street Steam Plant.

Competition

The Company's primary competition is natural gas for space and process heating and appliances. The Company also faces some competition from oil fuel and propane gas for heating purposes.

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

The Company also periodically competes with other electric utilities for sales to electric utilities which are in the market for bulk power purchases.

The City of Cleveland operates, in competition with the Company, an electric generation and distribution system under the City's Division of Light and Power (known locally as "Muny Light") which supplies electric power in approximately 40% of the City's area and to approximately 19% (about 46,000) of the electric consumers in Cleveland--equal to about 6% of all customers served by the Company. Much of the area served by Muny Light overlaps that of the Company. The Company is obligated to provide up to 100,000 kilowatts of Muny Light's energy requirements over two 138 kV interconnections. However, in recent years, Muny Light has not made significant power purchases from the Company. In 1984, the Company provided less than 1% of Muny Light's energy requirements. The balance of Muny Light's power is purchased from other sources and transmitted or "wheeled" over the Company's transmission system. For all classes of customers, the Company's rates are higher than Muny Light's rates due to purchases of low-cost power by Muny Light which are not available, by law, to the Company and to the exemption from taxation enjoyed by Muny Light. In May 1983, Muny Light announced its intention to convert some of the Company's customers to its service. Later that year, Muny Light announced plans to expand service throughout the City, beginning with a line to Cleveland Hopkins Airport, if financing can be obtained. To date, the Company has experienced the loss of an insignificant number of customers, which were primarily residential, to the Muny Light system. The Company cannot predict whether Muny Light actually will undertake such expansion.

On August 6, 1984, the Company filed a suit, on behalf of itself and all other taxpayers of the City of Cleveland, in the Court of Common Pleas in Cuyahoga County, Ohio, claiming that the City of Cleveland transferred tax money from its General Fund and other funds to Muny Light in violation of the City's Charter. The tax money had been transferred pursuant to an ordinance passed by the City Council. The ordinance provided that the money so transferred was not to be returned. The Company believes that in excess of \$24,000,000 of the transferred tax money had been used to assist in the operation of the City's electric business which the City Charter requires to be a nontax-supported undertaking. The Company requested that the City be permanently enjoined from using tax money to permanently subsidize Muny Light and ordered to revise the accounting records of Muny Light to show that tax monies previously transferred are debt liabilities owing to the General Fund and other funds of the City.

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

GENERAL REGULATION

State Utility Commissions

The Company is subject to the jurisdiction of the PUCO with respect to rates, service, accounting, issuance of securities and other matters. Under Ohio law, municipalities may regulate rates, subject to appeal to the PUCO if not acceptable to the utility. The Company also is subject to the jurisdiction of the Pennsylvania Public Utility Commission in certain respects relating to its ownership interests in generating facilities located in Pennsylvania.

The PUCO is composed of five commissioners appointed by the Governor from nominees recommended by a 12-member Public Utility Commission Nominating Council. Nominees must have at least three years' experience in one of several disciplines. Not more than three commissioners may belong to the same political party.

The PUCO staff is in the process of initiating a study on the feasibility of power pooling in Ohio among the electric utilities in addition to those studies mentioned above under Item 1, "Business--Operations--Electric Rates".

Ohio Department of Development

The Company must file an annual long-term forecast of customer loads, facilities to serve those loads and prospective sites for those facilities. The Division of Energy of the Ohio Department of Development must hold a hearing at least once every five years on such forecast. The OPSB and the PUCO are required to consider the record of such hearings in proceedings for approving facility sites, changing rates, approving security issues and initiating energy conservation programs. The Ohio Department of Development held a hearing with respect to the Company's 1983 long-term forecast and, in December 1984, found that the Company's forecasting and generation planning practices were reasonable.

Ohio Power Siting Board

The OPSB has state-wide jurisdiction, except to the extent pre-empted by Federal law, over the location and certain environmental aspects of electric generating units with a capacity of 50,000 kilowatts or more and transmission lines with a rating of at least 125 kV. The OPSB has disapproved the location of an additional transmission line which would tie the Perry Plant into the CAPCO Group's systems. The Company has presented alternate routes for consideration by the OPSB. An OPSB administrative law judge had recommended that the alternate routes also be disapproved, but the OPSB itself has not yet acted.

Federal Energy Regulatory Commission

The Company is subject to the jurisdiction of FERC with respect to the transmission and sale of power at wholesale in interstate commerce, interconnections with other utilities, the ownership and operation of the pumped storage hydroelectric Seneca Power Plant, accounting and certain other matters.

Nuclear Regulatory Commission

With respect to the construction, ownership and operation of nuclear generating units in which it has an interest, the Company is required to obtain construction permits and operating licenses from the Nuclear Regulatory Commission ("NRC"). An operating license for Davis-Besse and construction permits for Beaver Valley Unit 2 and Perry Units 1 and 2 have been issued by the NRC. Applications for operating licenses for Perry Units 1 and 2 and Beaver Valley Unit 2 have been filed with the NRC and proceedings have started. The NRC has decided in favor of the Company on a number of issues raised by intervenors in the Perry proceedings, including the Company's quality assurance program. Three matters remain to be heard by the NRC in the licensing process--emergency evacuation planning, backup diesel generators and hydrogen control systems. Hearings on these matters are scheduled to begin in early April 1985. The Company believes, based on its knowledge of the quality of construction, recent inspections and reviews by the NRC and other regulatory agencies and the merits of the issues, that it should be permitted to load fuel and receive a full operating license for Perry Unit 1 without significant delay. Beaver Valley Unit 2 is progressing toward completion with no reason to believe at this time that an operating license will not be issued. No public hearing is expected to be held on the Beaver Valley Unit 2 operating license application because the four intervenors failed to submit valid contentions.

Owners of nuclear units are required to purchase the full amount of nuclear liability insurance available. See Note L of "Notes to Consolidated Financial Statements" for a description of the Company's nuclear insurance coverages.

ENVIRONMENTAL REGULATION

The Company is subject to regulation as to air and water quality and waste disposal by Federal, state and local authorities. Air and water quality and waste disposal laws and regulations are in the process of development and require a balancing of the need for additional energy in future years, the need to protect the environment and the costs involved. As a result, the Company cannot now estimate all the effects of such existing and future laws and regulations upon its existing and proposed facilities and operations. Compliance with such laws and regulations may require the Company to modify, supplement, abandon or replace facilities and may delay or impede construction and operation of facilities, all at costs which could be substantial. The Company expects that the impact of such costs would eventually be reflected in its rate schedules. Nonetheless, the Company contests those environmental regulations which it believes are unreasonable.

At the present time, the Company plans to spend, over the period 1985-1989, \$53,000,000 for pollution control facilities. These costs are included in the Company's construction program described in Item 1, "Business--Construction and Financing Program--Construction Program".

Air Quality Control

Federal and Ohio Regulation--Under the Federal Clean Air Act of 1970 as amended ("Air Act"), the Ohio Environmental Protection Agency ("Ohio EPA") has adopted for Ohio emission limits for particulate matter and sulfur dioxide and plans

for implementing those limits. The Federal Environmental Protection Agency ("Federal EPA") has approved the Ohio EPA's particulate emission limits and the related implementation plan, but not those for sulfur dioxide. The Federal EPA has adopted sulfur dioxide emission limits for each of the Company's plants in Ohio. The Ohio EPA has proposed revised sulfur dioxide emission limits for those plants substantially the same as those adopted by the Federal EPA. The Federal EPA is considering whether to approve the Ohio EPA's proposal. Both the Ohio and Federal governments can enforce Federally approved Ohio regulations.

The Air Act provides for a civil penalty of up to \$25,000 per day for violations of an implementation plan or violations of a compliance schedule in a delayed compliance order. The Air Act also provides for a "noncompliance penalty" for such violations based on any capital, debt service, operation and maintenance costs avoided as a result of noncompliance and on the economic value, if any, of delay in compliance. Capital investments made to achieve compliance during a period of noncompliance may be credited to reduce the penalty. A noncompliance penalty could be substantial depending upon the circumstances.

Compliance with Ohio EPA Particulate Regulations--To bring its coal-fired generating plants along Lake Erie into compliance with Ohio's particulate emission standards, the Company has converted certain older electric generating units to oil fuel, installed new precipitators at 12 other units, modified the precipitators at three units and refurbished the Canal Road Steam Plant and changed it to burn lower ash coal.

The Company, the Federal EPA and the City of Cleveland have agreed in a consent decree to maximum permissible generating levels at or near 100% of the net demonstrated capability for the Avon Lake 9, Eastlake 5, Lake Shore 18 and two Canal Road Units, to the installation by the Company of a new precipitator at Avon Lake Unit 9 by February 1986 and to ongoing compliance testing, monitoring and reporting by the Company. The decree establishes a penalty of \$5,000 per day per plant for any future violation of any maximum permissible operating level, violation of the Ohio particulate regulations or failure to complete the new Avon Lake Unit 9 precipitator on time for any reason in the control of the Company. A penalty of \$1,000 per day is specified for any future failure to comply with other portions of the decree.

Compliance with Federal Sulfur Dioxide Regulations for Ohio--The Company's Ohio plants comply with the Federal EPA limitations on sulfur dioxide emissions applicable to those plants.

In a case in the United States Court of Appeals for the Sixth Circuit, an environmental group and two states east of Ohio have requested that the Federal EPA be required to re-establish Ohio's previously existing, more stringent sulfur dioxide emission limitations for the Eastlake and Avon Lake Plants, hoping thereby to reduce long-range interstate transport of air pollutants. The Company has intervened. Two coal companies, an association of coal companies and the State of Ohio, which also have intervened, and the Federal EPA support the Company's position that the existing regulations should not be modified to make them more stringent.

The Federal EPA has proposed new stack height regulations which do not allow full credit for the actual height of a stack for sulfur dioxide emission limit purposes. Final regulations are scheduled to be issued in June 1985. The Company cannot predict what the effect will be if the proposed stack height regulations are made final or whether a change in sulfur dioxide emission limitations applicable to its Avon Lake and Eastlake Plants would result from such regulations. (See below for a discussion of the possible effects of such regulations and associated costs.)

Congress is considering bills which would amend the Air Act to require various states, including Ohio, to reduce sulfur dioxide emissions significantly. The Company cannot predict whether or when such legislation might be adopted, but, if enacted, such legislation would result in substantial capital investment and operating expenses, unless an alternate funding mechanism is provided by Congress.

Depending upon the time allowed the Company to achieve compliance, more stringent sulfur dioxide regulations or legislation could ultimately require the Company to use more low-sulfur coal, which would have to be obtained primarily from sources outside Ohio, or to install scrubbers. It is expected that the cost of using more low-sulfur coal would be significantly less than the cost of installing and operating scrubbers. The Company believes that the cost of additional low-sulfur coal and scrubbers eventually would be recovered in rates. Also, it might be necessary for the Company to exercise its right to terminate deliveries of high-sulfur coal supplied under certain long-term contracts due to inability to burn such coal lawfully. One or more suppliers under those contracts might claim substantial termination charges in amounts which cannot now be determined, but the Company believes it would not be obligated to pay such charges and, in any event, the cost of terminating such deliveries would not have a material adverse effect upon the Company's financial position. If it were to become necessary to terminate the Nacco contract (see Item 1, "Business--Operations--Electric Generation and Fuel Supply--Coal"), the Company would have to assume certain obligations of Nacco which, if paid in one sum, could have a material adverse impact on income in the period in which it occurs.

Pennsylvania Regulation--In response to the requirements of the Air Act, the Commonwealth of Pennsylvania also has adopted particulate and sulfur dioxide emission limitations and a plan for implementing compliance with those limitations. The Company's only fossil fuel generating plant in Pennsylvania (Mansfield) complies with those limitations.

Water Quality Control

The Federal Water Pollution Control Act as amended ("Water Act") provides that (1) certain effluent limitations (that is, limits on discharges of pollutants into bodies of water) should have been achieved by July 1, 1977 ("1977 effluent limitations") and (2) more stringent effluent limitations must be achieved by July 1, 1984 ("1984 effluent limitations"). It also provides that as to new power plants even more stringent effluent limitations be adopted, including zero discharges, where practicable. The Water Act also requires that cooling water intake structures for power plants incorporate the best technology available for minimizing adverse environmental impact. Also under the

Water Act, the states must establish water quality standards (which could require more stringent effluent limitations and facilities than those described above) and a permit system to be approved by the Federal EPA. Violators of effluent limitations and water quality standards are subject to a civil penalty not to exceed \$10,000 per day of such violation.

The Water Act permits heat effluent limitations to be established for a facility which are less stringent than otherwise would apply if the owner can demonstrate that such less stringent limitations are sufficient to assure the protection and propagation of aquatic and other wildlife in the affected body of water. The Company has submitted such demonstrations for review with respect to its Ashtabula, Avon Lake, Lake Shore and Eastlake Plants.

In October 1974, the Federal EPA adopted effluent limitations relating to discharges of heat and chemicals into water by electric generating units. Compliance with the heat discharge limitations would have required by July 1, 1981 closed-cycle evaporative cooling, such as cooling towers, for the Company's Avon Lake Unit 9 and Eastlake Unit 5 and any new units placed into service. The United States Court of Appeals for the Fourth Circuit has ruled that the heat discharge limitations were invalid as applied to retrofitting cooling towers on existing units and that the chemical discharge regulations must provide a more reasonable means for utilities to request variances. The Federal EPA has revised its chemical discharge regulations to permit variances based on significant cost factors but has not yet proposed revisions to its heat discharge regulations.

In January 1975, Ohio adopted water quality standards relating to heat and chemicals and a permit system which have been approved by the Federal EPA. As a result of proceedings between the Company and the Ohio EPA, the Ohio EPA issued abatement orders for the Company's Ohio electric generating plants under which the Company was required to install facilities designed to achieve compliance with the 1984 effluent limitations relating to chemicals by November 1, 1980. The Company, however, was not required to install facilities which would have brought the plants into compliance with the less stringent 1977 effluent limitations relating to chemicals. The Company has requested the Federal EPA to grant variances from those 1977 effluent limitations on the ground that various site-related factors justified variances and that it was more practical to install facilities designed to meet the more stringent 1984 effluent limitations in advance of the 1984 deadline. Under the abatement orders, the Company has undertaken to make the demonstrations described in the second preceding paragraph to obtain less stringent heat emission standards.

As a result of a settlement of a February 1981 State of Ohio suit relating to the abatement orders, the Company paid a civil penalty of \$111,255, purchased test equipment for the Ohio EPA at a cost of about \$275,000 and has installed on-site water quality test laboratories at three of the Company's plants at a total cost of about \$717,000.

In February 1978, the Ohio EPA revised its 1975 water quality standards relating to heat and chemicals which are referred to in the second preceding paragraph. In November 1982, these standards were approved by the Federal EPA. Compliance with the heat standards could require closed-cycle evaporative cooling, such as cooling towers, on some or all of the Company's existing electric generating plants in Ohio, and compliance with the chemical

standards could require construction of substantial additional waste water treatment facilities. In February 1978, the Company appealed the validity of the new standards to the Ohio Environmental Board of Review ("EBR"). After litigation on procedural matters, the EBR is reviewing the standards on substantive grounds.

In March 1985, the Ohio EPA again revised its 1975 water quality standards. The Company will appeal the adoption of these new standards to the EBR.

The cost of retrofitting cooling towers on all of the Company's existing electric generating plants in Ohio to comply with the Federal and Ohio regulations described above could be substantial. Several cooling towers would be necessary if retrofitting were required for all of the Company's fossil fuel generating plants on Lake Erie. Also, the Company probably would have to construct substantial additional generating capacity to replace generating capacity which would be used to operate such closed-cycle cooling on units which had been designed to use once-through cooling. No cost of retrofitting cooling towers on such units is included in the Company's construction program.

In May 1976, the Federal EPA adopted regulations which could affect the design of cooling water intake and discharge facilities for existing and new power plants in order to protect aquatic wildlife. Such regulations could require new facilities, such as cooling towers, or modifications of existing or planned intake facilities at costs which could be substantial. These regulations were declared invalid by the United States Court of Appeals for the Fourth Circuit because administrative rule-making procedures were violated. The Federal EPA has not yet issued revised regulations. However, the Company is conducting a study to demonstrate that its existing cooling water intake facilities minimize adverse environmental impact in accordance with the Water Act.

Water cooling towers have been constructed at Davis-Besse and the Mansfield Plant, and cooling towers are being constructed for all generating units currently being built.

The Federal EPA is considering whether to issue regulations controlling the discharge of certain toxic pollutants by power plants. The Company is unable to predict whether any such regulations would affect the Company.

Waste Disposal

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

The Ohio legislature is considering revisions to Ohio law which could subject fly ash to more stringent Ohio regulation. The Company is unable to predict the effect of the proposed revisions, if enacted.

EXECUTIVE OFFICERS OF THE REGISTRANT

Each executive officer has been employed by the Company for more than five years in the executive or management positions indicated below.

<u>Name</u>	<u>Age as of March 31, 1985</u>	<u>Office</u>	<u>Effective Date of Position</u>
Robert M. Ginn	61	Chairman of the Board	September 27, 1983
		President	May 1, 1977
Richard A. Miller	58	President	September 27, 1983
		Executive Vice President	May 1, 1977
Harold L. Williams	58	Executive Vice President	February 1, 1974
Murray R. Edelman	45	Vice President-Nuclear	December 1, 1982
		Division Manager-Nuclear	
		Engineering & Construction Div.	April 1, 1982
		Manager-Nuclear Engineering Dept.	June 1, 1981
		Manager-Nuclear Quality Assurance Dept.	April 1, 1978
Rob Farling	48	Vice President-Administrative Services	July 1, 1980
		Manager-System Operation & Test Dept.	May 1, 1977
John W. Fenker	58	Vice President-Power Supply	July 1, 1980
		Vice President-Administrative Services	May 1, 1977
Frank A. Kender	57	Vice President-Marketing	February 15, 1978
Edgar H. Maugans	50	Vice President-Finance	February 1, 1979
John J. Misic	63	Vice President-Distribution & Services	July 1, 1980
		Division Manager-Distribution & Services Div.	February 1, 1979
Alan D. Wright	55	Vice President-Public Affairs & Legal	March 3, 1980
		Vice President & General Counsel	May 1, 1977
Alvin Kaplan	46	Vice President-Nuclear Operations Division	February 1, 1984
		Manager-Plant and Substation Engineering Dept.	July 1, 1980
		General Supervising Engineer, Nuclear Engineering Dept.	February 1, 1979
Charles C. Chopp	49	Controller	February 1, 1979
Andrew R. Felmer	61	Treasurer	October 1, 1982
		Secretary	May 28, 1974
E. Lyle Pepin	43	Secretary	October 1, 1982
		Assistant Secretary and General Supervisor, Corporate Relations Dept.	July 13, 1978

The present term of office of each of the above executive officers extends to the organization meeting of the Company's Board of Directors after the next annual election of Directors (scheduled to be held April 23, 1985).

No family relationship exists among any of the directors and executive officers of the Company.

Item 2. Properties

GENERAL

The electric generating facilities of the Company include all or a portion of 25 units at five fossil fuel plants, a 452,000-kilowatt share of Davis-Besse and a 305,000-kilowatt share of a pumped storage hydroelectric plant (the Seneca Power Plant), all located in Ohio and Pennsylvania. These seven plants provide the Company with a net demonstrated capability of 4,379,000 kilowatts during the winter.

The net system capability expected to be available to the Company during the summer of 1985 is 4,322,000 kilowatts. The net 60-minute peak load of the Company's service area, excluding interruptible load, occurred on July 21, 1983 and was 3,366,000 kilowatts. Including interruptible load, the Company's net 60-minute peak load occurred on July 9, 1981 and was 3,447,000 kilowatts.

The Company owns and operates two steam plants having a total capability of 1,222,000 pounds per hour. They supply steam for heating and other purposes to customers in the downtown area of Cleveland.

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

The Company also has interconnections with the Painesville Municipal Light Plant and Muny Light.

TITLE TO PROPERTY

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

- (1) Most of the facilities of the Lake Shore Plant are situated on artificially filled land, extending beyond the natural shoreline of Lake Erie as it existed in 1910. As of December 31, 1984, the cost of the Company's facilities, other than water intake and discharge facilities, located on such artificially filled land aggregated approximately \$103,959,000. Title to land under the water of Lake Erie within the territorial limits of Ohio (including artificially filled land) is in

the State of Ohio in trust for the people of the State for the public uses to which it may be adapted, subject to the powers of the United States, the public rights of navigation, water commerce and fishery and the rights of upland owners to wharf out or fill to make use of the water. The State is required by statute, after appropriate proceedings, to grant a lease to an upland owner, such as the Company, which erected and maintained facilities on such filled land prior to October 13, 1955. The Company does not have such a lease from the State with respect to the artificially filled land on which its Lake Shore Plant facilities are located, but the Company's position, on advice of counsel for the Company, is that its facilities and occupancy may not be disturbed because they do not interfere with the free flow of commerce in navigable channels and also constitute (at least in part) and are on land filled pursuant to the exercise by it of its property rights as owner of the land above the shoreline adjacent to the filled land. The Company does hold permits, under Federal statutes relating to navigation, to occupy such artificially filled land.

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

The fee title which the Company acquires as tenant-in-common owner of certain generating units does not include the right to require a partition or sale for division of proceeds of the units without the concurrence of all the other owners and their respective mortgage trustees and the Trustee under the Company's Mortgage.

Item 3. Legal Proceedings

Taxpayer Suit Challenging Transfer of Funds by City of Cleveland--See Item 1, "Business--Operations--Competition".

Suit Challenging Sulfur Dioxide Emission Limitations Applicable to the Company--
See Item 1, "Business--Environmental Regulation--Air Quality Control--Compliance
with Federal Sulfur Dioxide Regulations for Ohio".

Petition to Cease Construction of Perry Unit 2--See Item 1, "Business--Con-
struction and Financing Program--Construction Program", and Note L of "Notes
to Consolidated Financial Statements".

Applications for Operating Licenses for Perry Units 1 and 2 and Beaver Valley
Unit 2--See Item 1, "Business--General Regulation--Nuclear Regulatory Commission".

Intent to File Application for Rehearing with Respect to Electric Rate Case
Decision--Item 1, "Business--Operations--Electric Rates".

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

No matters were submitted to a vote of security holders, through the sollicita-
tion of proxies or otherwise, during the fourth quarter of 1984.

PART II

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

MARKET PRICE

The Company's common stock is traded on the New York, Midwest and Pacific Stock Exchanges. The quarterly prices, as reported on the consolidated tape, for the last two years were as follows:

	1984			1983		
	<u>High</u>	<u>Low</u>	<u>Close</u>	<u>High</u>	<u>Low</u>	<u>Close</u>
1st Quarter	19-3/8	16-1/2	17-3/8	21-1/2	18-3/4	20-7/8
2nd Quarter	17-3/8	13-3/4	15-3/4	21-1/4	19-1/2	20-5/8
3rd Quarter	18-1/8	14-3/4	18	21-1/4	18-3/4	21-1/4
4th Quarter	20-1/4	17-3/4	19-1/2	23	16-5/8	18-5/8

SHARE OWNERS

As of February 28, 1985, the Company had 106,755 common stock share owners of record.

DIVIDENDS

The quarterly dividend rate per share of common stock was increased from 57¢ to 60¢ in September 1983 and to 63¢ in September 1984. The Company has increased its dividend payments for 26 consecutive years and has paid cash dividends for 84 consecutive years. The payment of dividends will depend upon future earnings, the financial condition of the Company, business conditions and other relevant factors. At December 31, 1984, all earnings retained in the business (\$471,163,000) were available to pay dividends.

Item 6. Selected Financial Data

	Year Ended December 31,				
	1980	1981	1982	1983	1984
	(thousands of dollars, except per share amounts)				
Operating Revenues	\$ 893,566	\$1,012,930	\$1,108,571	\$1,210,316	\$1,215,353
Operating Expenses	\$ 743,051	\$ 820,226	\$ 879,644	\$ 951,954	\$ 953,242
Net Income	\$ 125,383	\$ 155,734	\$ 208,964	\$ 246,026	\$ 291,632
Earnings Per Share	\$ 2.26	\$ 2.52	\$ 3.01	\$ 3.28	\$ 3.64
Dividends Declared Per Share	\$ 2.00	\$ 2.08	\$ 2.19	\$ 2.31	\$ 2.43
Total Assets	\$3,094,462	\$3,406,075	\$3,872,909	\$4,267,427	\$4,926,441
Long-Term Debt	\$1,211,528	\$1,328,404	\$1,441,822	\$1,518,883	\$1,883,648
Preferred and Preference Stock:					
With Mandatory Redemption Provisions	\$ 260,500	\$ 325,000	\$ 322,000	\$ 318,000	\$ 292,818
Without Mandatory Redemption Provisions	\$ 95,071	\$ 95,071	\$ 95,071	\$ 144,021	\$ 144,021
Common Stock Equity	\$ 912,731	\$1,002,206	\$1,227,095	\$1,355,488	\$1,592,810

Item 7. 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, including AFUDC. 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 under Item 1, "Business--Construction and Financing Program--Construction Program", 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.

In 1984, Moody's Investors Service and Standard & Poor's Corporation lowered their ratings of certain securities of the Company, thereby increasing our borrowing costs. See Item 1, "Business--Construction and Financing Program--Financing Program", for details regarding these rating changes.

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. See Item 1, "Business--Operations--Electric Rates" for a discussion of the Company's most recent rate increase. 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 under Item 1, "Business--Construction and Financing Program--Financing Program". 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.

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 table shows the factors which have affected our electric revenues in each of the last three years.

	<u>1982</u>	<u>1983</u>	<u>1984</u>
	(millions of dollars)		
Change in Rates	\$131	\$111	\$-11
Change in Fuel Costs	9	-22	-12
Change in Kilowatthour Sales	<u>-50</u>	<u>14</u>	<u>29</u>
Change in Electric Operating Revenues	\$ 90	\$103	\$ 6

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 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

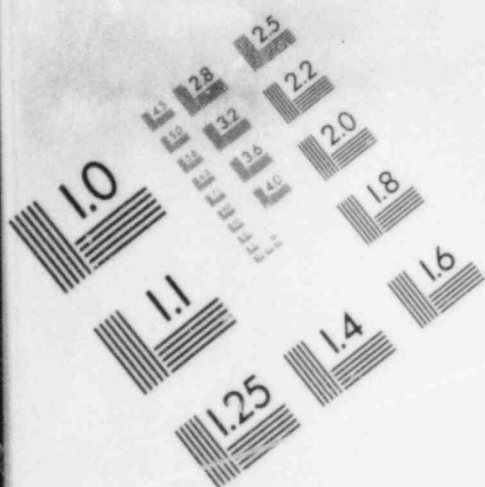
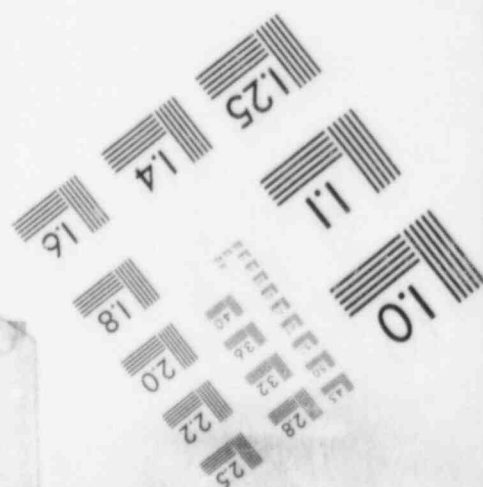
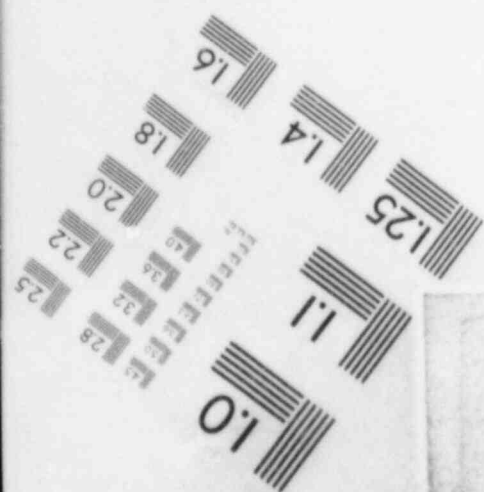
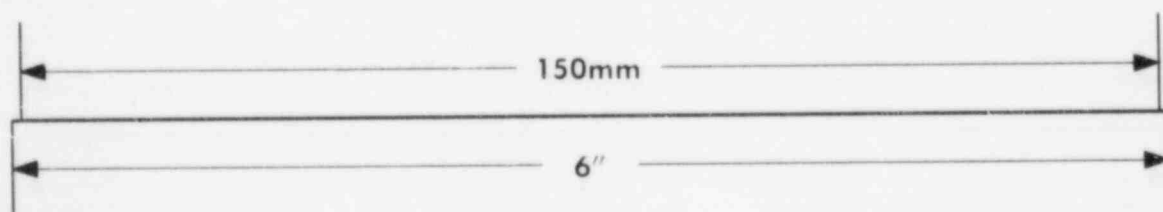
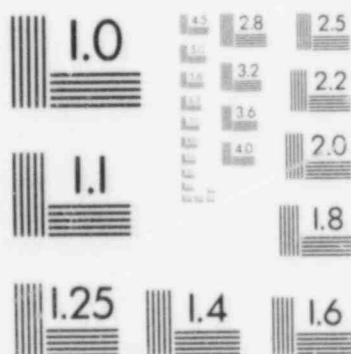
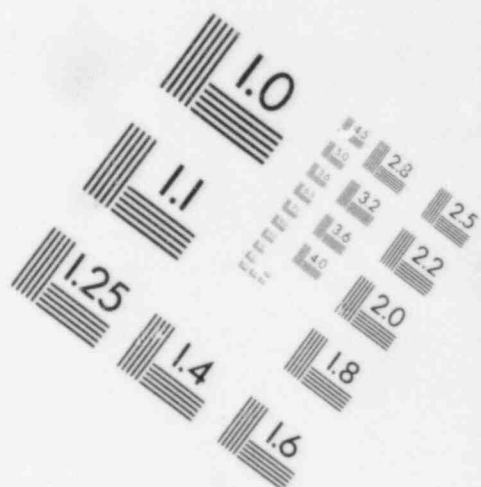


IMAGE EVALUATION TEST TARGET (MT-3)



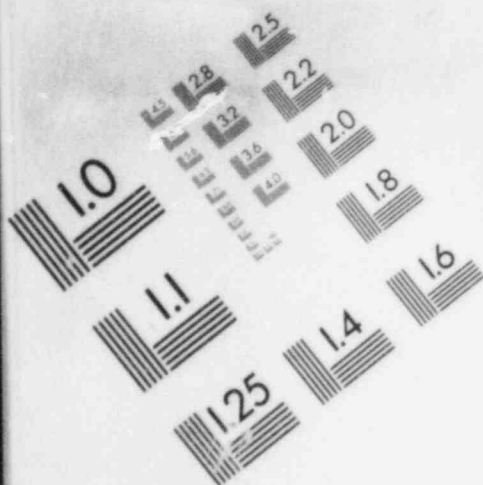
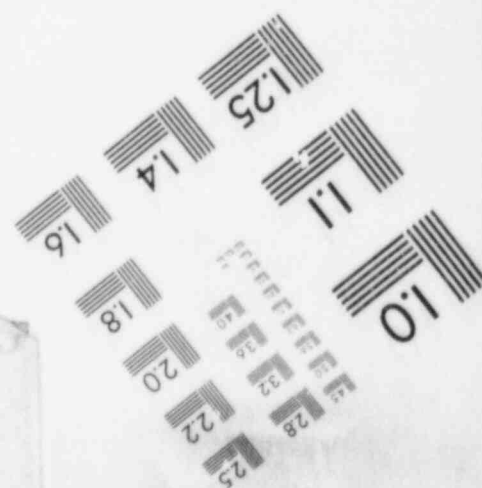
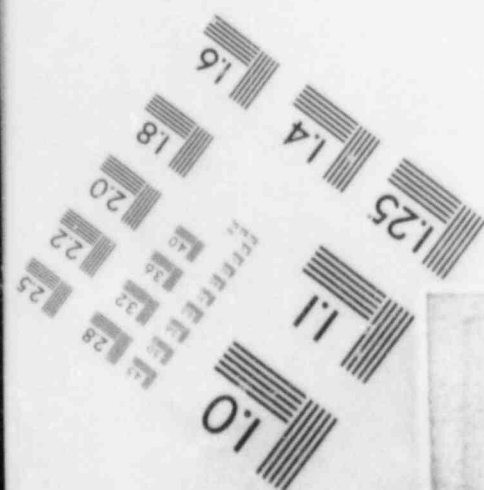
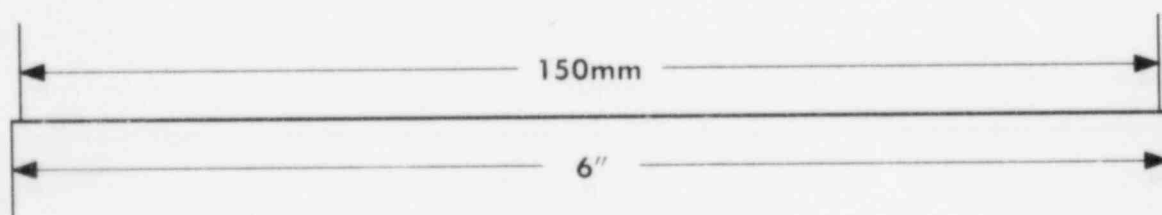
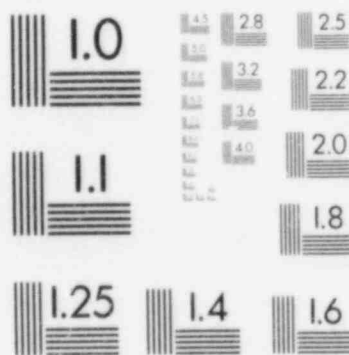
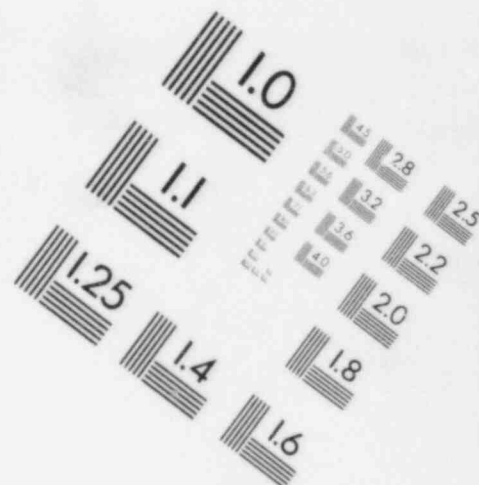


IMAGE EVALUATION TEST TARGET (MT-3)



details on matters affecting rates, see Item 1, "Business--Operations--Electric Rates" and 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 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".

Item 8. Financial Statements and Supplementary Data

INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

	<u>Page</u>
Management's Statement of Responsibility for Financial Statements	31
Report of Independent Accountants	32
Income Statement for Each of the Three Years in the Period Ended	
December 31, 1984	33
Retained Earnings Statement for Each of the Three Years in the Period	
Ended December 31, 1984	33
Balance Sheet at December 31, 1984 and 1983	34
Capitalization at December 31, 1984 and 1983	35
Changes in Financial Position for Each of the Three Years in the Period	
Ended December 31, 1984	37
Notes to Consolidated Financial Statements	38
Schedule V--Property, Plant and Equipment at December 31, 1984,	
1983 and 1982	58
Schedule VI--Accumulated Depreciation and Amortization of Property,	
Plant and Equipment at December 31, 1984, 1983 and 1982	61
Schedule VIII--Valuation and Qualifying Accounts at December 31, 1984,	
1983 and 1982	64
Schedule IX--Short-Term Borrowings at December 31, 1984, 1983 and 1982	65
Schedule X--Supplementary Income Statement Information for Each of the	
Three Years in the Period Ended December 31, 1984	66
Supplementary Information Concerning the Effects of Inflation	67

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

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 Form 10-K. 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 elsewhere in this Form 10-K.

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 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 of effective internal accounting controls and an accounting system designed to produce financial statements which present fairly the financial position of the Company.

REPORT OF INDEPENDENT ACCOUNTANTS

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

We have examined the consolidated financial statements of The Cleveland Electric Illuminating Company and its subsidiaries listed in the accompanying index. 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.

Cleveland, Ohio
February 8, 1985

Price Waterhouse

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES
INCOME STATEMENT

	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	<u>1,215,353</u>	<u>1,210,316</u>	<u>1,108,571</u>
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
	<u>503,975</u>	<u>515,416</u>	<u>498,081</u>
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	<u>953,242</u>	<u>951,954</u>	<u>879,644</u>
NET OPERATING INCOME	<u>262,111</u>	<u>258,362</u>	<u>228,927</u>
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	<u>169,200</u>	<u>114,148</u>	<u>96,669</u>
INCOME BEFORE INTEREST CHARGES	<u>431,311</u>	<u>372,510</u>	<u>325,596</u>
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	<u>139,679</u>	<u>126,484</u>	<u>116,632</u>
NET INCOME	<u>291,632</u>	<u>246,026</u>	<u>208,964</u>
Dividend requirements on preferred and preference stock	43,353	38,426	38,295
EARNINGS AVAILABLE FOR COMMON STOCK	<u>\$ 248,279</u>	<u>\$ 207,600</u>	<u>\$ 170,669</u>
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	<u>208,686</u>	<u>183,272</u>	<u>163,786</u>
BALANCE AT END OF YEAR	<u>\$ 471,163</u>	<u>\$ 388,217</u>	<u>\$ 325,463</u>

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

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES
BALANCE SHEET AT DECEMBER 31

ASSETS

	1984 (Thousands of Dollars)	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
	<u>2,908,893</u>	<u>2,838,135</u>
Less accumulated depreciation and amortization	798,979	722,492
	<u>2,109,914</u>	<u>2,115,643</u>
Construction work in progress	2,113,650	1,616,653
	<u>4,223,564</u>	<u>3,732,296</u>
Nuclear fuel in trust	67,418	58,599
Other property, less accumulated depreciation	27,859	11,545
	<u>4,318,841</u>	<u>3,802,440</u>
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
	<u>461,729</u>	<u>346,627</u>
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
	<u>84,449</u>	<u>99,742</u>
	<u>\$4,926,441</u>	<u>\$4,267,427</u>

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
	<u>3,913,297</u>	<u>3,336,392</u>
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
	<u>417,331</u>	<u>396,717</u>
DEFERRED CREDITS		
Unamortized investment tax credits	265,365	218,589
Accumulated deferred Federal income taxes	215,362	192,483
Other	33,725	54,305
	<u>514,452</u>	<u>465,377</u>
COMMITMENTS AND CONTINGENCIES - See Note L	<u>\$4,926,441</u>	<u>\$4,267,427</u>

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

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES
CAPITALIZATION AT DECEMBER 31

	1984 (Thousands of Dollars)	1983 (Thousands of Dollars)	1984 (Percent of Capitalization)	1983 (Percent of Capitalization)
LONG-TERM DEBT(a)				
First mortgage bonds - maturing through 2020 at rates of 2-3/4% to 16-5/8% (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	<u>1,883,648</u>	<u>1,518,883</u>	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				
	Annual Dividend Rate	1984 Shares Outstanding		
A	\$7.40	500,000	50,000	50,000
B	\$7.56	450,000	45,071	45,071
L	Adjustable(b)	500,000	48,950	48,950
			<u>144,021</u>	<u>144,021</u>
Preferred and Preference Stock with mandatory redemption provisions (Less \$5,782,000 in 1984 and \$4,000,000 in 1983 classified as current)				
	Annual Dividend Rate	1984 Shares Outstanding	Annual Mandatory Redemption Provisions(c)	Shares to be Redeemed at Option
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
				<u>247,218</u> <u>261,000</u>
Preference:				
l	\$ 77.50	45,600	4-1-84(d)	\$1,000 - 11,400 45,600 57,000
Total Preferred and Preference Stock				<u>436,839</u> <u>462,021</u>
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				
Retained earnings(e)			1,121,647	967,271
Total Common Stock Equity			<u>471,163</u>	<u>388,217</u>
TOTAL CAPITALIZATION			<u>1,592,810</u>	<u>1,355,488</u>
			<u>\$3,913,297</u>	<u>\$3,336,392</u>
			41	41
			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 12% 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.

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES
CHANGES IN FINANCIAL POSITION

	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	<u>\$971,128</u>	<u>\$693,309</u>	<u>\$832,439</u>
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	<u>\$971,128</u>	<u>\$693,309</u>	<u>\$832,439</u>
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)	<u>\$ 84,560</u>	<u>\$(59,957)</u>	<u>\$ 72,828</u>

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

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

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES
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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

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.

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:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

	<u>1984</u> (Thousands of Dollars)	% of Pre-Tax Income	<u>1983</u> (Thousands of Dollars)	% of Pre-Tax Income	<u>1982</u> (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
	<u>82,172</u>	<u>21.2</u>	<u>56,917</u>	<u>16.3</u>	<u>50,675</u>	<u>17.3</u>
Total Federal income tax expense	\$ <u>96,256</u>	<u>24.8</u>	\$ <u>104,139</u>	<u>29.7</u>	\$ <u>84,128</u>	<u>28.7</u>

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

	<u>1984</u>	<u>1983</u>	<u>1982</u>
	(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	<u>46,775</u>	<u>65,007</u>	<u>51,144</u>
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	<u>(1,859)</u>	<u>(528)</u>	<u>-</u>
Total Federal income tax expense	\$ <u>96,256</u>	\$ <u>104,139</u>	\$ <u>84,128</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

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 includes \$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:

	<u>1984</u>	<u>1983</u>	<u>1982</u>
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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

NOTE E - FIRST MORTGAGE BONDS

Condensed information on outstanding first mortgage bonds is as follows:

<u>Year of Maturity</u>	<u>Interest Rate</u>	<u>At December 31,</u>	
		<u>1984</u>	<u>1983</u>
		(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)	<u>945,055</u>	<u>782,155</u>
		1,653,091	1,370,191
Less amounts classified as current		<u>43,291</u>	<u>55,000</u>
		<u>\$1,609,800</u>	<u>\$1,315,191</u>

(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 \$912,000,000 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

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:

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

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

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:

<u>Series</u>	<u>Price at December 31, 1984</u>	<u>Through</u>	<u>Eventual Minimum</u>
<u>Preferred:</u>			
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
<u>Preference:</u>			
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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

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:

<u>Series</u>	<u>Price at December 31, 1984</u>	<u>Through</u>	<u>Eventual Minimum</u>
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:

	<u>1984</u>	<u>1983</u>	<u>1982</u>
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	<u>8,842,086</u>	<u>3,423,507</u>	<u>10,720,078</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

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)			
	<u>1984</u>	<u>1983</u>	<u>1982</u>
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			
	<u>1984</u>	<u>1983</u>	<u>1982</u>
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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

NOTE J - SHORT-TERM BORROWING ARRANGEMENTS

Available bank credit arrangements are as follows:

<u>Type</u>	<u>At December 31,</u>	
	<u>1984</u>	<u>1983</u>
	(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 3/8% 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

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

<u>Facility</u>	<u>Percent</u>	<u>Company Ownership</u>	
		<u>Electric Plant in Service</u> (Thousands of Dollars)	<u>Construction Work in Progress</u> (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
		<u>\$929,316</u>	<u>\$1,962,358</u>

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 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

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 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-1990's. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

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 have 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

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 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

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 has 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

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

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 6-1/2% 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

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			
	<u>March 31</u>	<u>June 30</u>	<u>Sept. 30</u>	<u>Dec. 31</u>
	(Thousands, except per share amounts)			
<u>1983</u>				
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
<u>1984</u>				
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

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES
SCHEDULE V--PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 1984

<u>Classification</u>	<u>Balance at Beginning of Year</u>	<u>Additions at Cost</u> (Thousands of Dollars)	<u>Retirements or Sales</u>	<u>Other Charges/ (Credits)</u>	<u>Balance at Close of Year</u>
Utility Plant:					
Electric					
Production:					
Steam	\$1,149,412	\$ 15,502	\$ 5,084	-	\$1,159,830
Nuclear	441,820	15,414	(84)	-	457,318
Hydraulic	52,788	101	(3)	-	52,892
Other	6,263	-	-	-	6,263
Transmission	480,445	12,896	958	-	492,383
Distribution	592,839	34,564	6,746	-	620,657
General	71,305	5,175	1,491	-	74,989
Construction Work in Progress	<u>1,615,940</u>	<u>496,943</u>	<u>-</u>	<u>-</u>	<u>2,112,883</u>
Total Electric	4,410,812	580,595	14,192	-	4,977,215
Steam					
Production	26,052	633	143	-	26,542
Distribution	17,211	1,006	198	-	18,019
Construction Work in Progress	<u>713</u>	<u>54</u>	<u>-</u>	<u>-</u>	<u>767</u>
Total Steam	<u>43,976</u>	<u>1,693</u>	<u>341</u>	<u>-</u>	<u>45,328</u>
Total Utility Plant	4,454,788	582,288	14,533	-	5,022,543
Other Plant	<u>70,144</u>	<u>25,133</u>	<u>-</u>	<u>-</u>	<u>95,277</u>
Total Property, Plant and Equipment	<u>\$4,524,932</u>	<u>\$607,421</u>	<u>\$14,533</u>	<u>-</u>	<u>\$5,117,820</u>

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES
SCHEDULE V--PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 1983

<u>Classification</u>	<u>Balance at Beginning of Year</u>	<u>Additions at Cost</u>	<u>Retirements or Sales</u>	<u>Other Charges/ (Credits)</u>	<u>Balance at Close of Year</u>
		(Thousands of Dollars)			
Utility Plant:					
Electric					
Production:					
Steam	\$1,158,230	\$ 25,658	\$34,476	\$ -	\$1,149,412
Nuclear	419,080	22,568	(172)	-	441,820
Hydraulic	52,788	-	-	-	52,788
Other	6,196	67	-	-	6,263
Transmission	410,302	71,150	1,007	-	480,445
Distribution	571,927	27,283	6,371	-	592,839
General	66,106	9,748	4,549	-	71,305
Construction Work in Progress	1,284,705	331,239	4	-	1,615,940
Total Electric	3,969,334	487,713	46,235	-	4,410,812
Steam					
Production	24,527	1,734	209	-	26,052
Distribution	15,645	1,571	5	-	17,211
Construction Work in Progress	1,026	(313)	-	-	713
Total Steam	41,198	2,992	214	-	43,976
Total Utility Plant	4,010,532	490,705	46,449	-	4,454,788
Other Plant	64,216	5,928	-	-	70,144
Total Property, Plant and Equipment	<u>\$4,074,748</u>	<u>\$496,633</u>	<u>\$46,449</u>	<u>-</u>	<u>\$4,524,932</u>

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES
SCHEDULE V--PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 1982

<u>Classification</u>	<u>Balance at Beginning of Year</u>	<u>Additions at Cost</u> (Thousands of Dollars)	<u>Retirements or Sales</u>	<u>Other Charges/ (Credits)</u>	<u>Balance at Close of Year</u>
Utility Plant:					
Electric					
Production:					
Steam	\$1,130,222	\$ 35,820	\$ 7,812	\$ -	\$1,158,230
Nuclear	389,655	31,854	2,429	-	419,080
Hydraulic	52,757	31	-	-	52,788
Other	6,196	-	-	-	6,196
Transmission	402,960	8,994	1,652	-	410,302
Distribution	541,582	37,851	7,506	-	571,927
General	62,520	6,641	3,055	-	66,106
Construction Work in Progress	985,997	298,708	-	-	1,284,705
Total Electric	3,571,889	419,899	22,454	-	3,969,334
Steam					
Production	23,281	1,251	5	-	24,527
Distribution	15,265	454	74	-	15,645
Construction Work in Progress	460	566	-	-	1,026
Total Steam	39,006	2,271	79	-	41,198
Total Utility Plant	3,610,895	422,170	22,533	-	4,010,532
Other Plant	23,870	40,346	-	-	64,216
Total Property, Plant and Equipment	<u>\$3,634,765</u>	<u>\$462,516</u>	<u>\$22,533</u>	<u>\$ -</u>	<u>\$4,074,748</u>

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES
SCHEDULE VI--ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 1984

Description	Balance at Beginning of Year	Additions		Deductions		Balance at Close of Year
		Charged Directly to Expense	Charged to Other Accounts(A) (Thousands of Dollars)	Retirements, Renewals and Replacements	Other(B)	
Utility Plant						
Electric-Depreciation	\$708,351	\$91,087	\$4,458	\$14,192	\$5,568	\$784,136
-Amortization	2,053	153	-	-	-	2,206
Steam -Depreciation	<u>12,088</u>	<u>1,125</u>	<u>11</u>	<u>341</u>	<u>246</u>	<u>12,637</u>
Total Utility Plant	722,492	92,365	4,469	14,533	5,814	798,979
Other Plant-Depreciation	<u>213</u>	<u>206</u>	<u>145(C)</u>	<u>-</u>	<u>-</u>	<u>564</u>
	<u>\$722,705</u>	<u>\$92,571</u>	<u>\$4,614</u>	<u>\$14,533</u>	<u>\$5,814</u>	<u>\$799,543</u>

Notes: (A) Salvage (\$3,056,599) and Accumulated Depreciation charged to Work in Progress (\$1,412,216).

(B) Removal Costs (\$5,669,374) and transfer to Other Plant (\$145,426).

(C) Transfer from Electric Utility Plant.

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES
SCHEDULE VI--ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 1983

Description	Balance at Beginning of Year	Additions		Deductions		Balance at Close of Year
		Charged Directly to Expense	Charged to Other Accounts(A) (Thousands of Dollars)	Retirements, Renewals and Replacements	Other(B)	
Utility Plant						
Electric-Depreciation	\$666,862	\$89,874	\$3,008	\$46,235	\$5,158	\$ 708,351
-Amortization	1,760	293	-	-	-	2,053
Steam -Depreciation	<u>11,268</u>	<u>1,054</u>	<u>78</u>	<u>214</u>	<u>98</u>	<u>12,088</u>
Total Utility Plant	679,890	91,221	3,086	46,449	5,256	722,492
Other Plant-Depreciation	<u>205</u>	<u>8</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>213</u>
	<u>\$680,095</u>	<u>\$91,229</u>	<u>\$3,086</u>	<u>\$46,449</u>	<u>\$5,256</u>	<u>\$ 722,705</u>

Notes: (A) Salvage (\$1,630,000), Accumulated Depreciation charged to Work in Progress (\$1,456,000), and other.

(B) Removal Costs.

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES
SCHEDULE VI--ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 1982

Description	Balance at Beginning of Year	Additions		Deductions		Balance at Close of Year
		Charged Directly to Expense	Charged to Other Accounts(A) (Thousands of Dollars)	Retirements, Renewals and Replacements	Other(B)	
Utility Plant						
Electric-Depreciation	\$609,373	\$82,588	\$3,290	\$22,454	\$5,935	\$666,862
-Amortization	1,507	253	-	-	-	1,760
Steam -Depreciation	<u>10,473</u>	<u>1,007</u>	<u>15</u>	<u>79</u>	<u>148</u>	<u>11,268</u>
Total Utility Plant	621,353	83,848	3,305	22,533	6,083	679,890
Other Plant-Depreciation	<u>196</u>	<u>9</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>205</u>
	<u>\$621,549</u>	<u>\$83,857</u>	<u>\$3,305</u>	<u>\$22,533</u>	<u>\$6,083</u>	<u>\$680,095</u>

Notes: (A) Salvage (\$1,964,000), Accumulated Depreciation charged to Work in Progress (\$1,341,000) and other.

(B) Removal Costs.

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES

SCHEDULE VIII - VALUATION
AND QUALIFYING ACCOUNTS

ACCUMULATED ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

	Years Ended December 31,		
	1984	1983	1982
Balance at Beginning of Year	\$2,247,000	\$1,741,000	\$1,126,000
Additions Charged Directly to Expense	5,011,596	4,441,923	3,953,509
Deductions From Reserve*	<u>4,032,596</u>	<u>3,935,923</u>	<u>3,338,509</u>
Balance at End of Year	<u>\$3,226,000</u>	<u>\$2,247,000</u>	<u>\$1,741,000</u>

*Amount of accounts written off, net of recoveries totaling \$765,176 in 1984, \$658,705 in 1983 and \$552,023 in 1982.

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES

SCHEDULE IX - SHORT-TERM BORROWINGS

Details of short-term bank loans and commercial paper are summarized below:

	Short-Term Borrowings	
	Bank Loans	Commercial Paper
Maximum aggregate amount borrowed at any month-end during the 12 months ended:		
December 31, 1984 (March)	\$19,100,000	\$ 53,675,000
December 31, 1983 (June)	\$19,100,000	\$ 86,250,000
December 31, 1982 (September)	\$19,600,000	\$ 86,880,000
Average interest rate on amount borrowed at:		
December 31, 1984	8.1%	0.0%
December 31, 1983	9.6%	0.0%
December 31, 1982	8.5%	0.0%
Average daily (a) amount borrowed during the 12 months ended:		
December 31, 1984	\$19,100,000	\$ 34,497,000
December 31, 1983	\$19,100,000	\$ 30,205,000
December 31, 1982	\$19,039,000	\$ 45,376,000
Average daily (a) interest rate during the 12 months ended:		
December 31, 1984	10.2%	10.1%
December 31, 1983	9.1%	8.5%
December 31, 1982	12.2%	12.1%

(a) Averages are based on the actual number of days during each period in which there were outstanding short-term borrowings. The Company had outstanding bank loans on 366 days and outstanding commercial paper on 142 days during 1984. The Company had outstanding bank loans on 365 days and outstanding commercial paper on 37 days during 1983. The Company had outstanding bank loans on 365 days and outstanding commercial paper on 340 days during 1982.

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES

SCHEDULE X - SUPPLEMENTARY INCOME STATEMENT INFORMATION

A) Taxes, other than payroll and income taxes, were charged as follows:

	Year Ended December 31,		
	1982	1983	1984
	(Thousands of Dollars)		
Operating Expenses			
Real and personal	\$ 54,349	\$ 60,940	\$ 64,104
Ohio excise	44,174	55,305	57,044
Other	<u>1,398</u>	<u>3,132</u>	<u>2,873</u>
	99,921	119,377	124,021
Nonoperating income	400	484	580
Construction work in progress	1,263	1,434	1,523
Other current assets	<u>3,200</u>	<u>7,600</u>	<u>1,300</u>
	<u>\$104,784</u>	<u>\$128,895</u>	<u>\$127,424</u>

B) During the above periods, expenditures for advertising costs did not exceed 1% of revenue.

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION CONCERNING THE EFFECTS OF INFLATION

STATEMENT OF INCOME FROM CONTINUING OPERATIONS
ADJUSTED FOR CHANGING PRICES FOR THE YEAR ENDED

DECEMBER 31, 1984
(THOUSANDS OF DOLLARS)
(UNAUDITED)

	Conventional Historical Cost	Current Cost Average 1984 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
	<u>923,721</u>	<u>1,055,250</u>
Net income-continuing operations	\$ <u>291,632</u>	\$ <u>160,103(a)</u>
Increase in specific prices of property and plant (b)		\$ 64,580
Adjustment to net recoverable cost		151,890
Increase in general prices		<u>(237,304)</u>
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		<u>96,206</u>
Net price level adjustment		\$ <u>75,372</u>

(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.

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION CONCERNING THE EFFECTS OF INFLATION (Cont'd)

FIVE-YEAR COMPARISON OF SELECTED SUPPLEMENTARY FINANCIAL DATA
ADJUSTED FOR EFFECTS OF CHANGING PRICES
(Unaudited)

	Year Ended December 31,				
	1984	1983	1982	1981	1980
(Average 1984 dollars in thousands, except per share amounts)					
<u>Revenue</u>					
as reported	\$1,215,353	\$1,210,316	\$1,108,571	\$1,012,930	\$ 893,566
ad adjusted	\$1,215,353	\$1,261,827	\$1,192,931	\$1,156,837	\$1,126,371
<u>Net Income - Continuing Operations</u>					
as reported	\$ 291,632	\$ 246,026	\$ 208,964	\$ 155,734	\$ 125,383
as adjusted	\$ 160,103	\$ 115,800	\$ 87,394	\$ 49,135	\$ 30,617
<u>Income (Loss) per Common Share</u>					
as reported	\$ 3.64	\$ 3.28	\$ 3.01	\$ 2.52	\$ 2.26
ad adjusted	\$ 2.35	\$ 1.20	\$ 0.82	\$ 0.19	\$ (0.10)
<u>Net Assets at Year End</u>					
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
<u>Increase in general prices in excess of</u>					
<u>increase in specific prices after</u>					
adjustment to net recoverable cost	\$ 20,834	\$ (4,057)	\$ (13,146)	\$ 140,456	\$ 238,018
<u>Gain from decline in purchasing power</u>					
of net amounts owed	\$ 96,206	\$ 86,642	\$ 83,285	\$ 181,332	\$ 237,786
<u>Cash Dividends Declared per Common Share</u>					
as reported	\$ 2.43	\$ 2.31	\$ 2.19	\$ 2.08	\$ 2.00
as adjusted	\$ 2.43	\$ 2.41	\$ 2.36	\$ 2.38	\$ 2.52
<u>Market Price per Common Share at Year End</u>					
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

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION CONCERNING THE EFFECTS OF INFLATION (Cont'd)

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.

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION CONCERNING THE EFFECTS OF INFLATION (Cont'd)

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.

Item 9. Disagreements on Accounting and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

Information regarding the Company's directors is contained in the Company's 1985 proxy statement dated March 14, 1985, which is incorporated herein by reference. Information regarding executive officers is contained in Part I of this Annual Report on Form 10-K.

Item 11. Executive Compensation

The information required by this Item is contained in the Company's 1985 proxy statement dated March 14, 1985, which is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by this Item is contained in the Company's 1985 proxy statement dated March 14, 1985, which is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

The information required by this Item is contained in the Company's 1985 proxy statement dated March 14, 1985, which is incorporated herein by reference.

PART IV

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

(a) Documents Filed as a Part of the Report

- (1) Financial Statements. See Index on Page 30.
- (2) Financial Statement Schedules. See Index on Page 30.
- (3) Exhibits. See Exhibit Index on Page 73.

(b) Reports on Form 8-K

During the quarter ended December 31, 1984, the Company filed a Report on Form 8-K dated October 9, 1984 which reported, under "Item 5. Other Events", that Standard & Poor's Corporation had lowered its rating on the Company's first mortgage bonds.

SIGNATURES

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

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY
Registrant

March 28, 1985

By *ROBERT M. GINN, Chairman of the Board

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
Principal Executive Officer:)	
*ROBERT M. GINN	Chairman of the Board)	
Principal Financial Officer:)	
*E. H. MAUGANS	Vice President-Finance)	
Principal Accounting Officer:)	
*CHARLES C. CHOPP	Controller)	
Directors:)	
*LEIGH CARTER	Director)	
*ROBERT M. GINN	Director)	
*ROY H. HOLDT	Director)	
*RICHARD A. MILLER	Director)	March 28, 1985
*SR. MARY MARTHE REINHARD, SND	Director)	
*KARL H. RUDOLPH	Director)	
*CRAIG R. SMITH	Director)	
*CHARLES E. SPAHR	Director)	
*HERBERT E. STRAWBRIDGE	Director)	
*ALLAN J. TOMLINSON, JR.	Director)	
*RICHARD B. TULLIS	Director)	
*HAROLD L. WILLIAMS	Director)	
*WILLIAM J. WILLIAMS	Director)	

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

EXHIBIT INDEX

*Indicates incorporation by reference.

<u>Exhibit Number</u>	<u>Document</u>
3a	*Amended Articles of Incorporation of the Company, effective May 28, 1981 (Exhibit 4(a), File No. 2-73788).
3a(1)	*Certificate of Amendment dated December 1, 1983 to Amended Articles of Incorporation (Exhibit 4(a)(1), File No. 2-76925).
3a(2)	*Certificate of Amendment dated May 21, 1984 to Amended Articles of Incorporation (Exhibit 4(a), File No. 2-93459).
3b	*Regulations of the Company, effective April 29, 1981 (Exhibit 4(c), File No. 2-75365).
4b(1)	*Mortgage and Deed of Trust between the Company and Guaranty Trust Company of New York (now Morgan Guaranty Trust Company of New York), as Trustee, dated July 1, 1940 (Exhibit 7(a), File No. 2-4450). Supplemental Indentures between the Company and said Trustee, supplemental to Exhibit 4b(1), dated as follows:
4b(2)	*July 1, 1940 (Exhibit 7(b), File No. 2-4450).
4b(3)	*August 18, 1944 (Exhibit 4(c), File No. 2-9887).
4b(4)	*December 1, 1947 (Exhibit 7(d), File No. 2-7306).
4b(5)	*September 1, 1950 (Exhibit 7(c), File No. 2-8587).
4b(6)	*June 1, 1951 (Exhibit 7(f), File No. 2-8994).
4b(7)	*May 1, 1954 (Exhibit 4(d), File No. 2-10830).
4b(8)	*March 1, 1958 (Exhibit 2(a)(4), File No. 2-13839).
4b(9)	*April 1, 1959 (Exhibit 2(a)(4), File No. 2-14753).
4b(10)	*December 20, 1967 (Exhibit 2(a)(4), File No. 2-30759).
4b(11)	*January 15, 1969 (Exhibit 2(a)(5), File No. 2-30759).
4b(12)	*November 1, 1969 (Exhibit 2(a)(4), File No. 2-35008).
4b(13)	*June 1, 1970 (Exhibit 2(a)(4), File No. 2-37235).
4b(14)	*November 15, 1970 (Exhibit 2(a)(4), File No. 2-38460).
4b(15)	*May 1, 1974 (Exhibit 2(a)(4), File No. 2-50537).
4b(16)	*April 15, 1975 (Exhibit 2(a)(4), File No. 2-52995).
4b(17)	*April 16, 1975 (Exhibit 2(a)(4), File No. 2-53309).
4b(18)	*May 28, 1975 (Exhibit 2(c), June 5, 1975 Form 8-A, File No. 1-2323).
4b(19)	*February 1, 1976 (Exhibit 3(d)(6), 1975 Form 10-K, File No. 1-2323).
4b(20)	*November 23, 1976 (Exhibit 2(a)(4), File No. 2-57375).
4b(21)	*July 26, 1977 (Exhibit 2(a)(4), File No. 2-59401).
4b(22)	*September 27, 1977 (Exhibit 2(a)(5), File No. 2-67221).
4b(23)	*May 1, 1978 (Exhibit 2(b), June 30, 1978 Form 10-Q, File No. 1-2323).

4b(24) *September 1, 1979 (Exhibit 2(a), September 30, 1979 Form 10-Q, File No. 1-2323).

4b(25) *April 1, 1980 (Exhibit 4(a)(2), September 30, 1980 Form 10-Q, File No. 1-2323).

4b(26) *April 15, 1980 (Exhibit 4(b), September 30, 1980 Form 10-Q, File No. 1-2323).

4b(27) *May 28, 1980 (Exhibit 2(a)(4), Amendment No. 1, File No. 2-67221).

4b(28) *June 9, 1980 (Exhibit 4(d), September 30, 1980 Form 10-Q, File No. 1-2323).

4b(29) *December 1, 1980 (Exhibit 4(b)(29), 1980 Form 10-K, File No. 1-2323).

4b(30) *July 28, 1981 (Exhibit 4(a), September 30, 1981 Form 10-Q, File No. 1-2323).

4b(31) *August 1, 1981 (Exhibit 4(b), September 30, 1981 Form 10-Q, File No. 1-2323).

4b(32) *March 1, 1982 (Exhibit 4(b)(3), Amendment No. 1, File No. 2-76029).

4b(33) *July 15, 1982 (Exhibit 4(a), September 30, 1982 Form 10-Q, File No. 1-2323).

4b(34) *September 1, 1982 (Exhibit 4(a)(1), September 30, 1982 Form 10-Q, File No. 1-2323).

4b(35) *November 1, 1982 (Exhibit 4(a)(2), September 30, 1982 Form 10-Q, File No. 1-2323).

4b(36) *November 15, 1982 (Exhibit 4(b)(36), 1982 Form 10-K, File No. 1-2323).

4b(37) *May 24, 1983 (Exhibit 4(a), June 30, 1983 Form 10-Q, File No. 1-2323).

4b(38) *May 1, 1984 (Exhibit 4, June 30, 1984 Form 10-Q, File No. 1-2323).

4b(39) *May 23, 1984 (Exhibit 4, May 22, 1984 Form 8-K, File No. 1-2323).

4b(40) *June 27, 1984 (Exhibit 4, June 11, 1984 Form 8-K, File No. 1-2323).

4b(41) September 4, 1984.

4b(42) November 14, 1984.

4b(43) November 15, 1984.

10a(1) *Key Employee Incentive Stock Plan (Exhibit 4(d), File No. 2-37309).

10a(2) *1978 Key Employee Stock Option Plan (Exhibit 1, File No. 2-61712).

10b(1)(a) *CAPCO Administration Agreement dated November 1, 1971, as of September 14, 1967, among all CAPCO Group members regarding the organization and procedures for implementing the objectives of the CAPCO Group (Exhibit 5(p), Amendment No. 1, File No. 2-42230).

10b(1)(b) *Amendment No. 1, dated January 4, 1974, to CAPCO Administration Agreement among all CAPCO Group members (Exhibit 5(c)(3), File No. 2-68906, filed by Ohio Edison Company).

- 10b(2) *CAPCO Transmission Facilities Agreement dated November 1, 1971, as of September 14, 1967, among all CAPCO Group members regarding the installation, operation and maintenance of transmission facilities to carry out the objectives of the CAPCO Group (Exhibit 5(q), Amendment No. 1, File No. 2-42230).
- 10b(3) *CAPCO Basic Operating Agreement as Amended September 1, 1980 among all CAPCO Group members regarding coordinated operation of the members' systems (Exhibit 10.24, 1980 Form 10-K, File No. 1-956, filed by Duquesne Light Company).
- 10b(4) *Agreement dated September 1, 1980 for the Termination or Construction of Certain Agreements by and among the CAPCO Group members (Exhibit 10.25, 1980 Form 10-K, File No. 1-956, filed by Duquesne Light Company).
- 10b(5) *Amendment No. 1, dated August 1, 1981, to CAPCO Basic Operating Agreement as Amended September 1, 1980 among all CAPCO Group members (Exhibit 10.27, 1981 Form 10-K, File No. 1-956, filed by Duquesne Light Company).
- 10b(6) *Amendment No. 2, dated September 1, 1982, to CAPCO Basic Operating Agreement as Amended September 1, 1980 (Exhibit 10.29, 1982 Form 10-K, File No. 1-956, filed by Duquesne Light Company).
- 11 Inapplicable.
- 12 Statements regarding computation of ratios.
- 13 Inapplicable.
- 18 Inapplicable.
- 19 None.
- 22 Inapplicable.
- 23 Inapplicable.
- 24a Consent of Independent Accountants.
- 24b Consent of Counsel for the Company.
- 25 Powers of Attorney and certified resolution of the Company's Board of Directors authorizing the signing on behalf of the Company pursuant to a power of attorney.
- 28 None.

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

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

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the respective Prospectuses constituting parts of the Registration Statements on Form S-3 (Nos. 2-87048 and 2-95286) and in the respective Prospectuses constituting parts of the Registration Statements on Form S-8 (Nos. 2-37309, 2-61712, 2-73788 and 2-76925) of The Cleveland Electric Illuminating Company of our report dated February 8, 1985 appearing on Page 32 of this Form 10-K. The consolidated financial statements of the Company and its subsidiaries as of December 31, 1984 and the report of Price Waterhouse dated February 8, 1985, both included in the Form 10-K, should be read in conjunction with the matters discussed under Item 1, "Business--Construction and Financing Program--Construction Program" and "Business--Operations--Electric Rates" in such Form 10-K. We also consent to the reference to us under the caption "Experts" in such Prospectuses.

PRICE WATERHOUSE

Cleveland, Ohio
March 28, 1985

CONSENT OF COUNSEL FOR THE COMPANY

The statements as to matters of law and legal conclusions under the headings "General Regulation" and "Environmental Regulation" in Item 1, and "Title to Property" in Item 2, and under Item 3 of this Annual Report on Form 10-K for the year ended December 31, 1984 have been prepared under my supervision and reviewed by me and in my opinion such respective statements as to such matters are correct.

I hereby consent to the use of my name in connection with the statements I have reviewed as stated in the preceding paragraph and to the incorporation by reference of those statements into the respective Prospectuses constituting parts of the Registration Statements on Form S-3, File Nos. 2-87048 and 2-95286, and into the respective Prospectuses constituting parts of the Registration Statements on Form S-8, File Nos. 2-37309, 2-61712, 2-73788 and 2-76925 of The Cleveland Electric Illuminating Company, and to the reference to me under the heading "Experts" in such Prospectuses.

Victor F. Greenslade
General Counsel and Director
of Governmental Affairs

March 28, 1985

OHIO EDISON COMPANY
AND SUBSIDIARIES
Consolidated Statements of Income
(Unaudited)

	<u>3 Months Ended March 31,</u>		<u>12 Months Ended March 31,</u>	
	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1984</u>
	(In Thousands, Except Per Share Amounts)			
Operating Revenues.....	\$453,354	\$420,453	\$1,670,005	\$1,558,148
Operation and Maintenance Expenses.....	235,724	218,270	893,519	841,303
Provision for Depreciation and Amortization	35,731	32,777	134,294	125,676
Taxes - General	36,724	35,790	137,814	131,233
Taxes - Income.....	45,265	43,687	151,684	143,319
Operating Income.....	<u>99,910</u>	<u>89,929</u>	<u>392,694</u>	<u>316,627</u>
Other Income:				
AFUDC - Equity Funds.....	43,891	33,096	163,362	126,826
Miscellaneous - Net	7,865	5,541	31,252	22,472
Income Taxes - Credit	20,896	18,120	85,159	67,478
Total Other Income.....	<u>72,652</u>	<u>56,757</u>	<u>279,773</u>	<u>216,776</u>
Total Income.....	<u>172,562</u>	<u>146,686</u>	<u>632,467</u>	<u>533,403</u>
Net Interest and Other Charges:				
Interest Expense.....	99,255	84,054	377,845	321,434
AFUDC - Borrowed Funds.....	(27,865)	(23,405)	(108,811)	(87,979)
Dividends on Preferred Stock of Subsidiary	2,390	2,080	9,275	7,702
Net Interest and Other Charges.....	<u>73,780</u>	<u>62,729</u>	<u>278,309</u>	<u>241,157</u>
Net Income.....	98,782	83,957	354,158	292,246
Preferred and Preference Stock Dividend Requirements..	12,916	11,528	50,027	46,065
Earnings on Common Stock	<u>\$ 85,866</u>	<u>\$ 72,429</u>	<u>\$ 304,131</u>	<u>\$ 246,181</u>
Weighted Average Number of Shares of Common Stock				
Outstanding	<u>123,502</u>	<u>110,539</u>	<u>119,412</u>	<u>105,839</u>
Earnings Per Share of Common Stock	<u>\$.70</u>	<u>\$.66</u>	<u>\$2.55</u>	<u>\$2.33</u>

STATISTICAL DATA ON REVERSE SIDE

Dated: April 16, 1985

ELECTRIC STATISTICS

	3 Months Ended March 31,		% Change	12 Months Ended March 31,		% Change
	1985	1984		1985	1984	
	(In Thousands)			(In Thousands)		
REVENUES FROM SALES						
Residential.....	\$169,115	\$156,729	7.9	\$ 584,264	\$ 551,289	6.0
Commercial.....	106,653	98,253	8.5	408,691	388,675	5.1
Industrial.....	118,346	114,078	3.7	473,380	433,955	9.1
Other.....	18,378	17,129	7.3	59,170	66,870	(11.5)
Sub-total.....	<u>412,492</u>	<u>386,189</u>	<u>6.8</u>	<u>1,525,505</u>	<u>1,440,789</u>	<u>5.9</u>
Sales to Utilities	36,200	28,346	27.7	125,239	94,703	32.2
Total.....	<u>\$448,692</u>	<u>\$414,535</u>	<u>8.2</u>	<u>\$1,650,744</u>	<u>\$1,535,492</u>	<u>7.5</u>
KILOWATT-HOUR SALES						
Residential.....	2,042,964	2,039,963	0.1	6,839,628	6,950,701	(1.6)
Commercial.....	1,355,240	1,339,339	1.2	5,116,565	5,193,061	(1.5)
Industrial.....	2,218,812	2,335,428	(5.0)	9,044,688	8,820,367	2.5
Other.....	361,945	352,744	2.6	1,083,942	1,218,546	(11.0)
Sub-total.....	<u>5,978,961</u>	<u>6,067,474</u>	<u>(1.5)</u>	<u>22,084,823</u>	<u>22,182,675</u>	<u>(0.4)</u>
Sales to Utilities	1,494,018	1,110,993	34.5	4,973,877	3,668,246	35.6
Total.....	<u>7,472,979</u>	<u>7,178,467</u>	<u>4.1</u>	<u>27,058,700</u>	<u>25,850,921</u>	<u>4.7</u>

2,000,000 Shares
Ohio Edison Company
Common Stock
(\$9 Par Value)

The outstanding shares of Common Stock of Ohio Edison Company (the "Company") are listed, and the shares offered hereby will be listed, on the New York Stock Exchange and the Midwest Stock Exchange.

In the opinion of Pennsylvania counsel, the Common Stock will be exempt from existing Pennsylvania personal property taxes.

**THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE
SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION
PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS.
ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

The shares of Common Stock offered hereby (the "Additional Common Stock") are to be sold from time to time through Goldman, Sachs & Co. as exclusive sales agents for the Company, by means of (i) ordinary brokers' transactions, (ii) block transactions (which may involve crosses) in accordance with the rules of the New York Stock Exchange, the Midwest Stock Exchange or any other exchange on which the Common Stock may be admitted to trading, including the Boston, Cincinnati, Pacific and Philadelphia Stock Exchanges (such exchanges and the New York and Midwest Stock Exchanges being herein referred to as the "Exchanges"), in which Goldman, Sachs & Co. may attempt to sell shares as agents but may position and resell all or a portion of the blocks as principal, (iii) "fixed price offerings" off the floor of the Exchanges or "exchange distributions" and "special offerings" in accordance with the rules of the Exchanges, or (iv) a combination of any such methods of sale, in each case at market prices prevailing at the time of sale in the case of transactions on the Exchanges, and at negotiated prices related to prevailing market prices, in the case of transactions off the floor of the Exchanges. In connection therewith, distributors' or sellers' commissions may be paid or allowed which will not exceed those customary in the types of transactions involved. This Prospectus will be supplemented to set forth the terms of any such "fixed price offerings," "exchange distributions" and "special offerings." If Goldman, Sachs & Co. purchase shares of Additional Common Stock as principal they may resell such shares by any of the methods of sale described above. See "Manner of Offering."

In making this offering on behalf of the Company, Goldman, Sachs & Co. and any other broker or dealer may be deemed to be "underwriters" within the meaning of the Securities Act of 1933, as amended (the "Act"), and the compensation of Goldman, Sachs & Co. and any other broker or dealer may be deemed to be underwriting commissions or discounts. The Company has agreed to indemnify Goldman, Sachs & Co. against certain civil liabilities, including liabilities under the Act.

The Company will receive all of the net proceeds from the sale of the Additional Common Stock. The expenses of the registration and this offering are estimated to be \$148,000 and will be paid by the Company.

Goldman, Sachs & Co.
Exclusive Sales Agents

The date of this Prospectus is April 1, 1985.

IN CONNECTION WITH "FIXED PRICE OFFERINGS" CONDUCTED OFF THE FLOOR OF THE EXCHANGES AND IN CONNECTION WITH "SPECIAL OFFERINGS" CONDUCTED IN ACCORDANCE WITH THE RULES OF THE EXCHANGES OF THE ADDITIONAL COMMON STOCK, THE SALES AGENTS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OF THE COMPANY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE EXCHANGES, IN THE OVER-THE-COUNTER MARKET OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE AND ADDITIONAL INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports and other information with the Securities and Exchange Commission (the "Commission"). Information, as of particular dates, concerning the Company's directors and officers, their remuneration, the principal holders of the Company's securities and any material interest of such persons in transactions with the Company is disclosed in proxy statements distributed to stockholders of the Company and filed with the Commission.

The following documents, which have heretofore been filed by the Company with the Commission pursuant to the Exchange Act or the Act, are incorporated by reference in this Prospectus and shall be deemed to be a part hereof:

- (1) Annual Report on Form 10-K for the year 1984 (which incorporates certain portions of the Company's 1984 Annual Report to stockholders and Proxy Statement relating to the 1985 annual meeting of stockholders).
- (2) Current Report on Form 8-K dated February 7, 1985.

All documents subsequently filed by the Company with the Commission pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act prior to the termination of the offering made by this Prospectus shall be incorporated herein by reference and shall be deemed to be a part hereof from the date of filing of such documents (such documents, and the documents enumerated above, being hereinafter referred to as "Incorporated Documents"; provided, however, that all documents filed by the Company pursuant to Section 13, 14 or 15 of the Exchange Act in each year during which the offering made by this Prospectus is in effect prior to the filing with the Commission of the Company's Annual Report on Form 10-K covering such year shall not be Incorporated Documents or be incorporated by reference in this Prospectus or be a part hereof from and after such filing of such Annual Report on Form 10-K).

Such reports, proxy statements and other information can be inspected and copied at the offices of the Commission at Room 1024, 450 Fifth St., N.W., Washington, D.C.; Room 1204, 219 South Dearborn Street, Chicago, Illinois; Room 1028, 26 Federal Plaza, New York, New York; and Suite 500 East, 5757 Wilshire Boulevard, Los Angeles, California. Copies of such material can also be obtained from the Public Reference Section of the Commission at 450 Fifth St., N.W., Washington, D.C. 20549 at prescribed rates. Certain securities of the Company are listed on the New York Stock Exchange and the Midwest Stock Exchange, and reports, proxy statements and other information concerning the Company can be inspected at the offices of such exchanges.

Any statement contained in an Incorporated Document shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any other subsequently filed Incorporated Document modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

The Company hereby undertakes to provide without charge to each person to whom a copy of this Prospectus has been delivered, upon the written or oral request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated by reference in this Prospectus, other than exhibits to such documents. Written requests for such copies should be directed to Ohio Edison Company, Stockholder Services, 76 South Main Street, Akron, Ohio 44308; oral requests may be made by calling (216) 384-5509.

THE COMPANY

The Company was organized under the laws of the State of Ohio in 1930 and owns property and does business as an electric public utility in that State. The Company also has ownership interests in certain generation and transmission facilities located in Pennsylvania. The Company serves 488 communities and additional rural areas in Ohio, with a population of approximately 2,500,000. The Company owns all of the outstanding common stock of Pennsylvania Power Company ("Penn Power"), a Pennsylvania electric public utility serving 139 communities and additional rural areas in western Pennsylvania, with a population of approximately 350,000. The Company and Penn Power (the "Companies") also provide electric energy at wholesale to a total of 26 municipalities. The Companies' sources of generation during the year ended December 31, 1984 were 90.4% coal and 9.6% nuclear. With a combined service area of approximately 9,000 square miles, the Ohio Edison System is the 18th largest investor-owned electric system in the United States, based on total kilowatt-hour sales. The Company's principal executive offices are located at 76 South Main Street, Akron, Ohio 44308; telephone number (216) 384-5100.

USE OF PROCEEDS

The net proceeds from the sale of the Additional Common Stock will be applied to provide a portion of the funds needed for the Company to continue its ongoing construction program and for other corporate purposes.

FINANCING AND CONSTRUCTION PROGRAM

The Companies are engaged in a substantial construction program involving primarily the joint construction with several other utilities of nuclear generating units. The Companies' construction costs for the five years 1985-1989 were estimated at the date of this Prospectus at \$2.6 billion (excluding costs of nuclear fuel), of which approximately \$740 million is applicable to 1985. Maturities of, and sinking fund requirements for, long-term debt, long-term obligations (including nuclear fuel) and preferred and preference stock during the same five-year period will require the expenditure by the Companies of \$1.1 billion, of which approximately \$79 million applies to 1985. The Companies estimate that, for the period 1985-1989, external financing will provide a major portion of their cash requirements.

During the course of the nuclear construction program in which the Companies are participating there have been periodic revisions in the estimated completion dates for the units being built as well as increases in cost estimates. In addition, the status of one of the planned units,

Perry Unit 2, is under review by the constructing utilities and pending completion of the review, work on the unit is primarily being directed to facilities which are also necessary to operate Perry Unit 1 (the other unit being constructed at the site). Investors are strongly urged to refer to the Incorporated Documents for information regarding the status of the Companies' nuclear construction program and its possible effects on the Companies' business and financial condition. It should be noted that material changes in that construction program can occur within a short period of time so that investors should be familiar with the information contained in the Incorporated Documents on a current basis when making an investment decision.

For additional information concerning the Companies' financing capabilities (including the ability to meet various required coverage tests), the amounts and timing of proposed future securities sales, the progress of and changes in the Companies' financing and fuel supply programs, rate proceedings and legal and environmental affairs, reference is made to the Incorporated Documents.

DIVIDENDS AND PRICE RANGE OF COMMON STOCK

The Company has paid cash dividends in varying amounts on its Common Stock in each year since its organization in 1930. Future dividends will depend on the future earnings and cash requirements of the Company and other factors.

The following table indicates the high and low sale prices of the Common Stock of the Company, based on reports published in *The Wall Street Journal* for Composite Transactions, during the periods indicated.

<u>Year</u>	<u>Period</u>	<u>High</u>	<u>Low</u>
1982	15 ¹ / ₈	11 ³ / ₈
1983	First Quarter	15 ⁷ / ₈	13 ⁷ / ₈
	Second Quarter	16 ¹ / ₈	14 ³ / ₈
	Third Quarter	15 ¹ / ₄	14
	Fourth Quarter	16	11 ⁷ / ₈
1984	First Quarter	13 ³ / ₄	11 ³ / ₄
	Second Quarter	12	9 ³ / ₈
	Third Quarter	12 ¹ / ₈	9 ⁷ / ₈
	Fourth Quarter	14 ¹ / ₈	11 ⁵ / ₈
1985	First Quarter (through March 29)	14 ⁷ / ₈	13 ¹ / ₈

The book value of the Company's Common Stock at December 31, 1984 was \$15.93 per share.

DESCRIPTION OF STOCK

The Company is authorized under its Charter to issue 155,000,000 shares of Common Stock, par value \$9 per share. Each share of Common Stock is equal to every other share of said stock in every respect.

The Common Stock of the Company is listed on the New York Stock Exchange and the Midwest Stock Exchange, and the Company has applied for the listing of the Additional Common Stock on both such Exchanges.

The Additional Common Stock, when issued and paid for, will be validly issued shares of Common Stock of the Company and will be fully-paid and non-assessable by the Company.

Certain provisions of the Charter and of the Indenture of Mortgage and Deed of Trust, dated as of August 1, 1930, between the Company and Bankers Trust Company, as Trustee, as amended and supplemented (the "Mortgage"), relating to the Common Stock are summarized below. A copy of the Charter is filed as an exhibit to the Registration Statement of which this Prospectus is a part. Unless otherwise indicated, whenever particular headings or paragraph designations are referred to, they are headings and paragraph designations in Article Fourth of the Charter. The summaries are, however, merely an outline, do not purport to be complete, do not relate to or give effect to the provisions of statutory or common law, and are qualified in their entirety by express reference to the cited and other provisions of the Charter and Mortgage which are incorporated herein by such reference.

Dividend Rights: When full cumulative dividends upon the outstanding Preferred Stock, Class A Preferred Stock and Preference Stock of all series of the Company have been paid or provided for and when all presently required sinking fund redemptions of Preferred Stock and Preference Stock (future series of Preferred Stock, Class A Preferred Stock and Preference Stock may contain similar sinking fund provisions) have been made, dividends may be paid on the Common Stock when and as declared by the Board of Directors, subject to certain limitations hereinafter referred to. (Preferred Stock and Class A Preferred Stock, General Provisions (B); Preference Stock, General Provisions (B); Common Stock.) Pursuant to cumulative sinking fund provisions applicable to currently outstanding series of its Preferred Stock and Preference Stock, the Company is required to make, from legally available funds, annual sinking fund payments of \$8,212,500 plus accrued dividends.

The Charter limits payment of dividends on Common Stock, other than dividends in Common Stock, to an amount which:

(1) Can be paid out of that part of earned surplus (i.e., retained earnings) which is in excess of an amount equal to one and one-half times the annual dividend requirements on outstanding shares of the Preferred Stock and Class A Preferred Stock (including senior or equal ranking stock) or can be paid out of surplus earned subsequent to September 30, 1944. (This limitation is applicable only while shares of the 4.40% Preferred Stock or of the 3.90% Preferred Stock are outstanding and also serves as a limitation on the making by the Company of any distributions of assets, by purchase of shares or otherwise, on Common Stock other than dividends.) (Preferred Stock and Class A Preferred Stock, General Provisions (B).)

(2) In any one year period would not exceed (a) 50% of the consolidated net income for the most recent twelve full calendar months' period if the consolidated Common Stock equity (including earned, paid-in and capital surplus other than premium on Preferred Stock and Class A Preferred Stock) should be or would by such a dividend become less than 20% of the consolidated capitalization (i.e., capital, surplus and long-term debt), or (b) 75% of said income if such ratio should be or would thereby become less than 25% but not less than 20%. (Preferred Stock and Class A Preferred Stock, General Provisions (B).)

(3) Leaves the aggregate of the par value of the outstanding Common Stock, of the premium thereon, and of the earned surplus and the capital and paid-in surplus, at least equal to the aggregate amount payable on all outstanding shares of the Preferred Stock and Class A Preferred Stock (including senior or equal ranking stock) in the event of involuntary liquidation. (Preferred Stock and Class A Preferred Stock, General Provisions (E).) The amount so payable on all shares of Preferred Stock now outstanding is the par value thereof.

The Charter provides that, without Charter amendment, the third of the foregoing limitations can be waived by the affirmative vote of the holders of a majority of outstanding shares of the

Preferred Stock and the Class A Preferred Stock, voting as a single class, and the second by a like vote of the holders of 66 $\frac{2}{3}$ % of such outstanding shares. (Preferred Stock and Class A Preferred Stock, General Provisions (B) and (E).) The Charter contains no provisions for the waiver without Charter amendment of the first limitation.

The Mortgage also contains various restrictions on the payment of dividends on Common Stock so long as various series of bonds are outstanding thereunder under the most restrictive of which (Twenty-fourth Supplemental Indenture, dated as of June 30, 1976) \$245,584,000 of the Company's consolidated retained earnings at December 31, 1984 were unrestricted.

Voting Rights: The Charter provides that at all elections of directors of the Company, and on all other matters, except as otherwise required by the Charter or by the laws of the State of Ohio, the holders of the Common Stock shall have the exclusive right to vote; provided, however, that, whenever and as often as four quarterly dividends payable on the Preferred Stock or Class A Preferred Stock of any series shall be in default, in whole or in part, and thereafter until all defaults have been cured, the holders of the Preferred Stock and the Class A Preferred Stock shall have the exclusive right, voting separately and as a single class, each share of the Preferred Stock being counted as one and each share of Class A Preferred Stock being counted as one-quarter, to elect the smallest number of directors which shall constitute a majority of the directors of the Company; and, provided further, that whenever and as often as six quarterly dividends payable on the Preference Stock of any series shall be in default, in whole or in part, and thereafter until all defaults have been cured, the holders of the Preference Stock (subject to any right of the holders of Preferred Stock and Class A Preferred Stock to elect a majority of directors whenever four quarterly dividends payable on any series of such stock shall be in default) shall have the exclusive right, voting separately and as a single class, to elect two directors of the Company. In the event of defaults entitling the Preferred Stock and Class A Preferred Stock and/or Preference Stock to vote, the holders of the Common Stock shall have the exclusive right, voting separately and as a class, to elect the number of directors which shall not be required to be elected by the Preferred Stock and the Class A Preferred Stock and/or Preference Stock, as the case may be. On all other matters, each holder of Preferred Stock, Preference Stock or Common Stock shall be entitled to one vote for each such share of stock held and each holder of Class A Preferred Stock shall be entitled to one-quarter vote for each such share of stock held. At all elections of directors of the Company, each stockholder entitled to vote may cast the whole number of his votes for one candidate or distribute them among two or more candidates as he may prefer. (Voting Powers and Other Rights.)

The Charter also requires the approval of certain percentages of the outstanding Preferred Stock and Class A Preferred Stock (and for certain limited purposes, the outstanding Preference Stock) prior to effecting various changes in the rights of the Preferred Stock, Class A Preferred Stock and Preference Stock, in the limitations on dividends on Common Stock, and in the Company's capital structure; prior to certain mergers, consolidations or transfers of substantially all the Company's property; and prior to the Company's issuing certain unsecured debt securities in excess of specified limits, (Preferred Stock and Class A Preferred Stock, General Provisions (B), (E), (F), and (G).)

Liquidation Rights: Upon any voluntary or involuntary dissolution, liquidation or winding up of the Company, after payment to the holders of the Preferred Stock, the Class A Preferred Stock and the Preference Stock of the full amounts to which they are entitled in preference to the Common Stock, the remaining assets to be distributed, if any, are distributable among the holders of the Common Stock, share and share alike. (Preferred Stock and Class A Preferred Stock, General Provisions (C); Preference Stock, General Provisions (C); Common Stock.)

Preemptive Rights: The holders of shares of Common Stock have no preemptive rights to subscribe to any additional issues of shares of capital stock of the Company of any class, or any rights to exchange shares issued for shares to be issued.

Pennsylvania Personal Property Tax: In the opinion of Pennsylvania counsel, the Additional Common Stock will be exempt under Pennsylvania law from all existing personal property taxes in Pennsylvania.

Transfer Agent and Registrar: The transfer agent for the Additional Common Stock will be the office of the Company, 76 South Main Street, Akron, Ohio 44308, and the registrar will be National City Bank (formerly BancOhio National Bank), Akron Area, Akron Center, One Cascade Plaza, Akron, Ohio 44308.

MANNER OF OFFERING

The shares of Additional Common Stock are to be sold from time to time through Goldman, Sachs & Co., as exclusive sales agents for the Company, by means of (i) ordinary brokers' transactions, (ii) block transactions (which may involve crosses) in accordance with the rules of the Exchanges, in which Goldman, Sachs & Co. may attempt to sell shares as agent but may position and resell all or a portion of the blocks as principal, (iii) "fixed price offerings" off the floor of the Exchanges or "exchange distributions" and "special offerings" of shares in accordance with the rules of the Exchanges, or (iv) a combination of any such methods of sale, in each case at market prices prevailing at the time of sale in the case of transactions on the Exchanges and at negotiated prices related to prevailing market prices in the case of transactions off the floor of the Exchanges. In connection therewith, distributors' or sellers' commissions may be paid or allowed which will not exceed those customary in the types of transactions involved. If Goldman, Sachs & Co. purchase shares as principal they may resell such shares by any of the methods of sale described above.

From time to time Goldman, Sachs & Co. may conduct a "fixed price offering" of the Additional Common Stock off the floor of the Exchanges. In such case Goldman, Sachs & Co. would purchase a block of shares from the Company and would form a group of selected dealers to participate in the resale of the shares. Any such offering would be described in a supplement to the Prospectus setting forth the terms of the offering and the number of shares being offered. It is also possible that Goldman, Sachs & Co. may conduct from time to time "special offerings" or "exchange distributions" in accordance with the rules of the Exchanges. Any such offering or distribution would be described in a supplement to the Prospectus at the time thereof.

In making this offering on behalf of the Company, Goldman, Sachs & Co. and any other broker or dealer may be deemed to be "underwriters," within the meaning of the Act, and the compensation of Goldman, Sachs & Co. and any other broker dealer may be deemed to be underwriting commissions or discounts. The Company has agreed to indemnify Goldman, Sachs & Co. against certain liabilities, including liabilities under the Act. The Company has also agreed to reimburse Goldman, Sachs & Co. up to \$50,000 for certain expenses in connection with this offering. Goldman, Sachs & Co. may engage in transactions with or perform services for the Company in the ordinary course of business.

LEGAL OPINIONS

The legality of the Additional Common Stock has been passed upon by Russell J. Spetrino, Esq., Akron, Ohio, who is Vice President and General Counsel of the Company. Certain legal matters concerning the offering of the Additional Common Stock will be passed upon for the Company by Mr. Spetrino and by Winthrop, Stimson, Putnam & Roberts, 40 Wall Street, New York, N.Y. 10005, also counsel for the Company, and for the Sales Agents by Simpson Thacher & Bartlett (a

partnership which includes professional corporations), One Battery Park Plaza, New York, N.Y. 10004.

EXPERTS

The audited consolidated financial statements and related schedules thereto contained in material incorporated by reference in this Prospectus have been examined by Arthur Andersen & Co., independent public accountants, as indicated in their reports thereto. The audited consolidated financial statements and schedules are incorporated by reference herein in reliance upon the authority of said Firm as experts in accounting and auditing in giving said reports. Reference is made to such reports dated on or before the date of this Prospectus in which the opinions are qualified with respect to the recoverability of costs associated with Perry Unit 2 in the event that Unit is not placed into service.

To the extent that Arthur Andersen & Co. examines future financial statements of the Company, and consents to the use herein of their reports thereon, such future financial statements also will be incorporated by reference in this Prospectus in reliance upon the reports of said Firm as experts.

Statements as to matters of law and legal conclusions herein under the caption "Description of Stock" and statements in the Company's Annual Report on Form 10-K for the year 1984, incorporated herein by reference, as to matters of law and legal conclusions relating to the provisions of the Company's Mortgage and Charter under the caption "Business—Financing and Construction Program" and relating to other matters under "Business" and "Legal Proceedings," have been reviewed by Russell J. Spetrino, Esq., Akron, Ohio, who is Vice President and General Counsel of the Company, and such statements have been incorporated by reference herein upon his authority as an expert. The extent to which statements as to matters of law and legal conclusions contained in future Annual Reports on Form 10-K will have been reviewed by Mr. Spetrino and incorporated herein upon his authority as an expert will be indicated in such Annual Reports on Form 10-K. Statements as to matters of law and legal conclusions relating to the exempt status of the Common Stock offered hereby with regard to personal property taxes levied in the Commonwealth of Pennsylvania have been reviewed by James R. Edgerly, Esq., New Castle, Pennsylvania, who is Vice President and General Counsel and a director of Penn Power, and such statements have been included herein upon his authority as an expert.

No person has been authorized to give any information or to make any representations not contained or incorporated in this Prospectus or a supplement to this Prospectus in connection with the offering made hereby and, if given or made, such information or representations must not be relied upon as having been so authorized by the Company or by the Sales Agents. This Prospectus does not constitute an offer of any securities other than the registered securities to which it relates, or an offer to any person in any jurisdiction where such offer would be unlawful. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that the information herein is correct as of any time subsequent to the date hereof.

TABLE OF CONTENTS

	<u>Page</u>
Incorporation of Certain Documents by Reference and Additional Information	2
The Company	3
Use of Proceeds	3
Financing and Construction Program ...	3
Dividends and Price Range of Common Stock	4
Description of Stock	4
Manner of Offering	7
Legal Opinions	7
Experts	8

2,000,000 Shares

Ohio Edison Company

Common Stock
(\$9 Par Value)



Goldman, Sachs & Co.
Exclusive Sales Agents

PROSPECTUS

3,000,000 Shares

The Toledo Edison Company

Common Stock

(\$5 Par Value)

The Company's Common Stock is listed on the New York, Midwest and Pacific Stock Exchanges. On March 27, 1985, the last reported sale price of the Common Stock on the New York Stock Exchange was \$18¼ per share.

In the opinion of Pennsylvania counsel for the Company, the Common Stock is exempt from existing Pennsylvania personal property taxes.

**THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE
SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION
PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS.
ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

	Price to Public	Underwriting Discount (1)	Proceeds to Company (2)
Per Share	\$18.25	\$0.54	\$17.71
Total	\$54,750,000	\$1,620,000	\$53,130,000

(1) See "Underwriting" for indemnification arrangements.

(2) Before deducting expenses estimated at \$155,000 payable by the Company.

The Common Stock is offered by the several Underwriters when, as and if issued by the Company and accepted by the Underwriters and subject to their right to reject orders in whole or in part. It is expected that the Common Stock will be ready for delivery on or about April 4, 1985.

Merrill Lynch Capital Markets

The First Boston Corporation

Prudential-Bache
Securities

Dean Witter Reynolds Inc.

The date of this Prospectus is March 28, 1985.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK, MIDWEST OR PACIFIC STOCK EXCHANGES OR IN THE OVER-THE-COUNTER MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934 and, in accordance therewith, files reports and other information with the Securities and Exchange Commission (the "Commission"). Information, as of particular dates, concerning directors and officers, their remuneration, any options granted to them, any principal holders of securities of the Company and any material interest of such persons in transactions with the Company is disclosed in the Company's proxy statements distributed to shareowners of the Company and filed with the Commission. Such reports, proxy statements and other information concerning the Company can be inspected and copied at the public reference facilities of the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C.; Room 1204, Everett McKinley Dirksen Building, 219 South Dearborn Street, Chicago, Illinois; Room 1028, Jacob K. Javits Federal Building, 26 Federal Plaza, New York, New York; and Suite 500 East, 5757 Wilshire Boulevard, Los Angeles, California; and copies of such material can be obtained at prescribed rates from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549. Such material can also be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005; the American Stock Exchange, 86 Trinity Place, New York, New York 10006; the Midwest Stock Exchange, 120 South LaSalle Street, Chicago, Illinois 60603; and the Pacific Stock Exchange, 301 Pine Street, San Francisco, California, 94104.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

There are hereby incorporated by reference in this Prospectus the following documents filed with the Commission pursuant to the Securities Exchange Act of 1934 (the "1934 Act"):

1. The Company's Annual Report on Form 10-K (the "Form 10-K") for the fiscal year ended December 31, 1984 (which incorporates by reference certain portions of the Company's 1984 Annual Report to shareowners together with the report of the Company's independent public accountants whose opinion is qualified with respect to the recoverability of the Company's investment in Perry Unit No. 2. The Company's definitive proxy statement in connection with its Annual Meeting of Shareholders to be held on April 23, 1985 is also incorporated by reference in the Form 10-K).
2. The Company's Current Reports on Form 8-K, filed January 30 and February 21, 1985.
3. The Company's Form 8-A, filed January 7, 1985, which contains a description of its Common Stock, \$5 par value.

All documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the 1934 Act subsequent to the date of this Prospectus and prior to the termination of the offering of the Common Stock shall be deemed to be incorporated by reference in this Prospectus and to be a part hereof from the date of filing of such documents. All information appearing in this Prospectus is qualified in its entirety by the detailed information and financial statements (including the notes thereto) appearing in the documents incorporated by reference.

THE COMPANY HEREBY UNDERTAKES TO PROVIDE WITHOUT CHARGE TO EACH PERSON TO WHOM A COPY OF THIS PROSPECTUS HAS BEEN DELIVERED, ON THE WRITTEN OR ORAL REQUEST OF ANY SUCH PERSON, A COPY OF ANY OR ALL OF THE DOCUMENTS REFERRED TO ABOVE WHICH HAVE BEEN OR MAY BE INCORPORATED IN THIS PROSPECTUS BY REFERENCE, OTHER THAN EXHIBITS TO SUCH DOCUMENTS. REQUESTS FOR SUCH COPIES SHOULD BE DIRECTED TO DONALD H. SAUNDERS, TREASURER, THE TOLEDO EDISON COMPANY, 300 MADISON AVENUE, TOLEDO, OHIO 43652, (419) 259-5170.

THE ISSUE IN BRIEF

THE TOLEDO EDISON COMPANY

Business.....Generation, transmission, distribution and sale of electric energy
 Service Area.....Approximately 2,500 square miles in northwestern Ohio
 Service Area Population.....Approximately 750,000
 Fuel Sources for Electric Energy—Year Ended December 31, 1984.....Coal (71%), Nuclear (29%)

THE OFFERING

Security Offered.....3,000,000 shares of Common Stock
 Shares Outstanding after Offering.....Approximately 37.7 million
 Listings.....New York, Midwest and Pacific Stock Exchanges (Symbol: TED)
 Price Range during 1985 (through March 27).....\$18¼-\$16½
 Book Value at December 31, 1984.....\$23.76
 Indicated Current Annual Dividend Rate.....\$2.52
 Dividend Reinvestment Plan.....Optional Dividend Reinvestment in Common Stock Available(a)

FINANCIAL INFORMATION(b)

	Year Ended December 31,				
	1984	1983	1982	1981	1980
	Thousands Except Per Share Data				
Total Operating Revenues.....	\$551,306	\$504,616	\$481,725	\$442,284	\$401,868
Operating Income.....	\$123,195	\$115,200	\$109,082	\$102,990	\$ 80,356
Total AFUDC.....	\$127,824	\$ 96,028	\$ 71,211	\$ 47,989	\$ 43,591
Earnings on Common Stock					
Before Extraordinary Gain.....	\$118,530	\$ 98,215	\$ 79,313	\$ 59,595	\$ 49,157
After Extraordinary Gain.....	\$118,530	\$ 98,215	\$ 79,313	\$ 70,402	\$ 49,157
Average Number of Common Shares Outstanding.....	32,014	28,040	24,917	21,507	19,226
Earnings per Common Share					
Before Extraordinary Gain.....	\$3.70	\$3.50	\$3.18	\$2.77	\$2.56
After Extraordinary Gain.....	\$3.70	\$3.50	\$3.18	\$3.27	\$2.56
Cash Dividends Declared per Common Share.....	\$2.52	\$2.46	\$2.38	\$2.30	\$2.20

CAPITALIZATION(b)

	December 31, 1984	
	Actual	Adjusted(c)
	Thousands Except Percentages	
Long-Term Debt.....	\$1,110,122	\$1,210,122 49.6%
Preferred Stock.....	\$ 357,828	\$ 357,828 14.6%
Common Stock Equity.....	\$ 813,895	\$ 872,949 35.8%
Total Capitalization.....	<u>\$2,281,845</u>	<u>\$2,440,899</u> 100.0%

(a) See "Dividend Reinvestment Plan".

(b) See "Selected Information" for information regarding the possible write-off of the Company's investment in Perry Unit No. 2 or creation of a reserve against Perry Unit No. 2 AFUDC accruals and the qualification by the Company's auditors of their reports on the Company's 1983 and 1984 financial statements.

(c) Adjusted to reflect the issuance of \$100 million of long-term notes in January 1985, the Common Stock offered hereby and Common Stock issued through February 28, 1985 pursuant to the Company's Shareowner Dividend Reinvestment and Stock Purchase Plan.

THE COMPANY

The Toledo Edison Company (the "Company") was incorporated under the laws of the State of Ohio on July 1, 1901 and is a public utility engaged primarily in the generation, transmission, distribution and sale of electric energy in Toledo and northwestern Ohio, covering an area of approximately 2,500 square miles, with an estimated population of about 750,000. The Company also provides a relatively small amount of natural gas service and, until June 1, 1985, steam heating service. For the year ended December 31, 1984, the Company's operating revenues were \$551,306,000, of which about 98% was derived from the sale of electricity.

The principal executive offices of the Company are in the Edison Plaza at 300 Madison Avenue, Toledo, Ohio 43652, telephone (419) 259-5000.

USE OF PROCEEDS

The net proceeds from the sale of the Common Stock offered hereby will be added to the general funds of the Company and will be used primarily to finance the Company's construction program. Pending such use, the net proceeds may be invested in temporary cash investments or used to reduce short-term debt.

CONSTRUCTION AND FINANCING PROGRAM

The Company currently estimates its 1985 construction costs to be about \$358 million. About \$210 million of these costs are direct cash expenditures, almost all of which will require external financing. Additional external financing will be required to meet 1985 sinking fund requirements and long-term debt maturities of about \$59 million. Approximately \$106 million has been provided from the net proceeds of external financings completed through February 1985. In addition to the Common Stock offered hereby, it is anticipated that additional external financing during 1985 will consist of a pollution control facilities financing for Perry Unit No. 1 and common facilities in the first half of the year, issues of long-term debt and preferred stock later in the year and regular common stock issuances under the Company's Shareowner Dividend Reinvestment and Stock Purchase Plan.

The Company's construction program during the five-year period 1985-1989, described in the table below, is presently estimated to cost about \$900 million (including \$317 million for allowance for funds used during construction ("AFUDC"), but excluding nuclear fuel). However, pending completion of the Perry Unit No. 2 studies discussed below, the levels of direct cash expenditures and AFUDC for that unit beyond 1985 are indeterminable. Therefore, the construction program described in the table below does not reflect such amounts for that unit beyond 1985. Approximately 80% of these costs are attributable to nuclear generating units being installed as part of the Central Area Power Coordination Group ("CAPCO") power pool. The members of CAPCO are the Company, The Cleveland Electric Illuminating Company ("CEI"), Duquesne Light Company ("Duquesne"), Ohio Edison Company and Pennsylvania Power Company. Perry Units Nos. 1 and 2 are being constructed by CEI and Beaver Valley Unit No. 2 is being constructed by Duquesne. The Company has a 19.91% interest in each of these units. See "Selected Information" below regarding announced cost estimate increases and studies relating to the CAPCO units and petitions filed to stop construction of Perry Unit No. 2 and possible creation of a reserve in connection therewith. As with any nuclear construction program, it is probable that additional costs would be incurred if completion of any of the CAPCO units under construction were to be delayed further. Likewise, the cost estimates for such units are subject to increase. There can be no assurance that the costs of all the CAPCO units under construction will ultimately be recovered in rates charged to customers.

	1985	1986	1987-1989
	Millions of Dollars		
Generating Facilities.....	\$329.8	\$164.1	\$240.5
Transmission Facilities	2.6	1.6	4.8
Distribution Facilities	20.1	25.7	79.0
Other.....	5.3	6.5	18.8
Total.....	<u>\$357.8</u>	<u>\$197.9</u>	<u>\$343.1</u>
Nuclear Fuel Costs.....	<u>\$ 19.3</u>	<u>\$ 27.3</u>	<u>\$ 54.2</u>

Estimated nuclear fuel costs shown above include cost of acquisition, conversion, enrichment and fabrication but exclude financing costs. The Company is presently a party to nuclear fuel financing arrangements covering major portions of these costs.

The Company continues to rely heavily upon external financing in the public and private securities markets. External financing provided approximately 90% of the Company's construction program cash requirements during 1980-1984. The Company currently estimates that all of its estimated 1985-1989 construction program cash requirements, approximately \$580 million, will require external financing. The amount of external financing, and the Company's ability to obtain such financing, will depend on, among other factors, the timing and amount of rate increases, changes in the schedule and cost of the Company's construction program, the level of kilowatt-hour sales, the effect of general inflation on construction costs and other expenses, financial market conditions and Company earnings. Recently, utilities having nuclear construction programs, including the Company, have been finding it more costly and difficult to obtain external financing because of investors' increased concerns about the risks associated with nuclear construction and licensing. If the Company were unable to obtain external financing in the amounts and at the times required to pay construction expenditures, the Company would have to consider various options, such as postponing construction expenditures, conserving internally generated cash and reducing other cash outlays. See "Selected Information" below.

The cost and availability of new capital to the Company is directly affected by the credit ratings of its securities. In 1984, rating agencies lowered the Company's security ratings, making the cost of raising new capital more expensive. Should further ratings reductions occur, it would be even more difficult and expensive for the Company to obtain sufficient financing to meet its construction commitments and other cash needs. Also, future financing could be more difficult and expensive to obtain if any other CAPCO company were to experience difficulty in financing, or become unable to pay its share of the construction costs of the CAPCO units under construction. See "Selected Information" below. Availability of new capital to the Company may also be adversely affected by the credit deterioration of other electric utilities.

The Company obtains new capital between external long-term financings by utilizing short-term debt from commercial paper borrowing and \$73 million of informal bank lines of credit. Generally, the banks are not legally obligated to extend credit to the Company under such informal credit lines. The Company also recently entered into a five year revolving underwriting facility agreement. This facility enables the Company to sell up to \$25 million in short-term notes from time to time upon compliance with certain financial statement tests and other conditions. Although the Company has not yet drawn on the facility, it may do so in the near future. The Company is currently authorized by The Public Utilities Commission of Ohio ("PUCO") to issue up to \$150 million of short-term debt. The Company's short-term debt generally bears interest at market rates prevailing at the time of borrowing.

Under the coverage requirement in the Company's indenture of mortgage, the Company may not issue, except for certain refunding purposes, additional first mortgage bonds unless net earnings as defined (before income taxes), and calculated as provided in the indenture, are at least 2.0 times annual interest requirements on outstanding first mortgage bonds plus any bonds being issued. The Company's coverage under the indenture for the 12-month period ended January 31, 1985 was 2.12, which would entitle the Company to issue up to \$44 million of first mortgage bonds at an assumed interest rate of 15%. The additional amount issuable at any given time in the future will depend on net earnings for any 12 consecutive months of the 15 months preceding the date of issuance and the interest requirement on any additional first mortgage bonds to be issued.

The Company's articles of incorporation prohibit the issuance of additional shares of preferred stock unless gross income (after income taxes), determined as provided in the articles, is at least 1.50 times the aggregate of the annual interest requirements on long-term indebtedness and the annual dividend requirements on the preferred stock to be outstanding immediately after the issuance of the additional

shares of preferred stock. The Company's coverage under the articles for the 12-month period ended January 31, 1985, was 1.52, which would entitle the Company to issue approximately \$21 million of preferred stock at an assumed dividend rate of 15%, assuming no additional issuance of long-term debt above that outstanding at January 31, 1985. The actual amount issuable at any given time in the future will depend on gross income for any 12 consecutive months of the 15 months preceding the date of issuance, the dividend requirement on additional preferred stock and the interest requirements on any additional long-term debt. Should the Company be required to write off its investment in Perry Unit No. 2 by an extraordinary charge against current earnings, the Company believes that its ability to issue first mortgage bonds would not be affected, but such charge would reduce the amount of preferred stock otherwise issuable or prohibit the issuance of preferred stock at least during the subsequent 12-month period. The Company believes its ability to maintain its current common stock dividend would not be impaired solely because of such a write-off. However, any reduction in earnings reinvested resulting from a write-off of Perry Unit No. 2 may require future financing programs to include common stock issuances to a greater degree in order to achieve a balanced capital structure. Should the Company's earnings be reduced as a result of the creation of a reserve against Perry Unit No. 2 AFUDC accruals, the amount of Preferred Stock otherwise issuable would also be reduced. See "Selected Information" for information regarding Perry Unit No. 2.

Certain agreements under which term loan notes of the Company were issued contain provisions, among others, limiting its funded debt plus certain short-term debt (generally, that in excess of \$150 million) to 65% of capitalization (as therein defined). The Company believes that a write-off of its investment in Perry Unit No. 2 would not cause such limits to be exceeded, based upon December 31, 1984 capitalization and its current estimate of the potential write-off. Agreements under which certain long-term notes were, and certain short-term notes may be, issued limit the right of the Company to engage in secured financing other than first mortgage bonds.

SELECTED INFORMATION

CAPCO

The CAPCO companies announced in January 1985 the results of a review by their chief executives of the estimated completion dates of two of the three nuclear generating units under construction. Based on the review, the estimated completion date of Perry Unit No. 1, which is about 97% complete based on measures of physical completion, remains around the end of 1985. The schedule required to meet this completion date is tight; however, the CAPCO companies believe that the schedule can be met. The cost of Perry Unit No. 1 and common facilities remains the same as announced in September 1984. The September revision increased the Company's share of the total estimated cost of Perry Unit No. 1 and common facilities to approximately \$800 million, about an \$85 million increase from the previous estimate made in March 1984. The Company's share of direct expenditures for the unit is estimated to be approximately \$550 million and AFUDC is expected to be about \$250 million. The Company's total investment in Perry Unit No. 1 and common facilities at December 31, 1984 was \$642 million.

Also in January 1985, the CAPCO companies announced that planned 1985 expenditures by the CAPCO companies for Beaver Valley Unit No. 2 would be reduced by \$100 million from \$446 million to \$346 million. The estimated completion date of the unit, which is about 84% complete based on measures of physical completion, was delayed from late 1986 to about the end of 1987. Total cash expenditures for the unit would increase by \$122 million, increasing the total estimated cost of the unit from about \$3.5 billion to about \$3.9 billion, including AFUDC. The Company's share of the total cost of the unit is estimated to be approximately \$890 million, including \$530 million of direct expenditures and \$360 million of AFUDC. As a result of the increases announced in March 1984 and January 1985, the Company's share of the total costs of Beaver Valley Unit No. 2 increased over 1983 estimates by \$237 million, including about \$105 million in cash expenditures. At December 31, 1984, the Company's investment in the unit was \$515 million.

The estimated cost and completion timetable for Perry Unit No. 2 remains under review and the CAPCO companies continue to consider all options with respect to that unit. In March 1984, the CAPCO companies agreed to minimize work and cash expenditures on Perry Unit No. 2 and concentrate construction efforts on the completion of Perry Unit No. 1. All alternatives with respect to Unit No. 2, including accelerated or extended construction schedules, mothballing (including suspension of AFUDC accruals) or cancellation, are being considered. The current work minimization will increase the cost of the unit if full-scale construction is resumed. The future of the unit, however, is still undecided.

Presently, the only significant work being performed on Perry Unit No. 2 is that necessary to enable Perry Unit No. 1 to be placed in service. Moreover, absent a change in circumstances, construction activity is expected to be reduced to such a level by about mid-1985 that related AFUDC accruals would need to be offset, and a corresponding reserve established in the Company's financial statements. Creation of such a reserve at mid-1985 would not affect Company cash flow, but would reduce 1985 earnings per share by about \$0.35 from what they otherwise would be based upon the average number of shares expected to be outstanding during 1985. AFUDC accruals are expected to average about \$2 million per month in 1985 for Perry Unit No. 2.

If the construction of Perry Unit No. 2 were not completed and the PUCO, or applicable law, did not provide the Company a means to recover its investment in that unit (including any cancellation charges paid to contractors and other costs), and no other basis for recovery could be found or anticipated, the Company would be required to write off that investment. At December 31, 1984, this write-off would have been approximately \$154 million, net of federal income tax effect, based upon the Company's investment in the unit of approximately \$222 million. This amount does not reflect cancellation charges and other costs payable if Perry Unit No. 2 were to be cancelled. Such charges and costs are not presently determinable, but the Company believes they would be largely offset by possible cost reallocations and sales of machinery and equipment. As a result of the uncertainty regarding the status of Perry Unit No. 2, the Company's auditors have qualified their opinions on the Company's 1983 and 1984 financial statements regarding the recovery of the Company's investment in Perry Unit No. 2.

The Company expects that it will ultimately need its share of the additional generating capacity from the three CAPCO units under construction. However, depending on when those units are placed in service, the Company expects that its generating capability will probably exceed its needs for various indeterminate periods of time after each of such units is placed in service. Consequently, the Company is undertaking efforts to sell temporarily as much as possible of this additional capacity pending its ultimate need by the Company for sales to its own customers.

The United States Nuclear Regulatory Commission ("NRC") has scheduled a hearing for early April in connection with the CAPCO companies' application for an operating license for Perry Unit No. 1 in order to hear concerns of opponents of the unit. The NRC staff had previously concluded that a hearing would be unnecessary. One group has questioned aspects of the emergency evacuation planning; another has raised issues with respect to hydrogen control systems and backup diesel generators. The Company has no information which would cause it to believe that an operating license will not be granted for Perry Unit No. 1.

On March 21, 1985, the Davis-Besse Nuclear Power Station, owned by the Company and CEI, was taken off line to repair a control rod drive mechanism. The reactor is expected to be placed back in service by early to mid April, 1985. The Company cannot currently estimate the cost of the repair.

Rate Matters

The Company filed a request in late 1984 for a \$45 million or an 8% permanent increase in its retail electric rates. At the same time, the Company requested the PUCO to implement the \$45 million increase immediately on an interim basis. These requests were based on the Company's need to recover from the lingering effects of past inflation, a heavy financing burden, the results of recent inadequate rate increases and the Company's high level of noncash earnings.

The PUCO on February 19, 1985 approved and adopted the Company's stipulation with the Staff of the PUCO and the intervenors in the interim rate increase proceeding. The stipulation contains (1) an allowance of \$22.7 million in additional gross annual operating revenues by means of an emergency temporary uniform surcharge, (2) provisions designed to ensure that revenues collected during the surcharge period will ultimately result in rates in the future being lower than they otherwise would have been, (3) a recommendation that the PUCO order the Company to analyze the feasibility of reducing the CAPCO construction program and the Company's participation in such program and file a report thereon with the PUCO by May 1, 1985, (4) an agreement that the Company's cost reduction and cash conservation efforts be continued and expanded during the period of the emergency surcharge, and (5) an agreement that the Company will withdraw its pending permanent rate case application and file another application for permanent rate relief with a date certain of June 1, 1985. The Company will be able to reopen the interim proceeding by motion to request additional rate relief. The \$22.7 million of additional revenues are subject to refund in the event the level of revenues established in the permanent case to be filed in June 1985 are less than the level of the temporary revenues established in the interim proceeding.

Notwithstanding the emergency rate increase granted by the PUCO on February 19, 1985, the Company's financial condition is expected to remain troublesome. The Company's earnings on its common stock over the last five years have been composed entirely or almost entirely of noncash credits rather than cash; this condition is expected to continue at least into 1986. The Company's low internal net cash generation makes its financial viability dependent on external financings and additional rate increases. The Company's financing alternatives are adversely affected by its poor earnings quality and its low internal net cash generation. In recent rate cases, the Company has obtained rate increases significantly less than those requested.

On March 7, 1985, the PUCO announced, in a rate case involving another Ohio CAPCO company, its intention to investigate the causes of the cost overruns at Perry Unit No. 1 in order to determine if those costs are excessive. The PUCO also announced its intention to investigate the possible existence of excess electric utility generating capacity in Ohio and to develop a policy on excess capacity for Ohio electric utilities.

COMMON STOCK DIVIDENDS AND PRICE RANGE

The Company has paid cash dividends on its Common Stock in each year since 1922. The current quarterly dividend rate is 63¢ per share. Future dividends will depend upon future earnings, the cash position and capital needs of the Company and other relevant factors. The Company's Board of Directors declared on March 26, 1985 a Common Stock dividend to be payable April 29, 1985. Based upon an anticipated delivery on April 4, 1985, the Common Stock offered hereby would be entitled to such dividend. For information concerning certain restrictions on the payment of dividends, see "Description of the Common Stock".

Varying proportions of the dividends paid in the years 1975 through 1983 and 79.1% of the Common Stock dividends paid in 1984 were estimated by the Company to be a return of capital and thus not taxable for federal income tax purposes as dividend income. The Company anticipates that any Common Stock dividends paid in 1985 will be fully taxable as ordinary income.

The book value per share of the Common Stock of the Company at December 31, 1984 was \$23.76. Since the price per share at which the Company will sell the Common Stock offered hereby is less than such book value per share of the Common Stock, the book value of the Common Stock currently held by shareowners will be diluted. Adjusted to give effect to the sale of the Common Stock offered hereby, assuming net proceeds to the Company of \$17.71 per share, book value at December 31, 1984 would be \$23.27 per share. In order to maintain a balanced capital structure, both debt and equity securities must be issued in the course of financing the Company's construction program. Accordingly, it has been necessary for the Company to issue Common Stock at market prices below book value. The effect of the resulting dilution on the Company's construction and financing program, rate base and rate proceedings, although adverse, cannot be quantified.

The high and low sales prices of the Common Stock of the Company reported as composite transactions have been as follows:

	High	Low		High	Low
1983			1984		
First Quarter.....	\$22½	\$20	First Quarter.....	\$18¾	\$16
Second Quarter.....	22¼	20¼	Second Quarter.....	17½	13¾
Third Quarter.....	21¾	19¾	Third Quarter.....	17¾	13¾
Fourth Quarter.....	21¾	17½	Fourth Quarter.....	18¾	16¾
			1985		
			First Quarter.....	18¾	16½
			(through March 27)		

The reported last sale price of the Common Stock on the New York Stock Exchange on March 27, 1985 was \$18¾ per share. Merrill Lynch, Pierce, Fenner & Smith Incorporated, The First Boston Corporation, Prudential-Bache Securities Inc. and Dean Witter Reynolds Inc. have advised the Company that on March 27, 1985 they made stabilizing purchases of 33,800 shares at \$18.25 on the Pacific Stock Exchange.

DIVIDEND REINVESTMENT PLAN

The Company's Shareowner Dividend Reinvestment and Stock Purchase Plan is available to all common and preferred shareholders. This plan provides shareholders an opportunity to reinvest quarterly dividends automatically in Common Stock of the Company without incurring any service charges or brokerage fees. A five-percent (5%) discount on the price of Common Stock purchased from the Company with reinvested dividends is offered under the plan. Participants generally may make supplemental cash contributions of not more than \$5,000 per investment date under the plan. Shareholders may join or withdraw from the plan at any time.

A tax benefit for reinvested dividends is provided in the Economic Recovery Tax Act of 1981. From 1982 through 1985, qualified individual participants in qualified public utility dividend reinvestment plans will be permitted to reinvest up to \$750 a year (\$1500 on a joint return) in dividends and defer paying any federal income tax on those dividends until the shares are sold. Qualifying participants in the plan will, generally, be eligible for long-term capital gain treatment on the sale of shares purchased with reinvested dividends if they hold the stock for more than one year. The Company believes that qualified individual participants in the plan will be eligible for this tax benefit. While purchasers of the Common Stock offered hereby will be entitled to receive the common stock dividend expected to be paid on April 29, 1985, they will be unable to reinvest quarterly dividends through the plan until the July 28, 1985 dividend payment date.

DESCRIPTION OF THE COMMON STOCK

The following information is a summary of certain provisions of the Company's Amended Articles of Incorporation, as amended ("Articles"), and certain other instruments to which reference is made for a complete statement of the applicable provisions, and is qualified in its entirety by such reference.

The Articles authorize 40,000,000 shares of Common Stock, \$5 par value, 5,000,000 shares of Cumulative Preference Stock, \$25 par value, 3,000,000 shares of Cumulative Preferred Stock, \$100 par value, and 8,000,000 shares of Cumulative Preferred Stock, \$25 par value. At the Company's Annual Meeting of Shareholders to be held on April 23, 1985, the holders of the Company's Common Stock will be asked to amend the Articles to increase the authorized number of shares of Common Stock from 40,000,000 to 60,000,000 and of Cumulative Preferred Stock, \$25 par value, from 3,000,000 to 12,000,000. The record date for determining shareholders eligible to vote at the meeting is February 22, 1985. Accordingly, purchasers of the Common Stock offered hereby will not be entitled to vote on these amendments. All shares of Cumulative Preferred Stock ("Preferred Stock") rank equally. The shares of Preferred Stock, \$100 par value, have one vote per share and the shares of Preferred Stock, \$25 par value, have one-quarter vote per share, for the purposes described below under "Voting Rights". At February 28, 1985, there were outstanding 34,625,057 shares of Common Stock, 1,844,665 shares of Preferred Stock, \$100 par value, and 7,000,000 shares of Preferred Stock, \$25 par value. The Company has no Preference Stock issued and outstanding.

Dividends

Subject to the preferential rights of holders of Preferred and Preference Stock and to the restrictive provisions hereinafter mentioned, dividends may be declared on the Common Stock out of any assets legally available therefor. The Articles contain provisions, applicable so long as any shares of 4¼% Preferred Stock remain outstanding, limiting the amount of Common Stock dividends, distributions or acquisitions which the Company may pay or make out of earnings for any twelve-month period if the ratio of common stock capital plus surplus to total capital plus surplus is less than 25%. Earnings reinvested were not restricted by this provision as of December 31, 1984. Giving effect as of December 31, 1984 to the issuance of the Common Stock offered hereby, and \$100 million of long-term notes issued in January 1985, earnings would not be restricted by this provision. The Articles also provide that any surplus used to satisfy certain tests contained in the Articles for the issuance of certain senior securities shall not be available for dividends or other distributions upon or in respect of the Common Stock. Earnings reinvested were not restricted by this provision at December 31, 1984. The Indenture relating to the Company's First Mortgage Bonds provides that the Company may not pay dividends or make distributions on, or purchase any shares of its Common Stock if, as a result thereof, the cumulative aggregate amount of such dividends, distributions or purchases exceeds the amount of earned surplus (computed and adjusted as therein determined) of the Company accumulated subsequent to March 31, 1947. Dividends from earnings reinvested are not presently restricted by this provision. The Articles and the purchase agreements relating to the Company's 9¾% and 13¼% series of Preferred Stock, \$100 par value (the "Purchase Agreements"), contain provisions which prohibit dividends or distributions on and acquisition of shares of, the Company's Common Stock unless sinking fund obligations with respect to certain Preferred Stock series have been met. The Company is presently not restricted by these provisions.

Voting Rights

The holders of the Common Stock possess full voting power for the election of directors and all other purposes, except as any Ohio statute expressly provides to the contrary and except as indicated below. The record holders of the Common Stock have one vote for each share held and are entitled to cumulative voting upon compliance with the requirements set forth in Ohio's General Corporation Law at all elections of directors.

If and when dividends payable on the Preferred Stock shall be in default in an amount equivalent to four full quarterly dividends, the record holders of the Preferred Stock, voting as a class, shall be entitled to elect the smallest number of directors necessary to constitute a majority of the Board of Directors, and this privilege continues until all such dividends in default have been paid. Pursuant to the Articles, the assent of two-thirds of the voting power of the Preferred Stock is required in connection with: (a) the authorization or issuance of any stock ranking prior to the Preferred Stock; (b) the issuance of additional Preferred Stock unless certain income tests are met; (c) the issuance of additional Preferred Stock or any stock senior thereto or on a parity therewith unless certain capital and surplus tests are met; (d) the authorization or issuance of any obligation or security convertible into or evidencing the right to purchase Preferred Stock or stock senior thereto or on a parity therewith; or (e) amending the Articles so as to affect adversely any of the preferences or other rights given to the Preferred Stock; and the assent of a majority of the voting power of the Preferred Stock is required in connection with the authorization of additional Preferred Stock or the authorization or issuance of stock on a parity therewith and certain mergers or consolidations or sales of all or substantially all of the property of the Company.

If and when dividends payable on the Preference Stock shall be in default in an amount equivalent to four full quarterly dividends, the record holders of the Preference Stock, voting as a class, shall be entitled to elect two directors, and this privilege continues until all such dividends in default have been paid. The assent of two-thirds of the voting power of the Preference Stock is required in connection with: (a) the authorization or issuance of any stock ranking prior to the Preference Stock, except for the authorization or issuance of Cumulative Preferred Stock; (b) the authorization or issuance of any obligation or security convertible into or evidencing the right to purchase shares of Preference Stock or stock ranking prior to or on a parity with Preference Stock in respect of dividends or assets; (c) an amendment to the Articles which affects adversely any of the preferences or other rights given to the Preference Stock; and (d) an

amendment to the Company's Code of Regulations which reduces the minimum number of directors to less than five. The assent of a majority of the voting power of the Preference Stock is required in connection with certain mergers or consolidations or sales of all or substantially all of the property of the Company, the authorization of additional shares of Cumulative Preferred Stock or Preference Stock and the authorization of stock ranking on a parity with the Preference Stock in respect of dividends or assets.

Other Rights

The holders of the Common Stock have pre-emptive rights upon the sale by the Company for cash of any additional Common Stock or of any security convertible into Common Stock other than through a public offering or an offering to or through underwriters or investment bankers who shall have agreed to promptly make a public offering thereof. After satisfaction of the preferential liquidation rights of the holders of Preferred and Preference Stock, the holders of the Common Stock are entitled to share ratably in the distribution of all remaining assets. The outstanding Common Stock is, and the shares of Common Stock offered hereby when issued and paid for will be, fully paid and nonassessable.

Redemption of Common Stock

The Articles provide that the Company may not purchase or otherwise acquire any shares of Common Stock unless the Company has paid or has declared and set aside all past and current dividends on all shares of series of the Company's Preferred and Preference Stock then outstanding. The Company is presently not restricted by this provision. In addition, the Purchase Agreements and Articles contain other provisions which limit the Company in its ability to acquire shares of its Common Stock. The Company is presently not restricted by these provisions. (See "Dividends".)

Pennsylvania Personal Property Tax

The Company has qualified to do business as a foreign corporation in Pennsylvania in connection with its interest in Pennsylvania generating units as described in the Form 10-K and has been advised by Pennsylvania counsel that, in their opinion, the Common Stock is exempt from existing Pennsylvania personal property taxes. (See "Incorporation of Certain Documents by Reference".)

Transfer Agent and Registrar

The transfer agent and registrar for the Common Stock is The Toledo Trust Company, Toledo, Ohio.

EXPERTS

The financial statements and schedules incorporated by reference in this prospectus and elsewhere in the registration statement, to the extent and for the periods indicated in their reports, have been examined by Arthur Andersen & Co., independent public accountants, as indicated in their reports with respect thereto, and are included herein in reliance upon the authority of said firm as experts in accounting and auditing in giving said reports. Reference is made to said reports in which the opinions are qualified with respect to the recovery of the investment in Perry Unit No. 2.

The statements as to matters of law and legal conclusions herein under "Description of the Common Stock" have been reviewed by Fuller & Henry, Toledo, Ohio, counsel for the Company, and are made on their authority as experts, except for the statements herein as to Pennsylvania personal property taxes, which are made on the authority of McNees, Wallace & Nurick, Harrisburg, Pennsylvania.

LEGAL OPINIONS

The validity of the Common Stock offered hereby will be passed upon by Fuller & Henry, Toledo, Ohio, counsel for the Company and for the Underwriters by Sullivan & Cromwell, New York, New York, who will rely upon Fuller & Henry as to matters of Ohio law. The Company is relying on the opinion of McNees, Wallace & Nurick, Harrisburg, Pennsylvania, as to certain matters of Pennsylvania tax law.

Attorneys in the firm of Fuller & Henry own beneficially (including securities owned by their spouses and other members of their households) 2,180 shares of the Company's Common Stock and 10 shares of its 4¼% Cumulative Preferred Stock.

UNDERWRITING

The Underwriters named below have severally agreed to purchase from the Company the following respective number of shares of Common Stock:

<u>Underwriter</u>	<u>Number of Shares</u>
Merrill Lynch, Pierce, Fenner & Smith Incorporated	750,000
The First Boston Corporation.....	750,000
Prudential-Bache Securities Inc.	750,000
Dean Witter Reynolds Inc.	750,000
Total	<u>3,000,000</u>

The Underwriting Agreement provides that the obligations of the Underwriters are subject to certain conditions precedent, and that the Underwriters will be obligated to purchase all of the shares of Common Stock offered hereby if any are purchased.

The Company has been advised by Merrill Lynch, Pierce, Fenner & Smith Incorporated, The First Boston Corporation, Prudential-Bache Securities Inc. and Dean Witter Reynolds Inc., the Underwriters, that the Underwriters propose to offer the Common Stock to the public initially at the offering price set forth on the cover page of this Prospectus and that they may initially allow a concession to certain dealers of not more than \$.34 per share, of which a discount not in excess of \$.10 per share may be reallocated to certain other dealers. The public offering price, concession and reallocation may be changed by the several Underwriters after the initial public offering.

The Company has agreed to indemnify the Underwriters against certain civil liabilities, including liabilities under the Securities Act of 1933.

No dealer, salesman or other person has been authorized to give any information or to make any representation not contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorized by the Company or the Underwriters. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

3,000,000 Shares

The Toledo Edison Company

Common Stock
(\$5 Par Value)

TABLE OF CONTENTS

	Page
Available Information	2
Incorporation of Certain Documents By Reference	2
The Issue in Brief.....	3
The Company.....	4
Use of Proceeds	4
Construction and Financing Program	4
Selected Information.....	6
Common Stock Dividends and Price Range..	8
Dividend Reinvestment Plan.....	9
Description of the Common Stock.....	9
Experts	11
Legal Opinions	11
Underwriting	12



PROSPECTUS

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 1984

Commission file number 1-3583

THE TOLEDO EDISON COMPANY

Incorporated under the laws of Ohio

IRS Employer Identification No. 34-4375005

300 Madison Avenue
Toledo, Ohio 43652

Registrant's telephone number, including area code: (419) 259-5000

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

Title of each class	Name of each exchange on which registered
Common Stock, par value \$5 per share	New York Stock Exchange Midwest Stock Exchange Pacific Stock Exchange
First Mortgage Bonds	
9.35% Series due 1985	
9% Series due 2000	
7½% Series due 2002	
9.65% Series due 2006	New York Stock Exchange
9½% Series due 2008	
11% Series due 2009	
Cumulative Preferred Stock, par value \$100 per share	American Stock Exchange
4¼% Series	
8.32% Series	
7.76% Series	
10% Series	
Cumulative Preferred Stock, par value \$25 per share	New York Stock Exchange
8.84% Series	
\$2.365 Series	
\$4.28 Series	
\$3.47 Series	
\$3.75 Series	
\$3.72 Series	

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

4.56% Cumulative Preferred Stock, par value \$100 per share
4.25% Cumulative Preferred Stock, par value \$100 per share

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for at least the past 90 days.
Yes ☒ No ☐

The aggregate market value of the Company's Common Stock on February 28, 1985, based on the average of the high and low sales prices as quoted for that date on a composite transactions basis in *The Wall Street Journal*, was \$631,907,290.30.

All outstanding Common Stock is believed to be held of record and beneficially by non-affiliates. The Company does not consider any individual director to be an "affiliate" merely by virtue of holding that position.

The number of shares of Common Stock, \$5 par value, outstanding at February 28, 1985 was 34,625,057.

DOCUMENTS INCORPORATED BY REFERENCE

- | | |
|-----------------|---|
| Parts I and III | The Toledo Edison Company's Proxy statement, in connection with its 1985 Annual Meeting of Shareholders (the "Proxy Statement"). |
| Part II | The Toledo Edison Company's Annual Report to Shareowners for fiscal year ended December 31, 1984 (the "1984 Annual Report"). With the exception of the pages of the 1984 Annual Report specifically incorporated by reference herein, the 1984 Annual Report is not deemed to be filed as a part of this report on Form 10-K. |

TABLE OF CONTENTS

	<u>Page</u>
 PART I	
Item 1. Business	1
General.	1
CAPCO.	1
Industry Problems.	6
Construction and Financing Program	6
Properties	10
Regulation	11
Utility Regulation	11
Nuclear Regulatory Commission.	13
Rate Matters	13
Fuel Supply.	15
Fossil	15
Nuclear.	17
Environmental Matters.	19
Air Quality.	19
Water Quality.	21
Toxic Substances	21
Competitive Conditions, Franchises and Labor	22
Competitive Conditions	22
Franchises	23
Labor.	23
Item 2. Properties	23
Item 3. Pending Legal Proceedings.	23
Item 4. Submission of Matters to a Vote of Security Holders. . .	24
Officers of the Company.	24
 PART II	
Item 5. Market for The Toledo Edison Company's Stock and Related Security Holder Matters.	25
Item 6. Selected Financial Data.	25
Item 7. Management Discussion and Analysis of Financial Condition and Results of Operations.	25
Item 8. Financial Statements and Supplementary Data.	26
Item 9. Disagreements on Accounting and Financial Disclosure . .	26
 PART III	
Item 10. Directors and Executive Officers of the Registrant . . .	26
Item 11. Management Remuneration.	26
Item 12. Security Ownership of Certain Beneficial Owners and Management	26
Item 13. Certain Relationships and Related Transactions	26

PART IV

Item 14.	Exhibits, Financial Statement Schedules, and Reports	
	on Form 8-K.	26
	Signatures	38
	Schedules	40
	Exhibits (attached hereto)	59

GLOSSARY

AFUDC	Allowance for Funds Used During Construction
AMP-O	American Municipal Power - Ohio, Inc.
Articles	The Company's Amended Articles of Incorporation
CAPCO	Central Area Power Coordination Group
CEI	The Cleveland Electric Illuminating Company
Company	The Toledo Edison Company
CWIP	Construction-Work-In-Progress
DOE	United States Department of Energy
Duquesne	Duquesne Light Company
Electric Authority	Ohio Municipal Wholesale Electric Authority
FERC	Federal Energy Regulatory Commission
GPMP	Generally Prevailing Market Price
Indenture	The Indenture of Mortgage and Deed of Trust, as amended and supplemented, which secures the Company's first mortgage bonds
NRC	United States Nuclear Regulatory Commission
OCC	Ohio Office of Consumers' Counsel
OEPA	Ohio Environmental Protection Agency
OEPA Plan	OEPA sulfur dioxide control plan
PCB	Polychlorinated biphenyl
PSB	Power Siting Board of Ohio
PUCO	The Public Utilities Commission of Ohio
SALP	Systematic Appraisal of Licensee Performance
TSCA	Toxic Substances Control Act
USEPA	United States Environmental Protection Agency
Water Act	The Federal Water Pollution Control Act, as amended

PART I

Item 1. BUSINESS

General

The Toledo Edison Company (the "Company") was incorporated under the laws of the State of Ohio on July 1, 1901 and is a public utility engaged primarily in the generation, transmission, distribution and sale of electric energy in Toledo and northwestern Ohio, covering an area of approximately 2,500 square miles, with an estimated population of about 750,000. The Company also provides a relatively small amount of natural gas service and, until June 1, 1985, steam heating service.

Electric service is provided to approximately 272,000 customers of which about 90% are residential customers and 10% are commercial, industrial and other users. Total kilowatt-hour sales for 1984 were 26% residential, 18% commercial, 46% industrial and 10% for all others (primarily from sales to municipalities for resale, to other public authorities and for street lighting). Total electric operating revenues for 1984 were derived 32% from residential sales, 21% from commercial sales, 36% from industrial sales and 11% from all other sales.

Company kilowatt-hour sales follow a seasonal pattern marked by increased sales for heating during winter and for air conditioning during summer. The maximum hourly demand on the Company during 1984 occurred on August 7, 1984 and was 1,327 megawatts. The net capability at that time was 1,726 megawatts, providing a capacity margin of about 23% of net capability. The Company's capacity margin in the future will depend upon the growth in demand for electricity and the in-service dates of generating units under construction. The capacity margin at time of peak is expected to vary between approximately 20% and 30% of net capability through the remainder of the 1980's, assuming Perry Unit No. 2 is not in service prior to 1990. See "CAPCO" below.

Forty-nine incorporated municipalities are served at retail, including the City of Toledo, which, according to 1980 census figures, had a population of 354,635. Thirteen municipalities and one rural electric cooperative with their own distribution systems are presently served at wholesale. Sales at wholesale to municipalities for 1984 amounted to about \$14 million. See "Competitive Conditions" in this Item for information relating to sales to municipalities.

CAPCO

The Company, The Cleveland Electric Illuminating Company ("CEI"), Duquesne Light Company ("Duquesne"), Ohio Edison Company and its subsidiary, Pennsylvania Power Company, created the Central Area Power Coordination Group ("CAPCO") in 1967 in the interest of reliability and economy. Major features of the pool have been joint construction and ownership of large generating units, mutual support of power requirements and concomitant sharing of the cost and use of bulk transmission lines and facilities. See "Fuel Supply" in this Item for matters relating to certain fuel supply arrangements for CAPCO units.

The Company is committed under its power pooling agreements as part of CAPCO to a very sizeable capacity construction program involving three large nuclear generating units, which are not yet completed. This program will require substantial outside financings. Such financings will depend upon a regular program of rate increases in order to provide earnings and interest coverages necessary to support future securities sales. If sufficient rate increases are not granted in future rate orders, it could be extremely difficult for the Company to maintain interest and dividend coverage necessary to issue first mortgage bonds and preferred stock or to sell other securities. The Ohio CAPCO companies' current electric rates are generally higher than the electric rates of other Ohio utilities. Required state and federal approvals of future requests for further rate increases are uncertain. The percentage of the requested increases granted by The Public Utilities Commission of Ohio ("PUCO") in the Company's two most recent permanent rate cases was significantly lower than in prior cases, although the PUCO on February 19, 1985 granted a 4% overall increase on an interim basis. See "Regulation" and "Rate Matters" for further details.

The CAPCO program, which involves the joint construction and ownership of large generating units, was undertaken at a time when electricity usage was growing much more rapidly than in recent years. The Company's share of the remaining CAPCO construction program is large for its size making the sizeable and expensive nuclear construction program of CAPCO very burdensome for the Company. The Company is obligated under the various CAPCO agreements to pay its share of the costs of each of the three CAPCO units under construction and related nuclear fuel notwithstanding its future need or lack of need for the generating capacity. Absent a valid and binding order by a court or governmental agency, any voluntary delaying of a unit's completion date requires the approval of all CAPCO members. A failure by any CAPCO company to meet its obligations under the program could have a severe impact on the financial viability of the Company. See "Construction and Financing Program", "Rate Matters" and "Fuel Supply".

The CAPCO companies presently operate or have under construction, as tenants in common with varying ownership percentages, the following major generating units in which the Company participates. The Company is not a participant in four other previously completed CAPCO units.

<u>Generating Unit</u>	<u>Actual or Scheduled Completion Date</u>	<u>On the System of</u>	<u>Fuel Source</u>	<u>Total Capability (Megawatts)</u>	<u>Percentage of Company Ownership</u>
<u>Units in Service:</u>					
Davis-Besse No. 1	1977	Toledo Edison	Nuclear	880	48.62%
Mansfield No. 2	1977	Pennsylvania Power	Coal	780	17.30%
Mansfield No. 3	1980	Pennsylvania Power	Coal	800	19.91%

<u>Generating Unit</u>	<u>Actual or Scheduled Completion Date</u>	<u>On the System of</u>	<u>Fuel Source</u>	<u>Total Capability (Megawatts)</u>	<u>Percentage of Company Ownership</u>
<u>Units Under Construction:</u>					
Perry No. 1	1985	Cleveland Electric	Nuclear	1,205	19.91%
Beaver Valley No. 2	1987	Duquesne Light	Nuclear	833	19.91%
Perry No. 2	(a)	Cleveland Electric	Nuclear	1,205	19.91%

(a) See discussion in this Item regarding studies underway to determine the future of this unit.

The two Perry units are being constructed by CEI, and Beaver Valley Unit No. 2 by Duquesne, on behalf of the CAPCO companies. The Company has no direct control over the costs of the CAPCO units being constructed by other members. The Company is not directly involved in many of the daily aspects of the construction process, but monitors the progress of those projects largely on the basis of information provided by the constructing CAPCO company. The Company must rely in the first instance on the judgment of the constructing company as to the significance and implications of construction related developments pending receipt of information and analyses necessary to make its own evaluation. These circumstances create a delay between the occurrence of events and the times when the Company becomes aware of their occurrence and fully informed of their significance. Thus, the Company has no assurance, nor can it provide any assurance to others, that at any point in time its information and estimates regarding those construction projects reflect all construction related developments. This is particularly so with respect to cost and completion date estimates which are cumulatively affected by day-to-day developments in all aspects of the construction program.

The CAPCO companies announced in January 1985 the results of a review by their chief executives of the estimated completion dates of two of the three nuclear generating units under construction. Based on the review, the estimated completion date of Perry Unit No. 1, which is about 97% complete based on measures of physical completion, remains around the end of 1985. The schedule required to meet this completion date is tight; however, the CAPCO companies believe that the schedule can be met. The estimated cost of Perry Unit No. 1 and common facilities remains the same as announced in September 1984. The September revision increased the Company's share of the total cost of Perry Unit No. 1 and common facilities to approximately \$800 million, approximately an \$85 million increase from

the previous estimate made in March 1984. The Company's share of direct expenditures for the unit is estimated to be approximately \$550 million and related allowance for funds used during construction ("AFUDC") is expected to be about \$250 million. The Company's total investment in Perry Unit No. 1 and common facilities at December 31, 1984 was \$642 million.

Also in January 1985, the CAPCO companies announced that planned 1985 expenditures by the CAPCO companies for Beaver Valley Unit No. 2 would be reduced by \$100 million from \$446 million to \$346 million. The estimated completion date of the unit, which is about 84% complete based on measures of physical completion, was delayed from late 1986 to about the end of 1987. Total cash expenditures for the unit would increase by \$122 million, increasing the total estimated cost of the unit from about \$3.5 billion to about \$3.9 billion, including AFUDC. The Company's share of the total cost of the unit is estimated to be approximately \$890 million, including approximately \$530 million of direct expenditures and \$360 million of AFUDC. As a result of the increases announced in March 1984 and January 1985, the Company's share of the total costs of Beaver Valley Unit No. 2 increased over 1983 estimates by \$237 million, including about \$105 million in cash expenditures. At December 31, 1984, the Company's investment in the unit was \$515 million.

The estimated cost and completion timetable for Perry Unit No. 2 remains under review and the CAPCO companies continue to consider all options with respect to that unit. In March 1984, the CAPCO companies agreed to minimize work and cash expenditures on Perry Unit No. 2 and concentrate construction efforts on the completion of Perry Unit No. 1. All alternatives with respect to Unit No. 2, including accelerated or extended construction schedules, moonballing (including suspension of AFUDC accruals) or cancellation, are being considered. The current work minimization will increase the cost of the unit if full-scale construction is resumed. The future of the unit, however, is still undecided.

Presently, the only significant work being performed on Perry Unit No. 2 is that necessary to enable Perry Unit No. 1 to be placed in service. Moreover, absent a change in circumstances, construction activity is expected to be reduced to such a level by about mid-1985 that related AFUDC accruals would need to be offset, and a corresponding reserve established in the Company's financial statements. Creation of such a reserve at mid-1985 would not affect Company cash flow, but would reduce 1985 earnings per share by about \$0.35 from what they otherwise would be based upon the average number of shares expected to be outstanding during 1985. AFUDC accruals are expected to average about \$2 million per month in 1985 for Perry Unit No. 2.

If the construction of Perry Unit No. 2 were not completed and the PUCO, or applicable law, did not provide the Company a means to recover its investment in that unit (including any cancellation charges paid to contractors and other costs), and no other basis for recovery could be found or anticipated, the Company would be required to write off that investment. At December 31, 1984, this write-off would have been approximately \$154 million, net of federal income tax effect, based upon the Company's investment in the unit of approximately \$222 million. This

amount does not reflect cancellation charges and other costs payable if Perry Unit No. 2 were to be cancelled. Such charges and costs are not presently determinable, but the Company believes they would be largely offset by possible cost reallocations and sales of machinery and equipment. As a result of the uncertainty regarding the status of Perry Unit No. 2, the Company's auditors have qualified their opinions on the Company's 1983 and 1984 financial statements regarding the recovery of the Company's investment in Perry Unit No. 2.

Under the most restrictive provisions of the Company's articles of incorporation ("Articles"), the indenture relating to its first mortgage bonds ("Indenture") and loan agreements, as of December 31, 1984, future earnings as well as \$68 million of earnings reinvested would still be available for the payment of dividends after giving effect to a Perry Unit No. 2 write-off. The Company believes its ability to maintain its current common stock dividend would not be impaired solely because of such a write-off. However, any reduction in earnings reinvested resulting from a write-off of Perry Unit No. 2 may require future financing programs to include common stock issuances to a greater degree in order to achieve a balanced capital structure.

In September 1983, the Ohio Office of Consumers' Counsel ("OCC"), The City of Cleveland, The Board of County Commissioners of Geauga County, Ohio and three community groups filed a petition (the "Petition") with the PUCO and the Power Siting Board (the "PSB") against the Ohio CAPCO companies (the "respondents") requesting the PUCO and the PSB to investigate jointly, individually, or both, the public need for the 1,205 megawatt Perry Unit No. 2. The Petition also requested that the PUCO and the PSB order the cessation of construction of Perry Unit No. 2 and the concurrent cessation of the accrual by the respondents of AFUDC with respect to that unit. The Petition also requests that the PUCO declare that the issuance of future securities by the respondents, the proceeds of which would be used to finance construction of that unit, would not be approved. The Petition alleges that completion of Perry Unit No. 2 would result in an undesirable and unreasonable level of excess capacity for each of the respondents, and that the rates charged or proposed to be charged by respondents would therefore be unjust, unreasonable and unjustly discriminatory. The Company will continue to contest this matter vigorously.

In June 1984, a citizens' group filed a petition with the United States Nuclear Regulatory Commission ("NRC") requesting it to order CEI to show cause why the construction permit for Perry Unit No. 2 should not be suspended or revoked. The petitioners claimed that construction had been stopped on that unit. The NRC denied the petition and dismissed the proceeding in November 1984.

On March 7, 1985, the PUCO announced, in a rate case involving another Ohio CAPCO company, its intention to investigate the causes of the cost overruns at Perry Unit No. 1 in order to determine if those costs are excessive. The PUCO also announced its intention to investigate the possible existence of excess electric utility generating capacity in Ohio and to develop a policy on excess capacity for Ohio electric utilities.

Industry Problems

The Company is or may be affected by a number of additional industry-wide problems, including the effects of fluctuating general economic conditions and customer conservation practices on levels of electricity usage; increasing difficulties in accurately forecasting electric peak loads; increasing operating costs; evolving environmental regulations, resulting in increased capital expenditures and operating costs; increasing cost of construction; difficulties in obtaining timely and adequate rate increases; and difficulties in financing due to high costs of capital, uncertain financial markets, limitations in existing instruments restricting preferred stock, first mortgage bond and unsecured debt financing; and uncertainties resulting from reliance on nuclear generation and capital costs associated therewith.

The Company, along with other electric utilities having nuclear units, continues to be affected by government and regulatory policies and changing public attitudes toward the construction and operation of nuclear generating units and disposal of nuclear wastes. Developments affecting nuclear plants in advanced stages of completion suggest that CAPCO's nuclear construction program, despite its relatively advanced stage, involves substantially more risk than previously believed. The Company cannot predict what future regulatory and legislative changes may result, or what the effects of such changes may be upon the construction, financing, licensing or future operations of its nuclear generating units. At a minimum, significant delays and increased costs in its nuclear construction program must be recognized as very possible substantial adverse developments that could severely affect the financial viability of the Company.

The Company's earnings on its common stock have increased annually over the past several years. Like other utilities with large construction programs, however, these earnings have been attributable entirely or almost entirely to AFUDC. After units that are under construction are placed in service, AFUDC usually declines. However, electric utilities are experiencing increasing consumer opposition before regulatory bodies and in other political arenas to large rate increases associated with the placing in service of nuclear units constructed over the past decade. Consequently, it may not be politically feasible for the Company to obtain rate increases from the PUCO which completely make up for the reduced levels of AFUDC resulting from the placing in service of the Company's nuclear units under construction. Therefore, such earnings may not be sustainable at current levels for several years after those units are placed in service.

Construction and Financing Program

The Company is engaged in a continuing program involving the construction and financing of facilities necessary to meet anticipated future demands for electric service. It is thus necessary to make short-term and long-range forecasts of demand for electric energy. The resulting program is necessarily subject to international, national, regional and local area developments, changing business conditions and social and economic factors. The construction of facilities pursuant to this program is affected by

factors such as accuracy of forecasted demand for electricity, the ability to obtain funds needed for construction, manufacturing lead times, variations in delivery schedules, quality controls, labor conditions, changing regulatory requirements, stringent licensing procedures and environmental controls. See "CAPCO " and "Industry Problems" above.

The Company's construction program is presently estimated to be about \$900 million (including \$317 million of AFUDC, but excluding nuclear fuel) for the five-year period 1985-1989. Approximately 80% of these costs are scheduled to be for generating units installed as part of the CAPCO power pool arrangement, almost all of which would be for nuclear generating units.

Pending completion of the Perry Unit No. 2 studies discussed in "CAPCO" above, the levels of direct cash expenditures and AFUDC for that unit beyond 1985 are indeterminable. Therefore, the construction program described in the table below does not reflect such amounts for that unit beyond 1985. As with any nuclear construction program, it is probable that additional costs would be incurred if completion of any of the CAPCO units under construction would be delayed further. Likewise, the cost estimates for such units are subject to increase. There can be no assurance that the cost of all the CAPCO units under construction will ultimately be recovered in rates charged to customers.

	<u>1985</u>	<u>1986</u>	<u>1987-1989</u>
	Million of Dollars		
Generating Facilities	\$329.8	\$164.1	\$240.5
Transmission Facilities	2.6	1.6	4.8
Distribution Facilities	20.1	25.7	79.0
Other	5.3	6.5	18.8
Total	<u>\$357.8</u>	<u>\$197.9</u>	<u>\$343.1</u>
Nuclear Fuel Costs	<u>\$ 19.3</u>	<u>\$ 27.3</u>	<u>\$ 54.2</u>

Estimated nuclear fuel costs shown above include costs of acquisition, conversion, enrichment and fabrication, but exclude financing costs. The Company is presently a party to nuclear fuel financing arrangements covering major portions of these costs. See "Fuel Supply" in this Item.

Miscellaneous generating facility construction on the Company's own system consists mainly of replacements of existing facilities or additions to meet regulatory requirements. Transmission and distribution construction forecasts are based on anticipated load growth within the Company's service area and replacement of existing facilities.

The five-year construction program includes \$7.7 million toward pollution control facilities which the Company currently foresees as being required at its existing generating stations, including \$1.2 million in 1985 and \$2.8 million in 1986. These expenditures are for various air and water quality items. These figures do not include any expenditures for the installation of sulfur removal equipment at the Bay Shore and Acme Stations, since the Company has elected to comply with sulfur dioxide emission limitations by the use of low sulfur coal and other means. See "Fuel Supply" and "Environmental Matters" in this Item. The Company cannot now

predict the amount of additional operating costs or capital expenditures not included in its current construction budget which it may be required to incur at Bay Shore or other stations under evolving environmental laws and regulations. However, if the Company were required to install sulfur removal equipment, it would involve substantial expenditures.

The Company currently has approximately \$152 million of long-term debt outstanding related to the financing of pollution control facilities at the Acme, Bay Shore, Mansfield, Perry and Beaver Valley Stations.

The Company's earnings on its common stock over the last five years have been composed entirely or almost entirely of noncash credits rather than cash. Notwithstanding the emergency rate increase granted by the PUCO on February 19, 1985, this condition is expected to continue at least into 1986. The Company's low internal net cash generation makes its financial viability dependent on external financings and additional rate increases. The Company's financing alternatives are adversely affected by its poor earnings quality and its low internal net cash generation. In recent rate cases, the Company has obtained rate increases significantly less than those requested. See "Rate Matters" below.

The Company continues to rely heavily upon external financing in the public and private securities markets. External financing provided approximately 65% of the costs of the Company's construction program and 90% of such program's cash requirements during 1980-1984. The Company currently estimates that approximately two-thirds of its estimated 1985-1989 construction program costs will require external financing. Cash construction requirements during the period are expected to be about \$582 million, all of which will require external financing. The amount of external financing, and the Company's ability to obtain such financing, will depend on, among other factors, the timing and amount of rate increases, changes in the schedule and cost of the Company's construction program, the level of kilowatt-hour sales, the effect of general inflation on construction costs and other expenses, financial market conditions and Company earnings. Recently, utilities having nuclear construction programs, including the Company, have been finding it more costly and difficult to obtain external financing because of investors' increased concern about the risks associated with nuclear construction and licensing. If the Company were unable to obtain external financing in the amounts and at the times required to pay construction expenditures, the Company would have to consider various options, such as postponing construction expenditures, conserving internally generated cash and reducing other cash outlays.

The Company's ability to obtain external financing and the cost of such funds is directly affected by its credit ratings. In 1984, rating agencies lowered the Company's security ratings, making the cost of raising new capital more expensive. Should further ratings reductions occur, it would be even more difficult and expensive for the Company to obtain sufficient financing to meet its construction commitments and other cash needs. Also, future financing could be more difficult and expensive to obtain if any other CAPCO company were to experience difficulty in financing, or become unable to pay its share of the construction costs of the CAPCO

units under construction. Availability of new capital to the Company may also be adversely affected by the credit deterioration of other electric utilities.

The Company currently estimates its 1985 construction costs to be about \$358 million. About \$210 million of these costs are direct cash expenditures, almost all of which will require external financing. Additional external financing will be required to meet 1985 sinking fund requirements and long-term debt maturities of about \$59 million. It is anticipated that the Company's 1985 financing program will consist of a common stock issue and a pollution control financing in the first half of the year, issues of long-term debt and preferred stock later in the year and regular common stock issuances under the Company's Shareowner Dividend Reinvestment and Stock Purchase Plan in addition to \$100 million of long term notes issued in January 1985.

The Company obtains new capital between external long-term financings by utilizing short-term debt from commercial paper borrowing and \$73 million of informal bank lines of credit. Generally, the banks are not legally obligated to extend credit to the Company under such informal credit lines. The Company is currently authorized by the PUCO to issue up to \$150 million of short-term debt. The Company's short-term debt generally bears interest at market rates prevailing at the time of borrowing.

The Company's financing program is subject to certain restrictions, including those set forth in the Indenture, the Articles, certain note agreements and certain administrative actions of the PUCO.

Under the coverage requirement in the Indenture, the Company may not issue, except for certain refunding purposes, additional first mortgage bonds unless net earnings, as defined (before income taxes) and calculated as provided in the Indenture, are at least 2.0 times the annual interest requirements on outstanding first mortgage bonds plus any bonds being issued. The Company's coverage under the Indenture for the 12-month period ended December 31, 1984 was 2.14 which would entitle the Company to issue up to \$48 million of first mortgage bonds at an assumed interest rate of 15%. The additional amount issuable at any given time in the future will depend on net earnings for any 12 consecutive months of the 15 months preceding the date of issuance and the interest requirement on any additional first mortgage bonds to be issued.

The Articles prohibit the issuance of additional shares of preferred stock unless gross income (after income taxes), determined as provided in the Articles, is at least 1.50 times the aggregate of the annual interest requirements on long-term indebtedness and the annual dividend requirements on the preferred stock to be outstanding immediately after the issuance of the additional shares of preferred stock. The Company's coverage under the Articles for the 12-month period ended December 31, 1984 was 1.62. The Company would be unable to issue additional preferred stock above that outstanding at December 31, 1984 based upon gross income for the period ending December 31, 1984 and taking into account the issuance of \$100 million of long-term notes in January 1985. The actual amount issuable at any given time in the future will depend on gross income for any 12 consecutive

months of the 15 months preceding the date of issuance, the dividend requirement on additional preferred stock and the interest requirements on any additional long-term debt.

Should the Company be required to write off its investment in Perry Unit No. 2 by an extraordinary charge against current earnings, the Company believes that its ability to issue first mortgage bonds would not be affected, but such charge would reduce the amount of preferred stock otherwise issuable or prohibit the issuance of preferred stock at least during the subsequent twelve month period. Should the Company's earnings be reduced as a result of the creation of a reserve against Perry Unit No. 2 AFUDC accruals, the amount of Preferred Stock otherwise issuable would also be reduced. See "CAPCO" for information regarding Perry Unit No. 2.

Certain agreements under which term loan notes of the Company were issued contain provisions, among others, limiting its funded debt plus certain short-term debt (generally, that in excess of \$150 million) to 65% of capitalization (as therein defined). The Company believes that a write-off of its investment in Perry Unit No. 2 would not cause such limits to be exceeded, based upon December 31, 1984 capitalization and its current estimate of the potential write-off. Agreements under which certain long-term notes were issued limit the right of the Company to engage in secured financing other than first mortgage bonds.

During 1984, the Company issued and sold 4,589,413 shares of its common stock at prices below the underlying book value per share. Based on the book value per share of the Company's common stock at December 31, 1983 the dilutive effect of such issuances was \$1.25 per share in 1984. The Company has attempted to maintain a balanced capital structure in the course of financing its construction program. Accordingly, it has been necessary for the Company to issue shares of its common stock at market prices below book value. The effect of the resulting dilution on the Company's construction program, rate base and rate proceedings cannot be determined.

Properties

As of January 1, 1985, the Company had an installed net generating capability of 1,718 megawatts. The Company's two wholly owned fossil-fired steam electric generating stations, Acme and Bay Shore, both located in Lucas County, Ohio, have a net capability of 288 megawatts and 631 megawatts, respectively. The Company's largest wholly owned unit has a net capability of 215 megawatts and is located at Bay Shore Station. The Company's installed net generating capability also includes five Company-owned internal combustion turbine generator units with an aggregate capability of 77 megawatts.

The Company's installed net generating capability also includes three CAPCO jointly owned units: Davis-Besse Unit No. 1, a nuclear unit located near Port Clinton in Ottawa County, Ohio, and the coal-fired, scrubber-equipped Mansfield Units Nos. 2 and 3, located in Beaver County, Pennsylvania. The Company's ownership share in the capability of these three units is 428 megawatts, 135 megawatts and 159 megawatts, respectively.

The electric properties operated by the Company are fully interconnected and operate as one system. The Company's transmission system interconnects with Ohio Power Company, Ohio Edison Company and Consumers Power Company. The Company's interconnection capability is over 1,000 megawatts.

The Company has constructed and operates Davis-Besse Unit No. 1 which is owned in approximately equal shares by the Company and CEI. At December 31, 1984, the Company's cumulative investment in Davis-Besse Unit No. 1 was approximately \$462 million.

The operation of Davis-Besse Unit No. 1 during 1984 resulted in a unit availability for the year of 62.5% with a 55.5% unit capacity factor for the period. For the last complete fuel cycle from September 30, 1983 through September 11, 1984, unit availability was 88.3% and the unit capacity factor 75.8%. In September 1984, the unit was taken off-line for a scheduled refueling and maintenance outage. The outage schedule included inspection, testing and repair of various components, and routine major maintenance. The unit was returned to service in January 1985.

The Atomic Energy Act of 1954, as amended by the Price-Anderson Act, limits the amount of public liability for a nuclear accident from a reactor to \$560 million, or the maximum amount of insurance or other coverage available. Utility companies provide \$160 million of coverage through private insurance companies. Additional private coverage of \$5 million for each nuclear reactor licensed for operation is being provided by each reactor operator. Currently, there are over 90 licensed nuclear units. Thus, over \$560 million of liability coverage is currently in effect per nuclear incident. Also, through private insurance and an industry-cooperative arrangement, property damage insurance covering nuclear plants has been increased to over \$1 billion for each nuclear site. Notwithstanding such insurance, a nuclear incident at a unit in which the Company has an interest could still have a material adverse impact on the Company.

All Company properties, with certain exceptions, are subject to the lien of the Indenture. See "Environmental Matters" in this Item. The Company believes that its facilities are suitable and adequate (except for any modification which may be required to comply with environmental regulations adopted in the future) for the operations involved and are being productively utilized.

Regulation

Utility Regulation. The Company is subject to the jurisdiction of the PUCO with respect to rates, service, accounting, issuance of securities and other matters.

Under a law effective in January 1983, a public utility is prohibited from issuing a notice of intent to file a rate increase application while the utility has a prior rate increase application pending, unless 275 days have elapsed since such application was filed. The law also provides for public hearings on a public utility's annual long-term forecast of loads, resources and prospective facility sites. A hearing on the Company's forecast was held in 1984. On February 25, 1985, the Ohio Division of

Energy issued a final report containing findings and determinations regarding the Company's 1983 and 1984 Long-Term Forecast Reports. The Division of Energy concluded that the Company's forecast reports completely satisfied five of the seven mandated statutory criteria and partially satisfied the remaining two. These statutory criteria involve issues such as the use of accurate historical information, the employment of adequate forecasting methodologies, the consideration of state energy policies, the identification and projection of conservation impacts, the reasonableness of load and resource forecasts, and the consideration of plans relating to the regional power grid. The Division of Energy determined that two of the criteria were not completely satisfied because the forecast reports did not presently include a reliability criterion. Based solely on the lack of a reliability criterion, the Division of Energy determined that the Company's resource forecast was not reasonable. The Company has a right to appeal the Division of Energy's Findings and Determinations, but no decision has been made at this time. The PSB and the PUCO are required to consider the record from any such hearing in deciding whether to grant a certificate to the utility permitting it to construct a major utility facility, in determining whether to authorize the utility to issue securities, in determining just and reasonable rates for the utility and in various other PUCO programs and activities.

A new Ohio law permits the PUCO to include construction-work-in-progress ("CWIP") in rate base when a project is at least 75% complete, but limits the amount included to 10% of rate base excluding CWIP or, in the case of a project to construct facilities which would remove sulfur and nitrous oxide from flue gas emissions, 20% of rate base excluding CWIP. When a project is completed, the portion of its cost which had been included in rate base as CWIP would be excluded from rate base until the revenue received due to the CWIP inclusion is offset by the revenue lost due to its exclusion. During this period of time, an AFUDC type factor would be allowed on the portion of the project cost excluded from rate base. Also, the new law permits inclusion of CWIP for a particular project for a period not longer than 48 consecutive months, plus any time needed to comply with changed governmental regulation, standards or approvals. The PUCO also could permit inclusion for up to another 12 months for good cause shown. If a project were cancelled or not completed within the allowable period of time after inclusion of its CWIP has started, then CWIP would have to be excluded from rate base and any revenues which resulted from such prior inclusion would have to be offset against future revenues over the same period of time as the CWIP has been included.

Under Ohio law, municipalities may regulate rates, subject to appeal to the PUCO if not acceptable to the utility. If municipally fixed rates are accepted by the utility, such rates are binding on both parties for the specified term and cannot be changed by the PUCO.

The PSB has substantially exclusive jurisdiction, except as to aspects covered by federal law, as to the need for, location of and environmental matters related to new major Ohio electric generating stations and transmission lines, the construction of which was commenced after October, 1974. The PSB has issued regulations which may substantially delay the approval of sites for generating plants and the location of transmission lines.

The Company is subject to regulation by the Federal Energy Regulatory Commission ("FERC"), which encompasses accounting, transmission and sales of power at wholesale in interstate commerce and certain other matters. Rates over which the FERC has jurisdiction account for only about 3% of the Company's electric revenues.

The Company is also subject to the jurisdiction of the Pennsylvania Public Utility Commission in very limited respects in connection with its interests in generating units located in Pennsylvania.

Nuclear Regulatory Commission. The nuclear generating units in which the Company has an interest are subject to regulation pursuant to the jurisdiction of the NRC. The NRC's jurisdiction encompasses broad supervisory and regulatory powers over the construction and operation of nuclear reactors, including matters of health and safety, antitrust considerations and environmental impacts.

The NRC issued an operating license for Davis-Besse Unit No. 1 in April 1977 and modified it in 1979, with respect to certain antitrust issues. The operating license contains various restrictions and conditions, with which the Company anticipates that it will continue to be able to comply. On November 21, 1984, the NRC issued a notice of violation and proposed civil penalties totalling \$90,000 with respect to the Company's operation of Davis-Besse Unit No. 1. The violations cited relate to alleged failures to recognize requirements for back-up equipment operability, to insure that related procedures are followed, to conduct regulatory mandated reviews and to take action to preclude repetition of identified problems. In view of the Company's efforts to work more closely with the NRC to improve operations at Davis-Besse, the Company has decided not to contest these fines.

In the NRC's December 1984 Systematic Appraisal of Licensee Performance (SALP), the NRC gave Toledo Edison its lowest rating in five of nine functional areas: maintenance, fire protection, emergency preparedness, quality programs and administrative controls and training. As a result of the SALP report, the NRC has indicated that the Davis-Besse facility will be subjected to increased regulatory scrutiny, and the Company has undertaken an intense program to improve the operations at the facility.

A construction permit was issued by the NRC for Beaver Valley Unit No. 2 in May 1974. The NRC also issued construction permits for Perry Units Nos. 1 and 2 in May 1977. The CAPCO companies are currently in the process of obtaining operating licenses for these units.

Rate Matters

The Company is engaged in a continuing program of rate increase proceedings before various regulatory bodies including the PUCO and the FERC in order to produce needed additional revenues. In recent years such proceedings have resulted in almost annual increases in the Company's rates, which are currently among the highest in Ohio. Additional rate increases will be necessary to enable the Company to finance its construction program. Future rate increases will depend in large measure upon the amount of CWIP allowed in rate base and the extent to which the full costs of completed

units are recognized in rate base. See "Regulation" regarding recent legislation relating to CWIP.

The Company filed a request in late 1984 for a \$45 million or an 8% permanent increase in its retail electric rates. At the same time, the Company requested the PUCO to implement the \$45 million increase immediately on an interim basis. These requests were based on the Company's need to recover from the lingering effects of past inflation, a heavy financing burden, the results of recent inadequate rate increases and the high level of noncash earnings.

The PUCO on February 19, 1985 approved and adopted the Company's stipulation with the Staff of the PUCO and the intervenors in the interim rate increase proceeding. The stipulation contains (1) an allowance of \$22.7 million in additional gross annual operating revenues by means of an emergency temporary uniform surcharge, (2) provisions designed to ensure that revenues collected during the surcharge period will ultimately result in rates in the future being lower than they otherwise would have been, (3) a recommendation that the PUCO order the Company to analyze the feasibility of reducing the CAPCO construction program and the Company's participation in such program and file a report thereon with the PUCO by May 1, 1985, (4) an agreement that the Company's cost reduction and cash conservation efforts be continued and expanded during the period of the emergency surcharge, and (5) an agreement that the Company will withdraw its pending permanent rate case application and file another application for permanent rate relief with a date certain June 1, 1985. The Company will be able to reopen the interim proceeding by motion to request additional rate relief. The \$22.7 million of additional revenues are subject to refund in the event the level of revenues established in the permanent case to be filed in June 1985 are less than the level of temporary revenues established in the interim proceeding.

In September 1984, the PUCO granted \$16.8 million of a \$60.7 million rate increase application which the Company had filed in December 1983. The action resulted in a 3.5% increase in the Company's retail electric rates. In addition, the Company was given approval to increase base revenues by \$3.6 million by making permanent an excise tax surcharge. The PUCO allowed \$7.4 million of CWIP in rate base out of \$185.8 million of CWIP which the Company had requested to be included. The amount of CWIP allowed did not include any of the Company's investment in Perry Unit No. 1 and common facilities. At the date certain in the case, the Company's investment in that unit and common facilities was \$412.4 million. The PUCO chose not to include Perry Unit No. 1 in rate base because there would not be significant generation from that unit during the period the rates granted would be in effect.

The Company is amortizing over a ten-year period the costs of four nuclear units terminated by the CAPCO companies in January 1980. In a rate case decided by the PUCO in August 1983, the Company had requested the PUCO to make an explicit adjustment to the rate of return calculation for the increased risk to common equity holders of the Company's inability to recover such costs as an operating expense, due to decisions of the Supreme Court of Ohio. Such an adjustment was included in the PUCO's June 1982 order setting the Company's rates and affirmed by the Supreme Court

of Ohio. Although the PUCO did not include a specific risk component in its August 1983 and September 1984 rate orders, it noted that if the PUCO staff had used an alternative method for determining the rate of return, then such a specific risk component would have been necessary. Since the rate of return methodology employed by the PUCO implicitly accounted for the increased risk, the order directed the Company to continue the amortization of these expenses over a ten-year period, which the Company continues to do.

The September 1984 ruling of the PUCO supported the Company's treatment of a gain resulting from a November 1981 exchange of common stock for first mortgage bonds. The order allowed the gain to be treated as a component of the Company's capital structure in determining the rate of return.

Ohio law provides for a fuel component in the rates charged by electric utilities which is reviewed and, if necessary, adjusted by the PUCO after a hearing on a semi-annual basis. Interim adjustment of the fuel component may be permitted by the PUCO after a hearing, if fuel costs change by more than 20%. See "Fuel Supply" below for information regarding the recovery of certain costs for coal used at the Mansfield Station and purchased under contract from the Quarto Mining Company. A January 1984 order in the Company's semi-annual fuel hearing affirmed the Company's method of recovering property taxes on nuclear fuel through the fuel component.

The Company and the thirteen municipalities it serves at wholesale are in the second year of a new rate contract through American Municipal Power-Ohio, Inc. ("AMP-O"), which has been approved by the FERC. The contract is binding upon AMP-O and the municipalities for at least a three-year period, although the Company may terminate it on one year's notice. The contract initially produced a modest rate reduction which was followed by an increase in 1984 and another scheduled increase in 1985.

Fuel Supply

The Company has been primarily a coal-fired utility. The Company's installed net generating capability at year-end 1984 consisted of 71% coal-fired and 25% nuclear, with the balance being oil and gas. The fuel sources for electric generation on the Company's system for the year 1984 were approximately: coal - 71%, nuclear - 29%, and a minor amount from gas and oil.

Fossil. The Company has two coal supply agreements with separate major coal suppliers, providing a total of 1,250,000 tons for the year 1985, which represents over 89% of its currently forecasted 1985 coal requirements for its wholly owned and operated facilities. See "Environmental Matters" in this Item.

The first of these two agreements is a 15-year contract for 750,000 tons of relatively low-sulfur coal per year extending to 1992. The second is for up to 500,000 tons in 1985 and expires in December 1992. The amount of coal provided for under these two agreements is expected to fulfill anticipated coal requirements for the Company's Bay Shore Station through 1992. The sulfur content of 1984 coal deliveries under the above agreements

was quite low, averaging about 1.0% and 1.4% by weight, respectively. Both agreements involve coal from mines located outside Ohio.

The average delivered cost per ton of coal consumed and cost per million Btu of fossil fuel (predominately coal) consumed for electric generation on the Company's system in recent periods were as follows:

	<u>Average Cost Per Ton of Coal Consumed</u>	<u>Average Cost Per Million Btu of Fossil Fuel Consumed</u>
1980	\$46.43	\$1.85
1981	\$53.23	\$2.14
1982	\$54.85	\$2.15
1983	\$57.26	\$2.20
1984	\$55.14	\$2.18

In recent months, the delivered cost of coal purchased by the Company has been ranging, depending on quality and other factors, between \$40 and \$63 per ton.

To secure an adequate supply of coal for certain generating units, the CAPCO companies agreed with Quarto Mining Company, a subsidiary of The North American Coal Corporation, to buy relatively high-sulfur coal from new mines through at least the year 1999. The coal furnished under this agreement is being used in the three units at the Mansfield Station; the Company has an ownership interest in two of these units. The balance of the coal needed for these units is expected to be obtained on the open market or through short-term contracts.

In order to minimize Quarto's financing costs and thereby reduce the price of Quarto coal, the CAPCO companies have undertaken severally to unconditionally guarantee the debt and lease obligations which are necessary to develop, equip and operate the required mines. The extent of each CAPCO company's guarantee had been proportional to its composite ownership interest in the units originally expected to be served by the contract. The Company guaranteed 6.89% of obligations incurred prior to 1983.

The CAPCO companies agreed to change the percent of new Quarto obligations each company will guarantee, in four equal annual increments beginning January 1, 1983. The Company guaranteed 9.65% of such new Quarto obligations incurred in 1984. At December 31, 1984, the Company's share of the guarantees in connection with the development of the mines was \$27 million. On January 1, 1986, the percentage of such new obligations to be guaranteed by the Company will correspond to its composite ownership in the Mansfield Station and will be 12.4% for obligations incurred after December 31, 1985.

The production of the Quarto mines provided approximately 65% of the Mansfield Station 1984 requirements. The Company's usage of its portion of the 3.5 million tons of Quarto coal produced during 1984 was approximately 16% of the total coal purchased by the Company in 1984 for use at coal-fired units in which it has an ownership interest.

Since May 1980, when the development period for the Quarto mines ended, the price of Quarto coal has reflected full production costs and deferred development charges. As a result, Quarto coal has been more expensive than coal available from other sources. During 1984, the per ton cost of Quarto coal was approximately 99% of generally prevailing market prices ("GPMP"), i.e., the price of coal from underground mines in a particular geographic area subject to long-term contract. In a series of hearings, the PUCO investigated the pricing of Quarto coal for purposes of calculating the fuel costs which the Ohio CAPCO companies are entitled to recover from their customers.

A January 1984 PUCO order permits the Company to recover specified current Quarto coal costs plus a portion of cost deferrals over no more than a six year period under a more restrictive formula than previously in effect. During 1984, approximately \$5.5 million of previously deferred costs were recovered. As of December 31, 1984, the Company's deferred Quarto coal costs equalled \$6.1 million. Any current Quarto cost or previous cost deferrals not recovered under the method prescribed by the PUCO must be written off to expense. The Company believes current and deferred Quarto costs will be recoverable during the six year period if price and production efficiency projections are met.

The operation of one Quarto mine was suspended in 1984 and the future operation alternatives are being reviewed. The Company's share of the suspended mine's deferred mine development costs of \$15 million and associated equipment costs of \$10.3 million will continue to be recovered in the delivered coal prices to the extent such costs can be recovered within the PUCO prescribed recovery formula.

The CAPCO companies have also entered into a contract for the supply of limestone and lime required to operate the sulfur removal equipment at the Mansfield Station. This agreement for the purchase of between 325,000 tons and 477,000 tons annually extends until 1996 with a right of the CAPCO companies to extend the agreement for two additional five-year periods.

With regard to the Company's requirements for natural gas, the Company believes that the amount under contract is adequate for its needs. Further, the Company believes that adequate amounts of oil are available from suppliers to meet Company requirements.

Nuclear. The CAPCO companies have obtained firm contract commitments to obtain nuclear fuel for utilization in reactors for the time periods indicated in the following table, for three of the nuclear units in which the Company has an ownership interest. The table excludes nuclear fuel requirements for Perry Unit No. 2 pending studies underway to determine the future of that unit. It would be necessary to revise the table and to add data for Perry Unit No. 2 if and when full-scale construction on that unit is resumed.

	<u>Supply of Uranium Oxide Raw Material</u>	<u>Conversion to Uranium Hexafluoride</u>	<u>Enrichment of Uranium Hexafluoride</u>	<u>Fabrication into Fuel Assemblies</u>
Davis-Besse No. 1	1985-1993	1985-1993	1985-2014	1985-1991
Perry No. 1	1985-1993	1985-1993	1985-2014	1985-1987
Beaver Valley No. 2	1987-1993	1987-1993	1987-2014	1987-1992

The Nuclear Waste Policy Act which was adopted in 1983 provides that the United States Department of Energy ("DOE") will take possession of spent nuclear fuel no later than 1998. The Act also provides for the payment to DOE of a fee based on nuclear electrical generation to pay for spent fuel disposal. Current storage capacity at Davis-Besse Unit No. 1 is expected to accommodate spent fuel anticipated from normal operation of the unit through the year 1992. In 1983, the Company contracted with DOE for permanent disposal of nuclear fuel. For nuclear fuel used before April 1983, the Company will pay fees to DOE of \$8.9 million on or after June 1985. These fees are being collected from customers through rates. Fees for fuel used after April 1983 are being recovered from customers and paid to DOE quarterly.

The Company's contracts for the supply of uranium include one with prices related to the higher of market price or base price, subject to certain adjustments, and one with a base price subject to partial adjustment for changes in specified government indices. The price of uranium purchased under these contracts in 1984 ranged from \$24.85 to \$49.77 per pound.

The average cost per million Btu of nuclear fuel consumed for electric generation on the Company's system in recent periods was as follows:

	<u>Average Cost Per Million Btu of Nuclear Fuel Consumed</u>
1980	28.0¢
1981	44.4¢
1982	52.1¢
1983	54.4¢
1984	61.6¢

The nuclear fuel commitments discussed above are being continually reviewed and may be modified, if feasible, as any revisions to the construction schedules of nuclear generating units may require. Additional fuel arrangements, with respect to which there can be no present assurance, will be needed in order to satisfy the substantial additional nuclear fuel requirements of the CAPCO nuclear units during their anticipated useful lives.

Each company in CAPCO is responsible for financing the portion of the capital costs of nuclear fuel equivalent to its respective ownership interest in the unit in which the fuel will be utilized. The CAPCO companies have entered into leases and a trust agreement for nuclear fuel to be loaded into the five CAPCO nuclear generating units. The Company's current nuclear fuel financing arrangements are expected to be adequate for nuclear fuel to be purchased through 1987. See Note 8 to Financial Statements contained in the 1984 Annual Report. At December 31, 1984, the Company had utilized \$197 million out of \$298 million of available nuclear fuel financing.

Environmental Matters

The Company is subject to regulation with respect to air quality, water quality, noise level and solid waste disposal matters. In addition, it is subject to regulation by federal, state and local authorities with regard to the location of certain facilities. It is also subject to regulation by local authorities with respect to certain zoning and planning matters. Federal environmental legislation affecting the operations and properties of the Company includes the Clean Air Act, the Federal Water Pollution Control Act, the Resource Conservation and Recovery Act of 1976, the Toxic Substances Control Act and the Comprehensive Environmental Responses, Compensation and Liability Act of 1980. The requirements to which the Company is subject by reason of those statutes and related state and local laws are continually changing due to the promulgation of new or revised regulations, the results of judicial and agency proceedings and changes in environmental technology.

The Company believes that it is currently in compliance with all applicable environmental laws and regulations although having some of the most restrictive sulfur dioxide emission limitations, on a weighted average basis, of any major Ohio utility. To the extent that it may not be in compliance with any environmental or similar laws and regulations to which it is now subject, the Company has applied for permits, revisions in requirements, variances or extensions of deadlines.

Air Quality. The Company is subject to regulations limiting the amount of sulfur dioxide that can be emitted into the air by its fossil-fuel fired generating units. Federal regulations pertaining to each of the Company's fossil-fuel fired generating units became effective in October 1979. The Company secured revisions to the emission limitations in those regulations in May 1981 for its Acme, Bay Shore and Water Street Stations. As a result of obtaining the revisions, the Company can continue to use at its Acme and Bay Shore Stations low sulfur, eastern coal without installing expensive and unreliable flue gas desulfurization equipment, which would probably be necessary to comply with more stringent emission limitations. Recently, the United States Environmental Protection Agency ("USEPA") rescinded its enforcement policy for sulfur dioxide in the State of Indiana. A similar USEPA enforcement policy known as the 30-day averaging policy is currently in effect in the State of Ohio. If USEPA terminates the Ohio policy, the Company's compliance strategy and its coal supply could be affected. The precise impact of a rescission of the Ohio policy on the Company, though, cannot be determined at this time.

In December 1979, the Ohio Environmental Protection Agency ("OEPA") promulgated its own sulfur dioxide control plan for Ohio ("OEPA plan"). This plan was designed to supersede the federal plan for controlling the emission of sulfur dioxide into the air, subject to the approval of the USEPA. USEPA in February 1980 proposed to approve part of the OEPA plan, and that portion of the OEPA plan controlling emissions in Lucas County was approved on June 30, 1982, with certain exceptions unrelated to the Company.

In November 1984, USEPA proposed revised regulations governing the use of smokestacks to disperse pollutants into the air. The proposal is in response to a 1983 court decision. USEPA intends to issue final regulations in June 1985. The Company is currently unable to determine the impact, if any, that the proposed regulations, if adopted, would have upon its operations. However, the regulations as finally adopted may result in the Company being required either to install flue gas desulfurization equipment or to use lower-sulfur coal at its Bay Shore Station. The installation of such equipment would involve substantial capital expenditures and increased operating costs. The use of lower-sulfur coal would likely result in higher fuel and operating costs.

The OEPA plan emission limitations for Lucas County and the revisions to the predecessor federal regulations, which were identical to the OEPA plan emission limitations, were appealed by the State of New York to the United States Court of Appeals for the Sixth Circuit. The State of New York contended that emissions from the Company's Bay Shore Station in Lucas County cause violations of the National Ambient Air Quality Standards for particulate matter. New York further contended that the deposit of this particulate matter contribute to a phenomenon commonly referred to as "acid rain" and that this phenomenon is causing a deterioration of natural resources within its borders. In January 1985, New York, with the consent of all parties, moved for a voluntary dismissal with prejudice of its appeal in this case.

In a separate administrative proceeding, USEPA, in December 1984, denied the requests of several states that further emission controls be imposed over midwestern utilities, including the Company. This denial is the subject of appeals to the United States Circuit Court of Appeals for the District of Columbia. A group of midwestern utilities, of which the Company is a member, has intervened in the appeals. The outcome of the appeals and their impact on the Company cannot be predicted at this time.

A further proceeding in which emission controls are being sought over the Company and other midwestern utilities is before the United States District Court for the District of Columbia. This proceeding, State of New York, et al. v. Ruckelshaus, centers on a claim filed in March 1984, involving the Province of Ontario. The Company is a member of a group of utilities that has moved to dismiss this case for lack of subject matter jurisdiction. The outcome of this proceeding and its impact on the Company also cannot be predicted at this time.

During 1984, various legislative proposals were considered by Congress for the purpose of controlling sulfur dioxide emissions. None of these bills relating to "acid rain" were enacted. The Company anticipates that additional "acid rain" legislation, intended to control sulfur dioxide emissions, will be introduced into Congress in 1985. The Company cannot predict what impact such legislation would have on the Company if it were enacted.

Water Quality. The Federal Water Pollution Control Act, as amended ("Water Act"), establishes a permit system to control the discharge of pollutants into navigable waters. Permits issued pursuant to the Water Act are to contain effluent limitations which will be based on, among other things, technological standards for categories or classes of dischargers and water quality standards. The Company's generating stations are subject to the technological standards applicable to the steam electric power generating category of dischargers. In November 1982, USEPA promulgated new wastewater effluent guidelines for the steam electric industry designed to implement the second phase of the technological control program established by the Water Act. Those guidelines contained new and modified limitations on the discharge of toxic pollutants and certain other chemical pollutants. While the guidelines directly affect some of the Company's wastewater discharge systems, no major expenditures have been made or are anticipated. Regulations related to thermal discharges were not included in the effluent guidelines. Eventual promulgation of thermal effluent guidelines could have a substantially adverse effect on the Company's operations, but until the content of such guidelines is known, such effect cannot be determined.

The Company applied to OEPA for all necessary permits under the Water Act. An effective permit for Acme Station was issued in July 1982. Permits for the Bay Shore, Davis-Besse and Water Street Stations are expected to be issued in 1985. It is not anticipated that the new permits will require substantial modifications to current wastewater treatment systems. If, however, the OEPA were to issue a permit requiring the Company to abandon its once-through water cooling system at the Bay Shore Station, substantial expenditures could be necessary.

Toxic Substances. Under the Toxic Substances Control Act ("TSCA"), USEPA is empowered to regulate the use and disposal of substances of a toxic nature. Polychlorinated biphenyl ("PCB") regulations were promulgated in August 1982 by USEPA. The major requirement of these regulations is the prohibition of all pole mounted PCB capacitors after October 1, 1988. By the end of 1984, the Company had removed approximately 60% of the prohibited capacitors pursuant to a compliance program. These regulations have been appealed by utility and environmentalist groups. The Company is presently unable to predict the ultimate outcome of this litigation or what impact it may have on its operations.

In addition to the current PCB regulations, USEPA in October 1984 proposed additional regulations governing transformers containing PCB which are located in or near buildings. There are a number of potentially onerous provisions in these regulations. At the present time, the Company cannot predict what impact the proposed regulations would have on its operations.

The Company cannot now establish the precise effect of existing and potential environmental regulations and legislation upon any of its existing and proposed facilities and operations, or on capital expenditures or earnings except as set forth above, or upon its ability to issue additional first mortgage bonds under the Indenture. The Indenture contains a covenant to observe and conform to all valid governmental requirements at the time applicable, unless being contested, and provisions which prevent the issuance of additional bonds if such failure constitutes a default under the Indenture. The Indenture also requires that certification of property additions as the basis for the issuance of first mortgage bonds or other action under the Indenture must be accompanied by an opinion of counsel that the Company has all governmental permissions at the time necessary for its then current ownership and operation of such property additions. On this basis, the Company understands that it is presently entitled to issue first mortgage bonds under the Indenture on the basis of its investments in all property additions. The Company intends to make every good faith effort to comply with all applicable valid governmental requirements but also intends to contest any requirements deemed unreasonable or impossible to comply with or otherwise contrary to its interest. The Company expects that costs incurred in complying with environmental regulations would eventually be reflected in its rate schedules.

Competitive Conditions, Franchises and Labor

Competitive Conditions. In the territory served by it, the Company is engaged in competition with suppliers of natural gas, and to a lesser extent with suppliers of oil and liquified natural gas, in the supply of energy for space and water heating, air conditioning and cooking. Also located wholly or partly within the Company's service area are five rural electric cooperatives supplied with power transmitted, in some cases on the Company's facilities, by Buckeye Power, Inc. (an affiliate of a number of Ohio rural electric cooperatives).

Although the municipalities served by the Company have entered into a new agreement with AMP-O (See "Rate Matters") and continue to evaluate possible means of replacing a portion of the electric power currently being supplied by the Company, the Company is presently unaware of any municipality's intention to completely terminate any wholesale electric service contract. The municipalities have been purchasing some of their power needs from other sources at rates lower than the Company's and wheeling such power through the Company's transmission system. The municipalities intend to continue purchases of some of their power needs from other sources at least through 1985.

American Electric Power Company, Inc., a public utility holding company whose subsidiaries, Ohio Power Company and Columbus and Southern Ohio Electric Company, operate in Ohio, has offered to enable AMP-O to acquire ownership of generating facilities to supply Ohio municipalities, including several municipal operating systems within the geographic area currently served by the Company. The Company cannot predict at this time the outcome of this matter or the impact, if any, on the Company.

Legislation has been introduced in the Ohio General Assembly which would create the Ohio Municipal Wholesale Electric Authority ("Electric Authority"), a political subdivision of the state, to succeed AMP-O. Ohio municipalities which own electric generation, transmission or distribution facilities as of January 1, 1985 would be eligible to participate in the Electric Authority. The Electric Authority would assume all contractual obligations of AMP-O and would have the authority to purchase power from within or outside Ohio, to construct, operate and sell electric generation and transmission facilities and to separately or jointly participate in completed electric generating facilities or those under construction. The Electric Authority would also be able to issue bonds for the purpose of acquiring, operating and maintaining electric facilities, meeting sinking fund obligations or lending funds to municipalities for expansion, operation and maintenance of their electric systems. The Company cannot predict whether this legislation will be enacted in its present form or the impact it would have on its business.

Franchises. The Company has non-exclusive franchises, by virtue of state and municipal legislation, in all municipalities in which it is engaged in the distribution of electric energy, the general effect of which is to grant the Company the right to enter upon and use streets, alleys and other public places for erecting and maintaining poles, wires and other apparatus for the distribution of electric energy. Many of such franchises contain no expressed limit as to time, while others terminate at a date certain.

Labor. The Company has about 2,400 employees.

The Company currently has agreements with the unions representing its operating employees, office employees and guards. During 1985, the Company will be negotiating a new five year benefit agreement with the unions.

The Company considers its labor relations to be satisfactory.

Item 2. PROPERTIES.

For information relating to properties, reference is made to Item 1 above.

Item 3. PENDING LEGAL PROCEEDINGS.

On June 25, 1982, the Company filed a lawsuit in U.S. District Court in Toledo against the Babcock & Wilcox Company and its parent corporation, McDermott, Inc., for expenses associated with maintaining the operating efficiency of Davis-Besse. The suit seeks to establish financial responsibility for the costs associated with the correction of technical problems related primarily to three major areas: replacement of auxiliary feedwater header systems, ongoing problems with reactor coolant pump seals, and changes in the nuclear steam supply system necessary to meet revised regulations and conditions following the accident at the Three Mile Island Nuclear Power Station. The complexity of the legal issues makes it impossible to put a dollar value on the case until the court proceedings have gone forward, but the Company expects it to be in the multimillion dollar range.

During 1983 the Ohio Tax Commissioner assessed additional property taxes for the nuclear fuel assemblies leased to the Company and to CEI for use at the Davis-Besse Unit. For those assemblies leased from CC Leasing Corporation, the Commissioner has assessed \$3,586,657 for the tax years 1978-1982. An assessment of \$845,242 for the tax years 1981-1982 has been made for the assemblies leased from Prulease, Inc. Under both leases, the Company is responsible for payment of property taxes in proportion to its 48.62% ownership interest in the unit. At the Company's request, both CC Leasing Corporation and Prulease, Inc., are contesting certain aspects of their respective assessments. The Ohio Board of Tax Appeals in early February 1985 upheld the Commissioner's assessments against CC Leasing. The assessment is being appealed to the Supreme Court of Ohio.

The Company is a party to certain routine lawsuits incidental to its business, none of which is deemed material.

For certain other legal proceedings see "CAPCO", "Regulation", "Rate Matters", "Fuel Supply" and "Environmental Matters", in Item 1 above.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not applicable.

Officers of the Company

Set forth below are the names, ages, positions and brief accounts of the business experience during the past five years of the officers of the Company, which list includes all executive officers.

<u>Name</u>	<u>Age</u>	<u>Business Experience, Last Five Years (Positions with Company Unless Otherwise Indicated)</u>	<u>Dates</u>
John P. Williamson	63	Chairman of the Board and Chief Executive Officer	1979 - present
Wendell A. Johnson	57	President and Chief Operating Officer	1979 - present
Anthony A. Bosch	59	Vice President, Customer Services Western District Manager	1983 - present 1973 - 1983
Richard P. Crouse	45	Vice President, Nuclear	1979 - present
Joseph E. Murray	61	Vice President, Energy Supply General Superintendent, Fossil Operations	1984 - present 1979 - 1984
Donald G. Nicholson	58	Senior Vice President, Finance Vice President, Finance	1984 - present 1972 - 1984

Lyman C. Phillips	45	Vice President, Corporate Planning and Administration	1984 - present
		Vice President, Corporate Planning and Development	1982 - 1984
		Vice President, Administrative Services	1976 - 1982
Paul M. Smart	56	Senior Vice President, Corporate Development and General Counsel	1984 - present
		Senior Partner, Fuller & Henry (Served as the Company's General Counsel with specialization in electric utility regulatory matters)	1963 - 1984
Paul G. Busby	36	Controller	1979 - present
Stratman Cooke	63	Secretary	1977 - present
Donald H. Saunders	49	Treasurer	1979 - present

The foregoing list of officers is as of March 1, 1985.

There are no family relationships among the persons named above.

Officers of the Company, other than John P. Williamson and Paul M. Smart, have no definite terms of office, were selected pursuant to no special arrangement or understanding and serve at the pleasure of the Board of Directors. John P. Williamson is employed pursuant to an employment contract which is in effect until February 28, 1987. Paul M. Smart is employed pursuant to an employment contract through January 31, 1994.

PART II

Item 5. MARKET FOR THE TOLEDO EDISON COMPANY'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS.

In the 1984 Annual Report, Note 11, "Selected Quarterly Data (Unaudited)" on page 17 and the information under "Exchange Listings" on the inside back cover, are incorporated herein by reference.

Item 6. SELECTED FINANCIAL DATA.

The tables entitled "Financial Statistical Review" on pages 19 and 20 of the 1984 Annual Report are incorporated herein by reference.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The section entitled "Financial Analysis" on pages 6 and 7 and Note 12, "Effects of Changing Prices (Unaudited)", on pages 17 and 18 of the 1984 Annual Report are incorporated herein by reference.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The financial statements (and notes thereto) together with the report of Arthur Andersen & Co., dated January 30, 1985, whose report is qualified with respect to the recoverability of the Company's investment in Perry Unit No. 2, appearing in the 1984 Annual Report on pages 8 through 18 are incorporated herein by reference.

Item 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Information with respect to directors is included in the Proxy Statement, in the section entitled "Election of Directors" on pages 1 through 9, and such information is incorporated herein by reference.

Information with respect to the Company's executive officers, including each officer's name, age (at March 1, 1985), position and office held, and a brief account of business experience during the past five years, may be found in Part I of this Annual Report on Form 10-K.

Item 11. MANAGEMENT REMUNERATION.

The section entitled "Executive Compensation", which is included in the Proxy Statement on pages 11-14, is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The section entitled "Shares Owned by Officers and Directors", which is included in the Proxy Statement on page 10, is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The section entitled "Transactions with the Company", which is included in the Proxy Statement on pages 14 and 15, is incorporated herein by reference.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

- (a)1. The following financial statements, previously incorporated herein by reference, are set forth in the Company's 1984 Annual Report:

Financial Analysis

Auditor's Report

Results of Operations for the Years Ended December 31, 1984,
1983 and 1982

Balance Sheet -- December 31, 1984 and 1983

Capitalization -- December 31, 1984 and 1983

Earnings Reinvested for the Years Ended December 31, 1984, 1983
and 1982

Sources of Funds Invested in Plant and Facilities for the
Years Ended December 31, 1984, 1983 and 1982

Summary of Significant Accounting Policies

Notes to Financial Statements

(a)2. The following schedules are filed herewith as a part of this
report:

Schedule I Marketable Securities, December 31, 1984

Schedule V Utility Plant for the Years Ended December 31,
1984, 1983 and 1982

Schedule VI Accumulated Provision for Depreciation for the
Years Ended December 31, 1984, 1983 and 1982

Schedule VIII Valuation and Qualifying Accounts for the Three
Years Ended December 31, 1984

Schedule IX Short-Term Borrowings for the Three Years Ended
December 31, 1984

Schedule X Supplementary Income Statement Information for
the Three Years Ended December 31, 1984

Report of Independent Public Accountants on Supplemental Schedules

The information required to be submitted in Schedule VII has been included
in results of operations or footnotes thereto.

Schedule I to XIII, inclusive, except those referred to above, have been
omitted as not applicable because the required matters or conditions are
not present. Columns omitted from schedules filed have been omitted
because the information is not applicable.

- (a)3. The following exhibits are filed as part of this report:

<u>S-K</u> <u>Item No.</u>	<u>Document</u>
3(a).	Amended Articles of Incorporation, as amended, of the Company. (Filed as Exhibit 4(b) to the Company's Registration Statement, File No. 2-95750, and incorporated herein by reference.)
3(b).	Code of Regulations, as amended, of the Company. (Filed as Exhibit 3(c) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1984, File No. 1-3583, and incorporated herein by reference.)
4(a).	Indenture, dated as of April 1, 1947, between the Company and The Chase National Bank of the City of New York (now The Chase Manhattan Bank (National Association)). (Filed as Exhibit 2(b) to the Company's Registration Statement, File No. 2-26908, and incorporated herein by reference.)
4(b).	First Supplemental Indenture, dated as of September 1, 1948, between the Company and The Chase National Bank of the City of New York (now The Chase Manhattan Bank (National Association)). (Filed as Exhibit 2(d) to the Company's Registration Statement, File No. 2-26908, and incorporated herein by reference.)
4(c).	Second Supplemental Indenture, dated as of April 1, 1949, between the Company and The Chase National Bank of the City of New York (now The Chase Manhattan Bank (National Association)). (Filed as Exhibit 2(e) to the Company's Registration Statement, File No. 2-26908, and incorporated herein by reference.)
4(d).	Third Supplemental Indenture, dated as of December 1, 1950, between the Company and The Chase National Bank of the City of New York, (now The Chase Manhattan Bank (National Association)). (Filed as Exhibit 2(f) to the Company's Registration Statement, File No. 2-26908, and incorporated herein by reference.)
4(e).	Fourth Supplemental Indenture, dated as of March 1, 1954, between the Company and The Chase National Bank of the City of New York (now The Chase Manhattan Bank (National Association)). (Filed as Exhibit 2(g) to the Company's Registration Statement, File No. 2-26908, and incorporated herein by reference.)
4(f).	Fifth Supplemental Indenture, dated as of February 1, 1956, between the Company and The Chase Manhattan Bank (now The Chase Manhattan Bank (National Association)). (Filed as Exhibit 2(h) to the Company's Registration Statement, File No. 2-26908, and incorporated herein by reference.)
4(g).	Sixth Supplemental Indenture, dated as of May 1, 1958, between the Company and The Chase Manhattan Bank (now The Chase Manhattan Bank (National Association)). (Filed as Exhibit 5(g) to the

EXHIBIT INDEX (Continued)

S-K
Item No.

Document

- Company's Registration Statement, File No. 2-59794 and incorporated herein by reference.)
- 4(h). Seventh Supplemental Indenture, dated as of August 1, 1967, between the Company and The Chase Manhattan Bank (National Association). (Filed as Exhibit 2(c) to the Company's Registration Statement, File No. 2-26908, and incorporated herein by reference.)
- 4(i). Eighth Supplemental Indenture, dated as of November 1, 1970, between the Company and The Chase Manhattan Bank (National Association). (Filed as Exhibit 2(c) to the Company's Registration Statement, File No. 2-38569, and incorporated herein by reference.)
- 4(j). Ninth Supplemental Indenture, dated as of August 1, 1972, between the Company and The Chase Manhattan Bank (National Association). (Filed as Exhibit 2(c) to the Company's Registration Statement, File No. 2-44873, and incorporated herein by reference.)
- 4(k). Tenth Supplemental Indenture, dated as of November 1, 1973, between the Company and The Chase Manhattan Bank (National Association). (Filed as Exhibit 2(c) to the Company's Registration Statement, File No. 2-49428, and incorporated herein by reference.)
- 4(l). Eleventh Supplemental Indenture, dated as of July 1, 1974, between the Company and The Chase Manhattan Bank (National Association). (Filed as Exhibit 2(c) to the Company's Registration Statement, File No. 2-51429, and incorporated herein by reference.)
- 4(m). Twelfth Supplemental Indenture, dated as of October 1, 1975, between the Company and The Chase Manhattan Bank (National Association). (Filed as Exhibit 2(c) to the Company's Registration Statement, File No. 2-54627, and incorporated herein by reference.)
- 4(n). Thirteenth Supplemental Indenture, dated as of June 1, 1976, between the Company and The Chase Manhattan Bank (National Association). (Filed as Exhibit 2(c) to the Company's Registration Statement, File No. 2-56396, and incorporated herein by reference.)
- 4(o). Fourteenth Supplemental Indenture, dated as of October 1, 1978, between the Company and The Chase Manhattan Bank (National Association). (Filed as Exhibit 2(c) to the Company's Registration Statement, File No. 2-62568, and incorporated herein by reference.)
- 4(p). Fifteenth Supplemental Indenture, dated as of September 1, 1979, between the Company and The Chase Manhattan Bank (National Association). (Filed as Exhibit 2(c) to the Company's Registration Statement, File No. 2-62568, and incorporated herein by reference.)

EXHIBIT INDEX (Continued)

S-K
Item No.

Document

- tion Statement, File No. 2-65350, and incorporated herein by reference.)
- 4(q). Sixteenth Supplemental Indenture, dated as of September 1, 1980, between the Company and The Chase Manhattan Bank (National Association). (Filed as Exhibit 4(s) to the Company's Registration Statement, File No. 2-69190, and incorporated herein by reference.)
- 4(r). Seventeenth Supplemental Indenture, dated as of October 1, 1980, between the Company and The Chase Manhattan Bank (National Association). (Filed as Exhibit 4(c) to the Company's Registration Statement, File No. 2-69190, and incorporated herein by reference.)
- 4(s). Eighteenth Supplemental Indenture, dated as of April 1, 1981, between the Company and The Chase Manhattan Bank (National Association). (Filed as Exhibit 4(c) to the Company's Registration Statement, File No. 2-71580, and incorporated herein by reference.)
- 4(t). Nineteenth Supplemental Indenture, dated as of November 1, 1981, between the Company and The Chase Manhattan Bank (National Association). (Filed as Exhibit 4(c) to the Company's Registration Statement, File No. 2-74485, and incorporated herein by reference.)
- 4(u). Twentieth Supplemental Indenture, dated as of June 1, 1982, between the Company and The Chase Manhattan Bank (National Association). (Filed as Exhibit 4(c) to the Company's Registration Statement, File No. 2-77763, and incorporated herein by reference.)
- 4(v). Twenty-first Supplemental Indenture, dated as of September 1, 1982, between the Company and The Chase Manhattan Bank (National Association). (Filed as Exhibit (x) to the Company's Registration Statement, File No. 2-87323, and incorporated herein by reference.)
- 4(w). Twenty-second Supplemental Indenture, dated as of April 1, 1983, between the Company and The Chase Manhattan Bank (National Association). (Filed as Exhibit 4(c) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1983, File No. 1-3583, and incorporated herein by reference.)
- 4(x). Twenty-third Supplemental Indenture, dated as of December 1, 1983, between the Company and The Chase Manhattan Bank (National Association). (Filed as Exhibit 4(x) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1983, File No. 1-3583, and incorporated herein by reference.)

EXHIBIT INDEX (Continued)

<u>S-K Item No.</u>	<u>Document</u>
4(y).	Twenty-fourth Supplemental Indenture, dated as of April 1, 1984, between the Company and The Chase Manhattan Bank (National Association). (Filed as Exhibit 4(c) to the Company's Registration Statement, File No. 2-90059, and incorporated herein by reference.)
4(z).	Twenty-fifth Supplemental Indenture, dated as of October 15, 1984, between the Company and The Chase Manhattan Bank (National Association). (Filed herewith.)
4(aa).	Twenty-sixth Supplemental Indenture, dated as of October 15, 1984, between the Company and The Chase Manhattan Bank (National Association). (Filed herewith.)
4(bb).	Preferred Stock Purchase Agreement, dated August 7, 1979, relating to 250,000 shares of 9-3/8% Cumulative Preferred Stock, \$100 par value. (Filed as Exhibit 5(jj)) to the Company's Registration Statement, File No. 2-65350, and incorporated herein by reference.)
4(cc).	Preferred Stock Purchase Agreement, dated April 23, 1980, relating to 130,000 shares of 13-1/4% Cumulative Preferred Stock, \$100 par value. (Filed as Exhibit 2(f) to the Company's Registration Statement, File No. 2-67558, and incorporated herein by reference.)
4(dd).	Note Purchase Agreement, dated as of March 1, 1977, between the Company and sixteen institutional investors. (Filed as Exhibit 5(nnn) to the Company's Registration Statement, File No. 2-58703, and incorporated herein by reference.)
4(ee).	Note Purchase Agreement, dated as of October 10, 1977, between the Company and twenty-two institutional investors. (Filed as Exhibit 5(rr) to the Company's Statement, File No. 2-61330, and incorporated herein by reference.)
4(ff).	Amended and Restated Credit Agreement, dated as of April 1, 1980, between the Company, The Chase Manhattan Bank (National Association) and CitiBank, N.A. (Filed as Exhibit 1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1980, File No. 1-3583, and incorporated herein by reference.)
4(gg).	Loan Agreement, dated as of August 15, 1980, relating to the loan of the proceeds from the sale of \$30,500,000 aggregate principal amount State of Ohio Air Quality Development Revenue Bonds, Series 1980-A (The Toledo Edison Company Project), to the Company by the Ohio Air Quality Development Authority. (Filed as Exhibit 10(d) to the Company's Registration Statement, File No. 2-69190, and incorporated herein by reference.)

EXHIBIT INDEX (Continued)

<u>S-K</u> <u>Item No.</u>	<u>Document</u>
4(hh).	Loan Agreement (and Security Agreement), dated as of August 15, 1980, relating to the loan of the proceeds from the sale of \$1,000,000 aggregate principal amount State of Ohio Air Quality Development Revenue Bonds, Series 1980-B (The Toledo Edison Company Project), to the Company by the Ohio Air Quality Development Authority. (Filed as Exhibit 10(e) to the Company's Registration Statement, File No. 2-69190, and incorporated herein by reference.)
4(ii).	Loan Agreement, dated as of September 1, 1980, relating to the loan of the proceeds from the sale of \$650,000 aggregate principal amount State of Ohio Collateralized Pollution Control Revenue Bonds, Series 1980 (The Toledo Edison Company Project), to the Company by the Ohio Water Development Authority. (Filed as Exhibit 10(f) to the Company's Registration Statement, File No. 2-69190, and incorporated herein by reference.)
4(jj).	Master Credit and Security Agreement, dated as of October 1, 1982, between the Union Commerce Bank and J. A. Hirka and Prulease, Inc., relating to the establishment of the Central Area Energy Trust. (Filed as Exhibit 4(ee) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1982, File No. 1-3583, and incorporated herein by reference.)
4(kk).	Term Loan Agreement, dated as of May 11, 1984, between The Toledo Edison Company and The Toronto-Dominion Bank, Chicago Branch (Filed as Exhibit 19(b) to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1984, File No. 1-3583, and incorporated herein by reference.)
4(ll).	Term Loan Agreement, dated as of September 27, 1984, between The Toledo Edison Company and TransOhio Savings Bank, F.S.B. (Filed as Exhibit 19(c) to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1984, File No. 1-3583, and incorporated herein by reference.)
4(mm).	Term Loan Agreement, dated as of September 27, 1984, between The Toledo Edison Company and The First Federal Savings Bank. (Filed as Exhibit 19(d) to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1984, File No. 1-3583, and incorporated herein by reference.)
4(nn).	Loan Agreement, dated as of October 15, 1984, relating to the loan of the proceeds from the sale of \$31,600,000 aggregate principal amount State of Ohio Collateralized Pollution Control Revenue Bonds, Series 1984-A (The Toledo Edison Company Project), to the Company by the Ohio Water Development Authority. (Filed herewith.)

EXHIBIT INDEX (Continued)

<u>S-K</u> <u>Item No.</u>	<u>Document</u>
4(oo).	Loan Agreement, dated as of October 15, 1984, relating to the loan of the proceeds from the sale of \$5,700,000 aggregate principal amount State of Ohio Collateralized Pollution Control Revenue Bonds, Series 1984-B (The Toledo Edison Company Project), to the Company by the Ohio Air Quality Development Authority. (Filed herewith.)
4(pp).	Beaver Valley Pollution Control Facilities Agreement between Beaver County Industrial Development Authority and the CAPCO companies, dated as of April 1, 1974. (Filed herewith.)
4(qq).	Note Purchase Agreement, dated as of January 29, 1985, between the Company and thirteen institutional investors. (Filed herewith.)
10(a).	CAPCO Administration Agreement, dated November 1, 1971 as of September 14, 1967, among all CAPCO members. (Filed as Exhibit 5(p) to Registration Statement of The Cleveland Electric Illuminating Company, File No. 2-42230, and incorporated herein by reference.)
10(b).	Amendment No. 1, dated as of January 4, 1974, to CAPCO Administration Agreement. (Filed as Exhibit 5(qq) to the Company's Registration Statement, File No. 2-50648, and incorporated herein by reference.)
10(c).	CAPCO Transmission Facilities Agreement, dated November 1, 1971 as of September 14, 1967, among all CAPCO members. (Filed as Exhibit 5(g) to Registration Statement of The Cleveland Electric Illuminating Company, File No. 2-42230, and incorporated herein by reference.)
10(d).	Agreement for the Termination or Construction of Certain Agreements, effective as of September 1, 1980, by and among The Cleveland Electric Illuminating Company, Duquesne Light Company, Ohio Edison Company, Pennsylvania Power Company, and the Company. (Filed as Exhibit 10(g) to the Company's Registration Statement, File No. 2-69190, and incorporated herein by reference.)
10(e).	CAPCO Basic Operating Agreement, as amended September 1, 1980. (Filed as Exhibit 10(h) to the Company's Registration Statement, File No. 2-69190, and incorporated herein by reference.)
10(f).	Construction Agreement, dated July 22, 1974, among all members of CAPCO and relating to the Perry Nuclear Plant. (Filed as Exhibit 5(yy) to the Company's Registration Statement, File No. 2-52251, and incorporated herein by reference.)
10(g).	Contract, dated as of December 5, 1975, among the CAPCO members for the construction of Beaver Valley Unit No. 2. (Filed as Exhibit 5(g), 6(B) to Registration Statement of The Cleveland Electric Illuminating Company, File No. 2-52996, and incorporated herein by reference.)

EXHIBIT INDEX (Continued)

<u>S-K Item No.</u>	<u>Document</u>
10(h).	Amendment No. 1, dated May 1, 1977, to Contract, dated as of December 5, 1975, among the CAPCO members for the construction of Beaver Valley Unit No. 2. (Filed as Exhibit 5(d)(4) to Registration Statement of Ohio Edison Company, File No. 2-60109, and incorporated herein by reference.)
10(i).	Contract, dated May 24, 1976, among the CAPCO members for the operation of Beaver Valley Unit No. 2. (Filed as Exhibit 5(d)(4) to Registration Statement of Pennsylvania Power Company, File No. 2-56944, and incorporated herein by reference.)
10(j).	Amendment No. 1, dated May 1, 1977, to Contract, dated May 24, 1976, among the CAPCO members for the operation of Beaver Valley Unit No. 2. (Filed as Exhibit 5(d)(6) to Registration Statement of Ohio Edison Company, File No. 2-60109, and incorporated herein by reference.)
10(k).	Addendum No. 1, dated November 1, 1980, to Contract, dated May 24, 1976, as amended among the CAPCO members for the operation of Beaver Valley Unit No. 2. (Filed as Exhibit 10-9 to Registration Statement of Ohio Edison Company, File No. 2-68906, and incorporated herein by reference.)
10(l).	Mansfield Pollution Control Facilities Agreement, dated as of March 1, 1973, as amended and supplemented through August 1976, between all CAPCO members and Beaver County Industrial Development Authority. (Filed as Exhibit 5(11) to the Company's Registration Statement, File No. 2-59794, and incorporated herein by reference.)
10(m).	Directors and officers liability and corporation reimbursement insurance policy. (Filed as Exhibit 5(ccc) to the Company's Registration Statement, File No. 2-55442, and incorporated herein by reference.)
10(n).	Excess Liability Insurance Policy, dated as of September 2, 1981. (Filed as Exhibit 10 to the Company's Registration Statement, File No. 2-74485, and incorporated herein by reference.)
10(o).	Employment Agreement, dated as of September 1, 1972, between the Company and John P. Williamson. (Filed as Exhibit I to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1972, File No. 1-3583, and incorporated herein by reference.)
10(p).	Amended Employment Agreement, dated as of October 1, 1977, between the Company and John P. Williamson. (Filed as Exhibit I to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1977, File No. 1-3583, and incorporated herein by reference.)

EXHIBIT INDEX (Continued)

<u>S-K Item No.</u>	<u>Document</u>
10(q).	Second Amendment, dated as of September 23, 1980, to the Amended Employment Agreement, dated October 1, 1977, between the Company and John P. Williamson. (Filed as Exhibit 10(i) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1980, File No. 1-3583, and incorporated herein by reference.)
10(r).	Employment Agreement, dated February 16, 1984, between the Company and Paul M. Smart. (Filed as Exhibit 10(r) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1983, File No. 1-3583, and incorporated herein by reference.)
10(s).	Participation Agreement, dated as of October 1, 1973, among Quarto Mining Company, CAPCO members, Energy Properties, Inc., General Electric Credit Corporation, the Loan Participants listed in Schedules A and B thereto, Central National Bank of Cleveland, as Owner Trustee, National City Bank, as Loan Trustee, and National City Bank, as Bond Trustee. (Filed as Exhibit 5(z) to the Company's Registration Statement, File No. 2-59794, and incorporated herein by reference.)
10(t).	Amendment No. 1, dated as of September 15, 1978, to Participation Agreement, dated as of October 1, 1973, among the same parties as Exhibit 10(s). (Filed as Exhibit 5(e)(2) to Registration Statement of Pennsylvania Power Company, File No. 2-68906, and incorporated herein by reference.)
10(u).	Participation Agreement No. 2, dated as of August 1, 1974, among the same parties as Exhibit 10(s). (Filed as Exhibit 5(h)(2) to Registration Statement of Ohio Edison Company, File No. 2-53059, and incorporated herein by reference.)
10(v).	Amendment No. 1, dated as of September 15, 1978, to Participation Agreement No. 2, dated as of August 1, 1974, among the same parties as Exhibit 10(s). (Filed as Exhibit 5(e)(4) to Registration Statement of Pennsylvania Power Company, File No. 2-68906, and incorporated herein by reference.)
10(w).	Participation Agreement No. 3, dated as of September 15, 1978, among the same parties as Exhibit 10(s). (Filed as Exhibit 5(uu) to the Company's Registration Statement, File No. 2-64609, and incorporated herein by reference.)
10(x).	Participation Agreement No. 4, dated as of October 31, 1980, among Quarto Mining Company, CAPCO members, the Loan Participants listed in Schedule A thereto, and National City Bank, as Bond Trustee. (Filed as Exhibit 10-16 to Registration Statement of Ohio Edison Company, File No. 2-68906, and incorporated herein by reference.)

EXHIBIT INDEX (Continued)

<u>S-K</u> <u>Item No.</u>	<u>Document</u>
10(y).	Lease and Agreement, dated as of June 7, 1973, as amended and restated as of October 1, 1973, between Central National Bank of Cleveland, as Trustee, and Quarto Mining Company, together with Guaranty, dated as October 1, 1973, with respect thereto by CAPCO members. (Filed as Exhibit 5(aa) to the Company's Registration Statement, File No. 2-59794, and incorporated herein by reference.)
10(z).	Trust Indenture and Mortgage, dated as of October 1, 1973, between Quarto Mining Company and National City Bank, as Bond Trustee, together with Guaranty, dated as of October 1, 1973, with respect thereto by CAPCO members. (Filed as Exhibit 5(bb) to the Company's Registration Statement, File No. 2-59794, and incorporated herein by reference.)
10(aa).	Amendment No. 1, dated as of August 1, 1974, to Trust Indenture and Mortgage, dated as of October 1, 1973, between Quarto Mining Company and National City Bank, as Bond Trustee, together with Amendment No. 1, dated August 1, 1974, to Guaranty, dated as of October 1, 1973, with respect thereto by CAPCO members. (Included in Exhibit 5(L)(2) to Registration Statement of Ohio Edison Company, File No. 2-53059, and incorporated herein by reference.)
10(bb).	Amendment No. 2, dated as of September 15, 1978, to Trust Indenture and Mortgage, dated as of October 1, 1973, as amended, between Quarto Mining Company and National City Bank, as bond Trustee, together with Amendment No. 2, dated as of September 15, 1978, to Guaranty, dated as of October 1, 1973, with respect thereto by CAPCO members. (Filed as Exhibits (5(e)(11) and 5(3)(12) to Registration Statement of Pennsylvania Power Company, File No. 2-68906, and incorporated herein by reference.)
10(cc).	Amendment No. 3, dated as of October 31, 1980, to Trust Indenture and Mortgage, dated as of October 1, 1973, as amended, between Quarto Mining Company and National City Bank, as Bond Trustee. (Included in Exhibit 10-16 to Registration Statement of Ohio Edison Company, File No. 2-68906, and incorporated herein by reference.)
10(dd).	Amendment No. 3, dated as of October 31, 1980, to Guaranty, dated as of October 1, 1973, with respect to the CAPCO members. (Included in Exhibit 10-18 to Registration Statement of Ohio Edison Company, File No. 2-68906, and incorporated herein by reference.)
10(ee).	Open-end Mortgage, dated as of October 1, 1973, between Quarto Mining Company and the CAPCO members and Amendment No. 1 thereto, dated as of September 15, 1978. (Filed as Exhibit 10-5 to Registration Statement of Ohio Edison Company, File No. 2-68906, and incorporated herein by reference.)

EXHIBIT INDEX (Continued)

<u>S-K</u> <u>Item No.</u>	<u>Document</u>
10(ff).	Agreement, dated October 20, 1981, among the CAPCO members regarding the use of Quarto coal at Mansfield Units 1, 2 and 3. (Filed as Exhibit 10(ff) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1981, File No. 1-3583, and incorporated herein by reference.)
10(gg).	Agreement, dated July 1, 1982, among the CAPCO members reallocating the rights and liabilities of the members with respect to certain uranium supply contracts. (Filed as Exhibit 10(ff) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1982, File No. 1-3583, and incorporated herein by reference.)
12(a).	Computation of "Net Earnings" Coverage Ratio Under the Indenture of Mortgage for Issuance of Additional First Mortgage Bonds. (Filed herewith.)
12(b).	Computation of "Gross Income" Coverage Ratio Under the Articles for Issuance of Additional Preferred Stock. (Filed herewith.)
13.	Annual Report to Shareowners of the Company for 1984. (Filed herewith; except for portions incorporated herein by reference, this exhibit is furnished for the information of the Commission and is not to be deemed "filed" as part of the Company's Annual Report on Form 10-K.)
24.	Consent of Independent Public Accountants. (Filed herewith.)
(b).	<u>Report on Form 8-K.</u> The Company filed reports on Form 8-K covering "Other Events" on September 27, 1984, January 30, 1985 and February 21, 1985.

SIGNATURES

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

THE TOLEDO EDISON COMPANY

Date March 11, 1985

By J. P. Williamson
J. P. Williamson, Chairman of the Board
and Chief Executive Officer

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

	<u>Signature</u>	<u>Title</u>	<u>Date</u>
(i)	<u>J. P. Williamson</u> J. P. Williamson	Chairman of the Board, Chief Executive Officer and Director	<u>March 11, 1985</u>
(ii)	<u>D. G. Nicholson</u> D. G. Nicholson Principal Financial Officer and Director	Senior Vice President Finance and Director	<u>March 11, 1985</u>
(iii)	<u>Paul G. Busby</u> Paul G. Busby Principal Accounting Officer	Controller	<u>March 11, 1985</u>
(iv) A majority of the Directors including (I) and (II) above:			
	<u>Richard P. Anderson</u> Richard P. Anderson	Director	<u>March 11, 1985</u>
	<u>Samuel G. Carson</u> Samuel G. Carson	Director	<u>March 11, 1985</u>
	<u>Richard P. Crouse</u> Richard P. Crouse	Director	<u>March 11, 1985</u>

SignatureTitleDate

Chester Devenow
Chester Devenow

Director

March 11, 1985

Edwin D. Dodd
Edwin D. Dodd

Director

March 11, 1985

Elwood L. Elbersen

Director

Wendell A. Johnson

Director

Isabel F. Martin
Isabel F. Martin

Director

March 11, 1985

Henry A. Page, Jr.
Henry A. Page, Jr.

Director

March 11, 1985

Lyman C. Phillips

Director

Paul M. Smart
Paul M. Smart

Director

March 11, 1985

Willard I. Webb, III
Willard I. Webb, III

Director

March 11, 1985

Robert G. Wingerter
Robert G. Wingerter

Director

March 11, 1985

THE TOLEDO EDISON COMPANY

MARKETABLE SECURITIES
DECEMBER 31, 1984

<u>Column A</u>	<u>Column C</u>	<u>Column D</u>	<u>Column E</u>
<u>Name of Issuer and Title of Each Issue</u>	<u>Cost of Each Issue</u>	<u>Market Value of Each Issue at Balance Sheet Date</u>	<u>Amount at Which Each Portf of Equity Security Issues Each Other Security Issu Carried in the Balance Sh</u>
Bank Repurchase agreements (a)	<u>\$83,614,442</u>	<u>\$83,854,269</u> (b)	<u>\$83,614,442</u>

(a) Underlying securities are U.S. Treasury Notes

(b) Cost plus accrued interest at December 31, 1984.

THE TOLEDO EDISON COMPANY

UTILITY PLANT - FOR THE YEAR ENDED DECEMBER 31, 1984

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions (at Cost)	Retirements or Sales	Reclassifications Add (Deduct)	Balance at End of Period
PLANT IN SERVICE					
Electric department -					
Steam production	\$ 443,738,627	\$ 5,241,987	\$(1,084,481)	\$ -	\$ 447,896,133
Nuclear production	422,933,442	15,491,824	(643,253)	-	437,782,013
Other production	6,656,245	465	(441)	-	6,656,269
Transmission	139,749,586	127,265	(47,050)	4,024	139,833,825
Distribution	265,320,173	13,443,815	(2,250,502)	(4,024)	276,509,462
General	53,059,002	1,429,643	(877,512)	-	53,611,133
	\$1,331,457,075	\$ 35,734,999	\$(4,903,239)	\$ -	\$1,362,288,835
Gas department	5,827,471	124,820	(5,740)	-	5,946,551
Heating department	4,772,079	28,823	(73,165)	-	4,727,737
Total plant in service	\$1,342,056,625	\$ 35,888,642	\$(4,982,144)	\$ -	\$1,372,963,123
Plant held for future use	16,410,151	1,230,365	-	-	17,640,516
Total plant	\$1,358,466,776	\$ 37,119,007	\$(4,982,144)	\$ -	\$1,390,603,639
CONSTRUCTION WORK IN PROGRESS	1,153,945,346	326,737,056	-	-	1,480,682,402
NUCLEAR FUEL	55,553,392	\$ 24,968,139	-	-	80,521,531
Total utility plant at original cost	\$2,567,965,514	\$388,824,202	\$(4,982,144)(a)	\$ -	\$2,951,807,572

SCHEDULE V
(Continued)

NOTES:

- (a) Reconciliation of retirements and sales
to Schedule VI:

Total per Column D of Schedule V	\$ (4,982,144)
----------------------------------	----------------

Add -

Retirement of land and land rights not
charged to accumulated provision for
depreciation

<u>22,771</u>

Total per Column D of Schedule VI	<u>\$ (4,959,373)</u>
-----------------------------------	-----------------------

THE TOLEDO EDISON COMPANY

UTILITY PLANT - FOR THE YEAR ENDED DECEMBER 31, 1983

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions (at Cost)	Retirements or Sales	Reclassifications Add (Deduct)	Balance at End of Period
PLANT IN SERVICE					
Electric department -					
Steam production	\$ 429,029,532	\$17,163,626	\$(2,454,531)	\$ -	\$ 443,738,627
Nuclear production	405,276,807	18,149,477	(492,842)	-	422,933,442
Other production	6,665,884	(8,779)	(860)	-	6,656,245
Transmission	139,809,012	779,688	(813,342)	(25,772)	139,749,586
Distribution	253,192,154	14,473,695	(2,360,299)	14,623	265,320,173
General	49,653,342	4,863,143	(1,457,483)	-	53,059,002
	\$1,283,626,731	\$55,420,850	\$(7,579,357)	\$(11,149)	\$1,331,457,075
Gas department	5,585,626	331,138	(89,293)	-	5,827,471
Heating department	4,623,635	156,123	(7,679)	-	4,772,079
Total plant in service	\$1,293,835,992	\$55,908,111	\$(7,676,329)	\$(11,149)	\$1,342,056,625
Plant held for future use	12,840,773	3,569,378	-	-	16,410,151
Total plant	\$1,306,676,765	\$59,477,489	\$(7,676,329)	\$(11,149)	\$1,358,466,776
CONSTRUCTION WORK IN PROGRESS	878,535,213	275,410,133	-	-	1,153,945,346
NUCLEAR FUEL	42,100,228	13,453,164	-	-	55,553,392
Total utility plant at original cost	\$2,227,312,206	\$348,340,786	\$(7,676,329)	\$(11,149)	\$2,567,965,514

SCHEDULE V

THE TOLEDO EDISON COMPANY

UTILITY PLANT - FOR THE YEAR ENDED DECEMBER 31, 1982

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions (at Cost)	Retirements or Sales	Reclassifications Add (Deduct)	Balance at End of Period
PLANT IN SERVICE					
Electric department -					
Steam production	\$ 423,232,308	\$ 6,147,345	\$ (345,076)	\$ (5,045)	\$ 429,029,532
Nuclear production	382,365,745	23,417,707	(766,005)	259,360	405,276,807
Other production	6,501,112	227,162	(62,390)	-	6,665,884
Transmission	138,785,938	770,537	67,580	184,957	139,809,012
Distribution	241,122,480	14,760,532	(2,493,027)	(197,831)	253,192,154
General	48,336,851	2,767,591	(1,191,740)	(259,360)	49,653,342
	<u>\$1,240,344,434</u>	<u>\$ 48,090,874</u>	<u>\$ (4,790,658)</u>	<u>\$ (17,919)</u>	<u>\$1,283,626,731</u>
Gas department	5,253,895	350,154	(18,423)	-	5,585,626
Heating department	4,592,212	42,713	(16,335)	5,045	4,623,635
Total plant in service	<u>\$1,250,190,541</u>	<u>\$ 48,483,741</u>	<u>\$ (4,825,416)</u>	<u>\$ (12,874)</u>	<u>\$1,293,835,992</u>
Plant held for future use	<u>10,983,964</u>	<u>1,881,809</u>	<u>-</u>	<u>(25,000)</u>	<u>12,840,773</u>
Total plant	<u>\$1,261,174,505</u>	<u>\$ 50,365,550</u>	<u>\$ (4,825,416)</u>	<u>\$ (37,874)</u>	<u>\$1,306,676,765</u>
CONSTRUCTION WORK IN PROGRESS	656,998,495	221,536,718	-	-	878,535,213
NUCLEAR FUEL	<u>28,729,345</u>	<u>13,370,883</u>	<u>-</u>	<u>-</u>	<u>42,100,228</u>
Total utility plant at original cost	<u>\$1,946,902,345</u>	<u>\$285,273,151</u>	<u>\$ (4,825,416)</u>	<u>\$ (37,874)</u>	<u>\$2,227,312,206</u>

THE TOLEDO EDISON COMPANY
 ACCUMULATED PROVISION FOR DEPRECIATION
 FOR THE YEAR ENDED DECEMBER 31, 1984

Column A	Column B	Column C		Column D		Column E
		Additions		Deductions		
Description	Balance at Beginning of Period	Charged to Results of Operations	Other	Retirements	Removal Cost Net of Salvage Add (Deduct)	Balance at End of Period
ACCUMULATED PROVISION FOR DEPRECIATION						
Electric department -						
Steam production	\$116,330,027	\$13,844,196	\$ -	\$(1,084,481)	\$ (27,477)	\$129,062,265
Nuclear production	52,659,509	13,284,460	-	(643,253)	(59,133)	65,241,583
Other production	4,610,248	350,993	-	(441)	(169)	4,960,631
Transmission	37,823,553	3,340,722	-	(47,050)	(111,121)	41,006,104
Distribution	91,156,570	12,671,173	-	(2,249,731)	(214,314)	101,363,698
General	16,347,551	981,088	1,274,956(a)	(855,512)	323,005	18,071,088
	\$318,927,458	\$44,472,632	\$1,274,956	\$(4,880,468)	\$ (89,209)	\$359,705,369
Gas department	2,146,541	201,956	-	(5,740)	(18,231)	2,324,526
Heating department	3,973,835	138,480	-	(73,165)	(12,291)	4,026,859
	\$325,047,834	\$44,813,068	\$1,274,956	\$(4,959,373)	\$(119,731)	\$366,056,754

Column A	Column B	Column C		Column D		Column E
		Additions		Deductions		
Description	Balance at Beginning of Period	Charged to Results of Operations	Other	Retirements	Removal Cost Net of Salvage Add (Deduct)	Balance at End of Period
RETIREMENT WORK IN PROGRESS	\$ (221,800)	\$ -	\$ -	\$ -	\$(820,522)	\$ (1,042,322)
Total accumulated provision for depreciation	<u>\$324,826,034</u>	<u>\$44,813,068(b)</u>	<u>\$1,274,956</u>	<u>\$(4,959,373)</u>	<u>\$(940,253)</u>	<u>\$365,014,432</u>
ACCUMULATED PROVISION FOR AMORTIZATION - NUCLEAR FUEL	<u>\$ 32,649,702</u>	<u>\$ 8,028,090(c)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,677,792</u>
ACCUMULATED PROVISION FOR DEPRECIATION - NONUTILITY PROPERTY (Included in other deferred charges)	<u>\$ 20,912</u>	<u>\$ 3,631</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (63)</u>	<u>\$ 24,480</u>

SCHEDULE VI
(Continued)

NOTES:

(a) Amount charged to clearing account	<u>\$ 1,274,956</u>
(b) Reconciliation of additions to Accumulated Provision for Depreciation to the Statement of Results of Operations -	
Additions per Column C of Schedule VI	\$44,813,068
Add amortization for abandoned CAPCO projects	5,157,000
Total depreciation and amortization per Statement of Results of Operations	<u>\$49,970,068</u>
(c) Amount charged to fuel expense	<u>\$ 8,028,090</u>

SCHEDULE VI

THE TOLEDO EDISON COMPANY

ACCUMULATED PROVISION FOR DEPRECIATION

FOR THE YEAR ENDED DECEMBER 31, 1983

Column A	Column B	Column C	Column D	Column E
Description	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
		Charged to Results of Operations		
		Other	Retirements	
			Removal Cost Net of Salvage Add (Deduct)	
ACCUMULATED PROVISION FOR DEPRECIATION				
Electric department -				
Steam production	\$105,612,700	\$13,611,557	\$ (2,454,531)	\$116,330,027
Nuclear production	38,693,342	14,495,549	(492,843)	52,659,509
Other production	4,179,267	436,392	(860)	4,610,248
Transmission	35,387,935	3,335,311	(813,342)	37,823,553
Distribution	82,170,908	12,168,495	(2,360,299)	91,156,570
General	15,499,986	940,529	(1,457,482)	16,347,551
	\$281,544,138	\$44,987,833	\$ (1,193,711)	\$318,927,458
Gas department	\$ 2,040,181	\$ 194,727	\$ (89,294)	\$ 2,146,541
Heating department	2,896,153	1,097,919	(7,678)	3,973,835
	\$286,480,472	\$46,280,479	\$ (7,676,329)	\$325,047,834

Column A	Column B	Column C Additions		Column D Deductions		Column E
Description	Balance at Beginning of Period	Charged to Results of Operations	Other	Retirements	Removal Cost Net of Salvage Add (Deduct)	Balance of End of Period
RETIREMENT WORK IN PROGRESS	\$ (1,027,544)	\$ -	\$ -	\$ -	\$ 805,744	\$ (221,800)
Total accumulated provision for depreciation	\$285,452,928	\$46,280,479(b)	\$1,168,555	\$ (7,676,329)	\$ (399,599)	\$324,826,034
ACCUMULATED PROVISION FOR AMORTIZATION - NUCLEAR FUEL	\$ 23,710,057	\$ 8,939,645(c)	\$ -	\$ -	\$ -	\$ 32,649,702
ACCUMULATED PROVISION FOR DEPRECIATION - NONUTILITY PROPERTY (Included in other deferred charges)	\$ 522,824	\$ 3,049	\$ -	\$ (508,741)	\$ 3,780	\$ 20,912

SCHEDULE VI
(Continued)

NOTES:

(a) Amount charged to clearing account	<u>\$ 1,168,555</u>
(b) Reconciliation of additions to Accumulated Provision for Depreciation to the Statement of Results of Operations -	
Additions per Column C of Schedule VI	\$46,280,479
Add amortization for abandoned CAPCO projects	4,857,000
Total depreciation and amortization per Statement of Results of Operations	<u>\$51,137,479</u>
(c) Amount charged to fuel expense	<u>\$ 8,939,645</u>

THE TOLEDO EDISON COMPANY
ACCUMULATED PROVISION FOR DEPRECIATION
FOR THE YEAR ENDED DECEMBER 31, 1982

Column A	Column B	Column C		Column D		Column E
		Additions		Deductions		
Description	Balance at Beginning of Period	Charged to Results of Operations	Other	Retirements	Removal Cost Net of Salvage Add (Deduct)	Balance at End of Period
ACCUMULATED PROVISION FOR DEPRECIATION						
Electric department -						
Steam production	\$ 93,755,025	\$13,363,973	\$ -	\$ (345,076)	\$(1,161,222)	\$105,612,700
Nuclear production	30,192,447	9,339,624	-	(766,005)	(72,724)	38,693,342
Other production	3,809,310	433,694	-	(62,390)	(1,347)	4,179,267
Transmission	32,194,424	3,317,960	-	55,580	(180,029)	35,387,935
Distribution	73,985,851	11,645,042	-	(2,481,027)	(978,958)	82,170,908
General	14,617,130	896,444	1,057,414(a)	(1,191,740)	120,738	15,499,986
	<u>\$248,554,187</u>	<u>\$38,996,737</u>	<u>\$1,057,414</u>	<u>\$(4,790,658)</u>	<u>\$(2,273,542)</u>	<u>\$281,544,138</u>
Gas department	\$ 1,891,948	\$ 183,282	-	\$ (18,423)	\$ (16,626)	\$ 2,040,181
Heating department	3,096,073	134,221	-	(16,335)	(317,806)	2,896,153
	<u>\$253,542,208</u>	<u>\$39,314,240</u>	<u>\$1,057,414</u>	<u>\$(4,825,416)</u>	<u>\$(2,607,974)</u>	<u>\$286,480,472</u>

Column A	Column B	Column C		Column D		Column E
		Additions		Deductions		
Description	Balance at Beginning of Period	Charged to Results of Operations	Other	Retirements	Removal Cost Net of Salvage Add (Deduct)	Balance of End of Period
RETIREMENT WORK IN PROGRESS	\$ (1,231,832)	\$ -	\$ -	\$ -	\$ 204,288	\$ (1,027,544)
Total accumulated provision for depreciation	<u>\$252,310,376</u>	<u>\$39,314,240(b)</u>	<u>\$1,057,414</u>	<u>\$(4,825,416)</u>	<u>\$(2,403,686)</u>	<u>\$285,452,928</u>
ACCUMULATED PROVISION FOR AMORTIZATION - NUCLEAR FUEL	<u>\$ 17,778,385</u>	<u>\$ 5,931,672(c)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,710,057</u>
ACCUMULATED PROVISION FOR DEPRECIATION - NONUTILITY PROPERTY (Included in other deferred charges)	<u>\$ 520,646</u>	<u>\$ 2,178</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 522,824</u>

SCHEDULE VI
(Continued)

NOTES:

(a) Amount charged to clearing account	<u>\$ 1,057,414</u>
(b) Reconciliation of additions to Accumulated Provision for Depreciation to the Statement of Results of Operations -	
Additions per Column C of Schedule VI	\$39,314,240
Add amortization for abandoned CAPCO projects	4,662,000
Adjustment to Accumulated Provision for Depreciation for earnings on a decom- missioning adjustment to plant-in-service	(141,197)
Rounding on Statement of Results of Operations (offset prior year's rounding adjustment)	<u>3,000</u>
Total depreciation and amortization per Statement of Results of Operations	<u>\$43,838,043</u>
(c) Amount charged to fuel expense	<u>\$ 5,931,672</u>

THE TOLEDO EDISON COMPANY

VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEARS ENDED DECEMBER 31, 1984, 1983 and 1982

Column A	Column B	Column C		Column D		Column E
		Additions		Deductions		
Description	Balance at Beginning of Period	Charged to Results of Operations	Other	Deductions from Reserves	Other	Balance at End of Period
Allowance for Doubtful Accounts (Deduction from Accounts Receivable)						
1984	<u>\$485,597</u>	\$1,524,000	\$568,903(a)	\$(2,004,611)(b)	-	<u>\$573,889</u>
1983	<u>\$341,513</u>	\$1,542,000	\$508,473(a)	\$(1,906,389)(b)	-	<u>\$485,597</u>
1982	<u>\$382,706</u>	\$1,294,000	\$536,663(a)	\$(1,871,856)(b)	-	<u>\$341,513</u>

Column A	Column B	Column C Additions		Column D Deductions		Column E
Description	Balance at Beginning of Period	Charged to Results of Operations	Other	Deductions from Reserves	Other	Balance at End of Period
Injuries and Damages (included in Deferred Credits and Other)						
1984	<u>\$ 899,599</u>	\$103,053	-	\$ (83,152)	-	<u>\$ 919,500</u>
1983	<u>\$1,192,064</u>	\$431,341	-	\$ (723,806)	-	<u>\$ 899,599</u>
1982	<u>\$ 813,218</u>	\$876,110	-	\$ (497,264)	-	<u>\$1,192,064</u>
Reserve for Nuclear Fuel Disposal Costs (included in Deferred Credits and Other)						
1984	<u>\$14,612,535</u>	\$5,735,567	-	\$ (2,976,505)	-	<u>\$17,371,597</u>
1983	<u>\$ 6,424,406</u>	\$4,933,617	\$4,258,677(c)	\$ (1,004,165)	-	<u>\$14,612,535</u>
1982	<u>\$ 3,472,511</u>	\$2,951,895	-	-	-	<u>\$ 6,424,406</u>

(a) Collection of accounts previously written off.

(b) Uncollectible accounts written off.

(c) Obligation to the Department of Energy for pre 4/7/83 nuclear fuel disposal costs.

THE TOLEDO EDISON COMPANY

SHORT-TERM BORROWINGS - FOR THE YEARS ENDED DECEMBER 31, 1984, 1983 and 1982

Column A	Column B	Column C	Column D	Column E	Column F
Category	Balance at End of Period	Weighted Average Interest Rate at End of Period	Maximum Monthly Amount Outstanding During Period	Average Daily Weighted Amount Outstanding During the Period	Average Daily Weighted (a) Interest Rate During the Period
Short-Term Borrowings Payable to Banks					
1984	\$28,000,000	10.88%	\$55,000,000	\$36,245,902	11.93%
1983	\$ -	-	\$31,000,000	\$ 3,525,250	9.60%
1982	\$ -	-	\$ 6,000,000	\$ 1,200,000	12.30%
Amounts Payable to Holders of Commercial Paper					
1984	\$ -	-	\$49,000,000	\$13,311,202	10.83%
1983	\$ -	-	\$65,500,000	\$24,073,589	9.31%
1982	\$43,000,000	9.43%	\$64,500,000	\$35,927,123	13.60%

(a) Computed by dividing the total interest expense for the year by the weighted average daily balance (Column E).

SCHEDULE X

THE TOLEDO EDISON COMPANY

SUPPLEMENTARY INCOME STATEMENT INFORMATION

FOR THE YEARS ENDED DECEMBER 31, 1984, 1983 and 1982
 (\$000)

<u>Column A</u>	<u>Column B</u>		
	<u>Charged to Continuing Operations Expense</u>		
<u>Category</u>	<u>1984</u>	<u>1983</u>	<u>1982</u>
<u>State & Local Taxes</u>			
Local Property	\$19,336	\$19,234	\$18,115
Ohio State Excise	25,169	24,059	20,943
Other	<u>2,098</u>	<u>1,917</u>	<u>2,202</u>
Total	<u>\$46,603</u>	<u>\$45,210</u>	<u>\$41,260</u>

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS
ON SUPPLEMENTAL SCHEDULES

To The Toledo Edison Company:

In connection with our examinations of the financial statements included in The Toledo Edison Company's 1984 Annual Report to Shareowners and incorporated by reference in this Form 10-K, we have also examined the supplemental schedules listed in the accompanying index to schedules under Item 14. Our examinations were made for the purpose of forming an opinion on the basic financial statements taken as a whole. Reference is made to our report included in said Annual Report in which the opinion is qualified with respect to the recovery of the investment in Perry Unit No. 2. The supplemental schedules are presented for purposes of complying with the Securities and Exchange Commission's rules and regulations under the Securities and Exchange Act of 1934 and are not otherwise a required part of the basic financial statements. The supplemental schedules have been subjected to the auditing procedures applied in the examinations of the basic financial statements and, in our opinion, subject to the effects of such adjustments, if any, as might have been required to the schedule of Utility Plant (Schedule V) for 1984 and 1983 had the outcome of the uncertainty regarding the recovery from customers of the Company's investment in Perry Unit No. 2 been known, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN & CO.

Toledo, Ohio,
January 30, 1985.

THE TOLEDO EDISON COMPANY

Computation of "Net Earnings" Coverage Ratio Under the Indenture
for Issuance of Additional First Mortgage Bonds

	Twelve Months Ended December 31, 1984 (Thousands of Dollars)
Gross Electric Operating Revenues	\$541,870
Gross Operating Expenses of the Electric Business	<u>352,486</u>
Electric Operating Income	\$189,384
Net Non-Operating Income	135,697
Net Operating Revenue Derived From all Sources Other Than the Electric Business	<u>223</u>
Net Earnings	\$325,304
Unadjusted Net Earnings	
Less Excess of Aggregate of Net Non-Operating Income and Net Operating Revenue Derived From all Sources Other Than the Electric Business Over 15% of Net Earnings as Defined in the Indenture	<u>102,499</u>
Net Earnings as Defined in the Indenture	<u>\$222,805</u>
Annual Interest Requirement on all Bonds Outstanding Under the Indenture as of December 31, 1984	<u>\$104,077</u>
Indenture Coverage Ratio (Net Earnings as Defined in the Indenture Divided by Total Annual Interest)	<u>2.14</u>

THE TOLEDO EDISON COMPANY

Computation of "Gross Income" Coverage Ratio Under the
Articles for Issuance of Additional Preferred Stock

	Twelve Months Ended December 31, 1984 (Thousands of Dollars)
Gross Income (as Defined by the Articles)	<u>\$293,228</u>
Annual Interest Requirements on all Long-term Debt Maturing More Than Twelve Months After December 31, 1984	\$139,686
Annual Dividend Requirement on all Preferred Stock Outstanding at December 31, 1984	<u>41,069</u>
Total Annual Interest and Preferred Dividend Requirements	<u>\$180,755</u>
Coverage Ratio (Gross Income Divided by Total Annual Interest and Preferred Dividend Requirements)	<u>1.62</u>

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference in this Form 10-K of our report dated January 30, 1985 included in The Toledo Edison Company 1984 Annual Report. It should be noted that we have not examined any financial statements of the Company subsequent to December 31, 1984 or performed any audit procedures subsequent to the date of our report.

ARTHUR ANDERSEN & CO.

Toledo, Ohio,
March // , 1985.

PENNSYLVANIA POWER COMPANY
(A Subsidiary of Ohio Edison Company)

Statements of Income

	12 Months Ended March 31,	
	1985	1984
	(In Thousands)	
Operating Revenues	\$218,451	\$195,363
Operation and Maintenance Expenses	114,439	104,869
Provision for Depreciation and Amortization	19,428	16,998
General Taxes	15,898	13,620
Income Taxes	22,194	17,155
Operating Income	<u>46,492</u>	<u>42,721</u>
Other Income and Deductions:		
Allowance for Funds Used During Construction - Equity	16,914	13,105
Miscellaneous - Net*	8,220	1,205
Income Tax Credits	8,516	6,491
Total Other Income and Deductions	<u>33,650</u>	<u>20,801</u>
Total Income	<u>80,142</u>	<u>63,522</u>
Net Interest:		
Interest on Long-Term Debt	39,730	34,247
Allowance for Funds Used During Construction - Borrowed	(8,769)	(6,625)
Other	1,383	1,610
Net Interest	<u>32,344</u>	<u>29,232</u>
Net Income	47,798	34,290
Preferred Stock Dividend Requirements	9,275	7,701
Earnings on Common Stock	<u>\$ 38,523</u>	<u>\$ 26,589</u>

*1984 includes a noncash depreciation reserve
adjustment of \$6,751,000 as required by a PPUC rate order.

Statistical Data on Reverse Side
Dated: April 17, 1985

ELECTRIC STATISTICS

	12 Months Ended March 31,		% Change
	1985	1984	
	(In Thousands)		
REVENUES FROM SALES			
Residential	\$ 71,573	\$ 64,814	10.4
Commercial	36,567	36,198	1.0
Industrial	78,504	64,847	21.1
Other	6,964	6,988	(0.3)
Subtotal	193,608	172,847	12.0
Sales to Utilities	9,608	6,389	50.4
Total	<u>\$203,216</u>	<u>\$179,236</u>	<u>13.4</u>
KILOWATT-HOUR SALES			
Residential	896,902	899,354	(0.3)
Commercial	553,454	588,188	(5.9)
Industrial	1,817,389	1,734,496	4.8
Other	126,962	125,330	1.3
Subtotal	3,394,707	3,347,368	1.4
Sales to Utilities	406,752	269,753	50.8
Total	<u>3,801,459</u>	<u>3,617,121</u>	<u>5.1</u>

OFFICIAL STATEMENT

\$12,700,000

12% Pollution Control Revenue Bonds

\$1,500,000

**Ohio Air Quality Development Authority
State of Ohio
Series 1984**

**(Pennsylvania Power Company Project)
Due December 1, 2014**

\$11,200,000

**Ohio Water Development Authority
State of Ohio
Series 1984**

**(Pennsylvania Power Company Project)
Due December 1, 2014**

The Series 1984 Bonds of each issue will be special obligations of the State of Ohio, issued by the Ohio Air Quality Development Authority and the Ohio Water Development Authority, respectively, on behalf of the State of Ohio to provide funds for air pollution control facilities and water pollution control and solid waste disposal facilities, respectively, and will be payable from revenues of the respective Authorities derived from the pledge of payments to be made on separate Series 1984 Notes delivered to the Trustee, each of which is secured as to principal and interest by a separate series of First Mortgage Bonds of

Pennsylvania Power Company

Interest on the Series 1984 Bonds of each issue will be payable on June 1 and December 1 of each year beginning June 1, 1985. Principal and redemption price, if any, on the Series 1984 Bonds of each issue will be payable at the principal corporate trust office of AmeriTrust Company National Association, Trustee and Paying Agent for each issue, in Cleveland, Ohio. Interest on the Series 1984 Bonds of each issue will be payable by check mailed to the registered owners thereof. The Series 1984 Bonds of each issue will be issuable as fully registered bonds in the denominations of \$5,000 and any integral multiple thereof. The Series 1984 Bonds of each issue are subject to redemption prior to maturity as more fully described herein.

Price 100% and Accrued Interest

In the opinion of Squire, Sanders & Dempsey, Bond Counsel, interest on the Series 1984 Bonds of each issue is exempt under existing law from federal income taxation and certain taxes in Ohio, except on any Series 1984 Bond of such issue for any period during which such Series 1984 Bond is held by a "substantial user" of the related Project or a "related person", as those terms are used in Section 103(b) of the Internal Revenue Code of 1954, as more fully described herein.

The Series 1984 Bonds of each issue are offered, subject to prior sale, when, as and if issued by the respective Authorities and accepted by the Underwriter, subject to the approval of legality of such issue by Bond Counsel, approval of certain legal matters by Simpson Thacher & Bartlett, counsel for the Underwriter, and certain other matters. It is expected that delivery of the Series 1984 Bonds of each issue will be made on or about December 19, 1984 at the office of Morgan Stanley & Co. Incorporated, 55 Water Street, New York, New York, against payment therefor in New York Clearing House Funds.

MORGAN STANLEY & CO.
Incorporated

December 13, 1984

No dealer, salesman or other person has been authorized to give any information or to make any representation not contained or incorporated by reference in this Official Statement in connection with the offer made hereby and, if given or made, such information or representation must not be relied upon as having been authorized by the Ohio Air Quality Development Authority, the Ohio Water Development Authority, Pennsylvania Power Company or the Underwriter. This Official Statement is not an offer or solicitation of any offer to buy the securities offered hereby in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

Neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Ohio Air Quality Development Authority, the Ohio Water Development Authority or Pennsylvania Power Company since the date hereof.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 1984 BONDS OF EACH ISSUE AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

TABLE OF CONTENTS

	<u>Page</u>
Introductory Statement	3
The Authorities	6
The Project Facilities	6
The Bonds	7
The Loan Agreements and the Notes	11
The First Mortgage Bonds and the Mortgage	15
The Indentures	20
Tax Exemption	27
Underwriting	28
Legal Matters	28
Miscellaneous	29
Appendix—Pennsylvania Power Company	

\$12,700,000
12% Pollution Control Revenue Bonds

\$1,500,000

\$11,200,000

Ohio Air Quality Development Authority
State of Ohio
Series 1984
(Pennsylvania Power Company Project)
Due December 1, 2014

Ohio Water Development Authority
State of Ohio
Series 1984
(Pennsylvania Power Company Project)
Due December 1, 2014

INTRODUCTORY STATEMENT

This Official Statement of the Ohio Air Quality Development Authority (the "Air Authority") and the Ohio Water Development Authority (the "Water Authority") (collectively the "Authorities") has been prepared to provide information with respect to (i) State of Ohio Pollution Control Revenue Bonds, Series 1984 (Pennsylvania Power Company Project) (the "Air Bonds"), to be issued by the Air Authority on behalf of the State of Ohio in the aggregate principal amount of \$1,500,000 and (ii) State of Ohio Pollution Control Revenue Bonds, Series 1984 (Pennsylvania Power Company Project) (the "Water Bonds"), to be issued by the Water Authority on behalf of the State of Ohio in the aggregate principal amount of \$11,200,000 (the Air Bonds and the Water Bonds, collectively, the "Series 1984 Bonds"; the Series 1984 Bonds together with any additional Bonds issued under either of the Trust Indentures described below, collectively, the "Bonds").

The Air Bonds are being issued to fund a loan by the Air Authority to Pennsylvania Power Company (the "Company") to provide for the financing of a portion of the costs of the Company's undivided interest in certain air pollution control facilities (the "Air Project Facilities") installed or to be installed at the Perry Nuclear Power Plant (the "Project") located in Lake County, Ohio. The Water Bonds are being issued to fund a loan by the Water Authority to the Company to provide for the financing of a portion of the costs of the Company's undivided interest in certain water pollution control and solid waste disposal facilities (the "Water Project Facilities") (collectively the "Project Facilities") installed or to be installed at the Project. The loans will be made pursuant to separate Loan Agreements, each dated as of December 1, 1984, between the Company and the Air Authority (the "Air Loan Agreement") and between the

Company and the Water Authority (the "Water Loan Agreement") (collectively the "Loan Agreements"). The Company has agreed under the respective Loan Agreements to make payments sufficient to pay when due the principal or redemption price of, and interest on, the respective Series 1984 Bonds.

The Series 1984 Bonds will be issued under separate Trust Indentures, each dated as of December 1, 1984, between AmeriTrust Company National Association, as trustee under each of the Trust Indentures (the "Trustee"), and, in the case of the Air Bonds, the Air Authority (the "Air Indenture") and, in the case of the Water Bonds, the Water Authority (the "Water Indenture") (collectively the "Indentures"). The Series 1984 Bonds of each issue will bear interest at the rate set forth on the cover page hereof.

Concurrently with the issuance of the Series 1984 Bonds, the Company will deliver to the Trustee its Air Quality Facilities Note, Series 1984, with respect to the Air Bonds (the "Air Note") and its Waste Water Facilities and Solid Waste Facilities Note, Series 1984, with respect to the Water Bonds (the "Water Note") (the Air Note and the Water Note, collectively, the "Series 1984 Notes"; the Series 1984 Notes and any additional Notes delivered in connection with the issuance of additional Bonds, collectively, the "Notes"). The Series 1984 Note in respect of each issue of Series 1984 Bonds will contain principal, interest and prepayment provisions corresponding as to amount and due date with the principal, interest and redemption provisions of the respective issue of the Series 1984 Bonds. Pursuant to the Air Quality Facilities Pledge Agreement and the Waste Water Facilities and Solid Waste Facilities Pledge Agreement between the Company and the Trustee and each dated as of December 1, 1984 (collectively the "Pledge Agreements"), the Company will pledge to the Trustee \$1,500,000 of its First Mortgage Bonds, Guarantee Series A of 1984 Due 2014, with respect to the Air Bonds and \$11,200,000 of its First Mortgage Bonds, Guarantee Series B of 1984 due 2014, with respect to the Water Bonds (collectively the "1984 First Mortgage Bonds") to secure payment of principal of (but not premium) and interest on the Air Note and the Water Note, respectively. The 1984 First Mortgage Bonds will be issued as two new series of the Company's first mortgage bonds (the 1984 First Mortgage Bonds and all other first mortgage bonds issued prior and subsequent thereto, collectively, the "First Mortgage Bonds") pursuant to the Twenty-fourth Supplemental Indenture, with respect to the Air Bonds, and the Twenty-fifth Supplemental Indenture, with respect to the Water Bonds, between the Company and Citibank, N.A., as

trustee, and each dated as of December 1, 1984 (collectively, the "1984 Supplemental Mortgages"), which supplement the Indenture dated as of November 1, 1945, from the Company to The First National Bank of the City of New York (now Citibank, N.A.), as trustee (the "First Mortgage Trustee"), as supplemented, modified and amended (such Indenture, as so supplemented, modified and amended through the 1984 Supplemental Mortgages, being referred to herein as the "Mortgage"). Each issue of the 1984 First Mortgage Bonds will be issued to and registered in the name of the Trustee with respect to each issue of Series 1984 Bonds and will be nontransferable, except as may be required to effect assignment thereof to any successor trustee with respect to such issue under the applicable Indenture.

The Series 1984 Bonds of each issue will be special obligations of the State of Ohio issued severally by the Authorities and will be payable solely from the funds pledged for their benefit pursuant to the Indenture relating thereto. The Series 1984 Bonds will not constitute a debt or a pledge of the faith and credit of the State of Ohio or any political subdivision thereof and the holders or owners of the Series 1984 Bonds will have no right to have taxes levied by the General Assembly of the State of Ohio or the taxing authority of any political subdivision of the State for the payment of the principal or redemption price of, and interest on, the Series 1984 Bonds. The Authorities have no taxing power.

The information contained in the Appendix and under "The Project Facilities" and the other information in this Official Statement relating thereto has been furnished by the Company. Brief descriptions of the Authorities, the Series 1984 Bonds, the Loan Agreements and the Series 1984 Notes, the 1984 First Mortgage Bonds, the Mortgage and the Indentures are also included in this Official Statement. Such information and descriptions do not purport to be comprehensive or definitive and are qualified in their entirety by reference to such documents, and, with respect to the Series 1984 Bonds and the 1984 First Mortgage Bonds, by reference to the definitive forms thereof included in the Indentures and the 1984 Supplemental Mortgages, respectively. Copies of the Loan Agreements, the Indentures, the Pledge Agreements, the Mortgage and the 1984 Supplemental Mortgages are available from the Underwriter during the period of the offering of the Series 1984 Bonds.

THE AUTHORITIES

The Air Authority was organized pursuant to Chapter 3706 of the Ohio Revised Code, as amended (the "Air Act"). Under the Air Act, the Air Authority is a body corporate and politic, with full power and authority to issue the Air Bonds, to perform its obligations under the Air Loan Agreement and to execute the Air Indenture.

The Water Authority was organized pursuant to Chapters 6121 and 6123 of the Ohio Revised Code, as amended (the "Water Act"). Under the Water Act, the Water Authority is a body corporate and politic, with full power and authority to issue the Water Bonds, to perform its obligations under the Water Loan Agreement and to execute the Water Indenture.

THE PROJECT FACILITIES

The Project Facilities are generally described in a schedule to the respective Loan Agreements. The Company may make changes in or additions to the Project Facilities under the conditions stated in the Loan Agreements, including the condition that if any such change or addition materially changes the function of the Project Facilities, the Company shall obtain an opinion of nationally recognized bond counsel that such change will not affect the tax-exempt status of interest on such Series 1984 Bonds.

The Project Facilities that may be financed from the proceeds of the Series 1984 Bonds consist of various systems which are designed for the abatement and control of pollution resulting from the operation of the Project. These systems are comprised of property and equipment used in the collection, processing and treatment of liquid, gaseous and solid wastes and contaminants and the packaging and storing of radioactive solid waste for offsite shipment and permanent disposal.

Use of Series 1984 Bonds Proceeds

The Company expects that the proceeds of the Series 1984 Bonds (excluding accrued interest) will be applied as follows:

	Air Bonds	Water Bonds
Cost of the Project Facilities....	\$1,421,950	\$10,866,425
Underwriting discount.....	22,500	168,000
Other financing expenses.....	55,550	165,575
Total.....	\$1,500,000	\$11,200,000
	=====	=====

THE BONDS

The Air Bonds and the Water Bonds will be issued in the aggregate principal amounts of \$1,500,000 and \$11,200,000, respectively, will bear interest at the rate set forth on the cover page hereof from December 1, 1984, and will mature on December 1, 2014. Interest on the Series 1984 Bonds will be payable semiannually on December 1 and June 1 of each year, commencing June 1, 1985, to persons in whose names the Series 1984 Bonds are registered on the fifteenth day of the month preceding such interest payment date. The principal of the Series 1984 Bonds will be payable at the principal corporate trust office of the Trustee, and interest on the Series 1984 Bonds will be payable by check mailed to the registered holders thereof.

The Series 1984 Bonds are being issued as fully registered bonds without coupons in denominations of \$5,000 or any integral multiple thereof. The Authorities and the Trustee are not obligated to make any transfer or exchange of Series 1984 Bonds of either issue during the 5 business days next preceding any selection of Series 1984 Bonds of such issue to be redeemed or to register, transfer or exchange any Series 1984 Bonds of such issue called for redemption. No service charge will be made for any exchange, transfer, registration or discharge from registration, except a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

Each issue of Series 1984 Bonds will be an entirely separate issue but will contain substantially the same terms and provisions as the other issue. No issue of the Series 1984 Bonds is entitled to the benefits of any payments or other security pledged for the benefit of the other issue. Optional, extraordinary optional or special mandatory

redemption of the Series 1984 Bonds of one issue may be made in the manner described below without the redemption of the Series 1984 Bonds of the other issue. An event of default with respect to one issue of the Series 1984 Bonds will not of itself constitute an event of default with respect to the other issue of the Series 1984 Bonds; however, the same occurrence may constitute an event of default with respect to both issues of the Series 1984 Bonds. In the following summary of certain terms of the Series 1984 Bonds, the references to the Indenture, the Series 1984 Bonds, the Pledge Agreement, the Loan Agreement, the Series 1984 Note, the 1984 First Mortgage Bonds, the Mortgage, the Project Facilities, the Authority and the Trustee relate to each issue of the Series 1984 Bonds.

Security for the Series 1984 Bonds

The Series 1984 Bonds, together with interest thereon, are limited revenue obligations of the Authority, payable solely from, and secured by a pledge and assignment of, revenues (except certain rights to receive payment for expenses from the Company and indemnification rights) derived from the Company pursuant to the Series 1984 Note which in turn is secured as to principal and interest by the 1984 First Mortgage Bonds pledged under the Pledge Agreement. Except for the fact that the Project Facilities are subject, with substantially all of the permanent fixed properties of the Company, to the lien of the Company's Mortgage, no lien on or security interest in the Project Facilities will be created in favor of the Series 1984 Bonds. For a description of the security underlying the 1984 First Mortgage Bonds, see "The First Mortgage Bonds and the Mortgage."

Neither the general credit nor the taxing power of the State of Ohio or of any political subdivision thereof is pledged for the payment of the Series 1984 Bonds, nor shall the Series 1984 Bonds be deemed an obligation of the State of Ohio or any political subdivision thereof.

Redemption Provisions

Optional Redemption. The Series 1984 Bonds are subject to redemption prior to maturity at the option of the Authority, upon the direction of the Company, on or after December 1, 1994 in whole or in part by lot, any such redemption to be made at the optional redemption price shown

below as a percentage of the principal amount, plus accrued interest to the redemption date:

<u>Redemption Period</u>	<u>Optional Redemption Price</u>
December 1, 1994 through November 30, 1995	103%
December 1, 1995 through November 30, 1996	102-1/2%
December 1, 1996 through November 30, 1997	102%
December 1, 1997 through November 30, 1998	101-1/2%
December 1, 1998 through November 30, 1999	101%
December 1, 1999 through November 30, 2000	100-1/2%
December 1, 2000 and thereafter	100%

Extraordinary Optional Redemption. The Series 1984 Bonds are subject to redemption at any time prior to maturity at the option of the Authority, upon the direction of the Company, in whole, at an extraordinary optional redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date, if the Company has determined that:

(a) any Federal, state or local body exercising governmental or judicial authority has taken any action that results in the imposition of unreasonable burdens or excessive liabilities with respect to the Project Facilities, or any facilities serviced thereby, rendering impracticable or uneconomical the operation of all or a substantial portion of the Project Facilities (or the facilities serviced thereby) including without limitation the condemnation or taking by eminent domain of all or a substantial portion of the Project Facilities or any facilities serviced thereby; or

(b) changes in the cost or availability of raw materials, operating supplies, or facilities or technological or other changes have made the continued operation of all or a substantial portion of the Project Facilities, or the operation of the facilities serviced thereby, uneconomical; or

(c) all or a substantial portion of the Project Facilities has been damaged or destroyed to such an extent that it is not practicable or desirable to rebuild, repair or restore such Project Facilities; or

(d) as a result of any change in the Constitution of the State of Ohio, the Constitution of the Commonwealth of Pennsylvania or the Constitution of the United States of

America or as a result of any legislative or administrative action (whether state or Federal) or by final decree, judgment or order of any court or administrative body (whether state or Federal) after any contest thereof by the Company in good faith, the Indenture, the Loan Agreement or the Series 1984 Bonds shall become void or unenforceable or impossible of performance in accordance with the intent and purposes of the parties as expressed in the Loan Agreement.

Any such redemption shall be made not more than one year from the date of the occurrence of the event that results in such determination by the Company.

Special Mandatory Redemption. The Series 1984 Bonds are subject to mandatory redemption in whole (or in part, if such partial redemption will preserve the exemption from Federal income taxation of interest on the Series 1984 Bonds remaining outstanding after such redemption), at any time at a special mandatory redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date, if a "final determination" is made that the interest paid or payable on any Series 1984 Bond to other than a substantial user of the Project Facilities or a "related person" as that term is used in Section 103(b) of the Internal Revenue Code of 1954, as amended (the "Code"), is or was includable in the gross income of the holder thereof for Federal income tax purposes under the Code, as a result of the failure of the Company to observe or perform any covenant, condition or agreement on its part to be observed or performed under the Loan Agreement or the inaccuracy of any representation or agreement by the Company under the Loan Agreement. A "final determination" shall be deemed to have occurred upon the issuance of a published or private ruling or technical advice by the Internal Revenue Service or a judicial decision in a proceeding by any court of competent jurisdiction in the United States (from which ruling, advice, or decision no further right of appeal exists), in all cases in which the Company, at its expense, has participated or been a party or has been given the opportunity to contest the same or to participate or be a party. Any special mandatory redemption shall be made not more than 180 days from time of such final decree, judgment or action. Any special mandatory redemption of less than all the Series 1984 Bonds shall be in the manner as the Trustee, with the advice of nationally recognized bond counsel, may deem proper.

The Indenture provides that Series 1984 Bondholders may give notice to the Trustee of any notification in writing by the Internal Revenue Service that it proposes to in-

clude the interest on any Series 1984 Bond in the gross income of such Bondholder or any other proceeding which may lead to a "final determination" of taxability, together with an offer to the Company of the opportunity to contest the same, either directly or in the name of such Bondholder. The Loan Agreement provides that in the event the Company receives notice from the Trustee pursuant to the terms of the Indenture that a proceeding which could lead to a "final determination" of taxability has been instituted against a Bondholder, the Company shall promptly notify the Trustee and the Authority whether it intends to contest such proceeding. In the event that the Company chooses so to contest, it will use its best efforts to obtain a prompt final determination of such proceeding and will keep the Trustee and the Authority informed of the progress thereof.

Notice and Manner of Redemption

The Indenture provides that when required to redeem Series 1984 Bonds, the Trustee will cause notice of the redemption to be given by first-class mail, postage prepaid, not less than 30 days prior to the redemption date, to all registered owners of Series 1984 Bonds to be redeemed. No further interest will accrue on the principal of any Series 1984 Bonds called for redemption after the redemption date if payment of the redemption price thereof has been duly provided for, and the holders of such Series 1984 Bonds will have no rights with respect thereto, except to receive payment of the redemption price thereof and unpaid interest accrued to the date fixed for redemption.

THE LOAN AGREEMENTS AND THE NOTES

The Loan Agreement and the Series 1984 Note relating to each issue of Series 1984 Bonds is an entirely separate agreement and obligation, respectively, but each Loan Agreement and Series 1984 Note contains substantially the same terms and provisions as the other Loan Agreement and Series 1984 Note. In the following summary of certain provisions of the Loan Agreements and the Series 1984 Notes, references to the the Series 1984 Bonds, the Bonds, the Loan Agreement, the Series 1984 Note, the Notes, the Indenture, the Pledge Agreement, the 1984 First Mortgage Bonds, the First Mortgage Bonds, the Project Facilities, the Project, the Authority and the Trustee relate to each issue of Series 1984 Bonds.

The statements made herein concerning the Loan Agreement and the Series 1984 Note are brief summaries and do not purport to be complete. Such statements make use of certain terms defined in the Loan Agreement and the Series 1984 Note and are qualified in their entirety by express reference to the detailed provisions of the Loan Agreement and the Series 1984 Note, respectively.

The Loan Agreement provides for the financing by the Authority of the Project Facilities being acquired and constructed by the Company. Under the Loan Agreement, the Authority, at the request of the Company, may obtain funds necessary to finance the Project Facilities through the issuance and sale of the Bonds in one or more series and, concurrently therewith, lend the principal amount of each such series of Bonds to the Company. To evidence its obligation to repay each such loan, concurrently with the issuance of each series of Bonds, the Company will deliver its Note corresponding to such series of Bonds to the Trustee.

Construction of Project Facilities

Under the Loan Agreement, the Company agrees to cause the acquisition, construction and installation of the Project Facilities. As between the Authority and the Company, the Company shall be sole owner of the Project Facilities and the Authority shall have no title thereto. As between the Authority and the Company, the Company will have responsibility for administering the construction contracts and may make changes in the Project Facilities. The Company has delegated to the project manager for the Project Facilities responsibilities relating to the physical acquisition, construction, installation and operation of the Project Facilities.

Payment Obligations Under the Loan Agreement and the Notes

The Company will agree in the Loan Agreement and the Notes to make payments to the Trustee for the benefit of the Bondholders corresponding to the principal and interest payments on the Bonds. The Notes also will contain provisions for optional and mandatory prepayment of the Notes corresponding to the redemption provisions of the related Bonds. The Loan Agreement will provide that the Company's obligation to pay is absolute and unconditional.

Security for the Notes

In order to secure its obligations as to principal and interest under each Note, the Company will pledge and deliver to the Trustee a separate series of the Company's First Mortgage Bonds in principal amount corresponding to such Note. Concurrently with the delivery of the Series 1984 Note and as security therefor, the Company will also deliver to the Trustee the 1984 First Mortgage Bonds corresponding thereto.

Events of Default and Remedies

The following are events of default under the Series 1984 Note:

- (a) Failure by the Company to make any payment of any installment of principal or prepayment price of any Note when due; or
- (b) Failure by the Company to make any payment of interest on any Note within 60 days after the same becomes due; or
- (c) Acceleration of maturity of the First Mortgage Bonds upon a default under the Mortgage; or
- (d) Certain events of bankruptcy, dissolution, liquidation or reorganization of the Company; or
- (e) Acceleration of maturity of the Bonds upon an event of default under the Indenture.

Upon the occurrence and continuance of an event of default under the Series 1984 Note, the Trustee by notice in writing to the Company may, and in the case of an event of default described in paragraph (c) above shall:

- (a) Declare the unpaid balance of the applicable Series 1984 Note to be due and payable immediately if concurrently therewith or prior thereto the unpaid principal amount of the related Series 1984 Bonds has been declared due and payable.
- (b) In the event the Company does not deposit with the Trustee an amount sufficient to satisfy its obligations under (a), take whatever action at

law or in equity it may deem necessary or appropriate.

Upon any declaration of acceleration under the Series 1984 Note, the Trustee shall exercise its rights under the First Mortgage Bonds, including the right to demand redemption of the First Mortgage Bonds held by it.

If an acceleration of maturity of the Series 1984 Bonds is annulled (as described below under "The Indentures-Events of Default and Remedies") then any acceleration under the Series 1984 Note or the Loan Agreement resulting from such acceleration of the Series 1984 Bonds shall be automatically annulled.

Covenants of the Company

Restriction on Use of Bond Proceeds. The Company agrees that it will not use or direct the use of moneys from the Construction Fund or take any other action that would cause the interest on the Bonds to become subject to Federal income taxation, and shall use substantially all of the proceeds of the Bonds for land or depreciable property within the meaning of Section 167 of the Code constituting qualified facilities for the purposes of Section 103(b)(4) of the Code so that interest on the Bonds will not be included in gross income under the Code.

Maintenance of Corporate Existence. The Company agrees that, so long as the Bonds are outstanding, it will maintain its corporate existence and remain qualified to do business in Ohio, except that it may dissolve or dispose of all or substantially all of its assets and may consolidate with or merge into another corporation or permit one or more corporations to consolidate with or merge into it, if the surviving, resulting or transferee corporation, if other than the Company, is solvent and is organized under the laws of a state of the United States, assumes in writing all of the obligations of the Company under the Loan Agreement, the Notes and the First Mortgage Bonds and is duly qualified to do business in Ohio.

Expenses and Indemnity. The Company agrees to pay the administrative fees and expenses of the Authority incurred in connection with the issuance of the Bonds and the performance by the Authority of its duties under the Loan Agreement or the Indenture. The Company agrees to pay the Trustee's and any co-paying agent's compensation and expenses under the Indenture. The Company also agrees to in-

demnify the Authority and the Trustee against all claims arising out of or in connection with the acquisition, construction or financing of the Project Facilities.

Amendment of the Loan Agreement and the Notes

The Loan Agreement and the Notes may not be amended except by an instrument in writing. The Indenture requires that the Trustee consent to any amendment to the Loan Agreement or Notes relating to any Bonds and provides that any amendment adversely affecting the interests of the holders of any series of the Bonds must be consented to by the holders of 66 2/3% in principal amount of all Bonds of such series then outstanding and that certain amendments must be consented to by the holders of all Bonds of such series then outstanding.

THE FIRST MORTGAGE BONDS AND THE MORTGAGE

The 1984 First Mortgage Bonds pledged with respect to the Series 1984 Bonds of each issue are entirely separate series of First Mortgage Bonds of the Company but, except as to amounts, each series contains substantially the same terms and provisions as the other series. In the following summary of certain provisions of the First Mortgage Bonds, except where otherwise appropriate, references to the Series 1984 Bonds, the Bonds, the Indenture, the Mortgage, the 1984 First Mortgage Bonds, the Series 1984 Note, the Notes, the First Mortgage Trustee and the Trustee relate to each issue of Series 1984 Bonds.

The statements made herein concerning the First Mortgage Bonds and the Mortgage are brief summaries and do not purport to be complete. Such statements make use of defined terms and are qualified in their entirety by express reference to the definitions in and the cited sections and articles of the Mortgage.

1984 First Mortgage Bonds

The 1984 First Mortgage Bonds will be in principal amount equal to the principal amount of the Series 1984 Bonds. Interest on the 1984 First Mortgage Bonds shall be payable at the same rate per annum as the rate per annum payable on the related Series 1984 Note but shall be payable only at the time that the principal thereof shall become due

and payable by reason of redemption thereof following a declaration of acceleration of maturity of the Series 1984 Bonds and then only from the date that interest on the Series 1984 Bonds has accrued and not been paid or provided for. Upon the occurrence of an event of default under the Series 1984 Note (which constitutes a default under the Series 1984 Bonds) and the declaration of acceleration of the Series 1984 Note, the Trustee shall demand redemption of the 1984 First Mortgage Bonds. The 1984 First Mortgage Bonds will be registered in the name of the Trustee.

Priority and Security

The 1984 First Mortgage Bonds will rank pari passu as to security with First Mortgage Bonds of other series now outstanding or hereafter issued under the Mortgage, which, in the opinion of the Company's counsel, is a direct first lien on substantially all the Company's physical property and franchises, subject only to excepted encumbrances as defined in the Mortgage (Sec. 1.02). The Mortgage permits, with certain limitations, the acquisition of property subject to prior liens and, under certain conditions, permits the issuance of additional indebtedness under such prior liens to the extent of 60% of net property additions made by the Company to the property subject to such prior liens (Secs. 7.05 and 7.14).

Sinking and Improvement Fund Requirement

The Mortgage contains provisions providing for sinking and improvement funds (which commenced at various times) for certain of the series of First Mortgage Bonds (so long as outstanding) other than the 1984 First Mortgage Bonds. In general, those provisions provide for the delivery to the trustee under the Mortgage (the "First Mortgage Trustee") of cash or a principal amount of such series of First Mortgage Bonds less certain First Mortgage Bonds of such series retired. The Company may also satisfy this requirement with unfunded net property additions as the equivalent of cash at 60% of the amount thereof.

Maintenance and Replacement Requirements

The Mortgage (Sec. 7.07) requires the Company, so long as any of the First Mortgage Bonds of the first four series are outstanding, to have applied at the end of each calendar year for maintenance, renewals and replacements of

the mortgaged and pledged property, the greater of (i) 15% of its gross operating revenues from the mortgaged and pledged property subsequent to December 31, 1945, after deducting the cost of purchased power, or (ii) the sum of the amounts equal to 4% of the principal amount of First Mortgage Bonds outstanding at the end of each calendar year subsequent to said date, or, to the extent of any deficiency, to certify to the First Mortgage Trustee unfunded net property additions or deposit with the First Mortgage Trustee cash or First Mortgage Bonds (taken at their principal amount). Certain supplemental indentures also require the Company, so long as certain series of First Mortgage Bonds (other than the 1984 First Mortgage Bonds) are outstanding, to certify to the First Mortgage Trustee unfunded net property additions or to deposit with the First Mortgage Trustee cash or First Mortgage Bonds in an amount equal to the amount by which annual expenditures subsequent to December 31, 1961 for renewals and replacements, plus unfunded net property additions certified and cash or First Mortgage Bonds deposited pursuant to Section 7.07 of the Mortgage, is less than 2.16% (so long, in effect, as any of the First Mortgage Bonds of the first four series are outstanding and thereafter 2.25%) of the average annual amounts of depreciable mortgaged property during the same period or such revised percentage thereof as may be, on application by the Company, authorized or approved by the Securities and Exchange Commission, or any successor commission, under the Public Utility Holding Company Act of 1935. In all cases, credit balances established in any year may either be carried forward to meet requirements during a later period or be used to effect a withdrawal of deposited cash or First Mortgage Bonds or to restore as unfunded property any property additions previously certified. Deposited cash may also be withdrawn in an amount equal to unfunded net property additions certified or the principal amount of First Mortgage Bonds deposited for the purpose, or may be used for the purchase or redemption of First Mortgage Bonds of such series as the Company may designate.

Issuance of Additional First Mortgage Bonds

Additional First Mortgage Bonds may be issued under the Mortgage to the extent of 60% of unfunded net property additions or against the deposit of an equal amount of cash, if, for a period of twelve consecutive months within the fifteen preceding calendar months, the net earnings of the Company (before taxes on income) shall have been at least twice the interest requirements for one year on all First Mortgage Bonds outstanding and to be issued and on indebted-

ness of prior or equal rank. Cash so deposited may be withdrawn to the extent of 60% of unfunded net property additions or to retire, or against the deposit of, First Mortgage Bonds. Additional First Mortgage Bonds may also be issued to refund First Mortgage Bonds heretofore outstanding under the Mortgage (Articles I, IV, V and VI).

The 1984 First Mortgage Bonds will be issued on the basis of unfunded net property additions which at October 31, 1984 amounted to approximately \$200,674,000.

Release and Substitution of Property

The Mortgage provides in effect that, subject to various limitations, property may be released from the lien thereof upon the deposit of cash with the First Mortgage Trustee in an amount equivalent to the excess in value of such property over First Mortgage Bonds or purchase money obligations delivered to the First Mortgage Trustee, prior lien bonds reduced, assumed or delivered to the First Mortgage Trustee, property additions acquired in exchange for the property released, or unfunded net property additions certified to the First Mortgage Trustee. The Mortgage also in effect permits the withdrawal of cash upon a showing that unfunded net property additions exist or against the deposit with the First Mortgage Trustee for cancellation of First Mortgage Bonds or for retirement of First Mortgage Bonds (Article X).

Limitation on Dividends

Certain supplemental indentures provide that so long as any of the First Mortgage Bonds of certain series of First Mortgage Bonds (other than the 1984 First Mortgage Bonds) are outstanding, cash dividends may not be paid or distributions made on common stock (except where an equal amount is concurrently reinvested in common stock equity) or common stock be purchased in aggregate amounts which would exceed retained earnings accumulated on and after the dates specified therein, plus amounts stated therein and such additional amounts as may be authorized or approved by the Securities and Exchange Commission, or any successor commission, under the Public Utility Holding Company Act of 1935. There are various other limitations on common stock dividends elsewhere in the Mortgage (which are to remain in effect so long as certain series of First Mortgage Bonds are outstanding). There is also a limitation in the Company's Charter which requires that there shall remain in the

retained earnings account an amount equal to two and one-half times the annual dividend requirements on the preferred stock of the Company.

Modification of Mortgage

The Mortgage, the rights and obligations of the Company and the rights of the holders of 1984 First Mortgage Bonds may be modified for the benefit of the Company only with the consent of the holders of 75% of the principal amount of such First Mortgage Bonds and of not less than 60% of the principal amount of each series of First Mortgage Bonds affected. However, no modification of the terms of payment of principal, interest, or redemption premiums, affecting adversely the priority of the lien of the Mortgage, or reducing the percentage required for modification of the Mortgage, shall be effective against any holder of 1984 First Mortgage Bonds without such holder's consent (Article XVII).

Regarding the Trustee

Citibank, N.A., is the First Mortgage Trustee. Citibank, N.A., is a depository of the Company and from time to time participates in bank loans made to the Company. Citibank, N.A., also from time to time, as instructed by the Company, purchases, holds and sells temporary cash investments of the Company.

The holders of a majority in principal amount of outstanding First Mortgage Bonds may direct the First Mortgage Trustee to take any action properly to be performed by the First Mortgage Trustee under the Mortgage (Sec. 11.12). The First Mortgage Trustee may require reasonable security or indemnity against the costs, expenses and liabilities which may be incurred before taking any such action, including action to enforce the lien of the Mortgage (Sec. 16.06).

Regarding Default and Compliance

Under the Mortgage, the following events are defined as "defaults": failure to pay principal; failure for 60 days to pay interest; failure for 90 days to pay any sinking or other purchase fund installment; certain events of bankruptcy, insolvency or reorganization; and failure for 90 days, after notice, to perform other covenants (Sec.

11.01). A failure by the Company to deposit or direct the application of money for the redemption of First Mortgage Bonds called for redemption also constitutes a default (Sec. 9.03).

Periodically or upon the happening of certain events, the Mortgage requires the Company to furnish the First Mortgage Trustee with various certificates and other documents evidencing compliance with certain terms of the Mortgage, including the earnings, sinking and improvement fund, and maintenance and replacement requirements. This may necessitate, depending on the circumstances, an opinion of counsel or a certificate of officers, an accountant or an engineer (in the case of accountants and engineers, an independent public accountant or an independent engineer is sometimes required) or some combination thereof. No general periodic evidence is required to be furnished as to the absence of default or as to compliance with the terms of the Mortgage in general.

Redemption

The 1984 First Mortgage Bonds will be redeemable in whole, at the principal amount thereof, together with interest from the date that interest on the Series 1984 Bonds has accrued and not been paid or provided for, on 30 days' notice given not more than 5 days after receipt by the First Mortgage Trustee of demand for such redemption from the Trustee. Such demand may only be made after the maturity of the Series 1984 Bonds has been accelerated as a result of a default under the Indenture. Such demand will be rescinded and no redemption required if the acceleration of the Series 1984 Bonds is annulled. The 1984 First Mortgage Bonds are not otherwise redeemable.

THE INDENTURES

The Indenture for each issue of Series 1984 Bonds is an entirely separate indenture, but each Indenture contains substantially the same terms and provisions as the other Indenture. In the following summary of certain provisions of the Indentures, references to the Series 1984 Bonds, the Bonds, the Series 1984 Note, the Notes, the Loan Agreement, the Indenture, the Project Facilities, the Authority and the Trustee relate to each issue of Series 1984 Bonds. Additional information summarizing certain provisions of the Indentures is contained under "The Bonds."

The statements made herein concerning the Indenture are brief summaries and do not purport to be complete. Such statements make use of certain terms defined in the Indenture and are qualified in their entirety by express reference to the detailed provisions of the Indenture.

Assignment of Authority's Interests

The Indenture constitutes an assignment to the Trustee by the Authority of its rights under the Loan Agreement with respect to the Bonds (except for certain rights to payments of administrative expenses and to indemnification), including its rights to receive the Notes and the payments by the Company thereunder and security therefor, including the First Mortgage Bonds. The Series 1984 Bonds and any additional Bonds issued under the Indenture are of equal rank in respect of payments on any Notes held by the Trustee, except that moneys set aside from time to time for payment of Bonds previously called for redemption will be held for the benefit of the holders of such Bonds only.

Additional Bonds

Bonds of series other than the Series 1984 Bonds may be issued to provide additional funds to finance the Project Facilities or to refund or pay all or part of any series of Bonds to the extent permitted by the terms thereof. Additional Bonds may not be issued under the Indenture unless the Trustee receives, among other things, Notes meeting the debt service requirements on such Bonds and additional First Mortgage Bonds securing the payments on such Notes.

Bond Fund

The Trustee shall establish the Bond Fund under the Indenture and shall make moneys therein available to pay principal of, and premium, if any, and interest on, the Bonds. Concurrently with the issuance and delivery of the Series 1984 Bonds, there shall be paid to the Trustee for deposit in the Bond Fund, from the proceeds of the sale of the Series 1984 Bonds, the interest accrued on the Series 1984 Bonds to the date of delivery.

Construction Fund

The net proceeds of the Series 1984 Bonds remaining after the deposit of accrued interest in the Bond Fund, and with respect to the Water Bonds, the deposit of \$10,000 in the Operation and Maintenance Fund created by the Water Indenture (the "Operation and Maintenance Fund"), will be deposited in an account in the Construction Fund established with the Trustee pursuant to the Indenture (the "Construction Fund"). Payments will be made from the Construction Fund to pay costs incurred in connection with the acquisition, construction and installation of the Project Facilities and the issuance of the Bonds upon requisition by the Company. Until applied to such costs, the Company may direct the Trustee to cause moneys in the Construction Fund to be invested in Eligible Investments, as provided in the Indenture. The interest and income received or losses sustained upon such investments will be added or charged to the Construction Fund.

Investment and Deposit of Moneys

Moneys held by the Trustee under the Indenture will, until otherwise used or invested, be deposited in the trust department of the Trustee, and to the extent not insured, will be secured by a pledge of securities as required by law for such trust deposits. Deposits of such moneys may be made in other banks if, to the extent not insured, they are secured by a pledge of direct obligations of the United States having an aggregate market value, exclusive of accrued interest, at least equal to the deposit.

Moneys in the Bond Fund, at the direction of the Company, may be invested in direct obligations of the United States. Any interest or income received from investments of moneys in the Bond Fund shall be added to the Bond Fund. Moneys in the Construction Fund and, as to the Water Bonds, the Operation and Maintenance Fund, may be invested in Eligible Investments, as provided in the Indenture.

The Authority has covenanted that it will make no investment or other use of the proceeds of the Bonds that would cause the Bonds to be arbitrage bonds.

Events of Default and Remedies

The following are events of default under the Indenture:

- (a) if payment of the principal or redemption price of any Bond is not made when it becomes due and payable; or
- (b) if payment of any installment of interest on any Bond is not made within 60 days of when it becomes due and payable; or
- (c) if an "Event of Default" as defined in the Notes occurs; or
- (d) if the Company fails to observe and perform any covenant, condition or agreement on its part to be observed or performed under the Loan Agreement or the Pledge Agreement (other than payment obligations on the Notes, any First Mortgage Bonds held by the Trustee or other Company Debt Instruments, as defined in the Loan Agreement) for a period of 60 days after written notice, specifying such failure and requesting that it be remedied, given to the Company by the Trustee; provided that if such failure is of such nature that it can be corrected (as agreed to by the Trustee) but not within such period, the same shall not constitute an event of default under the Indenture so long as the Company institutes prompt corrective action and is diligently pursuing the same; and provided further that if the Company is unable to institute corrective action or pursue the same because of circumstances beyond its control, the same shall not constitute an event of default under the Indenture until such circumstances no longer exist and then only after the Company has had an opportunity to remedy the same.

If an event of default under the Indenture occurs, the Trustee may, and upon request of the holders of 25% in principal amount of all Bonds then outstanding shall, declare the principal of all such Bonds to be immediately due and payable. Upon any such declaration of maturity of the Bonds, the Trustee shall immediately exercise such rights as it may have under the Notes and the Loan Agreement to declare all payments thereunder to be immediately due and payable and shall immediately exercise its right to demand redemption of the First Mortgage Bonds held by it.

The holders of a majority in principal amount of such Bonds then outstanding may annul any acceleration if

all arrears of interest upon such Bonds, together with all expenses arising out of the default, are paid by the Authority and the Authority also cures all other existing defaults under the Indenture.

If any event of default has occurred and is continuing, the Trustee in its discretion may, and upon the written request of the holders of 25% in principal amount of the Bonds then outstanding and receipt of indemnity satisfactory to it shall, in its own name (a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Bondholders; (b) bring suit upon such Bonds and the Notes; (c) by action or suit in equity require the Authority to account as if it were the trustee of an express trust for the Bondholders; and (d) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders.

The holders of a majority in principal amount of the Bonds outstanding shall have the right to direct the method and place of conducting all remedial proceedings by the Trustee under the Indenture. No Bondholder shall have any right to pursue any remedy under the Indenture unless the Trustee shall have notice of an event of default under the Indenture, the holders of at least 25% in principal amount of all Bonds then outstanding in respect of which there has been an event of default under the Indenture shall have requested the Trustee to pursue a remedy, the Trustee shall have been offered satisfactory indemnity against costs, expenses and liabilities, and the Trustee shall have failed to comply with such request within a reasonable time.

Any moneys received by the Trustee following an event of default under the Indenture shall be applied in the following order:

A. To the payment of the costs of the Trustee, including counsel fees, and its reasonable compensation;

B. To the payment of principal or redemption price and interest then owing on the Bonds ratably without preference or priority of one Bond over any other Bond or series thereof; and

C. To the payment of any unpaid expenses of the Authority incurred in connection with the financing of the Project Facilities.

Amendments and Supplements to Indenture and Loan Agreement

The Indenture may be amended or supplemented in connection with the issuance of any series of additional Bonds, or at any other time, without the consent of Bondholders, (i) for purposes of setting forth any or all of the matters in connection with the issuance of additional Bonds, adding additional covenants of the Authority or surrendering any right or power conferred upon the Authority and curing any ambiguity or (ii) to cure, correct or supplement any defective provision of the Indenture, in such manner as shall not impair the security of the Indenture or adversely affect the Bondholders.

The Indenture may be amended from time to time, except with respect to the principal or interest payable on any Bonds, the dates of maturity or redemption provisions of any Bonds and the provisions regarding amendments, by a supplemental indenture approved by the holders of at least 66-2/3% in aggregate principal amount of all Bonds then outstanding; provided that no amendment may be made which adversely affects some, but less than all, the outstanding Bonds without the consent of the holders of at least 66-2/3% in aggregate principal amount of the Bonds so affected.

If the Authority and the Company propose to amend the Loan Agreement, or the Company proposes to amend the Notes or the Pledge Agreement, in such a way as would adversely affect the Bondholders, the Trustee shall notify Bondholders of the proposed amendment and may consent thereto with the consent of at least 66-2/3% in aggregate principal amount of the Bonds then outstanding; provided that, except with the unanimous consent of the holders of the Bonds then outstanding, no amendment shall be consented to by the Trustee which would (1) decrease any amount payable under the Notes or the First Mortgage Bonds held by the Trustee, (2) change the date of payment or prepayment provisions under the Notes, (3) change the date of payment of principal of or interest on, or any of the redemption provisions of, the First Mortgage Bonds held by the Trustee, or (4) change the amendment provisions of the Loan Agreement or the Pledge Agreement; and further provided that no amendment shall be consented to which affects the rights of some but less than all the outstanding Bonds without the consent of the holders of at least 66-2/3% in aggregate principal amount of the Bonds so affected.

Voting of First Mortgage Bonds

The Trustee may attend any meeting of holders of First Mortgage Bonds outstanding under the Mortgage, and either at such meeting or otherwise where consent of holders of such First Mortgage Bonds is sought without a meeting, may vote the First Mortgage Bonds held by it, or may consent with respect thereto, as it deems to be in the best interests of the Bondholders, except that as to any such action as would, in its opinion, have a materially adverse effect on the interests of the Bondholders, the Trustee must notify Bondholders of such proposed action and may vote the First Mortgage Bonds held by it in favor of, or consent to, such proposal only with the consent of at least 66 2/3% in aggregate principal amount of the outstanding Bonds affected by the proposed action; provided that no action will be consented to which has a materially adverse effect on one or more but less than all of the holders of the Bonds without the consent of the holders of at least 66 2/3% in aggregate principal amount of all such Bonds outstanding so affected, and no action will be consented to which so affects the rights of some but less than all the outstanding Bonds without the consent of the holders of at least 66 2/3% in aggregate principal amount of the Bonds so affected; and further provided that the Trustee will not, except upon the unanimous consent of the holders of the Bonds then outstanding, vote in favor of or consent to any proposed action which would decrease any amount payable on any First Mortgage Bonds held by the Trustee or change any date of payment of any installment of principal under such First Mortgage Bonds or change any of the redemption provisions of any such First Mortgage Bonds.

Defeasance

When principal or redemption price of, and interest on, the Bonds have been paid or provision has been made for such payment, the right, title and interest of the Trustee in the Loan Agreement, the Notes and the First Mortgage Bonds held by the Trustee under the Indenture and the moneys payable thereunder shall cease and the Trustee shall release the Indenture. If such payment or provision therefor has been made with respect to all the Bonds of any one series the interest of the Trustee in the Loan Agreement in respect of such series of Bonds and the related Notes and First Mortgage Bonds shall cease, and the Trustee shall take similar action for the release of the Indenture and shall cancel the Notes and surrender the First Mortgage Bonds corresponding to such series. If payment or provision therefor

has been made with respect to any Series 1984 Bond or Series 1984 Bonds, such Series 1984 Bonds or Series 1984 Bond shall not be considered outstanding under the Indenture and the Company shall be entitled to a corresponding credit on the Series 1984 Note and the 1984 First Mortgage Bonds. If provision for payment has been made with respect to less than all of the particular the Series 1984 Bonds, Series 1984 Bonds for which such provision for payment shall have been considered made shall be selected by lot by the Trustee. Any Series 1984 Bond as to which provision for payment has been made shall be entitled to payment only from the funds or other obligations set aside under the Indenture for payment thereof. No other Bonds issued under the Indenture will be entitled to payment from such funds or obligations.

Provision for such payment shall have been made upon the deposit with the Trustee of (i) cash, (ii) non-callable direct obligations of the United States of America, maturing on or before the dates when payments in respect of the Bonds become due, the principal amount of and interest on which, when due, will be, in the aggregate, sufficient to make payments on the Bonds, or (iii) any combination of cash and such non-callable direct obligations of the United States of America.

TAX EXEMPTION

In the opinion of Squire, Sanders & Dempsey, Bond Counsel, under the law existing as of the date of the original delivery of the Series 1984 Bonds, interest thereon, except on any Series 1984 Bond of each issue for any period during which it is held by a "substantial user" of the related Project or a "related person," as those terms are used in Section 103(b) of the Code, is exempt from federal income taxation and Ohio corporate franchise tax. The Series 1984 Bonds of each issue are exempt from Ohio intangible property taxes and the interest thereon and any profit made on the sale thereof are exempt from Ohio personal income tax and municipal income taxes in Ohio. In rendering the foregoing opinion with respect to each issue of the Series 1984 Bonds, Bond Counsel will receive and rely upon certifications and representations of fact made by the Company which Bond Counsel has reviewed and discussed with the Company but has not independently verified.

UNDERWRITING

Morgan Stanley & Co. Incorporated, as underwriter of the Series 1984 Bonds (the "Underwriter"), has agreed, subject to certain conditions, to purchase the Series 1984 Bonds of each issue. The Underwriter has agreed to purchase all of the Series 1984 Bonds of each issue if any of the Series 1984 Bonds of such issue are purchased. After the Series 1984 Bonds are released for sale to the public, the offering price and other selling terms may be varied from time to time by the Underwriter, and the Series 1984 Bonds may be offered and sold to certain dealers (including dealers depositing such Series 1984 Bonds into investment accounts) and others at prices lower than the public offering price set forth on the cover page hereof. The Company has agreed to indemnify the Underwriter and the Authorities against certain civil liabilities.

LEGAL MATTERS

Legal matters incident to the authorization and issuance of the Series 1984 Bonds of each issue by the respective Authorities are subject to the approving opinion of Squire, Sanders & Dempsey, Bond Counsel. Copies of the text of such opinion will be printed on the Series 1984 Bonds of each issue. Certain legal matters in connection with the issuance of the Air Bonds will be passed upon for the Air Authority by William R. Chadeayne, Esq., Columbus, Ohio, counsel to the Air Authority, and in connection with the issuance of the Water Bonds for the Water Authority by James Hanson, Esq., Columbus, Ohio, counsel to the Water Authority.

The Underwriter will receive opinions with respect to certain matters pertaining to the Company from James R. Edgerly, Esq., Vice President and General Counsel of the Company, from Russell J. Spetrino, Esq., Vice President and General Counsel of the Company's parent, Ohio Edison Company, and from Winthrop, Stimson, Putnam & Roberts, New York, New York, counsel to the Company. As to all matters based on the law of the Commonwealth of Pennsylvania and of the State of Ohio, Winthrop, Stimson, Putnam & Roberts will rely on the opinions of Mr. Edgerly and Mr. Spetrino, respectively. Certain legal matters will be passed upon for the Underwriter by Simpson Thacher & Bartlett (a partnership which includes professional corporations), New York, New York, counsel to the Underwriter.

MISCELLANEOUS

The foregoing summaries do not purport to be complete and are expressly made subject to the provisions of the definitive documents. For specific details, reference is made to the Pledge Agreements, the Loan Agreements, the Mortgage, the 1984 Supplemental Mortgages and the Indentures, copies of which may be obtained from the Underwriter during the period of the offering of the Series 1984 Bonds, and to the forms of the Series 1984 Bonds and the 1984 First Mortgage Bonds included in the Indentures and the 1984 Supplemental Mortgages, respectively. The Appendix to this Official Statement contains or incorporates by reference information concerning the Company, including certain financial information.

Although each Authority has consented to the use of this Official Statement in connection with the issuance and initial sale of the Series 1984 Bonds, neither Authority has participated in the preparation of this Official Statement and neither Authority makes any representation with respect to the accuracy or completeness thereof, except for the information with respect to such Authority contained under the heading "The Authorities."

The use of this Official Statement has been duly authorized by each Authority.

OHIO AIR QUALITY DEVELOPMENT
AUTHORITY

By /s/ Patricia Alessi
Chairman

OHIO WATER DEVELOPMENT
AUTHORITY

By /s/ Edwin Mulligan
Vice Chairman

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX

PENNSYLVANIA POWER COMPANY

AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934 (the "Exchange Act") and in accordance therewith files reports and other information with the Securities and Exchange Commission (the "Commission"). Information, as of particular dates, concerning the Company's directors and officers, their remuneration, the principal holders of the Company's securities and any material interest of such persons in transactions with the Company is disclosed in such reports.

Such reports and other information can be inspected and copied at the offices of the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C.; Room 1204, 219 South Dearborn Street, Chicago, Illinois; Room 1028, 26 Federal Plaza, New York, New York; and Suite 500 East, 5757 Wilshire Boulevard, Los Angeles, California. Copies of such material can also be obtained from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. Certain securities of the Company are listed on the Philadelphia Stock Exchange, and reports and other information concerning the Company can be inspected at the offices of such exchange.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The Company incorporates herein by reference the following documents filed with the Commission pursuant to the Exchange Act:

(1) Annual Report on Form 10-K for the year ended December 31, 1983 (which incorporates certain portions of the Company's 1983 Annual Report to Stockholders).

(2) Quarterly Reports on Form 10-Q for the quarters ended March 31, 1984, June 30, 1984 and September 30, 1984.

(3) Current Reports on Form 8-K dated April 13, 1984 and October 8, 1984.

All reports filed by the Company with the Commission pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of this Official Statement and

prior to the termination of the offering made by this Official Statement shall be incorporated herein by reference and shall be deemed to be a part hereof from the date of filing of such documents.

The Company hereby undertakes to provide without charge to each person to whom a copy of this Official Statement has been delivered, on the written or oral request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated by reference in this Official Statement, other than exhibits to such documents. Requests for such copies should be directed to Pennsylvania Power Company, Office of the Secretary, P.O. Box 891, New Castle, Pennsylvania 16103, telephone number (412) 652-5531.

THE COMPANY

The Company was organized under the laws of the Commonwealth of Pennsylvania in 1930 and owns property and does business as an electric public utility in that state. The Company also has ownership interests in certain generation and transmission facilities located in Ohio. The Company is a wholly-owned subsidiary of Ohio Edison Company ("Ohio Edison"), an Ohio corporation which does business as an electric public utility in Ohio. The Company serves 139 communities and additional rural areas in western Pennsylvania, with a population of approximately 350,000. The Company also provides electric energy at wholesale to 5 municipalities. The Company's sources of generation during the twelve months ended September 30, 1984 were 74.3% coal and 25.7% nuclear. The Company's principal executive offices are located at 1 East Washington Street, New Castle, Pennsylvania 16103; telephone number (412) 652-5531.

CERTAIN FINANCIAL INFORMATION

(Thousands, except ratios and percentages)

	Year Ended December 31(1)					Twelve Months Ended September 30, 1984 (Unaudited)
	1979	1980	1981	1982	1983	
<u>Income Summary:</u>						
Operating						
Revenues.....	\$145,340	\$157,208	\$174,488	\$185,883	\$191,172	\$208,091
Operating Income.	\$ 29,421	\$ 32,427	\$ 37,412	\$ 40,590	\$ 43,977	\$ 45,595
Net Income.....	\$ 21,206	\$ 20,822	\$ 24,936	\$ 29,392	\$ 34,343	\$ 46,092(2)
Preferred Stock						
Dividend Re-						
quirements.....	\$ 4,660	\$ 5,232	\$ 5,605	\$ 6,098	\$ 7,296	\$ 8,661
Earnings on						
Common Stock...	\$ 16,546	\$ 15,590	\$ 19,331	\$ 23,294	\$ 27,047	\$ 37,431
Ratio of Earnings						
to Fixed						
Charges(3)....	2.42	2.13	2.11	2.46	2.35	2.54

	September 30, 1984 (Unaudited)			
	Actual		As Adjusted(4)	
	Outstanding	Ratio	Outstanding	Ratio
<u>Capitalization Summary:</u>				
Common Stockholder's Equity.....	\$234,013	34.7%	\$246,013	35.8%
Preferred Stock --				
Not subject to mandatory				
redemption.....	41,905	6.2	41,905	6.1
Subject to mandatory redemption(5).	57,071	8.5	57,071	8.3
Long-Term Debt(6).....	341,476	50.6	341,476	49.8
Total Capitalization.....	<u>\$674,465</u>	<u>100.0%</u>	<u>\$686,465</u>	<u>100.0%</u>

Long-Term Obligations:

Nuclear Fuel.....	\$ 48,797	\$ 49,797
Capital Leases(7).....	2,843	2,843
Total.....	<u>\$ 51,640</u>	<u>\$ 52,640</u>

(1) Derived from audited financial information.

(2) Includes \$6,751,000 non-cash depreciation reserve adjustment necessitated by a PPUC rate order.

- (3) "Earnings" for purposes of these calculations have been computed by adding to "net income" all taxes based on income or profits, total interest charges and the estimated interest element of rentals. "Fixed charges" include total interest charges and the estimated interest element of rentals. These ratios exclude fixed charges applicable to the guarantee of the debt of a coal supplier aggregating \$2,470,000, \$2,939,000, \$3,360,000, \$3,564,000, \$3,324,000 and \$3,275,000 for each of the five years ended December 31, 1983 and the twelve months ended September 30, 1984, respectively.
- (4) Adjusted to reflect the proposed issuance in the fourth quarter of 1984 of 400,000 shares of the Company's common stock, \$30 par value, to Ohio Edison and an estimated \$1,000,000 of additional nuclear fuel obligations. No adjustment has been made to reflect the issuance of the Series 1984 Notes since it is not expected that any proceeds thereof will be drawn down by the Company from the escrow accounts before the end of 1984.
- (5) Excludes \$523,800 to be redeemed pursuant to sinking fund requirements within one year.
- (6) Excludes \$2,428,000 due to mature within one year.
- (7) Excludes \$498,600 due to mature within one year.

FINANCING, CONSTRUCTION AND FUEL SUPPLY PROGRAMS

Future Financing

The Company's total construction costs during 1983 amounted to approximately \$71,604,000. The Company's investment for the procurement, enrichment and fabrication of nuclear fuel in 1983 was approximately \$8,526,000. For 1984, construction costs are expected to amount to approximately \$79,268,000 of which \$61,254,000 had been spent as of September 30, 1984. The Company expects to invest approximately \$15,000,000 in 1984 and approximately \$60,000,000 for the five years 1984-1988 for additional nuclear fuel. Construction costs for the five years 1984-1988 are currently estimated at \$240,000,000. During the same five-year period, long-term debt maturities and preferred stock sinking fund requirements will require the expenditure by the Company of \$42,166,000.

Based on its present plans, the Company will provide for its cash requirements for the fourth quarter of 1984 from: cash on hand; funds to be received from operations; funds available under short-term bank credit arrangements presently aggregating \$30,000,000 (none of which had been drawn as of September 30, 1984); funds available from the Pennsylvania Power Fuel Corporation (a corporation in which the Company has no ownership interest) aggregating \$48,000,000 (of which \$38,461,000 had been utilized as of September 30, 1984), funds available from the Central Area Energy Trust aggregating \$29,000,000 (of which \$15,714,000 had been utilized as of September 30, 1984) and proceeds from the proposed sale of 400,000 shares of the Company's common stock, \$30 par value, to Ohio Edison. Funds in escrow (approximately \$2,072,000 as of September 30, 1984) from previous issues of pollution control securities and the proceeds of the Series 1984 Notes will be available for funding the Company's ownership interest in the construction of pollution control facilities at certain of its generating plants.

The Company currently estimates that, for the period 1984-1988, external financing will provide a significant portion of its cash requirements. The above estimates of the amounts and types of future securities sales are subject to continuous revision by the Company based on, among other things, capital market conditions and the progress of and changes required in its construction program.

Sales of preferred stock and first mortgage bonds by the Company require that the coverage tests of the Company's Charter and First Mortgage Indenture be met. Based upon earnings for the twelve months ended September 30, 1984, and after giving effect to the issuance of the Series 1984 Notes, the Company would be permitted, under its First Mortgage Indenture, to issue, on the basis of property additions, \$35,000,000 principal amount of first mortgage bonds at an assumed interest rate of 14.5%, or under its Charter, to issue \$35,000,000 of preferred stock at an assumed dividend rate of 14%; or to issue some lesser combination of both first mortgage bonds and preferred stock.

Construction Program

The Company and Ohio Edison (the "Companies"), together with The Cleveland Electric Illuminating Company ("CEI"), Duquesne Light Company and The Toledo Edison Company, are members of the Central Area Power Coordination Group ("CAPCO"). The CAPCO companies are engaged in a program for the joint development of power generation and transmission facilities, including the construction of certain nuclear generating units. The following table shows certain details with respect to the units in which the Company has an ownership interest.

<u>Site(a)</u>	<u>Type</u>	<u>Capability</u>	<u>Estimated In-Service Date</u>	<u>Estimated Total Cost to the Company(b) (thousands)</u>	<u>Approximate Estimated Total Cost per Kilowatt(b) (thousands)</u>	<u>Expenditures by the Company through September 30, 1984 (thousands)</u>
Perry Plant, North Perry Village, Ohio Unit 1 and common facilities	Nuclear	1,205 MW	late 1985	\$208,000(c)	\$3,300(c)	\$156,541(c)
Unit 2.....	Nuclear	1,205 MW	(d)	(d)	(d)	\$56,229(d)

-
- (a) The Company will have an undivided 5.24% interest as tenant in common with the other CAPCO companies in each of the Perry Units. The Company has no ownership interest in Unit 2 of the Beaver Valley Station, another nuclear unit being constructed by the CAPCO companies.
- (b) The costs listed do not include the cost of fuel.
- (c) Includes estimated costs for common facilities for both Units.
- (d) Perry Unit 2 is currently under review. See "Perry Unit 2" below.

Perry Unit 1. On February 21, 1984, CEI, the project manager for the Perry units, announced that the previous schedule for loading fuel at Perry Unit 1 would not be met. CEI attributed the delay to a longer-than-planned time needed to install and test piping and electronic control circuitry. As a result of the delay, the estimated completion date for Perry Unit 1 has been moved back six months, to late 1985. The Nuclear Regulatory Commission ("NRC") has reviewed this new completion schedule and after its review has indicated that it will allocate its licensing review resources in support of that schedule. The six-month delay in completion of the Unit, coupled with higher material and labor costs, also resulted in an \$819,000,000 increase, announced by CEI on April 2, 1984, in the estimated costs of Perry Unit 1 and common facilities. The resultant increase in the total cost to the Company for Perry Unit 1, including common facilities, was \$38,000,000.

While Perry Unit 1 is still expected to be completed on schedule, CEI announced in September 1984 that the total cost of the Unit, including common facilities, will further increase by \$475,000,000. Of this amount, \$218,000,000 relates to additional cash construction costs and \$147,000,000 (including approximately \$61,000,000 which CEI reports has already been spent) relates to previously estimated costs that had been assigned to Perry Unit 2. The reassignment of these costs to Unit 1 is the result of a detailed accounting study that was undertaken with respect to Perry Unit 1 and Perry Unit 2 costs. The new estimate will increase the Company's cost of Unit 1, including common facilities, by approximately \$26,500,000, including allowance for funds used during construction ("AFUDC") and the Company's share of the \$61,000,000 which CEI reports has already been spent. These new cost estimates are reflected in the figures set forth in the above table.

CEI is moving into the latter stages of the process for obtaining an operating license for Perry Unit 1. The NRC has completed the Final Environmental Statement and Safety Evaluation Report with respect to the Unit, and the Advisory Committee on Reactor Safeguards hearings have been completed. In addition, a portion of the Atomic Safety and Licensing Board ("ASLB") public hearings have been completed, with the ASLB dismissing all challenges made by the intervenors against the quality control program at Perry Unit 1. In August 1984 a Seismic Quality Audit and a Pump and Valve Operability Audit, both conducted by the NRC, were completed. In addition, on November 28, 1984, a full-scale

Emergency Drill demonstrating the effectiveness of on-site and off-site emergency plans, was completed. Activities remaining to be completed to obtain an operating license include additional ASLB hearings to discuss emergency planning and contentions regarding the Delaval emergency diesel generators.

Nuclear generating units under construction are experiencing delays as a result of the lengthy regulatory process and opposition by anti-nuclear groups. Also, the start-up and testing process for new reactors, which commences after initial authorization by the NRC for operation and fuel loading, has often resulted in additional delays due to increased activity by intervenors and new plant and operational requirements which may be necessary as a result of initial testing. Although the Company does not presently have any specific reason to anticipate further licensing-related delays at Perry Unit 1, in light of the experience of the industry generally with respect to obtaining operating licenses from the NRC, there can be no assurance that such delays will not occur at Perry Unit 1 or any of the other CAPCO nuclear units under construction. If such delays occur, they can be expected to increase the total cost of the affected unit by amounts which could be substantial.

Perry Unit 2. In September 1983, several consumer groups and governmental entities filed a petition with The Public Utilities Commission of Ohio and the Ohio Power Siting Board seeking an investigation into the public need for the construction of Perry Unit No. 2 by the owners who are Ohio utilities. Without the participation of the Ohio owners in the construction of the Unit, its completion would, as a practical matter, appear not to be feasible. The Ohio owners are contesting the petition.

The CAPCO companies are continuing to review the status of Perry Unit 2. Until this review has been completed, there will be no defined schedule for the completion of Unit 2; in the meantime, minimal work is being done on the Unit. Possible alternatives being reviewed with respect to Unit 2 include temporary cessation of work on the Unit (in which case accrual of AFUDC related to the Unit could be suspended) and termination of the Unit. Delays in the completion of the Unit can be expected to increase its total cost by amounts which are not presently determinable. If a decision were made to terminate Unit 2, certain costs

which are currently assigned to Unit 2 would be reassigned, where appropriate, to Unit 1. However, cancellation charges payable to contractors and other costs of termination could be incurred. The Company is currently recovering costs applicable to previously terminated construction projects from its customers. Based on this past experience, the Company would expect to recover its investment in Unit No. 2 through its rates if the Unit were terminated.

On June 11, 1984, a citizens' group petitioned the NRC for an order to show cause why the construction permit for Perry Unit 2 should not be suspended or revoked, on the alleged ground that construction of Perry Unit 2 has stopped. CEI, on behalf of the CAPCO companies, is opposing the petition, inasmuch as suspension or revocation of the construction permit would be inappropriate before the review of the status of Perry Unit 2 has been completed. On November 15, 1984, the NRC staff denied the petition. This decision is subject to Commission review.

Factors Affecting Entire Construction Program. In addition to the CAPCO review of the status of Perry Unit 2, the Company continues to engage in an evaluation of its nuclear construction program as a whole. While the accounting and technical aspects of the CAPCO review are proceeding towards conclusion in the near future, and the CAPCO companies are working towards reaching a final decision on possible changes in the nuclear construction program on an expedited basis, it may (but not necessarily) turn out that any such final decision will not be made until a later date. The Company is unable to predict the results of these reviews. As indicated above, based on past experience, the Company would expect to recover its investment in any terminated Unit through rates, though no assurance can be given in this regard.

The changes that have occurred in the CAPCO nuclear program, cost-related and otherwise, are symptomatic of the problems that continue to confront nuclear power plant construction. Other companies with large remaining nuclear construction programs are seeing substantial adverse effects on their financial positions and on their abilities to raise funds in the capital markets as changes occur in those programs. The CAPCO companies are well aware of these problems and, as indicated above, are attempting to deal with them. No assurance can be given that additional changes in the CAPCO nuclear program, cost-related or otherwise, will

not occur in the future either as a result of the current reviews, the regulatory process, budgetary constraints or other circumstances.

Fuel Supply Program

As discussed in the Company's Form 10-K and Form 10-Q's incorporated by reference in this Official Statement, the CAPCO companies have entered into a long-term coal supply contract with Quarto Mining Company ("Quarto"). The price of Quarto coal is based on, among other things, actual production costs plus amortization of certain production expenses which were not included in the price of that coal prior to May 31, 1980, when the Quarto mine development period ended.

Following the end of the development period, the Company was ordered by the Pennsylvania Public Utility Commission ("PPUC") to defer recovery of the cost of Quarto coal in excess of generally prevailing market prices, pending further proceedings. As a result of that order, the Company began deferring a portion of the cost of Quarto coal, rather than including such costs in its energy cost rate.

On September 11, 1984, the PPUC entered an order in the proceedings relating to the recovery of the cost of Quarto coal. This PPUC order adopted an Administrative Law Judge's Initial Decision of February 10, 1984 that the Company was not imprudent in initiating and continuing the Quarto project. Further, the Commission adopted the Initial Decision's methodology which would have allowed the Company to recover in its energy cost rate the current cost of Quarto coal and the costs which were deferred in prior years (amounting to approximately \$10,151,000 at September 30, 1984) to the extent that the actual cost of all coal burned at the Bruce Mansfield Plant is less than the generally prevailing delivered market price for comparable coal. However, the PPUC order adopted a market price determination lower than that found in the Initial Decision and lower than that which the Company believes appropriate. On September 28, 1984, the PPUC granted the Company's request for rehearing and reconsideration. If the PPUC market price determination stands, its application could result in a substantial underrecovery of Quarto coal costs through the Company's energy cost rate and unless some other means of recovery could be found or anticipated, an equivalent loss would be incurred. Although unable to predict the final resolution of this matter, management believes that its ultimate

disposition will not have a material adverse effect upon the Company's results of operations.

As a result of a settlement recently reached with the Company's wholesale customers, the Federal Energy Regulatory Commission ("FERC"), if it approves the settlement as filed, will not render a decision on the amount of the cost of Quarto coal which should be included in charges for electric service to these customers. The settlement, now before the FERC for approval, provides that the wholesale customers will be charged the prevailing retail energy cost rate which reflects cost of Quarto coal as allowed by the PPUC.

For additional information concerning the Company's construction program, rate proceedings, fuel supply program and legal and environmental affairs, reference is made to the documents incorporated herein by reference.

EXPERTS

The audited financial statements and related schedules thereto contained in material incorporated by reference in the Appendix to this Official Statement, and the financial statements from which the five-year selected financial data included in the Appendix have been derived, have been examined by Arthur Andersen & Co., independent public accountants, as indicated in their reports thereto. The audited financial statements and schedules are incorporated by reference herein and the five-year selected financial data are included herein in reliance upon the authority of said Firm as experts in accounting and auditing in giving said reports.

With respect to the unaudited interim financial information for the quarters ended March 31, 1984, June 30, 1984 and September 30, 1984, Arthur Andersen & Co. has applied limited procedures in accordance with professional standards for a review of that information. However, their separate reports thereon state that they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their reports on that information should be restricted in light of the limited nature of the review procedures applied.

Statements in the Company's Annual Report on Form 10-K, incorporated herein by reference, as to matters of law

and legal conclusions relating to matters under "Business" and "Legal Proceedings", have been reviewed by James R. Edgerly, Esq., who is Vice President and General Counsel and a Director of the Company, and such statements have been included or incorporated by reference herein upon his authority as an expert.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

Form 10-K

Annual Report Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

For the fiscal year ended December 31, 1984

Commission file number 1-3491

Pennsylvania Power Company

(Exact name of registrant as specified in its charter)

Pennsylvania

(State or other jurisdiction of
incorporation or organization)

25-0718810

(I.R.S. Employer
Identification No.)

1 East Washington Street

P.O. Box 891

New Castle, Pennsylvania

(Address of principal executive offices)

16103

(Zip Code)

Registrant's telephone number, including area code: (412) 652-5531

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
4.25% Preferred Stock, \$100 par value	Philadelphia Stock Exchange, Inc.
4.24% Preferred Stock, \$100 par value	Philadelphia Stock Exchange, Inc.
4.64% Preferred Stock, \$100 par value	Philadelphia Stock Exchange, Inc.
8.00% Preferred Stock, \$100 par value	Philadelphia Stock Exchange, Inc.
7.64% Preferred Stock, \$100 par value	Philadelphia Stock Exchange, Inc.
8.48% Preferred Stock, \$100 par value	Philadelphia Stock Exchange, Inc.
11.00% Preferred Stock, \$100 par value	Philadelphia Stock Exchange, Inc.
9.16% Preferred Stock, \$100 par value	Philadelphia Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

State the aggregate market value of the voting stock held by non-affiliates of the registrant: None

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: \$30 par value—5,890,000 shares outstanding at March 1, 1985.

Documents incorporated by reference
(to extent indicated herein):

1984 Annual Report to Stockholders
(Page 4)
(Pages 5-24)

Part of Form 10-K into which
document is incorporated

Part I
Part II

TABLE OF CONTENTS

	<u>Page</u>
Part I	
Item 1. Business	1
The Company	1
Financing and Construction Program	1
Rate Matters	2
CAPCO Program	2
Fuel Supply	4
Energy Cost Rate	5
Regulation	5
Environmental Matters	8
Other Programs	10
Employees	11
Operating Statistics	11
Item 2. Properties	11
Item 3. Legal Proceedings	13
Item 4. Submission of Matters to a Vote of Security Holders	13
Part II	
Item 5. Market for the Registrant's Common Stock and Related Stockholder Matters	13
Item 6. Selected Financial Data	14
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	14
Item 8. Financial Statements and Supplementary Data	14
Item 9. Disagreements on Accounting and Financial Disclosure	14
Part III	
Item 10. Directors and Executive Officers of the Registrant	14
Item 11. Executive Compensation	15
Item 12. Security Ownership of Certain Beneficial Owners and Management	17
Item 13. Certain Relationships and Related Transactions	17
Part IV	
Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K	18

PART I

ITEM 1. Business

The Company

Pennsylvania Power Company (the "Company") was organized under the laws of the Commonwealth of Pennsylvania in 1930 and owns property and does business as an electric public utility in that state. The Company is also authorized to and does own property and do business in the State of Ohio. It is a wholly-owned subsidiary of Ohio Edison Company (herein sometimes called "Edison"), an Ohio corporation which does business as an electric public utility in Ohio. The Company's principal executive offices are located at 1 East Washington Street, New Castle, PA 16103; telephone number (412) 652-5531. The Company and Edison are sometimes referred to herein collectively as "Companies".

The Company furnishes electric service in 139 communities, as well as in rural areas, of western Pennsylvania, and also sells electric energy at wholesale to 5 municipalities. The area has an estimated population of 350,000.

The net maximum hourly demand on the Company's system through January 1, 1985 occurred on June 13, 1984 and was 597,000 kilowatts ("kW"). The previous net maximum hourly demand of 577,000 kW occurred on June 16, 1981. The Company's capacity margin at the time of the June 13, 1984 peak was 22.7%. Based on existing capacity, the present schedule of committed capacity additions to the system, anticipated term power sales to other utilities for the years 1985 through 1989 and on the current load forecast for this period, capacity margins are expected to fluctuate over this period between 21.5% to 32.1%. If Perry Unit No. 2 becomes operational in 1989, the capacity margin would be approximately 29%.

The Company competes with other utilities in the market for intersystem bulk power sales. The Company competes with suppliers of natural gas and other forms of energy in connection with industrial and commercial sales and in the home climate control market, both with respect to new customers and conversions. In an effort to more fully utilize facilities and hold down rates to other customers, the Companies have entered into two long-term power sales agreements. Under the first agreement, which was effective in May 1983, the Companies provide up to 150 megawatts ("MW") of electricity over an indefinite period extending at least 5 years. The second agreement calls for a maximum of 200 MW of electricity to be provided over a period ending in June 1993. The Companies intend to continue to explore opportunities for bulk power sales.

Financing and Construction Program

The Company's total construction costs during 1984, including capital leases, amounted to approximately \$81,954,000. The Company's investment for the procurement, enrichment and fabrication of nuclear fuel in 1984 was approximately \$13,429,000. The Company expects to invest approximately \$40,000,000 for nuclear fuel during the 1985-1989 period, of which approximately \$6,000,000 is applicable to 1985 (see Note 6 of Notes to Financial Statements). For the years 1985 through 1989, the presently estimated construction costs will amount to approximately \$214,000,000, of which approximately \$69,000,000 is applicable to 1985. During the same five-year period, maturities of, and sinking fund requirements for, long-term debt, long-term obligations (including nuclear fuel) and preferred stock will require the expenditure by the Company of \$146,155,000, of which \$34,014,000 applies to 1985. All or a major portion of maturing debt is expected to be refunded on or prior to maturity.

The 1985-1989 construction figures include \$4,000,000 for environment-related expenditures. Substantial expenditures, in addition to those reflected above, may be required in connection with the modification and addition of facilities necessary for compliance with air and water quality standards, but, because the Company cannot presently determine the ultimate effect of certain environmental regulations, the Company cannot accurately predict either the timing or precise amounts of such additional expenditures. A further discussion of possible environment-related expenditures is set forth under "Environmental Matters" and reference is made thereto.

The Company currently expects that, for the period 1985-1989, external financings will provide a portion of its cash requirements. Such financings may include the sale of common stock, as well as preferred stock, first mortgage bonds and pollution control notes. The extent and mix of such financings will depend on the need for external funds as well as market conditions, the maintenance of an appropriate capital structure and the ability of the Company to comply with coverage requirements in order to issue first mortgage bonds and preferred stock. The coverage requirements contained in the indenture under which the Company issues first mortgage bonds provides

that, except for certain refunding purposes, the Company may not issue additional first mortgage bonds unless applicable net earnings (before taxes on income), calculated as provided in the indenture, for any period of twelve consecutive months within the fifteen calendar months preceding the month in which such additional bonds are issued, are at least twice annual interest requirements on outstanding first mortgage bonds, including those being issued. The Company's charter prohibits the sale of additional amounts of preferred stock unless applicable gross income, calculated as provided in the charter, is equal to at least 1½ times the aggregate of the annual interest requirements on indebtedness outstanding immediately thereafter and the annual dividend requirements on all preferred stock which will be outstanding at that time. To the extent that coverage requirements or market conditions restrict the Company's ability to issue desired amounts of first mortgage bonds or preferred stock, the Company may seek other methods of financing, including, possibly, the sale of such other types of securities as might be authorized by applicable regulatory authorities, which would not otherwise be sold and could result in annual interest charges and/or dividend requirements in excess of those that would otherwise be incurred, or the Company may reduce its expenditures for construction and other purposes. Based upon earnings for the year ended December 31, 1984, the Company would be permitted, under its first mortgage indenture, to issue, on the basis of property additions, at least \$31,000,000 principal amount of first mortgage bonds assuming an interest rate of 14%; or, under its charter, to issue at least \$41,000,000 of preferred stock at an assumed dividend rate of 13.5%; or to issue some lesser combination of both first mortgage bonds and preferred stock.

Based on present plans, the Company may provide for its cash requirements in 1985 from: cash on hand; funds to be received from operations; funds available under bank loan credit arrangements presently aggregating \$30,000,000 (none of which had been utilized as of December 31, 1984); funds available from the Pennsylvania Power Fuel Corporation (a corporation in which the Company has no ownership interest) aggregating \$48,000,000 (of which \$40,583,000 had been utilized as of December 31, 1984) and funds available from the Central Area Energy Trust aggregating \$29,000,000 (of which \$14,929,000 had been utilized as of December 31, 1984). Funds are also anticipated from the proceeds of securities sales at various times throughout 1985, including up to: 400,000 shares of common stock, \$30 par value, to Edison; \$40,000,000 principal amount of first mortgage bonds; \$10,000,000 of preferred stock; and \$10,000,000 of pollution control notes. Additionally, funds in escrow (approximately \$13,229,000 at December 31, 1984) from previous issues of pollution control notes will be used in funding the Company's interest in the construction of pollution control facilities at certain of its generating plants.

Except as otherwise indicated, the foregoing statements with respect to construction expenditures are based on estimates made in February 1985 and are subject to change based upon the progress of and changes required in the construction program, including delays of the completion dates for generating stations under construction, periodic reviews of costs incurred, expected future costs, changing customer requirements for electric energy, the level of earnings and resulting changes in applicable coverage requirements, conditions in capital markets, changes in regulatory requirements and other relevant factors (see "Item 2. Properties").

Rate Matters

On October 17, 1984 the Company filed for a \$20,400,000 increase in retail rates with the Pennsylvania Public Utility Commission ("PPUC"). The PPUC suspended the filing until July 16, 1985 for further investigation. Hearings began in January 1985 and the PPUC approved a settlement increase of \$5,960,000 effective March 15, 1985.

On September 1, 1984 a settlement agreement was reached with the Company's municipal resale customers. The settlement ends all pending antitrust and rate litigation and provides the municipal resale class with the applicable retail rate for primary or transmission service. The length of the settlement agreement is seven years. The Federal Energy Regulatory Commission ("FERC") accepted the terms of the settlement on December 14, 1984.

CAPCO Program

In September 1967, the Central Area Power Coordination Group ("CAPCO") companies, consisting of the Company, Edison, The Cleveland Electric Illuminating Company ("CEI"), Duquesne Light Company ("Duquesne") and The Toledo Edison Company ("Toledo"), announced a program for joint development of power generation and transmission facilities. Included in the program are Unit No. 7 at the W. H. Sammis Plant, Units

Nos. 1, 2 and 3 at the Bruce Mansfield Plant and Unit No. 1 at the Beaver Valley Station, each now in service. The CAPCO program also includes the construction of other generating units referred to under "Item 2. Properties". In addition, the Company, Edison, Duquesne and CEI have installed 534,000 kW of peaking capacity (23,000 kW by the Company).

The present CAPCO Basic Operating Agreement provides, among other things, for coordinated maintenance responsibilities among the CAPCO companies, a limited and qualified mutual back-up arrangement in the event of outage of CAPCO units and certain capacity and energy transactions among the CAPCO companies.

The agreements among the CAPCO companies generally treat the Companies as a single system as between them and the other three CAPCO companies, but, in agreements between the CAPCO companies and others, all five companies are treated as separate entities. Subject to any rights that might arise among the CAPCO companies as such, each member company, severally and not jointly, is obligated to pay the cost of constructing and operating only its ownership share of the facilities and the cost of required fuel. The CAPCO companies have agreed that any modification of their arrangements or of their agreed-upon programs requires their unanimous consent. Should any member become unable to continue to pay its share of the capital cost of a facility being constructed, each of the CAPCO companies could be affected in varying degrees because it would become necessary to terminate construction with resulting cancellation costs and possible loss of investment, or to delay construction with resulting penalties and risk of cost inflation, or to continue construction with the remaining members or other parties acquiring some or all of the interest of the defaulting member and taking responsibility for the related costs.

Significant differences exist among the financial conditions of the CAPCO companies and their respective abilities to raise funds externally and to generate cash internally in order to meet their obligations under the CAPCO construction program. Investors are urged to refer to the Forms 10-K and other disclosure documents of the other CAPCO companies, as well as the information contained herein, in analyzing the possible impact on the Companies of the CAPCO construction program.

When each of the major uncompleted CAPCO units (see "Item 2. Properties") is placed in service, there will be an adverse effect on net income due to sizeable charges for depreciation, taxes, maintenance and other operating expenses until these costs are recognized as a cost of service in a subsequent rate case. In addition, any cessation of the allowance for funds used during construction prior to a unit being included in rate base will adversely affect net income. The Company cannot presently predict the magnitude of any such effects but they could be substantial. Various regulatory commissions across the nation have recently been considering the concept of "phase-in" (i.e., a procedure wherein the cost of a new generating unit goes into rate base over time in several increments) as well as questions concerning prudence and over-capacity in deciding when and how much of the cost of a new unit should be included in rate base. Some of these considerations may have to be addressed by the Company in future rate cases as major CAPCO units are completed and go into service. At the present time, the Company has no specific reason to believe that after such considerations are addressed, all completed units will not eventually be fully included in rate base.

The CAPCO companies have provided several guarantees (the Company's stated percentage being 8.3%) with respect to financing the development of Quarto Mining Company ("Quarto") coal mines (see Note 8 of Notes to Financial Statements) pursuant to coal purchase contracts extending to December 31, 1999 (with extension options that can extend their terms to December 31, 2009). The total construction costs for these mines is estimated to be \$431,000,000, of which \$36,000,000 is applicable to the Company. At the present time, the Company is obligated to pay minimum annual charges for up to fifteen years.

The coal to be delivered under the Quarto contract has a sulfur content of about 4.1%. The Bruce Mansfield Plant was constructed with pollution control equipment for utilization of high sulfur coal, and the Plant is currently using all of the coal to be delivered under the contract. There have been no deliveries from the Quarto mines other than to CAPCO companies. During 1984, the mines produced approximately 3,480,000 tons.

Regulatory orders and proceedings concerning the recovery of the cost of Quarto coal under the Company's energy clause are discussed under "Energy Cost Rate" and in Note 8 of the Notes to Financial Statements. In connection with a proceeding before the Public Utilities Commission of Ohio ("PUCO"), Edison has agreed that in the event that Mine No. 7 (one of the two Quarto mines) is to continue in operation beyond January 1, 1987, it must demonstrate to the PUCO why Mine No. 7 should not be closed. The Companies are presently continuing to evaluate and study the economics of Mine No. 7. In connection with the PPUC proceedings involving the

recovery of the cost of Quarto coal described in Note 8 of Notes to Financial Statements, the Company has appealed the PPUC's order to the Commonwealth Court of Pennsylvania.

In January 1980, the Company and all other CAPCO companies terminated plans to build four nuclear generating units. Costs, including settlement of all asserted claims resulting from termination, unrecovered by the Company as of December 31, 1984, applicable to these units amounted to approximately \$14,818,000. The Company is recovering these costs from customers.

Reference is made to "Regulation" and "Item 2. Properties" for a discussion of the status of the CAPCO construction program, including Perry Unit No. 2.

Fuel Supply

The Company's sources of generation during 1984 were 79.3% coal and 20.7% nuclear. Historically, the Company's coal needs for its New Castle Plant have been supplied from spot purchases; however, in 1981 the Company revised its strategy and began to utilize a combination of short-term contracts and spot purchases. In 1984 the Company completed negotiations for the long-term supply of a portion of its low sulfur coal requirements (see "Environmental Matters-Air Regulation"). In November 1984 Edison completed negotiations for three medium sulfur, long-term coal contracts which include the Company's portion of Sammis Unit No. 7. In addition, the Company is a party to the Quarto coal purchase contract discussed under "CAPCO Program".

The Company's fuel costs for each of the five years ended December 31, 1984 were as follows:

	<u>1984</u>	<u>1983</u>	<u>1982</u>	<u>1981</u>	<u>1980</u>
Coal (1):					
Cost per ton of coal purchased	\$36.04	\$37.37	\$39.77	\$41.00	\$35.58
Cost of coal consumed per million BTU's (2)	\$ 1.50	\$ 1.57	\$ 1.66	\$ 1.66	\$ 1.41
Nuclear:					
Cost of nuclear fuel consumed per million BTU's (3)	\$.70	\$.67	\$.54	\$.41	\$.39
Average fuel cost per kilowatt-hour generated (mills)(4)	13.83	13.39	17.51	15.93	16.49

- (1) For 1984, the costs per ton of coal purchased for the New Castle Plant, Sammis Unit No. 7 and the Bruce Mansfield Plant were \$33.84, \$35.57 and \$44.66, respectively; the total costs of coal consumed per million BTU's, including the total costs of Quarto coal, at the three plants were \$1.39, \$1.46 and \$1.91, respectively.
- (2) Excludes effect of power generated during 1980 in connection with the construction of Bruce Mansfield Unit No. 3.
- (3) These costs do not include costs associated with the disposition of spent nuclear fuel.
- (4) The fuel cost per kilowatt-hour for December 1984 was 15.92 mills.

The following table compares the cost of electric energy generated and purchased for each of the five years ended December 31, 1984:

	<u>Year Ended December 31,</u>				
	<u>1984</u>	<u>1983</u>	<u>1982</u>	<u>1981</u>	<u>1980</u>
			(In Thousands)		
Generated	\$84,787	\$75,669	\$90,087	\$85,751	\$74,034
Purchased energy	3,563	4,472	3,933	2,589	3,097
Net interchange energy—principally with parent company	(7,973)	(8,290)	(18,467)	(7,564)	(979)
System control and load dispatching	253	224	219	197	158
Other production expenses (credit)	(1,001)	(1,111)	(1,892)	(1,673)	(3,671)
Total	<u>\$79,629</u>	<u>\$70,964</u>	<u>\$73,880</u>	<u>\$79,300</u>	<u>\$72,639</u>

Reference is made to "Financing and Construction Program" for a discussion of the Company's commitments for the supply of nuclear fuel.

The Company has estimated that normal operation would require approximately 877,000 tons of coal during 1985 for its New Castle Plant and 293,000 tons for its share of coal required at Sammis Unit No. 7. During 1984, the Company received approximately 40% of the New Castle low sulfur coal requirement under contract.

Coal for the Bruce Mansfield Plant is purchased pursuant to the Quarto long-term contract, discussed under "CAPCO Program" and through spot purchases. It is estimated that the Company's share of coal required at that plant during 1985 will be 325,000 tons.

The CAPCO companies have contracts for the supply of uranium sufficient to meet projected requirements through 1991, and contracts for the supply of conversion services sufficient to meet projected needs through 1991. Fabrication services for fuel assemblies have been contracted for the next five reloads for Beaver Valley Unit No. 1, the initial core and one reload for Perry Unit No. 1, and the initial core for Perry Unit No. 2. In 1984, the CAPCO companies, in conjunction with a special offering made by the U.S. Department of Energy ("DOE"), terminated at no cost nine enrichment services contracts and entered into a single DOE contract to provide enrichment services for all the CAPCO nuclear units. The term of this contract is 30 years. On December 7, 1984, a number of domestic uranium producers filed a lawsuit seeking to invalidate the DOE contracts based on the contention that DOE did not follow proper administrative procedures in issuing the contracts. If the court should declare the contracts invalid, DOE would have to reissue a procedurally valid contract or other alternatives would have to be found in order for the CAPCO companies to obtain enrichment services.

Prior to the expiration of existing commitments, the CAPCO companies will have to make additional arrangements for the supply of uranium and for the subsequent conversion, enrichment, fabrication, reprocessing and/or waste disposal, the prices and availability of which cannot be predicted. No domestic reprocessing services are presently available. Due to this lack of availability of reprocessing services and to the continuing absence of any program to begin development of reprocessing capability, the Company is calculating nuclear fuel costs on the assumption that spent fuel will not be reprocessed. On-site spent fuel storage facilities have been constructed for Beaver Valley Unit No. 1. It is expected that the facilities will provide adequate capacity through 1993 for Beaver Valley Unit No. 1. After the storage capacity at the Beaver Valley site is exhausted, additional storage capacity will have to be obtained at a substantial cost unless reprocessing services or permanent waste disposal facilities become available. On-site spent fuel storage facilities for the Perry Plant are expected to be adequate through 1997 for both units. Additionally, the CAPCO companies are reviewing the on-site spent fuel storage facilities for Perry Units Nos. 1 and 2 with a view toward providing increased capacity to store spent fuel. The federal Nuclear Waste Policy Act of 1982 is intended to provide for the construction of facilities for the disposal of high-level nuclear wastes, including spent fuel from nuclear power plants operated by electric utilities. Duquesne has entered into a contract with the DOE for the disposal of nuclear waste from Beaver Valley Unit No. 1. CEI plans to enter into similar contracts for the Perry Plant.

Energy Cost Rate

The retail and wholesale rate schedules contain energy cost rate ("ECR") clauses. The ECR permits the Company to charge annually (beginning each April 1) a "levelized" rate, as approved by the PPUC, which is effective for one year. The ECR includes an adjustment for energy costs overcollected or undercollected in the previous year. The Company is, however, currently precluded by the PPUC from including the costs of Quarto coal in excess of the market price of comparable coal as described in Note 8 of Notes to Financial Statements.

Regulation

The Company, with respect to its retail electric business, is subject to broad regulation by the PPUC and, with respect to its wholesale and interstate electric operations, is subject to regulation, including regulation of its accounting policies and practices, by the FERC.

The Public Utility Regulatory Policies Act of 1978 ("PURPA") contains a number of provisions that affect the electric utility industry, including (1) establishment of ratemaking standards which state regulatory authorities are required to consider (but not necessarily to implement), (2) amendments to the Federal Power Act expanding the authority of the FERC to order interconnections and the sale and exchange of electric energy across such interconnections, and authorizing the FERC to order electric utilities under certain circumstances to provide transmission services, and (3) establishment of a requirement that the FERC periodically review automatic adjustment clauses in wholesale rate schedules. The Company is unable to predict the ultimate effect of resulting

regulations upon it. The Company is currently appealing certain PPUC regulations implementing rates for energy produced by co-generators and small power producers.

Commencing in March 1979, events occurred at Metropolitan Edison Company's Three Mile Island nuclear power plant ("TMI") near Harrisburg, Pennsylvania, that developed into a serious nuclear accident. A Presidential Commission, Congress, the Nuclear Regulatory Commission ("NRC") and others have undertaken investigations into the causes and consequences of the accident.

As a result of the TMI accident, the subsequent investigations and continuing public and regulatory concerns over the construction and operation of nuclear generating facilities, the NRC has promulgated and continues to promulgate regulations related to the safe operation of nuclear power plants. The Company cannot predict what additional regulations will be promulgated or design changes required or the effect that any such regulations or design changes, or the consideration thereof, may have upon the operation of Beaver Valley Unit No. 1 or the costs, construction, licensing or operation of nuclear units currently under construction by the CAPCO companies. As a result of certain new NRC regulations, procedural and design changes have been or will be implemented at all such units. A substantial portion of the cost of such changes has been determined and is included in the construction figures discussed under "Financing and Construction Program". Although it has no reason to anticipate a TMI-type of accident at any nuclear plant in which it has an ownership interest, if such an accident did happen, it could have a material but presently undeterminable adverse effect on the financial position of the Company. In addition, such an accident at any operating nuclear plant, whether or not owned by the Company, could result in regulations or requirements that could affect the operation or licensing of plants that the Company does own with a consequent but presently undeterminable adverse impact.

The Price-Anderson Act currently limits the public liability of an operator of a nuclear power plant to \$620,000,000 for a single nuclear incident, which amount is covered by (a) private insurance amounting to \$160,000,000 and (b) \$460,000,000 provided by retroactive assessments required by the Price-Anderson Act and regulations issued by the NRC pursuant thereto. In the event of a nuclear incident at any unit resulting in losses in excess of private insurance, up to \$5,000,000 (but not more than \$10,000,000 per unit per year in the event of more than one incident) must be contributed for each licensed nuclear unit in the country by the owners thereof to cover public liabilities arising out of the incident. Based on its present ownership interest in one operating nuclear reactor, the Company's maximum potential assessment under these provisions would be \$875,000 per incident but not more than \$1,750,000 per calendar year.

In addition to the public liability insurance provided pursuant to the Price-Anderson Act, the Company has also obtained insurance coverage in limited amounts for economic loss and property damage arising out of nuclear incidents. The Company is a member of Nuclear Electric Insurance Limited ("NEIL") which provides coverage ("NEIL I") for the extra expense of replacement power incurred due to prolonged accidental outages of nuclear units. Under NEIL I, the Company has a policy, renewable yearly, corresponding to its interest in Beaver Valley Unit No. 1, which provides indemnity of up to approximately \$5,038,000 for replacement power costs incurred during an outage after an initial 26-week waiting period. Members of NEIL I pay annual premiums and are subject to assessments if losses exceed the accumulated funds available to the insurer. The Company's present maximum aggregate assessment for incidents occurring during a policy year would be approximately \$165,000.

The Company is insured as to its interest in the Beaver Valley Station under property damage insurance provided by American Nuclear Insurers ("ANI") and Mutual Atomic Energy Liability Underwriters ("MAELU") to the operating company for that plant. Under the ANI/MAELU arrangements, \$500,000,000 of primary coverage is provided for decontamination costs, debris removal and repair and/or replacement of property of the Beaver Valley Station. The Company pays annual premiums for this coverage and is not liable for retrospective assessments.

A secondary level of coverage for the Beaver Valley Station over and above the ANI/MAELU policy is provided by a decontamination liability and excess property insurance policy issued to the operating company by NEIL ("NEIL II"). As of March 15, 1985, \$585,000,000 of coverage became effective under NEIL II to pay costs required for decontamination operations in excess of the \$500,000,000 provided by the ANI/MAELU policy. Any remaining portion of the NEIL II proceeds will be available to pay excess property damage losses. Members of NEIL II pay annual premiums and are subject to assessments if losses exceed the accumulated funds available to the insurer. The Company's present maximum assessment for NEIL II coverage for accidents occurring during a policy year would be approximately \$880,000. The NEIL II policy is renewable yearly.

The Company intends to maintain insurance against nuclear risks as described above so long as it is available and to attempt to obtain similar insurance for its other nuclear generating units when they are placed in commercial operation. To the extent that replacement power costs, property damage costs, decontamination expenses, repair and replacement costs and other such costs and expenses arising from a nuclear incident at any of the Company's plants exceed the policy limits of the insurance from time to time in effect with respect to that plant, to the extent a nuclear incident is determined not to be covered by the Company's insurance policies, or to the extent such insurance becomes unavailable in the future, the Company will retain the risk of loss to its nuclear plant facilities and is a self-insurer.

A number of safety modifications required by the NRC to be made on all nuclear units operating in the United States were completed at Beaver Valley Unit No. 1, in addition to routine maintenance work and equipment inspections in connection with a scheduled refueling outage of the unit which began on October 11, 1984 and ended on January 5, 1985. The currently estimated cost of anticipated remaining modifications is included in the Company's construction program (see "Financing and Construction Program").

The PPUC is investigating an outage of Beaver Valley Unit No. 1 during the period March-August 1979. The outage had been ordered by the NRC to analyze possible seismic deficiencies of safety-related piping and pipe supports in the Unit. The PPUC has ordered that the operating company of the Unit make refunds to that company's customers based upon that company's expenditures for purchased replacement power during the outage. The PPUC is currently investigating the Company's liability, if any, for the outage and whether refunds are due to the Company's customers for purchased replacement power expenses incurred during the outage which were included in its energy clause. If the Company is required at some future time to make such a refund, it is not expected that the amount would be material to the Company's results of operations.

The construction and operation of nuclear generating units are subject to the regulatory jurisdiction of the NRC including the issuance by it of construction permits and operating licenses. The NRC's procedures with respect to application for construction permits and operating licenses afford opportunities for interested parties to request public hearings on health, safety, environmental and antitrust issues. In this connection, the NRC may require substantial changes in proposed operation or the installation of additional equipment to meet safety or environmental standards with consequent delay and added costs and the possibility exists for denial of licenses or permits. The construction permits for Perry Units Nos. 1 and 2 have been issued and a full power operating license for Beaver Valley Unit No. 1 was issued on July 1, 1976. See "Item 2. Properties" regarding the status of a full power operating license for Perry Unit No. 1.

The CAPCO companies are continuing to review the status of Perry Unit No. 2. Until this review has been completed, there will be no defined schedule for the completion of Unit No. 2. Possible alternatives being reviewed with respect to Unit No. 2 include temporary cessation of work on the Unit and termination of the Unit. In accordance with the CAPCO Agreement, none of these alternatives may be implemented without the approval of each of the CAPCO companies. Presently, the only significant work being performed on Unit No. 2 is that necessary to enable Unit No. 1 to be placed in service. This work is expected to be completed sometime in 1985. Under those circumstances it is not likely to be appropriate to continue capitalizing AFUDC which is currently approximately \$600,000 per month (as described in Note 1 of the Notes to Financial Statements) to Unit No. 2. Accordingly, if the CAPCO companies do not decide to resume significant construction, the Company does not expect to be able to include this AFUDC in net income. Instead, a reserve would be provided for AFUDC capitalized to Unit No. 2 prospectively. This would not affect cash flow, but it would cause a corresponding reduction in net income.

In September 1983, several consumer groups and local governmental entities filed a petition with the PUCO and the Ohio Power Siting Board seeking an investigation into the public need for the construction of Perry Unit No. 2 by the Ohio owners. The petition seeks to halt construction of Unit No. 2. Without the participation of the Ohio owners in the construction of the Unit, its completion would, as a practical matter, appear not to be feasible.

The Company's investment in Perry Unit No. 2 was approximately \$57,300,000 as of December 31, 1984. Delays in the completion of the Unit can be expected to increase its total cost by amounts which are not presently determinable. If a decision were made to terminate Unit No. 2, certain costs which are currently assigned to Unit No. 2 would be reassigned, where appropriate, to Unit No. 1. Pending completion of the CAPCO review, the Company is unable to predict whether the construction of Perry Unit No. 2 will continue or, if continued, on what basis such continuation will proceed. Based upon past rate making experience with respect to previously termi-

nated units, if Perry Unit No. 2 is terminated, the Company would expect to recover its investment in Unit No. 2 (including any cancellation charges paid to contractors and other costs associated with the cessation of work on the unit) through its rates.

Following lengthy hearings and appeals by the CAPCO companies, the licenses issued by the NRC applicable to the Perry Units are conditioned to require, among other things, (1) maintenance, emergency, economy and wholesale power and reserve sharing to be made available to, (2) interconnections to be made with, and (3) wheeling to be provided for, electric generation and/or distribution systems (or municipalities or cooperatives with the right to engage in such functions) if such entities so request and to permit such entities to become members of CAPCO (subject to certain prerequisites with respect to size), or to acquire a share of the capacity of the Perry Units or any other future nuclear units, if they so desire. These license conditions could have a materially adverse but presently undeterminable effect on the future business operations of the Company.

On June 11, 1984, a citizens group petitioned the NRC for an order to show cause why the construction permit for Perry Unit No. 2 should not be suspended or revoked, on the alleged ground that construction of Perry Unit No. 2 has stopped. On November 15, 1984, the NRC staff denied the petition.

See "Item 2. Properties" for information concerning the construction of generating plants by the CAPCO companies.

Environmental Matters

Regulation with regard to air and water quality and other environmental matters by various federal, state and local authorities, and compliance with such regulation will require the making of certain capital expenditures in addition to those already made. The Company estimates that compliance requires additional capital expenditures of approximately \$4,000,000 which is included in the construction estimate for the period 1985 through 1989 as discussed under "Financing and Construction Program".

Air Regulation

Under the provisions of the Clean Air Act of 1970, both the State of Ohio and the Commonwealth of Pennsylvania adopted ambient air quality standards, and related emission limitations, including limitations for sulfur dioxide ("SO₂") and particulates. In addition, the U.S. Environmental Protection Agency ("EPA") promulgated an SO₂ regulatory plan for Ohio which became effective for Sammis Unit No. 7 in 1977. Generating plants to be constructed in the future and some future modifications of existing facilities will be covered not only by the applicable state standards but also by emission standards of EPA for new sources. In both Ohio and Pennsylvania the construction or modification of emission sources requires approval from appropriate environmental authorities, and the facilities involved may not be operated unless a permit or variance to do so has been issued by those same authorities.

Section 125 of the Clean Air Act Amendments of 1977 could require the Company to buy locally or regionally available coal, if to do otherwise would result in significant local or regional economic disruption or unemployment. EPA instituted proceedings under Section 125 in July 1978. EPA announced in September 1979 and again in January 1981 that it has failed to find the requisite significant adverse impacts necessary to impose this requirement. A final determination in this matter has not yet been made.

The Company is required to meet federally approved SO₂ regulations, and the violation of such regulations can result in injunctive relief, including shutdown of the offending generating unit, and/or civil or criminal penalties of up to \$25,000 per day of violation. EPA has announced an interim enforcement policy for the SO₂ regulations in Ohio which allows for compliance with the regulations based on a 30-day averaging period. A similar policy applicable to sources in Indiana was rescinded in February 1985. The Company believes that all plants subject to the interim enforcement policy are in compliance with that policy. The Company cannot predict what action EPA may take following expiration of the interim enforcement policy.

Pursuant to consent orders between the owners of Sammis Unit No. 7 (the Company, Edison and Duquesne), EPA and the State of West Virginia, the installation of required particulate control equipment was completed by August 1984. The Company's share of the cost of this equipment totaled \$19,238,000. This installation, together

with the use of low and medium sulfur coal as needed, brought Unit No. 7 into compliance with both particulate and SO₂ standards.

The Pennsylvania Department of Environmental Resources ("DER") adopted in 1984 an enforcement policy applicable to violations of state SO₂ and opacity standards based on sources' continuous emission monitoring system data. The policy imposes penalties for exceedances of emission standards and for the failure to provide sufficient monitoring data. The Company has not been assessed any penalties applicable to 1984 and does not expect future penalties, if any, to be material. In April 1984, the Company paid \$50,000 to the DER to settle alleged violations of opacity standards at the New Castle Plant for the period June 1, 1982 to October 1, 1983. The DER's continuous emission monitoring enforcement policy, as discussed above, will be applicable to any future violations of opacity standards.

On January 23, 1984 the Company received an operating permit from the DER for Mansfield Unit No. 3. This unit had previously been operating under temporary operating permits which were renewed periodically and which allowed for some deviations from the emission standards set by the Pennsylvania Implementation Plan under the Clean Air Act. The operating permit will allow no such deviations but instead requires that emission standards be met on a continuous basis without any deviation whatsoever. The Company believes that despite its sophisticated pollution control equipment, Unit No. 3 may be unable to meet the SO₂ emission standard required in Pennsylvania on an absolutely continuous basis. Past experience has indicated that some deviation from the absolute limit set by the Pennsylvania standard will occur from time to time on a temporary basis during the operation of the unit. The Company has appealed the issuance of the permit to the Pennsylvania Environmental Hearing Board on the grounds that the SO₂ standard applicable to Unit No. 3 is not reasonably based and is not necessary for the achievement of ambient air quality standards. Civil and criminal penalties ranging up to \$2,500 per daily violation are provided for under Pennsylvania law for violations of these emission standards. Management is unable to predict the outcome of this proceeding.

As a part of the reauthorization of the Clean Air Act, legislation has been introduced in Congress to address the so-called "acid rain" problem. Various bills introduced thus far would require reductions in SO₂ emissions from utility power plants and other sources located in several states, including Ohio and Pennsylvania. The Company is unable to predict whether the proposed bills will be enacted and, if so, to what extent, if any, the SO₂ emission limits at the Company's plants would be affected. Substantial changes in the SO₂ emission limits could result in the need for changes in coal supply or significant capital investments in flue gas desulfurization equipment to assure compliance. If flue gas desulfurization equipment were to be installed on all of the Company's generating units to achieve compliance, a circumstance that may be physically impossible because of space limitations at certain of the Company's plants, the Company estimates that the capital costs associated with such installation could exceed \$100,000,000. The Company would expect that any such capital costs, as well as any increased operating costs associated with such equipment, would ultimately be recovered from its customers.

On December 5, 1984, EPA denied a petition from the Commonwealth of Pennsylvania and the states of New York and Maine, which sought to force EPA to make findings under Section 126 of the Clean Air Act. Section 126 provides a remedy for a downwind state that can show adverse impact because air pollution regulations in an upwind state causes nonattainment of air quality standards in the downwind state. The petition complained of excessive particulate and SO₂ emissions from a number of sources in Ohio and other states, including Sammis Unit No. 7. Seven northeastern states have appealed the EPA's decision to the U. S. Court of Appeals for the District of Columbia, asking that the decision be reviewed, reversed, modified or set aside. Edison, along with other electric utilities and others, has petitioned to intervene in the case. On March 20, 1984, a number of states, together with various environmental organizations and individuals, filed suit in the U.S. District Court for the District of Columbia urging the Court to order EPA to render a timely decision on the then pending Section 126 petitions and asserting that EPA has violated a mandatory duty to determine which states are contributing to air pollution which is alleged to endanger public health and welfare in Canada and to order cutbacks in SO₂ emissions in these states under the section of the Clean Air Act dealing with international air pollution (Section 115). EPA's December 5, 1984 denial made the Plaintiff's first request moot. The Court has not yet acted on the Plaintiff's request relating to Section 115. The Company is unable to predict the outcome of these proceedings.

In October 1983, the U. S. Court of Appeals for the District of Columbia reversed several significant portions of the EPA's regulations on the methods used by the EPA to determine the amount of stack height credit for

establishing individual source emission limitations. In July 1984, the U. S. Supreme Court denied a utility industry request to review the Court of Appeals' decision. On November 8, 1984 the EPA proposed new stack height regulations to conform them to the court's decision. Such changes could result in more stringent emission limitations for some existing plants and increased capital costs and operating expenses. The Company is studying the proposed new regulations and is currently unable to predict their ultimate effect if adopted.

Water Regulation

Various water quality regulations, the majority of which are the result of the federal Clean Water Act and its Amendments apply or will apply to the Company's plants. In addition, Pennsylvania and Ohio have water quality standards applicable to the Company's operations. As provided in the Clean Water Act, authority to grant federal National Pollutant Discharge Elimination System ("NPDES") water discharge permits can be assumed by a state. Ohio and Pennsylvania have assumed such authority.

On October 2, 1984, the DER approved a Company plan regarding thermal discharges at its New Castle Plant. The plan involves correlating river flow and temperature conditions with plant generating operations to effect an alternate thermal effluent limitation under Section 316(a) of the federal Clean Water Act. The Company's discharge permit is currently being rewritten by DER to implement the plan which is expected to eliminate the need for off-stream cooling at the plant.

Waste Disposal

As a result of the Resource Conservation and Recovery Act of 1976, as amended, and the Toxic Substances Control Act of 1976, federal and state hazardous waste regulations have been promulgated. On July 26, 1982, EPA promulgated final rules on land disposal of hazardous wastes which could have a significant impact on the Company if fossil fuel wastes were to be classified as hazardous. A group of electric utilities has challenged these rules in the U.S. Court of Appeals for the District of Columbia Circuit in a suit filed on October 7, 1982. These regulations and a court decision regarding the use and disposal of polychlorinated biphenyls will affect the use of certain electrical equipment. Among other things, the Company is required to inventory substantial amounts of equipment containing polychlorinated biphenyls and may be required to utilize new methods of disposal of such substances. The ultimate effect of these requirements cannot presently be determined.

Summary

Environmental controls are in the process of development and require, in many instances, balancing of the needs for additional quantities of energy in future years and the need to protect the environment. As a result, the Company cannot now estimate the precise effect of existing and potential regulations and legislation upon any of its existing and proposed facilities and operations or upon its ability to issue additional first mortgage bonds under its mortgage. The mortgage contains covenants by the Company to observe and conform to all valid government requirements at the time applicable unless in course of contest and provisions which, in effect, prevent the issuance of additional bonds if there is a completed default under the mortgage. The provisions of the mortgage, in effect, also require, in the opinion of counsel for the Company, that certification of property additions as the basis for the issuance of bonds or other action under the mortgage be accompanied by an opinion of counsel that the Company has all governmental permissions at the time necessary for its then current ownership and operation of such property additions. The Company intends to contest any requirements it deems unreasonable or impossible of compliance or otherwise contrary to the public interest. Developments in these and other areas of regulation may require the Company to modify, supplement or replace equipment and facilities, and may delay or impede the construction and operation of new facilities, at costs which could be substantial. The Company expects that the impact of any such costs would eventually be reflected in its rate schedules.

Other Programs

In 1967, the Companies joined with 24 other electric companies operating in eight states in the formation of the East Central Area Reliability Coordination Group ("ECAR") for the purpose of furthering the reliability of bulk power supply in the area through coordination of the planning and operation by the ECAR members of their bulk power supply facilities. In 1968, the ECAR members adopted practices and procedures for establishing, for each system, the minimum generating capability to be available each day to carry loads and to meet unforeseen contingencies and also a program to be followed in the event of an extreme disturbance within the ECAR area.

Employees

At December 31, 1984, the Company had 1,828 employees.

Operating Statistics

Operating statistics of the Company are incorporated herein by reference to the Operating Statistics on page 4 in the Company's 1984 Annual Report to stockholders.

ITEM 2. Properties

The Company's First Mortgage Indenture, dated as of November 1, 1945, between the Company and Citibank, N.A. (successor to The First National Bank of the City of New York), as Trustee, as amended and supplemented, constitutes, in the opinion of the Company's counsel, a direct first lien on substantially all of the Company's physical property, subject only to excepted encumbrances, as defined in the Indenture.

See Notes 4 and 6 of Notes to Financial Statements for information concerning leases and financing encumbrances affecting certain of the Company's properties.

The Company owns and operates one coal-fired electric generating plant at New Castle, Pennsylvania, with a total net demonstrated capability of 418,000 kW (including the Company's share, 2,000 kW, of diesel generators located at the New Castle Plant) and is entitled, as co-owner, to 51,000 kW from 348,000 kW of oil-fired peaking units owned by the Companies as tenants in common.

Through its participation in the CAPCO program, the Company owns, as tenant in common, a 20.8% interest in Sammis Unit No. 7, a coal-fired generating unit at Stratton, Ohio, which has a net demonstrated capability of 600,000 kW, and which went into commercial operation in 1971; a 4.2% interest in Bruce Mansfield Unit No. 1, a 6.8% interest in Bruce Mansfield Unit No. 2, and a 6.28% interest in Bruce Mansfield Unit No. 3, three coal-fired generating units at Shippingport, Pennsylvania, with net demonstrated capabilities of 780,000 kW, 780,000 kW, and 800,000 kW, respectively, which went into full commercial operation in June 1976, October 1977, and September 1980, respectively; and a 17.5% interest in Beaver Valley Unit No. 1, a nuclear unit at Shippingport, Pennsylvania, which has full demonstrated capability of 810,000 kW, which went into commercial operation in April 1977.

With its ownership interest in the New Castle Plant and through its participation in the CAPCO Program described above, the total capacity presently owned by the Company is 872,000 kW. There is also available approximately 23,000 kW of power to the Company from Ohio Valley Electric Corporation in excess of DOE's requirements at its plant near Portsmouth, Ohio.

The CAPCO companies, as further discussed under "Item 1. Business-CAPCO Program", undertook a program for the joint development of power generation and transmission facilities. In January 1980, the CAPCO companies terminated plans to build four nuclear generating units that had been scheduled for completion in the late 1980's or early 1990's. It was decided that Davis-Besse Units Nos. 2 and 3 and Erie Units Nos. 1 and 2 would not be built. The additions to the generating capacity of the Company presently being constructed as a part of this program are shown below:

Site(a)	Type	Capacity	Estimated Operation Date	Estimated Total Cost to the Company(b)	Estimated Total Cost per Kilowatt(b)	Expenditures by the Company(c)
Perry Plant, in North Perry Village, Ohio						
Unit No. 1 and common facilities . . .	Nuclear	1,205 MW	late 1985	\$208,000,000(d)	\$3,302(d)	\$167,800,000(d)
Unit No. 2	Nuclear	1,205 MW	(e)	(e)	(e)	\$ 57,300,000(e)

(a) The Company will have an undivided interest as tenant in common with one or more of the other CAPCO companies in these units. The Company's interest in both Perry Units is 5.24%.

(b) The costs listed do not include the cost of fuel.

(c) Represents expenditures through December 31, 1984.

(d) Includes estimated costs for common facilities for both units.

(e) Perry Unit No. 2 is currently under review (see "Item 1. Business-Regulation").

CEI is moving into the latter stages of the process for obtaining an operating license for Perry Unit No. 1. The NRC has completed the Final Environmental Statement and Safety Evaluation Report with respect to the Unit, and the Advisory Committee on Reactor Safeguards hearings have been completed. In addition, a portion of the Atomic Safety and Licensing Board ("ASLB") public hearings have been completed, with the ASLB dismissing all challenges made by the intervenors against the quality control program at Perry Unit No. 1. In August 1984 a Seismic Quality Audit and a Pump and Valve Operability Audit, were conducted by the NRC. In addition, on November 28, 1984, a full-scale Emergency Drill, demonstrating the effectiveness of on-site and off-site emergency plans, was also completed. Activities remaining to be completed to obtain an operating license include additional ASLB hearings to discuss emergency planning, contentions regarding the Delaval emergency diesel generators and compliance with requirements concerning the control of hydrogen during an accident.

Nuclear generating units under construction are experiencing delays as a result of the lengthy regulatory process and opposition by anti-nuclear groups. Also, the start-up and testing process for new reactors, which commences after initial authorization by the NRC for operation and fuel loading, has often resulted in additional delays due to increased activity by intervenors and new plant and operational requirements which may be necessary as a result of initial testing. Although the Company does not presently have any specific reason to anticipate further licensing-related delays at Perry Unit No. 1, in light of the experience of the industry generally with respect to obtaining licenses from the NRC, there can be no assurance that such delays will not occur at Perry Unit No. 1 or any of the other CAPCO nuclear units under construction. If such delays occur, they can be expected to increase the total cost of the affected unit by amounts which could be substantial. The estimated completion date of Perry Unit No. 1, now about 97% complete, is around the end of 1985. The schedule required to meet this target has little, if any, margin to accommodate the unexpected problems that can arise during this stage of the construction of a nuclear generating unit.

Under the agreements governing the construction of CAPCO generating units, the responsibility for construction is assigned to a specific CAPCO company. CEI has responsibility for constructing Perry Units Nos. 1 and 2. The Company monitors the construction phase of these projects but must rely to a significant degree on the constructing company for information concerning construction activities. The Company in its oversight role cannot be privy to every detail of the construction process. It is the constructing company that must directly supervise construction and then exercise its reporting responsibilities to the co-owners. The Company critically reviews the information given to it by the constructing company, but it cannot be absolutely certain that things that it would have considered significant have been reported or that it would always have reached exactly the same conclusion about matters that are reported. In addition, the time that is necessarily part of the compiling and analyzing process creates a lag between the happening of events and the time the Company becomes aware of their significance. Because of all this, the Company cannot be assured, nor can it assure others, that its expectations concerning the construction process and the licensing process have not been undermined at any particular time by events that have already occurred. This is especially true as to cost and completion estimates, where the cumulative effect of day-to-day events during the course of the licensing and construction process have a crucial impact.

In addition to the CAPCO review of the status of Perry Unit No. 2, the Company continues to evaluate its nuclear construction program as a whole. While the CAPCO companies are working towards reaching a final decision on possible changes in the nuclear construction program on an expedited basis, it may (but not necessarily) turn out that any such final decision will not be made until a later date. The Company is unable to predict the results of these reviews.

The changes that have occurred in the CAPCO nuclear program, cost-related and otherwise, are symptomatic of the problems that continue to confront nuclear power plant construction. Other companies with large remaining nuclear construction programs are seeing substantial adverse effects on their financial positions and on their abilities to raise funds in the capital markets as changes occur in those programs. The CAPCO companies are well aware of these problems and are attempting to deal with them. No assurance can be given that additional changes in the CAPCO nuclear program, cost-related or otherwise, will not occur in the future either as a result of the current reviews, the regulatory process, budgetary constraints or other circumstances.

Delays in the dates of commercial operation of any of the major generating units under construction, or prolonged outages of existing generating units, might make it necessary for the Company, depending upon the state of demand from time to time for electric service upon the Company, to use to a greater extent than otherwise, less

efficient and less economic generating units, or purchased power, and in some cases might even require the reduction of load, all to an extent not presently determinable. (See "Regulation" and "Environmental Matters" under "Item 1. Business".)

The Company's generating plants and load centers are connected by a transmission system consisting of elements having various voltage ratings ranging from 23 to 345 kilovolts ("kV"). The Company's transmission lines aggregate 644 circuit miles. Its electric distribution system includes 4,911 miles of pole line carrying 5,984 circuit miles of primary, secondary and street lighting circuits. It also owns 77 substations which, together with its interest in the substations at certain Edison plants, and CAPCO's Beaver Valley Unit No. 1 and Bruce Mansfield Plant, have a total installed transformer capacity of 3,079,036 kilovoltamperes ("kVA").

The Company's transmission lines also interconnect with those of Edison, Duquesne and West Penn Power Company. Additional interconnections are under construction and others are planned for construction as a part of the CAPCO program. The existing and new interconnections will make possible the utilization by the Company of generating capacity constructed as a part of such program.

Recent Pennsylvania Legislation

A Pennsylvania law enacted in 1984 requires Pennsylvania utilities to file with the PPUC estimates of the construction costs of a generating unit currently under construction or to be constructed in the future when such construction is expected to require the affected public utility to incur expenditures in excess of \$100,000,000. The estimate of the costs that is filed is to be an estimate that was formulated no later than 30 days after the commencement of the unit. If final costs exceed the estimate filed with the PPUC, the cost in excess of the original estimate may be included in the utility's rate base only to the extent that the utility proves that those costs were necessary and proper. The Company, at the request of the PPUC, has filed cost estimates relating to the construction of each generating unit in which it expects to incur an aggregate of at least \$100,000,000 in capital costs (Perry Units Nos. 1 and 2). The PPUC has stated that it intends to promulgate rules and regulations implementing the new law.

Recently, the PPUC has made an "excess capacity" adjustment when integrating a large nuclear unit into the rate base of another Pennsylvania utility. The effect of that adjustment was to disallow a return on a portion of that company's plant in service. The Company can provide no assurance that the PPUC will not adopt a similar approach when considering a request by the Company to include its share of Perry Unit No. 1 or Unit No. 2 in rate base, although the Company believes that such an adjustment would not be justified in the circumstances. If made, the adverse effect of such an adjustment on the Company could be material depending on its magnitude.

ITEM 3. Legal Proceedings

In December 1984, the FERC approved settlement agreements between the Company and its five municipal resale customers. The agreements terminated with prejudice an antitrust suit brought in 1977 by two of these customers in which violations of the Sherman and Clayton Acts and damages of \$12,583,000 (to be trebled) were alleged. The agreements also terminated several rate case proceedings before the FERC and appeals to the Court of Appeals for the District of Columbia. For the seven years beginning September 1, 1984, these five customers will be charged the applicable prevailing retail electric rates of the Company. No damages, costs or attorney fees on behalf of these customers were paid by the Company in the settlement.

See "Item 1. Business - CAPCO Program", "Item 1. Business - Fuel Supply", "Item 1. Business - Regulation" and "Item 1. Business - Environmental Matters" for information with respect to other legal proceedings.

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

None.

PART II

ITEM 5. Market for the Registrant's Common Stock and Related Stockholder Matters

Pennsylvania Power Company is a wholly-owned subsidiary of Ohio Edison Company.

Dividends declared and paid per share of common stock during the past two years were:

	Quarterly Period			
	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>
1984	\$.95	\$.95	\$.95	\$.95
1983925	.925	.925	.925

For information with respect to certain restrictions on the payment of cash dividends on common stock, see Note 5(a) of Notes to Financial Statements.

ITEM 6. Selected Financial Data

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

ITEM 8. Financial Statements and Supplementary Data

The information called for by these Items is incorporated herein by reference to the Selected Financial Data, Management's Discussion and Analysis of Results of Operations and Financial Condition and Financial Statements included on pages 5 through 24 in the Company's 1984 Annual Report to stockholders.

ITEM 9. Disagreements on Accounting and Financial Disclosure

None.

PART III

ITEM 10. Directors and Executive Officers of the Registrant

The present term of office of each director extends until the next succeeding annual meeting of stockholders and until his successor is elected and shall qualify.

The present term of each officer of the Company extends to the first meeting of the Company's Board of Directors after the next annual election of directors scheduled to be held on March 26, 1986.

Robert H. Carlson—Age 58

Senior Vice President, Operations, of Universal-Rundle Corporation, New Castle, Pennsylvania, manufacturers of plumbing fixtures. Director of the Company since 1983.

A. Wayne Cole—Age 58

President of the Company since 1981, in charge of all phases of the Company's business. Prior to 1981 Division Manager, Marion, Ohio, of the Company's parent, Ohio Edison Company. Director of the Company since 1980. Mr. Cole is also a director of First National Bank of Western Pennsylvania, New Castle, Pennsylvania.

J. F. Dunlevy—Age 59

Vice President of the Company since 1967, in charge of customer services, area development, municipal resale, display, customer accounting, and the coordination and general conduct of the Company's business at the division and district levels. Director of the Company since 1973. Mr. Dunlevy is also a director of Peoples Bank of Western Pennsylvania, New Castle, Pennsylvania.

J. R. Edgerly—Age 54

Vice President and General Counsel of the Company since 1980, in charge of matters of a legal nature. Prior to 1980 Secretary and General Counsel. Director of the Company since 1973.

Joseph J. Nowak—Age 53

President of Sawhill Tubular Division, Sharon, Pennsylvania, since 1978, and President of Tex-Tube Division, Houston, Texas, since 1984, both pipe and tubing divisions of Cyclops Corporation. Director of the Company since 1982. Mr. Nowak is also a director of McDowell National Bank, Sharon, Pennsylvania, a subsidiary of Union National Bank, Pittsburgh, Pennsylvania.

V. A. Owoc—Age 61

Executive Vice President and Chief Financial Officer of the Company's parent, Ohio Edison Company, since 1980. Director of the Company since 1979. Mr. Owoc is also a director of Ohio Edison Company and Bank One, Akron, N.A., Akron, Ohio.

W. F. Reeher—Age 52

Vice President of the Company since 1976, in charge of the construction, operation, and engineering of the transmission, distribution, and power plant facilities of the Company, including the purchasing and stores activities. Director of the Company since 1976.

Justin T. Rogers, Jr.—Age 55

Chairman of the Board and Chief Financial Officer of the Company and President of its parent, Ohio Edison Company, and Chief Executive Officer of both Companies since 1980. Director of the Company since 1979. Mr. Rogers is also a director of Ohio Edison Company, the First National Bank of Akron, Ohio, and its parent, First Bancorporation of Ohio.

W. H. Sammis—Age 88

Retired. Formerly President of the Company and of its parent, Ohio Edison Company. Director of the Company since 1933.

D. W. Tschappat—Age 57

Executive Vice President of the Company's parent, Ohio Edison Company, since 1980. Director of the Company since 1980. Mr. Tschappat is also a director of Ohio Edison Company.

G. Leo Winger—Age 65

President and Chief Operating Officer, since 1983, of Steel Castings Corporation, Unitcast Canada Inc., a castings manufacturer, Sharon, Pennsylvania. Prior to 1983 President, Metal Products Group, Midland-Ross Corporation, a castings manufacturer, Sharon, Pennsylvania. Director of the Company since 1976. Mr. Winger is also a director of McDowell National Bank, Sharon, Pennsylvania, a subsidiary of Union National Bank, Pittsburgh, Pennsylvania.

B. D. Burford—Age 57

Comptroller of the Company since 1980, in charge of accounting.

Robert P. Wushinske—Age 45

Secretary and Treasurer of the Company since 1980, in charge of corporate records, including stockholder records, and funds of the Company.

Also serving as directors were: C. M. Whittaker from 1960 until his death on July 5, 1984, and D. Bruce Mansfield from 1964 until his death on March 7, 1985.

ITEM 11. Executive Compensation

The following table sets forth remuneration paid or accrued by the Company for services rendered during 1984 to each of the five most highly compensated officers of the Company whose remuneration exceeded \$60,000 and to all officers of the Company as a group:

(A) Name of Individual or Number of Persons in Group	(B) Capacities in Which Served	(C) Cash Compensation
A. Wayne Cole	President	\$ 96,849
W. F. Reeher	Vice President	76,727
J. F. Dunlevy	Vice President	72,144
J. R. Edgerly	Vice President and General Counsel ..	69,868
R. P. Wushinske	Secretary and Treasurer	64,323
All executive officers as a group (7 including the five persons above)		\$495,404

In 1984, the Company's Board of Directors adopted the Ohio Edison System Payroll-Based Tax Credit Employee Stock Ownership Plan effective January 1, 1983 (the "PAYSOP").

Under the Internal Revenue Code of 1954, as a participating Company in the Plan, the Company is permitted to contribute shares of Edison's Common Stock (or cash which must be invested in Common Stock) to the PAYSOP in an amount up to ½% of eligible employees' compensation and to take a credit equal to the amount so contributed against its federal income tax for that year. The Common Stock is allocated to the accounts of participating employees in relationship to their compensation. Shares allocated to the account of a participant may not be withdrawn by a participant for a period of at least 84 months from the date of such contribution unless the participant's employment terminates, he/she dies, or becomes disabled. Furthermore, compensation in excess of \$100,000 may not be used when determining the amount of shares to be allocated to a participant's account. Each participant will be fully vested in all the Common Stock and other assets allocated to his/her account. Any benefits under the PAYSOP will be provided solely from the assets of the PAYSOP.

In 1984, all executive officers as a group received 196 shares pursuant to the PAYSOP. The shares for the officers shown in the remuneration table are as follows: A. Wayne Cole—34 shares; W. F. Reeher—27 shares; J. F. Dunlevy—26 shares; J. R. Edgerly—26 shares; and R. P. Wushinske—24 shares.

In 1983, the Company's Board of Directors adopted the Ohio Edison System Employee Savings and Tax Deferral Plan effective January 1, 1984 (the "Savings Plan").

Under the Savings Plan, a participating employee may elect to make contributions directly by payroll deductions on an after-tax basis, or to have the Company make contributions on the employee's behalf on a pre-tax basis.

The Savings Plan provides that each participant either may elect to have a basic contribution of up to 6% of the base compensation deducted from the employee's salary or wages, or to have the Company contribute such amount on the employee's behalf to the Savings Plan and reduce the salary or wages in an equivalent amount. In addition, each participant who is making the maximum 6% basic contribution (or on whose behalf such contribution is made) may elect to make a supplementary contribution of up to an additional 6%.

The Company makes contributions to the Savings Plan with respect to each payroll period on behalf of each participant equal to 25% of each participant's basic contribution, subject to certain legal limitations.

Employee contributions under the Savings Plan are invested as elected by the participant, subject to certain Plan limitations. The Company's contributions will be invested only in Edison's Common Stock. A participant's interest in the employee and employer contributions will be 100% vested in the employee and nonforfeitable at all times.

Amounts paid under the Savings Plan in 1984 with respect to all executive officers as a group and Messrs. Cole, Reeher, Dunlevy, Edgerly, and Wushinske are included in the amounts set forth in the Executive Compensation Table above.

The Company has a trustee noncontributory pension plan covering substantially all full-time employees including officers of the Company. Directors who are not also employees of the Company are not covered. Pension benefits are determined using a formula based on a Plan participant's years of accrued service and average rate of monthly earnings during the 60 months of accrued service immediately preceding retirement or age 65, whichever occurs first, or termination of service. The remuneration covered by the Plan consists of salary and wages excluding overtime pay. The remuneration shown for the individuals listed in the above table is covered remuneration as defined in the Plan.

The following table shows the estimated annual benefits payable upon retirement based on specified remuneration and years of credited service classifications, assuming continuation of the present plan and employment until age 65, normal retirement date. Retirement prior to age 62 results in reduction of pension benefits. The amounts shown are subject to a reduction for Social Security benefits and optional survivorship provision and to limitations imposed by the Internal Revenue Code of 1954, as amended, which presently would limit the maximum annual retirement benefits to \$90,000.

Final Average Annual Earnings(1)	Estimated Annual Retirement Benefit		
	20 Years Service	30 Years Service	40 Years Service
\$ 60,000	\$22,800	\$31,200	\$36,600
70,000	26,600	36,400	42,700
80,000	30,400	41,600	48,800
90,000	34,200	46,800	54,900
100,000	38,000	52,000	61,000

- (1) Final Average Earnings Benefit is determined by the average monthly earnings during the 60 months of accrued service immediately preceding retirement or termination of service.

The credited years of service for the officers shown in the remuneration table are as follows: A. Wayne Cole—33 years; W. F. Reeher—24 years; J. F. Dunlevy—34 years; J. R. Edgerly—19 years; and R. P. Wushinske—11 years.

Directors who are not employees of the Companies receive an annual retainer of \$2,400 and a director's fee of \$300 for each board meeting attended and expenses, if any, of attendance. Directors who are also employees of the Company or of Edison receive no remuneration for serving as directors.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management

- (a) Security Ownership of Certain Beneficial Owners at February 1, 1985:

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Common Stock, \$30 par value	Ohio Edison Company 76 South Main Street Akron, Ohio 44308	5,890,000 shares, held directly	100%

- (b) Security Ownership of Management at February 1, 1985:

	Title of Class		Nature of Beneficial Ownership	Percent of Class	
	Edison Common Stock	Company Preferred Stock		Edison Common Stock	Company Preferred Stock
	No. of Shares	No. of Shares			
A. Wayne Cole	1,274		Direct or Indirect	Less than one percent	
J. F. Dunlevy	2,871		"	"	
J. R. Edgerly	6,759		"	"	
*D. Bruce Mansfield	7,292		"	"	
Joseph J. Nowak	2,100		"	"	
V. A. Owoc	3,666		"	"	
W. F. Reeher	273		"	"	
J. T. Rogers, Jr.	5,139		"	"	
W. H. Sammis	4,744	10	"	"	
D. W. Tschappat	4,235		"	"	
G. Leo Winger	3,100		"	"	
All directors and officers as a group (17 persons)	43,300	45	"	"	

- (c) Changes in Control: Not applicable

*Deceased March 7, 1985.

ITEM 13. Certain Relationships and Related Transactions

None.

PART IV

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

(a) 1. Financial Statements

Included in Part II of this report and incorporated herein by reference to the Company's 1984 Annual Report to stockholders (Exhibit 13 below) at the pages indicated:

	<u>Page No.</u>
Auditors' Report	24
Balance Sheets—	
December 31, 1984 and 1983	8-9
Statements of Income—	
Three Years Ended December 31, 1984	10
Statements of Capitalization—	
December 31, 1984 and 1983	11
Statements of Retained Earnings—	
Three Years Ended December 31, 1984	12
Statements of Capital Stock and Other Paid-In Capital—	
Three Years Ended December 31, 1984	12
Statements of Sources of Funds for Property Additions—	
Three Years Ended December 31, 1984	13
Statements of Taxes—	
Three Years Ended December 31, 1984	14
Notes to Financial Statements	15-23

(a) 2. Financial Statements Schedules

Included in Part IV of this report:

Auditors' Report on Schedules	23
Schedules—Three Years Ended December 31, 1984:	
V—Property, Plant and Equipment	24-25
VI—Accumulated Depreciation, Depletion and Amortization of Property, Plant and Equipment	26
VIII—Valuation and Qualifying Accounts and Reserves	27
IX—Short-Term Borrowings	28

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

(a) 3. Exhibits

Exhibit Number

- 3-1—Agreement of Merger and Consolidation dated April 1, 1929, among Pennsylvania Power Company ("Penn Power"), Harmony Electric Company and Peoples Power Company (consummated May 31, 1930), copies of Letters Patent issued thereon, together with the Election Return and Treasurer's Return, relative to decrease of capital stock; Election Return authorizing change of capital stock and increase of indebtedness; Election Return authorizing change of capital stock; Election Return authorizing increase of capital stock; Election Return establishing 4.24% Preferred Stock; Certificate with respect to the establishment of the 4.64% Preferred Stock; Election Returns and Certificates of Actual Sale in connection with the purchase by Penn Power of all the property of Pine-Mercer Electric Company, Industry Borough Electric Company, Ohio Township Electric Company, and Shippingport Borough Electric Company; Certificate of Change of Location of Penn Power's principal office; Certificate of Consent authorizing increase in authorized Common Stock; Certificate of consent with respect to the removal of limitations on the authorized amount of indebtedness of Penn Power; Election Returns and Certificates of Actual Sale in connection with the purchase by Penn Power of all the property of Borolak Public Service Company, Eastfax Public Service Company, Norango Public Service Company, Sadwick Public Service Company, Sosango Public Service

Exhibit
Number

Company, Surrick Public Service Company, Wesango Public Service Company, and Westfax Public Service Company; Certificate of Change of Location of Penn Power's principal office; Amendment to the Charter extending the territory in which Penn Power may operate in the Borough of Shippingport, Beaver County, Pennsylvania; Certificate of Consent authorizing increase in authorized Common Stock; Certificate with respect to the establishment of the 8% Preferred Stock; Certificate accepting Business Corporation Law of Pennsylvania for government and regulation of affairs of Penn Power; Articles of Amendment incorporating certain protective provisions relating to Preferred Stock, increasing amount of authorized Preferred Stock and authorizing future increases in amounts of authorized Preferred Stock without a vote of the holders of Preferred Stock; Articles of Amendment increasing the authorized number of shares of Common Stock; Statement Affecting Class or Series of Shares with respect to the establishment of the 7.64% Preferred Stock; Articles of Amendment increasing the authorized number of shares of Common Stock; Articles of Amendment increasing the number of authorized shares of Preferred Stock; Statement Affecting Class or Series of Shares with respect to the establishment of the 8.48% Preferred Stock; Articles of Amendment authorizing sinking fund requirements for Preferred Stock; Statement Affecting Class or Series of Shares with respect to the establishment of the 11% Preferred Stock; Articles of Amendment increasing the authorized number of shares of Common Stock; Statement Affecting Class or Series of Shares with respect to the establishment of the 9.16% Preferred Stock; Articles of Amendment increasing authorized number of shares of Common Stock; Articles of Amendment increasing authorized number of shares of Preferred Stock; Statement Affecting Class or Series of Shares with respect to the establishment of the 8.24% Preferred Stock; Statement Affecting Class or Series of Shares with respect to the establishment of the 10.50% Preferred Stock; Articles of Amendment increasing authorized number of shares of Common Stock; Articles of Amendment increasing authorized number of shares of Preferred Stock; Statement Affecting Class or Series of Shares with respect to the establishment of the 15.00% Preferred Stock; Statement Affecting Class or Series of Shares with respect to the establishment of the 11.50% Preferred Stock; Articles of Amendment increasing authorized number of shares of Preferred Stock; and Statement Affecting Class or Series of Shares with respect to the establishment of the 13.00% Preferred Stock.

(Physically filed and designated respectively, as follows: in Form A-2, Registration No. 2-3889, as Exhibit A-1; in Form 1-MD for 1938, File No. 2-3889, as Exhibit (a)-1; in Form 1-MD for 1945, File No. 2-3889, as Exhibit A; in Form U-1, File No. 70-2310, as Exhibit A-3(d); in Form 8-K for March 1951, File No. 1-3491, as Exhibit B; in Form 8-K for June 1958, File No. 1-3491B, as Exhibit 1; in Form 10-K for 1959 as Exhibits 1, 2, 3 and 4; in Form 8-K for March 1960, File No. 1-3491B as Exhibit A; in Form U-1, File No. 70-3971, as Exhibit A-2; in Form U-1, File No. 70-4055, as Exhibit A-2; as Exhibits 1 through 8 in Form 8-K for January 1962, File No. 1-3491; as Exhibit A in Form 8-K for August 1963, File No. 1-3491; as Exhibits A and B in Form 8-K for September 1969, File No. 1-3491; as Exhibit B in Form 8-K for April 1971, File No. 1-3491; as Exhibit B in Form 8-K for September 1971, File No. 1-3491; in Form U-1, File No. 70-5264, as Exhibit A-2; as Exhibit A in Form 8-K for September 1972, File No. 1-3491; as Exhibit A in Form 8-K for December 1972, File No. 1-3491; as Exhibit A in Form 8-K for March 1973, File No. 1-3491; as Exhibit A in Form 8-K for December 1973, File No. 1-3491; as Exhibits A and C in Form 8-K for February 1974, File No. 1-3491; as Exhibits A and B in Form 8-K for January 1975, File No. 1-3491; as Exhibit F in Form 8-K for May 1975, File No. 1-3491; as Exhibit A in Form 8-K for April 1976, File No. 1-3491; as Exhibit G in Form 10-Q for quarter ended June 30, 1977, File No. 1-3491; as Exhibit C in Form 10-K for 1977, File No. 1-3491; as Exhibit A in Form 10-K for 1977, File No. 1-3491; as Exhibit D in Form 10-Q for quarter ended June 30, 1980, File No. 1-3491; as Exhibit (4) in Form 10-Q for quarter ended June 30, 1981, File No. 1-3491; as Exhibit 4 in Form 10-Q for quarter ended June 30, 1982, File No. 1-3491; as Exhibit 4 in Form 10-Q for quarter ended September 30, 1982, File No. 1-3491; as Exhibit 4 in Form 10-Q for quarter ended September 30, 1983, File No. 1-3491; as Exhibit 4 in Form 10-Q for quarter ended March 31, 1984, File No. 1-3491; and as Exhibit 4 in Form 10-Q for quarter ended June 30, 1984, File No. 1-3491.)

3-2—By-Laws of the Company as currently in effect, as amended January 1, 1981. (Physically filed and designated as Exhibit 3-2 in Form 10-K, File No. 1-3491, for 1980.)

**Exhibit
Number**

- *4-1—Indenture dated as of November 1, 1945, between the Company and The First National Bank of the City of New York (now Citibank, N.A.), as Trustee, as supplemented and amended by Supplemental Indentures dated as of May 1, 1948, March 1, 1950, February 1, 1952, October 1, 1957, September 1, 1962, June 1, 1963, June 1, 1969, May 1, 1970, April 1, 1971, October 1, 1971, May 1, 1972, December 1, 1974, October 1, 1975, September 1, 1976, April 15, 1978, June 28, 1979, January 1, 1980, June 1, 1981, January 14, 1982, August 1, 1982, December 15, 1982, and December 1, 1983 (Physically filed and designated as Exhibits 2(b)(1)-1 through 2(b)(1)-15 in Registration Statement File No. 2-60837; as Exhibits 2(b)(2), 2(b)(3), and 2(b)(4) in Registration Statement File No. 2-68906; as Exhibit 4-2 in Form 10-K for 1981 File No. 1-3491; as Exhibit 19-1 in Form 10-K for 1982 File No. 1-3491; and as Exhibit 19-1 in Form 10-K for 1983 File No. 1-3491.)
- 10-1—Administration Agreement between the CAPCO Group dated as of September 14, 1967. (Physically filed and designated in Registration Statement of Ohio Edison Company, File No. 2-43102, as Exhibit 5(c)(2).)
- 10-2—Amendment No. 1 dated January 4, 1974 to Administration Agreement between the CAPCO Group dated as of September 14, 1967. (Physically filed and designated in Registration Statement No. 2-68906, as Exhibit 5(c)(3).)
- 10-3—Transmission Facilities Agreement between the CAPCO Group dated as of September 14, 1967. (Physically filed and designated in Registration Statement of Ohio Edison Company, File No. 2-43102, as Exhibit 5(c)(3).)
- 10-4—Termination or Construction of Certain Agreements effective September 1, 1980 between the CAPCO Group. (Physically filed and designated in Registration Statement No. 2-68906, as Exhibit 10-4.)
- 10-5—CAPCO Basic Operating Agreement, as amended September 1, 1980. (Physically filed and designated in Registration Statement No. 2-68906, as Exhibit 10-5.)
- 10-6—Amendment No. 1 dated August 1, 1981 and Amendment No. 2 dated September 1, 1982, to CAPCO Basic Operating Agreement as amended September 1, 1980. (Physically filed and designated as Exhibit 20-1 in Form 10-Q, File No. 1-2578, of Ohio Edison Company for quarter ended September 30, 1981, and as Exhibit 19-3 in Form 10-K, File No. 1-2578, of Ohio Edison Company for 1982.)
- 10-7—Memorandum of Agreement effective as of September 1, 1980, among the CAPCO Group. (Physically filed and designated as Exhibit 19-2 in Form 10-K, File No. 1-2578, of Ohio Edison Company for 1982.)
- 10-8—Construction Agreement dated February 5, 1970, with respect to Beaver Valley Power Station Unit No. 1 between Duquesne Light Company, Ohio Edison Company and Pennsylvania Power Company. (Physically filed and designated in Registration Statement No. 2-36946, as Exhibit 4(c)(3).)
- 10-9—Operating Agreement dated May 24, 1976, with respect to Beaver Valley Power Station Units Nos. 1 and 2 between the CAPCO Group. (Physically filed and designated in Registration Statement No. 2-56944, as Exhibit 5(d)(4).)
- 10-10—Amendment No. 1 dated May 1, 1977, to Operating Agreement dated May 24, 1976, with respect to Beaver Valley Power Station Units Nos. 1 and 2 between the CAPCO Group. (Physically filed and designated in Registration Statement of Ohio Edison Company, File No. 2-60109, as Exhibit 5(d)(6).)
- 10-11—Addendum No. 1 dated November 1, 1980, to Operating Agreement dated May 24, 1976, as amended, with respect to Beaver Valley Power Station Units Nos. 1 and 2 between the CAPCO Group. (Physically filed and designated in Registration Statement No. 2-68906, as Exhibit 10-9.)

*Pursuant to paragraph (b)(4)(iii)(A) of Item 601 of Regulation S-K, the Company has not filed as an exhibit to this Form 10-K any instrument with respect to long-term debt if the total amount of securities authorized thereunder does not exceed 10% of the total assets of the Company, but hereby agrees to furnish to the Commission on request any such documents.

Exhibit
Number

- 10-12—Construction Agreement with respect to Perry Plant between the CAPCO Group dated as of July 22, 1974. (Physically filed and designated in Registration Statement of Toledo Edison Company, File No. 2-52251, as Exhibit 5(yy).)
- 10-13—Participation Agreement No. 1 relating to the financing of the development of certain coal mines, dated as of October 1, 1973, among Quarto Mining Company, the CAPCO Group, Energy Properties, Inc., General Electric Credit Corporation, the Loan Participants listed in Schedules A and B thereto, Central National Bank of Cleveland, as Owner Trustee, National City Bank, as Loan Trustee, and National City Bank, as Bond Trustee. (Physically filed and designated in Registration Statement of Ohio Edison Company, File No. 2-61146, as Exhibit 5(e)(1).)
- 10-14—Amendment No. 1 dated as of September 15, 1978, to Participation Agreement No. 1 dated as of October 1, 1973, among Quarto Mining Company, the CAPCO Group, Energy Properties, Inc., General Electric Credit Corporation, the Loan Participants listed in Schedules A and B thereto, Central National Bank of Cleveland, as Owner Trustee, National City Bank, as Loan Trustee, and National City Bank, as Bond Trustee. (Physically filed and designated in Registration Statement No. 2-68906, as Exhibit 5(e)(2).)
- 10-15—Participation Agreement No. 2 relating to the financing of the development of certain coal mines, dated as of August 1, 1974, among Quarto Mining Company, the CAPCO Group, Energy Properties, Inc., General Electric Credit Corporation, the Loan Participants listed in Schedules A and B thereto, Central National Bank of Cleveland, as Owner Trustee, National City Bank, as Loan Trustee, and National City Bank, as Bond Trustee. (Physically filed and designated in Registration Statement of Ohio Edison Company, File No. 2-53059, as Exhibit 5(h)(2).)
- 10-16—Amendment No. 1 dated as of September 15, 1978, to Participation Agreement No. 2 dated as of August 1, 1974, among Quarto Mining Company, the CAPCO Group, Energy Properties, Inc., General Electric Credit Corporation, the Loan Participants listed in Schedules A and B thereto, Central National Bank of Cleveland, as Owner Trustee, National City Bank, as Loan Trustee, and National City Bank, as Bond Trustee. (Physically filed and designated in Registration Statement No. 2-68906, as Exhibit 5(e)(4).)
- 10-17—Participation Agreement No. 3 relating to the financing of the development of certain coal mines, dated as of September 15, 1978, among Quarto Mining Company, the CAPCO Group, Energy Properties, Inc., General Electric Credit Corporation, the Loan Participants listed in Schedules A and B thereto, Central National Bank of Cleveland, as Owner Trustee, National City Bank, as Loan Trustee, and National City Bank, as Bond Trustee. (Physically filed and designated in Registration Statement No. 2-68906, as Exhibit 5(e)(5).)
- 10-18—Participation Agreement No. 4 relating to the financing of the development of certain coal mines, dated as of October 31, 1980, among Quarto Mining Company, the CAPCO Group, the Loan Participants listed in Schedule A thereto and National City Bank, as Bond Trustee. (Physically filed and designated in Registration Statement No. 2-68906, as Exhibit 10-16.)
- 10-19—Agreement entered into as of October 20, 1981, among the CAPCO Companies regarding the use of Quarto Coal at Mansfield Units Nos. 1, 2 and 3. (Physically filed and designated as Exhibit 20-1 in Form 10-K, File No. 1-2578, of Ohio Edison Company for 1981.)
- 10-20—Restated Option Agreement dated as of May 1, 1983, by and between The North American Coal Corporation and the CAPCO Companies. (Physically filed and designated as Exhibit 19-1 in Form 10-K, File No. 1-2578, of Ohio Edison Company for 1983.)
- 10-21—Trust Indenture and Mortgage dated as of October 1, 1973, between Quarto Mining Company and National City Bank, as Bond Trustee, together with Guaranty, dated as of October 1, 1973, with respect thereto by the CAPCO Group. (Physically filed and designated in Registration Statement of Ohio Edison Company, File No. 2-61146, as Exhibit 5(e)(5).)

**Exhibit
Number**

- 10-22—Amendment No. 1 dated August 1, 1974, to Trust Indenture and Mortgage dated as of October 1, 1973, between Quarto Mining Company and National City Bank, as Bond Trustee, together with Amendment No. 1 dated August 1, 1974, to Guaranty dated as of October 1, 1973, with respect thereto by the CAPCO Group. (Physically filed and designated in Registration Statement of Ohio Edison Company, File No. 2-53059, as Exhibit 5(h)(2).)
- 10-23—Amendment No. 2 dated as of September 15, 1978, to Trust Indenture and Mortgage dated as of October 1, 1973, as amended, between Quarto Mining Company and National City Bank, as Bond Trustee. (Physically filed and designated in Registration Statement No. 2-68906, as Exhibit 5(e)(11).)
- 10-24—Amendment No. 2 dated as of September 15, 1978, to Bond Guaranty dated as of October 1, 1973, as amended, between the CAPCO Group and National City Bank, as Bond Trustee. (Physically filed and designated in Registration Statement No. 2-68906, as Exhibit 5(e)(12).)
- 10-25—Amendment No. 3 dated as of October 31, 1980, to Trust Indenture and Mortgage dated as of October 1, 1973, as amended, between Quarto Mining Company and National City Bank, as Bond Trustee. (Physically filed and designated in Registration Statement No. 2-68906, as Exhibit 10-16.)
- 10-26—Amendment No. 3 dated as of October 31, 1980, to the Bond Guaranty dated as of October 1, 1973, as amended, with respect to the CAPCO Group. (Physically filed and designated in Registration Statement No. 2-68906, as Exhibit 10-16.)
- 10-27—Open End Mortgage dated as of October 1, 1973, between Quarto Mining Company and the CAPCO Companies and Amendment No. 1 thereto dated as of September 15, 1978. (Physically filed and designated in Registration Statement No. 2-68906, as Exhibit 10-23.)
- 13—1984 Annual Report to stockholders. (Only those portions expressly incorporated by reference in this Form 10-K are to be deemed "filed" with the Securities and Exchange Commission.)
- 19-1—Supplemental Indentures dated as of September 6, 1984, and December 1, 1984, between the Company and Citibank, N.A., as Trustee.

(b) Reports on Form 8-K

The company filed a report on Form 8-K on October 8, 1984, reporting events in connection with the construction of the Perry Nuclear Power Plant.

AUDITORS' REPORT ON SCHEDULES

To Pennsylvania Power Company:

In connection with our examinations of the financial statements included in Pennsylvania Power Company's 1984 Annual Report to stockholders and incorporated by reference in this Form 10-K, we have also examined the schedules listed in Item 14. Our examinations of the financial statements were made for the purpose of forming an opinion on those statements taken as a whole. The schedules are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the examinations of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN & CO.

New York, New York
February 8, 1985

SCHEDULE V

PENNSYLVANIA POWER COMPANY
Property, Plant and Equipment
For the Years Ended December 31, 1984 and 1983

Classification	Balance at Beginning of Period	Additions at Cost(a)	Retirements	Other Changes(b)	Balance at End of Period
(In Thousands)					
Year Ended December 31, 1984:					
Utility Plant at Original Cost:					
Electric					
Intangibles—					
Organization Expense	\$ 23	\$ —	\$ —	\$ —	\$ 23
Franchises and Consents	64	—	—	—	64
Production—					
Steam	228,419	3,999	526	16	231,908
Nuclear	138,055	11,347	25	—	149,377
Other	10,565	246	74	—	10,737
Transmission	70,621	13,329	222	(31)	83,697
Distribution	102,374	7,233	884	15	108,738
General	10,100	1,096	78	—	11,118
Construction Work in Progress	220,420	44,719	—	—	265,139
Plant Held for Future Use	1,525	(84)	—	—	1,441
Total Electric Plant at Original Cost ...	782,166	81,885	1,809	—	862,242
Nuclear Fuel	47,749	13,429	—	—	61,178
Total Utility Plant	829,915	95,314	1,809	—	923,420
Nonutility Property	333	69	114	—	288
Total Property, Plant and Equipment ...	<u>\$830,248</u>	<u>\$95,383</u>	<u>\$1,923</u>	<u>\$ —</u>	<u>\$923,708</u>

Year Ended December 31, 1983:

Utility Plant at Original Cost:

Electric					
Intangibles—					
Organization Expense	\$ 23	\$ —	\$ —	\$ —	\$ 23
Franchises and Consents	64	—	—	—	64
Production—					
Steam	209,251	21,384	2,216	—	228,419
Nuclear	131,315	6,179	(561)	—	138,055
Other	10,550	15	—	—	10,565
Transmission	65,722	5,100	161	(40)	70,621
Distribution	97,561	5,776	1,003	40	102,374
General	8,862	1,354	116	—	10,100
Construction Work in Progress	185,926	34,494	—	—	220,420
Plant Held for Future Use	1,269	256	—	—	1,525
Total Electric Plant at Original Cost ...	710,543	74,558	2,935	—	782,166
Nuclear Fuel	40,903(c)	8,767	1,921	—	47,749
Total Utility Plant	751,446	83,325	4,856	—	829,915
Nonutility Property	389	12	68	—	333
Total Property, Plant and Equipment ...	<u>\$751,835</u>	<u>\$83,337</u>	<u>\$4,924</u>	<u>\$ —</u>	<u>\$830,248</u>

(a) In accordance with Statement of Financial Accounting Standards No. 71, leases entered into subsequent to December 31, 1982, which meet the criteria for capitalization as set forth in Statement of Financial Accounting Standards No. 13, have been capitalized as of January 1, 1984; the additions for the year ended December 31, 1983 have been restated to conform to the 1984 presentation.

(b) Represents transfers within property, plant and equipment.

(c) Restated to include \$18,051,000 of Nuclear Fuel leases entered into prior to January 1, 1983.

SCHEDULE V

PENNSYLVANIA POWER COMPANY

Property, Plant and Equipment
For the Year Ended December 31, 1982

<u>Classification</u>	<u>Balance at Beginning of Period</u>	<u>Additions at Cost</u>	<u>Retirements</u>	<u>Other Changes(a)</u>	<u>Balance at End of Period</u>
(In Thousands)					
Year Ended December 31, 1982:					
Utility Plant at Original Cost:					
Electric					
Intangibles—					
Organization Expense	\$ 23	\$ —	\$ —	\$ —	\$ 23
Franchises and Consents	64	—	—	—	64
Production—					
Steam	206,572	3,004	325	—	209,251
Nuclear	119,224	13,165	1,074	—	131,315
Other	10,543	9	2	—	10,550
Transmission	63,648	2,186	113	1	65,722
Distribution	93,288	5,118	844	(1)	97,561
General	7,957	1,181	276	—	8,862
Construction Work in Progress	142,326	43,600	—	—	185,926
Plant Held for Future Use	999	270	—	—	1,269
Total Electric Plant at Original Cost ...	644,644	68,533	2,634	—	710,543
Nuclear Fuel	4,706	18,146	—	—	22,852
Total Utility Plant	649,350	86,679	2,634	—	733,395
Nonutility Property	336	210	157	—	389
Total Property, Plant and Equipment ...	\$649,686	\$86,889	\$2,791	\$ —	\$733,784

(a) Represents transfers within property, plant and equipment.

PENNSYLVANIA POWER COMPANY

SCHEDULE VI

Accumulated Depreciation, Depletion and Amortization of Property, Plant and Equipment
For the Years Ended December 31, 1984, 1983 and 1982

Description	Balance at Beginning of Period	Additions		Retire- ments	Balance at End of Period
		Provisions Charged to(a)			
		Income(d)	Other Accounts(c)		
(In Thousands)					
Year Ended December 31, 1984:					
Utility Plant					
Electric:					
Production—					
Steam	\$ 62,172	\$ 6,308	\$ —	\$ 292	\$ 68,188
Nuclear	24,902	1,108(b)	—	65	25,945
Other	4,104	62	—	74	4,092
Transmission	19,243	(319)	51	248	18,727
Distribution	36,947	3,840	—	1,015	39,772
General	4,047	(120)	646	83	4,490
Total Electric Plant	151,415	10,879	697	1,777	161,214
Nuclear Fuel	5,914	—	4,355	—	10,269
Total Utility Plant	157,329	10,879	5,052	1,777	171,483
Nonutility Property	13	1	—	—	14
Total Property, Plant and Equipment	<u>\$157,342</u>	<u>\$10,880</u>	<u>\$5,052</u>	<u>\$1,777</u>	<u>\$171,497</u>
Year Ended December 31, 1983:					
Utility Plant					
Electric:					
Production—					
Steam	\$ 58,023	\$ 6,343	\$ —	\$2,194	\$ 62,172
Nuclear	20,070	4,243(b)	—	(589)	24,902
Other	3,576	528	—	—	4,104
Transmission	17,310	1,851	36	(46)	19,243
Distribution	34,541	3,589	—	1,183	36,947
General	3,496	239	414	102	4,047
Total Electric Plant	137,016	16,793	450	2,844	151,415
Nuclear Fuel	3,805	—	4,030	1,921	5,914
Total Utility Plant	140,821	16,793	4,480	4,765	157,329
Nonutility Property	13	—	—	—	13
Total Property, Plant and Equipment	<u>\$140,834</u>	<u>\$16,793</u>	<u>\$4,480</u>	<u>\$4,765</u>	<u>\$157,342</u>
Year Ended December 31, 1982:					
Utility Plant					
Electric:					
Production—					
Steam	\$ 52,362	\$ 5,984	\$ —	\$ 323	\$ 58,023
Nuclear	17,537	4,016(b)	—	1,483	20,070
Other	3,045	534	—	3	3,576
Transmission	15,786	1,646	—	122	17,310
Distribution	32,125	3,411	—	995	34,541
General	3,260	217	271	252	3,496
Total Electric Plant	124,115	15,808	271	3,178	137,016
Nuclear Fuel	—	—	—	—	—
Total Utility Plant	124,115	15,808	271	3,178	137,016
Nonutility Property	13	—	—	—	13
Total Property, Plant and Equipment	<u>\$124,128</u>	<u>\$15,808</u>	<u>\$271</u>	<u>\$3,178</u>	<u>\$137,029</u>

(a) In accordance with Statement of Financial Accounting Standards No. 71, leases entered into subsequent to December 31, 1982, which meet the criteria for capitalization as set forth in Statement of Financial Accounting Standards No. 13, have been capitalized as of January 1, 1984; the additions for the year ended December 31, 1983 have been restated to conform to the 1984 presentation.

(b) Includes decommissioning costs on Beaver Valley Unit No. 1.

(c) Represents amortization of Capital Leases and Nuclear Fuel, and provision for depreciation of transportation and power operated equipment charged to clearing accounts.

(d) Includes credits totaling \$6,751,000 in 1984 relating to an adjustment to the depreciation reserve.

SCHEDULE VIII

PENNSYLVANIA POWER COMPANY

Valuation and Qualifying Accounts and Reserves

For the Years Ended December 31, 1984, 1983 and 1982

Description	Balance at Beginning of Year	Additions		Deductions	Balance at End of Year
		Charged to Income	Charged to Other Accounts (In Thousands)		
Year Ended December 31, 1984:					
Accumulated provision for uncollectible accounts	\$ 432	\$ (50)	\$ 128(a)	\$ 398(b)	\$ 112
Reserve for injuries and damages	\$1,051	\$ 462	\$ 79(e)	\$ 151(f)	\$1,441
Year Ended December 31, 1983:					
Accumulated provision for uncollectible accounts	\$ 420	\$ 412	\$ 124(a)	\$ 524(b)	\$ 432
Reserve for nuclear fuel disposal costs .	\$ 965	\$1,116	\$1,750(c)	\$3,831(d)	\$ —
Reserve for injuries and damages	\$2,193	\$ (405)	\$ (484)(e)	\$ 253(f)	\$1,051
Year Ended December 31, 1982:					
Accumulated provision for uncollectible accounts	\$ 363	\$ 468	\$ 118(a)	\$ 529(b)	\$ 420
Reserve for nuclear fuel disposal costs .	\$ —	\$ 965	\$ —	\$ —	\$ 965
Reserve for injuries and damages	\$1,385	\$ 564	\$ 355(e)	\$ 111(f)	\$2,193

(a) Represents recoveries and reinstatements of accounts previously written off.

(b) Represents the write-off of accounts considered to be uncollectible.

(c) Represents deferral of costs recoverable from customers.

(d) Represents actual payments and known liability for nuclear fuel disposal costs.

(e) Represents charges (credits) to utility plant on the basis of direct costs of construction of certain classes of property.

(f) Represents workers' compensation claims, damage claims and other related expenses paid during the year.

SCHEDULE IX

PENNSYLVANIA POWER COMPANY

Short-Term Borrowings

For the Years Ended December 31, 1984, 1983 and 1982

<u>Year</u>	<u>Category of Aggregate Short-Term Borrowings</u>	<u>Balance at End of Period</u>	<u>Weighted Average Interest Rate at End of Period</u>	<u>Maximum Amount Outstanding During the Period</u>	<u>Average Amount Outstanding During the Period (b)</u>	<u>Weighted Average Interest Rate During the Period (a)(b)</u>
(Dollars in Thousands)						
1984	Notes Payable to Banks	\$ —	— %	\$13,700	\$1,198	12.04%
1983	Notes Payable to Banks	\$ —	— %	\$20,600	\$3,794	10.02%
1982	Notes Payable to Bank	\$ —	— %	\$21,000	\$5,894	13.66%

(a) Excluding the effect of commitment fees.

(b) Based on the daily amounts outstanding.

SIGNATURES

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

PENNSYLVANIA POWER COMPANY

By JUSTIN T. ROGERS, JR.
Justin T. Rogers, Jr.
Chairman of the Board

Date: March 29, 1985

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

JUSTIN T. ROGERS, JR.
Justin T. Rogers, Jr.
Chairman of the Board
(Principal Executive Officer and
Principal Financial Officer)

B. D. BURFORD
B. D. Burford
Comptroller
(Principal Accounting Officer)

ROBERT H. CARLSON
Robert H. Carlson
Director

V. A. OWOC
Director

A. WAYNE COLE
A. Wayne Cole
Director

W. F. REEHER
W. F. Reeher
Director

J. F. DUNLEVY
J. F. Dunlevy
Director

W. H. SAMMIS
W. H. Sammis
Director

J. R. EDGERLY
J. R. Edgerly
Director

D. W. TSCHAPPAT
D. W. Tschappat
Director

JOSEPH J. NOWAK
Joseph J. Nowak
Director

G. LEO WINGER
G. Leo Winger
Director

Date: March 29, 1985

PROSPECTUS

2,250,000 Shares Duquesne Light Company Common Stock (*\$1 Par Value*)

*The Common Stock is listed on the New York and Philadelphia Stock Exchanges.
The reported last sale price of the Common Stock on the New York
Stock Exchange on November 5, 1984 was \$15 $\frac{1}{2}$ per share.*

*In the opinion of counsel for the Company, the Common Stock is exempt from existing
personal property taxes in Pennsylvania.*

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE
SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION
PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS.
ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to the Company (1)
Per Share	\$15.375	\$.40	\$14.975
Total (2)	\$34,593,750	\$900,000	\$33,693,750

(1) Before deduction of expenses payable by the Company estimated at \$135,000.

(2) The Company has granted the Underwriters an option, exercisable for 30 days from the date of this Prospectus, to purchase on the same terms a maximum of 250,000 additional shares in order to cover over-allotments of shares. If the option is exercised in full, the total price to the public shown above will be increased to \$38,437,500, total underwriting discounts and commissions to \$1,000,000 and total proceeds to the Company to \$37,437,500.

The shares of Common Stock are offered by the several Underwriters when, as and if issued by the Company and accepted by the Underwriters and subject to their right to reject orders in whole or in part. It is expected that the shares will be ready for delivery on or about November 14, 1984.

The First Boston Corporation

PaineWebber
Incorporated

The date of this Prospectus is November 5, 1984.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OF THE COMPANY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK AND PHILADELPHIA STOCK EXCHANGES AND IN THE OVER-THE-COUNTER MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934 (the "1934 Act") and in accordance therewith files reports and other information with the Securities and Exchange Commission (the "SEC"). Information concerning directors and officers, their remuneration and any material interest of such persons in transactions with the Company, as of particular dates, is disclosed in proxy statements distributed to stockholders of the Company and filed with the SEC. Such reports, proxy statements and other information can be inspected and copied at the offices of the SEC at Room 1024, 450 Fifth Street, N.W., Washington, D.C.; Room 1228, Everett McKinley Dirksen Building, 219 South Dearborn Street, Chicago, Illinois; Room 1102, Jacob K. Javits Building, 26 Federal Plaza, New York, New York; and Suite 500 East, 5757 Wilshire Boulevard, Los Angeles, California. Copies of this material can also be obtained at prescribed rates from the Public Reference Section of the SEC at its principal office at 450 Fifth Street, N.W., Washington, D.C. 20549. Securities of the Company are listed on the New York and Philadelphia Stock Exchanges. Reports, proxy statements and other information concerning the Company can be inspected and copied at the respective offices of these exchanges at Room 401, 20 Broad Street, New York, New York, and at 1900 Market Street, Philadelphia, Pennsylvania. In addition, reports, proxy statements and other information concerning the Company can be inspected at the principal office of the Company, One Oxford Centre, 301 Grant Street, Pittsburgh, Pennsylvania.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

There are hereby incorporated by reference in this Prospectus the following documents previously filed with the SEC pursuant to the 1934 Act:

1. The Company's Annual Report on Form 10-K for the year ended December 31, 1983.
2. The Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, June 30 and September 30, 1984.
3. The Company's Current Reports on Form 8-K dated April 26 and September 28, 1984.
4. The Company's definitive proxy statement dated March 12, 1984 in connection with its Annual Meeting of Stockholders held on April 17, 1984.

All documents filed by the Company pursuant to Section 13(a), 13(c), 14 or 15(d) of the 1934 Act prior to the termination of the offering made hereby shall be deemed to be incorporated by reference in this Prospectus and to be a part hereof from the date of filing of such documents.

The Company hereby undertakes to provide without charge to each person to whom a copy of this Prospectus has been delivered, on the written or oral request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated in this Prospectus by reference (not including exhibits to such documents unless such exhibits are specifically incorporated by reference into such documents). Requests for such copies should be directed to Diane S. Eismont, Secretary, Duquesne Light Company, One Oxford Centre, 301 Grant Street, Pittsburgh, Pennsylvania 15279, telephone number 412-393-6080.

SELECTED INFORMATION

The following material is qualified in its entirety by the information appearing elsewhere in this Prospectus and by the detailed information and financial statements appearing in the documents incorporated by reference in this Prospectus.

THE OFFERING

Company Duquesne Light Company, an electric utility
 Security 2,250,000 shares of Common Stock
 Common Stock Outstanding at November 5, 1984 62,219,257 shares
 Listed New York and Philadelphia Stock Exchanges (symbol: DQU)
 1984 Price Range through November 5 \$15 $\frac{1}{8}$ to \$11 $\frac{1}{2}$
 Quarterly Dividend 51 $\frac{1}{2}$ ¢ per share

THE COMPANY

Service Area Pittsburgh and vicinity (800 square miles)
 Service Area Population Approximately 1,430,000
 Revenue Distribution* 33% residential, 36% commercial, 29% industrial and 2% other
 Energy Sources* 77% coal and 23% nuclear

*Twelve Months Ended September 30, 1984.

FINANCIAL INFORMATION

(in thousands, except per share amounts)

	Year Ended December 31,			12 Months Ended September 30,
	1981	1982	1983	1984
Income Statement Data (1):				
Electric Operating Revenues	\$786,229	\$746,462	\$800,345	\$851,708
Operating Income	159,829	155,307	186,672	194,040
Net Income	108,871	116,882	145,226	160,981
Earnings For Common Stock	85,895	94,181	122,815	138,914
Earnings Per Share of Common Stock	\$2.06	\$1.95	\$2.20	\$2.32
Dividends Declared Per Share of Common Stock	\$1.85	\$1.90	\$2.00	\$2.045
				As Adjusted (2)
				Amount Percent
Capitalization:				
Long-Term Debt		\$1,365,079	\$1,365,079	50.5%
Non-redeemable Preferred and Preference Stock		156,137	156,137	5.8
Redeemable Preferred and Preference Stock		128,014	128,014	4.7
Common Stock Equity (3)		1,008,091	1,053,648	39.0
Total Capitalization		\$2,657,321	\$2,702,878	100.0%

(1) Includes losses from discontinued steam heating operations, net of income tax benefits, of \$9,924,000 or \$.21 per share for 1982. The 1981 operating results of the Company's subsidiary, Allegheny County Steam Heating Company, have been reclassified; such amounts were not significant.

The data also include a nontaxable extraordinary gain of approximately \$9,609,000 or \$.20 per share for 1982 on the exchange of shares of Common Stock for outstanding First Mortgage Bonds which were owned by an investment banking firm.

(2) Reflects estimated proceeds of \$33.6 million from the 2,250,000 shares of Common Stock offered hereby, the issue and sale of 881,629 shares of Common Stock through the Company's Dividend Reinvestment Plan on October 1, 1984 and the issue of 43,494 shares of Common Stock contributed to Company employee stock ownership plans on October 24, 1984.

(3) Book value per share of Common Stock was \$16.45 at September 30, 1984.

THE COMPANY

Duquesne Light Company (the "Company") was formed under the laws of Pennsylvania by the consolidation and merger in 1912 of three constituent companies, the oldest of which was organized in 1890. The Company is engaged in the production, transmission, distribution and sale of electric energy. The Company serves an area of approximately 800 square miles which includes the City of Pittsburgh and municipalities in Allegheny and Beaver Counties, Pennsylvania. The principal executive office of the Company is located at One Oxford Centre, 301 Grant Street, Pittsburgh, Pennsylvania 15279. Its telephone number is 412-393-6000.

USE OF PROCEEDS AND CONSTRUCTION PROGRAM

The Company intends to apply the net proceeds from the sale of the shares offered hereby, estimated to be approximately \$33.6 million, to the payment of short-term indebtedness incurred principally for construction purposes, with the balance to be applied to construction expenditures. Short-term indebtedness of the Company at November 5, 1984 was approximately \$16.5 million.

The Company has for the last several years been engaged in an extensive and continuing construction program involving additions to its production, transmission and distribution plant, particularly the construction of new production plant in order to meet both experienced and projected load growth and of pollution control facilities in order to comply with environmental regulations affecting the Company's operations. In the course of this construction program older, less efficient and less environmentally acceptable facilities have been retired. The Company has budgeted construction expenditures of approximately \$254 million for 1984 and presently estimates that it will spend for construction approximately \$249, \$159, \$168 and \$169 million for each of the years 1985 through 1988, respectively, in each case exclusive of allowance for funds used during construction and nuclear fuel costs.

The Company anticipates that funds required for planned construction expenditures in the next several years will be provided principally from the issuance of additional securities and in part from cash becoming available from operations. Interim financing will be through bank borrowings and sales of commercial paper. The Company currently estimates that approximately 81% of the funds required for its 1984 construction program will come from outside financing. The Company is planning to issue up to \$100 million of tax-exempt pollution control obligations in December 1984 or early 1985.

COMMON STOCK DIVIDENDS

The Company has paid cash dividends on its common stock, \$1 par value (the "Common Stock"), in each year since 1913 and on a regular quarterly basis (January 1, April 1, July 1 and October 1) in each year after becoming publicly owned in 1953. The Company paid quarterly dividends at the rate of 47½¢ per share from October 1, 1981 through January 1, 1983 and at a rate of 50¢ per share from April 1, 1983 through January 1, 1984. Quarterly dividends were paid at a rate of 51½¢ per share on April 1, July 1 and October 1, 1984. On November 20, 1984 the Company's Board of Directors will consider the declaration of a quarterly dividend payable January 1, 1985 to holders of record November 30, 1984. The holders of the Common Stock offered hereby will participate in such dividend. Future dividends will depend upon future earnings, the cash position of the Company, construction requirements, rate regulation and other relevant factors.

Holders of any class of the Company's stock are entitled to participate in the Dividend Reinvestment Plan under which participating stockholders may, without having to pay brokerage commissions, service charges or other expenses, have dividends invested in additional shares of Common Stock at a 5% discount from market price and make limited optional cash payments to purchase Common Stock at market price.

DESCRIPTION OF COMMON STOCK

The following description of the Common Stock is summarized from the relevant provisions of the Restated Articles of the Company. For a complete statement of such provisions reference is hereby made to the Company's Restated Articles, as amended. The statements under this caption are qualified in their entirety by such reference.

The Company has outstanding classes of Preferred Stock and Preference Stock, both of which rank senior to the Common Stock as to dividends and liquidation rights.

Dividend and Liquidation Rights

Dividends may be paid on the Common Stock to the extent permitted by law and as declared by the Board of Directors, subject to the provisions of the Company's Restated Articles which restrict the payment of cash dividends or other distributions on, or the purchase of, its capital stock ranking junior to the Preferred Stock (collectively referred to as "junior stock payments"). No dividends or distributions may be made on the Common Stock if dividends or sinking or purchase fund obligations on the Preferred Stock or Preference Stock are accumulated and unpaid. Furthermore, the aggregate amount of junior stock payments which may be made in any 12-month period is in general limited to (i) 50% of consolidated net income (as defined) for any period of 12 consecutive calendar months within the 15 preceding months if the effect of such payments would be to reduce the ratio of common stock equity to total capitalization to less than 20% or (ii) 75% of such consolidated net income if the effect would be to reduce such ratio to 20% or more but less than 25%. The issuance of additional Common Stock would reduce any restricted amount by an amount equal to the net proceeds from the sale of such Stock; the incurrence of additional debt or the issuance of Preferred or Preference Stock would increase any restricted amount by an amount equal to one-third of the principal amount of such debt or one-third of the net proceeds of the sale of such Stock, as the case may be.

After there has been paid or set aside in cash the full preferential amounts to which the Preferred Stock and Preference Stock are entitled upon liquidation, the Common Stock will be entitled to receive pro rata all remaining assets of the Company available for distribution to its stockholders.

Voting Rights and Restrictions on Certain Corporate Action

Each holder of Common Stock is entitled to one vote for each whole share held and in addition at all elections of Directors is entitled to cumulate votes. The holders of the Common Stock have exclusive voting rights except as set forth below.

Whenever six quarterly dividends on the Preference Stock are in arrears, the holders of the Preference Stock as a class will have the right to elect two members of the Board of Directors of the Company, which right ceases when all accrued dividends and the current dividend have been paid. In addition, the consent of the holders of specified percentages of the Preference Stock is required in connection with certain increases in authorized amounts of or changes in either the Preference Stock or stock senior to the Preference Stock and in connection with certain mergers or dispositions of substantially all of the Company's assets.

Whenever four quarterly dividends on the Preferred Stock are in arrears, the holders of the Preferred Stock as a class will have the right to elect a majority of the Board of Directors of the Company, which right ceases when all accrued dividends and the current dividend have been paid. In addition, the consent of the holders of specified percentages of the Preferred Stock is required in connection with (i) certain increases in authorized or issued amounts of or changes in Preferred Stock or stock which is prior to or on a parity with the Preferred Stock, (ii) certain mergers or dispositions of substantially all of the Company's assets or (iii) the issuance or assumption of any securities representing unsecured indebtedness, except for certain limited purposes, if thereafter the principal amount of such unsecured indebtedness would exceed 20% of the aggregate of secured indebtedness and stockholders' equity of the Company.

Other Provisions

Holders of Common Stock have preemptive rights only in respect of Common Stock or securities convertible into Common Stock to be sold for cash otherwise than pursuant to a public offering. There are no sinking fund provisions, conversion rights or redemption provisions applicable to the Common Stock, and the holders of fully paid Common Stock are under no liability for assessments.

The Transfer Agents and Registrars for the Common Stock are Chemical Bank in New York City and Pittsburgh National Bank in Pittsburgh. Effective February 1, 1985 the sole Transfer Agent and Registrar for the Common Stock will be The First Jersey National Bank in New York City and Jersey City.

UNDERWRITING

The Underwriters named below have severally agreed to purchase from the Company the following respective numbers of shares of Common Stock offered hereby:

<u>Underwriter</u>	<u>Number of Shares</u>
The First Boston Corporation	470,000
PaineWebber Incorporated	470,000
Advest, Inc.	65,000
Arthurs, Lestrangle & Short	30,000
Boenning & Scattergood Inc.	30,000
Butcher & Singer Inc.	65,000
Cunningham, Schmertz & Co., Inc.	30,000
A. G. Edwards & Sons, Inc.	65,000
Gruntal & Co., Incorporated	30,000
Hefren-Tillotson, Inc.	30,000
E. F. Hutton & Company Inc.	110,000
Janney Montgomery Scott Inc.	65,000
A. E. Masten & Co., Incorporated	65,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	110,000
W. H. Newbold's Son & Co., Inc.	30,000
Parker/Hunter Incorporated	65,000
Prescott, Ball & Turben, Inc.	65,000
Prudential-Bache Securities Inc.	110,000
Richards, Lynch & Pegher, Inc.	30,000
Shearson Lehman/American Express Inc.	110,000
Smith Barney, Harris Upham & Co. Incorporated	110,000
Thomson McKinnon Securities Inc.	65,000
Warren W. York & Co., Inc.	30,000
Total	<u>2,250,000</u>

The Company has granted to the Underwriters an option, expiring at the close of business on the thirtieth day after the date of the initial public offering of the Common Stock offered hereby, to purchase up to 250,000 additional shares of Common Stock at the public offering price less the underwriting discounts and commissions, all as set forth on the cover page of this Prospectus. The Underwriters may exercise such option only to cover over-allotments in the sale of the shares of Common Stock.

The Underwriting Agreement provides that the obligations of the Underwriters are subject to certain conditions precedent and that the Underwriters will be obligated to purchase all of the 2,250,000 shares of Common Stock offered hereby if any are purchased. The Company has agreed to indemnify the several Underwriters against certain civil liabilities, including liabilities under the Securities Act of 1933.

The Company has been advised by The First Boston Corporation and PaineWebber Incorporated, as Representatives of the Underwriters, that the Underwriters propose to offer the Common Stock to the public initially at the public offering price on the cover page of this Prospectus and, through the Representatives, to certain dealers at such price less a concession not to exceed \$.27 per share; that the Underwriters and such dealers may allow a discount not to exceed \$.10 per share on sales to other dealers; and that the public offering price and concessions and discounts to dealers may be changed by the Representatives.

EXPERTS

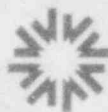
The consolidated financial statements and supplemental schedules incorporated in this Prospectus by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1983 have been examined by Deloitte Haskins & Sells, independent certified public accountants, as stated in their opinions also incorporated herein by reference, and have been so incorporated in reliance upon such opinions given upon the authority of that firm as experts in accounting and auditing.

LEGAL OPINIONS

Legal matters in connection with the Common Stock will be passed upon for the Company by Richard S. Christner, One Oxford Centre, 301 Grant Street, Pittsburgh, Pennsylvania, employed by the Company as its General Counsel, and by Reed Smith Shaw & McClay, Two Mellon Bank Center, Pittsburgh, Pennsylvania, and for the underwriters by Kirkpatrick & Lockhart, 1506 Oliver Building, Pittsburgh, Pennsylvania. On October 22, 1984 counsel for the Company participating in these legal matters, including those at the firm of Reed Smith Shaw & McClay, owned securities of the Company with a fair market value of approximately \$197,720. John H. Demmler, a member of the firm of Reed Smith Shaw & McClay, is a director of the Company.

CONTENTS

	<u>Page</u>
Available Information	2
Incorporation of Certain Documents by Reference	2
Selected Information	3
The Company	4
Use of Proceeds and Construction Program	4
Common Stock Dividends	4
Description of Common Stock	4
Underwriting	6
Experts	7
Legal Opinions	7



Duquesne Light Company

2,250,000 Shares

Common Stock

(\$1 par value)

PROSPECTUS

No person has been authorized to give any information or to make any representation not contained in this Prospectus in connection with the offering made hereby, and, if given or made, such information or representation must not be relied upon as having been authorized by the Company or the Underwriters. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

The First Boston Corporation

PaineWebber

Incorporated

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 1984

Commission file number 1-956

DUQUESNE LIGHT COMPANY

(Exact name of registrant as specified in its charter)

Incorporated In Pennsylvania

(State or other jurisdiction of
incorporation or organization)

25-0451600

(I.R.S. Employer Identification No.)

One Oxford Centre

301 Grant Street, Pittsburgh, Pennsylvania

(Address of principal executive offices)

15279

(Zip Code)

Registrant's telephone number, including area code: (412) 393-6000

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock (par value \$1)	New York Stock Exchange Philadelphia Stock Exchange
Preference Stock (par value \$1) (involuntary liquidation value):	
\$2.75 Series (\$25 per share)	
\$2.315 Series (\$25 per share)	
\$2.10 Series (\$25 per share)	
Preferred Stock (par value \$50) (involuntary liquidation value):	
4% Series (\$50 per share)	
3.75% Series (\$50 per share)	
4.15% Series (\$50 per share)	
4.20% Series (\$50 per share)	
4.10% Series (\$50 per share)	
\$2.10 Series (\$50 per share)	
\$7.20 Series (\$100 per share)	
First Mortgage Bonds, Series due:	
April 1, 1986 (3½%) June 1, 2006 (9%) June 1, 2011 (16%)	
April 1, 1988 (3¾%) April 1, 2007 (8¾%) April 1, 2013 (12½%)	
March 1, 1989 (4¼%) February 1, 2009 (10⅞%) December 1, 2013 (13%)	
March 1, 1991 (13¾%) January 1, 2010 (12¼%)	
March 1, 2000 (8¾%) September 1, 2010 (14¼%)	

New York
Stock
Exchange

Sinking Fund Debentures, due March 1, 2010 (5%)

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

Title of each class
 Preferred Stock (par value \$50) (involuntary liquidation value):
 \$8.64 Series (\$100 per share)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Aggregate market value of Common Stock held by non-affiliates of registrant as of January 15, 1985: \$982,853,520 (includes 52,648 shares held by the officers and directors of registrant as a group). There were 65,523,568 shares of Common Stock outstanding as of January 15, 1985.

DOCUMENTS INCORPORATED BY REFERENCE

Annual Report to Stockholders for year ended December 31, 1984—portions thereof are incorporated by reference in Part II. Proxy Statement for Annual Meeting of Stockholders to be held on April 30, 1985—portions thereof are incorporated by reference in Part III.

PART I

ITEM 1. Business.

The Company

Duquesne Light Company (the "Company") is engaged in the production, transmission, distribution and sale of electric energy.

The Company serves an area of approximately 800 square miles which includes the City of Pittsburgh and municipalities in Allegheny and Beaver Counties, Pennsylvania. The population of the area served by the Company, based on 1980 census data, is approximately 1,430,000, of which 424,000 reside in the City of Pittsburgh. The comparable figures from the 1970 census data were 1,615,000 and 520,000, respectively. Despite this decline in population in the Company's service area, the number of customers has increased consistently. The territory served by the Company and the location of its generating facilities are shown on the map on page 19.

As described under "CAPCO Arrangements," the Company and four other electric utilities serving western Pennsylvania and northern and central Ohio have, under the CAPCO (Central Area Power Coordination) arrangements, provided for the construction of jointly-owned base load generating units and for coordination in the operation of their respective electrical systems. The map referred to above shows the territory served by each of the CAPCO companies.

During 1984, 33% of the electric operating revenues of the Company was derived from residential sales, 28% from industrial sales, 36% from commercial sales and 3% from other sources. Sales to the 20 largest customers produced approximately 24% of total electric operating revenues. During 1984, total revenues from United States Steel Corporation, the Company's largest customer, were approximately 8% of total electric operating revenues. As compared to 1983, total kilowatt hour sales during 1984 were up 5.2%, with sales to residential customers up .4%, sales to industrial customers up 11.6% and sales to commercial customers up 3.2%.

At December 31, 1984 the Company had 4,741 employees, including 377 employees at its Warwick coal mine.

Problems of the Industry

The electric utility industry is currently facing a number of generally prevailing difficulties in the conduct of its business. Among these are delays and difficulties in obtaining rate increases sufficient to provide an adequate return on capital investment (particularly the cost of nuclear generating units as construction is completed) and to recover increased fuel and other operating costs; increases in construction costs and in the cost of obtaining additional capital funds; restrictions on operations, delays in construction and increased capital and operating costs as a result of environmental and nuclear safety regulation; the burden, expense and delay in obtaining necessary construction and operating permits; objections by certain groups to nuclear power plants and uncertainties affecting nuclear power; and the effect on both consumption and peak demand of higher electricity prices, depressed economic activity, availability of alternative energy sources and energy conservation programs. In addition, the ability of the electric utility industry to finance its continuing capital requirements has been and may continue to be adversely affected by conditions existing in the financial markets from time to time.

Construction

The Company has for the last several years been engaged in an extensive and continuing construction program involving additions to its production, transmission and distribution plant, particularly the construction of new production plant. During the five years ended December 31, 1984 gross additions to utility plant of the Company aggregated approximately \$1.54 billion, and retirements were approximately \$100 million, representing a 61% net increase in utility plant. Construction expenditures during 1984 were approximately \$251 million, exclusive of allowance for funds used during

construction and nuclear fuel. Outside financing provided approximately 74% of the funds required for construction expenditures during 1984.

The Company has budgeted construction expenditures of approximately \$229 million for 1985 and presently estimates that it will spend for construction approximately \$173, \$186, \$169 and \$141 million for each of the years 1986 through 1989, respectively, in each case exclusive of allowance for funds used during construction and nuclear fuel. These estimates assume a severely restricted construction schedule for Perry Unit No. 2 in 1985 and resumption of construction in 1986. If Perry Unit No. 2 construction does not resume until 1989, construction expenditures for the years 1986 through 1989 are estimated to be \$155, \$144, \$124 and \$142 million, respectively, in each case exclusive of allowance for funds used during construction and nuclear fuel. The amounts of construction expenditures are regularly under review and are subject to changes influenced by such factors as economic conditions, escalation of labor, equipment and material costs, rate of construction progress, the development of environmental and nuclear safety regulations, service reliability, system efficiencies, difficulties in obtaining rate increases sufficient to generate adequate earnings, possible changes in load growth trends and, in the case of construction projects undertaken jointly with other companies, the ability of each such company to finance its capital requirements.

The Company anticipates that funds required for planned construction expenditures in the next several years will be provided principally from the issuance of additional securities and in part from cash becoming available from operations. Interim financing will be through bank borrowings and sales of commercial paper. The Company currently estimates that approximately 85% of the funds required for its 1985 construction program will come from outside financing.

See "Nuclear Fuel" for a discussion of the Company's commitments with respect to the cost of nuclear fuel as of December 31, 1984 and for each of the years 1985 through 1989.

Rate Matters

Electric rates charged by the Company are regulated by the Pennsylvania Public Utility Commission (the "Commission") with the exception of electric rates charged the Borough of Pitcairn, the Company's only wholesale customer, which rates are regulated by the Federal Energy Regulatory Commission. The Company during recent years has received general increases in electric rates (exclusive of fuel cost adjustments and tax surcharges), as follows:

<u>Date New Rate Schedule Filed</u>	<u>Date of Final Rate Order</u>	<u>Estimated Increase in Annual Revenues (1)</u>
April 27, 1984	January 24, 1985	\$ 31,400,000
April 29, 1983	September 16, 1983	21,000,000
April 30, 1982	January 28, 1983	105,850,000
April 30, 1981	April 19, 1982	64,200,000(2)
April 29, 1980	February 20, 1981	47,500,000

- (1) Estimated on the basis of 1984, 1983 and 1982 budgeted operations and on levels of business at December 31, 1980 and December 31, 1979, respectively.
- (2) Increase effective for service rendered on and after July 15, 1981.

In connection with the January 24, 1985 rate order both the Pennsylvania Consumer Advocate and the Company have filed appeals with the Pennsylvania Commonwealth Court. In 1984 all remaining complaints filed in respect of the rate schedule filed by the Company on April 29, 1983 were dismissed by the Commission or withdrawn, and no appeals were filed within the period prescribed by law. The January 28, 1983 rate order was appealed to the Pennsylvania Commonwealth Court by the Pennsylvania Consumer Advocate with respect to the propriety of the Commission's allowance of the recovery by the Company of the accumulated costs applicable to four canceled generating units (see "CAPCO Arrangements").

On April 30, 1981 the Company filed with the Commission a rate schedule affecting all classes of customers and estimated to increase annual revenues based on levels of business at December 31, 1980

by approximately \$100.4 million. On June 29, 1981 the Commission entered an order instituting an investigation into the rate request and granting the Company the option to place a rate increase of approximately \$64.2 million into effect pending the outcome of the investigation if the Company reduced the increase requested to that amount. On June 30, 1981 the Company filed a new rate schedule in accordance with the option granted by the Commission. On July 17, 1981 the Commission approved the new rate schedule, thereby permitting the new rates to become effective for service rendered on and after July 15, 1981, subject to refund with interest if the Commission's investigation resulted in approval of a smaller rate increase. On April 19, 1982 the Commission entered a final order which determined that the new rates were fair and reasonable. The Commission's order, insofar as it related to the legality of the option order process, was appealed to the Commonwealth Court by a commercial customer. On November 29, 1983 the Court affirmed the Commission's final order, and the commercial customer filed an appeal with the Pennsylvania Supreme Court. On December 19, 1984 the Supreme Court ruled that the Commission's June 29, 1981 order was invalid under the applicable provisions of the Pennsylvania Public Utility Code on the basis that the \$64.2 million rate increase was a prohibited temporary rate. The Supreme Court remanded the case to the Commission for proceedings consistent with the Supreme Court order. The Company's application for reargument with the Supreme Court was denied on March 6, 1985. See Note M to the financial statements.

On April 29, 1980 the Company filed with the Commission a rate schedule affecting all classes of customers and estimated to increase annual revenues by approximately \$113 million based on levels of business at December 31, 1979. On June 11, 1980 the Commission directed the administrative law judge assigned to the proceeding to make specific recommendations with respect to issues arising out of, among others, (1) an investigation instituted by the Commission in July 1979 to determine if any, or to what extent, adjustments should be made to the Company's base rates or net energy clause to reflect the impact of the outage at that time of the Beaver Valley No. 1 nuclear generating unit and (2) the Commission's audit of the Company's operation of its Warwick mine.

On February 20, 1981 the Commission entered a joint order in the rate and Beaver Valley investigations. The Commission's order authorized the Company to file a tariff for service rendered on and after February 21, 1981 which was estimated to increase annual revenues by approximately \$47.5 million based on levels of business at December 31, 1979. In connection with its order the Commission ruled that Beaver Valley Unit No. 1 should be retained in the Company's rate base but found that the Company had not proven that the costs of replacement power during an outage of the unit from March 13, 1979 through August 8, 1979 were prudently incurred.

The Commission further ruled that the Company's Warwick mine should be eliminated from the Company's rate base for rate making purposes and that in the future the Company's cost of coal (including a profit component) from the mine should be passed through to the Company's customers only to the extent that such cost does not exceed the market price of similar quality coal purchased by Pennsylvania utilities in the open market, with any excess over such market price to be deferred for recovery to the extent that the subsequent cost of Warwick coal may fall below such market price. Deferred production costs at December 31, 1984 amounted to approximately \$480,000.

The Beaver Valley Unit No. 1 investigation referred to above was instituted by the Commission in July 1979 during a shutdown of the unit ordered by the Nuclear Regulatory Commission ("NRC") in March 1979 to analyze possible seismic deficiencies of safety related piping and pipe supports. Although the unit was returned to service in August 1979, the Commission denied the Company's petition to terminate the investigation and assigned the matter to an administrative law judge. The Commission's order also indicated that the extended past and any future outages of the unit would be considered in its determination as to the unit's operational status and the impact of that status on base rates and the net energy clause. The unit was shut down again in November 1979, December 1981 and June 1983 for refueling, equipment inspections, routine maintenance work and the performance of safety modifications required by the NRC. Although the Commission in its February 20, 1981 rate order ruled that the unit should be retained in rate base, it directed that the investigation remain open until further order of the Commission. On November 20, 1981 the Commission entered an order directing that further hearings be held before the administrative law judge on the issues of the portion

of the March 13, 1979 through August 8, 1979 outage period for which the Company should be held responsible, the amount of replacement power cost refunds allocable to such period and the period of time over which the refunds should be made to the Company's customers. On December 18, 1981 the Company filed an appeal from both the February 20 and November 20, 1981 orders with the Commonwealth Court with respect to the Commission's conclusion as to liability for refunds. Hearings on the refund issue were held before the administrative law judge, and on November 19, 1982 the Commission adopted an order nisi which ordered refunds of \$12.5 million plus interest over a two-year period. On June 16, 1983 the Commission entered a final order reaffirming the order nisi. The Company appealed the final order to the Commonwealth Court, which has granted a stay thereof pending the disposition of the appeal. The final order made no provision for termination of the investigation.

The Company filed with the Commission's approval an energy cost rate, effective May 1, 1981, which replaced the prior net energy clause. Substantially all fuel costs unrecovered prior to that date were rolled into the energy cost rate, which is effective for a twelve-month period, subject to interim adjustment to reflect material potential overcollections or undercollections during the period. Any overcollections or undercollections experienced at the end of the period are reflected in a new estimated energy cost rate for the subsequent year. The energy cost rate reflects the cost of both fossil and nuclear fuel as well as purchases and sales of energy from and to other electric utilities. The operation of the energy cost rate is subject to continuous review and audit by the Commission. The energy cost rate period for the purpose of establishing overcollections or undercollections runs from April 1 to March 31 of the following year.

In January 1980 the Commission issued an order requiring the Company to show cause why it should not cease and desist from further collections from its customers of a West Virginia business and occupation tax enacted in 1978 and why its base rates and net energy clause should not be adjusted to reflect the disallowance of the tax. The Company is currently paying approximately \$1.7 million per year to the State of West Virginia which it recovers from its customers. In May 1978 the Company and a number of other electric utilities filed suit in the Circuit Court of Kanawha County, West Virginia, seeking to have the tax declared invalid on the ground that the tax is unfairly and discriminatorily applied to out-of-state utilities which operate generating facilities in West Virginia. The Company filed an answer to the Commission's show cause order in February 1980, stating that pending a final decision as to the validity of the tax, collection of the tax from its customers was proper and in accordance with the Public Utility Code. On November 10, 1982 the Commission entered an order requiring the Company to file a tariff supplement providing for the refund, less reasonable attorney's fees and expenses, of any recovery ultimately obtained of tax payments attributable to service rendered on or after July 15, 1979. The Company has appealed the Commission's order to the Commonwealth Court. On February 28, 1983 the Company filed a petition with the Commission for resolution of the proceeding, agreeing to withdraw its appeal if the Commission authorizes it to provide for any refunds of ultimately recovered taxes net of associated costs by means of a community energy care program. The appeal has been continued indefinitely pending disposition of the petition filed with the Commission. On August 4, 1983 the West Virginia Circuit Court entered an order declaring the tax invalid and restraining the Tax Commissioner from collecting the tax. This order was stayed by the Circuit Court pending disposition of an appeal filed by the Tax Commissioner on October 21, 1983 with the West Virginia Supreme Court. On November 14, 1984 the West Virginia Supreme Court reversed the decision of the lower court and remanded the case to the lower court for further consideration of certain federal constitutional issues. On December 13, 1984 the utilities filed a Petition for Rehearing with the West Virginia Supreme Court, which petition was denied on December 21, 1984. The utilities filed a Petition for Writ of Certiorari with the United States Supreme Court on February 21, 1985.

On December 11, 1982 the Commission published regulations designed to implement the provisions of the Public Utility Regulatory Policies Act requiring purchases by electric utilities of electric energy and capacity from qualifying facilities as defined in that Act. The utilities are also required to periodically file certain customer-related data and to provide certain other services to qualifying facilities. On January 10, 1983 the Company and two other Pennsylvania electric utilities jointly filed

with the Commonwealth Court a petition for review of the regulations. One other Pennsylvania electric utility also filed a petition for review of the regulations. The joint petition requests the Court to find that the Commission's regulations exceed the requirements of the Act for calculating the purchase price of such energy and capacity from qualifying facilities. The petition also requests the Court to review certain other requirements of the regulations relating to the development of wheeling charges for the transmission of such energy and capacity to other electric utilities and the financing of the cost of interconnecting the facilities of the utility and the qualifying facility. Implementation of the regulations as to the petitioners has been stayed by the Commission pending the outcome of ongoing settlement discussions between the petitioners and the staff of the Commission.

CAPCO Arrangements

In September 1967 the Company, The Cleveland Electric Illuminating Company ("CEI"), Ohio Edison Company and its subsidiary, Pennsylvania Power Company, and The Toledo Edison Company undertook the CAPCO (Central Area Power Coordination) arrangements. The five CAPCO companies serve territories in western Pennsylvania and northern and central Ohio consisting of 14,000 square miles in the aggregate, with a population of approximately 7,000,000.

From January 1, 1975 to August 31, 1980 the CAPCO companies operated under a basic operating agreement providing for increased coordination in the operation of their electrical systems, for mutual support and for capacity and energy exchanges. In order to provide a more informal operating pool, the CAPCO companies entered into a revised basic operating agreement effective September 1, 1980. The revised agreement continues coordinated maintenance responsibilities among the CAPCO companies but discontinues unqualified replacement capacity and energy entitlements and obligations in favor of a limited and qualified mutual backup system.

In September 1980 certain of the agreements among the CAPCO companies were terminated, including the Memorandum of Understanding pursuant to which the CAPCO arrangements were undertaken in 1967. The effect of the termination of the Memorandum of Understanding is to discontinue the requirement for joint planning among the CAPCO companies with respect to future generating capacity.

The CAPCO companies have placed in service two nuclear (in one of which the Company has no ownership interest) and five coal-fired base load generating units, having an aggregate net demonstrated generating capability of 5,298 megawatts, the Company's share of which is 1,174 megawatts. See Item 2 "Properties." Responsibility for operating each of these units has been assigned to one of the CAPCO companies, with the Company having responsibility for Beaver Valley Unit No. 1. Three additional base load nuclear generating units to be owned by some or all of the CAPCO companies as tenants in common are currently under construction. Two of such units are presently scheduled to be placed in service over the next three years. It is presently expected that the Company will have a 13.74% ownership interest in each of these units, with a corresponding share of construction costs, net capability and associated energy entitlements, as well as operating costs. Responsibility for constructing and operating the Perry units has been assigned to CEI, with the Company having responsibility for Beaver Valley Unit No. 2. The three additional units are as follows:

<u>Unit</u>	<u>Expected Net Demonstrated Capability (Megawatts)</u>	<u>Company's Interest (Megawatts)</u>
Perry No. 1	1,205	165
North Perry Village, Ohio		
Beaver Valley No. 2	833	114
Shippingport, Pa.		
Perry No. 2	1,205	165
North Perry Village, Ohio		

As part of their continuing review of the estimated completion dates and costs of the nuclear generating units under construction, the CAPCO companies confirmed on January 28, 1985 that the estimated completion date of Perry Unit No. 1, now about 97% complete, remains unchanged, around the end of 1985. The schedule required to meet this target has little, if any, margin to accommodate the unexpected problems that can arise during this stage of the construction of a nuclear generating unit. The current estimated cost, including allowance for funds used during construction ("AFC"), of the Company's share of Perry Unit No. 1 is \$534 million or \$3,236 per kilowatt.

With respect to Beaver Valley Unit No. 2, the CAPCO companies announced on January 28, 1985 that their planned cash expenditures in 1985 for the unit, which is about 83% complete, will be reduced by \$100 million from \$446 million to \$346 million and that its estimated completion date has been delayed from late 1986 to about the end of 1987. The new schedule recognizes the need for more time to complete the unit in light of regulatory and safety requirements adopted since the unit was designed, as well as the decision of the CAPCO companies to concentrate on the completion of Perry Unit No. 1. This delay is expected to increase the total estimated cost of Beaver Valley Unit No. 2 from about \$3.5 billion to about \$3.9 billion, including AFC, and \$2.34 billion to \$2.46 billion, excluding AFC. Reflecting this increase, the cost (including AFC) of the Company's share of Beaver Valley Unit No. 2 is estimated to be approximately \$536 million, or \$4,706 per kilowatt.

Only minimal construction is being performed on Perry Unit No. 2 and the budget and completion timetable for that unit remain under review. In this connection, the CAPCO companies are considering all options with respect to Perry Unit No. 2. The options include resumption of construction, with a new estimated cost and completion date, or cancellation. It is not certain how soon the review will be completed. In the meantime the principal work being performed on the unit is that necessary to enable Perry Unit No. 1 to be placed in service. This reduced effort will result in only minimal expenditures for construction of the unit during 1985. The Company has been accruing AFC during the construction period, and such AFC accruals on the unit are expected to be about \$14.4 million during 1985. If the CAPCO companies do not decide during 1985 to significantly increase construction on the unit, the Company will provide a reserve against subsequent accruals of AFC on the unit until construction is resumed. A deferral of AFC would not affect cash flow but it would reduce reported earnings by the amount of such deferral. The unit, exclusive of common facilities required for the operation of Perry Unit No. 1, is about 45% complete. If the unit is canceled, the Company will seek regulatory approval for the recovery from its customers of its then investment in the unit (\$152 million at December 31, 1984), together with any related cancellation costs. See Note M to the financial statements.

For planning purposes the Company has made certain assumptions as to the estimated costs of its ownership interests in the nuclear generating units under construction. The actual costs will be influenced by the various factors referred to above under "Construction" and in all probability by other events and conditions not presently foreseen. Accordingly, there can be no representation or assurance that current assumptions as to such costs will prove to have been accurate. It has been the experience of the electric utility industry generally, including the CAPCO companies, that the completion or in-service dates of new generating facilities, particularly nuclear facilities, have often been postponed and the costs of construction increased as a result of financial considerations, revised forecasts of future energy requirements, required design changes and delays in the progress of construction and in obtaining necessary regulatory approvals.

Each of the CAPCO companies is obligated severally and not jointly to pay its share of the cost of constructing the above-described generating units, except that the obligations of Pennsylvania Power Company are the joint and several obligations of that company and Ohio Edison Company. Modification of the CAPCO construction program under existing contractual commitments requires the approval of all five CAPCO companies. Implementation of the program is dependent upon the continued ability of each company to provide its share of the funds required for construction. In the event of the failure of any one company to pay its share, the program could be interrupted in whole or in part unless such share is raised from among the remaining companies or from another source.

In January 1980 the CAPCO companies announced the termination of plans to construct four nuclear generating units (Davis-Besse Units Nos. 2 and 3 and Erie Units Nos. 1 and 2) then in the design stage. Growing political and regulatory uncertainties affecting the future of nuclear power resulting from the Three Mile Island accident, financial constraints and reduced need for future capacity were the primary reasons for the decision. The Company received approval from the Federal Energy Regulatory Commission to defer and amortize the accumulated costs amounting to approximately \$34.5 million over a ten-year period beginning on the date rates providing for the recovery of such costs first became effective for rate-making purposes. The Company's rate request filed on April 30, 1982 included a claim for the amortization and recovery of all such costs from its customers over a ten-year period. The Commission's January 28, 1983 order in the Company's April 30, 1982 rate request included an allowance for recovery of the accumulated costs. An appeal filed by the Pennsylvania Consumer Advocate with the Pennsylvania Commonwealth Court from that portion of the Commission's January 28, 1983 order allowing the recovery is pending. The Company's unrecovered share of the accumulated costs applicable to the canceled generating units amounted to approximately \$27.8 million as of December 31, 1984. See Notes B and M to the financial statements.

In September 1983 the Ohio Office of the Consumers' Counsel, the City of Cleveland, the Board of County Commissioners of Geauga County, Ohio and three citizen groups filed a petition with the Public Utilities Commission of Ohio and the Power Siting Board of Ohio against the three Ohio CAPCO companies requesting that the Commission and the Board investigate the public need for Perry Unit No. 2. The petition also requested that the Commission and the Board order the cessation of construction of the unit and of the accrual by the Ohio companies of allowance for funds used during construction with respect to the unit and a declaration that the issuance of securities by the Ohio companies, the proceeds of which will be used to finance construction of the unit, will not be approved. The Ohio companies have filed a motion to dismiss the petition filed with the Board and an answer to the petition filed with the Commission requesting that the petition be dismissed. The Company is not a party to the proceedings. On June 11, 1984 a citizen's group filed a petition with the Nuclear Regulatory Commission ("NRC") requesting that CEI be ordered to show cause why the construction permit for Perry Unit No. 2 should not be suspended or revoked. On November 15, 1984 the Deputy Director of the Office of Inspection and Enforcement of the NRC denied the petition. The time for review of the Deputy Director's decision by the NRC has expired, thus terminating the NRC aspect of the matter.

Electric Operations

Approximately 82% of the electric energy required by the Company's system during 1984 was produced by its coal-fired generating capacity and approximately 18% by its nuclear generating capability. The Company normally experiences its peak loads in the summer. The system peak for 1984 of 2,172 megawatts occurred in June.

The North American Electric Council of which the Company is a member recently approved capacity margin as the accepted method of reporting generating capability compared to demand. The capacity margin is expressed as capacity less demand divided by capacity, which is based on the Company's generating unit ratings.

Although the Company uses criteria other than capacity margin for determining the installation of generating capability, the Company's capacity margin in 1984 was 29.7%. The Company is currently studying its projections of peak loads and available capacity for the period 1985 through 1995. Based on the Company's 1985 load forecast its 1985 capacity margin will be in the 29% range. For the period 1986 through 1995 its capacity margins will decrease from the 30% range to 20%. Based on its 1985 load forecast the Company expects that it will not have to provide capacity in addition to that presently committed before the year 1996.

Fossil Fuel

The Company presently believes that sufficient coal for its coal-fired generating units and No. 2 middle distillate fuel oil for its oil-fired units will be available in the foreseeable future to satisfy its

requirements. Because of the continuing depressed economic conditions in 1984, the Company's short-term and spot purchases of coal as well as coal deliveries under its long-term contracts for its wholly-owned generating stations were at a reduced level. Resumption of normal coal procurement activity by the Company in 1985 will depend on the future needs of the Company's customers for electricity.

During 1984 approximately 33% of the 2.6 million tons of coal consumed at the Company's three wholly-owned coal-fired stations was mined and transported by barge from the Warwick mine, an underground mine owned by the Company and located on the Monongahela River about 83 river miles upstream from Pittsburgh. The Company estimates that at December 31, 1984 its recoverable coal reserves at Warwick were 22 million tons.

In 1982 the Company entered into a contract with Concorde Corporation ("Concorde") for an initial term through July 31, 1988, with options to extend for an additional four years, pursuant to which Concorde is to supply annually from deep and surface mines between 300,000 and 400,000 tons of low-sulfur coal for use at the Company's three wholly-owned coal-fired stations. During 1984 Concorde supplied about 346,000 tons of coal pursuant to this contract.

In 1980 the Company entered into a contract with Penn Allegh Coal Co., Inc. ("Penn Allegh") for an initial term extending to March 1986, with options to extend for an additional four years, pursuant to which Penn Allegh is to supply annually from deep mines between 600,000 and 720,000 tons of low-sulfur coal for use at the Company's Cheswick Power Station. During 1984 Penn Allegh supplied about 609,000 tons of coal pursuant to this contract.

In 1974 the Company entered into a contract with Aloe Coal Company ("Aloe"), which contract was amended in May 1983, for an initial period until December 31, 1986, with options to extend for ten additional years, pursuant to which Aloe is to supply annually from surface mines between 750,000 and 825,000 tons of coal. The May 1983 amendment provides that shortfalls in deliveries requested by the Company in 1983 and 1984 below the 750,000 ton minimum (plus a 63,000 ton shortfall in 1982) must be made up in later years. During 1984 Aloe supplied about 502,000 tons of coal pursuant to the contract. See Note M to the financial statements.

The tonnage from Warwick, Concorde, Penn Allegh and Aloe, together with approximately 50,000 tons of coal from purchases on the spot market and coal on hand at the beginning of the year, met all the needs of the Company's three wholly-owned coal-fired stations during 1984.

The CAPCO companies have made arrangements with Quarto Mining Company ("Quarto"), a subsidiary of The North American Coal Corporation, to produce coal from deep mines in southeastern Ohio for the Bruce Mansfield Plant through 1999, with options to extend for ten additional years. The Company's share in the Quarto arrangements is approximately 20%. Approximately 3.5 million tons were produced during 1984. Allowing for energy exchanges, the Company used approximately 380,000 tons of Quarto coal, or about 8% of its total coal requirements in 1984 of approximately 4.6 million tons. The remainder of the 1984 annual coal requirement of the three generating units at the Bruce Mansfield Plant in excess of the coal being supplied by Quarto was supplied by spot purchases and under a long-term contract between Ohio Edison Company and another supplier.

The cost to the Company of Quarto coal is based principally on its pro rata share of production costs. In December 1980 the Pennsylvania Public Utility Commission (the "Commission") instituted an investigation into the reasonableness of the cost of coal supplied by Quarto. By interim order entered January 12, 1981 the Commission directed that, pending conclusion of the investigation or further order of the Commission, the Company limit its recovery of the cost of Quarto coal through its energy cost rate to approximately the prevailing market price of similar coal rather than the actual cost of Quarto coal. As required by the interim order, the Company has been deferring the excess of the actual cost of Quarto coal over the cost being recovered through its energy cost rate until recovery of the actual cost is permitted by the Commission. At December 31, 1984 the unrecovered cost of Quarto coal paid by the Company as reflected on its books was approximately \$22,155,000. If recovery of such excess is disallowed, the amount deferred will be charged to income in the year of disallowance.

Thereafter any actual costs in excess of the amount permitted to be recovered will be charged to income on a current basis.

A Stipulation Agreement between the Company and the Commission staff which set forth a method intended to permit the eventual recovery of the unrecovered cost of Quarto coal was the subject of hearings during 1983 in which the Consumer Advocate and the Commission staff participated. On February 3, 1984 the administrative law judge issued a recommended decision, subject to the Commission's approval, in which he concluded that the Company was prudent by initiating and continuing the Quarto project and that the Stipulation Agreement was in the public interest and was a fair and reasonable resolution of the investigation into the reasonableness of the cost of Quarto coal. The administrative law judge recommended that the Stipulation Agreement and its methodology for recovering the costs of Quarto coal be approved and the Commission's investigation terminated. Exceptions to the recommended decision were filed by the Commission staff and the Consumer Advocate on February 27, 1984. On March 30, 1984 the administrative law judge denied the exceptions, and the Commission staff and the Consumer Advocate appealed such denial to the Commission. The Commission took action on May 25, 1984 to adopt the administrative law judge's recommended decision subject to the Commission staff's exceptions which included revising the methodology set forth in the Stipulation Agreement effective January 1, 1984. On September 11, 1984 the Commission entered its final order reflecting this action. While certain aspects of the final order are unclear, the Company's interpretation of the final order (a) should allow the Company to apply the methodology of the Stipulation Agreement as originally approved by the administrative law judge retroactively to the period June 1980 through December 1983 and (b) will require the Company to apply the revised methodology approved by the Commission in its final order to Quarto coal costs commencing January 1, 1984. The Company believes that the revised methodology provided in the Commission's final order may not, under certain circumstances, permit full recovery of present and any further deferred coal costs by the scheduled expiration dates of the Quarto coal sales agreements in the year 1999. Fluctuations in deferred coal costs may result during this period depending on actual Quarto costs, market price of other coal, amount of Quarto coal burned and other factors. On January 8, 1985 the Company appealed the Commission's order to the Pennsylvania Commonwealth Court. On February 26, 1985 the Company filed a new energy cost rate with the Commission which reflects the application of the methodology of the Stipulation Agreement to the period June 1980 through December 1983 and the revised methodology commencing on January 1, 1984. If approved by the Commission, the new rate will permit the Company to recover about \$9.7 million, representing a portion of the accumulated deferred coal costs for the period from June 1980 through 1984. With respect to the balance of such costs and any additional deferred costs, the Company believes that the deferred coal costs were prudently incurred and that it is probable that all or substantially all such costs will ultimately be recovered. See Notes G and M to the financial statements.

Effective in May 1983 the CAPCO companies entered into agreements with Quarto that replaced interim agreements and, in part, combined the original Quarto coal supply contracts into one agreement, providing the CAPCO companies flexibility to continue to change the quality and quantity of coal delivered by Quarto. The agreements will allow the CAPCO companies the ability to utilize Quarto coal in conjunction with other coal to minimize the overall cost of coal at the Bruce Mansfield Plant. In addition, the CAPCO companies entered into an agreement in 1981, as restated in May 1983, with Quarto's parent company, The North American Coal Corporation, whereby the CAPCO companies have an option to acquire or to have their nominees or assignees acquire all the common stock of Quarto (the owner of the Quarto mines) which, if exercised, would permit their assumption of management control of Quarto. The CAPCO companies are continuing to evaluate the economics of the Quarto arrangements and are considering various means for reducing production costs.

In connection with the Quarto arrangements each of the CAPCO companies is severally, and not jointly, guaranteeing its proportionate share of Quarto's interim financing and long-term debt and lease obligations for the development and operation of the two mines. In general, it is contemplated that the purchase prices paid for the coal will provide Quarto with amounts sufficient to service the indebtedness and obligations so guaranteed. See Note M to the financial statements. The CAPCO

companies are severally obligated under their respective guarantees, regardless of the extent to which the coal can be utilized by them or sold to others.

Coal for Eastlake Unit No. 5 is being supplied principally from deep mines in southeastern Ohio under an agreement extending until 1997 with options to extend and by spot purchases. Fort Martin Unit No. 1 is supplied with coal from nearby underground mines pursuant to a contract extending until 1998. This coal is being blended with low sulfur coal from Kentucky available under a contract extending until 1996. Coal for Sammis Unit No. 7 is being supplied principally under long- and short-term arrangements from both deep and strip mines in eastern Ohio and in Pennsylvania.

The Company's average cost per ton of coal consumed during the past four years at generating units in which it has an ownership interest was as follows: 1981-\$42.38; 1982-\$43.20; 1983-\$45.36; and 1984-\$44.38. The average cost per million BTU of such coal for the years 1981 through 1984 was \$1.783, \$1.791, \$1.867 and \$1.822, respectively. In each case the long-term coal contracts referred to above contain price adjustment formulas which provide for the periodic revision of the contract selling prices based upon changes in the cost of labor, equipment and supplies and various other factors. Subject to the Commission's orders relating to the Warwick and Quarto mines, fluctuations in the cost of coal are to a large extent reflected in the Company's charges to customers through the energy cost rate referred to under "Rate Matters" above.

The Company normally plans to maintain an average reserve coal supply of about 60 days at its wholly-owned stations. Because of continued depressed economic conditions and the potential interruption of fuel supply due to the expiration in 1984 of the collective bargaining agreement with the United Mine Workers of America, such reserves were higher than normal in 1984. On March 10, 1985 the Company's wholly-owned and jointly-owned generating units had on hand an average coal supply of 82 days.

Nuclear Fuel

The cycle of production and utilization of nuclear fuel consists of (1) mining and milling of uranium ore and processing the ore into uranium concentrates, (2) conversion of uranium concentrates to uranium hexafluoride, (3) enrichment of the uranium hexafluoride, (4) fabrication of fuel assemblies, (5) utilization of the nuclear fuel in the generating station reactor and (6) storing and possible reprocessing or disposal of spent fuel.

The CAPCO companies have obtained contract commitments from several suppliers for the supply of uranium concentrates and the related conversion to uranium hexafluoride. After giving effect to certain planned reallocations of these supplies among the CAPCO companies, the Company's share of such commitments is expected to provide its share of the requirements of uranium concentrates and uranium hexafluoride for the CAPCO nuclear units through 1990.

In 1984 the CAPCO companies terminated nine enrichment contracts with the federal Department of Energy ("DOE") and contracted with the DOE for uranium hexafluoride enrichment services under one Utility Services ("US") contract. The term of the new US contract is for approximately 30 years. The CAPCO companies have contracted for the fabrication of fuel assemblies for Beaver Valley Unit No. 1 through the next five refuelings, for Beaver Valley Unit No. 2 through the first two refuelings, for Perry Unit No. 1 through the first refueling and for Perry Unit No. 2 for the initial core. Prior to the expiration of existing commitments, the CAPCO companies will have to make additional arrangements for the supply of uranium concentrates and for subsequent conversion, enrichment and fabrication.

Each CAPCO company is responsible for financing its share of the capital costs of nuclear fuel for each CAPCO nuclear unit in which it has an ownership interest. The CAPCO companies have entered into lease and other arrangements for the financing of nuclear fuel for the two Beaver Valley Units and the two Perry Units pursuant to which the Company may finance up to \$208 million of nuclear fuel. As of December 31, 1984 the Company's share of the cost of nuclear fuel financed under these arrangements was about \$157 million, including interest, storage and other miscellaneous costs which are capitalized as part of the cost of the nuclear fuel. The Company estimates that its share of the cost

of nuclear fuel to be financed under these or similar arrangements for the period 1985 through 1989 will be approximately \$42, \$28, \$38, \$41 and \$38 million, respectively. The Company's nuclear fuel costs, which are amortized as the fuel is burned, are charged to fuel expense and are recovered from the Company's customers through the energy cost rate. See "Rate Matters" and Notes A and L to the financial statements. The Company estimates that approximately \$186 million of the nuclear fuel costs referred to above will have been amortized by December 31, 1989. The actual nuclear fuel costs to be financed and amortized during the period 1985 through 1989 will be influenced by such factors as changes in interest rates, lengths of the fuel cycles, changes in nuclear material costs and delays in the scheduled completion dates of the three CAPCO nuclear units presently under construction. Such costs may also be influenced by other events not presently foreseen. The type and amount of additional financing for the Company's continuing nuclear fuel requirements are expected to be determined and arranged for as the need arises.

No nuclear fuel reprocessing services are presently available to the electric utility industry, and there is no assurance that such services will become available in the foreseeable future. Accordingly, the CAPCO companies are currently studying means of providing additional capacity for on-site storage of spent fuel. To the extent that such storage capacity can be planned and provided for on the sites of nuclear generating stations, its cost has not yet been determined but could be significant in amount. Existing on-site spent fuel storage capacity at Beaver Valley Unit No. 1, Beaver Valley Unit No. 2 and the two Perry units is expected to be sufficient through the years 1995, 2009 and 1997, respectively.

The Nuclear Waste Policy Act of 1982, establishing a policy for handling and disposing of spent nuclear fuel, requires the establishment of a final repository to accept spent fuel and high-level waste from nuclear reactors. Costs associated with the construction and operation of this repository will be financed by a fee of one mill per kilowatt hour on all electricity generated by nuclear power after April 6, 1983 and a one-time charge for electricity generated by nuclear power before April 7, 1983. The one-time charge for the Company will be approximately \$8.9 million and is expected to be paid in June 1985. Since adequate spent fuel storage capacity may not be available at some of the CAPCO nuclear units prior to the scheduled initial operation of the repository in 1998, licensed alternatives for storage of spent fuel at these units must be found.

The Company's share of nuclear fuel costs related to Beaver Valley Unit No. 1 under capitalized financing lease arrangements is charged to fuel expense based on the quantity of electric energy generated. Nuclear fuel costs for this Unit averaged 9.32 mills per kilowatt hour in 1984. These costs include charges associated with spent fuel. The Company is recovering from its customers the costs associated with the ultimate disposal of spent nuclear fuel.

Environmental Matters

The Company, in common with many other electric utilities, is subject to evolving standards relating to the quality of the environment. The Company spent approximately \$13 million during 1984 and estimates that it will spend approximately \$19 million in 1985 for pollution control equipment at both existing and new facilities. Total expenditures for such equipment are expected to be approximately \$34 million during the period 1986-1989. Substantial additional expenditures may be required depending upon the future development of air and water quality and solid waste disposal standards, the outcome of the proceedings discussed below and the time allowed the Company for the installation of equipment or other necessary steps intended to achieve compliance with those standards. The ability of the Company to finance the construction of such equipment is subject to the same limitations and adverse factors as its overall construction program. See "Construction." Unless otherwise indicated, capital expenditures for pollution control equipment hereinafter referred to are not included in the foregoing estimates for the period 1985-1989.

The federal Environmental Protection Agency ("EPA"), pursuant to the federal Clean Air Act ("Air Act"), has promulgated national ambient air quality standards for certain air pollutants, including particulates and sulfur dioxide. The Air Act provides that appropriate state and local agencies shall have primary responsibility for attainment and maintenance of these standards through the adoption

and enforcement of emission limitations as part of federally approved and federally enforceable state implementation plans. Compliance with applicable emission standards has been achieved at all the Company's wholly-owned generating stations and at those stations in which the Company has an ownership interest.

Sammis Unit No. 7 presently complies with applicable sulfur dioxide emission limitations by use of a lower sulfur content coal which was substituted for coal originally supplied under the Quarto arrangements. See "Fossil Fuel." EPA currently has pending a proceeding under Section 125 of the Air Act which could result in an order prohibiting the use by Ohio utilities of coal other than locally or regionally available coal for compliance with the sulfur dioxide emission limitations. Since locally or regionally available coal has a high sulfur content, issuance of such an order could require the installation at a substantial cost of additional controls at Sammis Unit No. 7 to comply with such limitations. EPA has published a notice of proposed redetermination that no such order is necessary.

In December 1977 the State of West Virginia submitted a petition to EPA under Section 126 of the Air Act for a finding that particulate and sulfur dioxide emissions from the Sammis station, including Sammis Unit No. 7, are in violation of certain interstate pollution requirements of the Air Act, even though such sources comply with intrastate air standards. Such a finding, if made, could require the installation of additional pollution control equipment or more restrictive operating measures to comply with an EPA-approved pollution reduction schedule, or could require the cessation of operations. By letter dated September 7, 1978, the State of West Virginia withdrew that portion of its petition relating to particulate emissions. No hearing has been scheduled on the remainder of the petition.

In December 1980 the Commonwealth of Pennsylvania submitted a similar petition to EPA under Section 126 of the Air Act for a finding that particulate and sulfur dioxide emissions, among others, from various major sources in Ohio and West Virginia, including the Sammis station, are in violation of certain interstate pollution requirements of the Air Act, even though the Sammis station has achieved compliance with intrastate pollution standards. A similar petition was filed by the State of New York and was consolidated with the Pennsylvania petition. Such a finding, if made, could require the installation of additional pollution control equipment or more restrictive operating measures to comply with an EPA-approved pollution reduction schedule, or could require the cessation of operations. Public hearings on the petitions were held by EPA in June 1981, and the record was kept open until February 18, 1982 for submission of comments and other information. Subsequent to the hearings, the State of Maine filed a petition similar to those of Pennsylvania and New York. On December 5, 1984 EPA issued a final determination denying all three petitions. Pennsylvania, New York, Maine and other parties have appealed EPA's denial of the petition to the United States Court of Appeals for the District of Columbia Circuit.

Congress and EPA have for the past several years been considering matters relating to the long-range transport of air pollutants, including so-called "acid rain." Since proposed approaches to these issues continue to differ widely, the Company is unable to predict whether any governmental action will be taken and, if so, to what extent the Company would be affected. If substantial reductions in sulfur dioxide or other emissions are required, the installation of additional pollution control equipment or more restrictive operating measures might be necessary to comply with such requirements. Unless an alternative funding mechanism is provided by Congress, the cost of complying with reduced emission requirements would ultimately have to be recovered from the Company's customers.

Under the federal Clean Water Act ("Water Act") EPA has established various effluent limitations applicable to electric generating facilities. These limitations, as well as additional requirements which may be imposed under state law, are set forth in discharge permits ("NPDES Permits") issued to each generating facility.

NPDES Permits or proposed NPDES Permits have been received for the Warwick mine and all generating stations in which the Company has an ownership interest. However, exceptions have been taken by the Company to certain conditions contained in certain of the NPDES Permits, including the Permit for the Elrama station.

Although the Elrama station is exempt from EPA regulations governing thermal discharges by virtue of having been constructed prior to 1970, compliance with Pennsylvania water quality standards (which the Water Act requires as a condition for the issuance of a NPDES Permit) may require modifications to the station or in the operation thereof in order to meet prescribed thermal limitations. The Pennsylvania Department of Environmental Resources ("DER") has certified thermal effluent limitations for the Elrama station. Compliance with certain of these limitations would require curtailment of operations or the installation of water cooling facilities at a cost which was estimated in 1977 to be approximately \$35 million. The Company has appealed these certifications to the Pennsylvania Environmental Hearing Board and has submitted to DER studies indicating thermal discharges from the Elrama station have no adverse environmental effects and that a change from the existing cooling system is unnecessary. After review of the Company's studies, DER has advised the Company that supplemental studies should be considered that would respond to the needs of a new regulatory enforcement strategy being considered by DER. Although the new strategy may preclude the need for additional water cooling facilities, it could impose a reduction on the plant's generating capability during certain times of the year. The impact of such a strategy is now being evaluated by the Company.

The installation of cooling towers at substantial capital cost and at some loss of operating efficiency will be required at the Eastlake station unless it can be demonstrated that existing cooling systems will not materially endanger the life in and quality of the receiving streams. The operating company for the Eastlake station is in the process of attempting to make such a demonstration to EPA.

All the NPDES Permits issued to the Company for its various facilities include a condition requiring the Company to notify DER of any discharges which are not in compliance with the effluent limitations contained in such permits. The Company has on a number of occasions notified DER that certain discharges at certain of its facilities have exceeded the effluent limitations in the applicable permit. Such notification could serve as the basis for DER's revocation of the NPDES Permit or for the imposition of civil penalties. Such notification could also be used as a basis for third party suits permitted under the Clean Water Act. DER has not revoked any of the Company's NPDES Permits or assessed civil penalties, nor have any third party suits been initiated, on the basis of any noncompliance report submitted to date.

Proposed environmental regulations governing solid and liquid waste disposal may substantially increase the Company's capital and operating costs in connection with water treatment and disposal of fly ash, bottom ash, scrubber sludge and other combustion by-products.

Pursuant to the federal Resource Conservation and Recovery Act, certain utility wastes have been exempted from the hazardous waste disposal requirements of such Act until completion of a study by EPA to characterize these wastes and disposal operations. The results of the study may serve as the basis for the imposition of additional requirements on the Company's disposal operations by EPA. Although the cost of these additional requirements cannot be estimated at this time, it is expected that such cost could be significant. DER has also proposed revisions to the Pennsylvania solid waste regulations which also could increase design and operating costs for both new and existing non-hazardous waste landfills. Amendments to the Resource Conservation and Recovery Act adopted in 1984 generally extend the coverage of the Act to include for the first time many of the Company's facilities. Provisions relating to underground storage tanks for petroleum products or hazardous substances may, depending upon the results of a study currently being conducted by the Company, require replacement or modification by the Company of an undetermined number of underground tanks.

ITEM 2. Properties.

The principal properties of the Company consist of steam electric generating stations, transmission and distribution facilities and supplemental properties and appurtenances, comprising as a whole an integrated electric utility system, located substantially in Allegheny and Beaver Counties in southwestern Pennsylvania.

The Company owns all or a portion of the following generating units, the locations of which are shown on the map on page 19:

<u>Name and Location</u>	<u>Type</u>	<u>Net Demonstrated Capability January 1, 1985 (Megawatts)</u>	<u>Net Plant Output Year Ended December 31, 1984 (Megawatt-hours)</u>
Cheswick Springdale, Pa.	Coal	570	3,300,509
Fort Martin No. 1 (1) Maidsville, W.Va.	Coal	276	1,933,874
Elrama Elrama, Pa.	Coal	487	1,766,050
Phillips Wireton, Pa.	Coal	335	723,210
Sammis No. 7 (1) Stratton, Ohio	Coal	187	811,211
Eastlake No. 5 (1) Eastlake, Ohio	Coal	202	941,216
Brunot Island Combustion Turbines Brunot Island, Pa.	Oil	306	(13,805)
Beaver Valley No. 1 (1) Shippingport, Pa.	Nuclear	385	2,278,383
Bruce Mansfield No. 1 (1) Shippingport, Pa.	Coal	228	787,929
Bruce Mansfield No. 2 (1) Shippingport, Pa.	Coal	62	141,559
Bruce Mansfield No. 3 (1) Shippingport, Pa.	Coal	110	328,293
		<u>3,148</u>	<u>12,998,429</u>

(1) Amounts represent the Company's share of the unit which is owned by the Company in common with one or more of the other CAPCO companies, except for Fort Martin Unit No. 1 which is owned in common with two other electric utilities.

The Company owns 17 transmission substations (including interests in common in the step-up transformers at Fort Martin No. 1; Sammis No. 7; Eastlake No. 5; Bruce Mansfield No. 1; Beaver Valley No. 1; Bruce Mansfield No. 2; and Bruce Mansfield No. 3) and 604 distribution substations, of which 386 are high voltage substations serving individual customers and the balance serve the Company's distribution system. The transmission system is installed on 1,913 steel towers, 1,210 wood poles and 318 steel poles. The distribution system uses 285,810 poles, of which 71% are owned by the Company, 10% consist of permanent rights in poles owned by other companies and 19% are rented from other companies.

The Company has 641 circuit-miles of overhead transmission lines, comprised of 345,000, 138,000 and 69,000-volt lines, and 37 circuit-miles of underground transmission cable. Street lighting

and distribution circuits of 25,000 volts and less include 43,994 wire miles of overhead lines, 2,402 miles of underground cable and 590 miles of aerial cable.

The Company owns and operates the Warwick mine, including 4,849 acres owned in fee of unmined coal lands and mining rights, located on the Monongahela River in Greene County, Pennsylvania, about 83 river miles from Pittsburgh. See Item 1 "Fossil Fuel."

Substantially all of the Company's properties are subject to a first mortgage lien of the Trust Indenture dated as of August 1, 1947, securing the Company's First Mortgage Bonds.

A major portion of the assets of Allegheny County Steam Heating Company, a wholly-owned subsidiary of the Company, consisting principally of steam distribution facilities, was transferred to Pittsburgh Allegheny County Thermal, Ltd. ("PACT") effective on June 1, 1983. The remaining properties of the subsidiary consist of a steam generating plant currently leased to PACT, certain real property previously used as a steam generating plant and other miscellaneous properties of minor value.

ITEM 3. Legal Proceedings.

(a) On June 1, 1981 the Company filed an action in the United States District Court for the Western District of Pennsylvania (the "Pennsylvania court") against the United Mine Workers of America ("UMWA"), its Welfare and Retirement Funds and the Trustees of the Funds seeking a declaratory judgment that the non-UMWA royalty clauses in the 1974 and 1978 National Bituminous Coal Wage Agreements (to which the Company was a party) are illegal under federal antitrust and labor laws and seeking damages in an unspecified amount resulting from the operation of the clauses. The clauses provided in substance that a specified royalty be paid to the Funds for each ton of non-UMWA coal purchased by the Company for use in its operations. Although the Company has made no payments to the Trustees of the Funds under the clauses or under similar clauses in the 1981 and 1984 Wage Agreements, it has accrued on its books royalties of \$8.6 million through December 31, 1984 together with interest thereon in the amount of \$5.0 million and has made the escrow deposits described below.

On June 1, 1981 the Trustees for the Funds filed an action in the United States District Court for the District of Columbia (the "District of Columbia court") seeking to enforce the clauses in the 1974 and 1978 Agreements and to recover \$12.4 million (with interest) claimed to be due under such clauses.

The defendants in the Pennsylvania action filed answers and counterclaims to the Company's complaint. In the District of Columbia action, the Company filed a motion to dismiss the complaint on procedural grounds or, in the alternative, to transfer the action to the Pennsylvania court. On December 10, 1981 the District of Columbia court granted the Company's motion for transfer of the District of Columbia action to the Pennsylvania court. The Company filed a motion in each action for summary judgment that the royalty clauses are illegal.

An agreement among the parties was reached on July 30, 1982 whereby the Company deposited in escrow \$5,421,574 in accrued royalties and \$2,170,521 in accrued interest, both of which were previously accrued on the Company's books. Under the agreement the Company is depositing royalties in escrow as they accrue on a continuing basis. The agreement is designed to relieve the Company of certain interest penalties that might otherwise be imposed under the Employee Retirement Income Security Act if it is ultimately determined that the royalty payments are lawful. The total amount paid by the Company into the escrow account at December 31, 1984 was \$9,546,000, and interest earned on the account from July 30, 1982 through December 31, 1984 was \$2,088,000.

On January 10, 1983 the federal Judicial Panel on Multidistrict Litigation entered an order centralizing in the Pennsylvania court fifteen actions involving similar issues then pending in other federal courts.

On February 21, 1984 the Pennsylvania court granted the Company's motions for summary judgment on the ground that the royalty clauses violated the National Labor Relations Act and enjoined the enforcement thereof. The UMW and the Trustees for the Funds appealed this portion of the court's order to the United States Court of Appeals for the Third Circuit (the "Circuit Court"). With respect to the Company's claim that the royalty clauses are illegal under federal antitrust laws, the court denied the motions for summary judgment. The Company appealed the court's denial of the Company's motions for summary judgment to the Circuit Court. On February 27, 1985 the Circuit Court vacated the February 21, 1984 order of the Pennsylvania Court and remanded the matter to the Pennsylvania Court for further proceedings. The Company's appeal regarding the illegality of the clauses under the federal antitrust laws was denied by the Circuit Court and also remanded. The Company has filed a petition for rehearing with the Circuit Court.

The amounts accrued on the Company's books as unpaid royalties have been included in the calculations under the Company's energy cost rate, with the effect that the Company has collected these amounts from its customers. To the extent that the Company is relieved from any obligation to pay to the Funds royalties which have been or will be accrued on the Company's books or deposited in escrow prior to a final order in the consolidated proceedings, the Company has agreed to refund such accruals and related interest to its customers through credits to the energy cost rate. To the extent that the Company is required to pay to the Funds an amount in excess of such accrued royalties and related interest, the Company would seek to recover such amount through the energy cost rate.

(b) Proceedings involving the Company's rates are reported in Item 1—"Rate Matters," "CAPCO Arrangements" and "Fossil Fuel" and proceedings involving environmental matters are reported in Item 1—"Environmental Matters."

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

Not applicable.

Executive Officers of the Registrant.

<u>Name</u>	<u>Age</u>	<u>Office</u>
John M. Arthur	62	Chairman of the Board since July 1, 1968, President since February 1, 1983 and a Director.
Charles M. Atkinson (a)	63	Executive Vice President since April 17, 1984 and a Director.
Roger D. Beck (b)	48	Vice President—Administrative Services Group since December 1, 1983.
John J. Carey (c)	53	Vice President—Nuclear Group since December 1, 1983.
Clifford N. Dunn (d)	59	Vice President—Power Supply Group since December 1, 1983.
William F. Gilfillan, Jr. (e)	59	Vice President—Customer Services Group since December 1, 1983.
Wesley W. von Schack (f)	40	Vice President—Finance Group since August 20, 1984.
Walter T. Wardzinski (g)	63	Vice President—Legal and Corporate Communications since December 1, 1983.
Earl J. Woolever (h)	60	Vice President—Special Nuclear Projects since March 16, 1985.

(a) Mr. Atkinson was Vice President (Finance and Accounting Group) from December 1, 1983 to April 17, 1984 and Vice President (Fiscal) from January 1, 1971 to November 30, 1983.

(c) Mr. Carey was Vice President (Nuclear) from March 24, 1981 to November 30, 1983, Director of Nuclear Operations from December 16, 1979 to March 23, 1981 and Technical Assistant-Nuclear from January 9, 1974 to December 15, 1979.

(d) Mr. Dunn was Vice President (Operations) from October 1, 1975 to November 30, 1983.

(e) Mr. Gilfillan was Vice President (Customer Services) from April 1, 1965 to November 30, 1983.

(f) Mr. von Schack was Senior Vice President—Finance and Administrative Services at Central Vermont Public Service Corporation from 1982 until he joined the Company in 1984 as Vice President—Finance Group. He served as Vice President—Administration at Appalachian Power Company from 1979 to 1982.

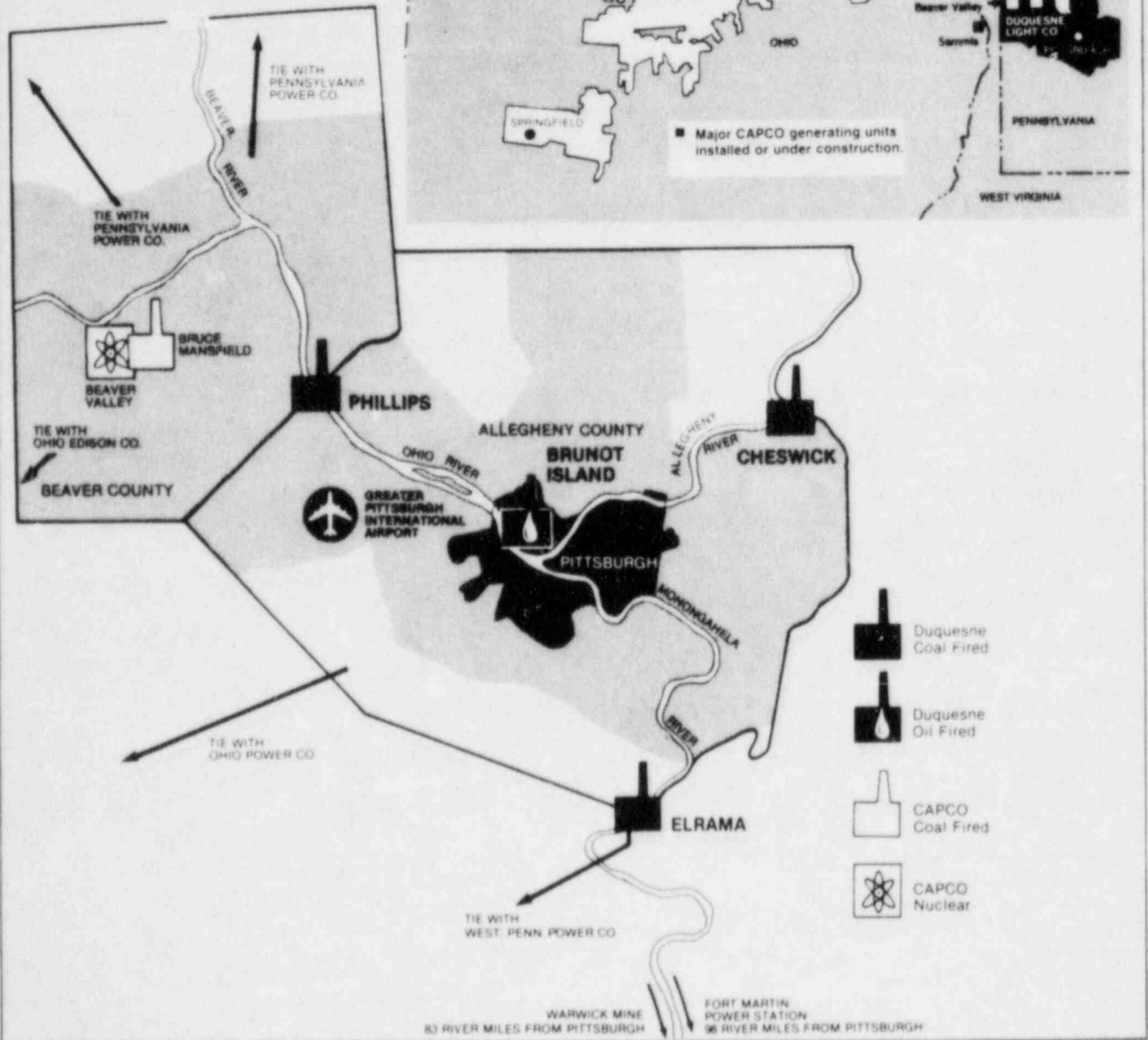
(g) Mr. Wardzinski was General Attorney from January 1, 1978 to November 30, 1983.

(h) Mr. Woolever was Vice President (Nuclear Construction) from January 16, 1982 to March 15, 1985 and Vice President (Engineering and Construction) from June 1, 1973 to January 15, 1982.

The Company's Executive Officers are elected annually by the Board of Directors.

DUQUESNE LIGHT SERVICE AREA

Territory Served and Location of Generating Facilities



PART II

ITEM 5. Market for Registrant's Common Equity and Related Stockholder Matters.

Information relating to the market for the Company's Common Stock and other matters related to the holders thereof are set forth in the chart and under the caption "Common Stock Dividends" on pages 15 and 40, respectively, of the Company's Annual Report to Stockholders for the year ended December 31, 1984, previously furnished to the Securities and Exchange Commission pursuant to Rule 14a-3(b). Such information is incorporated herein by reference. At March 1, 1985 there were 140,526 holders of record of the Common Stock of the Company.

ITEM 6. Selected Financial Data.

Selected financial data for the Company and its consolidated subsidiary for each year of the six-year period ended December 31, 1984 are set forth on pages 35 and 36 of the Company's Annual Report to Stockholders for the year ended December 31, 1984, previously furnished to the Securities and Exchange Commission pursuant to Rule 14a-3(b). Such financial data are incorporated herein by reference.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.

Management's discussion and analysis of the Company's financial condition and results of operations is set forth on pages 37-39 of the Company's Annual Report to Stockholders for the year ended December 31, 1984, previously furnished to the Securities and Exchange Commission pursuant to Rule 14a-3(b). Such discussion and analysis is incorporated herein by reference.

ITEM 8. Financial Statements and Supplementary Data.

The Consolidated Balance Sheet of the Company and its subsidiary as of December 31, 1984 and 1983 and the related Statements of Consolidated Income, Retained Earnings, Capital Surplus and Changes in Financial Position for each of the three years in the period ended December 31, 1984, together with the Opinion of Independent Certified Public Accountants dated February 14, 1985, are set forth on pages 16-34 of the Company's Annual Report to Stockholders for the year ended December 31, 1984, previously furnished to the Securities and Exchange Commission pursuant to Rule 14a-3(b). Such financial statements and opinion are incorporated herein by reference. Quarterly financial data and information on the effects of changing prices required by Item 302 of Regulation S-K are included in Notes O and P, respectively, to the financial statements incorporated herein by reference.

ITEM 9. Disagreements on Accounting and Financial Disclosure.

Not applicable.

PART III

ITEM 10. Directors and Executive Officers of the Registrant.

Information relating to the Directors of the Company is set forth under the captions "Nominees for Election as Directors" and "Nominees for Directors" in the Company's definitive Proxy Statement dated March 11, 1985 in connection with its Annual Meeting of Stockholders to be held on April 30, 1985, previously filed with the Securities and Exchange Commission pursuant to Regulation 14A. Such information is incorporated herein by reference. Information relating to the executive officers of the Company is set forth in Part I of this Report under the caption "Executive Officers of the Registrant."

ITEM 11. Executive Compensation.

Information relating to executive compensation is set forth under the caption "Executive Compensation" in the Company's definitive Proxy Statement dated March 11, 1985 in connection with its Annual Meeting of Stockholders to be held on April 30, 1985, previously filed with the Securities and Exchange Commission pursuant to Regulation 14A. Such information is incorporated herein by reference.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management.

Information relating to the ownership of equity securities of the Company by management is set forth under the caption "Ownership of Equity Securities of the Company" in the Company's definitive Proxy Statement dated March 11, 1985 in connection with its Annual Meeting of Stockholders to be held on April 30, 1985, previously filed with the Securities and Exchange Commission pursuant to Regulation 14A. Such information is incorporated herein by reference. To the Company's knowledge, there are no beneficial owners of 5% or more of the Common Stock of the Company.

ITEM 13. Certain Relationships and Related Transactions.

Information relating to management relationships and related transactions is set forth under the caption "Interests of Directors in Certain Transactions" in the Company's definitive Proxy Statement dated March 11, 1985 in connection with its Annual Meeting of Stockholders to be held on April 30, 1985, previously filed with the Securities and Exchange Commission pursuant to Regulation 14A. Such information is incorporated herein by reference.

PART IV

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

(a)(1) The following financial statements and accountants' opinion are incorporated in this Report by reference to pages 16-34 of the Company's Annual Report to Stockholders for the year ended December 31, 1984:

Opinion of Independent Certified Public Accountants.

Consolidated Balance Sheet, December 31, '84 and 1983.

Statement of Consolidated Income for the Three Years Ended December 31, 1984.

Statement of Consolidated Retained Earnings for the Three Years Ended December 31, 1984.

Statement of Consolidated Capital Surplus for the Three Years Ended December 31, 1984.

Statement of Changes in Consolidated Financial Position for the Three Years Ended December 31, 1984.

Notes to Financial Statements.

(a)(2) The following supplemental schedules and accountants' opinion (page 29) relating thereto are filed herewith as a part of this Report:

Schedules for the Three Years Ended December 31, 1984:

V—Property, Plant and Equipment.

VI—Accumulated Depreciation, Depletion and Amortization of Property, Plant and Equipment.

VIII—Valuation and Qualifying Accounts.

The remaining schedules are omitted because of the absence of the conditions under which they are required or because the information called for is shown in the consolidated financial statements or notes to the financial statements.

(a)(3) The following exhibits are filed as a part of this Report. Documents other than those designated as being filed herewith are incorporated herein by reference. Documents incorporated by reference to a Form 10-K Annual Report or Form 10-Q Quarterly Report are at Securities and Exchange Commission File No. 1-956.

<u>Exhibit No.</u>	<u>Description</u>	<u>Method of Filing</u>
3.1	Restated Articles of the Company, as amended through May 9, 1983 and as currently in effect.	Exhibit 4.1 to Registration Statement (Form S-3) No. 2-84982.
3.2	By-Laws of the Company, as amended through May 22, 1984 and as currently in effect.	Filed herewith.
4.1	Trust Indenture dated as of August 1, 1947, securing the Company's First Mortgage Bonds.	Exhibit 4.3 to Registration Statement (Form S-1) No. 2-11326.
4.2	Supplemental Trust Indentures supplementing the said Trust Indenture— First through Tenth and an amendment to the Fifth	Exhibits 4.4 through 4.13 to Registration Statement (Form S-1) No. 2-11326.

<u>Exhibit No.</u>	<u>Description</u>	<u>Method of Filing</u>
Eleventh		Exhibit 4.3 to Registration Statement (Form S-1) No. 2-12309.
Twelfth		Exhibit 2.2 to Registration Statement (Form S-7) No. 2-63467.
Thirteenth		Exhibit 4.5 to Registration Statement (Form S-1) No. 2-13360.
Fourteenth and Fifteenth		Exhibits 4.6 and 4.7 to Registration Statement (Form S-1) No. 2-13596.
Sixteenth		Exhibit 4.8 to Registration Statement (Form S-1) No. 2-14704.
Seventeenth and Eighteenth		Exhibits 4.4 and 4.5 to Registration Statement (Form S-1) No. 2-16033.
Nineteenth through Twenty-Third		Exhibit 2.2 to Registration Statement (Form S-7) No. 2-63467.
Twenty-Fourth		Exhibit 2.2 to Registration Statement (Form S-9) No. 2-24412.
Twenty-Fifth		Exhibit 2.2 to Registration Statement (Form S-7) No. 2-63467.
Twenty-Sixth		Exhibit 2.2 to Registration Statement (Form S-9) No. 2-25887.
Twenty-Seventh		Exhibit 2.2 to Registration Statement (Form S-7) No. 2-63467.
Twenty-Eighth		Exhibit 2.2 to Registration Statement (Form S-9) No. 2-28042.
Twenty-Ninth		Exhibit 2.2 to Registration Statement (Form S-7) No. 2-63467.
Thirtieth		Exhibit 2.2 to Registration Statement (Form S-9) No. 2-30927.
Thirty-First and Thirty-Second		Exhibit 2.2 to Registration Statement (Form S-7) No. 2-63467.

<u>Exhibit No.</u>	<u>Description</u>	<u>Method of Filing</u>
Thirty-Third		Exhibit 2.4 to Registration Statement (Form S-7) No. 2-36333.
Thirty-Fourth and Thirty-Fifth		Exhibit 2.2 to Registration Statement (Form S-7) No. 2-63467.
Thirty-Sixth		Exhibit 2.4 to Registration Statement (Form S-7) No. 2-39375.
Thirty-Seventh		Exhibit 2.2 to Registration Statement (Form S-7) No. 2-63467.
Thirty-Eighth		Exhibit 2.4 to Registration Statement (Form S-7) No. 2-42154.
Thirty-Ninth through Forty-Fifth		Exhibit 2.2 to Registration Statement (Form S-7) No. 2-63467.
Forty-Sixth		Exhibit 2.3 to Registration Statement (Form S-7) No. 2-52874.
Forty-Seventh through Forty-Ninth		Exhibit 2.2 to Registration Statement (Form S-7) No. 2-63467.
Fiftieth		Exhibit 2.3 to Registration Statement (Form S-7) No. 2-58483.
Fifty-First through Fifty-Third		Exhibit 2.2 to Registration Statement (Form S-7) No. 2-63467.
Fifty-Fourth and Fifty-Fifth		Exhibit 2.2 to Registration Statement (Form S-16) No. 2-66258.
Fifty-Sixth		Exhibit 2.2 to Registration Statement (Form S-16) No. 2-68959.
Fifty-Seventh		Exhibit 4.1 to Registration Statement (Form S-16) No. 2-72522.
Fifty-Eighth and Fifty-Ninth		Exhibit 4.1 to Registration Statement (Form S-16) No. 2-76768.
Sixtieth and Sixty-First		Exhibit 4.1 to Registration Statement (Form S-3) No. 2-82139.

<u>Exhibit No.</u>	<u>Description</u>	<u>Method of Filing</u>
	Sixty-Second and Sixty-Third	Exhibit 4.1 to Registration Statement (Form S-3) No. 2-87452.
	Sixty-Fourth	Exhibit 4.1 to Registration Statement (Form S-3) No. 2-89719.
	Sixty-Fifth	Exhibit 4.2 to Registration Statement (Form S-3) No. 2-89719.
	Sixty-Sixth	Filed herewith.
4.3	Indenture dated March 1, 1960, relating to the Company's 5% Sinking Fund Debentures.	Exhibit 4.3 to the Form 10-K Annual Report of the Company for the year ended December 31, 1980.

Agreements relating to the CAPCO Arrangements:

10.1	Administration Agreement dated as of September 14, 1967.	Exhibit 5.8 to Registration Statement (Form S-7) No. 2-43106.
10.2	Transmission Facilities Agreement dated as of September 14, 1967.	Exhibit 5.9 to Registration Statement (Form S-7) No. 2-43106.
10.3	Construction Agreement dated as of April 25, 1969 for Sammis Unit No. 7.	Exhibit 4.5 to Registration Statement (Form S-9) No. 2-33126.
10.4	Construction Agreement dated as of February 5, 1970 for Beaver Valley Station.	Exhibit 5.7 to Registration Statement (Form S-7) No. 2-36333.
10.5	Construction Agreement dated as of April 22, 1970 for Eastlake Unit No. 5.	Exhibit 5.5 to Registration Statement (Form S-7) No. 2-37684.
10.6	Operating Agreement dated as of September 21, 1972 for Eastlake Unit No. 5.	Exhibit 5.1 to Registration Statement (Form S-7) No. 2-48164.
10.7	Mansfield Construction Agreement dated as of May 26, 1971 re Bruce Mansfield Units Nos. 1 and 2.	Exhibit 5.1 to Registration Statement (Form S-7) No. 2-48164.
10.8	CAPCO Unit Ownership Agreement dated as of August 28, 1973 re third Bruce Mansfield unit, second and third Davis-Besse units and two Erie units.	Exhibit 5.1 to Registration Statement (Form S-7) No. 2-49688.
10.9	Construction Agreement dated July 22, 1974 for Perry Units.	Exhibit 5.1 to Registration Statement (Form S-7) No. 2-52874.

<u>Exhibit No.</u>	<u>Description</u>	<u>Method of Filing</u>
10.10	Construction Agreement dated December 5, 1975 for Beaver Valley Unit No. 2.	Exhibit 5.1-R to Registration Statement (Form S-7) No. 2-56491.
10.11	Operating Agreement dated May 24, 1976 for Beaver Valley Units Nos. 1 and 2.	Exhibit 5.1-S to Registration Statement (Form S-7) No. 2-57620.
10.12	Amendment No. 1 dated as of May 1, 1977 to the Construction Agreement dated as of December 5, 1975 for Beaver Valley Unit No. 2.	Exhibit 5.1-X to Registration Statement (Form S-7) No. 2-60273.
10.13	Amendment No. 1 dated as of May 1, 1977 to the Operating Agreement dated May 24, 1976 for Beaver Valley Units Nos. 1 and 2.	Exhibit 5.1-Y to Registration Statement (Form S-7) No. 2-60273.
10.14	Agreements dated September 1, 1977, relating to the Beaver Valley and Bruce Mansfield sites, respectively, that provide a mutual waiver of certain liabilities which may arise as the result of the location of CAPCO generating sites adjacent to each other at the same location or site.	Exhibit 5.1-Z to Registration Statement (Form S-7) No. 2-63467.
10.15	Microwave Sharing Agreement dated October 1, 1977.	Exhibit 5.1-AA to Registration Statement (Form S-7) No. 2-63467.
10.16	Revised CAPCO Basic Operating Agreement dated as of September 1, 1980 re coordinated operation of the CAPCO generating units.	Exhibit 10.24 to the Form 10-K Annual Report of the Company for the year ended December 31, 1980.
10.17	Agreement effective as of September 1, 1980 re termination and construction of certain CAPCO agreements.	Exhibit 10.25 to the Form 10-K Annual Report of the Company for the year ended December 31, 1980.
10.18	Memorandum Agreement dated July 1, 1981 as of January 22, 1980 re scheduled changes in construction of certain CAPCO units; termination of construction and abandonment of facilities of Davis-Besse Units Nos. 2 and 3 and Erie Nuclear Units Nos. 1 and 2; ownership changes in certain CAPCO units; and adjustments of liability for nuclear fuel commitments.	Exhibit 10.26 to the Form 10-K Annual Report of the Company for the year ended December 31, 1981.
10.19	Amendment No. 1 dated as of August 1, 1981, to the revised CAPCO Basic Operating Agreement, providing a schedule for the reservation and delivery of non-CAPCO power.	Exhibit 10.27 to the Form 10-K Annual Report of the Company for the year ended December 31, 1981.
10.20	Memorandum of Agreement dated as of July 1, 1982 re reallocation of rights and liabilities of CAPCO companies under uranium supply contracts.	Exhibit 10.28 to the Form 10-K Annual Report of the Company for the year ended December 31, 1982.

<u>Exhibit No.</u>	<u>Description</u>	<u>Method of Filing</u>
10.21	Amendment No. 2 dated as of September 1, 1982 to the revised CAPCO Basic Operating Agreement, providing for a broadening of the rights and obligations relating to Emergency Power under the Agreement.	Exhibit 10.29 to the Form 10-K Annual Report of the Company for the year ended December 31, 1982.
10.22	Memorandum Agreement dated September 20, 1982 as of September 1, 1980 amending the various CAPCO Construction and Operating Agreements to remove inconsistencies between such Agreements and the revised Basic Operating Agreement and the Agreement re termination and construction of certain CAPCO agreements dated September 1, 1980.	Exhibit 10.30 to the Form 10-K Annual Report of the Company for the year ended December 31, 1982.
10.23	Memorandum Agreement dated November 30, 1982 re transmission requirements for Bruce Mansfield Unit No. 3 through Perry Unit No. 2.	Exhibit 10.31 to the Form 10-K Annual Report of the Company for the year ended December 31, 1982.
10.24	Operating Agreement dated August 8, 1982 as of September 1, 1971 for Sammis Unit No. 7.	Exhibit 10.32 to the Form 10-K Annual Report of the Company for the year ended December 31, 1983.
10.25	Restated Option Agreement dated as of May 1, 1983 among CAPCO companies and The North American Coal Corporation, granting to the CAPCO companies an option to purchase the outstanding common stock of Quarto Mining Company.	Exhibit 10.33 to the Form 10-K Annual Report for the year ended December 31, 1983.

Other Agreements:

10.26	Deferred Compensation Plan for the Directors of the Company.	Exhibit 10.28 to the Form 10-K Annual Report of the Company for the year ended December 31, 1981.
10.27	Incentive Compensation Program for Certain Executive Officers of the Company, as amended to date.	Filed herewith.
13.1	Annual Report to Stockholders for year ended December 31, 1984. Such Report, except those portions specifically incorporated by reference herein, is furnished for the information of the Securities and Exchange Commission and is not to be deemed "filed" for any purpose under the Securities Exchange Act of 1934 or otherwise.	Filed herewith.
22.1	Subsidiaries of registrant: The Company's sole subsidiary is Allegheny County Steam Heating Company, incorporated in Pennsylvania, wholly-owned by the Company.	
24.1	Consents of experts.	Filed herewith.

Copies of the exhibits listed above will be furnished, upon request, to holders or beneficial owners of any class of the Company's stock as of March 1, 1985, subject to payment in advance of the cost of reproducing the exhibits requested.

(b) No reports on Form 8-K were filed during the fourth quarter of 1984. During the three months ended March 31, 1985 two Form 8-K Current Reports dated January 3, 1985 and February 6, 1985 were filed. The reports contained information under Item 5—Other Events.

OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

TO THE DIRECTORS AND STOCKHOLDERS OF DUQUESNE LIGHT COMPANY:

We have examined the consolidated balance sheets of Duquesne Light Company as of December 31, 1984 and 1983 and the related statements of consolidated income, retained earnings, capital surplus and changes in financial position for each of the three years in the period ended December 31, 1984 and have issued our opinion thereon dated February 14, 1985; such financial statements and opinion are included in the Company's 1984 Annual Report to Stockholders and are incorporated herein by reference. Our examinations also comprehended the supplemental schedules of Duquesne Light Company, listed in Item 14. In our opinion, such supplemental schedules, when considered in relation to the basic financial statements, present fairly in all material respects the information shown therein.

/s/ DELOITTE HASKINS & SELLS
DELOITTE HASKINS & SELLS
Pittsburgh, Pennsylvania
February 14, 1985

SCHEDULE V

DUQUESNE LIGHT COMPANY
SCHEDULE V—PROPERTY, PLANT AND EQUIPMENT
Year Ended December 31, 1984
(Thousands of Dollars)

<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>	<u>Column E</u>	<u>Column F</u>
<u>Classification</u>	<u>Balance at Beginning of Year</u>	<u>Additions at Cost</u>	<u>Retirements</u>	<u>Other Changes Add (Deduct)(A)</u>	<u>Balance at End of Year</u>
Property, Plant and Equipment:					
Electric Plant In Service (D):					
Intangible Plant	\$ 107				\$ 107
Production Plant	1,309,654	\$ 52,374	\$3,001	\$ 122	1,359,149
Transmission Plant	234,238	4,838	419	(114)	238,543
Distribution Plant	705,424	34,470	4,495	192	735,591
General Plant:					
Coal Properties	66,966	6,780	219		73,527
Other	118,527	11,667	1,362	18	128,850
Total Electric Plant in Service	2,434,916	110,129	9,496	218	2,535,767
Construction Work in Progress	856,766	221,226(B)			1,077,992
Held under Capital Leases		184,109(C)			184,109
Held for Future Use	1,799	8	2	(174)	1,631
Total Property, Plant and Equipment	<u>\$3,293,481</u>	<u>\$515,472</u>	<u>\$9,498</u>	<u>\$ 44</u>	<u>\$3,799,499</u>
Other Property and Investments—					
Nonutility Property	<u>\$ 2,255</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>\$ 2,255</u>

Notes: (A) Reclassifications and adjustments.

(B) Represents net change in construction work in progress.

(C) Represents capitalization of certain property and nuclear fuel leases in 1984. See Note L to the financial statements.

(D) The Company provides for depreciation, exclusive of coal properties, on a straight line basis. At December 31, 1984 depreciation was computed on the basis of the following annual rates expressed as a percentage of original cost: production plant—2.62% to 5.14%, transmission plant—2.34%, distribution plant—2.93% and general plant—3.85%. Provisions for depreciation and depletion of coal properties are based on tons of coal mined. Amortization of capital leases is based on nuclear fuel burned and rental payments made.

SCHEDULE V

DUQUESNE LIGHT COMPANY
 SCHEDULE V—PROPERTY, PLANT AND EQUIPMENT
 Year Ended December 31, 1983
 (Thousands of Dollars)

<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>	<u>Column E</u>	<u>Column F</u>
<u>Classification</u>	<u>Balance at Beginning of Year</u>	<u>Additions at Cost</u>	<u>Retirements</u>	<u>Other Changes Add (Deduct)(A)</u>	<u>Balance at End of Year</u>
Property, Plant and Equipment:					
Electric Plant In Service (C):					
Intangible Plant	\$ 107				\$ 107
Production Plant	1,262,336	\$ 51,793	\$ 4,440	\$(35)	1,309,654
Transmission Plant	234,632	(330)	102	38	234,238
Distribution Plant	677,546	33,130	5,248	(4)	705,424
General Plant:					
Coal Properties	62,383	4,976	393		66,966
Other	110,636	19,096	11,221	16	118,527
Total Electric Plant in Service	2,347,640	108,665	21,404	15	2,434,916
Construction Work in Progress	675,621	181,145(B)			856,766
Held for Future Use	1,293	566		(60)	1,799
Total Property, Plant and Equipment	<u>\$3,024,554</u>	<u>\$290,376</u>	<u>\$21,404</u>	<u>\$(45)</u>	<u>\$3,293,481</u>
Other Property and Investments—					
Nonutility Property	<u>\$ 2,316</u>	<u> </u>	<u>\$ 121</u>	<u>\$ 60</u>	<u>\$ 2,255</u>

Notes: (A) Reclassifications and adjustments.

(B) Represents net change in construction work in progress.

(C) The Company provides for depreciation, exclusive of coal properties, on a straight line basis. At December 31, 1983 depreciation was computed on the basis of the following annual rates expressed as a percentage of original cost: production plant—2.62% to 5.14%, transmission plant—2.34%, distribution plant—2.93% and general plant—3.85%. Provisions for depreciation and depletion of coal properties are based on tons of coal mined.

SCHEDULE V

DUQUESNE LIGHT COMPANY
SCHEDULE V—PROPERTY, PLANT AND EQUIPMENT
Year Ended December 31, 1982
(Thousands of Dollars)

<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>	<u>Column E</u>	<u>Column F</u>
<u>Classification</u>	<u>Balance at Beginning of Year</u>	<u>Additions at Cost</u>	<u>Retirements</u>	<u>Other Changes Add (Deduct)(A)</u>	<u>Balance at End of Year</u>
Property, Plant and Equipment:					
Electric Plant—Duquesne Light Company:					
In Service (C):					
Intangible Plant.....	\$ 107				\$ 107
Production Plant.....	1,217,331	\$ 80,753	\$34,372	\$ (1,376)	1,262,336
Transmission Plant.....	233,107	1,806	290	9	234,632
Distribution Plant.....	614,711	69,008	6,282	109	677,546
General Plant:					
Coal Properties.....	55,028	7,558	203		62,383
Other.....	82,329	29,278	1,360	389	110,636
Total Electric Plant in Service.....	2,202,613	188,403	42,507	(869)	2,347,640
Construction Work in Progress.....	582,734	92,887(B)			675,621
Held for Future Use.....	825			468	1,293
Total Electric Plant.....	2,786,172	281,290	42,507	(401)	3,024,554
Steam Heating Plant—Allegheny County Steam Heating Company:					
In Service (C).....	23,371	331	2,503	(21,199)(D)	
Construction Work in Progress.....	210	(159)(B)		(51)(D)	
Total Steam Heating Plant.....	23,581	172	2,503	(21,250)(D)	
Total Property, Plant and Equipment.....	\$2,809,753	\$281,462	\$45,010	\$(21,651)	\$3,024,554
Other Property and Investments—Nonutility Property.....	\$ 1,843			\$ 473	\$ 2,316

Notes: (A) Reclassifications and adjustments.

(B) Represents net change in construction work in progress.

(C) The Company and its steam heating subsidiary provide for depreciation, exclusive of coal properties, on a straight line basis. At December 31, 1982 depreciation was computed on the basis of the following annual rates expressed as a percentage of original cost: production plant—2.42% to 6.96%, transmission plant—2.28%, distribution plant—2.69%, general plant—3.00% and steam heating plant—0.67% to 5.00%. Provisions for depreciation and depletion of coal properties are based on tons of coal mined.

(D) Represents reclassification of Steam Heating Plant to Current Assets in connection with discontinued steam heating operations. See Note C to the financial statements.

SCHEDULE VI

DUQUESNE LIGHT COMPANY

SCHEDULE VI—ACCUMULATED DEPRECIATION, DEPLETION AND
AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 1984

(Thousands of Dollars)

<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>	<u>Column E</u>	<u>Column F</u>
<u>Description</u>	<u>Balance at Beginning of Year</u>	<u>Additions Charged to Costs and Expenses</u>	<u>Retirements</u>	<u>Other Changes Add (Deduct)</u>	<u>Balance at End of Year</u>
Accumulated Depreciation—Electric Plant, Exclusive of Coal Properties:					
Production Plant	\$315,998	\$ 43,575	\$ 3,330		\$356,243
Transmission Plant	45,754	5,296	165		50,885
Distribution Plant	150,987	20,870	7,477		164,380
General Plant	28,531	6,034	1,674		32,891
Retirement Work in Progress	(4,082)		(170)		(3,912)
Total	<u>537,188</u>	<u>75,775</u>	<u>12,476</u>		<u>600,487</u>
Accumulated Amortization— Capital Leases		39,192(A)			39,192
Accumulated Depreciation and Depletion—Coal Properties:					
Depreciation	10,321	1,700	481		11,540
Depletion	7,919	111			8,030
Total	<u>18,240</u>	<u>1,811</u>	<u>481</u>		<u>19,570</u>
Accumulated Amortization of Limited-term Electric Investments	213	282			495
Total	<u>\$555,641</u>	<u>\$117,060</u>	<u>\$12,957</u>		<u>\$659,744</u>
Accumulated Depreciation— Nonutility Property	\$ 205	\$ 19			\$ 224

Note: (A) Represents accumulated amortization at the beginning of 1984 of \$28,304,000 on leases capitalized in 1984 and \$10,888,000 of amortization during 1984. See Note L to the financial statements.

SCHEDULE VI

DUQUESNE LIGHT COMPANY

SCHEDULE VI—ACCUMULATED DEPRECIATION, DEPLETION AND
AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 1983

(Thousands of Dollars)

<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>	<u>Column E</u>	<u>Column F</u>
<u>Description</u>	<u>Balance at Beginning of Year</u>	<u>Additions Charged to Costs and Expenses</u>	<u>Retirements</u>	<u>Other Changes Add (Deduct)</u>	<u>Balance at End of Year</u>
Accumulated Depreciation—Electric Plant, Exclusive of Coal Properties:					
Production Plant	\$279,685	\$41,637	\$ 5,324		\$315,998
Transmission Plant	40,528	5,271	45		45,754
Distribution Plant	137,371	19,739	6,123		150,987
General Plant	27,866	5,428	4,763		28,531
Retirement Work in Progress	(3,522)		560		(4,082)
Total	<u>481,928</u>	<u>72,075</u>	<u>16,815</u>		<u>537,188</u>
Accumulated Depreciation and Depletion—Coal Properties:					
Depreciation	9,128	1,322	129		10,321
Depletion	<u>7,822</u>	<u>97</u>			<u>7,919</u>
Total	<u>16,950</u>	<u>1,419</u>	<u>129</u>		<u>18,240</u>
Accumulated Amortization of Limited-term Electric Investments	<u>5,802</u>	<u>185</u>	<u>5,774</u>		<u>213</u>
Total	<u>\$504,680</u>	<u>\$73,679</u>	<u>\$22,718</u>		<u>\$555,641</u>
Accumulated Depreciation— Nonutility Property	<u>\$ 308</u>	<u>\$ 20</u>	<u>\$ 123</u>		<u>\$ 205</u>

SCHEDULE VI

DUQUESNE LIGHT COMPANY

SCHEDULE VI—ACCUMULATED DEPRECIATION, DEPLETION AND
AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 1982

(Thousands of Dollars)

Column A	Column B	Column C	Column D	Column E	Column F
Description	Balance at Beginning of Year	Additions Charged to Cost and Expenses	Retirements	Other Changes Add (Deduct)	Balance at End of Year
Duquesne Light Company:					
Accumulated Depreciation—Electric Plant, Exclusive of Coal Properties:					
Production Plant	\$262,653	\$37,343	\$32,338	\$12,027 (A)	\$279,685
Transmission Plant	35,690	5,180	342		40,528
Distribution Plant	127,847	16,738	7,276	62	137,371
General Plant	25,166	3,693	1,283	290	27,866
Retirement Work in Progress ...	(2,157)		1,365		(3,522)
Total	<u>449,199</u>	<u>62,954</u>	<u>42,604</u>	<u>12,379</u>	<u>481,928</u>
Accumulated Depreciation and Depletion—Coal Properties:					
Depreciation	7,909	1,343	203		9,128
Depletion	7,76	115			7,822
Total	<u>15,695</u>	<u>1,458</u>	<u>203</u>		<u>16,950</u>
Accumulated Amortization of Limited-term Electric Investments	3,941	1,861			5,802
Total	<u>468,835</u>	<u>66,273</u>	<u>42,807</u>	<u>12,379</u>	<u>504,680</u>
Allegheny County Steam Heating Company:					
Accumulated Depreciation— Steam Heating Plant	8,174	595	2,865	(5,904)(B)	
Total	<u>\$477,009</u>	<u>\$66,868</u>	<u>\$45,672</u>	<u>\$ 6,475</u>	<u>\$504,680</u>
Duquesne Light Company:					
Accumulated Depreciation— Nonutility Property	<u>\$ 278</u>	<u>\$ 30</u>			<u>\$ 308</u>

Notes: (A) Represents adjustment to reclassify the undepreciated cost of the Shippingport Atomic Power Station to Extraordinary Property Losses. See Note B to the financial statements.

(B) Represents reclassification of Accumulated Depreciation—Steam Heating Plant to Current Assets in connection with discontinued steam heating operations. See Note C to the financial statements.

SCHEDULE VIII

DUQUESNE LIGHT COMPANY
SCHEDULE VIII—VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended December 31, 1984, 1983 and 1982
(Thousands of Dollars)

Column A	Column B	Column C	Column D	Column E	
Description	Balance at Beginning of Year	Charged to Cost and Expenses	Charged to Other Accounts	Deductions	Balance at End of Year
Year Ended December 31, 1984					
Reserve Deducted from the Asset to which it Applies:					
Reserve for uncollectible accounts	\$ 2,652	\$ 4,850	\$ 442(A)	\$ 4,968(B)	\$ 2,976
Reserve for loss on Steam Heating Plant	\$ 101	=====	=====	\$ 101(F)	=====
Reserve for Loss from Discontinued Steam Heating Operations	\$ 3,181	=====	=====	\$ 3,181(G)	=====
Year Ended December 31, 1983					
Reserve Deducted from the Asset to which it Applies:					
Reserve for uncollectible accounts	\$ 2,270	\$ 5,122	\$ 301(A)	\$ 5,041(B)	\$ 2,652
Reserve for loss on Steam Heating Plant	\$14,678	=====	=====	\$14,577(F)	\$ 101
Reserve for Loss from Discontinued Steam Heating Operations	\$ 2,698	=====	=====	\$ (483)(E)	\$ 3,181
Year Ended December 31, 1982					
Reserve Deducted from the Asset to which it Applies:					
Reserve for uncollectible accounts	\$ 2,242	\$ 5,200	\$ 242(A)	\$ 5,414(B)	\$ 2,270
Reserve for loss on Steam Heating Plant	=====	\$10,827	\$3,851(D)	=====	\$14,678
Reserve for Loss from Discontinued Steam Heating Operations	=====	\$ (1,827)	\$4,861(D)	\$ 336(C)	\$ 2,698

Notes: (A) Recovery of accounts previously written off.
(B) Accounts receivable written off.
(C) Loss from operations.
(D) Income tax benefit.
(E) Primarily gain from operations.
(F) Property disposition, net of tax benefit.
(G) Primarily realization of tax benefit on abandonment.

SIGNATURES

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

DUQUESNE LIGHT COMPANY
(Registrant)

Date: March 19, 1985

By: /s/ JOHN M. ARTHUR
(Signature)
John M. Arthur
Chairman of the Board and President

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
..... /s/ JOHN M. ARTHUR John M. Arthur	Chairman of the Board and President and Principal Executive Officer and Director	March 19, 1985
..... /s/ C. M. ATKINSON C. M. Atkinson	Executive Vice President and Director	March 19, 1985
..... /s/ WESLEY W. VON SCHACK Wesley W. von Schack	Vice President—Finance Group, Principal Financial Officer and Principal Accounting Officer	March 19, 1985
..... /s/ HENRY G. ALLYN, JR. Henry G. Allyn, Jr.	Director	March 19, 1985
..... /s/ DANIEL BERG Daniel Berg	Director	March 19, 1985
..... /s/ DOREEN E. BOYCE Doreen E. Boyce	Director	March 19, 1985
..... /s/ JOHN H. DEMMLER John H. Demmler	Director	March 19, 1985
..... /s/ SIGO FALK Sigo Falk	Director	March 19, 1985
..... /s/ W. H. KNOELL W. H. Knoell	Director	March 19, 1985
..... /s/ G. CHRISTIAN LANTZSCH G. Christian Lantzsch	Director	March 19, 1985
..... /s/ ERIC W. SPRINGER Eric W. Springer	Director	March 19, 1985

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

DUQUESNE LIGHT COMPANY:

We hereby consent to the incorporation by reference in Registration Statements Nos. 2-87451 and 2-89719 on Form S-3 of our opinions dated February 14, 1985 appearing or incorporated by reference in this Annual Report on Form 10-K of Duquesne Light Company for the year ended December 31, 1984.

/s/ DELOITTE HASKINS & SELLS
DELOITTE HASKINS & SELLS
Pittsburgh, Pennsylvania
March 19, 1985



OHIOEDISON
The Energy Makers

FORM 10-K

*Annual
Report
to the
Securities
and
Exchange
Commission*

For the Year Ended December 31, 1984

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 1984

Commission File Number 1-2578

Ohio Edison Company

(Exact name of registrant as specified in its charter)

Ohio

(State or other jurisdiction of
incorporation or organization)

76 South Main Street, Akron, Ohio

(Address of principal executive office)

34-0437786

(I.R.S. Employer
Identification No.)

44308

(Zip Code)

Registrant's telephone number, including area code:

(216) 384-5100

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$9 par value	New York Stock Exchange Midwest Stock Exchange
Cumulative Preference Stock, no par value	
\$1.80 Series	New York Stock Exchange
\$3.92 Series	New York Stock Exchange
Cumulative Preferred Stock, \$100 par value	
3.90% Series	All series registered on New York Stock Exchange and Midwest Stock Exchange
8.20% Series	
4.40% Series	
10.76% Series	
4.44% Series	
10.48% Series	
4.56% Series	All series registered on New York Stock Exchange
8.64% Series	
7.24% Series	
9.12% Series	
7.36% Series	
Cumulative Class A Preferred Stock, \$25 par value	
\$3.50 Series	New York Stock Exchange
Convertible Adjustable — Series A	New York Stock Exchange
First Mortgage Bonds	
11½% Series due 2010	All series registered on New York Stock Exchange
8½% Series due 2006	
15½% Series due 2010	
9½% Series due 2006	
9½% Series due 2008	
15¼% Series due 1987	
8½% Series due 2007	

Securities registered pursuant to Section 12(g) of the Act: None

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

Yes ☒ No ☐

State the aggregate market value of the voting stock held by non-affiliates of the registrant: \$1,653,141,474 as of January 31, 1985

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

<u>Class</u>	<u>Outstanding at March 7, 1985</u>
Common Stock, \$9 par value	123,879,292

Documents incorporated by reference (to the extent indicated herein):

<u>Document</u>	<u>Part of Form 10-K into which document is incorporated</u>
Annual Report to Stockholders for the fiscal year ended December 31, 1984 (Pages 18-37)	Part II
(Page 39)	Part I
Proxy Statement for 1985 Annual Meeting of Stockholders to be held April 25, 1985	Part III

TABLE OF CONTENTS

		<u>Page</u>
Part I	Item 1. Business	1
	The Company	1
	Financing and Construction Program	1
	Rate Matters	3
	CAPCO Program	4
	Fuel Supply	5
	Fuel Adjustment Clauses	7
	Regulation	7
	Environmental Matters	10
	Other Programs	13
	Employees	13
	Executive Officers of the Registrant	14
	Operating Statistics	14
	Item 2. Properties	15
	Item 3. Legal Proceedings	17
	Item 4. Submission of Matters to a Vote of Security Holders	17
Part II	Item 5. Market for Registrant's Common Equity and Related Stockholder Matters	18
	Item 6. Selected Financial Data	18
	Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	18
	Item 8. Financial Statements and Supplementary Data	18
	Item 9. Disagreements on Accounting and Financial Disclosure	18
Part III	Item 10. Directors and Executive Officers of the Registrant	18
	Item 11. Executive Compensation	18
	Item 12. Security Ownership of Certain Beneficial Owners and Management ...	18
	Item 13. Certain Relationships and Related Transactions	18
Part IV	Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K ...	18

PART I

ITEM 1. Business

The Company

Ohio Edison Company ("the Company") was organized under the laws of the State of Ohio in 1930 and owns property and does business as an electric public utility in that State. The Company is also authorized to and does own property and do business in the Commonwealth of Pennsylvania. The Company's principal executive offices are located at 76 South Main Street, Akron, Ohio 44308; telephone number (216) 384-5100.

The Company furnishes electric service in 488 communities as well as in rural areas of Ohio. It supplies transmission services to 18 municipalities and 8 rural cooperatives and electric energy for resale by 21 municipalities in Ohio. The Company also engages in the sale, purchase and interchange of electric energy with other electric companies. The area it serves has a population of approximately 2,500,000.

The Company owns all of the outstanding common stock of Pennsylvania Power Company ("Penn Power"), a Pennsylvania corporation, which furnishes electric service in 139 communities as well as in rural areas of western Pennsylvania, and also sells electric energy at wholesale to 5 municipalities. The area served by Penn Power has a population of approximately 350,000.

The net maximum hourly demand on the Company and Penn Power ("the Companies") by customers within their service areas occurred on July 21, 1980 and was 4,210,000 kilowatts ("kW"). The net maximum hourly demand on the Companies by customers within their service areas in 1984 occurred on June 13 and was 4,093,000 kW. The seasonal capability of the Companies on June 13, 1984 was 5,786,000 kW, after adjustment for net firm purchases at that hour of 418,000 kW. Of that total system capacity, 15.1% was available to serve additional load, after giving effect to term bulk power sales to other utilities. Such available capacity would have been 13.1% had the 1980 peak been reached. Based on existing capacity, the present schedule of committed capacity additions to the system for the years 1985 through 1989, the load forecast made in January 1985 for this period and anticipated term power sales to other utilities, available capacity reserve at time of annual peak load is expected to range between about 16-30%. If Perry Unit No. 2 becomes operational in 1989, available capacity reserve would further increase by approximately 4 percentage points.

The Companies compete with other utilities in the market for intersystem bulk power sales and the Company competes for power sales to municipalities and cooperatives. The Companies compete with suppliers of natural gas and other forms of energy in connection with their industrial and commercial sales and in the home climate control market, both with respect to new customers and conversions. In an effort to more fully utilize their facilities and hold down rates to their other customers, the Companies have entered into two long-term power sales agreements. Under the first agreement, which was effective in May 1983, the Companies provide up to 150 megawatts ("MW") of electricity over an indefinite period extending at least 5 years. The second agreement calls for a maximum of 200 MW of electricity to be provided over a period ending in June 1993. The Companies intend to continue to explore opportunities for bulk power sales.

Financing and Construction Program

The Companies' total construction costs during 1984, including capital leases, amounted to approximately \$807,000,000. Construction costs include expenditures for new electric production facilities and the betterment of existing facilities, for pollution control facilities, and for the construction of transmission lines, distribution lines, substations and other additions. The Companies' investment for the procurement, enrichment and fabrication of nuclear fuel in 1984 was approximately \$61,000,000. The Companies expect to invest approximately \$256,000,000 for nuclear fuel during the 1985-1989 period, of which approximately \$40,000,000 is applicable to 1985 (see Note 5 of Notes to Consolidated Financial Statements). For the years 1985 through 1989, the presently estimated construction costs will amount to approximately \$2.6 billion, of which approximately \$740,000,000 is applicable to 1985. See "Environmental Matters" below with regard to possible environment-related expenditures not included in this estimate. During the same five-year period, maturities of, and sinking fund requirements for, long-term debt, long-term obligations (including nuclear fuel), and preferred and preference stock will require the expenditure by the Companies of approximately \$1,100,000,000, of which approximately \$79,000,000 applies to 1985. All or a major portion of maturing debt is expected to be refunded on or prior to maturity.

The Companies currently expect that, for the period 1985-1989, external financings will provide a major portion of their cash requirements. Such financings may include the sale of a significant amount of common stock, as well as preferred stock, preference stock, first mortgage bonds, term notes and pollution control notes. The extent and mix of

such financings will depend on the need for external funds as well as market conditions, the maintenance of an appropriate capital structure and the ability of the Companies to comply with coverage requirements in order to issue first mortgage bonds and preferred stock. The coverage requirements contained in the indentures under which the Companies issue first mortgage bonds provide that, except for certain refunding purposes, the Companies may not issue additional first mortgage bonds unless applicable net earnings (before taxes on income), calculated as provided in the indentures, for any period of twelve consecutive months within the fifteen calendar months preceding the month in which such additional bonds are issued, are at least twice annual interest requirements on outstanding first mortgage bonds, including those being issued. The Companies' respective Articles of Incorporation prohibit the sale of additional amounts of preferred stock unless applicable gross income, calculated as provided in the Articles of Incorporation, is equal to at least 1½ times the aggregate of the annual interest requirements on indebtedness outstanding immediately thereafter and the annual dividend requirements on all preferred stock which will be outstanding at that time. To the extent that coverage requirements or market conditions restrict the Companies' abilities to issue desired amounts of first mortgage bonds or preferred stock, the Companies may seek other methods of financing, including, possibly, the sale of common stock and preference stock in amounts greater than anticipated, or of such other types of securities as might be authorized by applicable regulatory authorities, which would not otherwise be sold and could result in annual interest charges and/or dividend requirements in excess of those that would otherwise be incurred, or the Companies may reduce their expenditures for construction and other purposes.

Based upon earnings for the year ended December 31, 1984, and after giving effect to the issuance of \$60,000,000 principal amount of long-term debt during the first quarter of 1985, the Company would be permitted, under its First Mortgage Indenture, to issue, on the basis of property additions, at least \$286,000,000 principal amount of first mortgage bonds assuming an interest rate of 14%; or, under its Articles of Incorporation, to issue at least \$364,000,000 of preferred stock at an assumed dividend rate of 14.5%; or to issue some lesser combination of both first mortgage bonds and preferred stock. The Company's ability to issue first mortgage bonds would be reduced to approximately \$238,000,000 if Perry Unit No. 2 were to be terminated (see "Regulation") due to a reduction in property additions eligible to be pledged. The Company is able to issue \$361,000,000 principal amount of first mortgage bonds against previously retired bonds without the need to meet earnings coverage requirements; \$175,000,000 of this amount is reserved for issuance pursuant to the following credit arrangement. In January 1985, the Company arranged a revolving credit agreement with a group of banks primarily to provide a back-up credit facility for use in the event that it becomes impracticable or undesirable for the Company to finance its nuclear construction program in the capital markets. The agreement provides for borrowings on a revolving basis of up to \$500,000,000 through December 31, 1987. Thereafter, the Company may not borrow any amounts in excess of the borrowings outstanding on that date, and the amounts available to be borrowed reduce in semiannual increments until the credit facility terminates on December 31, 1990. The Company's right to borrow under the agreement is subject, among other things, to the condition that there shall have been no material adverse change in the Company's financial condition, business, properties, operations or prospects. As of the date of the filing of this Form 10-K, the Company had made no borrowings under this credit facility.

Based on their present plans, the Companies may provide for their cash requirements in 1985 from: cash on hand; funds to be received from operations; funds available under short-term bank credit arrangements presently aggregating \$50,000,000 (none of which had been utilized as of December 31, 1984); funds available under the \$500,000,000 revolving credit agreement (none of which has been utilized); funds available from the Ohio Edison Fuel Corporation and Pennsylvania Power Fuel Corporation (corporations in which the Companies have no ownership interest) aggregating \$303,000,000 (of which \$221,609,000 had been utilized as of December 31, 1984); funds available from the Central Area Energy Trust aggregating \$137,000,000 (of which \$93,862,000 had been utilized as of December 31, 1984); and the anticipated proceeds from the sales of an estimated 6,700,000 shares of common stock pursuant to the Company's Dividend Reinvestment and Stock Purchase Plan. Funds are also anticipated from the proceeds of securities sales at various times throughout 1985, including up to: 6,000,000 additional shares of common stock; \$50,000,000 of pollution control notes; \$240,000,000 of other long-term debt (of which \$60,000,000 was issued during the first quarter of 1985); and \$110,000,000 of preferred stock. Additionally, funds in escrow (approximately \$241,000,000 at December 31, 1984) from previous issues of pollution control notes will be used in funding the Companies' interests in the construction of pollution control facilities at certain of their generating plants.

Except as otherwise indicated, the foregoing statements with respect to construction expenditures are based on estimates made in February 1985 and are subject to change based upon the progress of and changes required in the construction program, including delays of the completion dates for generating stations under construction, periodic

reviews of costs, changing customer requirements for electric energy, the level of earnings and resulting changes in applicable coverage requirements, conditions in capital markets, changes in regulatory requirements and other relevant factors (see "Item 2. Properties").

Rate Matters

The Companies are subject to regulation with respect to rates for the sale of power at retail in Ohio and Pennsylvania before The Public Utilities Commission of Ohio ("PUCO") and the Pennsylvania Public Utility Commission ("PPUC") and, with respect to rates for the sale of power at wholesale in interstate commerce, before the Federal Energy Regulatory Commission ("FERC"), in order to produce needed revenues (see "Regulation"). Under Ohio law, municipalities may regulate rates, subject to appeal to the PUCO if not acceptable to the utility. The status of such proceedings is outlined as follows:

Significant Rate Case Activities As of December 31, 1984 (Millions of Dollars)

Application Filed	Amount Requested	Granted Subject To Refund		Granted	
		Effective	Amount	Effective	Amount
Increases Subject to PUCO (1):					
10/12/83	\$127.2			8/01/84	\$ 35.4
1/03/85	\$135.0				
Increases Subject to PPUC:					
7/13/83	\$ 19.9			4/11/84	\$ 15.4
10/17/84	\$ 20.4			3/15/85	\$ 6.0 (2)
Increases Subject to FERC:					
Penn Power					
10/7/81	\$ 2.3	1/24/82	\$ 1.7		(3)

- (1) Under Ohio law, requested rates may be collected subject to refund if the PUCO does not make a decision within 275 days after a case is filed. If no decision is reached within 545 days after filing, such rates can thereafter be collected, without being subject to refund, until a decision is reached.
- (2) A settlement agreement was approved by the PPUC which permitted Penn Power to place an increase of \$6.0 million into effect on March 15, 1985.
- (3) A settlement agreement was entered into as of September 1, 1984 between Penn Power and its wholesale customers which provides that the wholesale customers will be charged Penn Power's applicable prevailing retail electric rates for a seven-year term. Accordingly, the rates contained in the settlement agreement referred to in note 2 above will be applicable to the wholesale customers. The agreement also provides that the wholesale customers will remain full requirements customers of Penn Power during the seven-year term. The settlement, which included no refund provisions for interim rates in effect prior to the date of the agreement, was approved by the FERC on December 14, 1984.

In January 1985, the Governor of Ohio signed into law a construction work in progress ("CWIP") bill that had been pending for several months. This law continues to give the PUCO discretionary authority to grant a reasonable allowance for CWIP in rate base under certain conditions. While the law also continues to allow for CWIP other than pollution control projects to be considered for inclusion in rate base, it has reduced to 10% of rate base (exclusive of CWIP) from 20% allowed under prior law, the amount of non-pollution control CWIP includable in rate base. CWIP for pollution control equipment designed to reduce sulfur and nitrous emissions may continue to be included up to 20% of rate base

exclusive of CWIP. Also, if CWIP is allowed in rate base, a revenue offset period, similar in duration to the CWIP allowance period, is required when the project is placed in service. However, during the revenue offset period, an allowance similar to allowance for funds used during construction ("AFUDC") will be accumulated on that portion of plant in service not included in the rate base valuation and will subsequently be recovered from customers over the remaining life of the project.

In a retail rate order received by The Cleveland Electric Illuminating Company ("CEI") in March 1985, the PUCO refused to allow any CWIP in CEI's rate base attributable to Perry Unit No. 1, one of the nuclear generating units under construction by the Companies and other utilities as discussed below. The Company and The Toledo Edison Company ("Toledo"), the other Ohio utilities building Perry Unit No. 1, had previously had CWIP relating to Perry Unit No. 1 excluded from rate base by the PUCO. The Company's pending rate increase request before the PUCO includes in rate base approximately \$207,000,000 of CWIP attributable to Perry Unit No. 1.

In the CEI rate order, the PUCO also announced its intention to conduct an investigation in the near future relating to the costs of Perry Unit No. 1. Additionally, the PUCO stated that it intends to open an investigatory docket in the near future with the goal of developing a policy which deals with the impact that Perry Unit No. 1 will have on the generating reserves of the constructing utilities subject to its jurisdiction and with the question of "excess capacity" in Ohio.

In connection with an emergency retail rate increase recently received by Toledo, the PUCO ordered Toledo to analyze the feasibility of reducing the CAPCO construction program and Toledo's participation in such program and file a report thereon with the PUCO by May 1, 1985.

CAPCO Program

In September 1967, the Central Area Power Coordination Group ("CAPCO") companies, consisting of the Company, Penn Power, CEI, Duquesne Light Company ("Duquesne") and Toledo, announced a program for joint development of power generation and transmission facilities. Included in the program are Unit No. 7 at the W. H. Sammis Plant, Units Nos. 1, 2 and 3 at the Bruce Mansfield Plant and Unit No. 1 at the Beaver Valley Station, each now in service. The CAPCO program also includes the construction of other generating units referred to under "Item 2. Properties". In addition, the Company, Penn Power, Duquesne and CEI have installed 534,000 kW of peaking capacity (164,000 kW by the Companies).

The present CAPCO Basic Operating Agreement provides, among other things, for coordinated maintenance responsibilities among the CAPCO companies, a limited and qualified mutual back-up arrangement in the event of outage of CAPCO units and certain capacity and energy transactions among the CAPCO companies.

The agreements among the CAPCO companies generally treat the Companies as a single system as between them and the other three CAPCO companies, but, in agreements between the CAPCO companies and others, all five companies are treated as separate entities. Subject to any rights that might arise among the CAPCO companies as such, each member company, severally and not jointly, is obligated to pay the cost of constructing and operating only its ownership share of the facilities and the cost of required fuel. The CAPCO companies have agreed that any modification of their arrangements or of their agreed-upon programs requires their unanimous consent. Should any member become unable to continue to pay its share of the capital cost of a facility being constructed, each of the other CAPCO companies could be adversely affected in varying degrees because it may become necessary to terminate construction with resulting cancellation costs and possible loss of investment, or to delay construction with resulting penalties and cost inflation, or to continue construction with the remaining members acquiring some or all of the interest of the defaulting member and taking responsibility for the related costs.

Significant differences exist in the financial conditions of the CAPCO companies and their respective abilities to raise funds externally and to generate cash internally in order to meet their obligations under the CAPCO construction program. Investors are urged to refer to the Form 10-K's and other disclosure documents of the other CAPCO companies, as well as the information contained herein, in analyzing the possible impact on the Companies of the CAPCO construction program.

When each of the major uncompleted CAPCO units (see "Item 2. Properties") is placed in service, there will be an adverse effect on net income due to sizeable charges for depreciation, taxes and operating expenses until these costs are recognized as a cost of service in a subsequent rate case. In addition, any cessation of AFUDC prior to a unit being fully included in rate base will adversely affect net income. The Companies cannot presently predict the magnitude of any such effects but they could be substantial. Various regulatory commissions across the nation have recently been considering the concept of "phase-in" (i.e., a procedure wherein the cost of a new generating unit goes into rate base over time in several increments) as well as prudence questions and over-capacity questions in deciding when and how

much of the cost of a new unit should be included in rate base. Some of these considerations may have to be addressed by the Companies in future rate cases as major CAPCO units are completed and go into service. At the present time, the Companies have no specific reason to believe that after such considerations are addressed, all completed units will not eventually be fully included in rate base.

The CAPCO companies have provided several guarantees (the Company's and Penn Power's stated percentages being approximately 49.7% and 8.3%, respectively) with respect to financing the development of Quarto Mining Company ("Quarto") coal mines (see Note 7 of Notes to Consolidated Financial Statements) pursuant to coal purchase contracts extending to December 31, 1999 (with options that can extend their terms to December 31, 2009). The total construction cost for these mines is approximately \$431,000,000, of which approximately \$250,000,000 is applicable to the Companies. At the present time, the Companies are obligated to pay minimum annual charges for up to fifteen years.

The coal to be delivered under the Quarto contract has a sulfur content of about 4.1%. The Bruce Mansfield Plant was constructed with pollution control equipment for utilization of high sulfur coal, and the Plant is currently using all of the coal to be delivered under the contract. There have been no deliveries from the Quarto mines other than to CAPCO companies. During 1984, the mines produced approximately 3,480,000 tons.

Regulatory orders and proceedings concerning the recovery of the cost of Quarto coal under the Company's fuel adjustment clause and Penn Power's energy clause are discussed in Note 7 of Notes to Consolidated Financial Statements. In connection with the proceeding before the PUCO, the Company has agreed that in the event that Mine No. 7 (one of the two Quarto mines) is to continue in operation beyond January 1, 1987, it must demonstrate to the PUCO why Mine No. 7 should not be closed. The Companies are presently continuing to evaluate and study the economics of Mine No. 7. In connection with the PPUC proceedings involving the recovery of the cost of Quarto coal described in Note 7, Penn Power has appealed the PPUC's order to the Commonwealth Court of Pennsylvania.

In January 1980, the Companies and all other CAPCO companies terminated plans to construct four nuclear generating units. Costs, including settlement of all asserted claims resulting from termination, unrecovered by the Company and Penn Power as of December 31, 1984 applicable to these units, amounted to approximately \$69,560,000 and \$14,818,000, respectively. The PUCO had authorized recovery of the applicable portion of the Company's then known share of the construction costs from its PUCO jurisdictional customers over a ten-year period beginning in February 1981. However, due to a July 1981 Ohio Supreme Court decision which overturned a PUCO order including a similar allowance to another Ohio utility, the PUCO subsequently disallowed the Company's recovery of those costs, as service-related costs, effective August 1, 1981. In November 1982, the PUCO decided in the Company's then pending rate case to allow a rate of return above that which it otherwise would have allowed were it not for the July 1981 Ohio Supreme Court decision. Based on that order, the Company resumed amortization of the costs of the terminated units applicable to PUCO customers over a ten-year period. A similar adjustment has been included in each of the Company's subsequent PUCO rate orders. Penn Power (and the Company with respect to its FERC jurisdictional customers) is recovering these costs as an operating expense allowance.

Reference is made to "Regulation" and "Item 2. Properties" for a discussion of the status of the CAPCO construction program, including Perry Unit No. 2.

Fuel Supply

The Companies' sources of generation during 1984 were 90.4% coal and 9.6% nuclear. Approximately one-half of the Company's coal supply is procured through long-term contracts. In addition to the Quarto coal purchase contracts discussed above under "CAPCO Program", the Company has 3,600,000 tons under long-term contracts, which includes three new medium sulfur coal contracts for Sammis Unit Nos. 5-7 and Burger which were effective November 1, 1984. Including extension options, the Company's contracts expire at various times through December 31, 2002. This coal is produced primarily from mines located in Ohio, Pennsylvania and West Virginia. At this time, the Company is evaluating contract offers to secure a long-term low sulfur fuel supply for Sammis Unit Nos. 1-4 and additional medium sulfur fuel supplies for Burger and Sammis Unit Nos. 5-7.

The majority of Penn Power's coal, other than that related to its interest in the Bruce Mansfield Plant, is currently supplied through spot purchases from nearby coal reserves. During 1984, Penn Power received approximately 40% of its low sulfur coal requirements under short-term and long-term contracts.

The Companies' fuel costs for each of the five years ended December 31, 1984 were as follows:

	<u>1984</u>	<u>1983</u>	<u>1982</u>	<u>1981</u>	<u>1980</u>
Coal:					
Cost per ton of coal purchased	\$37.51	\$38.51	\$42.01	\$43.47	\$37.42
Cost of coal consumed per million BTU's (1)	\$ 1.59	\$ 1.62	\$ 1.75	\$ 1.81	\$ 1.50
Nuclear:					
Cost of nuclear fuel consumed per million BTU's (2)	\$.69	\$.67	\$.54	\$.41	\$.38
Average fuel cost per kilowatt-hour generated (mills) (3)	16.22	17.52	18.78	16.60	16.05

(1) Excludes effect of power generated during 1980 in connection with the construction of Bruce Mansfield Unit No. 3.

(2) These costs do not include costs associated with the disposition of spent nuclear fuel.

(3) The fuel cost per kilowatt-hour for December 1984 was 17.11 mills.

The following table compares the cost of electric energy generated and purchased for each of the five years ended December 31, 1984.

	<u>1984</u>	<u>1983</u>	<u>1982</u> (In Thousands)	<u>1981</u>	<u>1980</u>
Generated	\$594,659	\$581,340	\$616,500	\$576,344	\$511,564
Purchased and net interchanged energy ...	56,659	50,026	52,607	29,321	26,089
System control and load dispatching	1,878	1,762	1,731	1,502	1,269
Power generated during construction	—	—	—	—	3,763
	<u>\$653,196</u>	<u>\$633,128</u>	<u>\$670,838</u>	<u>\$607,167</u>	<u>\$542,685</u>

Reference is made to "Financing and Construction Program" for a discussion of the Companies' commitments for the supply of nuclear fuel.

The Company estimates its current annual coal requirements to be 8,700,000 tons (including its share of the coal requirements for Sammis Unit No. 7 and the Bruce Mansfield Plant). Penn Power's current annual coal requirements are estimated to be 1,500,000 tons. See "Environmental Matters" for matters pertaining to meeting environmental regulations affecting coal-fired generating units.

The CAPCO companies have contracts for the supply of uranium sufficient to meet projected requirements through 1991, and contracts for the supply of conversion services sufficient to meet projected needs through 1991. Fabrication services for fuel assemblies have been contracted for the next five reloads for Beaver Valley Unit No. 1, the initial core and first two reloads for Beaver Valley Unit No. 2, the initial core and one reload for Perry Unit No. 1, and the initial core for Perry Unit No. 2. In 1984, the CAPCO companies, in conjunction with a special offering made by the U.S. Department of Energy ("DOE"), terminated at no cost, nine enrichment services contracts and entered into a single DOE contract to provide enrichment services for all the CAPCO nuclear units. The term of this contract is 30 years. On December 7, 1984, a number of domestic uranium producers filed a lawsuit seeking to invalidate the DOE contracts based on the contention that DOE did not follow proper administrative procedures in issuing the contracts. If the court should declare the contracts invalid, DOE would have to reissue a procedurally valid contract or other alternatives would have to be found in order for the CAPCO companies to obtain enrichment services.

Prior to the expiration of existing commitments, the CAPCO companies may have to make additional arrangements for the supply of uranium and for the subsequent conversion, enrichment, fabrication, reprocessing and/or waste

disposal, the prices and availability of which cannot be predicted. No domestic reprocessing services are presently available. Due to this lack of availability of reprocessing services and to the continuing absence of any program to begin development of reprocessing capability, the Companies are calculating nuclear fuel costs on the assumption that spent fuel will not be reprocessed. On-site spent fuel storage facilities have been constructed for Beaver Valley Unit No. 1 and are under construction for Beaver Valley Unit No. 2. The storage facilities for Beaver Valley Unit No. 2 are expected to be completed at the time the unit goes into commercial operation. It is expected that the facilities will provide adequate capacity through 1993 for Beaver Valley Unit No. 1 and 2000 for Beaver Valley Unit No. 2. After the storage capacity at the Beaver Valley site is exhausted, additional storage capacity will have to be obtained at a substantial cost unless reprocessing services or permanent waste disposal facilities become available. On-site spent fuel storage facilities for the Perry Plant are expected to be adequate through 1997 for both units. Additionally, the CAPCO companies are reviewing the on-site spent fuel storage facilities for Perry Units Nos. 1 and 2 with a view toward providing increased capacity to store spent fuel. The federal Nuclear Waste Policy Act of 1982 is intended to provide for the construction of facilities for the disposal of high-level nuclear wastes, including spent fuel from nuclear power plants operated by electric utilities. Duquesne has entered into a contract with the DOE for the disposal of nuclear waste from Beaver Valley Units Nos. 1 and 2. CEI plans to enter into similar contracts for the Perry Plant.

Fuel Adjustment Clauses

Under the laws of the State of Ohio, an electric utility is required to have semiannual hearings before the PUCO with respect to its fuel policies and practices. At these hearings a utility is required to show that its electric fuel component ("EFC") charges are "fair, just and reasonable". The law also requires additional auditing of, and additional reporting by, the utility with respect to its fuel costs and fuel procurement policies and practices. The law provides for the recovery of fuel costs, including any over or under collection of fuel costs applicable to a prior six-month period, by adjusting an electric utility's EFC rates every six months.

Penn Power uses a "levelized" energy cost rate ("ECR") for the recovery of fuel costs from its customers. The ECR, which includes adjustment for any over or under collection from customers, is recalculated each year.

Reference is made to Note 7 of Notes to Consolidated Financial Statements for a discussion of regulatory orders concerning the recovery of the cost of Quarto coal.

Regulation

The Company is an exempt holding company under the Public Utility Holding Company Act of 1935. The Company, with respect to its retail electric business, is subject to broad regulation by the PUCO and in certain respects by the various municipalities which it serves. The Company is subject in certain respects to regulation by the PPUC in connection with property interests in Pennsylvania. Penn Power, with respect to its retail business, is subject to broad regulation by the PPUC. With respect to their wholesale and interstate electric operations, the Companies are subject to regulation, including regulation of their accounting policies and practices, by the FERC.

The Public Utility Regulatory Policies Act of 1978 ("PURPA") contains a number of provisions that affect the electric utility industry, including (1) establishment of rate making standards which state regulatory authorities are required to consider (but not necessarily to implement), (2) amendments to the Federal Power Act expanding the authority of the FERC to order interconnections and the sale and exchange of electric energy across such interconnections, and authorizing the FERC to order electric utilities under certain circumstances to provide transmission services, and (3) establishment of a requirement that the FERC periodically review automatic adjustment clauses in wholesale rate schedules. The Companies are unable to predict the ultimate effect of resulting regulations upon them. Pursuant to a PUCO order on November 17, 1982, the Company filed rates applicable to purchases of energy from co-generators and small power production facilities. Penn Power is currently appealing certain PPUC regulations implementing rates for energy produced by co-generators and small power producers.

In March 1979, events occurred at Metropolitan Edison Company's Three Mile Island nuclear power plant ("TMI") near Harrisburg, Pennsylvania, which developed into a serious nuclear accident. A Presidential Commission, Congress, the Nuclear Regulatory Commission ("NRC") and others undertook investigations of the causes and consequences of the accident.

As a result of the TMI accident, the subsequent investigations and continuing intense public and regulatory concerns over the construction and operation of nuclear generating facilities, the NRC has promulgated and continues to

promulgate regulations related to the safe operation of nuclear power plants. The Companies cannot predict what additional regulations will be promulgated or design changes required or the effect that any such regulations or design changes, or the consideration thereof, may have upon the operation of Beaver Valley Unit No. 1 or the costs, construction, licensing or operation of nuclear units currently under construction by the CAPCO companies. As a result of certain new NRC regulations, procedural and design changes have been or will be implemented at all such units. A substantial portion of the cost of such changes has been determined and is included in the construction figures under "Financing and Construction Program." Although the Companies have no reason to anticipate a TMI-type of accident at any nuclear plant in which they have an ownership interest, if such an accident did happen, it could have a material but presently undeterminable adverse effect on their financial position. In addition, such an accident at any operating nuclear plant, whether or not owned by the Companies, could result in regulations or requirements that could affect the operation or licensing of plants that the Companies do own with a consequent but presently undeterminable adverse impact.

The Price-Anderson Act currently limits the public liability of an operator of a nuclear power plant to \$620,000,000 for a single nuclear incident, which amount is covered by (a) private insurance amounting to \$160,000,000 and (b) \$460,000,000 provided by retroactive assessments required by the Price-Anderson Act and regulations issued by the NRC pursuant thereto. In the event of a nuclear incident at any unit resulting in losses in excess of private insurance, up to \$5,000,000 (but not more than \$10,000,000 per unit per year in the event of more than one incident) must be contributed for each licensed nuclear unit in the country by the owners thereof to cover public liabilities arising out of the incident. Based on their present ownership interests in one operating nuclear reactor, the Companies' maximum potential assessment under these provisions would be \$2,625,000 per incident but not more than \$5,250,000 per calendar year.

In addition to the public liability insurance provided pursuant to the Price-Anderson Act, the Companies have also obtained insurance coverage in limited amounts for economic loss and property damage arising out of nuclear incidents. The Companies are members of Nuclear Electric Insurance Limited ("NEIL") which provides coverage ("NEIL I") for the extra expense of replacement power incurred due to prolonged accidental outages of nuclear units. Under NEIL I, the Companies have policies, renewable yearly, corresponding to their respective interests in Beaver Valley Unit No. 1, which provide an aggregate indemnity of up to approximately \$34,418,000 for replacement power costs incurred during an outage after an initial 26-week waiting period. Members of NEIL I pay annual premiums and are subject to assessments if losses exceed the accumulated funds available to the insurer. The Companies' present maximum aggregate assessment for incidents occurring during a policy year would be approximately \$1,124,000.

The Companies are insured as to their respective interests in the Beaver Valley Station under property damage insurance provided by American Nuclear Insurers ("ANI") and Mutual Atomic Energy Liability Underwriters ("MAELU") to the operating company for that plant. Under the ANI/MAELU arrangements, \$500,000,000 of primary coverage for decontamination costs, debris removal and repair and/or replacement of property is provided for both units of the Beaver Valley Station. The Companies pay annual premiums for this coverage and are not liable for retrospective assessments.

A secondary level of coverage for the Beaver Valley Station over and above the ANI/MAELU policy is provided by a decontamination liability and excess property insurance policy issued to the operating company by NEIL ("NEIL II"). As of March 15, 1985, \$585,000,000 of coverage became effective under NEIL II to pay costs required for decontamination operations in excess of the \$500,000,000 provided by the ANI/MAELU policy. Any remaining portion of the NEIL II proceeds will be available to pay excess property damage losses. Members of NEIL II pay annual premiums and are subject to assessments if losses exceed the accumulated funds available to the insurer. The Companies' present maximum assessment for NEIL II coverage for accidents occurring during a policy year would be approximately \$4,748,000. The NEIL II policy is renewable yearly.

The Companies intend to maintain insurance against nuclear risks as described above so long as it is available, and to attempt to obtain similar insurance for other nuclear generating units in which they have an ownership interest when the units are placed in commercial operation. To the extent that replacement power costs, property damage costs, decontamination expenses, repair and replacement costs and other such costs and expenses arising from a nuclear incident at any of the Companies' plants exceed the policy limits of the insurance from time to time in effect with respect to that plant, to the extent a nuclear incident is determined not to be covered by the Companies' insurance policies, or to the extent such insurance becomes unavailable in the future, the Companies retain the risk of loss to their nuclear plant facilities and are self insurers.

A number of safety modifications required by the NRC to be made on all nuclear units operating in the United States have been completed at Beaver Valley Unit No. 1, in addition to routine maintenance work and equipment inspections in connection with a scheduled refueling outage of the unit which began on October 11, 1984 and ended January 5, 1985. The currently estimated cost of anticipated remaining modifications is included in the Companies' construction program (see "Financing and Construction Program").

The construction and operation of nuclear generating units are subject to the regulatory jurisdiction of the NRC including the issuance by it of construction permits and operating licenses. The NRC's procedures with respect to application for construction permits and operating licenses afford opportunities for interested parties to request public hearings on health, safety, environmental and antitrust issues. In this connection, the NRC may require substantial changes in proposed operation or the installation of additional equipment to meet safety or environmental standards with consequent delay and added costs and the possibility exists for denial of licenses or permits. The construction permits for Beaver Valley Unit No. 2 and for Perry Units Nos. 1 and 2 have been issued, and a full power operating license for Beaver Valley Unit No. 1 was issued on July 1, 1976. See "Item 2. Properties" for a description of the status of the application for a full power operating license for Perry Unit No. 1.

In September 1983, the Ohio Office of Consumers' Counsel, The City of Cleveland, the Board of County Commissioners of Geauga County, Ohio and three local public interest corporations filed a petition with the PUCO and the Ohio Power Siting Board (the "OPSB") requesting that each of those bodies investigate the public need for the construction of Unit No. 2 at the Perry Plant. The petition alleges that completion of Unit No. 2 will result in an undesirable and unreasonable level of excess capacity for each of the Ohio utilities in CAPCO and that the rates charged or proposed to be charged by those companies will therefore be unjust, unreasonable and unjustly discriminatory. The petition asks that construction of Unit No. 2 be halted and that no further AFUDC be accrued with respect to that Unit (approximately \$3,600,000 of AFUDC is currently being accrued monthly by the Companies and that amount will gradually increase each month as construction continues). The petition further requests a declaration be issued stating that the issuance of securities, the proceeds of which will be used to finance construction of Unit No. 2, will not be approved. The Company is contesting the petition. In another proceeding, the OPSB has denied a request to delay hearings on the siting of the Perry-Hanna transmission line, which will serve Unit No. 2, until the PUCO completes its investigation of Unit No. 2.

The CAPCO companies are continuing to review the status of Perry Unit No. 2. Until this review has been completed, there will be no defined schedule for the completion of Unit No. 2. Possible alternatives being reviewed with respect to Unit No. 2 include temporary cessation of work on the Unit and termination of the Unit. In accordance with the CAPCO Agreement, none of these alternatives may be implemented without the approval of each of the CAPCO companies. Presently, the only significant work being performed on Unit No. 2 is that necessary to enable Perry Unit No. 1 to be placed in service. This work is expected to be completed sometime in 1985. Under those circumstances it is not likely to be appropriate to continue capitalizing AFUDC (as described in Note 1 of Notes to Consolidated Financial Statements) to Unit No. 2. Accordingly, if the CAPCO companies do not decide to resume significant construction, the Companies do not expect to be able to include this AFUDC in net income. Instead, a reserve would be provided for AFUDC capitalized to Unit No. 2 prospectively. This would not affect cash flow but it would cause a corresponding reduction in net income.

As of December 31, 1984, the Company and Penn Power had invested approximately \$348,700,000 and \$57,300,000, respectively, applicable to Perry Unit No. 2. Delays in the completion of the Unit can be expected to increase its total cost by amounts which are not presently determinable. If a decision were made to terminate Unit No. 2, certain costs which are currently assigned to Unit No. 2 would be reassigned, where appropriate, to Unit No. 1. However, cancellation charges payable to contractors and other costs of termination could be incurred. Pending completion of the CAPCO review, the Company is unable to predict whether the construction on Perry Unit No. 2 will continue or, if continued, on what basis such continuation will proceed. If construction of Perry Unit No. 2 is terminated, the Company would seek to recover its investment as it is presently doing with respect to previously terminated units (see "CAPCO Program") but cannot now predict whether its investment in Perry Unit No. 2 applicable to its PUCO jurisdictional customers will be recoverable. If no means of recovery of the costs of Unit No. 2, in the case of termination, were available to the Company from its PUCO jurisdictional customers and no other basis for recovery could be found or anticipated, the Company would be required to write off the portion of its investment applicable to its PUCO jurisdictional customers. Based upon the Company's investment in Unit No. 2 as of December 31, 1984, the Company estimates that this write-off could be in the range of \$205,000,000, net of income tax effect. The Company

does not presently anticipate that a write-off of even this magnitude, if required, would affect its ability to pay common stock dividends at current levels, and studies being conducted indicate that the magnitude of any such write-off could be much smaller. If, despite its best current information, a much larger write-off were required, depending upon the timing involved, such a write-off could temporarily affect the Company's ability to pay common stock dividends at current levels. Based on past experience, Penn Power would expect to recover its investment in Unit No. 2 through its rates if the Unit were terminated. This is also true for the Company with respect to its FERC jurisdictional customers.

Following lengthy hearings and appeals by the CAPCO companies, the licenses issued by the NRC applicable to the Perry Units are conditioned to require, among other things, (1) maintenance, emergency, economy and wholesale power and reserve sharing to be made available to, (2) interconnections to be made with, and (3) wheeling to be provided for, electric generation and/or distribution systems (or municipalities or cooperatives with the right to engage in such functions) if such entities so request and to permit such entities to become members of CAPCO (subject to certain prerequisites with respect to size), or to acquire a share of the capacity of the Perry Units or any other future nuclear units, if they so desire. These license conditions could have a materially adverse but presently undeterminable effect on the future business operations of the Companies.

On June 11, 1984, a citizens' group petitioned the NRC for an order to show cause why the construction permit for Perry Unit No. 2 should not be suspended or revoked, on the alleged ground that construction of Perry Unit No. 2 has stopped. On November 15, 1984, the NRC staff denied the petition.

See "Item 2. Properties" for further information concerning the construction of generating plants by the CAPCO companies.

Environmental Matters

Regulation with regard to air and water quality and other environmental matters by various federal, state and local authorities, and compliance with such regulation will require the making of certain capital expenditures in addition to those already made. The Companies estimate that compliance requires additional capital expenditures of approximately \$125,000,000, which is included in the construction estimate for the period 1985 through 1989 discussed under "Financing and Construction Program." These sums include the projects described below plus various other environmentally related projects totaling approximately \$70,000,000.

Air Regulation

Under the provisions of the Clean Air Act of 1970, both the State of Ohio and the Commonwealth of Pennsylvania adopted ambient air quality standards, and related emission limitations, including limitations for sulfur dioxide ("SO₂") and particulates. In addition, the U.S. Environmental Protection Agency ("EPA") promulgated an SO₂ regulatory plan for Ohio which became effective for the Company's plants in 1977. Generating plants to be constructed in the future and some future modifications of existing facilities will be covered not only by the applicable state standards but also by emission performance standards of EPA for new sources. In both Ohio and Pennsylvania the construction or modification of emission sources requires approval from appropriate environmental authorities, and the facilities involved may not be operated unless a permit or variance to do so has been issued by those same authorities.

Section 125 of the Clean Air Act Amendments of 1977 could require the Companies to buy locally or regionally available coal, if to do otherwise would result in significant local or regional economic disruption or unemployment. EPA instituted proceedings under Section 125 in July 1978. EPA announced in September 1979 and again in January 1981 that it has failed to find the requisite significant adverse impacts necessary to impose this requirement. A final determination in this matter has not yet been made.

The Companies are required to meet federally approved SO₂ regulations, and the violation of such regulations can result in injunctive relief, including shutdown of the offending generating unit, and/or civil or criminal penalties of up to \$25,000 per day of violation. EPA has announced an interim enforcement policy for the SO₂ regulations in Ohio which allows for compliance with the regulations based on a 30-day averaging period. A similar policy applicable to sources in Indiana was rescinded in February 1985. The Company believes that all plants subject to the interim enforcement policy are in compliance with that policy. The Companies cannot predict what action EPA may take in the future with respect to the interim enforcement policy.

In 1978, the federal government began legal proceedings in the U.S. District Court for the Southern District of Ohio, Eastern Division, in connection with alleged particulate emission violations at the W. H. Sammis Plant against

the Companies and Duquesne, the co-owners of Sammis Unit No. 7. The State of West Virginia joined EPA as a plaintiff and reached agreement with the Companies and Duquesne on a consent order, accepted by the Court on March 19, 1980, which provided for equipment construction schedules, interim operating requirements and payment of \$140,000 by the three companies. A consent order, agreed to by EPA, the Department of Justice, and the Companies and Duquesne was accepted by the Court on February 24, 1981. The federal consent order contains the same final compliance plan, and virtually the same interim operating plan as the West Virginia consent order. The consent order with West Virginia was subsequently amended to resolve differences with the federal consent order. The federal consent order also provided for the payment of a civil penalty of \$1,350,000 by the defendants and imposes a particulate emission rate for a portion of the plant below the present emission standards for a period of ten years.

The Companies estimate that their share of the remaining cost of the particulate air quality compliance program for the Sammis Plant will be approximately \$26,000,000. The program, together with the use of low and medium sulfur coal as needed, was designed to bring the Sammis Plant into compliance with both particulate and SO₂ standards by August 1984, and that schedule was met.

The Pennsylvania Department of Environmental Resources ("DER") adopted in 1984 an enforcement policy applicable to violations of state SO₂ and opacity standards based on sources' continuous emission monitoring system data. The policy imposes penalties for exceeding emission standards and for the failure to provide sufficient monitoring data. Penn Power has not been assessed any penalties applicable to 1984 and does not expect future penalties, if any, to be material. In April 1984, Penn Power paid \$50,000 to the DER to settle alleged violations of opacity standards at the New Castle Plant for the period June 1, 1982 to October 1, 1983. The DER's continuous emission monitoring enforcement policy will be applicable to any future violations of opacity standards.

On January 23, 1984, Penn Power received an operating permit from the DER for Mansfield Unit No. 3. This unit had previously been operating under temporary operating permits which were renewed periodically and which allowed for some deviations from the emission standards set by the Pennsylvania Implementation Plan under the Clean Air Act. The operating permit will allow no such deviations but instead requires that emission standards be met on a continuous basis without any deviation whatsoever. Penn Power believes that despite its sophisticated pollution control equipment, Unit No. 3 may be unable to meet the SO₂ emission standard required in Pennsylvania on an absolutely continuous basis. Past experience has indicated that some deviation from the absolute limit set by the Pennsylvania standard will occur from time to time on a temporary basis during the operation of the unit. Penn Power has appealed the issuance of the permit to the Pennsylvania Environmental Hearing Board on the grounds that the SO₂ standard applicable to Unit No. 3 is not reasonably based and is not necessary for the achievement of ambient air quality standards. Civil and criminal penalties ranging up to \$2,500 per daily violation are provided for under Pennsylvania law for violations of these emission standards. Management is unable to predict the outcome of this proceeding.

On December 5, 1984, EPA denied a petition from the Commonwealth of Pennsylvania and the states of New York and Maine, which sought to force EPA to make findings under Section 126 of the Clean Air Act. Section 126 provides a remedy for a downwind state that can show adverse impact because air pollution in an upwind state causes non-attainment of air quality standards in the downwind state. The petition complained of excessive particulate and SO₂ emissions from a number of sources in Ohio and other states, including potentially all of the Companies' Ohio plants. Seven northeastern states have appealed EPA's decision to the U.S. Court of Appeals in the District of Columbia, asking that the decision be reviewed, reversed, modified or set aside. The Company, along with other electric utilities and others, has intervened in the case. On March 20, 1984, a number of states, together with various environmental organizations and individuals, filed suit in the U.S. District Court for the District of Columbia urging the Court to order EPA to render a timely decision on the then pending Section 126 petitions and asserting that EPA has violated a mandatory duty to determine which states are contributing to air pollution which is alleged to endanger public health and welfare in Canada and to order cutbacks in SO₂ emissions in these states under the section of the Clean Air Act dealing with international air pollution (Section 115). EPA's December 5, 1984 denial made the Plaintiff's first request moot. The Court has not yet acted on the Plaintiff's request relating to Section 115. The Company is unable to predict the outcome of these proceedings.

As a part of the reauthorization of the Clean Air Act, legislation has been introduced in Congress to address the so called "acid rain" problem. Various bills introduced thus far would require reductions in SO₂ emissions from utility power plants and other sources located in several states, including Ohio and Pennsylvania. The Company is unable to predict whether the proposed bills will be enacted and, if so, to what extent, if any, the SO₂ emission limits at the

Companies' plants would be affected. Substantial changes in the SO₂ emission limits could result in the need for changes in coal supply, significant capital investments in flue gas desulfurization equipment or the closing of some coal-fired generating capacity to assure compliance. If flue gas desulfurization equipment were to be installed on all of their generating units to achieve compliance, a circumstance that may be physically impossible because of space limitations at certain of their plants, the Companies estimate that the capital costs associated with such installation could exceed \$1,000,000,000. The Companies expect that any such capital costs, as well as any increased operating costs associated with such equipment, would ultimately be recovered from their customers.

In October 1983, the U.S. Court of Appeals for the District of Columbia reversed several significant portions of EPA's regulations on the methods used by EPA to determine the amount of stack height credit for establishing individual source emission limitations. In July 1984, the U.S. Supreme Court denied a utility industry request to review the Court of Appeals' decision. On November 8, 1984, EPA proposed new stack height regulations to conform with the court's decision. Such changes could result in more stringent emission limitations for some existing plants and increased capital costs and operating expenses. The Companies are studying the proposed new regulations and are currently unable to predict their ultimate effect if adopted.

Water Regulation

Various water quality regulations, the majority of which are the result of the federal Clean Water Act and its Amendments, apply or will apply to the Companies' plants. In addition, Ohio and Pennsylvania have water quality standards applicable to the Companies' operations.

In October 1974, EPA issued final regulations establishing thermal and chemical limitations upon effluents discharged by existing and new steam electric generating stations and fuel storage areas. The regulations impose higher treatment levels for chemical discharges and require closed-cycle cooling facilities at essentially all stations going on line after January 1, 1974 and all larger units (500 MW or more) which went on line after January 1, 1970. The Company, together with other electric utilities, joined in an appeal of these regulations before the U.S. Court of Appeals for the Fourth Circuit. In July 1976, a decision was rendered by the Court of Appeals which sustained the utilities' position that these regulations are only "presumptively applicable" when establishing effluent limitations for specific source discharges. In addition, the Court set aside and remanded the thermal discharge limitations and the variance section of these regulations to require consideration of a greater number of factors in granting variances.

On May 25, 1976, EPA promulgated regulations which would require the best available technology for minimizing the adverse environmental impact of cooling water intake structures. Due to the cost/benefit nature of these regulations, the Company is not able to predict with certainty what the best available technology will be as applied to each plant, but the maximum effect which these regulations could have would be to require the installation of cooling towers. The Company, together with other electric utilities, contested the legality of these regulations before the U.S. Court of Appeals for the Fourth Circuit. On November 11, 1977, the Court of Appeals remanded the regulations to EPA for failure to comply with certain procedural notification requirements. EPA has repropoed but not yet finalized the remanded regulations.

As provided in the Clean Water Act, authority to grant federal National Pollutant Discharge Elimination System ("NPDES") water discharge permits can be assumed by a state. Ohio and Pennsylvania have assumed such authority.

The Ohio Environmental Protection Agency ("Ohio EPA") has issued NPDES permits for the R. E. Burger, Edgewater, Gorge, Niles, W. H. Sammis, Toronto, and West Lorain Plants and has proposed a water discharge permit for the Mad River Plant. The West Lorain Plant is in compliance with all permit conditions. The other plants are in compliance with chemical limitations of the permits. The permit conditions would have required the addition of cooling towers at all of the above plants except West Lorain. However, EPA and Ohio EPA have approved variance requests for the W. H. Sammis, R. E. Burger, Edgewater, Toronto and Mad River Plants, eliminating the current need for cooling towers at those plants. A variance request for the Gorge Plant is still pending Ohio EPA action. On September 15, 1980, Ohio EPA proposed to deny the Company's request to modify its NPDES permit for the Niles Plant to extend by 18 months the mid-1983 in-service date for closed-cycle cooling towers. The Company requested an adjudication hearing before Ohio EPA to challenge the proposed denial. The Company has reached an agreement with Ohio EPA to grant the requested extension for 18 months or until construction is completed on new sewage treatment facilities for the City of Youngstown, whichever is later. The cost of the cooling towers is estimated to be approximately \$29,000,000. The cost of cooling towers which might ultimately be required at any other plant as well as the cost of additional new

generating capacity which would be required due to operation of the cooling towers cannot presently be estimated due to uncertainty of the long-term compliance status of the plants, but such costs could be substantial. No amounts reflecting such expenditures for cooling towers at plants other than the Niles Plant are included in the construction figures for the period 1985 through 1989 contained under "Financing and Construction Program."

On October 2, 1984, the DER approved Penn Power's plan regarding thermal discharges at its New Castle Plant. The plan involves correlating river flow and temperature conditions with plant generating operations to effect an alternate thermal effluent limitation under Section 316(a) of the federal Clean Water Act. Penn Power's discharge permit is currently being rewritten by DER to implement the plan which is expected to eliminate the need for off-stream cooling at the plant.

Waste Disposal

As a result of the Resource Conservation and Recovery Act of 1976, as amended, and the Toxic Substances Control Act of 1976, federal and state hazardous waste regulations have been promulgated. On July 26, 1982, EPA promulgated final rules on land disposal of hazardous wastes which could have a significant impact on the Company if fossil fuel wastes were to be classified as hazardous. The Company, as part of a group of electric utilities, has challenged these rules in the U.S. Court of Appeals for the District of Columbia Circuit in a suit filed on October 7, 1982. These regulations and a court decision regarding the use and disposal of polychlorinated biphenyls will affect the use of certain electrical equipment. Among other things, the Companies are required to inventory substantial amounts of equipment containing polychlorinated biphenyls and may be required to utilize new methods of disposal of such substances. The ultimate effect of these requirements cannot presently be determined.

Summary

Environmental controls are in the process of development and require, in many instances, balancing the needs for additional quantities of energy in future years and the need to protect the environment. As a result, the Companies cannot now estimate the precise effect of existing and potential regulations and legislation upon any of their existing and proposed facilities and operations or upon their ability to issue additional first mortgage bonds under their respective mortgages. These mortgages contain covenants by the Companies to observe and conform to all valid governmental requirements at the time applicable unless in course of contest and provisions which, in effect, prevent the issuance of additional bonds if there is a completed default under the mortgage. The provisions of each of the mortgages, in effect, also require, in the opinion of counsel for the respective Companies, that certification of property additions as the basis for the issuance of bonds or other action under the mortgages be accompanied by an opinion of counsel that the company certifying such property additions has all governmental permissions at the time necessary for its then current ownership and operation of such property additions. The Companies intend to contest any requirements they deem unreasonable or impossible of compliance or otherwise contrary to the public interest. Developments in these and other areas of regulation may require the Companies to modify, supplement or replace equipment and facilities, and may delay or impede the construction and operation of new facilities, at costs which could be substantial. The Companies expect that the impact of any such costs would eventually be reflected in their rate schedules.

Other Programs

In 1967, the Companies joined with 24 other electric companies operating in eight states in the formation of the East Central Area Reliability Coordination Group ("ECAR") for the purpose of furthering the reliability of bulk power supply in the area through coordination of the planning and operation by the ECAR members of their bulk power supply facilities. In 1968, ECAR members adopted practices and procedures for establishing, for each system, the minimum generating capability to be available each day to carry loads and to meet unforeseen contingencies and also a program to be followed in the event of an extreme disturbance within the ECAR area.

Employees

At December 31, 1984, the Company had 5,783 employees and Penn Power had 1,828 employees for a total of 7,611 employees for the Companies.

Executive Officers of the Registrant

The executive officers are elected at the annual organization meeting of the Board of Directors, held immediately after the annual meeting of stockholders, and hold office until the next such organization meeting, unless the Board of Directors shall otherwise determine, or unless a resignation is submitted.

<u>Name</u>	<u>Age</u>	<u>Positions Held During Past Five Years</u>	<u>Dates</u>
J. T. Rogers, Jr.	55	President of the Company, Chairman of the Board of Penn Power, Chief Executive Officer and Director of both Companies	* -present
V. A. Owoc	61	Executive Vice President and Chief Financial Officer	* -present
D. W. Tschappat	57	Executive Vice President and Chief Operating Officer	* -present
Lynn Firestone	59	Senior Vice President—Engineering and Construction	* -present
D. R. Gundry	59	Senior Vice President—Division Operations and Customer Service Division Manager—Akron Division Manager—Youngstown	1983-present 1981-1983 * -1981
R. J. McWhorter	52	Senior Vice President—Generating Plant and Transmission System Operations	* -present
R. J. Spetrino	58	Vice President and General Counsel	* -present
R. D. Best	59	Vice President Manager, Marketing	1982-present * -1982
F. E. Derry	55	Vice President	* -present
C. W. Frederickson	64	Vice President	* -present
J. A. Gill	47	Vice President Division Manager—Akron Manager, Personnel Relations	2/1/85-present 1982-1985 * -1982
J. D. Wilson	59	Vice President Manager, Rates and Economic Studies Manager, Rate Department	1982-present 1982 * -1982
W. A. Daniels	57	Comptroller Director, Plant Accounting	1982-present * -1982
H. P. Burg	38	Treasurer	* -present
G. F. LaFlame	36	Secretary Assistant Treasurer	* -present 1980

* indicates position held at least since 1980.

Effective February 1, 1985, D. J. List, age 62, retired from his position as Vice President of the Company.

Operating Statistics

Operating statistics of the Companies are incorporated herein by reference to the Consolidated Operating Statistics on page 39 in the Company's 1984 Annual Report to Stockholders.

ITEM 2. Properties

The Companies' respective First Mortgage Indentures constitute, in the opinion of the Companies' counsel, direct first liens on substantially all of the respective Companies' physical property, subject only to excepted encumbrances, as defined in the Indentures.

See Notes 3 and 5 of Notes to Consolidated Financial Statements for information concerning leases and financing encumbrances affecting certain of the Companies' properties.

The Company presently owns and operates six coal-fired generating plants at various locations in the State of Ohio which, together with the capacity of one coal-fired plant (the New Castle Plant) owned and operated by Penn Power, have a total net demonstrated capability of 3,204,000 kW. The Companies also own and operate oil-fired generating units having a net demonstrated capability of 164,000 kW. Together with one or more of the other CAPCO companies, the Companies own, as tenants in common: Sammis Unit No. 7, a coal-fired generating unit at Stratton, Ohio, which has a net demonstrated capability of 600,000 kW and which went into commercial operation in 1971; Bruce Mansfield Units Nos. 1, 2 and 3, three coal-fired generating units at Shippingport, Pennsylvania, with net demonstrated capabilities of 780,000 kW, 780,000 kW and 800,000 kW, respectively, which went into full commercial operation in June 1976, October 1977 and September 1980, respectively; and Beaver Valley Unit No. 1, a nuclear unit at Shippingport, Pennsylvania, which has full demonstrated capability of 810,000 kW and which went into commercial operation in April 1977. When their ownership interests in Sammis Unit No. 7 (aggregating 413,000 kW), Bruce Mansfield Units Nos. 1, 2 and 3 (aggregating 1,196,000 kW) and Beaver Valley Unit No. 1 (aggregating 425,000 kW), are added to the net demonstrated capability of the other plants and units presently owned and operated by the Companies, total net demonstrated capability equals 5,402,000 kW. There is also available under conditions existing at the date of this Form 10-K approximately 407,000 kW of power under contracts, the majority of which is the Companies' portion of the power available from Ohio Valley Electric Corporation in excess of the DOE's requirements at its plant near Portsmouth, Ohio.

The CAPCO companies, as further discussed under "Item 1. Business — CAPCO Program", undertook a program for the joint development of power generation and transmission facilities. In January 1980, the CAPCO companies terminated plans to build four nuclear generating units that had been scheduled for completion in the late 1980's or early 1990's. It was decided that Davis-Besse Units Nos. 2 and 3 and Erie Units Nos. 1 and 2 would not be built. All of the major additions to the generating capacity of the Companies presently being constructed are a part of this program as shown below.

<u>Site (a)</u>	<u>Type</u>	<u>Capability</u>	<u>Estimated Operation Date</u>	<u>Estimated Total Cost to the Companies(b)</u> (Thousands)	<u>Estimated Total Cost per Kilowatt(b)</u>	<u>Expenditures by the Companies(c)</u> (Thousands)
Beaver Valley Station Unit No. 2, in Shippingport, Pa.	Nuclear	833 MW	late 1987	\$1,656,000	\$4,745	\$ 982,200
Perry Plant, in North Perry Village, Ohio Unit No. 1 and common facilities	Nuclear	1,205 MW	late 1985	\$1,431,000(d)	\$3,367(d)	\$1,158,800(d)
Unit No. 2	Nuclear	1,205 MW	(e)	(e)	(e)	\$ 406,000(e)

(a) With the exception of Beaver Valley Unit No. 2, in which Penn Power has no interest, the Company and Penn Power will have undivided interests as tenants in common with one or more of the other CAPCO companies in each of the units listed above. The Company's interest in Beaver Valley Unit No. 2 is 41.88%. The Company's and Penn Power's interests in both Perry Units are 30% and 5.24%, respectively.

(b) The costs listed do not include the cost of fuel.

(c) Represents expenditures through December 31, 1984.

(d) Includes estimated costs for common facilities for both units.

(e) Perry Unit No. 2 is currently under review (see "Item 1. Business — Regulation").

CEI is moving into the latter stages of the process for obtaining an operating license for Perry Unit No. 1. The NRC has completed the Final Environmental Statement and Safety Evaluation Report with respect to the Unit, and the Advisory Committee on Reactor Safeguards hearings have been completed. In addition, a portion of the Atomic Safety

and Licensing Board ("ASLB") public hearings have been completed, with the ASLB dismissing all challenges made by the intervenors against the quality control program at Perry Unit No. 1. In August 1984, a Seismic Quality Audit and a Pump and Valve Operability Audit were conducted by the NRC. In addition, on November 28, 1984, a full-scale Emergency Drill, demonstrating the effectiveness of on-site and off-site emergency plans, was also completed. Activities remaining to be completed to obtain an operating license include additional ASLB hearings to discuss emergency planning, contentions regarding the Delaval emergency diesel generators, and compliance with requirements concerning the control of hydrogen during an accident.

Nuclear generating units under construction are experiencing delays as a result of the lengthy regulatory process and opposition by anti-nuclear groups. Also, the start-up and testing process for new reactors, which commences after initial authorization by the NRC for operation and fuel loading, has often resulted in additional delays due to increased activity by intervenors and new plant and operational requirements which may be necessary as a result of initial testing. Although the Company does not presently have any specific reason to anticipate further licensing-related delays at Perry Unit No. 1, in light of the experience of the industry generally with respect to obtaining operating licenses from the NRC, there can be no assurance that such delays will not occur at Perry Unit No. 1 or any of the other CAPCO nuclear units under construction. If such delays occur, they can be expected to increase the total cost of the affected unit by amounts which could be substantial. The estimated completion date of Perry Unit No. 1, now about 97% complete, is around the end of 1985. The schedule required to meet this target date has little, if any, margin to accommodate the unexpected problems that can arise during this stage of the construction of a nuclear generating unit.

In January 1985, the CAPCO companies announced a delay in the completion of Beaver Valley Unit No. 2 from late 1986 to about the end of 1987. Estimates of the total cost of the Unit, and the Company's share of such cost (reflected in the table above), increased by \$400,000,000 and \$185,000,000, respectively, as a result of the delay. Planned 1985 cash expenditures by the CAPCO companies for Beaver Valley Unit No. 2 were reduced from about \$446 million to about \$346 million; the Company's portion of that reduction has been reflected in the estimated 1985 construction costs discussed in "Item 1. Business — Financing and Construction Program".

Under the agreements governing the construction of CAPCO generating units, the responsibility for construction is assigned to a specific CAPCO company. CEI has responsibility for constructing Perry Units Nos. 1 and 2 and Duquesne has similar responsibility for Beaver Valley Unit No. 2. The Company monitors the construction phase of these projects but must rely to a significant degree on the constructing company for information concerning construction activities. The Company in its oversight role cannot be privy to every detail of the construction process. It is the constructing company that must directly supervise construction and then exercise its reporting responsibilities to the co-owners. The Company critically reviews the information given to it by the constructing company, but it cannot be absolutely certain that things that it would have considered significant have been reported or that it would always have reached exactly the same conclusion about matters that are reported. In addition, the time that is necessarily part of the compiling and analyzing process creates a lag between the happening of events and the time the Company becomes aware of their significance. Because of all this, the Company cannot be assured, nor can it assure others, that its expectations concerning the construction process and the licensing process have not been undermined at any particular time by events that have already occurred. This is especially true as to cost and completion estimates, where the cumulative effect of day-to-day events during the course of the licensing and construction process have a crucial impact.

In addition to the CAPCO review of the status of Perry Unit No. 2, the Companies continue to evaluate their nuclear construction program as a whole. While the CAPCO companies are working towards reaching a final decision on possible changes in the nuclear construction program on an expedited basis, it may (but not necessarily) turn out that any such final decision will not be made until a later date. The Company is unable to predict the results of these reviews.

The changes that have occurred in the CAPCO nuclear program, cost-related and otherwise, are symptomatic of the problems that continue to confront nuclear power plant construction. Other companies with large remaining nuclear construction programs are seeing substantial adverse effects on their financial positions and on their abilities to raise funds in the capital markets as changes occur in those programs. The CAPCO companies are well aware of these problems and are attempting to deal with them. No assurance can be given that additional changes in the CAPCO nuclear program, cost-related or otherwise, will not occur in the future either as a result of the current reviews, the regulatory process, budgetary constraints or other circumstances.

Delays in the dates of commercial operation of any of the major generating units under construction, or prolonged outages of existing generating units, might make it necessary for the Companies, depending upon the state of demand from time to time for electric service upon the system, to use to a greater extent than otherwise, less efficient and less

economic generating units, or purchased power, and in some cases might even require the reduction of load, all to an extent not presently determinable. (See "Regulation" and "Environmental Matters" under "Item 1. Business".)

The Companies' generating plants and load centers are connected by a transmission system consisting of elements having various voltage ratings ranging from 23 kilovolts ("kV") to 345 kV. The Company's transmission lines aggregate 4,806 circuit miles. Its electric distribution systems include 19,666 miles of pole line carrying 27,706 circuit miles of primary, secondary and street lighting circuits. It owns 358 substations with a total installed transformer capacity of 17,543,482 kilovoltamperes ("kVA"), of which 51 are transmission substations, including 7 located at generating plants. Penn Power's transmission lines aggregate 644 circuit miles. Its electric distribution systems include 4,911 miles of pole line carrying 5,984 circuit miles of primary, secondary and street lighting circuits. It owns 77 substations which, together with its interests in the substations at the Company's Sammis, Edgewater, Mad River, Niles and West Lorain Plants, and CAPCO's Mansfield and Beaver Valley Plants, have a total installed transformer capacity of 3,079,036 kVA, of which 15 are transmission substations, including 8 located at its generating plants.

The Company's transmission lines also interconnect with those of CEI, Columbus and Southern Ohio Electric Company, The Dayton Power and Light Company, Duquesne, Monongahela Power Company, Ohio Power Company and Toledo; Penn Power's interconnect with those of Duquesne and West Penn Power Company. Additional interconnections with the CAPCO companies are under construction and others are planned for construction as a part of the CAPCO program. The existing and new interconnections will make possible utilization by the Company and Penn Power of generating capacity constructed as a part of such program.

Recent Pennsylvania Legislation

A Pennsylvania law enacted in 1984 requires Pennsylvania utilities to file with the PPUC estimates of the construction costs of a generating unit currently under construction or to be constructed in the future when such construction is expected to require the affected public utility to incur expenditures in excess of \$100,000,000. The estimate of the costs that is filed is to be an estimate that was formulated no later than 30 days after the commencement of the unit. If final costs exceed the estimate filed with the PPUC, the costs in excess of the original estimate may be included in the utility's rate base only to the extent that the utility proves that those costs were necessary and proper. Penn Power, at the request of the PPUC, has filed cost estimates relating to the construction of each generating unit in which it expects to incur an aggregate of at least \$100,000,000 in capital costs (Perry Units Nos. 1 and 2). The PPUC has stated that it intends to promulgate rules and regulations implementing the new law.

Recently, the PPUC made an "excess capacity" adjustment when integrating a large nuclear unit into the rate base of another Pennsylvania utility. The effect of that adjustment was to disallow a return on a portion of that Company's plant in service. Penn Power can provide no assurance that the PPUC will not adopt a similar approach when considering a request by Penn Power to include its share of Perry Unit No. 1 or Unit No. 2 in rate base, although Penn Power believes that such an adjustment would not be justified in the circumstances. If made, the adverse effect of such an adjustment on Penn Power could be material depending on its magnitude.

ITEM 3. Legal Proceedings

In December 1984, the FERC approved settlement agreements between Penn Power and its five municipal resale customers. The agreements terminated with prejudice an antitrust suit brought in 1977 by two of these customers in which violations of the Sherman and Clayton Acts and damages of \$12,583,000 (to be trebled) were alleged. The agreements also terminated several rate case proceedings before the FERC and appeals to the Court of Appeals for the District of Columbia. For the seven years beginning September 1, 1984, these five customers will be charged Penn Power's applicable prevailing retail electric rates. No damages, costs or attorney fees on behalf of these customers were paid by Penn Power in the settlement.

See "Item 1. Business — CAPCO Program", "Item 1. Business — Fuel Supply", "Item 1. Business — Regulation" and "Item 1. Business — Environmental Matters" for information with respect to other legal proceedings.

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

None.

PART II

ITEM 5. Market for Registrant's Common Equity and Related Stockholder Matters

ITEM 6. Selected Financial Data

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

ITEM 8. Financial Statements and Supplementary Data

The information called for by Items 5 through 8 is incorporated herein by reference to the Common Stock Data, Classification of Holders of Common Stock, Selected Financial Data, Management's Discussion and Analysis of Results of Operations and Financial Condition, and Consolidated Financial Statements included on pages 18 through 37 in the Company's 1984 Annual Report to stockholders.

ITEM 9. Disagreements on Accounting and Financial Disclosure

None.

PART III

ITEM 10. Directors and Executive Officers of the Registrant

The information required by Item 10, with respect to Identification of Directors, is incorporated herein by reference to the Company's 1985 Proxy Statement filed with the Commission pursuant to Regulation 14A and, with respect to Identification of Executive Officers, to "Part I. Item 1. Business — Executive Officers of the Registrant" herein.

ITEM 11. Executive Compensation

ITEM 12. Security Ownership of Certain Beneficial Owners and Management

The information required by Items 11 and 12 is incorporated herein by reference to the Company's 1985 Proxy Statement filed with the Commission pursuant to Regulation 14A.

ITEM 13. Certain Relationships and Related Transactions

None.

PART IV

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

(a) 1. Financial Statements

Included in Part II of this report and incorporated herein by reference to the Company's 1984 Annual Report to stockholders (Exhibit 13 below) at the pages indicated:

	Page No.
Auditors' Report	37
Consolidated Statements of Income —	
Three Years Ended December 31, 1984	21
Consolidated Balance Sheets —	
December 31, 1984 and 1983	22
Consolidated Statements of Capitalization —	
December 31, 1984 and 1983	23
Consolidated Statements of Retained Earnings —	
Three Years Ended December 31, 1984	24
Consolidated Statements of Capital Stock and Other Paid-In Capital —	
Three Years Ended December 31, 1984	24
Consolidated Statements of Sources of Funds for Property Additions —	
Three Years Ended December 31, 1984	25
Consolidated Statements of Taxes —	
Three Years Ended December 31, 1984	26
Notes to Consolidated Financial Statements	27-37

(a) 2. Financial Statement Schedules

	<u>Page No.</u>
Included in Part IV of this report:	
Auditors' Report on Schedules	23
Schedules — Three Years Ended December 31, 1984:	
V — Consolidated Property, Plant and Equipment	24-26
VI — Consolidated Accumulated Depreciation, Depletion and Amortization of Property, Plant and Equipment	27
VIII — Consolidated Valuation and Qualifying Accounts and Reserves	28
IX — Consolidated Short-Term Borrowings	29

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

(a) 3. Exhibits

<u>Exhibit Number</u>

- | | |
|------|--|
| 3-1 | — Agreement of Merger of The Ohio Public Service Company into the Company, dated April 27, 1950, constituting the Company's Articles of Incorporation, including the latest amendment adopted on July 25, 1984. (Physically filed and designated in Registration No. 2-91915, and in Form 8-A, File No. 1-2578, dated August 6, 1984 as Exhibits 4(b) and 2(b), respectively.) |
| 3-2 | — Code of Regulations of the Company as amended April 28, 1983. (Physically filed and designated in Registration No. 2-83521 as Exhibit 4(c).) |
| 4-1* | — Indenture dated as of August 1, 1930 between the Company and Bankers Trust Company, as Trustee, as amended and supplemented by Supplemental Indentures dated as of August 1, 1930, March 3, 1931, November 1, 1935, January 1, 1937, September 1, 1937, June 13, 1939, August 1, 1974, July 1, 1976, December 1, 1976, and June 15, 1977 (which Indenture and Supplemental Indentures are hereby incorporated by reference to the following filings in which each has been respectively, physically filed: Exhibits B-1, B-1(a) and B-1(b) in Registration No. 2-1725; Exhibit B-4 in Registration No. 2-2721; Exhibit B-5 in Registration No. 2-3402; Exhibit B-6 in Form 8-A, File No. 1-2578-B; Exhibit 7(a)-7 in Registration No. 2-5462; Exhibit 2(b) in Form 8-A dated August 28, 1974, File No. 1-2578; Exhibit 2(b) in Form 8-A dated July 28, 1976, File No. 1-2578; Exhibit 2(b) in Form 8-A dated December 15, 1976, File No. 1-2578; and Exhibit 2(b) in Form 8-A dated June 27, 1977, File No. 1-2578). |

Supplemental Indentures dated as of September 1, 1944, April 1, 1945, September 1, 1948, May 1, 1950, January 1, 1954, May 1, 1955, August 1, 1956, March 1, 1958, April 1, 1959, June 1, 1961, September 1, 1969, May 1, 1970, September 1, 1970, June 1, 1971, August 1, 1972, September 1, 1973, May 15, 1978, February 1, 1980, April 15, 1980, June 15, 1980, October 1, 1981, October 15, 1981, February 15, 1982, July 1, 1982, March 1, 1983, March 1, 1984 and September 15, 1984. (Physically filed and designated in Registration No. 2-61146 as Exhibit 2(b)(2); in Registration No. 2-66957 as Exhibits (b)(4) and (b)(5); in Registration No. 2-68023 as Exhibits(b)(4) and (b)(5); in Registration No. 2-74059 as Exhibit (4)d, in Registration No. 2-75917 as Exhibits (4)e and (4)f, in Registration No. 2-89360 as Exhibits (4)(d), (4)(e) and (4)(f) and in Registration No. 2-92918 as Exhibit (4)(d).)

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

Exhibit Number	
4-2	— Revolving Credit, Assumption and Term Loan Agreement, dated as of November 1, 1980, among United States Trust Company of New York, Newton I. Waldman, Esq., Ohio Edison Company, The Chase Manhattan Bank (National Association) and The Lenders listed therein. (Physically filed in Form 10-K, File No. 1-2578, for the fiscal year ending December 31, 1980 as Exhibit 20-1.)
10-1	— Administration Agreement between the CAPCO Group dated as of September 14, 1967. (Physically filed and designated in Registration No. 2-43102 as Exhibit 5(c)(2).)
10-2	— Amendment No. 1 dated January 4, 1974 to Administration Agreement between the CAPCO Group dated as of September 14, 1967. (Physically filed and designated in Registration No. 2-68906 as Exhibit 5(c)(3).)
10-3	— Transmission Facilities Agreement between the CAPCO Group dated as of September 14, 1967. (Physically filed and designated in Registration No. 2-43102 as Exhibit 5(c)(3).)
10-4	— Termination or Construction of Certain Agreements effective September 1, 1980 between the CAPCO Group. (Physically filed and designated in Registration No. 2-68906 as Exhibit 10-4.)
10-5	— CAPCO Basic Operating Agreement, as amended September 1, 1980. (Physically filed and designated in Registration No. 2-68906 as Exhibit 10-5.)
10-6	— Amendment No. 1, dated August 1, 1981, and Amendment No. 2, dated September 1, 1982, to CAPCO Basic Operating Agreement, as amended September 1, 1980. (Physically filed and designated in Form 10-Q, File No. 1-2578, for the quarter ended September 30, 1981 as Exhibit 20-1 and in Form 10-K, File No. 1-2578 for the fiscal year ended December 31, 1982 as Exhibit 19-3, respectively.)
10-7	— Memorandum of Agreement effective as of September 1, 1980 among the CAPCO Group. (Physically filed and designated in Form 10-K, File No. 1-2578 for the fiscal year ended December 31, 1982 as Exhibit 19-2.)
10-8	— Construction Agreement with respect to Beaver Valley Power Station between Ohio Edison Company, Duquesne Light Company and Pennsylvania Power Company dated February 5, 1970. (Physically filed and designated in Registration No. 2-36946 of Pennsylvania Power Company as Exhibit 4(c)(3).)
10-9	— Construction Agreement dated December 5, 1975 with respect to Beaver Valley Power Station Unit No. 2 between the CAPCO Group. (Physically filed and designated in Registration No. 2-56944 of Pennsylvania Power Company as Exhibit 5(d)(3).)
10-10	— Amendment No. 1, dated May 1, 1977, to Construction Agreement dated December 5, 1975 with respect to Beaver Valley Power Station Unit No. 2 between the CAPCO Group. (Physically filed and designated in Registration No. 2-60109 as Exhibit 5(d)(4).)
10-11	— Operating Agreement dated May 24, 1976 with respect to Beaver Valley Power Station Units Nos. 1 and 2 between the CAPCO Group. (Physically filed and designated in Registration No. 2-56944 of Pennsylvania Power Company as Exhibit 5(d)(4).)
10-12	— Amendment No. 1, dated May 1, 1977, to Operating Agreement dated May 24, 1976 with respect to Beaver Valley Power Station Units Nos. 1 and 2 between the CAPCO Group. (Physically filed and designated in Registration No. 2-60109 as Exhibit 5(d)(6).)
10-13	— Addendum No. 1 dated November 1, 1980 to the Operating Agreement dated May 24, 1976, as amended, for Beaver Valley Power Station Units Nos. 1 and 2 between the CAPCO Group. (Physically filed and designated in Registration No. 2-68906 as Exhibit 10-9.)

Exhibit
Number

- 10-14 — Construction Agreement with respect to Perry Plant between the CAPCO Group dated as of July 22, 1974. (Physically filed and designated in Registration No. 2-52251 of Toledo Edison Company as Exhibit 5(yy).)
- 10-15 — Participation Agreement No. 1 relating to the financing of the development of certain coal mines, dated as of October 1, 1973, among Quarto Mining Company, the CAPCO Group, Energy Properties, Inc., General Electric Credit Corporation, the Loan Participants listed in Schedules A and B thereto, Central National Bank of Cleveland, as Owner Trustee, National City Bank, as Loan Trustee, and National City Bank, as Bond Trustee. (Physically filed and designated in Registration No. 2-61146 as Exhibit 5(e)(1).)
- 10-16 — Amendment No. 1 dated as of September 15, 1978 to Participation Agreement No. 1 dated as of October 1, 1973 among Quarto Mining Company, the CAPCO Group, Energy Properties, Inc., General Electric Credit Corporation, the Loan Participants listed in Schedules A and B thereto, Central National Bank of Cleveland as Owner Trustee, National City Bank as Loan Trustee and National City Bank as Bond Trustee. (Physically filed and designated in Registration No. 2-68906 of Pennsylvania Power Company as Exhibit 5(e)(2).)
- 10-17 — Participation Agreement No. 2 relating to the financing of the development of certain coal mines, dated as of August 1, 1974, among Quarto Mining Company, the CAPCO Group, Energy Properties, Inc., General Electric Credit Corporation, the Loan Participants listed in Schedules A and B thereto, Central National Bank of Cleveland, as Owner Trustee, National City Bank, as Loan Trustee, and National City Bank, as Bond Trustee. (Physically filed and designated in Registration No. 2-53059 as Exhibit 5(h)(2).)
- 10-18 — Amendment No. 1 dated as of September 15, 1978 to Participation Agreement No. 2 dated as of August 1, 1974 among Quarto Mining Company, the CAPCO Group, Energy Properties, Inc., General Electric Credit Corporation, the Loan Participants listed in Schedules A and B thereto, Central National Bank of Cleveland as Owner Trustee, National City Bank as Loan Trustee and National City Bank as Bond Trustee. (Physically filed and designated in Registration No. 2-68906 of Pennsylvania Power Company as Exhibit 5(e)(4).)
- 10-19 — Participation Agreement No. 3 dated as of September 15, 1978 among Quarto Mining Company, the CAPCO Companies, Energy Properties, Inc., General Electric Credit Corporation, the Loan Participants listed in Schedules A and B thereto, Central National Bank of Cleveland as Owner Trustee, and National City Bank as Loan Trustee and Bond Trustee. (Physically filed and designated in Registration No. 2-68906 of Pennsylvania Power Company as Exhibit 5(e)(5).)
- 10-20 — Participation Agreement No. 4 dated as of October 31, 1980 among Quarto Mining Company, the CAPCO Group, the Loan Participants listed in Schedule A thereto and National City Bank as Bond Trustee. (Physically filed and designated in Registration No. 2-68906 of Pennsylvania Power Company as Exhibit 10-16.)
- 10-21 — Agreement entered into as of October 20, 1981 among the CAPCO companies regarding the use of Quarto coal at Mansfield Units 1, 2 and 3. (Physically filed in Form 10-K, File No. 1-2578, for the fiscal year ended December 31, 1981 as Exhibit 20-1.)
- 10-22 — Restated Option Agreement dated as of May 1, 1983 by and between the North American Coal Corporation and the CAPCO Companies. (Physically filed in Form 10-K, File No. 1-2578, for the fiscal year ending December 31, 1983, as Exhibit 19-1.)
- 10-23 — Trust Indenture and Mortgage, dated as of October 1, 1973, between Quarto Mining Company and National City Bank, as Bond Trustee, together with Guaranty, dated as of October 1, 1973, with respect thereto by the CAPCO Group. (Physically filed and designated in Registration No. 2-61146 as Exhibit 5(e)(5).)

<u>Exhibit Number</u>	
10-24	— Amendment No. 1 dated August 1, 1974, to Trust Indenture and Mortgage, dated as of October 1, 1973, between Quarto Mining Company and National City Bank, as Bond Trustee, together with Amendment No. 1, dated August 1, 1974, to Guaranty, dated as of October 1, 1973, with respect thereto by the CAPCO Group. (Physically filed and designated in Registration No. 2-53059 as Exhibit 5(h)(2).)
10-25	— Amendment No. 2 dated as as of September 15, 1978 to the Trust Indenture and Mortgage dated as of October 1, 1973, as amended, between Quarto Mining Company and National City Bank, as Bond Trustee, together with Amendment No. 2 dated as of September 15, 1978 to Guaranty dated as of October 1, 1973 with respect to the CAPCO Group. (Physically filed and designated in Registration No. 2-68906 of Pennsylvania Power Company as Exhibits 5(e)(11) and 5(e)(12).)
10-26	— Amendment No. 3 dated as of October 31, 1980 to Trust Indenture and Mortgage dated as of October 1, 1973 as amended between Quarto Mining Company and National City Bank as Bond Trustee. (Physically filed and designated in Registration No. 2-68906 of Pennsylvania Power Company as Exhibit 10-16.)
10-27	— Amendment No. 3 dated as of October 31, 1980 to the Bond Guaranty dated as of October 1, 1973, as amended, with respect to the CAPCO Group. (Physically filed and designated in Registration No. 2-68906 of Pennsylvania Power Company as Exhibit 10-16.)
10-28	— Open end Mortgage dated as of October 1, 1973 between Quarto Mining Company and the CAPCO Companies and Amendment No. 1 thereto, dated as of September 15, 1978. (Physically filed and designated in Registration No. 2-68906 of Pennsylvania Power Company as Exhibit 10-23.)
10-29	— Repayment and Security Agreement and Assignment of Lease dated as of October 1, 1973 between Quarto Mining Company and Ohio Edison Company as Agent for the CAPCO Companies and Amendment No. 1 thereto, dated as of September 15, 1978. (Physically filed in Form 10-K, File No. 1-2578, for the fiscal year ending December 31, 1980 as Exhibit 20-2.)
*11	— Statement re computation of per share earnings.
*12	— Statement re computation of ratios.
*13	— 1984 Annual Report to stockholders. (Only those portions expressly incorporated by reference in this Form 10-K are to be deemed "filed" with the Securities and Exchange Commission.)
*19-1	— Supplemental Indentures dated as of September 27, 1984, November 8, 1984, December 5, 1984 and December 1, 1984.
*19-2	— Ohio Edison Company Executive Incentive Compensation Plan
*22	— List of Subsidiaries of the Registrant at December 31, 1984.
*24	— Consent of Arthur Andersen & Co.

*Filed concurrently with Form SE

(b) Reports on Form 8-K

The Company filed a report on Form 8-K dated February 7, 1985 reporting events in connection with the construction of Beaver Valley Unit No. 2 and the Perry Nuclear Power Plant.

AUDITORS' REPORT ON SCHEDULES

To Ohio Edison Company:

In connection with our examinations of the consolidated financial statements included in Ohio Edison Company's 1984 Annual Report to stockholders and incorporated by reference in this Form 10-K, we have also examined the schedules listed in Item 14. Our examinations of the financial statements were made for the purpose of forming an opinion on those statements taken as a whole. The schedules are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the examinations of the basic financial statements and, in our opinion, subject to the effect of such adjustment, if any, that might have been required had the outcome of the uncertainty related to the recoverability of costs associated with Perry Nuclear Unit No. 2 discussed in Note 7 to the consolidated financial statements incorporated by reference herein been known, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN & CO.

New York, N.Y.
February 8, 1985.

OHIO EDISON COMPANY
CONSOLIDATED PROPERTY, PLANT AND EQUIPMENT

For the Year Ended December 31, 1984

<u>Classification</u>	<u>Balance at Beginning of Period</u>	<u>Additions at Cost</u>	<u>Retirements or Sales</u>	<u>Other Changes(a)</u>	<u>Balance at Close of Period</u>
(In Thousands)					
Utility Plant at Original Cost:					
Electric:					
Intangibles —					
Organization expense	\$ 113	\$ —	\$ —	\$ —	\$ 113
Franchises and consents	64	—	—	—	64
Production —					
Steam	1,677,564	221,296	13,645	(403)	1,884,812
Nuclear	447,991	54,430	1,880	—	500,541
Other	70,619	1,543	516	(43,716)	27,930
Transmission	560,466	30,504	1,964	(1,306)	587,700
Distribution	779,103	50,574	9,423	208	820,462
General	104,367	11,589	1,402	1,460	116,014
Construction work in progress	2,351,089	434,888	—	—	2,785,977
Plant held for future use	16,492	1,603	—	44,125	62,220
Total electric	6,007,868	806,427	28,830	368	6,785,833
Nuclear Fuel	260,439	60,842	—	—	321,281
Total utility plant at original cost	6,268,307	867,269	28,830	368	7,107,114
Nonutility Property at Original Cost	9,123	830	1,317	642	9,278
Total property, plant and equipment ...	<u>\$6,277,430</u>	<u>\$868,099</u>	<u>\$30,147</u>	<u>\$ 1,010</u>	<u>\$7,116,392</u>

(a) Represents transfers within property, plant and equipment, and amortization of ACRS depreciation deductions sold under the Economic Recovery Tax Act of 1981.

OHIO EDISON COMPANY
CONSOLIDATED PROPERTY, PLANT AND EQUIPMENT
For the Year Ended December 31, 1983

<u>Classification</u>	<u>Balance at Beginning Of Period</u>	<u>Additions at Cost(a)</u>	<u>Retirements or Sales</u>	<u>Other Changes(b)</u>	<u>Balance at Close of Period</u>
			(In Thousands)		
Utility Plant at Original Cost:					
Electric:					
Intangibles —					
Organization expense	\$ 113	\$ —	\$ —	\$ —	\$ 113
Franchises and consents	64	—	—	—	64
Production —					
Steam	1,562,958	138,158	15,194	(8,358)	1,677,564
Nuclear	427,016	20,978	3	—	447,991
Other	70,547	73	4	3	70,619
Transmission	512,854	45,959	1,186	2,839	560,466
Distribution	743,243	43,299	7,723	284	779,103
General	90,840	16,568	3,035	(6)	104,367
Construction work in progress	1,902,310	448,779	—	—	2,351,089
Plant held for future use	10,034	446	—	6,012	16,492
Total electric	5,319,979	714,260	27,145	774	6,007,868
Nuclear Fuel	210,451(c)	55,751	5,763	—	260,439
Total utility plant at original cost ..	5,530,430	770,011	32,908	774	6,268,307
Nonutility Property at Original Cost	9,266	1,120	1,491	228	9,123
Total property, plant and equipment	<u>\$5,539,696</u>	<u>\$771,131</u>	<u>\$34,399</u>	<u>\$1,002</u>	<u>\$6,277,430</u>

(a) In accordance with Statement of Financial Accounting Standards No. 71, leases entered into subsequent to December 31, 1982, which meet the criteria for capitalization as set forth in Statement of Financial Accounting Standards No. 13, have been capitalized as of January 1, 1984. The additions for the year ended December 31, 1983 have been restated to conform to the 1984 presentation.

(b) Represents transfers within property, plant and equipment, and amortization of ACRS depreciation deductions sold under the Economic Recovery Tax Act of 1981.

(c) Restated to include \$54,156,000 of nuclear fuel leases entered into prior to January 1, 1983.

OHIO EDISON COMPANY
CONSOLIDATED PROPERTY, PLANT AND EQUIPMENT

For the Year Ended December 31, 1982

<u>Classification</u>	<u>Balance at Beginning of Period</u>	<u>Additions at Cost</u>	<u>Retirements or Sales</u>	<u>Other Changes(a)</u>	<u>Balance at Close of Period</u>
			(In Thousands)		
Utility Plant at Original Cost:					
Electric:					
Intangibles —					
Organization expense	\$ 113	\$ —	\$ —	\$ —	\$ 113
Franchises and consents	64	—	—	—	64
Production —					
Steam	1,409,544	166,477	8,473	(4,590)	1,562,958
Nuclear	383,136	45,052	966	(206)	427,616
Other	70,190	360	2	(1)	70,547
Transmission	500,527	14,543	1,856	(360)	512,854
Distribution	705,771	43,258	6,126	340	743,243
General	81,259	12,637	2,660	(396)	90,840
Construction work in progress	1,547,222	365,712	—	(10,624)	1,902,310
Plant held for future use	9,667	595	—	(228)	10,034
Total electric	4,707,493	648,634	20,083	(16,065)	5,319,979
Nuclear Fuel	32,004	124,291	—	—	156,295
Total utility plant at original cost	4,739,497	772,925	20,083	(16,065)	5,476,274
Nonutility Property at Original Cost	8,698	1,308	982	242	9,266
Total property, plant and equipment ...	<u>\$4,748,195</u>	<u>\$774,233</u>	<u>\$21,065</u>	<u>\$ (15,823)</u>	<u>\$5,485,540</u>

(a) Represents transfers within property, plant and equipment, reclassification of ACRS depreciation deductions sold under the Economic Recovery Tax Act of 1981, net of related amortization, and reclassification of allowance for funds used during construction.

OHIO EDISON COMPANY

CONSOLIDATED ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION
OF PROPERTY, PLANT AND EQUIPMENT

For the Years Ended December 31, 1984, 1983 and 1982

	Balance at Beginning of Period	Additions			Deductions			Balance at Close of Period
		Provisions Charged to(a)	Other Accounts(c)	Other(d)	Retirements, Renewals and Re- placements	Removal Cost	Other Changes(e)	
		Income(b)						
(In Thousands)								
Year Ended December 31, 1984:								
Utility Plant:								
Electric:								
Production — Steam	\$ 445,748	\$ 57,768	\$ —	\$ 15	\$13,388	\$2,276	\$ —	\$ 487,867
Nuclear	82,909	12,865	—	19	1,920	105	—	93,768
Other	25,287	1,728	—	—	516	9	(15,933)	10,557
Transmission	165,835	12,071	363	380	1,949	796	(271)	175,633
Distribution	285,940	29,101	—	2,055	9,552	4,148	42	303,438
General	32,871	1,832	4,134	69	1,406	7	—	37,493
Plant held for future use	5,841	—	—	—	—	—	16,162	22,003
Total electric	1,044,431	115,365	4,497	2,538	28,731	7,341	—	1,130,759
Nuclear Fuel	17,742	—	13,064	—	—	—	—	30,806
Total utility plant	1,062,173	115,365	17,561	2,538	28,731	7,341	—	1,161,565
Nonutility Property	2,829	50	60	(87)	313	(7)	—	2,546
Total property, plant and equipment	\$1,065,002	\$115,415	\$17,621	\$ 2,451	\$29,044	\$7,334	\$ —	\$1,164,111
Year Ended December 31, 1983:								
Utility Plant:								
Electric:								
Production — Steam	\$ 415,120	\$ 54,799	\$ —	\$ 970	\$15,172	\$1,222	\$ (8,747)	\$ 445,748
Nuclear	67,413	15,415	—	24	(25)	(32)	—	82,909
Other	22,370	2,921	—	—	4	—	—	25,287
Transmission	149,877	13,573	266	688	979	618	3,028	165,835
Distribution	267,959	27,690	—	2,010	7,903	3,972	156	285,940
General	30,802	2,058	2,935	140	3,021	44	1	32,871
Plant held for future use	—	—	—	—	—	—	5,841	5,841
Total electric	953,541	116,456	3,201	3,832	27,054	5,824	279	1,044,431
Nuclear Fuel	11,415(f)	—	12,090	—	5,763	—	—	17,742
Total utility plant	964,956	116,456	15,291	3,832	32,817	5,824	279	1,062,173
Nonutility Property	2,510	49	66	223	—	19	—	2,829
Total property, plant and equipment	\$ 967,466	\$116,505	\$15,357	\$ 4,055	\$32,817	\$5,843	\$ 279	\$1,065,002
Year Ended December 31, 1982:								
Utility Plant:								
Electric:								
Production — Steam	\$ 378,184	\$ 46,945	\$ —	\$ 241	\$ 8,471	\$1,797	\$ 18	\$ 415,120
Nuclear	55,572	13,724	—	(977)	966	(60)	—	67,413
Other	19,456	2,916	—	1	2	1	—	22,370
Transmission	139,387	12,733	—	335	1,685	723	(170)	149,877
Distribution	249,238	25,984	—	2,595	6,127	4,004	273	267,959
General	29,903	1,827	1,844	170	2,658	46	(238)	30,802
Total utility plant	871,740	104,129	1,844	2,365	19,909	6,511	(117)	953,541
Nonutility Property	1,737	37	72	436	3	115	346	2,510
Total property, plant and equipment	\$ 873,477	\$104,166	\$ 1,916	\$ 2,801	\$19,912	\$6,626	\$ 229	\$ 956,051

(a) In accordance with Statement of Financial Accounting Standards No. 71, leases entered into subsequent to December 31, 1982, which meet the criteria for capitalization as set forth in Statement of Financial Accounting Standards No. 13, have been capitalized as of January 1, 1984. The additions for the year ended December 31, 1983 have been restated to conform to the 1984 presentation.

(b) Includes credits totaling \$6,751,000 in 1984 relating to an adjustment to Penn Power's depreciation reserve, and excludes credits of \$1,002,000, \$999,000, and \$932,000 in 1984, 1983 and 1982, respectively, relating to the amortization of ACRS depreciation deductions sold under the Economic Recovery Tax Act of 1981, and charges of \$59,000, \$57,000 and \$9,000 in 1984, 1983 and 1982, respectively, relating to the amortization of additional 1980 allowance for funds used during construction.

(c) Represents primarily amortization of capital leases and nuclear fuel, and provision for depreciation of transportation equipment, power operated equipment, and data processing equipment charged to clearing accounts.

(d) Represents primarily salvage recoveries.

(e) Represents primarily transfers of provisions for depreciation within property, plant and equipment.

(f) Restated for nuclear fuel leases entered into prior to January 1, 1983.

OHIO EDISON COMPANY
CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
For the Years Ended December 31, 1984, 1983 and 1982

	Balance at Beginning of Year	Additions		Deductions	Balance at End of Year
		Charged to Income	Charged to Other Accounts		
			(In Thousands)		
Year Ended December 31, 1984:					
Accumulated provision for uncollectible accounts	\$1,541	\$9,580	\$1,463 (a)	\$11,274 (b)	\$ 1,310
Reserve for nuclear fuel disposal costs	\$3,586	\$2,988	\$ (326) (c)	\$ 2,652 (d)	\$ 3,596
Reserve for injuries and damages	\$3,258	\$1,594	\$ 172 (e)	\$ 1,081 (f)	\$ 3,943
Year Ended December 31, 1983:					
Accumulated provision for uncollectible accounts	\$1,844	\$4,980	\$1,589 (a)	\$ 6,872 (b)	\$ 1,541
Reserve for nuclear fuel disposal costs	\$9,910	\$3,406	\$1,750 (c)	\$11,480 (d)	\$ 3,586
Reserve for injuries and damages	\$3,962	\$ 382	\$ (534) (e)	\$ 552 (f)	\$ 3,258
Year Ended December 31, 1982:					
Accumulated provision for uncollectible accounts	\$1,863	\$5,231	\$1,366 (a)	\$ 6,616 (b)	\$ 1,844
Reserve for nuclear fuel disposal costs	\$5,208	\$4,702	\$ —	\$ —	\$ 9,910
Reserve for injuries and damages	\$2,573	\$1,258	\$ 401 (e)	\$ 270 (f)	\$ 3,962

(a) Represents recoveries and reinstatements of accounts previously written off.

(b) Represents primarily the write-off of accounts considered to be uncollectible.

(c) Represents net deferral (recovery) of costs.

(d) Represents actual payments and known liability for nuclear fuel disposal costs.

(e) Represents charges (credits) to property, plant and equipment on the basis of direct costs of construction of certain classes of property.

(f) Represents workers' compensation claims, damage claims and other related expenses paid during the year.

OHIO EDISON COMPANY
CONSOLIDATED SHORT-TERM BORROWINGS
For the Years Ended December 31, 1984, 1983 and 1982

<u>Year</u>	<u>Category of Aggregate Short-Term Borrowings</u>	<u>Balance at End of Period</u>	<u>Weighted Average Interest Rate at End of Period</u>	<u>Maximum Amount Outstanding During the Period</u>	<u>Average Amount Outstanding During the Period (b)</u>	<u>Weighted Average Interest Rate During the Period (a) (b)</u>
1984	Notes Payable to Banks	\$ —	—	\$ 74,600,000	\$ 7,260,000	11.89%
1983	Notes Payable to Banks	\$ —	—	\$ 22,200,000	\$ 4,278,000	9.92%
1982	Notes Payable to Banks	\$ —	—	\$159,200,000	\$ 45,372,000	14.33%

(a) Excludes the effect of commitment fees.

(b) Based on the daily amounts outstanding.

SIGNATURES

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

OHIO EDISON COMPANY

BY J. T. ROGERS, JR.
J. T. Rogers, Jr.
President

Date: March 27, 1985

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

J. T. ROGERS, JR.
J. T. Rogers, Jr.
President and Director
(Principal Executive Officer)

V. A. OWOC
V. A. Owoc
Executive Vice President
(Principal Financial Officer and
Principal Accounting Officer)
and Director

DONALD C. BLASIOUS
Donald C. Blasius
Director

JOHN NELSON
John Nelson
Director

W. A. DERRICK
W. A. Derrick
Director

D. W. TSCHAPPAT
D. W. Tschappat
Executive Vice President
Director

LUCILLE G. FORD
Lucille G. Ford
Director

FRANK C. WATSON
Frank C. Watson
Director

R. L. Loughhead
Director

WILLIAM C. ZEKAN
William C. Zekan
Director

GLENN H. MEADOWS
Glenn H. Meadows
Director

Date: March 27, 1985



OHIOEDISON
The Energy Makers

News

N-25
THE ILLUMINATING COMPANY
P.O. Box 5000 Cleveland, Ohio 44101

April 22, 1985

FOR IMMEDIATE RELEASE
PUBLIC INFORMATION
(216) 623-1060

Extension 2750 or
78-41

ILLUMINATING COMPANY ANNOUNCES EARNINGS

The Cleveland Electric Illuminating Company today announced improved earnings and revenues for the first quarter and for the 12 months ended March 31, 1985. Earnings per share were up slightly for the 12-month period, but declined slightly for the quarter.

Earnings for the first quarter of 1985 were \$68 million, or 91 cents per share, compared with \$62 million, or 94 cents per share, in the first quarter last year. Operating revenues for the first quarter increased to \$316.4 million, from \$298.6 million in the like period of 1984.

Earnings for the 12 months ended March 31, 1985 were \$254.5 million, or \$3.62 per share, compared with \$222.9 million, or \$3.48 per share, in the corresponding period last year. Operating revenues in the 1985 12-month period totaled \$1.2 billion, the same as the comparable 12-month period last year.

The improvement in earnings for the first quarter and the 12-month period was attributable mainly to an increase in the allowance for funds used during construction (AFUDC). This increase was partially offset by higher interest charges and preferred dividends. AFUDC is a non-cash credit that compensates for money invested in facilities not yet in rate base. Earnings per share for the quarter declined because of the greater number of outstanding common shares.

Earnings per share for the 12-month period ended March 31, 1985 declined slightly from \$3.64 in the 12-month period ended December 31, 1984 because the Company's most recent rate increase was delayed and disappointing.

Revenues for the first quarter and for the 12-months ended March 31 were up primarily because of an increase in fuel and purchased power costs.

In the 1985 first quarter, kilowatthour sales, excluding sales to other utilities, were about the same as sales in the very strong first quarter of 1984. Residential sales increased 0.6 percent and commercial sales 1.6 percent. Continuing strength in the local economy contributed to the rise in commercial sales. Sales to industrial customers were down 1.3 percent, mainly because a local supplier to the primary metals market temporarily shifted production to out-of-town facilities

For the 12-month period ended March 31, 1985, kilowatthour sales, excluding sales to other utilities, were up 0.8 percent. Residential sales declined 2.3 percent because cooler weather in the summer of 1984 compared to the previous summer resulted in lower use of air conditioning. Commercial and industrial sales increased 1.8 percent because of economic growth in the Company's service area.

The Cleveland Electric Illuminating Company provides electric service to an area of Northeast Ohio which covers some 1,700 square miles, extending 100 miles along the shore of Lake Erie from the Ohio-Pennsylvania border through metropolitan Cleveland to the City of Avon Lake on the west. Total population served is 1.9 million.

The Company has paid cash dividends for 84 consecutive years and has increased its dividend in each of the last 26 years. The last increase was made effective November 15, 1984, bringing the quarterly dividend to 63 cents per share from 60 cents per share, for an indicated annual rate of \$2.52.