May 22, 1985

UNITED STATES OF AMERICA
NUCLEAR REGULATORY COMMISSION

BEFORE THE ATOMIC SAFETY AND LICENSING BOARD

In the Matter of	)	
	)	
THE CLEVELAND ELECTRIC ILLUMINATING COMPANY, ET AL.	)	Docket Nos. 50-440 50-441
	)	
(Perry Nuclear Power Plant, Units 1 and 2)	)	

AFFIDAVIT OF EDGAR H. MAUGANS

State of Ohio)
) ss
County of Cuyahoga)

EDGAR H. MAUGANS, being duly sworn, deposes and says:

1. I am Vice President - Finance of The Cleveland Electric Illuminating Company ("CEI"). As Vice President-Finance, I am CEI's chief financial officer and am directly responsible for all financial matters of CEI. Under my direction are the activities of the Corporate Relations, Controller's, Treasury, Rates and Technical Studies, and Pension and Insurance Departments. I have served as Vice President-Finance since 1977. I am a member and former chairman of the Central Area Power Coordinating Organization ("CAPCO") Accounting and Finance Committee.

2. I was graduated from Findlay College, Findlay, Ohio, in 1956 with a Bachelor of Science Degree, majoring in Mathematics. I have undertaken graduate studies in probability

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and in applied statistics at the former Case Institute of Technology and in business administration at Western Reserve University.

3. Since joining CEI in 1956, my experience has included the direction of technical and analytical studies in a wide variety of corporate financial planning areas, including long-range forecasting, economic analysis, rate design, accounting, budgeting and financing.

4. I represent CEI on the Financial Executive Committee of the Edison Electric Institute. I am also a member of the Financial Executives Institute and the American Statistical Association. I have personal knowledge of the matters set forth herein and believe them to be true and correct.

5. As indicated in the Affidavit of Murray Edelman, Perry Nuclear Power Plant, Unit No. 1 (including common facilities) is approximately 98.2% complete on a physical basis as of March 31, 1985.

6. The ownership of Unit 1 (including common facilities) is divided among the co-owners as follows:

CEI	31.11%
Ohio Edison Company ("OE")	30.00%
Pennsylvania Power Company ("PP")	5.24%
Duquesne Light Company ("DL")	13.74%
The Toledo Edison Company ("TE")	19.91%

7. The cost to complete construction of Unit 1 (including common facilities) is approximately $598 million, as of March 31, 1985. This amount includes $363 million in cash

and $235 million in additional Allowance for Funds Used During Construction ("AFUDC"). As of March 31, 1985, a total of $3.347 billion had been expended on Unit 1 (including common facilities), of which $2.399 billion was in cash and $948 million in AFUDC.

8. The cost to complete Unit 1 construction (as of March 31, 1985) is allocated among the co-owners as follows:

	CEI	OE	PP	DL	TE	Total
			(in millions of dollars)			
Cash	$115	$108	$20	$50	$70	$363
AFUDC	68	71	13	38	45	235
Total	$183	$179	$33	$88	$115	$598

This compares with the amounts expended to March 31, 1985 by the co-owners:

	CEI	OE	PP	DL	TE	Total
			(in millions of dollars)			
Cash	$ 764	$ 704	$123	$330	$478	$2,399
AFUDC booked	248	336	52	120	192	948
Total	$1,012	$1,040	$175	$450	$670	$3,347

9. The construction budgets for 1985 for each of the co-owners, together with the cash requirements for construction of Perry, are as follows:

	CEI	OE	PP	DL	TE	TOTAL
	(in millions of dollars except for percent figures)					
Perry 1	$137	$133	$23	$61	$88	$442
Perry 2	22	---	--	5	6	33
Total Perry	159	133	23	66	94	475
Total Cash Constr.	$355-390	$412	$43	$229	$229	$1,268-1,303
Perry as % of Total	45-41	32	53	29	41	36-37

10. Funds to support the construction budgets would come primarily from the external financing sources, i.e. debt and preferred and common stock, as appropriate for each company.

11. Considering the amount of cash required to complete construction of Perry Unit 1, the size of the companies' construction budgets, and the available sources of funds and backup credit arrangements, the co-owners should be able readily to raise the additional funds required to finance the remaining construction on Perry Unit 1. This is evidenced by the co-owners' continued ability to raise substantial sums through external financing. For example, in 1984 CEI raised a record one-year total of about $500 million through securities issues. Similarly, in 1984 through securities issues, DL raised about $200 million, OE about $700 million, PP about $50 million, and TE about $300 million.

12. In addition to the sources of funds identified in Paragraph 10 above, each co-owner either has arranged, or is in the process of arranging, for backup credit agreements to provide the cash necessary to complete both Perry Unit 1 and

Beaver Valley Power Station, Unit 2. These arrangements will provide additional protection in the event that there are future disruptions in the capital markets or other developments which adversely affect the ability to access the sources of funds identified above. The status of each co-owners arrangements is as follows:

CEI: has $100 million in existing credit arrangements reserved for this purpose. CEI and its agent bank have reached tentative agreement on the proposed terms for an additional $150 million revolving credit facility. It is expected that this additional backup credit arrangement will be completed by June, 1985.

OE: in January 1985 arranged a revolving credit agreement with 21 major banks which provides for borrowings of up to $500 million. In addition, OE has $20 million in existing credit arrangements.

PP: has $30 million in existing credit arrangements.

DL: has increased an existing revolving credit facility from $60 to $100 million and has arranged an additional $125 million revolving credit facility.

TE: has completed a 5 year revolving underwriting facility agreement which enables TE to sell up to $25 million in short-term notes. Also, TE is in the process of negotiating a $200 million revolving credit agreement with a group of

commercial banks which TE expects to be completed by June 1985.

Edgar H. Maugans

Subscribed and Sworn this

22ND day of May, 1985.

Notary Public
JOSEPH M. BERNOSKY
Notary Public State of Ohio - Cuy. Cty.
My Commission Expires Oct. 23, 1986

ATTACHMENT 1
FINANCIAL DOCUMENTS

The Cleveland Electric Illuminating Company
- 1984 Annual Report
- 1985 Earnings Announcement
- Prospectus, Common Stock, April 8, 1985
- 1984 Form 10-K

Ohio Edison Company
- 1984 Annual Report
- 1985 Statement of Income
- Prospectus, Common Stock, April 1, 1985
- 1984 Form 10-K

The Toledo Edison Company
- 1984 Annual Report
- 1985 First Quarter Report to Shareowners
- Prospectus, Common Stock, March 28, 1985
- 1984 Form 10-K

Pennsylvania Power Company
- 1984 Annual Report
- 1985 Statement of Income
- Official Statement, Pollution Control Revenue Bonds, December 13, 1984
- 1984 Form 10-K

Duquesne Light Company
- 1984 Annual Report
- 1984 Fourth Quarter Report to Stockholders
- Prospectus, Common Stock, November 5, 1984
- 1984 Form 10-K

The
Cleveland
Electric
Illuminating
Company
1984 Annual Report

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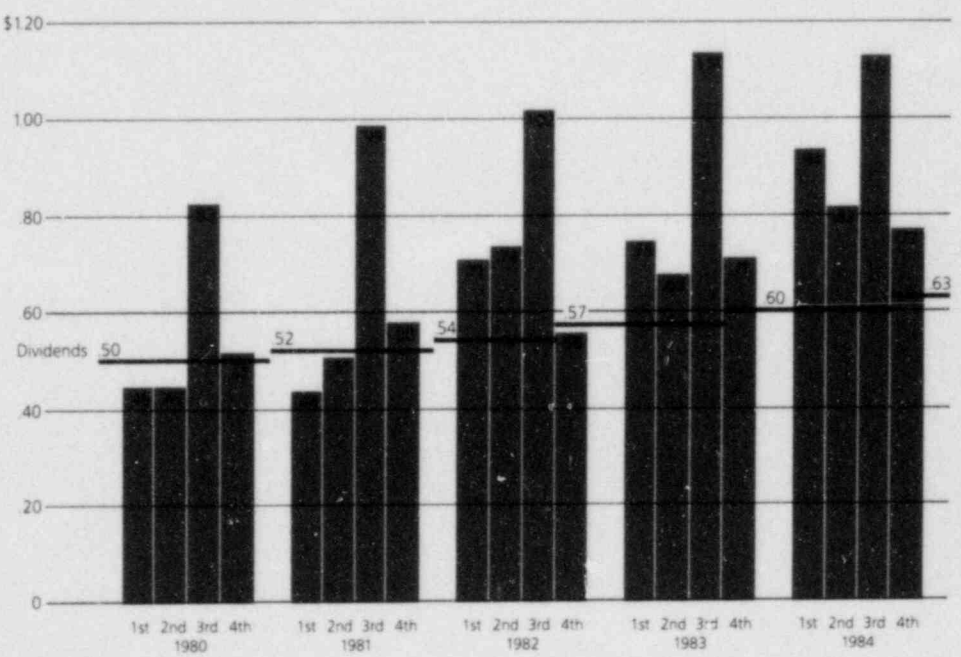
Cover

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

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



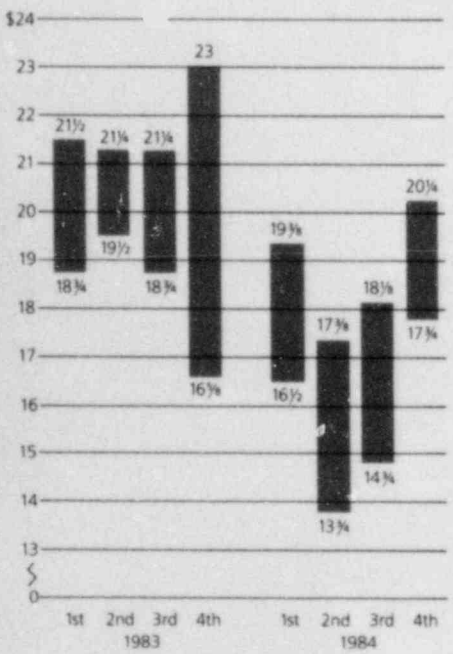
1984 Highlights

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

Financial Summary

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

Quarterly High and Low Prices of Common Stock
(dollars)



Dear Share Owner:

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

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

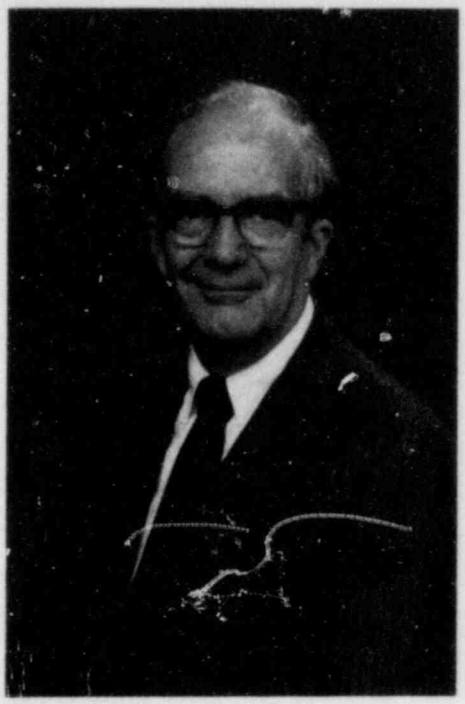
For The Illuminating Company, that welcome trend translated into higher demand for electricity and increased sales to all major classes of customers. Annual earnings reached a record level. The common stock dividend was raised for the 26th consecutive year.

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

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

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

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



Robert M. Ginn

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

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

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

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

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

Richard A. Miller

Harold L. Williams

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

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

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

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

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

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

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

Sincerely,

Robert M. Ginn
Chairman

Richard A. Miller
President

Harold L. Williams
Executive Vice President

February 15, 1985

The Year in Review

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

Advanced Technologies Help Company Meet Higher Demand

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

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

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

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

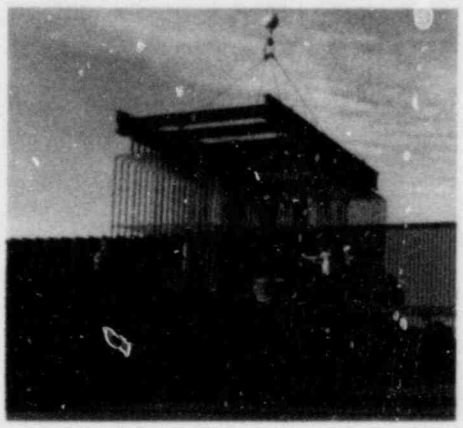
Power Generation Upgraded

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

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

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

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



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

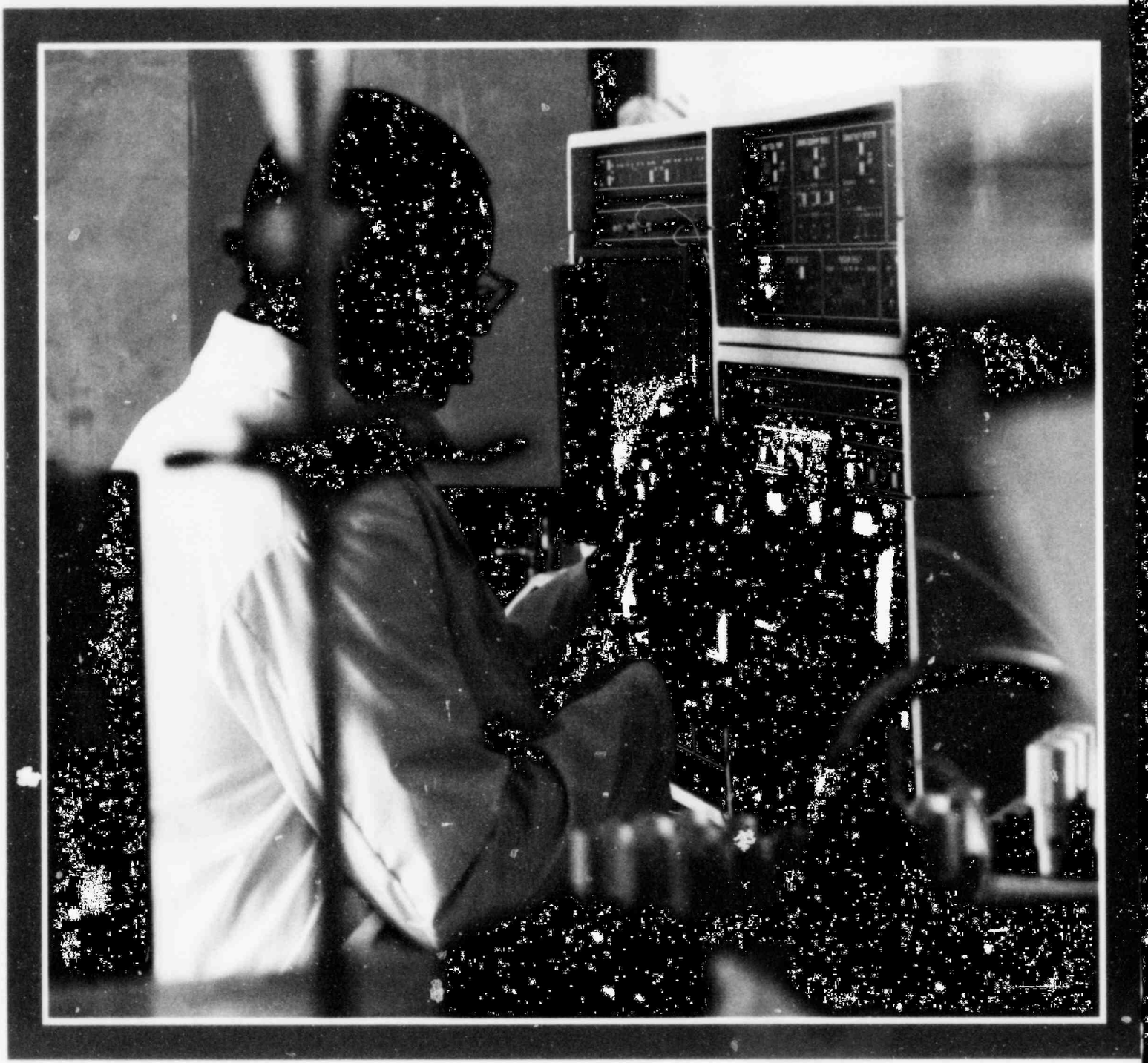
System Reliability Enhanced

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

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

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

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



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

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

Environmental Improvements Continue

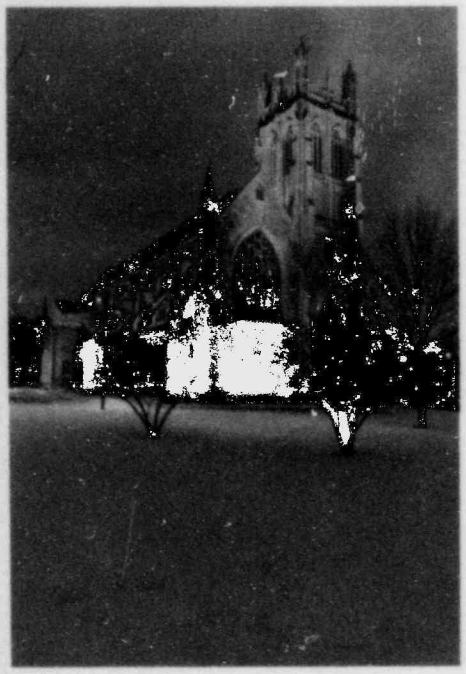
In 1984, the Company spent $32 million to meet federal and state air and water quality standards at coal-fired power plants. Over the past 10 years, about $485 million has been spent on pollution control programs.

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

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

Research Looks to the Future

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

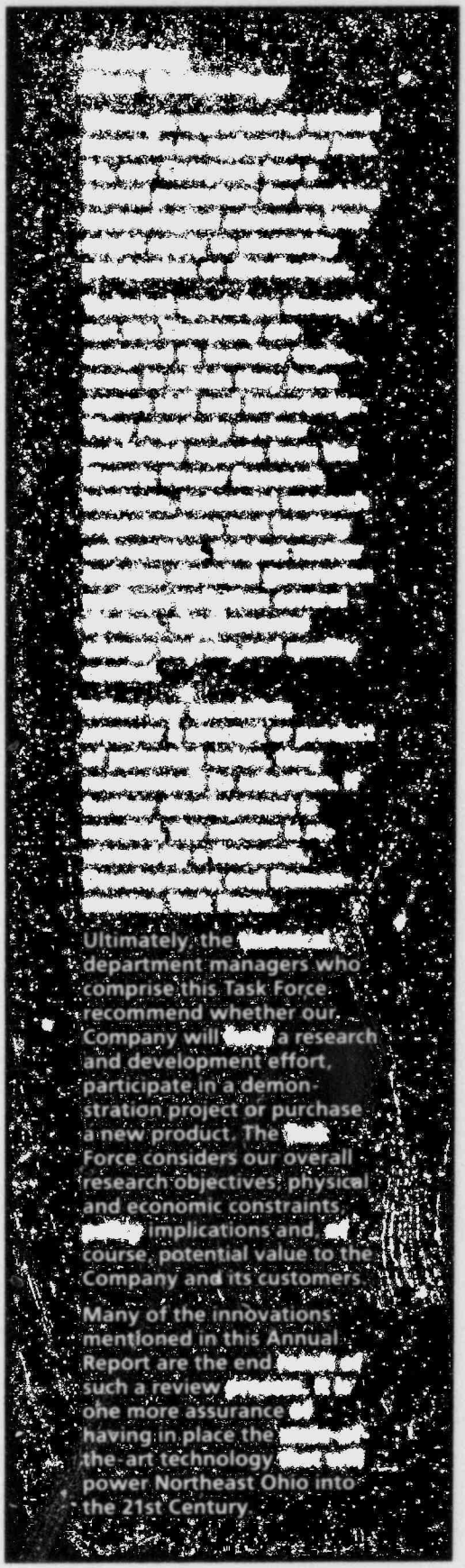


While nuclear power is an economical, safe and clean energy source, constantly changing regulatory requirements continue to cause construction delays and higher capital investment. At the same time, public concerns over acid rain and sulfur emissions from coal-burning power plants could adversely affect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

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

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

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



Ultimately, the department managers who comprise this Task Force recommend whether our Company will fund a research and development effort, participate in a demonstration project or purchase a new product. The Task Force considers our overall research objectives, physical and economic constraints, safety implications and, of course, potential value to the Company and its customers.

Many of the innovations mentioned in this Annual Report are the end result of such a review process. They offer one more assurance that we are having in place the right mix of state-of-the-art technology to power Northeast Ohio into the 21st Century.

Industry Coalition Adds to Research Capabilities

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

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

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

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

Financial Condition Remains Sound

Earnings Reach Record Level

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

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

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

1984 Financings Raise Record Amount

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

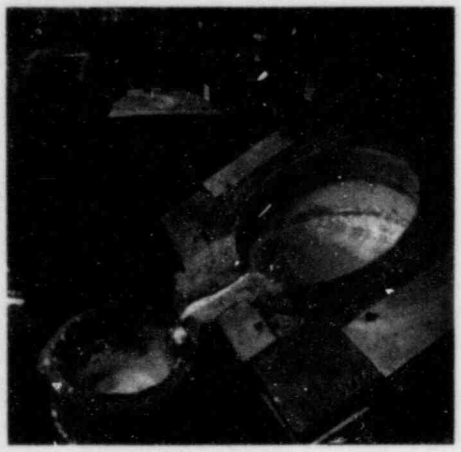
Our balanced structure at the beginning of 1984 gave us the flexibility to do the types of financings we wanted to do when we wanted to do them to obtain the best terms available. To further keep down the cost of capital, we structured the terms and size of some financings to appeal to specific institutional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

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

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

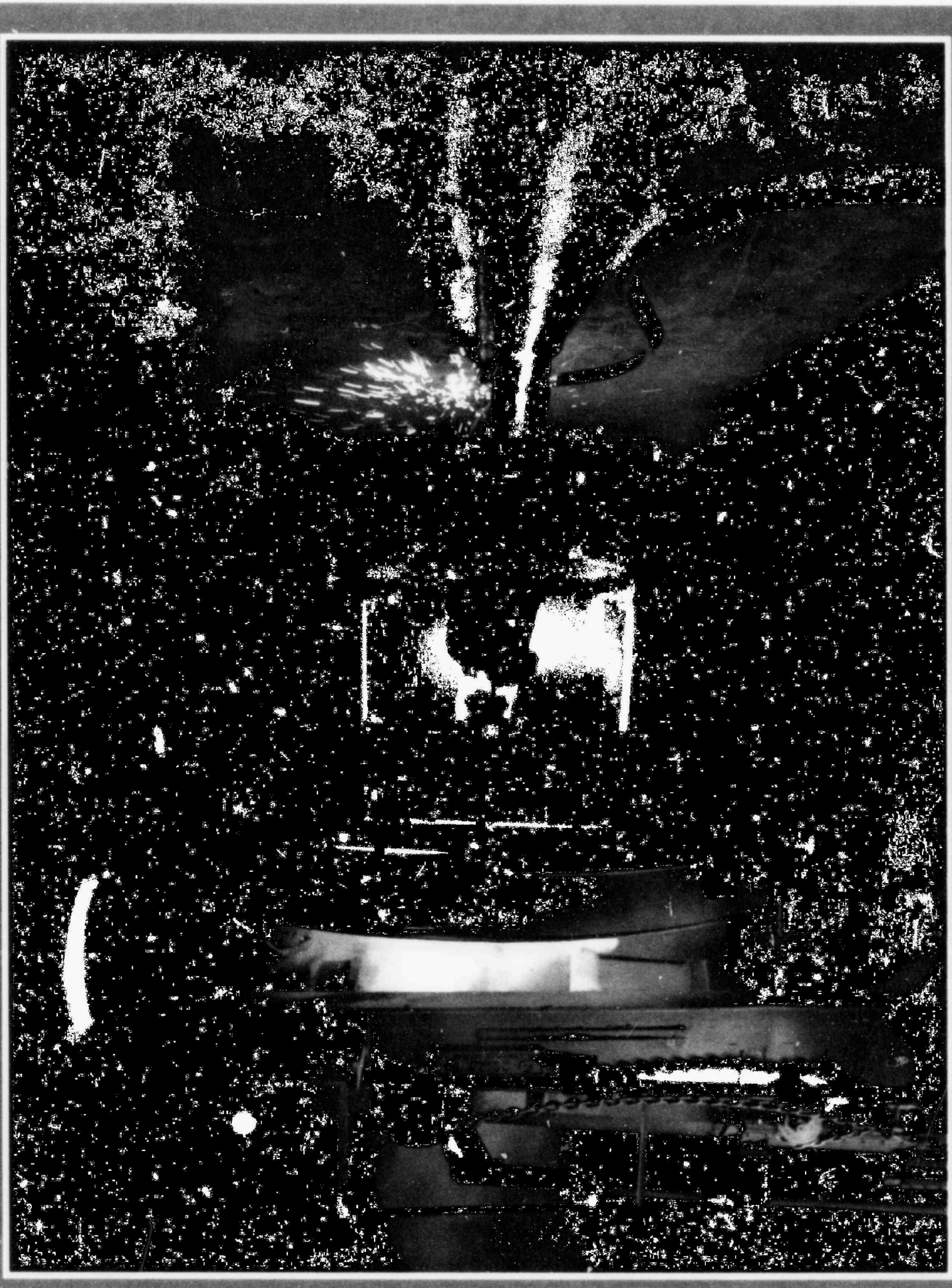
1985 Financing Needs Lower than 1984

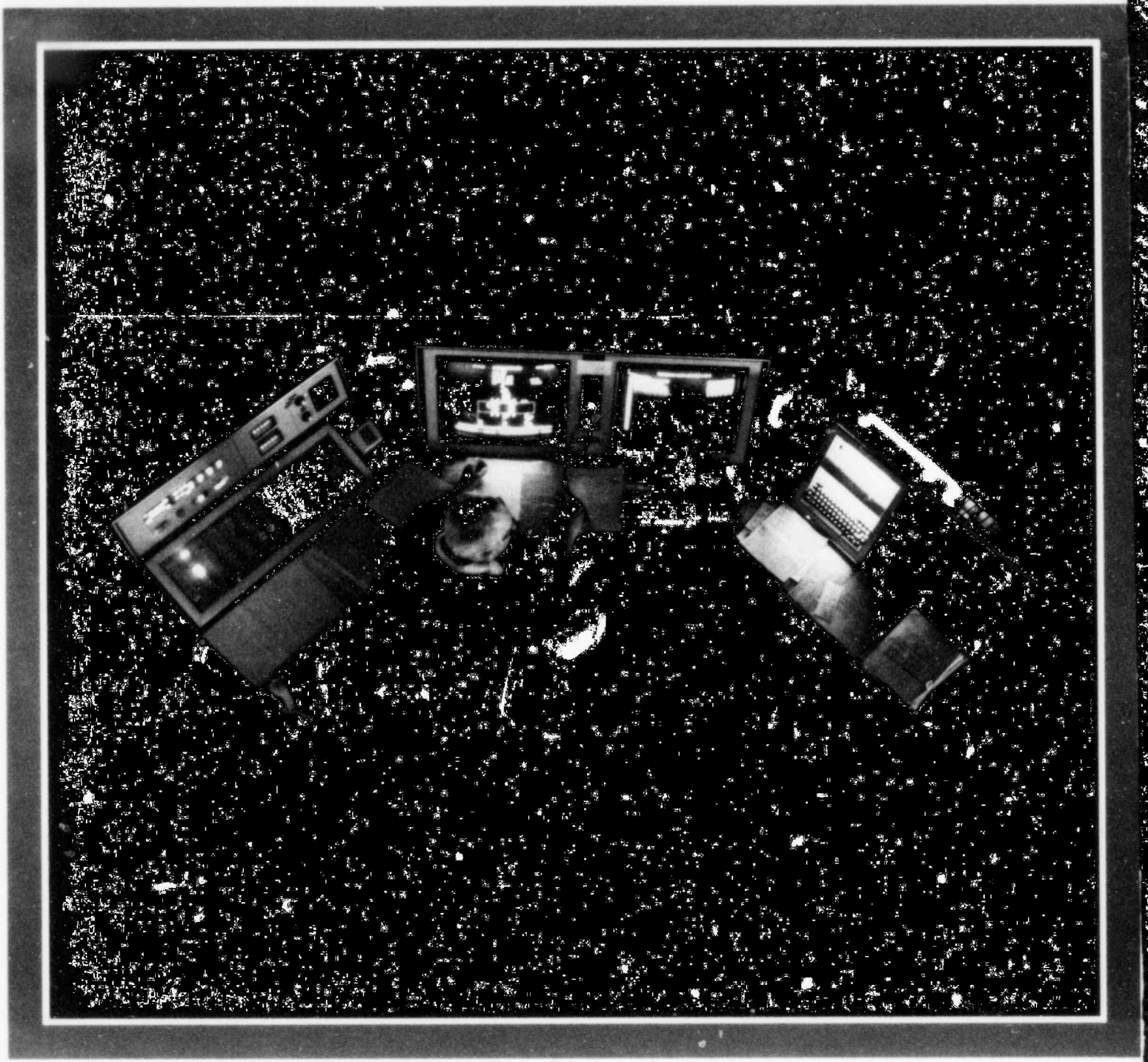
In 1985, we expect to raise about $290 million through several security offerings. We plan to raise funds through the sale of first mortgage bonds, from tax-exempt bonds issued through public authorities and through the sale of preferred stock. Unlike past years, we expect to meet all of our needs for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



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

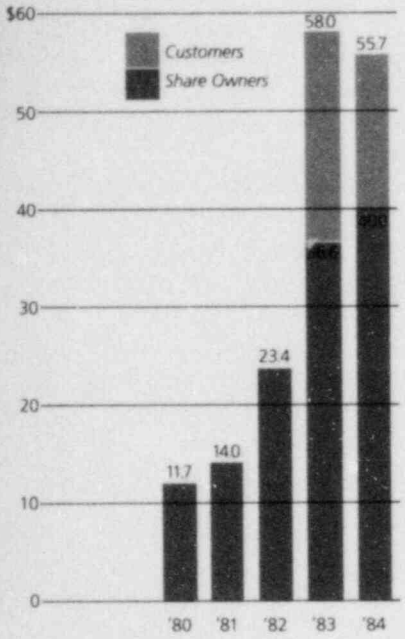
The nation's second largest steel producer, LTV Steel, is headquartered in Cleveland and is the Company's largest customer. With assistance from Company engineers, LTV Steel boosted the efficiency of its electric arc furnaces, more than doubling their productivity over the past 25 years.





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

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



Credit Ratings Remain at Investment Grade

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

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

CEI•IRA Offered in Late 1984

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

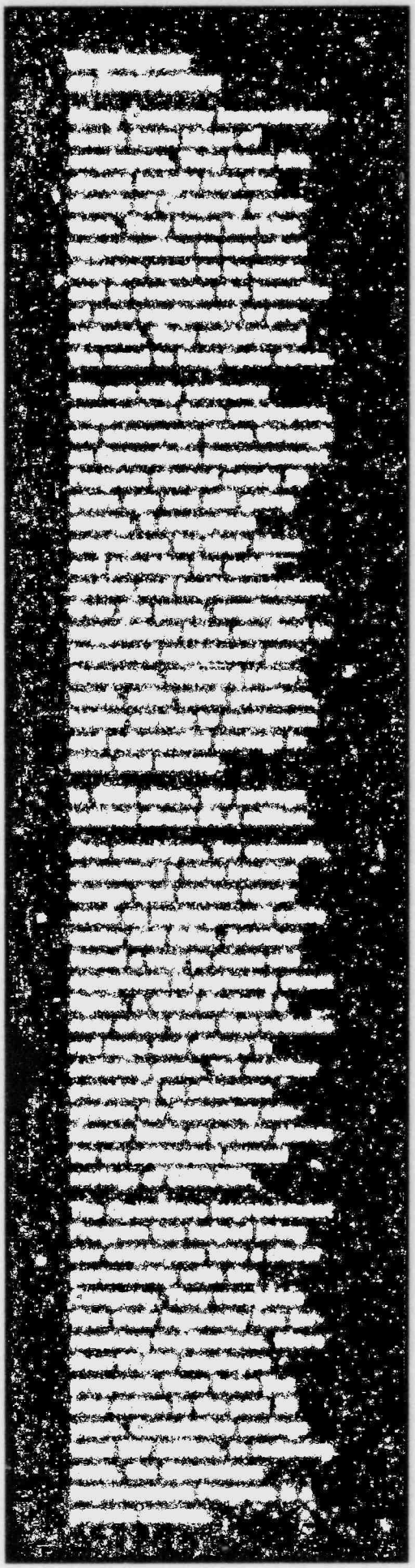
Rate Case Decision Expected in February

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

Ohio Retains CWIP with Changes

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

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



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

Five-Year Construction Budget Announced

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

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

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

Perry Unit 1 Nears Completion

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

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

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

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

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

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

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

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

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

In our Consumer Services Department, Nell Stephens (left, foreground), Bill Collins (center) and Robin Liebenguth are among 47 telephone representatives who answer customer inquiries. Video terminals allow employees immediate access to customer account records. Company training programs prepare them to advise customers about their electric service and about the wise use of electricity.

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

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

Work Remains Minimal on Perry Unit 2

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

Beaver Valley Unit 2 Construction Progress

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

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

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

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

Marketing Program Helps Customers Stay Competitive

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

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

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

Industrial Sector Benefits From Electric-Powered Technologies

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

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

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

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

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

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

New Office Construction Heralds Commercial Growth

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

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

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

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

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

Residential Programs Meet Competition

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

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

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

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

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

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

Customer and Community Relations Programs Expanded

New Programs Enhance Customer Relations

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

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

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

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

Employees Promote Company and Community Growth

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

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

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

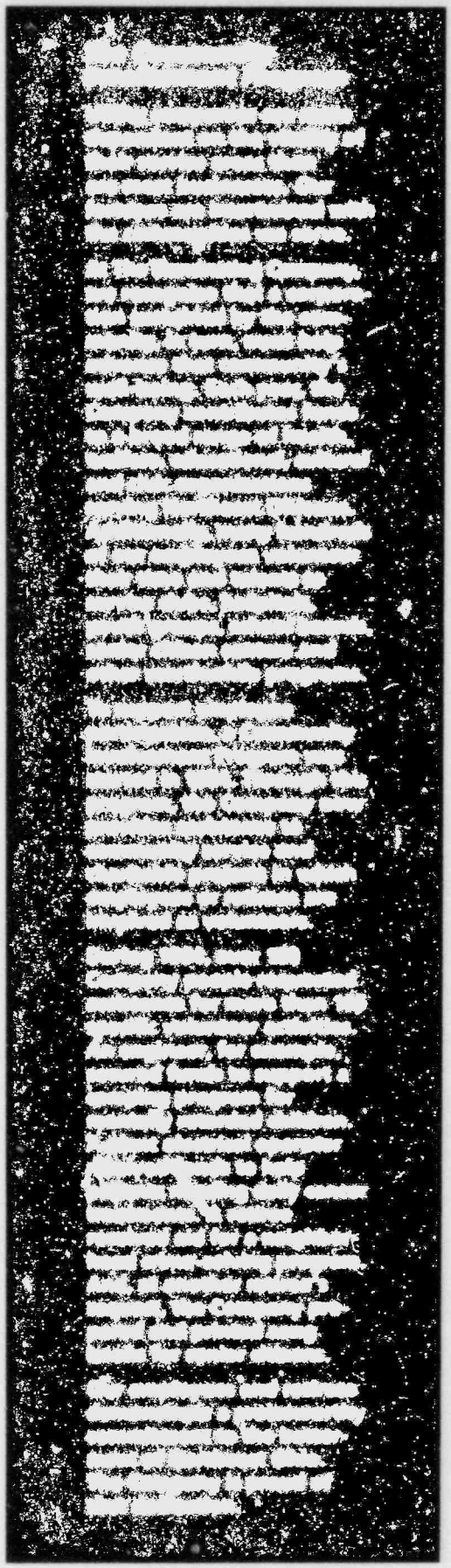
Also in 1984, the Company purchased a modern, 262,000-square-foot office building in Independence. Some 200 employees have moved to this new facility, easing overcrowded conditions at the downtown Cleveland headquarters. Further moves will be made in 1985. The Independence building offers new flexibility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

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

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

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

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



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

Capital Resources and Liquidity

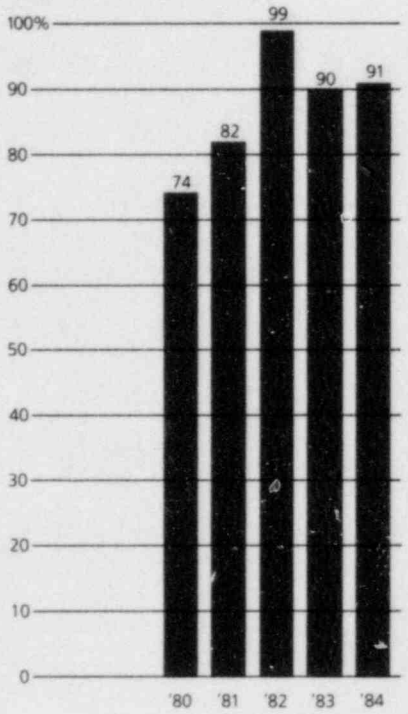
We carry on a continuous program of constructing new facilities to meet anticipated demand for electricity in our service area, to replace worn-out facilities and to comply with pollution control regulations. For the three years ended December 31, 1984, our capital requirements for our construction program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

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

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

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

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



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

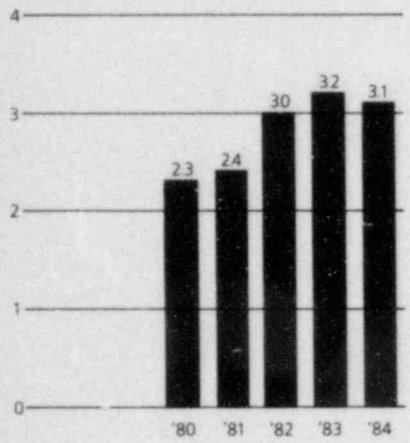
Our ability to finance is contingent upon obtaining sufficient and timely rate increases. Without adequate rates, it would be impossible to earn a fair return for our common stock share owners. Inadequate rates also would impair our ability to generate funds internally and could result in a further lowering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

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

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

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

Fixed Charges Coverage Ratio
(times earned)



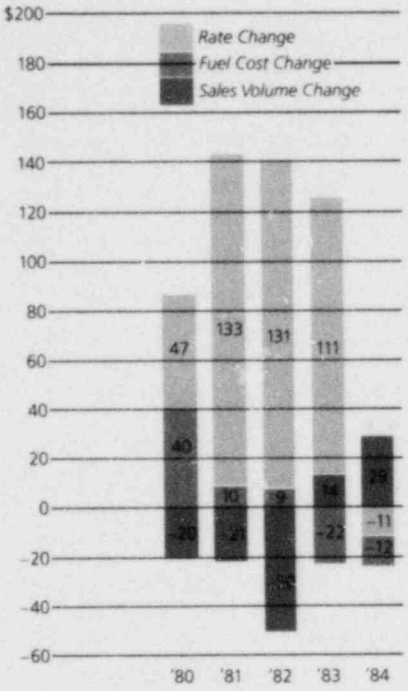
We use short-term financing such as bank lines of credit and the sale of commercial paper to give us flexibility in timing our long-term financings. Money raised through these short-term arrangements is primarily used to finance temporarily our construction program. We have a total short-term borrowing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

Results of Operations

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

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

Sources of Electric Revenue Increases
(millions of dollars)



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

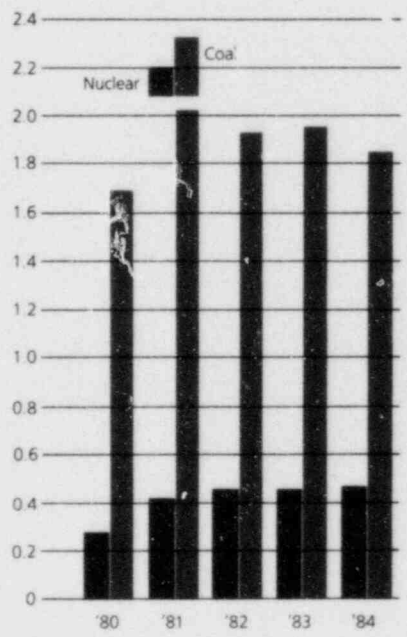
The harsh winter our service area experienced in early 1984 more than offset the effect of a relatively mild summer, thereby contributing to increases in residential and commercial sales in 1984 of 0.8% and 3.1%, respectively, over the 1983 levels. Total sales increased 3.8% in 1984. The improving economy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

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

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

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

Fuel Costs
(cents per kilowatthour)



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

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

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

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

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

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

Management's Statement of Responsibility for Financial Statements

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

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

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

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

Report of Independent Accountants

Price Waterhouse

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

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

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

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

Price Waterhouse

Cleveland, Ohio
February 8, 1985

Income Statement

The Cleveland Electric Illuminating Company and Subsidiaries

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

Retained Earnings Statement

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

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

Balance Sheet at December 31

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

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

Capitalization at December 31

The Cleveland Electric Illuminating Company and Subsidiaries

	1984	1983	1984	1983
	(Thousands of Dollars)		(Percent of Capitalization)	
LONG-TERM DEBT(a)				
First mortgage bonds — maturing through 2020 at rates of 2¾% to 16⅝% (Less $43,291,000 in 1984 and $55,000,000 in 1983 classified as current)	$1,609,800	$1,315,191		
Collateral pledge notes — secured by First Mortgage Bonds maturing in 2012 at semiannual equivalent rates of 11.72% to 14.57%	47,120	43,370		
Term bank loans — maturing 1986-1993 at variable rates (Average rates were 11.49% in 1984 and 10.10% in 1983)	175,000	106,000		
Pollution control notes — maturing through 2012 at rates of 5.6% to 6.7% (Less $410,000 in 1984 and 1983 classified as current)	57,020	57,430		
Other — net	(5,292)	(3,108)		
Total Long-term Debt	1,883,648	1,518,883	48	45
SERIAL PREFERRED AND PREFERENCE STOCK — cumulative, without par value, 4,000,000 and 3,000,000 authorized shares, respectively				
Preferred Stock without mandatory redemption provisions				
Series A (Annual Dividend Rate $7.40; 1984 Shares Outstanding 500,000)	50,000	50,000		
Series B ($7.56; 450,000)	45,071	45,071		
Series L (Adjustable(b); 500,000)	48,950	48,950		
	144,021	144,021		
Preferred and Preference Stock with mandatory redemption provisions (Less $5,782,000 in 1984 and $4,000,000 in 1983 classified as current)				
Preferred:				
C ($ 7.35; 230,000; 8-1-84; $ 100; 10,000; —)	23,000	24,000		
E ($ 88.00; 45,000; 6-1-81; $1,000; 3,000; —)	45,000	48,000		
F ($ 75.00; 50,000; 11-1-85(d); $1,000; —; 16,667)	50,000	50,000		
G ($ 80.00; 32,000; 8-1-84(d); $1,000; —; 8,000)	32,000	40,000		
H ($145.00; 26,718; 6-1-85; $1,000; 1,782; —)	26,718	28,500		
I ($145.00; 31,500; 6-1-86; $1,000; 1,969; —)	31,500	31,500		
J ($113.50; 29,000; 6-1-87; $1,000; 5,800; —)	29,000	29,000		
K ($113.50; 10,000; 6-1-91; $1,000; 10,000; —)	10,000	10,000		
	247,218	261,000		
Preference:				
1 ($ 77.50; 45,600; 4-1-84(d); $1,000; —; 11,400)	45,600	57,000		
Total Preferred and Preference Stock	436,839	462,021	11	14
COMMON STOCK EQUITY				
Common shares, without par value, 85,000,000 authorized; 74,040,175 and 65,198,089 outstanding in 1984 and 1983, respectively	1,121,647	967,271		
Retained earnings(e)	471,163	388,217		
Total Common Stock Equity	1,592,810	1,355,488	41	41
TOTAL CAPITALIZATION	$3,913,297	$3,336,392	100	100

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

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

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

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

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

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

Changes in Financial Position

The Cleveland Electric Illuminating Company and Subsidiaries

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

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

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

Notes to Consolidated Financial Statements

Note A — Summary of Significant Accounting Policies

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

Consolidation

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

Property and Plant

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

Depreciation

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

Terminated Projects

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

Allowance for Funds Used During Construction

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

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

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

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

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

Federal Income Tax

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

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

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

Notes to Consolidated Financial Statements

Revenues

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

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

Fuel

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

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

Accounts Receivable

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

Note B — Federal Income Tax

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

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

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

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

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

Note C — Depreciation

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

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

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

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

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

Note D — Terminated Projects

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

Note E — First Mortgage Bonds

Condensed information on outstanding first mortgage bonds is as follows:

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

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

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

The issuance of additional first mortgage bonds is limited by two provisions of the Mortgage. Under the more restrictive of these provisions, we would have been permitted at December 31, 1984 to issue approximately $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.

Note F — Leases

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note H — Serial Preferred Stock without Mandatory Redemption Provisions

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

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

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

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

Note I — Common Shares Issued and Reserved for Issue

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

	1984	1983	1982
Public Sale	5,000,000	—	9,000,000
Dividend Reinvestment and Stock Purchase Plan	3,329,015	3,021,125	1,362,141
Employee Savings Plan	419,318	29[illegible],584	282,162
Employee Thrift Plan	92,538	71,767	75,775
Key Employee Incentive Stock Plan	335	20,471	—
1978 Key Employee Stock Option Plan	880	11,560	—
Total Shares	8,842,086	3,423,507	10,720,078

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

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

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

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

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

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

Note J — Short-Term Borrowing Arrangements

Available bank credit arrangements are as follows:

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

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

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

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

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

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

Note L — Commitments and Contingencies

Construction Program

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

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

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

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

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

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

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

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

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

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

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

Purchases

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

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

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

Nuclear Fuel

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

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

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

Guarantees

Under two long-term coal purchase arrangements, we have agreed to guarantee the mining companies' loan and lease obligations. At December 31, 1984, the principal amount of the mining companies' loan and lease obligations was $79,229,000. Under one of these arrangements, we are required to pay the mining company any actual out-of-pocket idle-mine expenses, as advance payments for coal, when the mines are idle for reasons beyond the control of the mining company.

Nuclear Unit Liability

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

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

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

Lawsuits

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

Note M — Rate Matters

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

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

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

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

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

Note N — Pension and Postretirement Health and Life Insurance Benefits

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

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

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

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

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

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

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

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

Note O — Quarterly Results of Operations (Unaudited)

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

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

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	1984	1983	1982	1981
Income Statement (Thousands of Dollars)				
TOTAL OPERATING REVENUES	1,215,353	1,210,316	1,108,571	1,012,9
Residential	375,597	385,076	348,757	310,4
Commercial	338,625	334,660	304,801	263,6
Industrial	441,285	430,209	393,794	386,8
Other Electric (Includes Sales for Resale)	44,958	44,217	43,702	39,9
Steam Heating	14,888	16,154	17,517	12,1
TOTAL OPERATING EXPENSES	953,242	951,954	879,644	820,2
Fuel and Purchased Power	313,412	332,977	329,279	351,4
Other Operating Expenses	280,888	270,468	250,591	224,2
Depreciation and Amortization	95,274	94,196	86,588	85,2
Taxes Other Than Federal Income Tax	132,313	126,883	106,804	91,6
Federal Income Tax	131,355	127,430	106,382	67,5
NET OPERATING INCOME	262,111	258,362	228,927	192,7
NONOPERATING INCOME	169,200	114,148	96,669	75,7
Allowance for Equity Funds Used During Construction	130,421	87,052	76,896	48,9
Other Income and Deductions	38,779	27,096	19,773	26,7
INCOME BEFORE INTEREST CHARGES	431,311	372,510	325,596	268,4
INTEREST	139,679	126,484	116,632	112,6
Long and Short-term Interest	180,864	153,974	144,072	146,7
Allowance for Borrowed Funds Used During Construction	(41,185)	(27,490)	(27,440)	(34,0
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	291,632	246,026	208,964	155,7
Cumulative Effect of Change in Depreciation Method on Periods Prior to January 1, 1979	—	—	—	—
NET INCOME (a)	291,632	246,026	208,964	155,7
PREFERRED AND PREFERENCE DIVIDEND REQUIREMENTS	43,353	38,426	38,295	34,9
EARNINGS AVAILABLE FOR COMMON STOCK	248,279	207,600	170,669	120,8
EARNINGS PER SHARE BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	$ 3.64	$ 3.28	$ 3.01	$ 2.
CUMULATIVE EFFECT PRIOR TO JANUARY 1, 1979	—	—	—	—
TOTAL EARNINGS PER SHARE (a) (b)	$ 3.64	$ 3.28	$ 3.01	$ 2.
DIVIDENDS PER SHARE (b)	$ 2.43	$ 2.31	$ 2.19	$ 2.
Balance Sheet Year end (Thousands of Dollars)				
TOTAL ASSETS	4,926,441	4,267,427	3,872,909	3,406,0
Utility Plant—Total	5,022,543	4,454,788	4,010,532	3,610,8
Accumulated Utility Plant Depreciation and Amortization	(798,979)	(722,492)	(679,890)	(621,3
Other Property	95,277	70,144	64,216	23,8
Current and Other Assets	607,600	464,987	478,051	392,6
TOTAL CAPITALIZATION AND LIABILITIES	4,926,441	4,267,427	3,872,909	3,406,0
Long-term Debt	1,883,648	1,518,883	1,441,822	1,328,4
Preferred and Preference Stock:				
With Mandatory Redemption Provisions	292,818	318,000	322,000	325,0
Without Mandatory Redemption Provisions	144,021	144,021	95,071	95,0
Common Stock Equity	1,592,810	1,355,488	1,227,095	1,002,2
Deferred Federal Income Taxes	480,727	411,072	322,188	236,4
Other Liabilities and Credits	532,417	519,963	464,733	418,9
UTILITY PLANT ADDITIONS (c)	582,288	490,705	422,170	409,2
UTILITY PLANT RETIREMENTS	14,533	46,449	22,533	13,7
NUMBER OF COMMON SHARES (b)	74,040,175	65,198,089	61,774,582	51,054,5
Operating Statistics				
KWHR SALES (Thousands)	17,273,057	16,637,472	16,165,157	17,507,8
Residential	4,446,352	4,412,154	4,335,605	4,375,7
Commercial	4,396,395	4,265,023	4,194,177	4,178,4
Industrial	7,997,000	7,513,673	7,082,261	8,279,7
Other (Includes Sales for Resale)	433,310	446,622	553,114	673,9
ELECTRIC CUSTOMERS—YEAR END	714,768	712,833	711,222	711,3
Residential	644,904	643,065	641,705	642,9
Commercial	61,934	62,075	61,861	60,7
Industrial	7,521	7,274	7,235	7,2
Other	409	419	421	4
RESIDENTIAL SALES DATA				
Average Kwhr per Customer	6,646	6,608	6,490	6,5
Average Revenue per Customer	$ 563.60	$ 579.49	$ 524.63	$ 466.5
Average Revenue per Kwhr	8.48¢	8.77¢	8.08¢	7.
ELECTRIC PRODUCTION				
Net Available for Service Area (Thousands of Kwhr)	19,096,414	18,461,867	17,677,831	18,936,5
Net Generation (Thousands of Kwhr)	16,818,455	17,152,981	17,032,759	17,297,5
Net Received from Others (Thousands of Kwhr)	2,277,959	1,308,886	645,072	1,639,0
BTU per Kwhr of Net Output	10,416	10,452	10,475	10,5
Fuel Cost per Million BTU	163.28¢	169.08¢	174.72¢	175.
Coal Cost per Ton	$ 44.25	$ 46.66	$ 45.51	$ 46.
Annual Net 60-Min. Max. Load-KW	3,371,000	3,404,000	3,090,000	3,447,0
Net System Capability—KW—at Time of Peak	4,329,000	4,441,000	4,699,000	4,367,0
STEAM HEATING				
Sales—Pounds (Thousands)	1,306,626	1,281,499	1,501,077	1,612,1
Customers—Year End	256	274	312	3
EMPLOYEES—YEAR END	5,830	5,339	5,411	5,1

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

1980	1979	1978	1977	1976	1975	1974
893,566	824,267	717,092	659,290	543,148	523,165	463,937
268,787	237,612	213,520	200,765	160,015	154,020	140,030
220,677	194,899	172,251	165,049	129,286	121,653	109,185
323,764	322,909	278,465	251,181	197,189	180,890	177,246
65,273	55,799	42,831	31,611	45,730	55,679	29,946
15,065	13,048	10,085	10,684	10,928	10,923	7,530
743,051	688,788	599,289	542,871	441,401	433,614	375,159
360,347	349,027	307,429	265,771	234,107	246,984	199,352
194,881	162,636	140,996	127,330	102,794	94,539	85,122
64,619	59,443	56,774	43,307	35,874	33,046	31,632
81,630	79,455	68,756	58,807	51,925	48,735	43,653
41,574	38,227	25,334	47,656	16,701	10,310	15,390
150,515	135,479	117,803	116,419	101,747	89,551	88,778
62,440	47,621	42,226	49,484	25,346	17,681	8,472
40,873	33,432	29,890	35,265	24,706	16,983	7,854
21,567	14,189	12,336	14,219	1,640	698	618
212,955	183,100	160,029	165,903	128,093	107,232	97,250
87,572	69,566	61,016	54,175	46,413	42,464	36,509
112,623	85,299	72,071	67,889	56,750	50,511	44,717
(25,051)	(15,733)	(11,055)	(13,714)	(10,337)	(8,047)	(8,208)
125,383	113,534	99,013	111,728	81,680	64,768	60,741
—	4,125	—	—	—	—	—
125,383	117,659	99,013	111,728	81,680	64,768	60,741
27,711	25,587	23,575	22,907	18,005	14,696	10,067
97,672	92,072	75,438	88,821	63,675	50,072	50,674
2.26	$ 2.31	$ 2.20	$ 2.91	$ 2.38	$ 2.11	$ 2.45
—	.11	—	—	—	—	—
2.26	$ 2.42	$ 2.20	$ 2.91	$ 2.38	$ 2.11	$ 2.45
2.00	$ 1.92	$ 1.84	$ 1.76	$ 1.71	$ 1.65	$ 1.60
3,094,462	2,678,786	2,331,541	2,117,135	1,842,999	1,513,247	1,354,065
3,215,539	2,842,253	2,523,996	2,232,111	1,955,701	1,693,614	1,526,659
(557,859)	(521,175)	(476,983)	(429,150)	(396,338)	(373,851)	(355,841)
21,137	19,503	15,034	13,753	12,849	9,942	7,433
415,845	338,205	269,494	300,421	270,787	183,542	175,814
3,094,462	2,678,786	2,331,541	2,117,135	1,842,999	1,513,247	1,354,065
1,211,528	973,991	920,973	885,899	747,392	673,003	553,144
260,500	232,000	232,000	185,000	135,000	75,000	63,000
95,071	95,071	95,071	95,071	95,071	95,071	95,071
912,731	820,411	708,883	633,744	511,333	419,990	346,736
192,452	162,122	140,677	119,299	72,318	63,267	43,348
422,180	395,191	233,937	198,122	281,885	186,916	252,766
398,088	329,869	300,765	286,739	275,524	181,673	173,899
25,002	11,612	8,880	10,329	13,437	14,718	11,362
46,288,629	41,271,574	35,995,365	32,388,055	28,347,544	24,351,499	20,748,110
18,159,754	19,030,453	18,364,437	18,066,428	18,070,291	18,133,826	17,601,686
4,463,147	4,352,983	4,288,865	4,200,116	4,045,158	3,984,004	3,830,305
4,148,990	4,041,134	3,933,586	4,007,123	3,808,897	3,685,878	3,527,382
8,062,172	9,268,600	8,992,919	8,874,796	8,475,983	7,822,419	8,819,205
1,485,445	1,367,736	1,149,067	984,393	1,740,253	2,641,525	1,424,794
710,557	708,219	702,538	696,547	693,425	689,133	684,728
642,845	641,856	637,609	632,740	630,581	627,719	623,988
60,070	58,690	57,310	56,241	55,178	53,765	53,070
7,210	7,232	7,167	7,112	7,206	7,190	7,212
432	441	452	454	460	459	458
6,686	6,557	6,517	6,412	6,187	6,116	5,914
405.09	$ 357.86	$ 324.91	$ 307.11	$ 245.16	$ 237.02	$ 216.69
6.05¢	5.48¢	5.00¢	4.80¢	3.97¢	3.88¢	3.67¢
18,722,616	19,645,001	19,254,857	19,098,231	18,331,384	17,271,169	17,817,763
15,325,948	17,069,914	16,882,669	18,123,528	16,747,626	16,213,012	18,040,100
3,396,668	2,575,087	2,372,188	974,703	1,583,758	1,058,157	(222,337)
10,635	10,634	10,536	10,401	10,322	10,454	10,569
156.92¢	142.51¢	131.80¢	117.50¢	105.55¢	111.14¢	102.26¢
39.31	$ 35.20	$ 30.73	$ 25.72	$ 23.98	$ 24.93	$ 21.53
3,325,000	3,233,000	3,327,000	3,381,000	3,140,000	3,022,000	3,080,000
4,353,000	4,509,000	4,462,000	4,088,000	3,797,000	3,569,000	3,724,000
1,979,397	2,004,680	2,210,886	2,374,510	2,359,677	2,263,645	2,274,925
348	365	369	372	385	399	406
4,991	4,963	4,831	4,790	4,840	4,947	4,982

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

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

The Cleveland Electric Illuminating Company and Subsidiaries

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

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

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

Supplementary Information Concerning the Effects of Inflation

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

General

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

Revenues and Expenses

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

Depreciation

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

Materials and Supplies

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

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

Adjustment to Net Recoverable Cost

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

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

The Cleveland Electric Illuminating Company and Subsidiaries

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

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

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

Gain from Decline in Purchasing Power of Net Amounts Owed

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

Effects of Inflation on the Company

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

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

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

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

Board of Directors

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

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

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

Richard A. Mille
President of the Company

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

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

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

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

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

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

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

Harold L. Williams
Executive Vice President of the Company

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

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Ralph M. Besse
Chairman Emeritus of the Board of Directors

Elmer L. Lindseth
Chairman Emeritus of the Board of Directors

Committees of the Board of Directors

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

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

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

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

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

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

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

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

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

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

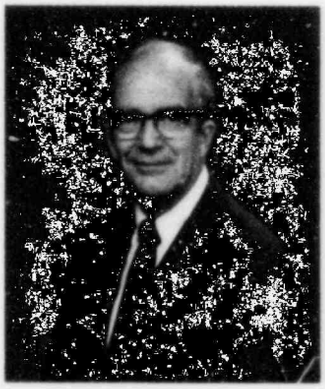
Nuclear Committee The Nuclear Committee monitors, consults with and makes recommendations to both management and the Board regarding (1) progress of the Perry Nuclear Power Plant and Beaver Valley Power Station Unit 2 construction projects and all objectives and strategies relating to their completion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

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

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

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

Principal Officers and Executives



Robert M. Ginn
Chairman

Richard A. Miller
President

Harold L. Williams
Executive Vice President

Murray R. Edelman
Vice President-Nuclear

Robert J. Farling
Vice President-Administrative Services

John W. Fenker
Vice President-Power Supply

Frank A. Kender
Vice President-Marketing

Edgar H. Maugans
Vice President-Finance

John J. Misic
Vice President-Distribution & Services

Alan D. Wright
Vice President-Public Affairs & Legal

Alvin Kaplan
Vice President-Nuclear Operations Division

Newton D. Flack
Division Manager-Steam Power Division

Victor F. Greenslade
General Counsel & Director
of Governmental Affairs

Charles C. Chopp
Controller

Andrew R. Felmer
Treasurer

E. Lyle Pepin
Secretary

General Information

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

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

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

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

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

Bond Paying Agent
Manufacturers Hanover Trust Company, 40 Wall Street, New York, N.Y. 10015 and AmeriTrust Company National Association, 900 Euclid Avenue, Cleveland, Ohio 44114—Co-paying agents for the
2¾% Series due 1985
3⅜% Series due 1986
3% Series due 1989
3⅞% Series due 1993
4⅜% Series due 1994
Morgan Guaranty Trust Company of New York, 30 West Broadway, New York, N.Y. 10015—Paying agent for the
11½% Series due 1985-A
15¼% Series due 1989-A
14⅜% Series due 1989-B
7⅛% Series due 1990
8⅜% Series due 1991
14% Series due 1991-A
15¼% Series due 1992
15⅛% Series due 1994-A
8¾% Series due 2005
9¼% Series due 2009
9.85% Series due 2010
8⅜% Series due 2011
8⅜% Series due 2012
16⅝% Series due 2012-A
12¾% Series due 2012-D
12¼% Series due 2013-A

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

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

Preferred Stock
Listed on the New York Stock Exchange.

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

Transfer Agent
For Common Stock, Preference Stock and Preferred Stock
The Cleveland Electric Illuminating Company
Share Owner Services
P.O. Box 5000, Cleveland, Ohio 44101
Stock transfers may be presented at Wells Fargo Securities Clearance Corporation, 45 Broad Street, New York, N.Y. 10004.

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

Local calls in
Cleveland area 622-9800, ext. 3700
Elsewhere
in Ohio 1-800-362-1237
Outside Ohio 1-800-321-3206

Please have your account number ready when calling.

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

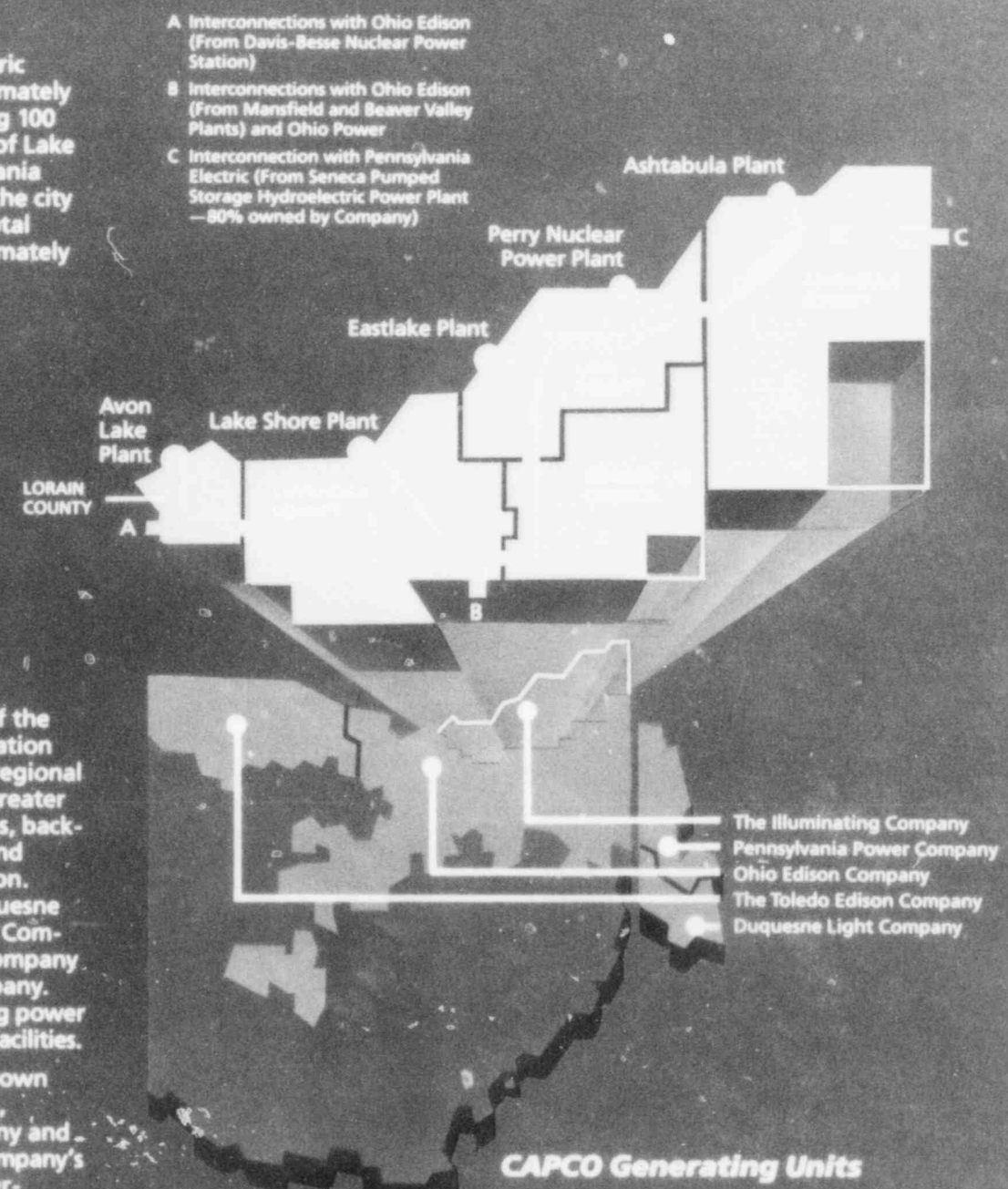
Mail Address
Post Office Box 5000
Cleveland, Ohio 44101

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

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

Service Area

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



Capco

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

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

CAPCO Generating Units

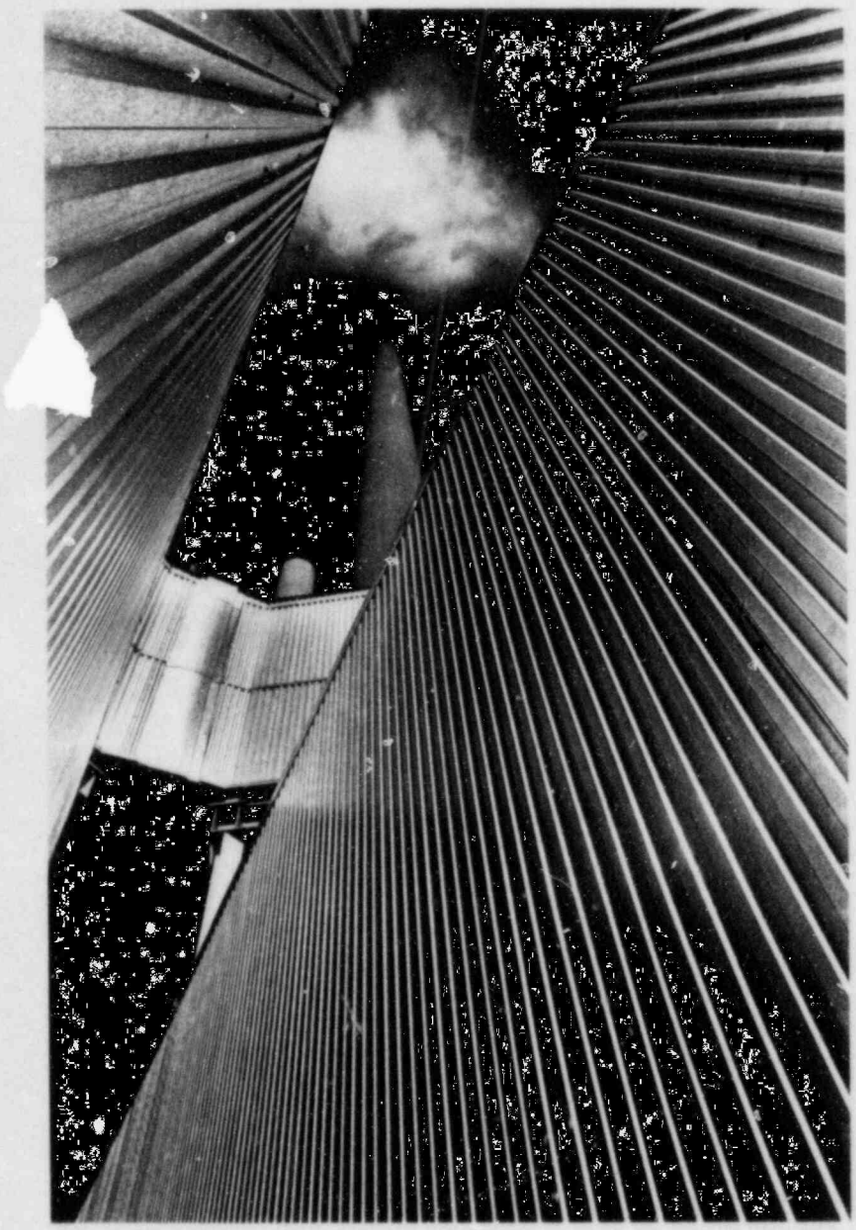
	Project	Expected Net Demonstrated Capability (Kilowatts) Total	Company Share	Year of Scheduled Completion	Construction and Operation Responsibility
Eastlake	■ Unit #5	648,000	446,000	In Service	The Illuminating Company
Sammis	■ Unit #7	600,000	—0—	In Service	Ohio Edison Company
Mansfield	■ Unit #1	780,000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

■ Coal-Fired ● Nuclear

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY
P.O. Box 5000 • Cleveland, Ohio 44101

OHIOEDISON
The Energy Makers

Annual Report 1984



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Ohio Edison

The Ohio Edison System is the 18th largest investor-owned electric system in the United States, based on total kilowatt-hour sales. It includes the Ohio Edison Company, headquartered in Akron, Ohio, and the Pennsylvania Power Company, in New Castle, Pennsylvania. Together, the Companies provide electric service to more than 978,000 customers within an area of approximately 9,000 square miles in central and northeastern Ohio and western Pennsylvania.

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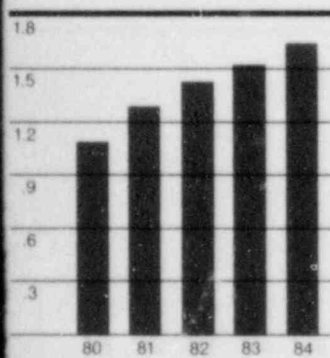
On the cover
A unique view of new environmental control equipment at the coal-fired W.H. Sammis Plant.

Financial Highlights

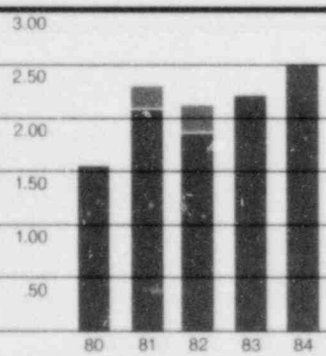
For the Years Ended December 31	1984	1983	Change
	(In millions, except per share amounts)		
Kilowatt-Hour Sales	**26,764.2**	24,345.4	+9.9%
Operating Revenues	**$1,637.1**	$1,515.9	+8.0%
Fuel Expense	**422.8**	420.3	+0.6%
Operating Income	**342.7**	302.8	+13.2%
Allowance for Funds Used During Construction, Net	**256.9**	203.7	+26.1%
Interest and Other Charges	**371.6**	319.8	+16.2%
Net Income	**339.3**	272.4	+24.6%
Earnings on Common Stock	**290.7**	227.8	+27.6%
Earnings Per Common Share	**$2.50**	$2.22	+12.6%
Dividends Per Common Share*	**$1.84**	$1.80	+2.2%
Dividends on Capital Stock	**$263.0**	$230.8	+14.0%
Capital Expenditures:			
Construction of Facilities	**$800.4**	$690.8	
Nuclear Fuel	**60.8**	55.0	
Capital Leases	**6.9**	25.3	
	$868.1	$771.1	+12.6%
Internally Generated Funds	**222.1**	217.3	+2.2%
Net Financing Activities	**581.6**	496.6	+17.1%
Return on Average Common Equity	**15.9%**	14.2%	

***The quarterly dividend was increased to 47 cents per share ($1.88 on an annual basis) beginning with the dividend payable on March 29, 1985.**

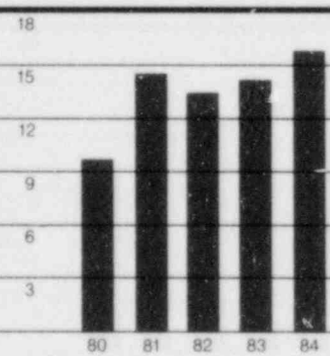
Operating Revenues
(In billions of dollars)



Earnings Per Share
(In dollars)



Return on Average Common Equity
(In percent)



Extraordinary
Ordinary

The Company's overall financial performance in 1984 was our best in nearly a decade.

With a healthier local economy, sales to industrial customers increased 9.2 percent over 1983. Our sales to commercial and residential customers were also up. And power sales to other electric companies increased 57.4 percent to a record high. In all, total kilowatt-hour sales were 9.9 percent higher than in 1983, reaching nearly 27 billion kilowatt-hours.

Because of the stronger sales and new electric rates, revenues for the year were more than $1.6 billion, 8 percent better than in 1983; earnings climbed to $2.50 per share of common stock, an increase of nearly 13 percent.

We are especially pleased with these financial results considering the difficult operating, environmental, regulatory and financial problems we have had to overcome since the late 1970s.

Even with many of these problems behind us and our good financial performance in 1984, we don't expect smooth sailing ahead. We still have tough problems to deal with, including those related to nuclear power and the possibility of new "acid rain" legislation.

Nuclear Power's Future

Nuclear power will have an important part in this country's energy future. But for now, controversy has placed seemingly endless regulatory and legislative roadblocks in front of utilities building or operating plants. These roadblocks have caused construction delays and higher financing costs, forcing some utilities to abandon projects well along in construction.

While this situation certainly gives cause for concern with regard to our own nuclear program, the picture does have a brighter side. In 1984, seven new nuclear units received operating licenses. Already, 90 nuclear units, including Unit 1 of the Beaver Valley Power Station in which we share ownership, are meeting 13 percent of the nation's total demand for electricity.

We expect Unit 1 at the Perry Nuclear Power Plant to join that list around the end of this year. Not only has it met all Nuclear Regulatory Commission requirements to date, but the Commission has recognized the quality control program as a strength of the Perry project.

Although the schedule is tight, The Cleveland Electric Illuminating Company, which is heading up construction of Perry, reports that the unit's systems will be tested and ready for fuel loading this summer. To help assure completion of Perry Unit 1 on schedule, work on the second unit has been reduced and relates mainly to facilities shared by both units. Ohio Edison and Penn Power will own about 35 percent of the power from the Perry units.

The Duquesne Light Company is moving forward with Beaver Valley Unit 2, but emphasis has shifted toward completion and testing of systems for operation near the end of 1987. Ohio Edison's share of the unit is about 42 percent.

During the past 12 months, new total project budgets were announced. The budget for Perry Unit 1, including common facilities shared with Perry Unit 2, was raised from $2.8 billion to $3.9 billion. The budget for Beaver Valley Unit 2 was revised from $3.1 billion to $3.9 billion.

As a back-up source of funds, should it be needed, we arranged a $500 million, six-year credit agreement with 21 major banks. This credit arrangement gives the Company more flexibility in the timing of future security sales at lower interest rates. And, it further separates us from those utilities having trouble raising money to finish their nuclear projects.

"Acid Rain" Controversy

Turning to the problem of "acid rain," there is continued pressure on Congress to pass laws requiring costly controls. Special interest groups have made "acid rain" a sensitive political issue by relying on a campaign that's long on rhetoric and short on proof. Their unproven charges about coal-burning plants being the major cause of the "acid rain" problem are preying on the anxieties of people and include demands for huge expenditures on new control equipment.

No one can legitimately accuse us of being indifferent to protecting the environment. We've just completed $510 million of environmental improvements at six of our power plants.

A major part of that program was at the W.H. Sammis Plant, where we spent nearly $409 million on elaborate air quality control systems. All of our power plants now meet current clean-air standards.

But before a new round of expensive projects is required to satisfy "acid rain" lobbies, there should be reasonable assurance of real benefits. So far, that assurance is missing, and we're doing everything we can to convince Congress to recognize this fact.

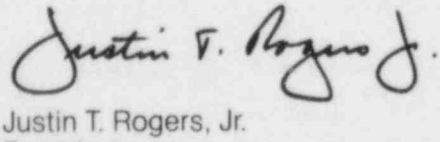
Optimism for the Future

These concerns notwithstanding, there is reason to be optimistic about the future. Along with the steady improvement in system operations and the reduction in the size of our construction program, we see continued moderate growth in the local economy and a resulting increase in electric sales.

As covered later in this report, we are focusing a great deal of our attention on area development and marketing strategies to stimulate sales growth. Our goal is to add 695 million kilowatt-hours of new business in 1985. We will also continue our aggressive pursuit of power sales to other electric companies.

I believe these efforts and our recent performance will help preserve the quality of your investment in the Company.

My optimism is supported by our employees' track record. Their resourcefulness and determination have played an important part in moving the Company forward. I thank them for their hard work. And, a special word of thanks to you for your understanding and support.



Justin T. Rogers, Jr.
President

March 1, 1985

Electric Sales Reflect Economic Recovery and Growth

Electric sales increased 9.9 percent in 1984 as business in our area continued to accelerate.

One of our largest customer groups, the auto industry, made dramatic gains. With domestic car production up 44.1 percent nationally, there was significant activity among the many auto-related companies we serve. As a result, our sales to these companies increased 8.7 percent over 1983.

But improving car sales is only part of the story. With more computerized operations and robots on the assembly line, the auto industry serves as a good example of how Midwest industries are using electricity and high technology to stay competitive.

Area steel companies have also been streamlining their operations and making more use of efficient electric furnaces, especially in the production of high-quality and specialty steel.

In Youngstown, LTV Steel Company added a $75 million modern rotary furnace at its Campbell Works seamless piping mill. At U.S. Steel Corporation's Lorain facility, about $140 million was spent on a new continuous caster mill.

Although steel manufacturing is well below its peak years, there has been renewed activity. Our electric sales to this industry were up 2.7 percent over 1983.

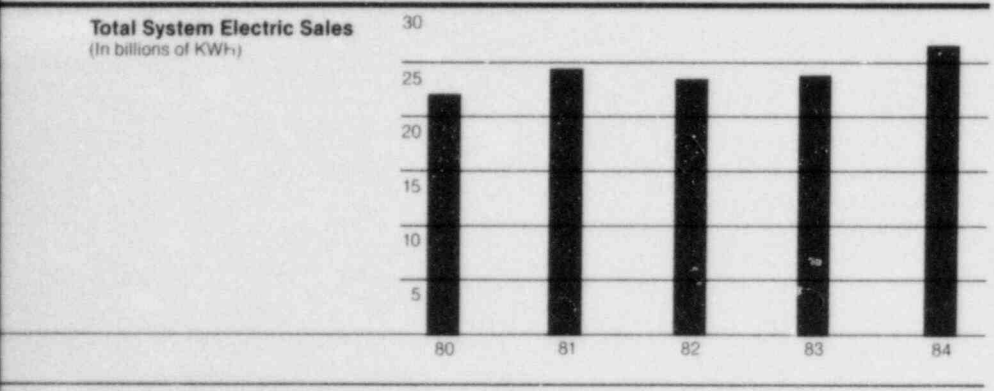
As the auto and steel industries continue to meet the test of changing markets and the challenge of foreign producers, we expect them to continue as a strong long-term market for us.

There are also signs of new economic growth. Locally, companies made major investments for new or larger facilities that totalled $280 million.

One of the most promising opportunities for business expansion is the polymer industry. Demand for rubber, plastics and other polymer compounds has been steadily increasing.

Four of the most familiar names in tires—Firestone, General, Goodrich and Goodyear—have international headquarters in Akron. They also have major research facilities here and are front-runners in the development and production of polymer products. Also, The University of Akron with its Institute of Polymer Science has gained worldwide recognition for polymer studies, teaching staff and research facilities.

Total System Electric Sales
(In billions of KWH)



With manufacturing and consumer spending up, electric sales followed the rise in the local economy.

The new $20 million state office building in downtown Akron is an example of communities rebuilding in our service area.

With such a solid foundation in polymers, plus the many other local companies gaining a larger share of the market, our service area has a head start in this growing industry.

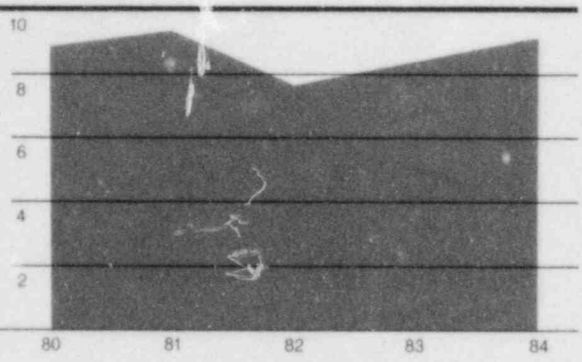
Promoting Economic Expansion

Local communities are more aggressively pursuing new business. They have well-trained people and sound strategies for promoting the many benefits of moving to this area. To boost their efforts, we work with community leaders and hold training programs on how to attract new business.

We also team up with state economic development groups in Ohio and Pennsylvania. For example, we're a member of the Ohio Economic Development Council (OEDC), a private business group working with the state's Department of Development.

For businesses considering expansion or relocation, northeastern Ohio and western Pennsylvania offer many economic advantages. The area is centrally located within

System Industrial Sales
(In billions of KWH)



Some of the nation's major centers for research and development in the growing polymer industry are located here.

500 miles of over 100 million people. Excellent highway and rail transportation systems tie our service area with major population centers. A skilled work force, quality education and job training opportunities offer companies a valuable pool of people. And in what is emerging as the most important advantage of all, the area is rich in fresh water, a major requirement of many manufacturing processes.

Stimulating Industrial Sales

With energy costs a primary consideration for manufacturers, in 1984 we established a special five-year pricing plan that encourages the growth of business. Companies qualify if they meet certain requirements for the size of the new or expanded facility, the number of new people employed and the amount of new demand for electricity. The plan offers a significant savings in energy costs.

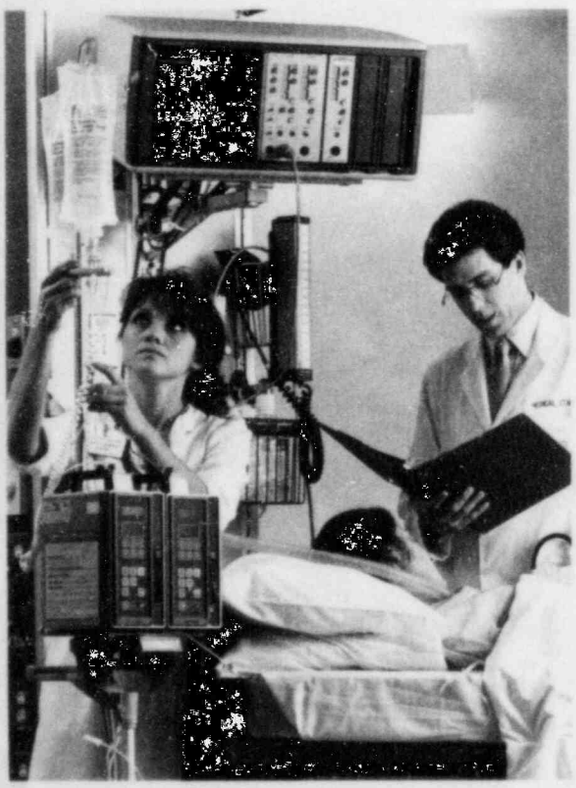
By the end of the year, 10 companies took advantage of the plan, adding automobile parts manufacturing, a meat processing line and other operations. They are providing 475 jobs and should increase our annual revenues by about $4.4 million.

Incentive rates are also available for businesses that shift energy use to off-peak periods. For example, a steel company using a 10-megawatt electric furnace to melt scrap metal during off-peak hours can save approximately 40 percent of its electric cost.

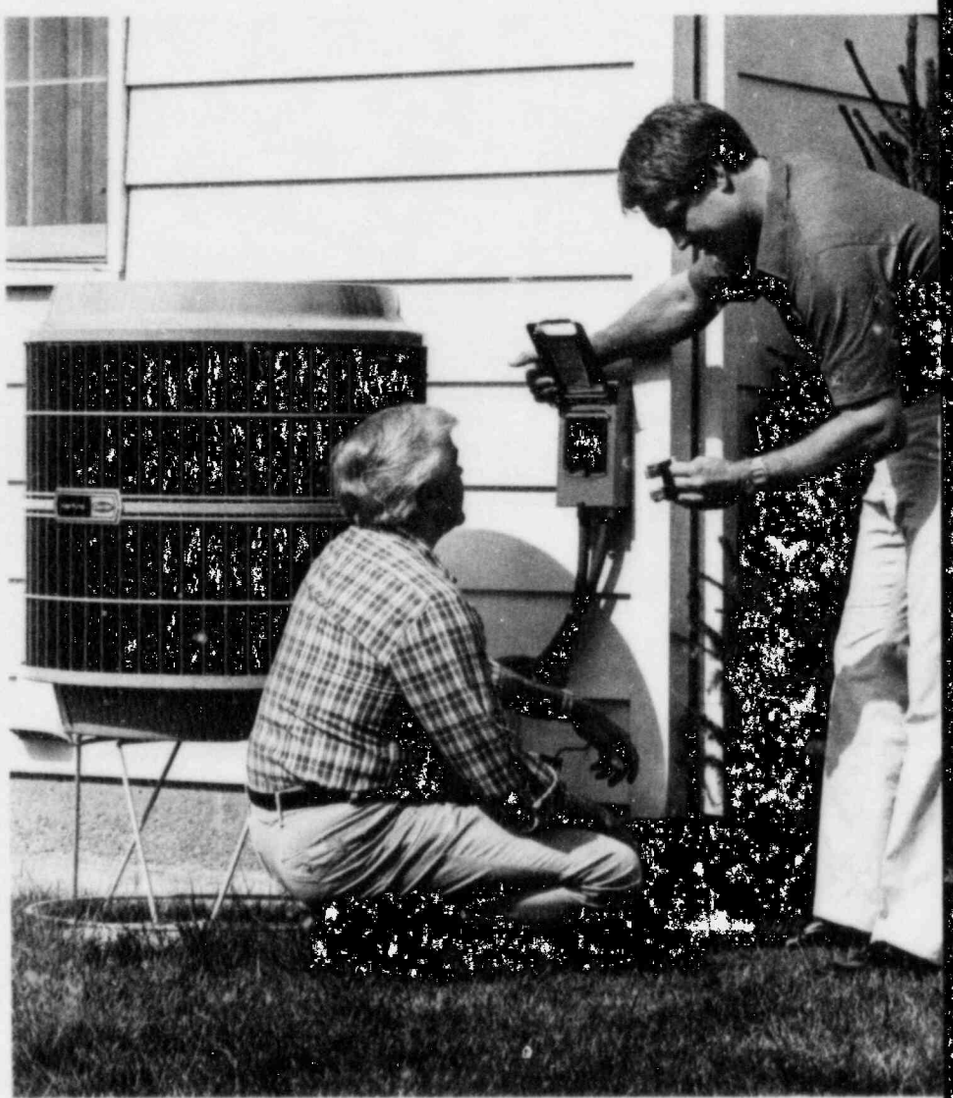
In all, we added nearly 1 billion kilowatt-hours of new business in 1984, representing about $50 million in revenues. Our goal is to add another $40 million of new business in 1985.

Expanding the Residential Market

Although many believe electric companies have no competition, a major share of the home energy market—space and water heating—is open to competition. The rest,



Most products provided by modern technology—from personal computers to lifesaving monitors—rely on electricity as the power of the future.



The comfort and safety of electric heat are among the many benefits that convinced nearly 2,500 residential customers to go with electric heating in 1984.

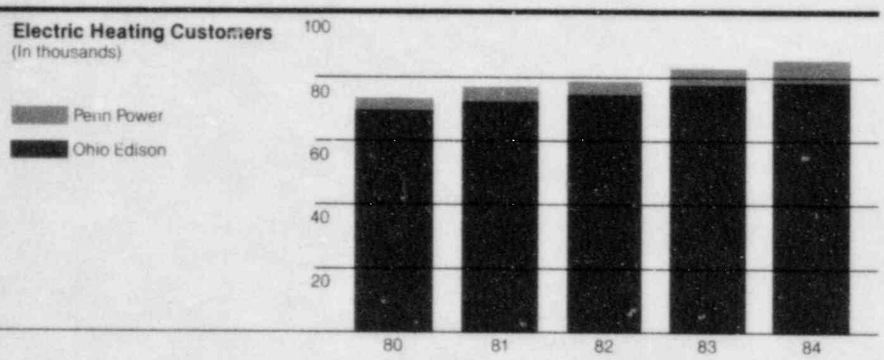
mainly air conditioning and appliances, is almost entirely ours.

Because of the competitive choice between home heating systems, we have intensified our sales efforts to increase our share of this important market. We're vigorously promoting add-on heat pumps and dual-fuel systems that offer clean, efficient and comfortable electric heat.

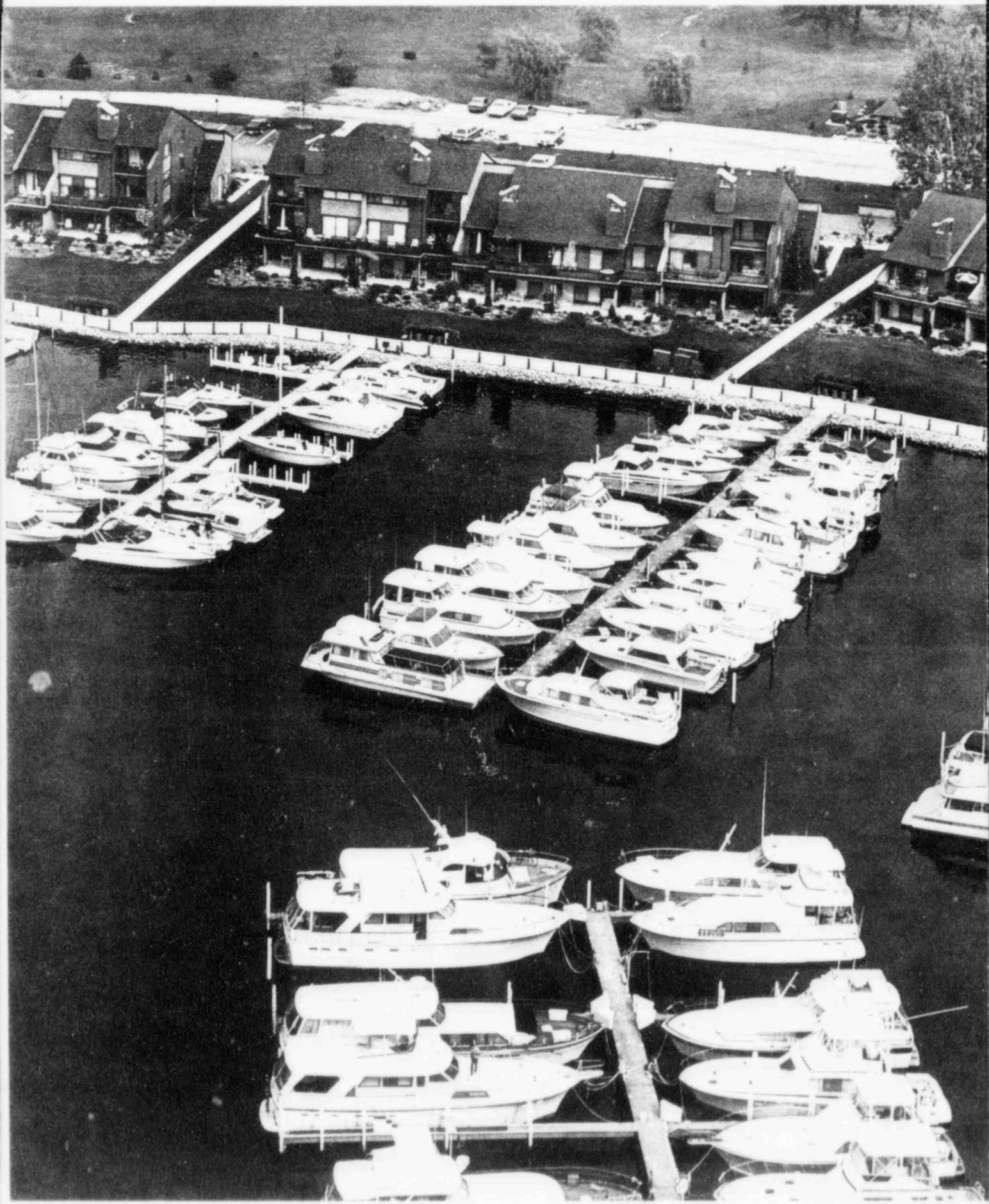
To make electric heating more price competitive, we introduced "Power Commander," a new incentive plan that enables residential customers to save up to 50 percent of the cost of electric home heating or water heating. As part of the "Power Commander" agreement, a Company-installed radio receiver can temporarily interrupt service to the heating system. However, because the interruptions would be brief, customers shouldn't experience any significant inconvenience.

Last year, 2,461 heating customers were added, bringing the total to 84,910. We set

Electric Heating Customers
(In thousands)



The total electric Coliseum is one of the largest sports and entertainment facilities in the country and home for the "Cavaliers" basketball team and the "Force" indoor soccer team.



goal of adding another 2,700 heating customers in 1985. In addition to $5 million in 1984 revenues, these heating sales enable us to make better use of our generating units, especially at night when customer demand is lower.

Sales to Other Utilities

Another market that continues to grow is the sale of our power to other electric companies. Many companies often find their own generating cost higher than we are able to offer. And the transmission network that makes U.S. electric service the most reliable in the world can also be used to sell power to buyers hundreds of miles away.

As a result, we have sold power to a number of companies including Potomac Electric Power Company, General Public Utilities, Atlantic City Electric Company, the Michigan Pool and Ontario Hydro. Total kilowatt-hour sales to electric companies increased 57.4 percent over 1983 and represented $117.4 million of 1984 revenues.

We will continue pursuing this market and have set a goal of $132 million for 1985.

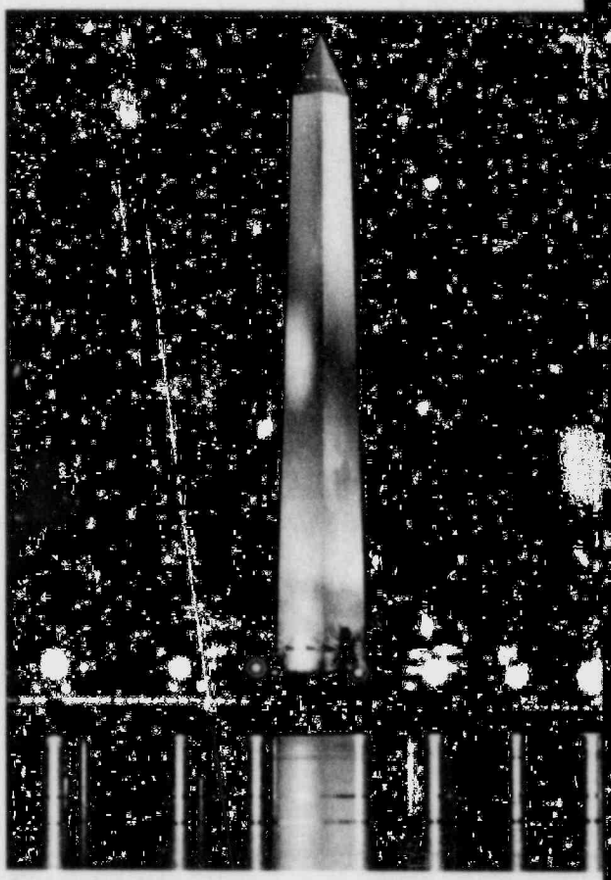
Power for the Future

New electric appliances, heat pumps, electric furnaces in steel mills, robotics and computers illustrate that electricity is the power of the future.

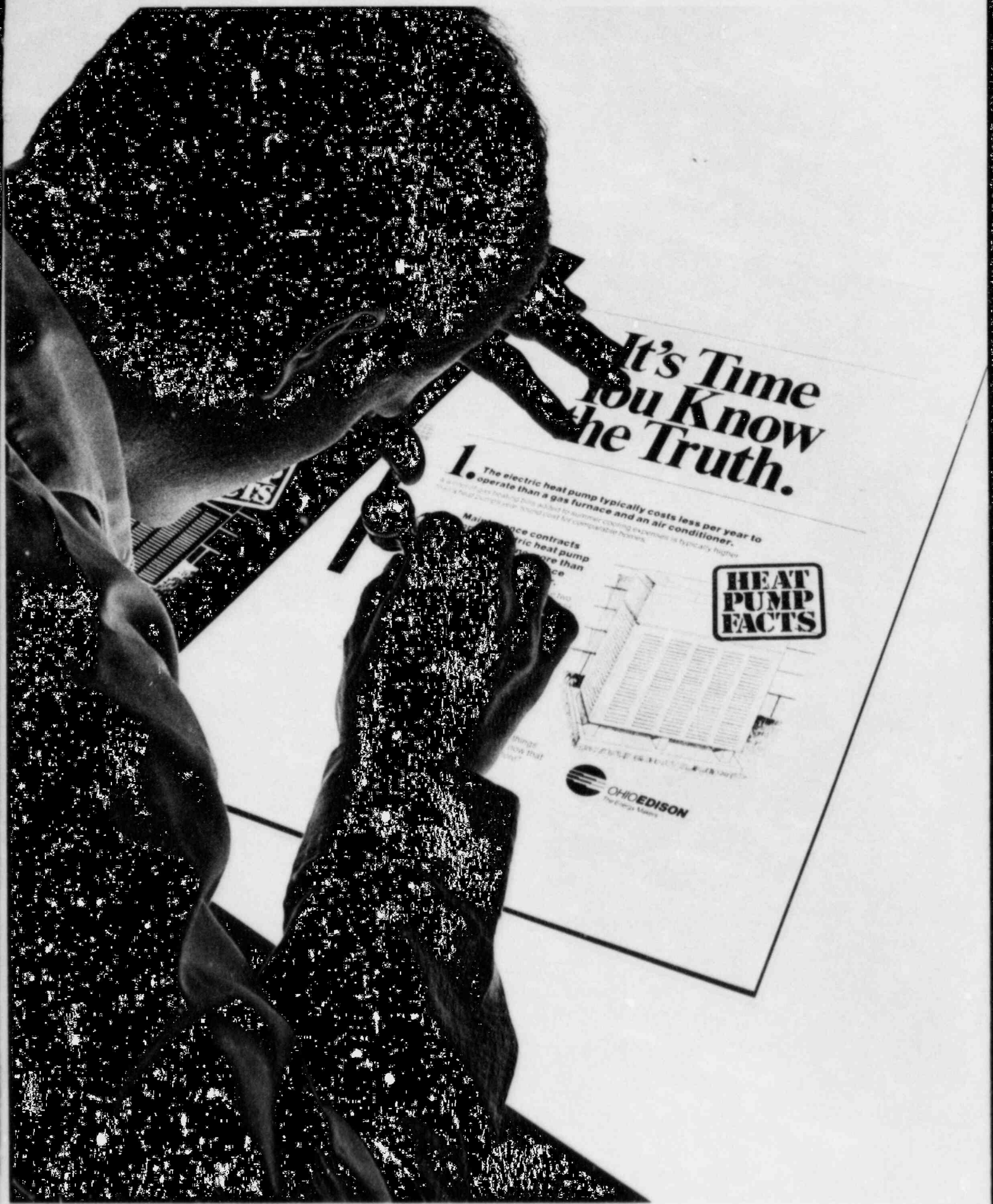
From 1975 to 1983, electric use in the United States has increased 25 percent, while use of other energy forms has dropped. This trend will continue, particularly because of limited gas and oil reserves. We expect that by the year 2005, our customers' peak demand will be 31 percent higher than the estimate for 1985. But economic conditions or other circumstances could push this figure higher.

To have reliable supplies of power for growth, Ohio Edison, Penn Power and three other utilities of the Central Area Power Coordination Group (CAPCO) are financing the

A highly skilled work force and the training opportunities available are attracting new business to the area.



Aggressive efforts to sell power to utilities such as the Potomac Electric Power Company, serving Washington, D.C., resulted in $117.4 million in revenue for 1984.



A hard-hitting advertising campaign heads our latest push to gain more of the home heating market.

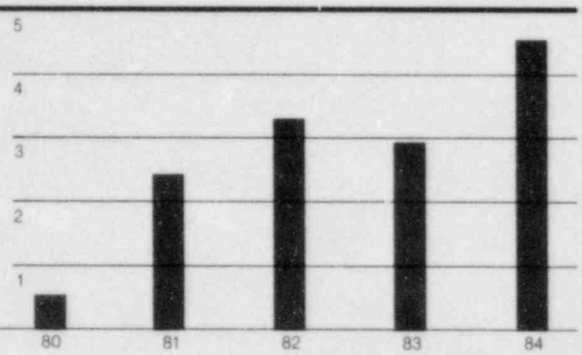
construction of generating units at the Perry Nuclear Power Plant in North Perry, Ohio, and the Beaver Valley Power Station in Shippingport, Pennsylvania.

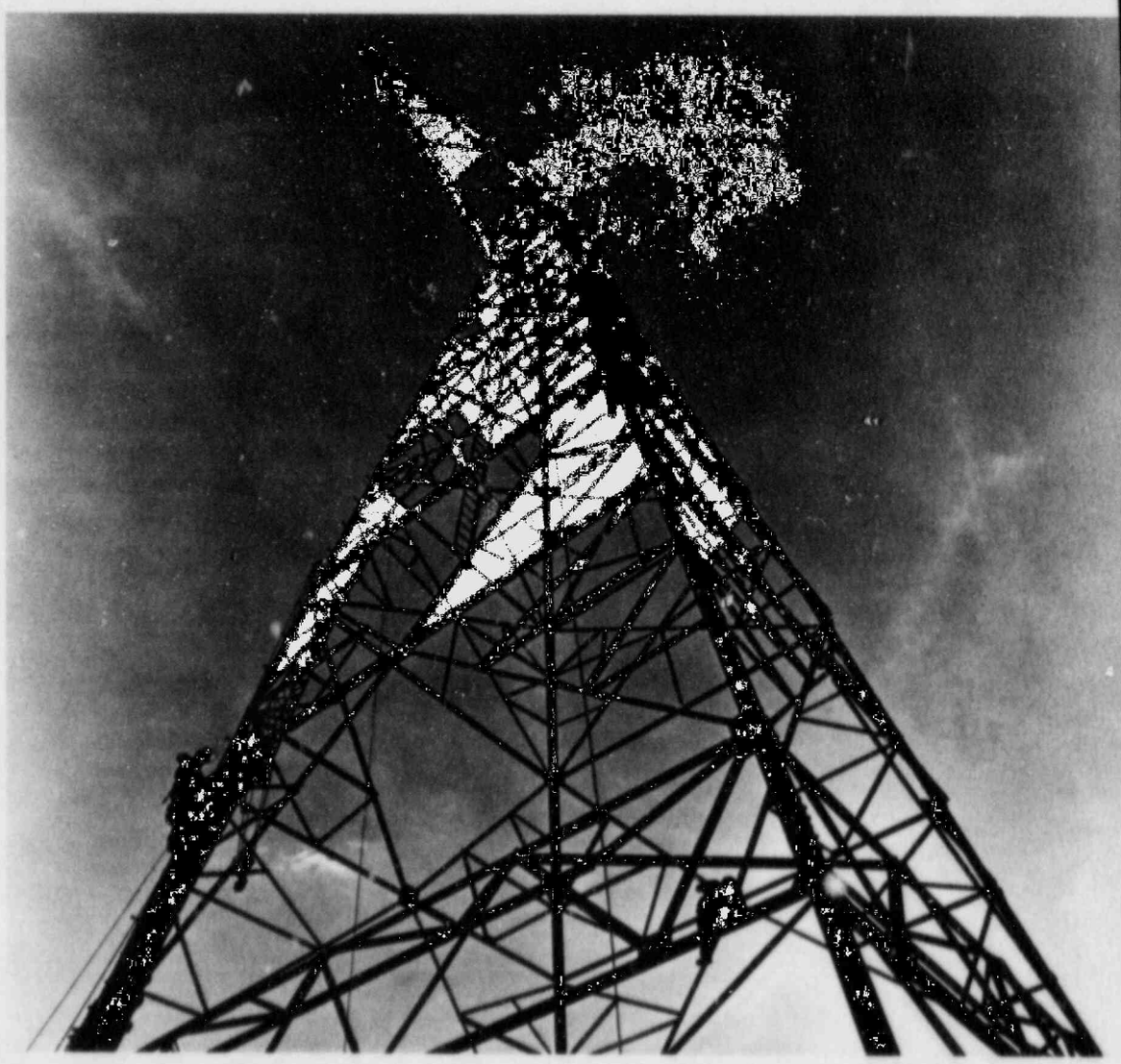
Nearest to completion is the 1,205-megawatt Perry Unit 1, scheduled to begin operating in late 1985. Ohio Edison and Penn Power own 35.24 percent of this unit being built by The Cleveland Electric Illuminating Company.

Perry Unit 1 is in the final stages of federal licensing procedures. After a number of reviews and inspections by the Nuclear Regulatory Commission (NRC), it has consistently received good marks for construction, quality assurance procedures and safety systems.

Beaver Valley Unit 2 is now scheduled to be completed at about the end of 1987. Ohio Edison owns 41.88 percent of this 833-megawatt unit being built by the Duquesne Light Company. Its sister facility, Unit 1, has been producing power since 1976 and in

System Sales to Utilities
(In billions of KWH)





Continuing system improvements, like this new 150-foot transmission tower, helps insure a highly reliable supply of power.

Simulator training for safe, reliable operation is well under way as Unit 1 of the Perry Nuclear Power Plant nears completion.

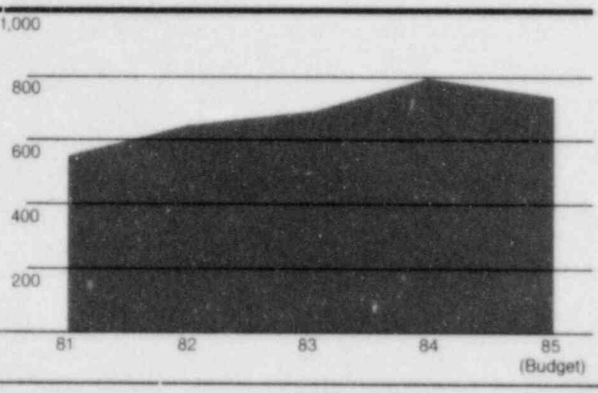
1984 recorded an outstanding 93-percent operating availability before refueling began in October.

Building a nuclear plant requires top quality design and construction and also extensive testing and inspection before the NRC approves a plant for commercial operation. The CAPCO companies are committed to seeing that these requirements are met.

Also under construction by the CAPCO companies is Perry Unit 2, the status of which is currently under review. Until the review is completed, however, there will be no schedule or budget set for completing the unit.

As the System's construction program moves ahead, our efforts to raise money to finance it continues. Two recent accomplishments, early financing of the 1985 construction budget and a special arrangement for back-up funds, if needed, now enable us to be more selective in timing financings at lower interest rates.

System Construction Costs
(Millions of dollars)



Computer-aided design and drafting equipment has already more than doubled productivity for engineering drawings used in the design of Company facilities.

Even more significantly, the need to finance projects is easing. With the completion of our extensive environmental improvement program and new generating units scheduled to begin operating soon, our construction costs should drop steadily from the $800 million in 1984 to $425 million in 1989.

Environmental Laws Must Consider Costs

Complying with environmental laws carries an expensive price tag for us and our customers. At our seven-unit W. H. Sammis Plant alone, our cost was $409 million. In all, we've spent nearly $1 billion to meet environmental regulations.

But already, some environmental groups are demanding more. They're pushing for legislation to curb so-called "acid rain." Despite mounting evidence that raises serious questions about the cause and effect of acidity in rainfall, their demand is for still more costly controls.

There is, in fact, strong evidence that the acidity of rain is not increasing. And, perhaps more importantly, soil conditions appear to cause more acidification than any other source. With such uncertainty, we oppose the pressure being put on Congress to require that our industry spend billions of dollars to "correct" this ill-defined problem.

Representing U.S. utilities at an international meeting in Belgium, Ohio Edison President Justin T. Rogers, Jr., summarized our position: "Depending upon the particular bill, the cost to the electric utility industry is estimated at up to $222 billion. With hundreds of billions of dollars at stake, and serious doubts about results, we feel that Congress must somehow be convinced to base answers to 'acid rain' questions on science, not emotion or politics."

We recognize that concerns about "acid rain" must be addressed. But there is too little hard evidence to accurately determine

With completion of our $409 million environmental control project at the W.H. Sammis Plant, all of our power plants meet current clean-air standards.

the cause and effect. We are, however, supporting and participating in research to accurately identify the problem as well as the most cost-effective remedy.

Financial Help for Customers in Need

Despite everything we're doing to keep our electric service reasonably priced and to stimulate new business, some people, often through no fault of their own, have trouble paying their energy bills.

To give these people a helping hand, we spearheaded the "Project Reach" customer assistance program in the fall of 1984. It provides financial help to handicapped, low-income elderly and unemployed customers. With an initial gift of $70,000, Ohio Edison and Penn Power sought the support of employees and customers by offering to contribute 50 cents, up to $120,000 annually, for every dollar they donate.

By the end of 1984, nearly $170,000 in contributions were collected or pledged and some 1,300 families received credit toward their energy bills. The Salvation Army and other charitable organizations administer "Project Reach."

We also promote state and public financial assistance programs. Through such means as the Home Energy Assistance Program and Ohio Energy Credits Program, public funds are available to help elderly, low-income and other needy customers.

Employees volunteer countless hours of their time in community service programs that help thousands of people every year.

The Salvation Army and other service groups administer "Project Reach," a program we sponsor to help those who qualify for a helping hand in paying energy bills.

Financial Review

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Results of Operations

Results of operations for 1984 showed healthy improvement by many financial indicators. Increases in earnings on common stock and earnings per share of common stock of 27.6% and 12.6%, respectively, were achieved over 1983 levels. The increase in earnings per share of common stock resulted despite a significant increase in the weighted average number of shares of common stock outstanding in 1984. Return on average common equity was 15.9% in 1984 compared to 14.2% and 13.5% in 1983 and 1982, respectively. This significant financial performance was achieved primarily due to the improved economic conditions within the Companies' service area and continued success in the bulk power sales market. Indicative of improved economic conditions was a 9.2% increase in kilowatt-hour sales to the Companies' industrial customers in 1984 compared to 1983. Kilowatt-hour sales to the Companies' residential and commercial customers were up slightly, with increases of 1.5% and 0.1%, respectively. In addition to the increased kilowatt-hour sales to customers, the Companies achieved a 57.4% increase in sales to other utilities.

Also contributing to the 1984 earnings increase was a $6,751,000 noncash adjustment to Penn Power's depreciation reserve, which increased earnings per share by $.06 during the third quarter. This adjustment, which was ordered by the Pennsylvania Public Utility Commission (PPUC), reflects previously recorded depreciation not recovered in retail rates but which will be recovered in future rates, and is included in Miscellaneous Income on the Consolidated Statements of Income. Excluding the effect of this adjustment in 1984, the increases in 1984 earnings on common stock and earnings per share would have been 24.6% and 9.9%, respectively, and the earned return on average common equity would have been 15.5%.

Increased operating revenues, resulting from rate increases granted in 1984 in addition to a 9.9% increase in total kilowatt-hour sales, were partially offset by decreases to the Companies' fuel recovery rates in 1984 compared to 1983. Due to the nature of the Companies' fuel recovery clauses, a reduction in fuel recovery rates, while decreasing total revenues, does not create a corresponding reduction in earnings; this results from the objective of matching fuel revenues and expenses accomplished by the use of deferred fuel accounting. The direct correlation between the fuel recovery rates charged to the Companies' customers and fuel prices is illustrated by the very slight increase in fuel costs in 1984, despite an 8.6% increase in kilowatt-hour output from the Companies' generating units compared to 1983. The reduced fuel rates charged to customers in 1984 were made possible due to lower prices paid for coal. A similar situation occurred in 1983 compared to 1982 due to the lower prices paid for coal in 1983.

Scheduled and forced outages at the Company's W. H. Sammis Plant were primarily responsible for the 6.4% increase in maintenance costs experienced in 1984 compared to 1983. This is contrasted by the maintenance cost reductions experienced at that plant in the prior year. The outages at the W. H. Sammis Plant and the Companies' increased kilowatt-hour sales resulted in an increase of 13.3% in purchased and interchanged power during 1984. The decrease in purchased and interchanged power in 1983 was the result of the improvement in generating unit availability experienced in that year compared to 1982.

The Companies' on-going construction programs, requiring the continuation of debt and equity financing, resulted in a higher level of interest expense and preferred dividend requirements in 1984. During 1984, the Companies increased their net long-term debt outstanding by $438,831,000, consisting of $515,700,000 of new long-term debt with an effective annual interest rate of 13.3% offset by long-term debt maturities of $76,869,000 which carried an effective annual interest rate of 7.0%. The Companies also raised $61,250,000 through the issuance of additional preferred stock. As the Companies' construction projects proceed and until the projects are placed in service and/or included in rate base, the total allowance for funds used during construction (AFUDC) will continue to increase in order to capitalize the appropriate financing costs which are not currently recovered through rates.

Information with respect to the estimated effects of inflation upon the Companies is given in Note 10.

Capital Resources and Liquidity

The Companies' 1984 capital requirements for their construction programs, capital leases and nuclear fuel, were approximately $868,000,000, of which approximately $582,000,000 was financed externally. Over the last five years, construction costs were approximately $3,500,000,000, of which approximately $2,700,000,000 was provided from external sources. The 1985-1989 construction program is currently estimated to be $2,600,000,000; the issuance of additional common stock and other securities will be necessary to fund a major portion of this new construction. The Companies have additional cash requirements of approximately $79,000,000 in 1985 and $1,100,000,000 for the 1985-1989 period to meet maturities of and sinking fund requirements for, long-term debt, long-term obligations, and preferred and preference stock.

The Companies' current financing plans for 1985 include the issuance of up to: 6,700,000 shares of common stock through the Dividend Reinvestment and Stock Purchase Plan; 6,000,000 additional shares of common stock through public or private sales; $100,000,000 of preferred stock; $60,000,000 of pollution control notes; and $240,000,000 of other long-term debt (of which $60,000,000 was issued or committed to be issued by the end of February 1985). Additional investments in nuclear fuel of approximately $40,000,000 in 1985 will be made through the incurrence of additional long-term obligations.

At December 31, 1984, the Companies had approximately $121,000,000 of cash and temporary cash investments, and approximately $241,000,000 of funds held in escrow from previous pollution control financings. The Companies also have $50,000,000 of short-term bank lines of credit available to them for interim financing purposes. In January 1985, the Company arranged a bank revolving credit agreement providing for borrowings of up to $500,000,000. The agreement will extend to the end of 1987 at which time any outstanding borrowings may be converted to an amortizable term loan for an additional three-year period. This agreement will benefit both customers and stockholders because it will give the Company more flexibility in the timing and terms of future securities issues.

The Company was granted a retail base rate increase, effective August 1, 1984, which was designed to produce additional annual revenues of approximately $35,400,000; the Company requested $127,200,000 in its rate filing made in October 1983. The Public Utilities Commission of Ohio (PUCO) allowed $115,000,000 of construction work in progress (CWIP) to be included in the Company's rate base, thereby permitting the Company to recover financing costs related to certain construction projects on a current basis; however, no allowance was provided for current recovery of financing costs applicable to Perry Unit 1, a nuclear generating unit scheduled for operation in late 1985. The PUCO cited the delays which had taken place with respect to the completion date for the Unit and alleged that the Unit would not be in service during the period that the new rates would be in effect. The Company had been recovering financing costs applicable to $126,300,000 of its investment in that Unit under the prior rates approved by the PUCO. Penn Power requested a rate increase of $19,900,000 in its rate filing in July 1983, of which the PPUC granted a $15,400,000 retail base rate increase effective April 11, 1984.

Those rate increases, plus a January 1984 PUCO order concerning the Company's electric fuel component rate which has allowed the Company the opportunity for recovery of current and deferred Quarto coal costs as discussed in Note 7, have had a favorable effect on the Company's internal cash generation. The Company's deferred Quarto coal costs, amounting to $57,375,000 at December 31, 1983, have been reduced to $27,640,000 at December 31, 1984.

In January 1985, the Governor of Ohio signed into law a 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 CWIP for 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. Pollution control CWIP 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, 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 in future periods.

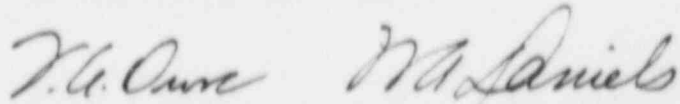
The Companies currently have rate cases pending before the PUCO and the PPUC which, if granted in full, are designed to increase annual revenues by approximately $135,000,000 and $20,000,000, respectively. Penn Power filed its rate increase request in October 1984, and the Company's application was filed in January 1985. Rate orders are anticipated during the third and fourth quarters of 1985, respectively.

Management Report

The consolidated financial statements were prepared by the management of Ohio Edison Company, who take responsibility for their integrity and objectivity. The statements were prepared in conformity with generally accepted accounting principles and are consistent with other financial information appearing elsewhere in this report. Arthur Andersen & Co., independent public accountants, have expressed an opinion on the Company's financial statements, as shown on page 37.

The Company's internal auditors, who are responsible to the Audit Committee of the Board of Directors, review the results and performance of operating units within the Company for adequacy, effectiveness and reliability of accounting and reporting systems, as well as managerial and operating controls.

The Audit Committee consists of four non-employee directors whose duties include: consideration of the adequacy of the internal controls of the Company and the objectivity of financial reporting; inquiry into the number, extent, adequacy and validity of regular and special audits conducted by independent public accountants and the internal auditors; the recommendation of independent accountants to conduct the normal annual audit and special purpose audits as may be required; and reporting to the Board of Directors the Committee's findings and any recommendation for changes in scope, methods, or procedures of the auditing functions. The Audit Committee held three meetings during 1984.



V. A. Owoc
Executive Vice President
Chief Financial Officer

W. A. Daniels
Comptroller

Selected Financial Data

	1984	1983	1982	1981	1980
	(In thousands, except per share amounts)				
Operating Revenues	**$1,637,104**	$1,515,852	$1,429,626	$1,279,649	$1,080,869
Operating Income	**342,713**	302,751	269,640	252,381	169,383
Income Before Extraordinary Items	**339,333**	272,400	195,571	183,020	135,150
Net Income	**339,333**	272,400	215,729	197,062	135,150
Earnings on Common Stock	**290,694**	227,843	181,496	163,892	101,403
Earnings per Share of Common Stock (based on weighted average number of shares outstanding during the year)					
Before Extraordinary Items	**2.50**	2.22	1.89	2.10	1.52
Earnings on Common Stock	**2.50**	2.22	2.13	2.30	1.52
Dividends Declared per Share of Common Stock	**1.84**	1.80	1.76	1.76	1.76
Total Assets at December 31	**6,690,098**	5,960,374	5,247,138	4,460,274	3,979,965
Preferred and Preference Stock Subject to Mandatory Redemption	**158,483**	158,112	152,560	151,141	156,450
Long-Term Debt	**2,449,502**	2,132,137	2,005,436	1,759,771	1,594,384
Long-Term Obligations	**822,234**	759,843	656,655	447,484	265,000

Common Stock Data

The Company's Common Stock is listed on the New York and Midwest Stock Exchanges and is traded on other registered exchanges.

Price Range of Common Stock	**1984**		1983	
First Quarter High-Low	**13-3/4**	**11-3/4**	15-7/8	13-7/8
Second Quarter High-Low	**12**	**9-3/8**	16-1/8	14-3/8
Third Quarter High-Low	**12-1/8**	**9-7/8**	15-1/4	14
Fourth Quarter High-Low	**14-1/8**	**11-5/8**	16	11-7/8
Yearly High-Low	**14-1/8**	**9-3/8**	16-1/8	11-7/8

Prices are as quoted on the New York Stock Exchange Composite Transactions.

Classification of Holders of Common Stock as of December 31, 1984

	Holders of Record		Shares Held	
	Number	%	Number	%
Individuals	185,858	88.70	56,771,012	46.44
Fiduciaries	19,263	9.19	4,492,592	3.68
Brokers	70	0.03	1,334,450	1.09
Nominees	419	0.20	56,867,993	46.52
Banks & Financial Institutions	21	0.01	44,223	0.04
Insurance Companies & Other Corporations	1,982	0.95	1,549,572	1.27
Charitable, Religious & Educational Institutions	470	0.23	247,786	0.20
Pensions, Profit Sharing & Other Investment Trusts	1,446	0.69	929,008	0.76
Total	209,529	100.00	122,236,636	100.00

As of January 31, 1985, there were 209,225 holders of 122,489,026 shares of the Company's Common Stock.

Quarterly dividends of 46¢ and 45¢ per share were paid on the Company's Common Stock during 1984 and 1983, respectively. Information regarding retained earnings available for payment of cash dividends is given in Note 4b.

Consolidated Statements of Income

For the Years Ended December 31	1984	1983	1982
	(In thousands, except per share amounts)		
Operating Revenues	**$1,637,104**	$1,515,852	$1,429,626
Operating Expenses and Taxes:			
Operation—			
Fuel	**422,805**	420,336	432,749
Purchased and interchanged power, net	**56,659**	50,026	52,607
Other operation expenses	**267,288**	234,526	221,129
Total operation	**746,752**	704,888	706,485
Maintenance	**129,313**	121,544	139,615
Provision for depreciation and amortization	**131,340**	124,572	105,072
General taxes	**136,880**	126,818	114,565
Income taxes	**150,106**	135,279	94,245
Total operating expenses and taxes	**1,294,391**	1,213,101	1,159,986
Operating Income	**342,713**	302,751	269,640
Other Income and Deductions:			
Allowance for equity funds used during construction	**152,567**	121,814	84,210
Miscellaneous, net	**28,928**	20,812	16,871
Income taxes—credit	**82,383**	64,923	59,166
Total other income and deductions	**263,878**	207,549	160,247
Total Income	**606,591**	510,300	429,887
Net Interest and Other Charges:			
Interest on long-term debt	**267,391**	233,626	211,765
Interest on long-term obligations	**89,780**	73,177	80,092
Allowance for borrowed funds used during construction, net of deferred income taxes	**(104,351)**	(81,901)	(76,088)
Other interest expense	**5,473**	5,702	12,449
Subsidiary's preferred stock dividend requirements	**8,965**	7,296	6,098
Net interest and other charges	**267,258**	237,900	234,316
Income Before Extraordinary Item	**339,333**	272,400	195,571
Extraordinary Item—Gain on exchange of common stock for first mortgage bonds (Note 8)	**—**	—	20,158
Net Income	**339,333**	272,400	215,729
Preferred and Preference Stock Dividend Requirements	**48,639**	44,557	34,233
Earnings on Common Stock	**$ 290,694**	$ 227,843	$ 181,496
Weighted Average Number of Shares of Common Stock Outstanding	**116,171**	102,414	85,241
Earnings Per Share of Common Stock (based on weighted average number of shares outstanding during the year):			
Before extraordinary item (after preferred and preference stock dividend requirements)	**$2.50**	$2.22	$1.89
Extraordinary item	**—**	—	.24
Earnings on common stock	**$2.50**	$2.22	$2.13
Dividends Declared Per Share of Common Stock	**$1.84**	$1.80	$1.76

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

Consolidated Balance Sheets

At December 31	1984	1983
Assets	(In thousands)	
Utility Plant:		
In service, at original cost	**$4,043,391**	$3,700,313
Less—Accumulated provision for depreciation	**1,161,565**	1,062,173
	2,881,826	2,638,140
Construction work in progress—		
Electric plant	**2,785,977**	2,351,089
Nuclear fuel	**277,746**	216,905
	3,063,723	2,567,994
	5,945,549	5,206,134
Other Property and Investments	**69,560**	63,614
Current Assets:		
Cash	**5,147**	2,781
Temporary cash investments, at cost, which approximates market value	**115,930**	112,993
Receivables—		
Customers (less accumulated provisions of $1,310,000 and $1,541,000, respectively, for uncollectible accounts)	**135,322**	132,968
Other	**20,169**	19,416
Materials and supplies, at average cost—		
Fuel	**87,499**	69,047
Other	**44,822**	45,657
Prepayments	**46,990**	41,184
	455,879	424,046
Deferred Charges:		
Deferred Quarto coal and other energy costs (Note 7)	**38,542**	67,254
Property taxes	**57,601**	52,575
Unamortized costs of terminated construction projects (Note 2)	**84,378**	94,747
Other	**38,589**	52,004
	219,110	266,580
	$6,690,098	$5,960,374
Capitalization and Liabilities		
Capitalization (See Consolidated Statements of Capitalization):		
Common stockholders' equity	**$1,947,357**	$1,711,974
Preferred stock—		
Not subject to mandatory redemption	**363,585**	312,335
Subject to mandatory redemption	**56,000**	60,000
Preference stock—		
Not subject to mandatory redemption	**50,000**	50,000
Subject to mandatory redemption	**45,922**	50,641
Preferred stock of consolidated subsidiary—		
Not subject to mandatory redemption	**41,905**	41,905
Subject to mandatory redemption	**56,561**	47,471
Long-term debt	**2,449,502**	2,132,137
	5,010,832	4,406,463
Long-Term Obligations:		
Construction energy trust (Note 5)	**500,000**	500,000
Nuclear fuel (Note 5)	**290,323**	219,364
Capital leases (Note 3)	**31,911**	40,479
	822,234	759,843
Current Liabilities:		
Currently payable preferred and preference stock, long-term debt and long-term obligations	**79,124**	94,532
Notes payable to banks (Note 6)	**—**	—
Accounts payable	**171,796**	154,727
Accrued taxes	**52,915**	52,564
Accrued interest	**83,107**	67,891
Other	**61,975**	44,072
	448,917	413,786
Deferred Credits:		
Accumulated deferred income taxes	**178,440**	158,437
Accumulated deferred investment tax credits	**145,409**	107,390
Property taxes	**57,601**	52,575
Energy costs recovered in advance	**9,094**	33,335
Other	**17,571**	28,545
	408,115	380,282
Commitments, Guarantees and Contingencies (Notes 3 and 7)		
	$6,690,098	$5,960,374

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

Consolidated Statements of Capitalization

At December 31	Number of Shares Outstanding 1984	Number of Shares Outstanding 1983	Optional Redemption Price Per Share	Optional Redemption Price Aggregate (In Thousands)	1984	1983
Common Stockholders' Equity:					(In thousands)	
Common stock, $9 par value, authorized 155,000,000 shares— 122,236,636 and 108,460,054 shares outstanding, respectively (Note 4a)					**$1,100,130**	$ 976,140
Other paid-in capital					**529,596**	494,520
Retained earnings (Note 4b)					**317,631**	241,314
Total common stockholders' equity					**1,947,357**	1,711,974
Preferred Stock (Note 4c):						
Cumulative, $100 par value—Authorized 6,000,000 shares						
Not Subject to Mandatory Redemption:						
3.90%–7.24%	973,350	973,350	$103.38-108.00	$102,034	**97,335**	97,335
7.36%–8.20%	800,000	800,000	$104.68-105.35	84,046	**80,000**	80,000
8.64%–9.12%	850,000	850,000	$106.48-106.84	90,670	**85,000**	85,000
Total not subject to mandatory redemption	2,623,350	2,623,350		$276,750	**262,335**	262,335
Subject to Mandatory Redemption (Note 4d):						
10.48%–10.76%	576,810	615,000	$107.86-111.87	$ 63,338	**57,681**	61,500
Redemption within one year					**(1,681)**	(1,500)
Total subject to mandatory redemption					**56,000**	60,000
Cumulative, $25 par value—Authorized 8,000,000 shares						
Not Subject to Mandatory Redemption:						
$3.50 Series	2,000,000	2,000,000	$28.75	$ 57,500	**50,000**	50,000
Series A	2,050,000	—	$25.00	51,250	**51,250**	—
	4,050,000	2,000,000		$108,750	**101,250**	50,000
Preference Stock (Note 4c):						
Cumulative, no par value—Authorized 8,000,000 shares						
Not Subject to Mandatory Redemption:						
$3.92 Series	2,000,000	2,000,000	$31.42	$ 62,840	**50,000**	50,000
Subject to Mandatory Redemption (Note 4e):						
$95.00–$102.50 Series	26,100	27,000	$1,070.00-1,078.50	$ 27,999	**26,100**	27,000
$1.80 Series	1,589,096	1,622,546	$15.58	24,750	**24,035**	24,541
Redemption within one year					**(4,213)**	(900)
Total subject to mandatory redemption	1,615,196	1,649,546		$ 52,749	**45,922**	50,641
Preferred Stock of Consolidated Subsidiary (Note 4c):						
Cumulative, $100 par value—Authorized 950,000 shares						
Not Subject to Mandatory Redemption:						
4.24%–9.16%	419,049	419,049	$102.98-106.87	$ 43,954	**41,905**	41,905
Subject to Mandatory Redemption (Note 4d):						
8.24%–15.00%	570,616	479,708	$103.29-114.62	$ 62,302	**57,061**	47,971
Redemption within one year					**(500)**	(500)
Total subject to mandatory redemption					**56,561**	47,471
Long-Term Debt (Note 4f):						
First mortgage bonds:						
Ohio Edison Company—						
9.15% weighted average interest rate, due 1985–1989					**160,679**	186,455
15.51% weighted average interest rate, due 1990–1994					**398,252**	218,252
10.07% weighted average interest rate, due 1995–1999					**129,345**	129,345
8.50% weighted average interest rate, due 2000–2004					**197,876**	197,876
9.09% weighted average interest rate, due 2005–2009					**274,310**	274,310
13.44% weighted average interest rate, due 2010–2014					**200,000**	150,000
					1,360,462	1,156,238
Pennsylvania Power Company—10.61% weighted average interest rate, due 1985–2008					**279,000**	259,000
Total first mortgage bonds					**1,639,462**	1,415,238
Secured notes and obligations:						
Ohio Edison Company—9.73% weighted average interest rate, due 1985–2014					**484,172**	282,215
Amount held by Trustee					**(106,138)**	(985)
					378,034	281,230
Ohio Edison Finance N.V.—17.38% weighted average interest rate, due 1987–1988					**150,000**	150,000
Pennsylvania Power Company—9.48% weighted average interest rate, due 1985–2014					**80,311**	67,661
Amount held by Trustee					**(13,305)**	(2,572)
					67,006	65,089
Total secured notes and obligations					**595,040**	496,319
Unsecured notes of Ohio Edison Company, 11.36% weighted average interest rate, due 1986–2014					**402,000**	402,000
Amount held by Trustee					**(114,823)**	(93,555)
Total unsecured notes of Ohio Edison Company					**287,177**	308,445
Net unamortized discount on debt					**(18,987)**	(11,128)
Long-term debt due within one year					**(53,190)**	(76,737)
Total long-term debt					**2,449,502**	2,132,137
Total Capitalization					**$5,010,832**	$4,406,463

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

Consolidated Statements of Retained Earnings

For the Years Ended December 31	1984	1983	1982
		(In thousands)	
Balance at beginning of period	**$241,314**	$200,439	$171,191
Net income	**339,333**	272,400	215,729
	580,647	472,839	386,920
Deduct:			
Cash dividends on preferred and preference stock	**49,100**	45,468	34,488
Cash dividends on common stock	**213,916**	185,309	151,289
Capital stock expense	**—**	748	704
	263,016	231,525	186,481
Balance at end of period (Note 4b)	**$317,631**	$241,314	$200,439

Consolidated Statements of Capital Stock and Other Paid-In Capital

	Common Stock			Preferred and Preference Stock			
				Not Subject to Mandatory Redemption		Subject to Mandatory Redemption	
	Number of Shares	Par Value	Other Paid-In Capital	Number of Shares	Par or Stated Value	Number of Shares	Par or Stated Value
			(Dollars in thousands)				
Balance, January 1, 1982	78,675,703	$708,081	$349,772	3,042,399	$304,240	2,960,844	$152,917
Sale of Common Stock	10,000,000	90,000	42,000	—	—	—	—
Dividend Reinvestment Plan	4,644,622	41,802	17,647	—	—	—	—
Exchange of Common Stock for First Mortgage Bonds	2,650,600	23,855	9,463	—	—	—	—
Conversion of $1.80 Preference Stock	110,919	999	610	—	—	(110,919)	(1,678)
Sale of $3.92 Series of Preference Stock	—	—	2,940	2,000,000	50,000	—	—
Sale of 15% Series of Preferred Stock	—	—	—	—	—	80,000	8,000
Preferred Stock Sinking Fund Redemptions—							
8.24% Series	—	—	—	—	—	(5,000)	(500)
10.48% Series	—	—	284	—	—	(13,130)	(1,313)
10.76% Series	—	—	435	—	—	(20,000)	(2,000)
11.00% Series	—	—	44	—	—	(4,033)	(403)
Balance, December 31, 1982	96,081,844	864,737	423,195	5,042,399	354,240	2,887,762	155,023
Sale of Common Stock	5,000,000	45,000	33,350	—	—	—	—
Dividend Reinvestment Plan	7,138,575	64,247	33,056	—	—	—	—
Conversion of $1.80 Preference Stock	239,635	2,156	1,332	—	—	(239,635)	(3,624)
Sale of $3.50 Series of Class A Preferred Stock	—	—	3,140	2,000,000	50,000	—	—
Sale of 11.5% Preferred Stock	—	—	—	—	—	150,000	15,000
Preferred Stock Sinking Fund Redemptions—							
8.24% Series	—	—	—	—	—	(5,000)	(500)
10.48% Series	—	—	270	—	—	(24,630)	(2,463)
10.76% Series	—	—	160	—	—	(20,000)	(2,000)
11.00% Series	—	—	17	—	—	(4,243)	(424)
Balance, December 31, 1983	108,460,054	976,140	494,520	7,042,399	404,240	2,744,254	161,012
Sale of Common Stock	3,673,400	33,061	13,599	—	—	—	—
Dividend Reinvestment Plan	10,067,071	90,604	23,333	—	—	—	—
Employee Stock Ownership Plan	2,661	24	12	—	—	—	—
Conversion of $1.80 Preference Stock	33,450	301	187	—	—	(33,450)	(506)
Capital Stock Expense	—	—	(2,548)	—	—	—	—
Sale of Series A Class A Preferred Stock	—	—	—	2,050,000	51,250	—	—
Sale of 13% Preferred Stock	—	—	—	—	—	100,000	10,000
Preferred and Preference Stock Sinking Fund Redemptions—							
8.24% Series	—	—	—	—	—	(5,000)	(500)
10.48% Series	—	—	252	—	—	(18,190)	(1,819)
10.76% Series	—	—	218	—	—	(20,000)	(2,000)
11.00% Series	—	—	23	—	—	(4,092)	(409)
$102.50 Series	—	—	—	—	—	(900)	(900)
Balance, December 31, 1984	122,236,636	$1,100,130	$529,596	9,092,399	$455,490	2,762,622	$164,878

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

Consolidated Statements of Sources of Funds for Property Additions

For the Years Ended December 31	1984	1983	1982
		(In thousands)	
Internally generated funds—			
Income before extraordinary item	**$339,333**	$272,400	$195,571
Principal noncash items—			
Depreciation and amortization	**142,260**	139,978	107,025
Deferred income taxes, net	**113,551**	80,814	91,832
Investment tax credits, net	**38,026**	53,670	7,312
Allowance for equity funds used during construction	**(152,567)**	(121,814)	(84,210)
Deferred fuel and energy costs, net	**4,471**	23,009	4,609
	485,074	448,057	322,139
Less—Dividends on common stock	**213,916**	185,309	151,289
Dividends on preferred and preference stock	**49,100**	45,468	34,488
	222,058	217,280	136,362
Financing activities—			
Common stock	**160,633**	175,653	224,767
Preferred and preference stock	**61,250**	68,140	60,940
Long-term debt	**375,154**	252,800	295,833
Long-term obligations	**82,339**	88,224	209,171
Repayment of preferred and preference stock, long-term debt and long-term obligations	**(97,790)**	(88,191)	(43,295)
Notes payable to banks	**—**	—	(74,400)
Sale of tax benefits	**—**	—	10,480
	581,576	496,626	683,496
Net change in current assets and current liabilities excluding notes payable to banks and currently payable preferred and preference stock, long-term debt and long-term obligations—			
Cash and temporary investments	**(5,303)**	(51,462)	(48,266)
Receivables	**(3,107)**	(11,475)	(9,063)
Materials and supplies	**(17,617)**	22,446	(12,045)
Accounts payable	**17,069**	20,951	(8,942)
Accrued taxes	**351**	1,449	4,041
Accrued interest	**15,216**	10,155	17,754
Miscellaneous, net	**12,097**	12,463	(16,082)
	18,706	4,527	(72,603)
Other, net—			
Allowance for equity funds used during construction	**152,567**	121,814	84,210
Sale of utility property	**—**	—	13,568
Deferred income taxes on allowance for borrowed funds used during construction	**(92,502)**	(76,982)	(67,127)
Miscellaneous, net	**(14,306)**	7,866	(3,673)
	45,759	52,698	26,978
Total Sources of Funds for Property Additions	**$868,099**	$771,131	$774,233
Property Additions—			
Electric plant	**$799,572**	$689,646	$648,633
Nuclear fuel	**60,842**	55,032	124,292
Capital leases	**6,855**	25,333	—
Nonutility property	**830**	1,120	1,308
	$868,099	$771,131	$774,233

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

Consolidated Statements of Taxes

For the Years Ended December 31	1984	1983	1982
		(In thousands)	
General Taxes:			
State gross receipts	**$ 71,044**	$ 65,495	$ 56,808
Real and personal property	**48,717**	47,099	45,028
Social security and unemployment	**12,649**	10,097	8,990
Miscellaneous	**4,470**	4,127	3,743
Total general taxes	**$136,880**	$126,818	$114,569
Provision for Income Taxes:			
Currently payable—			
Federal	**$ 5,778**	$ 10,119	$ 324
State	**2,616**	2,507	2,532
Foreign	**254**	228	206
	8,648	12,854	3,062
Deferred, net (see below)—			
Federal	**108,154**	75,947	88,666
State	**5,397**	4,867	3,166
	113,551	80,814	91,832
Investment tax credits, net of amortization	**38,026**	53,670	7,312
Total provision for income taxes	**$160,225**	$147,338	$102,206
Income Statement Classification of Provision for Income Taxes:			
Operating expenses	**$150,106**	$135,279	$ 94,245
Other income	**(82,383)**	(64,923)	(59,166)
Allowance for borrowed funds used during construction	**92,502**	76,982	67,127
Total provision for income taxes	**$160,225**	$147,338	$102,206
Sources of Deferred Tax Expense:			
Allowance for borrowed funds used during construction, which is credited to plant	**$ 92,502**	$ 76,982	$ 67,127
Excess of tax over book depreciation, net	**25,045**	23,081	17,387
Pensions and taxes charged to utility plant, net	**4,923**	4,153	2,675
Deferred fuel and energy costs, net	**(1,805)**	(10,202)	7,000
Deferred interest on leased nuclear fuel, net	**(5,824)**	(3,165)	(2,840)
Cost of terminated construction projects, net	**(3,952)**	(3,258)	384
Other, net	**2,662**	(6,777)	99
Total deferred tax expense, net	**$113,551**	$ 80,814	$ 91,832
Reconciliation of Federal Income Tax Expense at Statutory Rate to Total Provision for Income Taxes:			
Book income before provision for income taxes	**$499,558**	$419,738	$317,935
Federal income tax expense at statutory rate	**$229,797**	$193,079	$146,250
Increases (reductions) in taxes resulting from:			
Allowance for equity funds used during construction, which does not constitute taxable income	**(70,181)**	(56,034)	(38,737)
Excess of book over tax depreciation	**10,163**	9,115	4,026
Gain on exchange of common stock for first mortgage bonds, which does not constitute taxable income	**—**	—	(9,273)
Other, net	**(9,554)**	1,178	(60)
Total provision for income taxes	**$160,225**	$147,338	$102,206

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

1 Summary of Significant Accounting Policies:
The consolidated financial statements include Ohio Edison Company (Company) and its wholly owned subsidiaries, Pennsylvania Power Company (Penn Power) and Ohio Edison Finance N.V. All significant intercompany transactions have been eliminated. The Company and Penn Power (Companies) follow the accounting policies and practices prescribed by The Public Utilities Commission of Ohio (PUCO), the Pennsylvania Public Utility Commission (PPUC) and the Federal Energy Regulatory Commission (FERC).

Revenues—
The Companies' residential and commercial customers are metered on a cycle basis. Revenue is recognized for electric service based on meters read through the end of the month.

Deferred Fuel and Energy Costs—
The Company recovers fuel-related costs from its retail customers through an electric fuel component (EFC). The EFC is an estimated fixed rate per kilowatt-hour included on customer bills for a six-month period and is based upon fuel-related costs for the preceding six-month period. Any over or under collection resulting from the operation of the EFC is included as an adjustment to the EFC rate in a subsequent six-month period. Accordingly, the Company defers the difference between actual fuel-related costs incurred and the amounts currently recovered from its customers.

Penn Power recovers fuel and energy costs from its retail customers through an annual "levelized" energy cost rate (ECR). The ECR, which includes adjustment for any over or under collection from customers, is recalculated each year. Accordingly, Penn Power defers the difference between actual energy costs and the amounts currently recovered from its customers.

Reference is made to Note 7 with respect to accounting for the cost of coal received from Quarto Mining Company (Quarto).

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

The Companies provide for depreciation on a straight-line basis at various rates over the estimated lives of property included in plant in service. The annual composite rates for electric plant were 3.5% in 1984, 3.4% in 1983 and 3.3% in 1982. The Company's depreciation rates include provisions for the estimated decommissioning costs for its only nuclear generating unit in service. Penn Power provides for the cost of decommissioning radioactive components only, in accordance with a PPUC rate order.

Common Ownership of Generating Facilities—
The Companies and other Central Area Power Coordination Group (CAPCO) companies own, as tenants in common, various power generating facilities. Each of the companies is obligated to pay a share of the construction costs of any jointly owned facility in the same proportion as its ownership interest. The Companies' portions of operating expenses associated with these jointly owned facilities are included in the corresponding operating expenses on the Consolidated Statements of Income. The amounts reflected on the Consolidated Balance Sheet under utility plant at December 31, 1984, include the following:

Generating Units	Utility Plant in Service	Accumulated Provision for Depreciation	Construction Work in Progress	Companies' Ownership Interest
		(In thousands)		
W. H. Sammis #7	$ 225,143	$ 30,890	$ 802	68.80%
Bruce Mansfield #1, #2 and #3	702,372	137,068	3,085	50.68%
Beaver Valley #1 (i)	544,071	127,772	69,006	52.50%
Beaver Valley #2 (Note 5)	—	—	982,229	41.88%
Perry #1 and #2	—	—	1,564,867	35.24%
Total	$1,471,586	$295,730	$2,619,989	

(i) Includes common facilities applicable to Beaver Valley #2

All nuclear fuel in process relates to the CAPCO units but is not segregated among them.

Nuclear Fuel—
The Companies amortize the cost of nuclear fuel based on the rate of consumption. The Companies also make provision for future disposal costs associated with the nuclear fuel.

Allowance for Funds Used During Construction (AFUDC)—
AFUDC represents the net financing costs capitalized to construction work in progress during the construction period. AFUDC is not capitalized on that portion of any construction project included in rate base. The borrowed funds portion reflects capitalized interest payments and the equity funds portion represents the noncash capitalization of imputed equity costs which are charged to construction. The Company also charged AFUDC to certain projects which were completed but not yet included in rate base during 1983 and 1984, in accordance with a PUCO order. AFUDC varies according to changes in the level of construction work in progress and in the cost of capital. The Companies compute AFUDC utilizing a net of tax rate, which is consistent with the rate treatment. The AFUDC rate related to assets financed only through the incurrence of long-term obligations (see Note 5) is based on actual interest accrued on the obligations during the period. The annual rates used by the Company for all other construction projects were 10.70%, 10.90% and 10.32% during 1984, 1983 and 1982, respectively. Penn Power's rates applicable to such projects were 9.45% in 1984 and 9.25% in 1983 and 1982.

Income Taxes—
Details of the total provision for income taxes are shown on the Consolidated Statements of Taxes. The deferred income taxes result from timing differences in the recognition of revenues and expenses for tax and accounting purposes.

The Companies allocate the income tax benefit which results from interest expense related to construction work in progress to income taxes–credit included under other income and deductions on the Consolidated Statements of Income.

For income tax purposes, the Companies claim liberalized depreciation and, consistent with the rate treatment, generally provide deferred income taxes. The Companies expect that deferred taxes which have not been provided will be collected from their customers when the taxes become payable, based upon the established rate making practices of the PUCO, the PPUC and the FERC. As of December 31, 1984, the cumulative net income tax timing differences for which deferred income taxes have not been provided were approximately $700,000,000.

Proceeds from the sales of certain tax benefits in accordance with provisions of the Economic Recovery Tax Act of 1981 are being amortized over the life of the related property. Proceeds attributable to investment tax credits were recorded as additional deferred investment tax credits; the remaining amounts were recorded as reductions to utility plant in service.

The Companies defer investment tax credits utilized and amortize these credits to income over the estimated life of the related property. At December 31, 1984, approximately $46,000,000 of unused investment tax credits were available to offset future Federal income taxes payable. These credits expire at the end of the following years:

1996	$ 2,000,000
1997	2,000,000
1998	12,000,000
1999	30,000,000
	$46,000,000

Retirement Benefits—
The Companies' trusteed, noncontributory pension plans cover almost all full-time employees. Upon retirement employees receive a monthly pension based on length of service and compensation. Pension costs for 1984, 1983 and 1982 were $20,483,000, $16,904,000 and $15,448,000, respectively. Of those amounts, $14,369,000, $11,913,000 and $10,350,000, respectively, were charged to operating expenses; the balances were charged primarily to construction. Such costs include the amortization of unfunded past service costs on an actuarial basis over approximately 35 years in 1984 and 1982, and 40 years in 1983. The Companies fund pension costs accrued. A comparison of accumulated plan benefits and plan net assets from the two latest actuarial reports is as follows:

At June 30,	1984	1983
Actuarial present value of accumulated plan benefits:		
Vested	$194,518,000	$176,732,000
Nonvested	20,987,000	16,939,000
	$215,505,000	$193,671,000
Net assets available for benefits	$316,537,000	$314,323,000
Assumed rate of return for actuarial present value of accumulated plan benefits	8%	8%

The above total actuarial present value of accumulated plan benefits reflects pension benefits applicable to eligible employees based upon present salary levels and past years of service accumulated through the valuation date. This is the generally accepted reporting procedure currently set forth by the Financial Accounting Standards Board. The Companies' annual contributions to the plans, however, consider estimated ultimate salary increases due to inflation and other factors and the estimated total service expected to be accumulated by employees. This is a widely recognized funding technique and is consistent with the recommendation of the Companies' actuary. In addition, the actuary recommended, and the Companies utilized, a discount rate of 7% for funding purposes. Differences between funding bases and reporting requirements can have a significant effect on the comparisons above.

The Companies provide a minimum amount of noncontributory life insurance to retired employees in addition to optional contributory insurance features. Health care benefits, which include certain employee deductibles and co-payments, are also available to retired employees, their dependents and, under certain circumstances, to their survivors. The Companies pay insurance premiums to cover a portion of these benefits in excess of set limits; all amounts up to the limits are paid by the Companies. Expenses associated with health care and life insurance benefits for retirees amounted to $3,597,000 in 1984 and are charged to income during the applicable payment periods.

2 Terminated Construction Projects:

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 Company is recovering these costs from its PUCO jurisdictional customers through an increment to the allowed rate of return in rate cases and Penn Power (and the Company with respect to its FERC jurisdictional customers) is recovering these costs as an operating expense allowance. Neither company is earning a return on the unamortized investment. The remaining periods of recovery for the Company and Penn Power are approximately 8 and 9 years, respectively.

3 Leases:

The Companies lease a portion of their nuclear fuel requirements, certain transmission facilities, computer equipment, office space and other property and equipment under cancelable and noncancelable leases. Consistent with the regulatory treatment, the rental payments for capital and operating leases are charged to operating expenses on the Consolidated Statements of Income. Such costs for the three years ended December 31, 1984, are summarized as follows:

	1984	1983	1982
	(In thousands)		
Interest on capitalized leases	$13,524	$10,325	$ —
Amortization of capital leases	15,283	12,808	—
All other leases	12,120	11,645	20,776
Total rental payments	$40,927	$34,778	$20,776

Certain leases entered into prior to January 1, 1983, which would be reflected as capital leases on the Consolidated Balance Sheets, have not yet been capitalized as permitted by Statement of Financial Accounting Standards No. 71 (SFAS No. 71). If they had been capitalized, total assets and liabilities would have increased by $37,665,000 and $40,431,000 at December 31, 1984 and 1983, respectively. Also in accordance with SFAS No. 71, the December 31, 1983 Consolidated Balance Sheet and the Consolidated Statement of Sources of Funds for Property Additions for 1983 have been restated to include capital leases entered into during 1983.

The future minimum rental commitments as of December 31, 1984, for leases reported as capital leases and noncancelable operating leases are:

	Capital Leases	Operating Leases
1985	$ 14,104,000	$ 10,421,000
1986	13,138,000	9,689,000
1987	7,051,000	7,775,000
1988	5,883,000	7,218,000
1989	4,983,000	6,671,000
Years thereafter	75,730,000	105,680,000
Total minimum lease payments	120,889,000	$147,454,000
Less: Amount representing estimated executory costs (such as taxes, maintenance and insurance) included in total minimum lease payments	22,948,000	
Net minimum lease payments	97,941,000	
Less: Amount representing interest	56,583,000	
Present value of net minimum lease payments	$ 41,358,000	

4 Capitalization:

(a) Common Stock—

Through the Dividend Reinvestment and Stock Purchase Plan, holders of common, preferred and preference stock can acquire additional shares of the Company's common stock by automatically reinvesting all or a portion of their dividends and by making optional cash payments. Purchases are made at a price equal to 100% of the average closing price for the Company's common stock for each of the five New York Stock Exchange trading days ending on the investment date. At December 31, 1984, the Company had 5,823,487 shares of common stock reserved for issuance under this plan, 1,326,600 shares reserved for issuance under a continuous shelf registration program, 1,589,096 shares reserved for possible conversion of the $1.80 Preference Stock, 5,000,000 shares reserved for possible conversion of the Convertible Adjustable Series A Preferred Stock and 497,339 shares reserved for issuance through the payroll-based employee stock ownership plan.

(b) Retained Earnings—

Under the Company's indenture, the Company's consolidated retained earnings unrestricted for payment of cash dividends on the Company's common stock were $245,584,000 at December 31, 1984.

(c) Preferred and Preference Stock—

At the Companies' option, all preferred and preference stock may be redeemed in whole, or in part, at any time upon not less than 30 nor more than 60 days notice, unless otherwise noted. Redemption of all preferred and preference stock issued within the past five years is subject to certain restrictions regarding refunding operations. The optional redemption prices shown on the Consolidated Statements of Capitalization will decline to eventual minimums per share according to the Charter provisions that establish each series.

The Convertible Adjustable Series A Preferred Stock is convertible into the Company's common stock only during a specified period each quarter and may be converted, based upon market price at the time of conversion, to not more than 6.15 shares nor less than 2.08 shares of common stock for each share of preferred stock surrendered for conversion. The Company may, at its option, elect to purchase for cash, in lieu of delivery of common stock, any Convertible Adjustable Series A Preferred Stock surrendered for conversion, subject to certain limitations.

(d) Preferred Stock Subject to Mandatory Redemption—

The Company's 10.48% Series and 10.76% Series each include provisions for a mandatory sinking fund to retire a minimum of 20,000 shares every year on December 1, and January 1, respectively, at $100 per share plus accrued dividends. Penn Power's 8.24% Series and 11% Series each include provisions for a mandatory sinking fund to retire a minimum of 5,000 shares and 4,000 shares, respectively, every year on December 1, and January 1, respectively, at $100 per share plus accrued dividends. Penn Power's 15% Series and 11.50% Series each include provisions for a mandatory sinking fund to retire a minimum of 3,200 shares and 15,000 shares, respectively, on July 15 of each year, beginning in 1988 and 1989, respectively, at $100 per share plus accrued dividends. Penn Power's 13.00% Series includes a provision for a mandatory sinking fund to retire a minimum of 5,000 shares on July 1 of each year beginning in 1990, at $100 per share plus accrued dividends. Penn Power's 10.50% Series includes a provision for mandatory redemption of the entire series on April 1, 2040, at $100 per share plus accrued dividends.

The sinking fund requirements for the next five years are:

1985	$2,181,000
1986	4,900,000
1987	4,900,000
1988	5,220,000
1989	6,720,000

(e) Preference Stock Subject to Mandatory Redemption—
The $102.50 Series includes a provision for a mandatory sinking fund to retire a minimum of 900 shares on July 1 in each year at $1,000 per share plus accrued dividends. The $95.00 Series and $1.80 Series each include provisions for a mandatory sinking fund to retire a minimum of 1,800 and 100,000 shares, respectively, on July 1 and October 1, respectively, in each year beginning in 1985, at $1,000 and $15.125 per share, respectively, plus accrued dividends. The annual sinking fund requirements are $4,213,000 for 1985 through 1989.

The $1.80 Series is convertible at any time into common stock at a price of $15.125 per share. Holders receive one share of common stock for each share of $1.80 Preference Stock converted, subject to adjustment under certain conditions.

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

Based on the amount of bonds authenticated by the Trustees through December 31, 1984, the Companies' annual sinking and improvement fund requirements for all bonds issued under the mortgages amount to $26,767,000. The Company expects to deposit funds in 1985 which will be withdrawn upon the surrender for cancellation of a like principal amount of bonds, which are specifically authenticated for such purposes against unfunded property additions or against previously retired bonds. This method can result in minor increases in the amount of the annual sinking fund requirements. Penn Power expects to satisfy its requirements in 1985 by certifying unfunded property additions of 166-2/3% of the required amount.

As of December 31, 1984, the Companies' sinking fund requirements for certain series of first mortgage bonds and maturing long-term debt for the next five years are:

1985	$ 53,190,000
1986	36,131,000
1987	161,137,000
1988	171,746,000
1989	94,695,000

The weighted average interest rates shown on the Consolidated Statements of Capitalization relate to long-term debt outstanding at December 31, 1984.

Total secured and unsecured notes outstanding at December 31, 1984, and December 31, 1983, exclude $234,266,000 and $97,112,000, respectively, of certain pollution control notes, the proceeds of which were then in escrow pending their disbursement for construction of pollution control facilities. The Companies' obligations to repay certain pollution control revenue bonds are secured by several series of first mortgage bonds. Certain unsecured notes are entitled to the benefit of irrevocable bank letters of credit of $213,885,000. To the extent that drawings are made under those letters of credit to pay principal of, or interest on, the pollution control revenue bonds, the Company is entitled to a credit on the notes. The Company pays an annual fee of 5/8% to 7/8% of the amounts of the letters of credit to the issuing banks and is obligated to reimburse the banks for any drawings thereunder.

5 Long-Term Obligations:
Ohio Edison Energy Trust (OEET)—
OEET, which finances part of the Company's investment in Beaver Valley Unit 2, has two lines of revolving credit available to it for $400,000,000 and $100,000,000. The latter credit also serves as a standby facility in connection with OEET commercial paper sales; total borrowings under that credit and commercial paper outstanding may not exceed $100,000,000 at any time.

The Company has transferred its interest in Beaver Valley Unit 2 (exclusive of common facilities and transmission facilities) to OEET, where the assets are used to secure OEET borrowings. Under the agreement, the Company presently anticipates payments of $100,000,000 in 1986 and $80,000,000 in each year 1987 through 1989.

The Company accrues interest applicable to OEET which is subsequently capitalized, net of income tax effect. Interest on borrowings under the $400,000,000 line of credit includes a commitment fee of 1/2% on the unused portion of this line. No direct borrowings have been or are expected to be made against the $100,000,000 line of credit, but OEET has issued and has outstanding commercial paper supported by this facility. To the extent that borrowings are less than the $100,000,000 available under this line of credit, the Company must pay a commitment fee of 1/2%. Under the standby support, an irrevocable bank letter of credit has been issued upon which OEET pays a fee of 1/8% of the amount of commercial paper notes outstanding. The effective average annual interest rates on OEET borrowings were 11.8%, 10.7% and 14.8% during 1984, 1983 and 1982, respectively.

Nuclear Fuel Financing—
Ohio Edison Fuel Corporation and Pennsylvania Power Fuel Corporation (corporations in which the Companies have no ownership interest) provide funds for the procurement of nuclear fuel on behalf of the Companies. The Companies also participate in arrangements wherein the Central Area Energy Trust (CAET) finances the acquisition of nuclear material that will ultimately be used to fuel various CAPCO generating units. Under ordinary circumstances, the Companies will make payments for the nuclear fuel as it is consumed. Financing on behalf of the Companies of up to $303,000,000 is currently available through the fuel corporations, either through revolving credit arrangements or the issuance of commercial paper, which is supported by bank letters of credit, or a combination of both. Financing of up to $137,000,000 is available to CAET on behalf of the Companies, subject to certain limitations.

The Companies accrue interest applicable to the nuclear fuel obligations (for fuel which is not included in utility plant in service) which is subsequently capitalized, net of income tax effect. No direct borrowings have been or are expected to be made against the lines of credit available to the fuel corporations; the fuel corporations have issued and have outstanding commercial paper supported by the lines of credit. To the extent that borrowings are less than the $303,000,000 available under these credit lines, the fuel corporations must pay commitment fees of 1/8% to 1/2% on the available portions of the lines of credit. They also pay fees of 5/8% to 7/8% for the letters of credit on the aggregate amount of outstanding commercial paper. Interest rates on CAET purchase commitments vary from 1-1/8% to 1-1/2% over the interest rate applicable to certain dealer placed commercial paper. The effective average annual interest rates applicable to nuclear fuel obligations were 11.9%, 10.6% and 12.6% during 1984, 1983 and 1982, respectively.

The Companies presently expect to make payments applicable to these obligations during the next five years as follows:

1985	$10,093,000
1986	35,521,000
1987	36,574,000
1988	60,263,000
1989	46,334,000

6 Bank Lines of Credit and Revolving Credit Agreement:
The Companies have lines of credit with domestic banks that provide for borrowings of up to $50,000,000 at the prevailing prime or similar interest rate. Short-term borrowings may be made under these lines of credit on the Companies' unsecured notes. All of the current lines expire December 31, 1985; however, all unused lines may be cancelled by the banks.

Penn Power maintains cash balances on deposit with banks to provide operating funds, to assure availability of $8,000,000 of the lines of credit and for other banking arrangements. Such compensating balances, net of "float," are expected to be maintained at an average of approximately $700,000 and are not subject to any

contractual restriction against withdrawal. Penn Power is required to pay commitment fees that vary from a flat rate of 3/8% to a variable rate of 5% of the applicable prime interest rate to assure the availability of $16,000,000 of the lines of credit.

In January 1985, the Company arranged a bank revolving credit agreement providing for borrowings of up to $500,000,000. Interest rates on borrowings under the agreement will vary depending upon the amount of the current borrowing, total borrowings then outstanding and, at the option of the Company, may be based upon the prevailing prime rate or certain other interest measurements. The Company must pay commitment fees of 1/2% on the average daily unused portion of the credit agreement. In certain circumstances, borrowings under the agreement are required to be secured by the Company's first mortgage bonds. At the Company's option, all obligations outstanding at December 31, 1987, may be converted into an amortizable three-year term loan.

7 Commitments, Guarantees and Contingencies:

Construction Program—

The Companies' current budget forecasts reflect expenditures of approximately $2,600,000,000 for property additions and improvements from 1985-1989, of which approximately $740,000,000 is applicable to 1985. In addition, 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. The major portion of the Companies' construction activities during this five-year period relates to the CAPCO companies' program for the joint development of power generation and transmission facilities.

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. Possible alternatives being reviewed with respect to Unit 2 include temporary cessation of work on the Unit and termination of the Unit. Presently, the only significant work being performed on Unit 2 is that necessary to enable Unit 1 to be placed in service. This work is expected to be completed sometime in 1985. Whether under those circumstances it would still be appropriate to continue capitalizing AFUDC (as described in Note 1) to Unit 2 is uncertain at this time. Accordingly, if the CAPCO companies do not decide to resume significant construction, the Companies may not be able to include the AFUDC in net income. Instead, a reserve may be provided for AFUDC capitalized to Unit 2 prospectively. Currently, the Companies' AFUDC for Unit 2 is being included in net income at the rate of approximately $3,600,000 per month.

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 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 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.

Pending completion of the CAPCO review, the Company is unable to predict whether the construction on Perry Unit 2 will continue or, if continued, on what basis such continuation will proceed. If construction of Perry Unit 2 is terminated, the Company cannot now predict whether its investment in Perry Unit 2 applicable to its PUCO jurisdictional customers will be recoverable. If no means of recovery of the costs of Unit 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 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 2 through its rates if the Unit were terminated. This is also true for the Company with respect to its FERC jurisdictional customers.

Quarto Project—
The Companies, together with the other CAPCO companies, have entered into a long-term coal supply contract with Quarto. The CAPCO companies have also agreed to guarantee severally, and not jointly, their proportionate shares of Quarto's debt and lease obligations incurred while developing and equipping the mines. As of December 31, 1984, the Companies' share of the guarantee was $209,717,000.

Under the terms of the coal supply contract, which expires December 31, 1999, the Companies must reimburse Quarto for their shares of the cost of operating the Quarto mines, including those costs associated with mine construction, whether or not they receive coal from Quarto. These payments will permit Quarto, over the life of the contract, to meet the debt and lease obligations it incurred while developing and equipping the mines. The Companies' total payments under this contract, including amounts related to mine construction costs, amounted to $103,464,000, $92,644,000 and $80,709,000 during 1984, 1983, and 1982, respectively. Under the coal supply contract, the Companies' future minimum payments related solely to mine construction costs are:

1985	$ 25,122,000
1986	24,504,000
1987	23,886,000
1988	23,269,000
1989	22,659,000
Years thereafter	197,166,000

Following the end of the development period, the Company was ordered by the PUCO, and Penn Power was ordered by the PPUC, to defer recovery of the cost of Quarto coal in excess of generally prevailing market prices, pending further proceedings. As a result of those orders, the Companies began deferring a portion of the cost of Quarto coal, rather than including such costs in their respective fuel adjustment clauses. The Company has subsequently received PUCO orders which provide an opportunity for recovery of the deferred costs, which amounted to $27,640,000 at December 31, 1984. Although unable to predict the ultimate level of recovery, the Company believes that the PUCO's formula recovery method provides a sufficient basis to recover the deferred costs and future costs of Quarto coal under the jurisdiction of the PUCO.

Although the PPUC issued an order which found that Penn Power was not imprudent in initiating and continuing the Quarto project, it prescribed a method for recovery of the current cost of Quarto coal and the deferred Quarto coal costs (amounting to $9,916,000 at December 31, 1984) which could result in a substantial underrecovery of Quarto coal costs. Penn Power has appealed the order to the Commonwealth Court of Pennsylvania. If the PPUC method stands and no other means of recovery could be found or anticipated, a loss equivalent to the amount not recoverable 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 consolidated results of operations.

Environmental Matters—
Various federal, state and local authorities regulate the Companies with regard to air and water quality and other environmental matters. The Companies estimate that compliance requires additional capital expenditures of approximately $125,000,000, which is included in the construction estimate given above under "Construction Program" for 1985 through 1989.

On December 5, 1984, the Federal Environmental Protection Agency (EPA) denied a petition from the Commonwealth of Pennsylvania and the states of New York and Maine, which sought to force the 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 nonattainment of air quality standards in the downwind state. The petition complained of excessive particulate and sulfur dioxide (SO_2) emissions from a number of sources in Ohio and other states, including potentially all of the Companies' Ohio plants. 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. The

Company, along with other electric utilities and others, has petitioned to intervene in the case. 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 SO_2 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 SO_2 emission limits at the Companies' plants would be affected. Substantial changes in the SO_2 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 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 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 as proposed.

8 Extraordinary Income:

During 1982, the Company exchanged 2,650,600 shares of its common stock for $53,432,000 principal amount of its outstanding first mortgage bonds which were subsequently retired. The exchange resulted in a nontaxable gain of $20,158,000, which is included as an extraordinary item on the 1982 Consolidated Statement of Income.

9 Summary of Quarterly Financial Data:

The following summarizes certain consolidated operating results for the four quarters of 1984 and 1983.

Three Months Ended (Unaudited)	March 31, 1984	June 30, 1984	September 30, 1984	December 31, 1984
	(In thousands, except per share amounts)			
Operating Revenues	$420,453	$391,548	$416,794	$408,309
Operating Expenses and Taxes	330,524	309,150	326,981	327,736
Operating Income	89,929	82,398	89,813	80,573
Other Income and Deductions	56,757	61,332	74,141	71,648
Net Interest and Other Charges	62,729	64,386	66,820	73,323
Net Income	$ 83,957	$ 79,344	$ 97,134	$ 78,898
Earnings on Common Stock	$ 72,429	$ 67,827	$ 84,563	$ 65,875
Weighted Average Number of Shares of Common Stock Outstanding	110,539	115,164	117,938	121,044
Earnings per Share of Common Stock	$.66	$.59	$.72	$.54

Three Months Ended	March 31, 1983	June 30, 1983	September 30, 1983	December 31, 1983
	(In thousands, except per share amounts)			
Operating Revenues	$378,157	$364,478	$386,400	$386,817
Operating Expenses and Taxes	302,104	296,956	308,288	305,753
Operating Income	76,053	67,522	78,112	81,064
Other Income and Deductions	47,530	50,060	54,668	55,291
Net Interest and Other Charges	59,472	57,578	60,017	60,833
Net Income	$ 64,111	$ 60,004	$ 72,763	$ 75,522
Earnings on Common Stock	$ 54,091	$ 48,708	$ 61,117	$ 63,927
Weighted Average Number of Shares of Common Stock Outstanding	96,841	100,244	105,312	107,261
Earnings per Share of Common Stock	$.56	$.49	$.58	$.60

10 Supplementary Financial Data — Financial Reporting and Changing Prices (Unaudited):

Statement of Financial Accounting Standards No. 33, "Financial Reporting and Changing Prices" (SFAS No. 33), as amended, provides for the preparation of supplementary financial information to disclose the estimated effects of inflation and changes in prices on property, plant and equipment. This data is presented in accordance with SFAS No. 33; however, it is not intended as a substitute for earnings reported on a historical cost basis.

Results of Operations Adjusted for the Effects of Changing Prices for the Year Ended December 31, 1984

	(Thousands of average 1984 dollars)
Historical income from continuing operations	$290,694
Inflationary Effects on Common Equity:	
Capital Investments Effects —	
Increase in specific prices (current cost) of property held during the year (i)	137,599
Change in general price level on property held during the year	(382,151)
Adjustment to net recoverable cost	219,340
Additional provision for depreciation	(187,300)
	(212,512)
Advantage from the decrease in purchasing power of net monetary liabilities	145,614
Net erosion of common stockholders' equity	(66,898)
Income from continuing operations adjusted for changing prices (ii)	$223,796

(i) At December 31, 1984, net property, plant and equipment, adjusted for changes in specific prices (current cost) was $10,273,343,000, while historical cost (net recoverable cost) was $5,954,129,000.

(ii) Income from continuing operations, adjusted for changes in specific prices (current cost) would be $103,394,000 if only the amount reportable as additional provision for depreciation was included in the adjustment.

Comparison of Supplementary Financial Data For the Years Ended December 31

	1984	1983	1982	1981	1980
	(Dollars in thousands, except per share amounts)				
Operating Revenues —					
Historical	$1,637,104	$1,515,852	$1,429,626	$1,279,649	$1,080,869
Adjusted to average 1984 dollars	$1,637,104	$1,580,427	$1,538,476	$1,461,505	$1,362,525
Income (Loss) from Continuing Operations —					
Historical	$ 290,694	$ 227,843	$ 161,338	$ 149,850	$ 101,403
Adjusted for changing prices (average 1984 dollars)	$ 223,796	$ 176,282	$ 120,357	$ 62,139	$ (28,154)
Income (Loss) from Continuing Operations per Common Share —					
Historical	$2.50	$2.22	$1.89	$2.10	$1.52
Adjusted for changing prices (average 1984 dollars)	$1.93	$1.72	$1.41	$ .87	$ (.42)
Return from Continuing Operations on Average Common Equity —					
Historical	15.9%	14.2%	12.3%	13.5%	9.7%
Adjusted for changing prices	12.2%	10.5%	8.3%	4.9%	(2.1)%
Effective Income Tax Rate —					
Historical	32.1%	35.1%	32.1%	33.5%	28.3%
Adjusted for changing prices	37.0%	40.8%	38.1%	49.4%	82.4%
Excess of Increase in the Specific Level of Prices on Property, Plant and Equipment Over General Price Changes (average 1984 dollars)	$ (244,552)	$ 111,220	$ 359,423	$ (42,055)	$ (211,358)
Advantage Resulting from the Decrease in Purchasing Power of Net Monetary Liabilities (average 1984 dollars)	$ 145,614	$ 126,879	$ 115,218	$ 246,718	$ 319,318
Year End Common Stockholders' Equity —					
Historical	$1,947,357	$1,711,974	$1,488,371	$1,229,044	$1,067,524
Adjusted for changing prices (average 1984 dollars)	$1,923,258	$1,754,121	$1,584,184	$1,360,143	$1,278,835
Cash Dividends Declared per Common Share —					
Historical	$1.84	$1.80	$1.76	$1.76	$1.76
Adjusted to average 1984 dollars	$1.84	$1.87	$1.90	$2.00	$2.20
Year End Market Price per Common Share —					
Historical	$13.50	$12.25	$14.00	$11.625	$11.875
Adjusted to average 1984 dollars	$13.31	$12.55	$14.90	$12.84	$14.30
Average Consumer Price Index	311.1	298.4	289.1	272.4	246.8

The increase in specific prices of property held during the year attempts to measure increasing asset values which approximate dollars that would have to be spent today to acquire property, plant and equipment identical to assets currently owned. The Companies use the Handy-Whitman Index of Public Utility Construction Costs and the Bureau of Labor and Statistics engineering indices to calculate the current cost of those assets. The indices are applied to actual dollars spent on large construction projects according to the year of expenditure. For all other plant facilities, the current cost is determined based upon the year the facilities were placed in service.

Additional depreciation expense adjusted for the change in specific prices was determined using the same rates and methods used for computing the historical cost provision for depreciation. No inflation adjustment has been reflected for income taxes, in conformity with the reporting requirements of SFAS No. 33.

During periods of inflation, the Companies' net monetary liabilities (principally long-term debt and preferred stock) will be repaid with dollars having less purchasing power than dollars had when the original liability was incurred. This economic benefit is portrayed on the summary as the advantage from the decrease in purchasing power of net monetary liabilities, which serves as an offset to the inflationary effects of replacing the Companies' property, plant and equipment.

To the Stockholders and Board of Directors of Ohio Edison Company:

We have examined the consolidated balance sheets and consolidated statements of capitalization of Ohio Edison Company (an Ohio corporation) and its subsidiary companies as of December 31, 1984, and 1983, and the related consolidated statements of income, retained earnings, capital stock and other paid-in capital, sources of funds for property additions and taxes for each of the three years in the period ended December 31, 1984. Our examinations 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 more fully in Note 7 to the consolidated financial statements, the continued construction of Perry Nuclear Unit No. 2 is currently being reviewed by the CAPCO companies. Possible alternatives being considered include temporary cessation of work and termination of the Unit. Because the Company is unable to predict the results of the review, it cannot now predict if construction of Perry Unit No. 2 will be terminated, and if terminated, whether the investment applicable to its PUCO jurisdictional customers will be recoverable.

In our opinion, subject to the effect on the consolidated financial statements of such adjustment, if any, that 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 Ohio Edison Company and its subsidiary companies as of December 31, 1984, and 1983, and the results of its operations and the sources of funds for property additions for each of the three years in the period ended December 31, 1984, in conformity with generally accepted accounting principles applied on a consistent basis after giving retroactive effect to the change, with which we concur, in the method of accounting for capital leases as discussed in Note 3 to the consolidated financial statements.

Arthur Andersen & Co.

ARTHUR ANDERSEN & CO.

New York, N.Y.
February 8, 1985

Consolidated Financial Statistics

	1984	1983	1982	1981	1980	1979	1974
General Financial Information			(Dollars in thousands, except per share amounts)				
Total Operating Revenues	**$1,637,104**	$1,515,852	$1,429,626	$1,279,649	$1,080,869	$ 994,585	$ 498,355
Operating Income	**$ 342,713**	$ 302,751	$ 269,640	$ 252,381	$ 169,383	$ 163,744	$ 71,095
Earnings on Common Stock	**$ 290,694**	$ 227,843	$ 181,496	$ 163,892	$ 101,403	$ 105,120	$ 51,035
Ratio of Earnings on Common Stock to Operating Revenues	**17.8%**	15.0%	12.7%	12.8%	9.4%	10.6%	10.2%
Times Interest Earned Before Income Tax	**2.34×**	2.31×	2.02×	2.11×	2.05×	2.31×	2.18×
Net Utility Plant at December 31	**$5,945,549**	$5,206,134	$4,522,733	$3,867,757	$3,435,267	$3,012,197	$1,615,265
Property Additions	**$ 868,099**	$ 771,131	$ 774,233	$ 568,044	$ 515,020	$ 476,746	$ 306,027
Capitalization at December 31:							
Common Stockholders' Equity	**$1,947,357**	$1,711,974	$1,488,371	$1,229,044	$1,067,524	$ 970,110	$ 484,713
Preferred and Preference Stock Not Subject to Mandatory Redemption	**455,490**	404,240	354,240	304,240	306,905	306,905	213,905
Preferred and Preference Stock Subject to Mandatory Redemption	**158,483**	158,112	152,560	151,141	156,450	150,850	—
Long-Term Debt	**2,449,502**	2,132,137	2,005,436	1,759,771	1,594,384	1,410,782	867,796
Total Capitalization	**$5,010,832**	$4,406,463	$4,000,607	$3,444,196	$3,125,263	$2,838,647	$1,566,414
Capitalization Ratios at December 31:							
Common Stockholders' Equity	**38.9%**	38.9%	37.2%	35.7%	34.2%	34.2%	30.9%
Preferred and Preference Stock Not Subject to Mandatory Redemption	**9.1**	9.1	8.9	8.8	9.8	10.8	13.7
Preferred and Preference Stock Subject to Mandatory Redemption	**3.1**	3.6	3.8	4.4	5.0	5.3	—
Long-Term Debt	**48.9**	48.4	50.1	51.1	51.0	49.7	55.4
Total Capitalization	**100.0%**	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Long-Term Obligations at December 31	**$ 822,234**	$ 759,843	$ 656,655	$ 447,484	$ 265,000	—	—
Cost of Preferred & Preference Stock Outstanding at December 31	**9.87%**	9.63%	9.17%	8.37%	8.38%	8.36%	6.49%
Cost of Long-Term Debt Outstanding at December 31	**11.52%**	10.82%	10.69%	9.99%	9.16%	8.13%	7.17%
Common Stock Data							
Earnings per Average Common Share	**$2.50**	$2.22	$2.13	$2.30	$1.52	$1.80	$1.68
Return on Average Common Equity	**15.9%**	14.2%	13.5%	14.6%	9.7%	11.2%	11.1%
Dividends Paid Per Share	**$1.84**	$1.80	$1.76	$1.76	$1.76	$1.76	$1.64½
Common Stock Dividend Payout Ratio	**74%**	81%	83%	77%	116%	98%	98%
Common Stock Dividend Yield at December 31	**13.6%**	14.7%	12.6%	15.1%	14.8%	13.2%	13.9%
Price/Earnings Ratio at December 31	**5.4**	5.5	6.6	5.1	7.8	7.4	7.1
Shares of Common Stock Outstanding at December 31 (000)	**122,237**	108,460	96,082	78,676	68,526	59,622	31,695
Book Value per Common Share at December 31	**$15.93**	$15.78	$15.49	$15.62	$15.58	$16.27	$15.29
Market Price per Common Share at December 31	**$13.50**	$12.25	$14.00	$11.625	$11.875	$13.375	$11.875
Ratio of Market Price to Book Value per Share at December 31	**85%**	78%	90%	74%	76%	82%	78%

Consolidated Operating Statistics

	1984	1983	1982	1981	1980	1979	1974
Revenue From Electric Sales (thousands):							
Residential	**$ 571,878**	$ 540,167	$ 497,941	$ 442,267	$ 398,832	$360,273	$179,300
Commercial	**400,291**	385,277	356,325	308,599	268,788	240,458	122,009
Industrial	**469,112**	421,736	383,535	381,162	330,717	315,185	159,585
Other	**57,921**	69,278	67,828	53,993	50,420	42,607	22,641
Subtotal	**1,499,202**	1,416,458	1,305,629	1,186,021	1,048,757	958,523	483,535
Sales to Utilities	**117,385**	76,220	101,688	73,966	12,381	10,185	4,288
Total	**$1,616,587**	$1,492,678	$1,407,317	$1,259,987	$1,061,138	$968,708	$487,823
Revenue From Electric Sales—%:							
Residential	**35.4%**	36.2%	35.4%	35.1%	37.6%	37.2%	36.8%
Commercial	**24.7**	25.8	25.3	24.5	25.3	24.8	25.0
Industrial	**29.0**	28.3	27.3	30.2	31.2	32.5	32.7
Other	**3.6**	4.6	4.8	4.3	4.7	4.4	4.6
Subtotal	**92.7**	94.9	92.8	94.1	98.8	98.9	99.1
Sales to Utilities	**7.3**	5.1	7.2	5.9	1.2	1.1	0.9
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Kilowatt-Hour Sales (millions):							
Residential	**6,836**	6,735	6,733	6,747	6,801	6,650	5,610
Commercial	**5,101**	5,096	4,996	4,917	4,812	4,693	4,023
Industrial	**9,161**	8,386	7,708	9,352	8,909	9,830	9,631
Other	**1,075**	1,211	1,227	1,181	1,370	1,346	1,095
Subtotal	**22,173**	21,428	20,664	22,197	21,892	22,519	20,359
Sales to Utilities	**4,591**	2,917	3,361	2,465	502	441	323
Total	**26,764**	24,345	24,025	24,662	22,394	22,960	20,682
Customers Served at December 31:							
Residential	**885,376**	878,949	873,877	872,303	867,447	861,196	800,612
Commercial	**90,810**	90,072	89,706	89,231	88,505	87,425	83,111
Industrial	**1,757**	1,003	1,048	1,068	1,059	1,161	1,109
Other	**721**	736	724	711	704	693	586
Total	**978,664**	970,760	965,355	963,313	957,715	950,475	885,418
Average Annual Residential KWH Usage	**7,762**	7,695	7,723	7,760	7,870	7,780	7,070
Average Residential Price Per KWH	**8.37¢**	8.02¢	7.40¢	6.56¢	5.86¢	5.42¢	3.20¢
Cost of Coal Per Million BTU	**$1.59**	$1.62	$1.75	$1.81	$1.50	$1.26	$.90
Generating Capability at December 31:							
Coal	**89.1%**	89.2%	86.2%	86.3%	86.1%	85.1%	92.2%
Oil	**3.0**	3.0	6.3	6.2	6.4	7.4	7.8
Nuclear	**7.9**	7.8	7.5	7.5	7.5	7.5	—
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Sources of Electric Generation:							
Coal	**90.4%**	89.8%	93.8%	89.9%	98.7%	93.9%	98.2%
Oil	**—**	—	0.1	0.2	0.6	2.0	1.8
Nuclear	**9.6**	10.2	6.1	9.9	0.7	4.1	—
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Peak Load—Megawatts	**4,093**	4,148	4,073	4,148	4,210	4,105	3,664
Number of Employees at December 31	**7,611**	7,702	7,885	7,669	7,503	7,157	6,156

Stockholder Profile
At the end of the year, 209,529 stockholders owned 122.2 million shares of Ohio Edison common stock. Approximately 29 percent of those stockholders are women, 27 percent are men and 32 percent are joint holders. The remaining 12 percent are trusts, corporations, institutions, brokers and other investment groups.

Nearly 75 percent of common stockholders own 300 shares or less. They live in all 50 states and many foreign countries.

Common Stock Dividend Increased
Effective the first quarter of 1985, the Company's Board of Directors increased the quarterly common stock dividend to 47 cents per share from 46 cents.

Dividends of 46 cents per share of common stock outstanding were declared by the Board for each quarter of 1984.

Dividend Income Taxability
Of total 1984 common stock dividends, 56 percent was estimated to represent a return of capital and was nontaxable for federal income tax purposes unless the stock was sold. All preferred and preference stock dividends paid during 1984 were taxable. These figures are subject to final determination by the Internal Revenue Service, and stockholders will be notified of any significant change.

A provision of the Deficit Reduction Act of 1984 requires certain changes in how a corporation calculates earnings to determine the portion of dividends treated as a return of capital. We expect those changes to virtually eliminate the possibility of return of capital dividends beginning in 1985.

Dividend Reinvestment Plan
At the end of 1984, more than 71,000 stockholders were enrolled in the Company's Dividend Reinvestment and Stock Purchase Plan, representing 31 percent of all stockholders. They reinvested $69.7 million in dividends and made optional cash payments of $44.2 million to acquire 10 million shares of common stock during the year.

The Plan was amended to eliminate the discounted price for stock acquired, beginning with optional cash payments in November 1984 and the common stock dividend payment in December 1984. Also, the purchase price of acquired stock is based on the average closing price for five days ending on the investment date instead of on the average high and low sale price on that date.

Most participants in the Plan may still exclude from their annual income up to $750 ($1,500 on a joint return) of taxable dividends they reinvested. But according to the Economic Recovery Tax Act of 1981, this exclusion will continue only through 1985, unless extended by Congress.

Additional information about the Plan, and a Prospectus, can be obtained by contacting Ohio Edison's Stockholder Services.

Annual Meeting of Stockholders
Stockholders are invited to attend the 1985 Annual Meeting on Thursday, April 25, at 10 a.m., local time, in the Company's General Office auditorium in Akron, Ohio. Those unable to or choosing not to attend can vote on the items of business by filling out and returning the proxy card, which is mailed to each stockholder approximately 30 days before the meeting.

Additional Information
Information and assistance on individual holdings, dividend payments, dividend reinvestment, the transfer of stock or any stockholder matter can be obtained by writing to Ohio Edison Company, Stockholder Services, 76 South Main Street, Akron, Ohio 44308, or by calling (216) 384-5509.

Ohio Edison Company common stock is listed on the New York and Midwest stock exchanges and traded on other registered exchanges under the "OEC" ticker symbol. Newspapers generally use the symbol "OhioEd" in stock listings.

A copy of our 1984 Annual Report to the Securities and Exchange Commission, Form 10-K, will be sent without charge to stockholders upon request. To receive a copy, please write to Gregory F. LaFlame, Secretary, Ohio Edison Company, 76 South Main Street, Akron, Ohio 44308.

For information and assistance on the transfer or registration of all classes of Company stock, contact:

Transfer Agent:
Transfer Agent
Ohio Edison Company
76 South Main Street
Akron, Ohio 44308

Registrar:
National City Bank, Akron
One Cascade Plaza
Akron, Ohio 44308

Ohio Edison

Board of Directors

Donald C. Blasius
Chairman of the Board and Chief Executive Officer of The Tappan Company, Mansfield, Ohio (appliances and furnishings). Member, Nominating Committee, Finance Committee.

William A. Derrick
Independent Electrical and Mechanical Engineering Consultant, also President of Leisure Industries, Inc., Sandusky, Ohio (developer of real estate and residential buildings). Chairman, Compensation Committee.

Dr. Lucille G. Ford
Vice President, Dean of Business Administration and Economics and Director of the Gill Center for Business & Economic Education, Ashland College, Ashland, Ohio. Chairman, Nominating Committee; Member, Finance Committee.

Robert L. Loughhead
Chairman of the Board, President and Chief Executive Officer of Weirton Steel Corporation, Weirton, West Virginia (steel products). Member, Compensation Committee, Audit Committee.

Glenn H. Meadows
President and Director of McNeil Corporation, Akron, Ohio (various manufactured products). Member, Compensation Committee, Audit Committee.

John Nelson
Chairman of the Board and Chief Executive Officer of Commercial Shearing, Inc., Youngstown, Ohio (engineered metal components). Member, Compensation Committee.

Victor A. Owoc
Executive Vice President of Ohio Edison. Member, Finance Committee.

Justin T. Rogers, Jr.
President of Ohio Edison and Chairman of the Board of its subsidiary, Pennsylvania Power. Chairman, Finance Committee; Member, Nominating Committee.

Douglas W. Tschappat
Executive Vice President of Ohio Edison.

Frank C. Watson
President and Director of The Youngstown Welding and Engineering Company, Youngstown, Ohio (nonferrous alloys). Chairman, Audit Committee; Member, Nominating Committee.

William C. Zekan
President and Chairman of the Board of A. Schulman, Inc., Akron, Ohio (custom plastic compounds). Member, Audit Committee.

Directors Emeritus

D. Bruce Mansfield
Walter H. Sammis
Fred H. Zuck

Officers

Justin T. Rogers, Jr.
President

Victor A. Owoc
Executive Vice President

Douglas W. Tschappat
Executive Vice President

Lynn Firestone
Senior Vice President

David R. Gundry
Senior Vice President

Robert J. McWhorter
Senior Vice President

Russell J. Spetrino
Vice President and General Counsel

Ronald D. Best
Vice President

Frank E. Derry
Vice President

Clyde W. Frederickson
Vice President

John A. Gill
Vice President

James D. Wilson
Vice President

H. Peter Burg
Treasurer

William A. Daniels
Comptroller

Gregory F. LaFlame
Secretary

Mark T. Clark
Assistant Treasurer

Warren G. Fouch
Assistant Comptroller

Harvey L. Wagner
Assistant Comptroller

Joanne Martin
Assistant Secretary

Division Managers

Anthony N. Gorant
Akron Division

Denver G. Blosser
Bay Division

James E. Markle
Lake Erie Division

Malcolm E. Cash
Mansfield Division

Robert L. Kensinger
Marion Division

N. Rod Monahan
Springfield Division

Robert E. Dawson
Stark Division

David C. Bixler, Jr.
Warren Division

Peter A. Fetterolf
Youngstown Division

Management Changes

Vice President Donald J. List retired on February 1, 1985, after 38 years of service with Ohio Edison. He was succeeded by former Akron Division Manager John A. Gill as head of administrative services, human resources and industrial relations, information systems, purchasing and stores, and telecommunications.

With Mr. Gill's election to vice president by the Board of Directors, Anthony N. Gorant, former manager of the Bay Division, was named manager of the Akron Division. Mr. Gorant was succeeded by former Alliance District Manager Denver G. Blosser.

Also, Charles N. Glasgow, former assistant secretary, retired November 1, 1984, after 36 years of service with the Company.

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Akron, Ohio 44308

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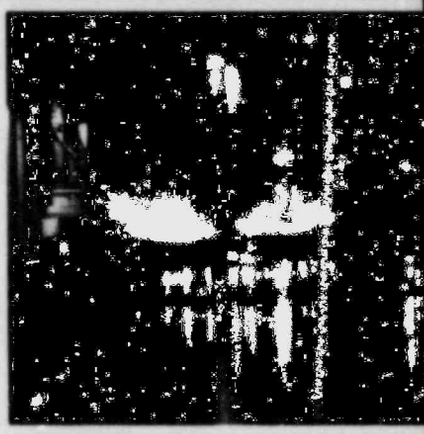
Annual Report **1984**

THE TOLEDO EDISON COMPANY ANNUAL REPORT 1984



SUPPLYING ENERGY FOR THE LAND OF GOOD LIVING

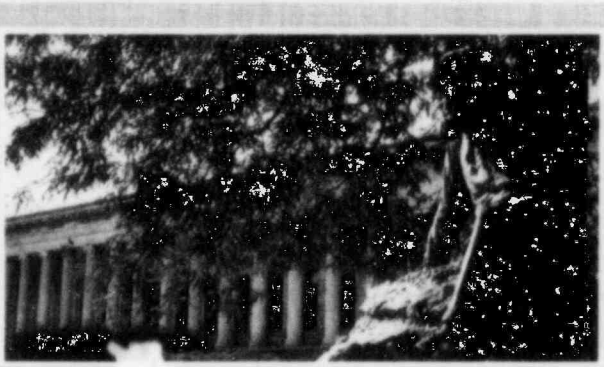
THE LAND OF GOOD LIVING

A VIBRANT ECONOMY

Northwestern Ohio is one of the most productive agricultural and industrial regions in the nation

A TRANSPORTATION HUB

The modern Port of Toledo connects Northwestern Ohio with markets throughout the world



A CENTER FOR THE ARTS

The Toledo Museum of Art ranks among the top ten in the United States

A LEADER IN EDUCATION

Two state universities, a medical college and several technical colleges serve the area

A COMMUNITY VITALITY

The redevelopment of Toledo's riverfront symbolizes the city's rejuvenation

TOLEDO . . . AN ALL-AMERICA CITY

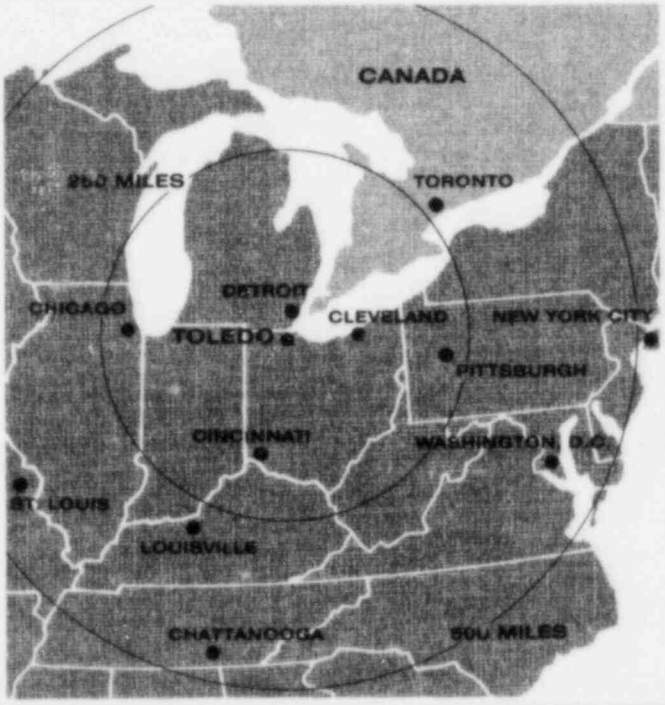
ABOUT TOLEDO EDISON

The Toledo Edison Company is a public utility engaged in the generation, transmission, distribution and sale of electric energy in Toledo and Northwestern Ohio. The Company also provides small amounts of natural gas and steam heating services. The Company is owned by over 100,000 shareholders in all 50 states and worldwide.

ABOUT OUR SERVICE AREA

Toledo Edison describes its 2,500-square mile service area in Northwestern Ohio as the "Land of Good Living." And with good reason. A sophisticated industrial infrastructure, plenteous agricultural production, exceptional transportation, and abundant supplies of energy and water make the area highly attractive to business. Paddlewheel riverboats and historic forts blend with the latest in contemporary living trends to create an appealing ambiance.

The 750,000 people who call Northwestern Ohio home have the best of two worlds – the cultural, recreational and economic benefits of urbanization, but in a neighborly, small town atmosphere. Area residents can select the lifestyle best suited for their individual tastes. The lifestyles may be diverse, but the area's labor force is united in dedication to craftsmanship and pride in achievements.



Toledo is within 250 miles of 43% of the U.S. primary metal industry, and within 500 miles of 58% of U.S. fabricated metal production and 53% of U.S. electric and electronic manufacturing.

HIGHLIGHTS

	1984	1983	Change
Earnings Per Common Share	$3.70	$3.50	+ 20¢
Dividends Declared Per Common Share	2.52	2.46	+ 6¢
Return on Average Common Equity	15.3%	14.5%	
Financial Results (millions of dollars)			
Income from operations	71	63	+ 13%
Allowance for equity funds used during construction	83	65	+ 28%
Net income	154	128	+ 20%
Operating Results			
Sales (millions of kilowatt-hours)			
Retail customers	7 240	6 811	+ 6%
Wholesale customers	305	320	– 5%
Generating efficiency (BTU per kilowatt-hour)			
System heat rate	10 193	10 337	– 1%
Fossil-fueled heat rate	9 855	10 053	– 2%

TO OUR SHAREOWNERS:

1984 was a good year for The Toledo Edison Company.

New records were set for retail sales revenues and earnings. Our total revenues of $551 million included electric sales to retail customers of $528 million. Our sales to industry also established a new mark of $195 million. These gains helped enable us to attain earnings per common share of $3.70, 6 percent higher than in 1983.

Substantial gains in kilowatt-hour usage resulted from the rebounding Northwestern Ohio economy. Our total kilowatt-hour sales increased a healthy 6 percent over 1983, while our kilowatt-hour sales to industry rose 10 percent.

Since a mild summer and an exceptionally warm fall and winter more than offset a cooler spring, the extremes in weather that cause higher than normal usage of electric heaters and air conditioners were not in evidence in 1984. Thus, our gains in kilowatt-hour sales stemmed primarily from economic growth.

Economic studies show there is a high correlation between a growing economy and increased electricity use. Economic growth depends upon the availability of a reliable source of energy, and the viability of an electric utility depends upon the economy of the area it serves.

We are seeking to recognize this interdependence by devoting a portion of our Annual Report to point out the attributes that make Northwestern Ohio the "Land of Good Living." We are also doing our share to boost Northwestern Ohio as an attractive place for industry through our area development and marketing activities.

Our creative marketing approach enabled us to add new customers in 1984. To cite only one example, we added a 20-megawatt load customer who will install new electroplating technology to serve the automobile industry. We obtained this new business by negotiating a contract with highly competitive energy cost provisions that made the customer's process competitive and our profit reasonable.

Our proximity to Detroit's auto assembly plants is a plus. The major automobile companies plan a greater emphasis on the "just-in-time" delivery concept, which means they will be utilizing parts suppliers located near their Detroit assembly lines. Our service area will benefit from this trend. Assembly and machine plants have been operating at high production levels. These are not just temporary surges, but are being built into the long-range planning of these manufacturers.

We continue to enhance our operating efficiencies as part of our program to ensure an adequate supply of electricity for our service area. Since it started operating nearly 30 years ago, our Bay Shore Station has been one of the most reliable plants in the United States. It enabled the Company to be ranked tenth overall, among fossil-fueled stations of the 100 largest investor-owned utilities in the nation, for 1983 in system heat-rate efficiency.

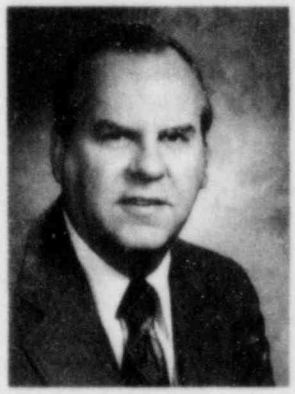
Our Davis-Besse Nuclear Power Station also operated reliably. Prior to a scheduled maintenance and refueling outage during the fourth quarter, the station was available to produce electricity 88 percent of the time during the 1983-84 fuel cycle. Nuclear energy continues to be a bargain for our customers because its fuel cost per kilowatt-hour is about one-fourth the cost of coal. The station is now going from a 12-month refueling cycle to an even more productive 18-month refueling cycle.

The combined effectiveness of our coal and nuclear facilities has helped control the prices customers pay for electricity. Although our fuel adjustment cost factor was higher in 1984 than in 1983, our fuel charges were lower than they would have been if we relied only on coal.

Construction of two nuclear plants is moving ahead as part of our power-pooling arrangements with other utilities. The major emphasis is being placed upon completing the Perry No. 1 Unit. Located near Cleveland, this unit is 97 percent complete and is expected to go on-line about the end of 1985. The Beaver Valley No. 2 Unit, near Pittsburgh, is more than 80 percent complete and is now scheduled to go into service about the end of 1987.

Construction of a third unit, the Perry No. 2 Unit, has been placed in a "minimal expenditure" mode pending evaluation of future economic growth and electricity needs. The construction activity may be reduced to such a level by about mid-1985 that related allowance for funds used during construction accruals may need to be offset, and a corresponding reserve established in the financial statements. This would not affect cash flow, but would reduce earnings below what they otherwise would be. Allowance for funds used during construction accruals are expected to average about $2 million per month in 1985 for Perry 2.

John P. Williamson
Chairman and Chief Executive Officer



Wendell A. Johnson
President and Chief Operating Officer

Because of its large scale, our nuclear construction program creates financial difficulties for the Company. Our cash income must be sufficient so that we can maintain our credit and attract the capital needed to finance our construction program. An inability to raise capital or a failure to obtain necessary increases in our customer charges could pose serious problems. Our concerns in this area are dealt with in more detail in the Financial Analysis section beginning on page 6.

In any event, we are confident that our financial integrity will be maintained. Management is determined to make every effort to resolve our financial problems in a way that benefits our shareowners, our customers and the economy we serve.

This determination is exemplified by a compromise agreement into which we entered in early 1985 with the staff of The Public Utilities Commission of Ohio. As part of our interim rate increase request proceeding that started late in 1984, the staff agreed to recommend to the Commission that the Company be allowed to collect $30 million in additional annual revenues through collection of a temporary surcharge on customer bills.

During the period this surcharge would be in effect, our accrual of allowance for funds used during construction would be offset by the net-of-tax amount of the interim relief received. The terms of the agreement also provide that the Company would report on the feasibility of reducing its participation in the construction program of the Central Area Power Coordination Group. In addition, the Company would agree to withdraw its pending permanent rate increase request. The Commission was expected to act on the agreement in February, 1985.

Our Board of Directors was strengthened by the addition of Edwin D. Dodd, a director, consultant and chairman emeritus of Owens-Illinois, Inc. He brings an impressive level of business statesmanship and civic leadership to our Board.

A new member of our senior management team is Joseph E. Murray, who was elected Vice President, Energy Supply, in March. He succeeded Lowell E. Roe, who took early retirement after a distinguished 35-year career with the Company.

Increased competition is the way of life in the electric utility industry. However, the industry's foremost challenge is to obtain adequate prices for its services. A closely related problem involves phasing in rates for newly completed generating units. Gradually including the costs of the new unit in a utility's rate base over a period of years avoids the "rate shock" that could result if the cost were added to the rate base in one lump sum.

We are convinced that electricity is the energy source of the future. Electricity prices in Toledo were 12 cents per kilowatt-hour at the turn of the century, a time when 12 cents represented an hour of hard work for many people. Despite many years of inflation, today's electric prices are slightly more than half of that 1900 price, and the typical employee works about 30 seconds to pay for a kilowatt-hour of electricity.

That electricity is a bargain is suggested by the fact that electric energy consumption in the U.S. has increased significantly since 1975, while consumption of other types of energy has dropped. Electricity is in its second century of helping power America's economic engine, and we are taking actions to ensure that Toledo Edison will continue to generate growth in Ohio. If Gross National Product rises substantially, some regions may face shortages of electricity by the 1990s. Northwestern Ohio will not be among those regions.

The following pages provide an in-depth perspective about our past, present and future prospects. We are proud of our accomplishments and of our solid reputation for reliability. And we are grateful for the continuing dedication of our talented employees and for the support of our loyal shareowners.

There is no doubt that we face major challenges in completing our nuclear construction program, just as there are challenges to the state to attract new business and industry to Ohio.

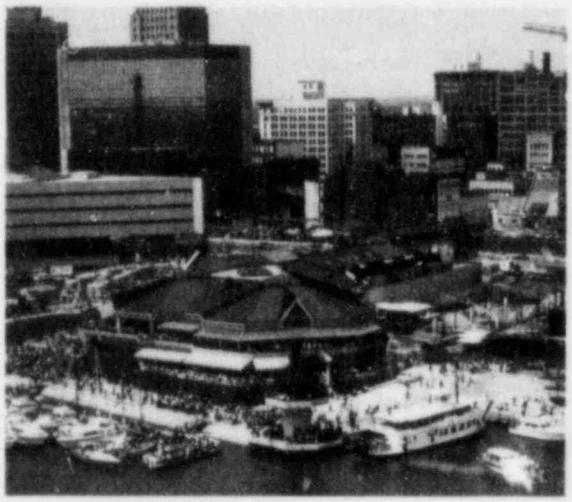
However, we are confident that the completion of our nuclear construction program will strengthen our financial situation, and that the availability over the long-term of a reliable, reasonably priced supply of energy will play a vital role in the economic growth in the *Land of Good Living*.

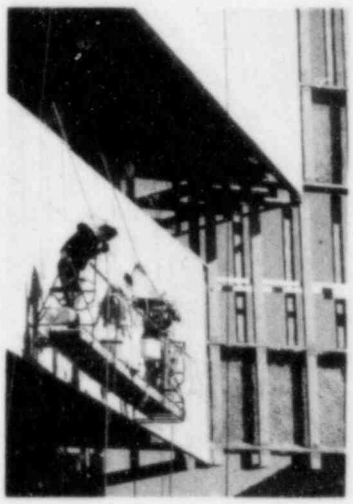
Cordially,

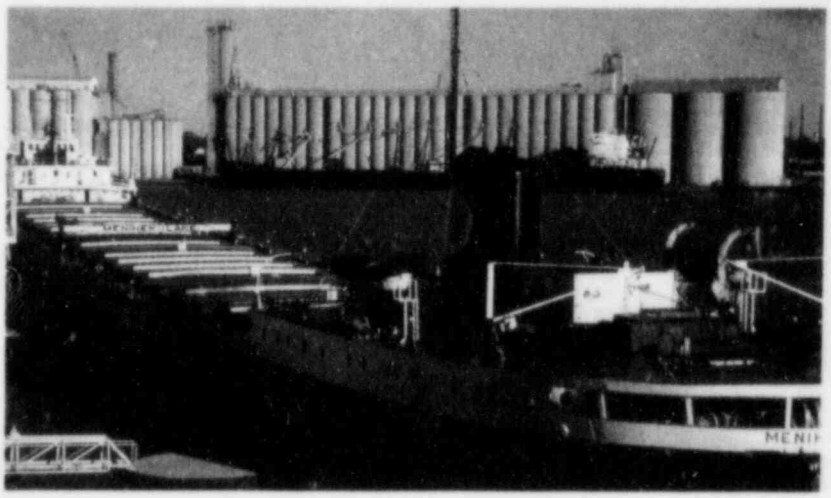
John P. Williamson
Chairman and Chief Executive Officer

Wendell A. Johnson
President and Chief Operating Officer

TOLEDO: AT THE CROSSROADS OF COMMERCE







The "All-America" city of Toledo is a transportation crossroads located in the heart of a rich agricultural and industrial region. A manufacturing community with strong ties to the glass and automobile industries, Toledo has a well-educated labor force of 275,000. In recent years, the labor force has grown more rapidly than the population.

Toledo is a focal point of international trade. The Port of Toledo lies at the hub of a transportation network that includes five rail systems and nearly 100 motor freight carriers. This ideal location provides Midwestern shippers with inland transportation costs that are lower than those to many East Coast ports.

In addition, downtown Toledo is currently undergoing a rejuvenation that includes a Portside Marketplace composed of numerous shops and boutiques.

None of this vibrant economy would be possible without the existence of a reliable supply of electricity. The Toledo Edison Company has been a driving force in the area's economy for many years. The Company is in the midst of a $2 billion construction program to guarantee the continuation of a dependable energy supply for both business and residents. In the process of providing reliable service at reasonable costs, Toledo Edison expects to continue a trend of recent years – increasing its share of the Northwestern Ohio energy market.

THE HANDS-ON APPROACH TO MANAGEMENT

The Company's Board of Directors and senior management continued their practice of closely monitoring Toledo Edison and Central Area Power Coordination Group facilities. This hands-on management approach is designed to maintain the Company's fine record in:

Operating efficiency – out of hundreds of fossil-fueled generating units owned by the 100 largest investor-owned utilities, the Company ranked 10th in 1983 for system heat-rate efficiency.

Employee safety – the Davis-Besse Nuclear Station has consistently ranked among the top five in the U.S. for the lowest worker exposure to radiation.

Environmental protection – Toledo Edison has the lowest weighted average sulfur dioxide emission limit for coal-fired units of any major Ohio utility.

FINANCIAL ANALYSIS

RESULTS OF OPERATIONS

Earnings per common share increased to $3.70 in 1984, about 6 percent higher than in 1983. The resulting annual return on average shareowners' investment of 15.3 percent, although due largely to non-cash credits, was the highest return achieved in the past 17 years.

The 1984 economic rebound in Northwestern Ohio helped spur a healthy 6 percent increase in the Company's kilowatt-hour sales. Paced by sales to the motor vehicle and primary metals industries and to petroleum refineries, industrial sales rose 10 percent. Sales to residential and commercial customers were also higher.

Total revenues increased in 1984 as a result of greater consumption by retail customers and the full-year impact of an August, 1983 price increase. Revenues from wholesale electricity users declined as municipal customers continued their 1983 trend of buying part of their electric needs from other suppliers.

A rate increase authorized by The Public Utilities Commission of Ohio was significantly below the amount requested by the Company. In September 1984, the Commission granted the Company a $17 million increase in annual retail electric rates. This was only 28 percent of the Company's December, 1983 request. In particular, the Commission allowed just $7 million of construction work in progress in the rate base out of the Company's $186 million request. Instead of increasing the allowance for Perry Unit No. 1 over the amount allowed for it in the Company's prior rate order, the Commission eliminated the Perry Unit No. 1 construction work in progress allowance altogether. As it had concluded earlier in 1984 in another utility's rate case, the Commission reasoned there would be no significant generation from Perry Unit No. 1 during the period the rates would be in effect and excluded it from rate base.

The Company filed a request in late 1984 for an 8 percent permanent rate increase in its customer charges. The Company also requested an interim rate increase of $45 million. In early 1985 the Company reached a compromise agreement with the staff of the Commission in connection with these requests. The terms of the agreement, if approved by the Commission, would allow the Company to collect $30 million in additional annual revenues through collection of a temporary surcharge on customer bills.

During the period this surcharge would be in effect, the Company's accrual of allowance for funds used during construction would be offset by the net-of-tax amount of the interim relief received. The agreement also provides that the Company would report on the feasibility of reducing its participation in the construction program of the Central Area Power Coordination Group. In addition, the Company would withdraw its pending permanent rate increase request. Commission action on the agreement was expected in February, 1985.

A non-taxable extraordinary gain of $11 million in the Company's 1981 earnings had been in doubt as a result of rulings by The Public Utilities Commission of Ohio and by the Ohio Supreme Court. The gain involved an exchange of common stock for outstanding bonds owned by an investment banking firm. A September Commission ruling allowed the gain to be treated as a component of the Company's capital structure in determining the rate of return. This decision supported the Company's treatment of the 1981 extraordinary gain.

Steam heating services will be discontinued as of June 1, 1985. The system had incurred annual losses in recent years.

Fuel and net purchased power expense increased 16 percent over 1983, reflecting greater reliance on higher cost fossil fuel generation in 1984 (see "Summary of Significant Accounting Policies" on page 12).

Maintenance expenses also rose in 1984, due to the extensive scheduled refueling and maintenance outage at the Davis-Besse Nuclear Power Station during the fourth quarter. Among the improvements made during the outage were nuclear fuel changes that will extend the time between refuelings from 12 months to 18 months. This will increase the station's availability for future power generation. The Davis-Besse Station returned to service in early 1985. The repair of electric plant and substation equipment at Bruce Mansfield Units 2 and 3 also contributed to higher maintenance expense.

Allowance for debt and equity funds used during construction increased due to a higher investment in nuclear generating units under construction. Allowance for debt and equity funds used during construction is a non-cash credit to the Results of Operations statement. Through this allowance, the Company capitalized a substantial amount of the financing costs associated with its ongoing construction program, including a return on equity funds used.

The funding of the Company's construction program was accomplished through external financings. These financings caused increased interest expense and larger dividend payments on preferred and common stock. In addition, the financings resulted in a greater number of common shares outstanding and diluted earnings per common share.

About 79 percent of the Company's common dividend paid in 1984 will be regarded as a return of capital, and therefore nontaxable as ordinary income for federal income tax purposes in 1984. The Deficit Reduction Act of 1984 requires certain changes in the way corporations calculate earnings and profits in determining the portion of dividends treated as a return of capital. These changes are expected to eliminate the return of capital portion of dividends paid in 1985, when the Act takes effect, and in subsequent years.

Note 12 on page 17 explains the effect of inflation on the Company's operations.

LIQUIDITY AND CAPITAL RESOURCES

Capital Commitments

The Company is engaged in a nuclear construction program as part of a power-pooling arrangement with four other utilities. In the interest of reliable power generation and economy, Toledo Edison joined in 1967 with The Cleveland Electric Illuminating Company, Duquesne Light Company, Ohio Edison Company and Pennsylvania Power Company to form the Central Area Power Coordination Group. The companies are building three nuclear generating units: Perry Unit Nos. 1 and 2 near Cleveland, and Beaver Valley Unit No. 2 north of Pittsburgh. Toledo Edison's share in each of these units is 19.91 percent (see Note 1 on page 13). During 1984, the Company invested $316 million in these units. Other 1984 investments in plant and equipment, including nuclear fuel, totaled $73 million.

During the five-year period 1985-89, the Company expects its construction program to cost about $1 billion. This excludes nuclear fuel, but includes $440 million of allowance for funds used during construction. However, the levels of direct cash expenditures for the Perry Unit No. 2 beyond 1985 are indeterminable, pending completion of the studies referred to in the following paragraph. Therefore, the construction program does not reflect such amounts for that unit beyond 1985. Construction delays or cost escalations may cause additional expenditures. Nuclear fuel acquisition and related costs will require about $101 million during 1985-89, excluding financing costs.

In keeping with the Group's ongoing evaluation of electric generation needs, Perry Unit No. 2 has been placed in a minimal expenditure mode pending the completion of Perry Unit No. 1 (see Note 2 on page 13). Should Perry Unit No. 2 be mothballed, the Company would have to cease the related accrual of allowance for funds used during construction. Such accruals for Perry Unit No. 2 are expected to average about $2 million per month in 1985. The construction activity may be reduced to such a level by about mid-1985 that related allowance for funds used during construction accruals may need to be offset, and a corresponding reserve established in the financial statements. Creation of such a reserve would not affect cash flow, but would reduce earnings below what they otherwise would be.

If the Perry Unit No. 2 is cancelled and the Company were not provided a way to recover its investment in the unit, the Company would be required to write off this investment. Preliminary estimates project a write-off of $154 million, net-of-income tax effect, as of December 31, 1984. Such a write-off would reduce Earnings Reinvested from $222 million to $68 million. 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 such a write-off may require modifications to future financing programs. This could include a greater reliance on sales of common stock in order to maintain a more balanced capital structure.

Sources of Funds

The Company's cash construction outlays in 1984 were provided almost entirely by issues of short and long-term debt and equity securities. This compared with 81 percent for 1983 and 96 percent in 1982. In 1984 the Company used some of its increased working capital in addition to all of its remaining cash available from operations for common dividends, leaving minimal internal cash to fund its construction program. The Company expects that almost all of its cash construction expenditures will continue to require external financings through 1986. External financings will continue to increase the Company's interest and dividend requirements. External sources provided $342 million in 1984. Of this, the Company used $227 million to fund construction and $25 million for nuclear fuel inventory, about $69 million for short-term investments, and the balance to pay off maturing obligations (see Notes 5, 8 and 9 on pages 15 through 17).

Company earnings for the year ended December 31, 1984 would permit the issuance of about $48 million of first mortgage bonds or about $98 million of preferred stock, assuming no additional issues of long-term debt, at assumed interest and dividend rates of 15 percent. Should the Company be required to write off its investment in Perry Unit No. 2, the Company believes its ability to issue first mortgage bonds would not be affected. However, such a write-off could reduce the amount of preferred stock issuable or prohibit the issuance of preferred stock during the subsequent 12-month period and perhaps longer. The Company would not be restricted in issuing preference stock authorized in April, 1984 by the common shareowners. Issuance of this stock is not subject to earnings coverage restrictions as are first mortgage bonds and preferred stock (see Note 5 on page 15).

The Company's continued financial viability depends upon adequate and timely rate increases and ready access to capital markets. Rate increases granted by The Public Utilities Commission of Ohio during the past three years have been significantly lower than amounts requested by the Company. In particular, the Company's opportunity to generate significant additional cash was adversely impacted by the Commission's September, 1984 decision that denied any Perry Unit No. 1 construction work in progress in the rate base (see "Results of Operations" on page 6). As a result, common stock earnings in 1985 are expected to continue to be composed entirely or almost entirely of non-cash allowance for debt and equity funds used during construction. This allowance was 91, 100 and 108 percent of earnings on common stock in 1982, 1983 and 1984, respectively.

The Company's ability to obtain external financing and the cost of such funds depend upon financial market conditions, the Company's earnings, changes in the Company's construction program, and its credit ratings, among other factors. In 1984, rating agencies lowered the Company's security ratings, making the cost of raising new capital more expensive. If sufficient rate relief is not granted in future rate orders, it could be extremely difficult for the Company to maintain interest and dividend coverage ratios necessary to issue first mortgage bonds and preferred stock. If the Company were unable to obtain sufficient external financing, it would have to consider postponing construction expenditures and conserving internally generated cash by reducing other cash outlays.

RESULTS OF OPERATIONS

	For the years ended December 31, 1984	1983	1982
		(millions of dollars)	
REVENUES AND OTHER INCOME			
Electricity sales to retail customers	528	478	453
Electricity sales to wholesale customers	14	17	21
Gas and steam heating sales	9	9	8
Other income	8	2	1
	559	506	483
EXPENSES			
Fuel and net purchased power	146	126	128
Operating and administrative	81	78	76
Maintenance of equipment and facilities	38	33	39
Depreciation and amortization	50	51	44
State and local taxes	46	45	41
Debt interest	140	111	95
Allowance for debt funds used during construction	(45)	(33)	(23)
	456	411	400
Income Before Federal Income Taxes	103	95	83
Federal income taxes	32	32	26
Income From Operations	71	63	57
Allowance for equity funds used during construction	83	65	49
Net Income	154	128	106
Preferred stock dividends accrued	35	30	27
EARNINGS ON COMMON STOCK	119	98	79
Average Number of Common Shares Outstanding (millions)	32	28	25
EARNINGS PER COMMON SHARE	$3.70	$3.50	$3.18
RETURN ON AVERAGE COMMON EQUITY	15.3%	14.5%	13.3%

The notes on pages 12 through 18 are an integral part of this statement.

EARNINGS REINVESTED

	For the years ended December 31, 1984	1983	1982
		(millions of dollars)	
Balance, at the beginning of year	188	161	143
Add – Net Income	154	128	106
Deduct – Preferred stock dividends declared	37	31	27
Common stock dividends declared	83	70	61
Earnings Reinvested During the Year	34	27	18
Balance, at the end of year	222	188	161

SOURCE OF FUNDS INVESTED IN PLANT AND FACILITIES

	For the years ended December 31, 1984	1983	1982
		(millions of dollars)	
Provided From Internal Sources			
Net Income	154	128	106
Principal non-cash items:			
Depreciation and amortization	50	51	44
Deferred federal income taxes	19	19	13
Investment tax credits – net	9	9	14
Allowance for funds used during construction (debt and equity)	(128)	(98)	(72)
Other – net	12	2	2
Funds provided from operations	116	111	107
Dividends	(120)	(101)	(88)
Net change in current assets and liabilities and other accounts	13	26	(10)
Allowance for funds used during construction (debt and equity)	128	98	72
Provided from internal sources	137	134	81
Provided From External Sources			
Sale of Securities:			
Common stock	64	71	49
Preferred stock	65	30	20
First mortgage bonds	107	130	120
Term loans	29	–	–
Pollution control notes – proceeds at issuance	45	–	–
– deposited in escrow account	(21)	–	–
Net increase (decrease) in short-term notes payable	28	(43)	21
Net (increase) decrease in temporary cash investments	(69)	(14)	2
Redemption of long-term debt and preferred stock	(21)	(8)	(41)
Net increase in nuclear fuel obligations	25	49	45
Provided from external sources	252	215	216
Total Sources Of Funds	389	349	297
Invested In:			
Construction Expenditures	356	294	249
Increase in Nuclear Fuel Inventory	33	55	48
Total Invested in Plant and Facilities	389	349	297

The notes on pages 12 through 18 are an integral part of these statements.

BALANCE SHEET

	December 31, 1984	1983
	(millions of dollars)	
ASSETS		
Property, Plant and Equipment		
Plant in service	1 391	1 358
Less accumulated provision for depreciation	365	325
	1 026	1 033
Construction work in progress	1 480	1 154
Nuclear fuel in service, at amortized cost	40	23
	2 546	2 210
Current Assets		
Cash and temporary cash investments	88	16
Accounts receivable – net	54	51
Fossil fuel, at average cost	25	25
Materials and supplies, at average cost	9	12
Prepaid taxes	18	17
Special deposits and other	20	15
	214	136
Other Assets		
Property taxes – subsequent years	21	21
Deferred charge – cancelled generating projects	33	38
Construction funds held in escrow and miscellaneous	51	32
	105	91
Total Assets	2 865	2 437
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common shareowners' equity	814	716
Cumulative preferred stock	200	200
Cumulative preferred stock with mandatory redemption provisions	158	94
Cumulative preference stock	–	–
Long-term debt	1 110	985
	2 282	1 995
Nuclear Fuel Obligations		
Nuclear fuel trust	48	41
Nuclear fuel leases	63	50
	111	91
Current Liabilities		
Short-term notes payable	28	–
Long-term obligations due within one year	72	30
Accounts payable	50	44
Accrued taxes	50	49
Accrued interest	30	23
Dividends declared	32	26
Accrued expenses and other	7	9
	269	181
Accumulated Provisions and Other		
Deferred federal income taxes related to:		
Accelerated depreciation and amortization	89	77
Cancelled generating projects	13	15
Property taxes and other	33	22
Investment tax credits	49	40
Deferred credits and other	19	16
	203	170
Total Capitalization and Liabilities	2 865	2 437

The notes on pages 12 through 18 are an integral part of this statement.

CAPITALIZATION

	December 31, 1984	1983
	(millions of dollars)	
Common Shareowners' Equity		
Common stock, $5 par value, 40 million shares authorized, 34 and 30 million shares outstanding	171	148
Premium on capital stock	421	380
Earnings reinvested in the business	222	188
	814	716

Cumulative Preferred Stock

	Par Value	Annual Dividend Rate	Shares Outstanding December 31, 1984 (millions)	Current Redemption Price		
Not Subject to Mandatory Redemption	$100	$ 4.25 - $ 4.56	.3	$101 - $105	31	31
		7.76 - 10.00	.6	103 - 105	59	59
	25	4.28	.8	32	20	20
		2.21	1.0	27	25	25
		2.37	1.4	29	35	35
		3.47	1.2	31	30	30
					200	200
Subject to Mandatory Redemption Provisions	100	11.00	.1	106	6	6
		9.38	.2	107	24	25
		13.25	.1	110	13	13
		12.65	.2	113	20	20
		14.80	.3	115	30	30
	25	3.75	1.2	29	30	–
		3.72	1.4	29	35	–
					158	94
Cumulative Preference Stock, $25 par value					–	–

Long-Term Debt

First Mortgage Bonds, excluding current maturities

Maturities	Interest Rates		
1985	9.35%	–	50
1986	3⅜%	15	15
1988	4%	15	15
1990 - 1994	11¼ - 16¼%	373	265
1997 - 2000	6⅛ - 10%	66	66
2002 - 2006	7½ - 9.65%	112	112
2008 - 2013	9⅝ - 15%	247	247
Discount in process of amortization		(1)	(1)
		827	769
Other Long-Term Debt, excluding current maturities			
Notes, 8.75%, due 1986 - 1997		90	97
Term bank loan, average interest rate 11.53%, due 1987 - 1989		50	50
Term bank loans, 13.57 - 14.49%, due 1989 - 1990		29	–
Pollution control notes, 5.71 - 7⅞%, due 1986 - 2009		37	37
Pollution control loan agreement, 9.93 - 10%, due 1990 - 2010		32	32
Pollution control notes, 13¼%, due 2014		45	–
		1 110	985
Total Capitalization		2 282	1 995

The notes on pages 12 through 18 are an integral part of this statement.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Company's accounting records are maintained in accordance with the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission and adopted by The Public Utilities Commission of Ohio. In accordance with the Statement of Financial Accounting Standards No. 71, the Company's 1983 financial statements were restated to reflect the capitalization of nuclear fuel lease commitments entered into after December 31, 1982.

Revenues

Customers are billed on a monthly cycle basis for their electricity consumption, based on rates authorized by the Commission. Larger industrial and wholesale customers are billed on a month-end meter reading basis.

Fuel

The Company collects estimated fuel costs over subsequent six-month periods through a fuel recovery rate. The rate is based on both actual and projected costs and generation. The Commission reviews and approves the projected rate and historical performance. The differences between actual and estimated fuel costs are deferred until they are applied to the customer's bill. This allows a better match of fuel expenses with fuel adjusted revenues. At December 31, 1984, the Company had a deferred fuel recovery balance of $7 million.

The cost of nuclear fuel is charged to fuel expense based on consumption. In addition, the estimated future nuclear fuel disposal costs are included in fuel expense. The Company has contracted with the Department of Energy for permanent disposal of spent nuclear fuel. The Company is currently collecting the fee from its customers and paying the Department of Energy.

Depreciation and Amortization

The original cost of properties, except for the Davis-Besse Nuclear Power Station, is depreciated over their estimated useful lives on a straight-line basis. Depreciation expense on the Davis-Besse Nuclear Power Station is based on the unit-of-production method. This includes a provision for the Company's share of the total estimated decommissioning costs of $53 million previously approved by the Commission. The equivalent straight-line provisions for depreciation overall averaged 3.5 percent in 1984, 3.6 percent in 1983 and 3.5 percent in 1982.

Costs associated with the four Central Area Power Coordination Group nuclear generating units cancelled in 1980 are being amortized over a 10-year period ending in 1991 in accordance with the Company's rate orders. Amortization of these costs amounted to $5 million annually from 1982 through 1984. At December 31, 1984, the unamortized balance of the costs associated with the cancelled generating units, $33 million, is not included in rate base for rate determination purposes.

Maintenance

Maintenance expense includes repairs of property and renewal of minor items. Costs of replacements and those renewal items that are units of property are charged to the utility plant accounts. For retired property, the Company takes its cost plus removal cost, net of salvage, and charges it to the accumulated provision for depreciation.

Taxes

The Company provides for deferred federal income taxes as required on the differences between straight-line depreciation and tax depreciation amounts for property additions since December 31, 1973, as well as the tax effects of certain other timing differences. Remaining timing differences are considered in rates in the year in which they affect taxes payable. The estimated cumulative effect on earnings of the flow-through treatment of the timing differences at December 31, 1984 and 1983 is $75 million and $76 million, respectively. Based on Commission and Ohio Supreme Court decisions, the Company believes such taxes can be recovered in future revenues. For federal income tax purposes, all interest costs are deducted as they occur, except for the amounts required to be capitalized for real property.

For certain property, the Company receives investment tax credits which are accounted for as deferred credits. These tax credits are reflected as reductions to tax expense over the life of the related property. Investment tax credits generated from 1980 to 1984, amounting to $27 million, are available to offset future taxes payable and will be recorded when utilized.

Property, Plant and Equipment

Property, plant and equipment are stated at original cost. Included in the costs of construction are such items as related payroll taxes, pensions, fringe benefits, management and general overheads, and allowance for debt and equity funds used during construction. This allowance represents the estimated composite debt interest and equity costs of capital funds used to finance construction. These costs are charged to property, plant and equipment. They are concurrently credited to income as allowance for debt and equity funds used during construction on the Results of Operations statement. The Company's allowance rates, net-of-income tax effect, ranged from 10 percent to 10¼ percent in 1984 and 1983, and 9¼ percent to 10¼ percent in 1982.

Reclassifications

Certain reclassifications have been made in the prior years' financial statements to make them comparable with 1984 classifications.

NOTES TO FINANCIAL STATEMENTS

December 31, 1984

(1) Power Pooling Arrangement

As noted on page 7, the Company is a member of the Central Area Power Coordination Group. The five member utilities own, as tenants in common, various power generating facilities. Toledo Edison is obligated to pay its share of each of the units under construction and its related nuclear fuel inventory. The Company's portion of operating expenses associated with these facilities is included in the corresponding expenses on the Results of Operations statement. The amounts reflected on the Balance Sheet under property, plant and equipment at December 31, 1984, include the following:

Generating Unit	Actual or Scheduled In-Service Date	Ownership Share	Ownership Megawatts	Fuel	Plant In-Service	Accumulated Depreciation	Construction Work in Progress
					(millions of dollars)		
Completed:							
Mansfield No. 2	1977	17.30%	135	Coal	71	14	1
Davis-Besse No. 1	1977	48.62%	428	Nuclear	444	66	18
Mansfield No. 3	1980	19.91%	159	Coal	129	20	1
Under Construction (see Note 2):							
Perry No. 1	1985	19.91%	240	Nuclear	—	—	642*
Beaver Valley No. 2	1987	19.91%	166	Nuclear	17**	—	498
Perry No. 2	Uncertain	19.91%	240	Nuclear	—	—	22?

Includes common facilities for Perry Unit No. 1 and Perry Unit No. 2

***Common facilities with Beaver Valley Unit No. 1*

(2) Construction Commitments and Contingencies

The estimated cost to complete Perry Unit No. 1 was revised upward in March and September 1984 as a result of rising expenditures for construction labor, support staff and equipment. The Company calculates that its total investment in Perry Unit No. 1 and common facilities, including allowance for debt and equity funds used during construction, will amount to approximately $800 million, a $190 million increase over 1983 estimates. Of the total investment, $56 million represents the Company's share of construction expenditures reallocated to Perry Unit No. 1 from Perry Unit No. 2 in 1984. The reallocation involved costs that were properly allocable to Perry Unit No. 1 and common facilities regardless of the future of Perry Unit No. 2 discussed on page 14. Completion of Perry Unit No. 1 is expected about year-end 1985.

In late January 1985, the Central Area Power Coordination Group Executive Committee announced that the Group would concentrate on completing Perry Unit No. 1. The estimated completion date of Beaver Valley Unit No. 2 has been delayed from late 1986 to about year-end 1987 and the estimated cost to complete the unit was increased. Based on preliminary estimates, the Company calculates that its total investment in Beaver Valley Unit No. 2 and related common facilities, including allowance for debt and equity funds used during construction, will amount to approximately $890 million, a $237 million increase over 1983 estimates.

(continued on next page)

The Group has also reaffirmed their early 1984 decision to minimize work and cash expenditures on Perry Unit No. 2 pending completion of the studies concerning the unit's cost and in-service date. Accelerated or extended construction schedules, mothballing (including suspension of allowance for debt and equity funds used during construction accruals) or cancellation are among the alternative courses of action being considered for Perry Unit No. 2.

Moreover, construction activity may be reduced to such a level by about mid-1985 that related allowance for funds used during construction accruals may need to be offset, and a corresponding reserve established in the financial statements. Creation of such a reserve would not affect cash flow, but would reduce earnings below what they otherwise would be. Allowance for funds used during construction accruals are expected to average about $2 million per month in 1985 for Perry Unit No. 2.

If construction were terminated on Perry Unit No. 2, and the Company was not provided a means to recover its investment in that unit through customer rates, and no other basis for recovery were anticipated, the Company would be required to write off this investment against that year's earnings. At December 31, 1984, such a write-off would approximate $222 million, or $154 million net-of-federal income tax effect.

Further delays in completing construction of the three units as well as delays in obtaining required licenses would substantially increase their costs and related nuclear fuel financing charges. Major changes in safety regulations have lengthened considerably nuclear unit construction schedules over the past ten years. Such changes, as well as high inflation and prolonged construction schedules, have greatly increased nuclear construction costs over the same period. If high inflation were to resume, major new safety regulations were imposed by the Nuclear Regulatory Commission, construction schedules were lengthened further, or additional licensing-related delays were experienced, nuclear construction costs would rise.

(3) Petition on Perry Unit No. 2 Construction

In September 1983, the Ohio Office of Consumers' Counsel and several other parties filed a petition with The Public Utilities Commission of Ohio and the Power Siting Board of Ohio asking that the two agencies investigate the need for Perry Unit No. 2. The petition also requested the Commission and the Board to order the Ohio Central Area Power Coordination Group companies to stop construction of Perry Unit No. 2 and prevent them from accruing further allowance for debt and equity funds used during construction on that unit. Finally, the petition asked the Commission and the Board not to approve the issuance of securities to finance further construction of Perry Unit No. 2. The petition alleged that completion of Perry Unit No. 2 will result in unreasonable excess generating capacity and that the rates charged to customers would therefore be excessive. The matter has not been scheduled for a hearing. If and when it becomes necessary, the Company will vigorously oppose any efforts to impede its construction program.

(4) Federal Income Tax Details

Supplementary information regarding federal income taxes is set forth in the following tables.

For the years ended December 31,	1984	1983	1982
	(millions of dollars)		
FEDERAL INCOME TAX EXPENSE WAS COMPUTED AS FOLLOWS:			
Tax at statutory rates on pre-tax income	85	74	61
Increases (reductions) in taxes due to:			
Allowance for funds used during construction	(54)	(41)	(33)
Accelerated depreciation methods and other depreciation differences	2	3	–
Miscellaneous	(1)	(4)	(2)
Total federal income tax expense	32	32	26

For the years ended December 31,	1984	1983	1982
	(millions of dollars)		
FEDERAL INCOME TAX EXPENSE DETAILS ARE AS FOLLOWS:			
Currently payable	4	2	2
Investment tax credits:			
Deferred	15	13	14
Amortized	(2)	(1)	(1)
Prior year adjustment	–	–	(3)
Deferred taxes:			
Accelerated depreciation (net)	12	11	12
Cancelled generating projects	(2)	(2)	–
Deferred fuel costs	(2)	3	2
Nuclear fuel interest charges	8	2	–
Other provisions	(1)	4	–
Total federal income tax expense	32	32	26

(5) Capitalization

a. Capital Stock Transactions

For the years ended December 31,	1984	1983	1982
	(thousands of shares)		
NUMBER OF SHARES SOLD (RETIRED):			
Common stock			
Public sales	3 000	2 500	2 200
Shareowner Dividend Reinvestment and Stock Purchase Plan	1 589	945	575
Total common shares	4 589	3 445	2 775
Cumulative preferred stock			
Public sales, $25 par			
$4.28 series	–	–	800
$3.47 series	–	1 200	–
Cumulative preferred stock with mandatory redemption			
Public sales, $25 par			
$3.75 series	1 200	–	–
$3.72 series	1 400	–	–
Retirement, $100 par			
$11.00 series	(5)	(5)	(5)
	(millions of dollars)		
PREMIUM ON CAPITAL STOCK			
Balance, beginning of year	380	326	291
Premium, net of expense –			
Common stock	44	52	34
Preferred stock	(3)	2	1
Balance, end of year	421	380	326

b. Cumulative Preferred Stock

The Company is authorized to issue 3 million shares of $100 par and 8 million shares of $25 par cumulative preferred stock under its amended articles of incorporation. The annual dividend requirement on cumulative preferred stock outstanding at December 31, 1984 is $41 million, or 11.4 percent.

The Company held as treasury stock 5,335 shares at December 31, 1984, and 10,335 shares at December 31, 1983 of the $11.00 series. The sinking fund requirements for the various series of cumulative preferred stock through 1989 are:

Dividend Rate	Minimum Yearly Shares	Effective Date
	(in thousands)	
$11.00	5	1979
9.38	17	1985
13.25	9	1986
12.65	8	1986
14.80	12	1987

Shares of these series may be purchased at the sinking fund redemption price of $100 per share plus accrued and unpaid dividends. Future sinking fund redemption requirements are: $2 million in 1985; $4 million in 1986; and $5 million annually in 1987 through 1989.

c. Cumulative Preference Stock

The Company is authorized to issue 5 million shares of $25 par cumulative preference stock under its amended articles of incorporation. The preference stock's dividend and liquidation rights are junior in priority to the Company's cumulative preferred stock, but senior in priority to the Company's common stock. At December 31, 1984 there were no shares of cumulative preference stock outstanding.

d. Long-Term Debt

The annual interest requirement on long-term debt outstanding at December 31, 1984, excluding current maturities, is $130 million, or 11.7 percent. This includes amortization of debt discount and expense, but excludes interest on nuclear fuel obligations.

Sinking fund redemption requirements and scheduled maturities for long-term debt, excluding nuclear fuel leases, through 1989 are as follows:

Year	Sinking Fund Redemption Requirements	Scheduled Maturities
	(millions of dollars)	
1985	4	57
1986	3	22
1987	3	23
1988	3	38
1989	3	33

In addition, the first mortgage bond indenture provides for a required annual minimum payment (after certain credits, as defined) to the trustees as a maintenance and replacement fund. The Company has been satisfying the requirements by pledging property additions that otherwise might have been used as the basis for the issuance of additional bonds.

The first mortgage bond indenture constitutes a direct first mortgage lien on substantially all property and franchises owned. This does not include expressly exempted property, such as cash and securities, accounts receivable, fuel, supplies and automotive equipment.

(6) Retirement Income Plan

The Company's retirement income plan is non-contributory and covers all employee groups. The Company funds each year's cost currently and amortizes unfunded past service costs over a 30-year period. Pension costs are based on estimated salary levels and service years of employees at their retirement. Total pension costs were $4 million annually in 1982 through 1984. Experience gains and losses on investments are amortized over 15 years.

The actuarial present value of total vested and nonvested plan benefits is based on salary levels and years of employees' service as of January 1 for each year. The weighted average assumed annual rate of return used in determining these values was 8 percent for both 1984 and 1983.

Accumulated pension benefit information as of the valuation dates follows:

January 1,	1984	1983
	(millions of dollars)	
Actuarial present value of accumulated plan benefits:		
Vested	46	42
Non-Vested	6	6
	52	48
Market value of net assets available for present and future plan benefits	89	75

(7) Quarto Coal Arrangements

a. Coal Supply Contracts

The Central Area Power Coordination Group companies have made long-term arrangements with Quarto Mining Company to supply coal to the Mansfield units. Each of the companies guaranteed its share of Quarto's debt and lease commitments incurred to develop and equip the mines. As of December 31, 1984, the Company's share of the guarantees was $27 million, or 7.3 percent. The Company's share of commitments incurred after December 31, 1984 will increase to 11 percent in 1985 and 12.4 percent in 1986.

The Company's coal supply contract with Quarto expires December 31, 1999. The contractual pricing provisions reflect Quarto's production costs, deferred mine development charges and fixed charges on debt and lease commitments, among other charges. 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 will continue to be recovered in the delivered coal prices unless such price exceeds a prescribed market price test. The Company's total purchases under these contracts amounted to $16 million in 1984, $15 million in 1983 and $12 million in 1982.

Under these arrangements, the Company expects the minimum yearly payments for fixed charges on debt and lease commitments to decline from $6 million in 1985 to $5 million in 1989.

b. Coal Cost Recovery

In January 1984, The Public Utilities Commission of Ohio prescribed a methodology to allow the Company to recover specified Quarto coal costs plus a portion of prior cost deferrals within the six-year period ending in 1989. As of December 31, 1984, $6 million remains on the Company's Balance Sheet as a miscellaneous other asset pending recovery in rates. The Company believes such prior deferred costs will be recoverable within the periods specified by the Commission.

(8) Nuclear Fuel Obligations

The Company's leasing and trust arrangements can finance up to $298 million of the cost of acquiring nuclear material, processing it into fuel and holding the fuel until it is used up in the reactor. The Company expects these arrangements for financing nuclear fuel to be adequate through 1986. At December 31, 1984, the Company had a $48 million obligation to its Central Area Energy Trust (nuclear fuel trust) resulting from the acquisition, conversion and enrichment of nuclear fuel materials. This included $5 million of interest capitalized during 1984. The 1984 interest was calculated at an average interest rate of 11.9%.

In addition to the nuclear fuel trust, the Company had obligations of $149 million under other nuclear fuel leasing arrangements at December 31, 1984. These obligations resulted from the financing of nuclear fuel assemblies at various stages of completion. Of these obligations, the Company had capitalized $77 million at December 31, 1984. Included in the capitalized balance was $5 million related to interest on the leases during 1984. The 1984 interest on the leases was calculated at an average interest rate of 11.4%.

The lease payments are made to coincide with the usage of nuclear fuel in the reactor. Estimated lease payments, including interest, are: $20 million in 1985; $31 million in 1986; $38 million in 1987; $47 million annually in 1988 and 1989.

(9) Short-Term Borrowing Arrangements

At December 31, 1984, the Company had line of credit arrangements with various banks for $73 million. Of this amount, $45 million was unused. The Company pays commitment fees on almost all of those lines. The rest are based on informal compensating balance arrangements. Banks expect the Company to maintain average deposits equal to 5-20 percent of the line of credit, depending on the borrowed amount. The deposits provide operating balances for the Company and are not legally restricted.

(10) Environmental Matters

On November 8, 1984, the United States Environmental Protection Agency proposed revised regulations governing the use of smokestacks to disperse pollutants into the air. The proposal is in response to a 1983 federal court decision. The agency intends to issue final regulations during April, 1985. The Company is currently unable to determine the impact that the proposed regulations, if adopted, would have upon its operations. However, the final regulations may require the Company 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 alternate use of lower sulfur coal would likely result in higher fuel and operating costs.

(11) Selected Quarterly Data (Unaudited)

The following quarterly results reflect all adjustments (that are of a normal recurring nature) to ensure a fair statement of results for such periods:

	(millions of dollars)				(dollars per common share)			
Quarter ended	Revenues and Other Income	Income Before Income Taxes	Net Income	Earnings on Common Stock	Earnings	Dividends Paid	Market Price* High	Market Price* Low
1984								
March 31	141	31	39	31	1.03	.63	18⅜	16
June 30	133	23	35	26	.87	.63	17½	13¾
September 30	144	27	40	31	.92	.63	17¾	13⅜
December 31	141	22	40	31	.89	.63	18⅞	16⅜
1983								
March 31	129	20	29	22	.84	.61	22½	20
June 30	127	19	28	21	.78	.61	22⅛	20¼
September 30	132	35	40	32	1.10	.61	21⅞	19¼
December 31	118	21	31	23	.78	.61	21⅝	17½

*The Common Stock is listed on the New York, Midwest and Pacific Stock Exchanges. The price quotations are from The Wall Street Journal. There were 86,209 common stock shareholders as of December 31, 1984, compared to 87,781 in 1983.

(12) Effects of Changing Prices (Unaudited)

This section shows the effects on the Company of changes in prices of specific assets, namely property, plant and equipment, using Current Cost Accounting.

Current costs reflect changes in specific prices of plant from the date the plant was acquired to the present. The current cost of plant estimates the probable cost of replacing existing plant assets. It was determined by indexing the surviving plant by the Handy-Whitman Index of Public Utility Construction Costs.

Because its rates are regulated, the Company cannot recover through revenues more than the original cost of plant assets, even though the cost to replace such assets will substantially exceed the original cost. In 1984, the added cost, due to inflation, of replacing the Company's plant assets is shown under "Inflation effect during 1984 on capital investment."

(continued next page)

During a period of inflation, issuers of debt experience an economic gain. This is especially important for the Company due to the substantial amount of debt issued to finance its construction program. This gain is shown under "Gain from decline in purchasing power of net amounts owed."

The comparative Current Cost values of all items on the income statement, except depreciation, represent the amounts recorded in the historical cost income statement. Income taxes are not adjusted because current tax laws do not allow for the inflationary impact on capital investment. The Company has calculated depreciation provisions for 1984 on the Current Cost amounts of property, plant and equipment. The calculation was made by applying the ratio of the provision for depreciation over the average property, plant and equipment on the historical cost basis, to the indexed plant values.

The above right table shows the net effect of inflation on common stock equity in 1984 from Current Cost Accounting:

Inflation effect in 1984 on capital investment (millions of dollars):	
Increase in specific prices to current costs	149
Effect of change in general price level	(127)
Reduction to net recoverable cost	(89)
Additional provision for depreciation	(31)
	(98)
Gain from decline in purchasing power of net amounts owed (primarily debt)	66
Net effect of inflation on common stock equity	(32)

The table below presents selected operating and financial data for the past five years adjusted for inflation as measured by the Consumer Price Index for All Urban Consumers. Earnings on common stock and earnings per share are shown as if only the amount reportable as an additional provision for depreciation were deducted from the reported amount of such income. Data from 1983 were revised to reflect actual indices.

(millions of dollars except per share amounts)	1984	1983	1982	1981	1980
Operating Revenues	551	526	519	505	507
Earnings on Common Stock	87	67	49	28	32
Gain from Decline in Purchasing Power of Net Amounts Owed	66	52	45	93	113
Increase in General Price Level Over (Under) Increase in Specific Prices	(22)	(29)	(42)	5	84
Net Property, Plant and Equipment	4 380	3 926	3 555	3 177	2 804
Net Assets at Net Recoverable Cost	801	704	610	532	457
Per Common Share Amounts:					
Earnings	2.73	2.38	1.96	1.30	1.66
Dividends Declared	2.52	2.57	2.56	2.63	2.77
Market Price at Year End	18.88	18.77	22.72	18.55	19.44
Consumer Price Index:					
Annual Average	311.2	298.4	289.1	272.4	246.8
Year End	316.4	303.5	292.4	281.5	258.4

AUDITORS' REPORT

To The Shareowners and Board of Directors of The Toledo Edison Company

We have examined the balance sheets and statements of capitalization of The Toledo Edison Company (an Ohio corporation) as of December 31, 1984 and 1983, and the related statements of results of operations, earnings reinvested and source of funds invested in plant and facilities for each of the three years in the period ended December 31, 1984. Our examinations 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 further in Note 2, the Company has incurred construction costs in a nuclear generating unit, Perry Unit No. 2. The Company cannot now predict when, if ever, Perry Unit No. 2 will go in service or, if cancelled, that the investment is recoverable from its customers.

In our opinion, subject to the effects on the 1984 and 1983 financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty discussed in the preceding paragraph been known, the financial statements referred to above present fairly the financial position of The Toledo Edison Company as of December 31, 1984 and 1983, and the results of its operations and the source of funds invested in plant and facilities for each of the three years in the period ended December 31, 1984, all in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.
Toledo, Ohio,
January 30, 1985.

FINANCIAL AND STATISTICAL REVIEW

Revenues and Other Income (millions of dollars)

Year	Residential	Commercial	Industrial	Other	Total Retail	Wholesale	Total Electric	Gas & Steam Heating	Other Income	Total Revenues & Other Income
1984	**173**	**115**	**195**	**45**	**528**	**14**	**542**	**9**	**8**	**559**
1983	161	105	170	42	478	17	495	9	2	506
1982	154	102	159	38	453	21	474	8	1	483
1981	139	91	151	32	413	22	435	7	9	451
1980	126	81	138	28	373	22	395	7	1	403
1974	47	30	49	6	132	12	144	4	–	148

Expenses (millions of dollars)

Year	Fuel & Net Purchased Power	Operation	Maintenance	Depreciation & Amortization	State & Local Taxes	Debt Interest	AFUDC – Debt	Expenses Before FIT	Income Before FIT	Federal Income Taxes
1984	**146**	**81**	**38**	**50**	**46**	**140**	**(45)**	**456**	**103**	**32**
1983	126	78	33	51	45	111	(33)	411	95	32
1982	128	76	39	44	41	95	(23)	400	83	26
1981	122	64	32	43	37	86	(15)	369	82	31
1980	156	56	29	26	31	71	(15)	354	49	10
1974	61	23	7	13	13	21	(5)	133	15	1

Income (millions of dollars)

Year	Income From Operations	AFUDC–Equity	Net Income	Preferred Stock Dividends	Earnings on Common	Average Shares Outstanding (millions)
1984	**71**	**83**	**154**	**35**	**119**	**32**
1983	63	65	128	30	98	28
1982	57	49	106	27	79	25
1981	51	32	83	23	60*	22
1980	39	28	67	18	49	19
1974	14	11	25	5	20	7

Common Stock (dollars per share and %)

Year	Earnings	Return on Average Equity	Dividends Declared	Market Price High	Market Price Low	Market Price Year End	Book Value
1984	**3.70**	**15.3**	**2.52**	**18.88**	**13.38**	**18.88**	**23.76**
1983	3.50	14.5	2.46	22.50	17.50	18.00	24.12
1982	3.18	13.3	2.38	21.13	15.75	21.00	23.53
1981	2.77*	11.6*	2.30	18.38	15.00	16.50	23.46
1980	2.56	10.5	2.20	20.75	15.00	15.88	23.77
1974	2.85	12.5	2.00	28.00	15.25	16.13	21.73

*In 1981, excludes extraordinary gain from exchange of common stock for bonds (after giving effect to the extraordinary gain, earnings on common were equal to $70 million; earnings per share to $3.27, and return on average common equity to 13.5 percent).

FINANCIAL AND STATISTICAL REVIEW

Electric Sales (millions of kilowatt-hours) | **Electric Customers** (year end) | **Residential Usage**

Year	Residential	Commercial	Industrial	Wholesale	Other	Total	Residential	Commercial	Industrial & Other	Total	Annual KWH Per Customer	Price Per KWH (Cents)	Annual Revenue Per Customer (Dollars)
1984	**1 958**	**1 398**	**3 444**	**305**	**440**	**7 545**	**243 912**	**23 891**	**3 920**	**271 723**	**8 045**	**8.81**	**709**
1983	1 915	1 341	3 127	320	428	7 131	242 959	23 694	3 864	270 517	7 900	8.44	665
1982	1 911	1 325	2 873	395	414	6 918	241 492	23 495	3 815	268 802	7 906	8.04	636
1981	1 919	1 294	3 080	449	409	7 151	241 663	23 573	3 844	269 080	7 966	7.23	576
1980	1 971	1 282	3 165	560	410	7 388	240 142	23 532	3 818	267 492	8 232	6.40	527
1974	1 634	1 107	3 062	401	338	6 542	221 846	22 360	3 249	247 455	7 419	2.85	212

Load (megawatts) | **Energy** (millions of kilowatt-hours) | **Fuel**

Year	Net Capability at Time of Peak	Peak Load	Load Factor (%)	Capacity Margin (%)	Generated Fossil	Generated Nuclear	Generated Total	Purchased & Net Interchanged Power	Total	Fuel Cost Per KWH (Cents)	Efficiency BTU Per KWH
1984	**1 726**	**1 327**	**68**	**23**	**5 182**	**2 091**	**7 273**	**719**	**7 992**	**1.73**	**10 193**
1983	1 777	1 325	66	25	4 683	2 383	7 066	593	7 659	1.67	10 337
1982	1 790	1 355	62	24	5 306	1 569	6 875	510	7 385	1.80	10 221
1981	1 773	1 315	66	26	5 349	2 142	7 491	157	7 648	1.68	10 274
1980	1 760	1 310	68	26	5 529	1 031	6 560	1 352	7 912	1.65	10 245
1974	1 453	1 249	64	14	5 259	–	5 259	1 737	6 996	.75	10 065

Investment (millions of dollars)

Year	Plant In Service	Accumulated Provisions For Depreciation	Net Plant	Construction Work In Progress	Nuclear Fuel In Service	Total Plant	Annual Construction Expenditures	Total Assets
1984	**1 391**	**365**	**1 026**	**1 480**	**40**	**2 546**	**356**	**2 865**
1983	1 358	325	1 033	1 154	23	2 210	294	2 437
1982	1 307	286	1 021	879	18	1 918	249	2 125
1981	1 261	252	1 009	657	11	1 677	201	1 870
1980	1 208	221	987	519	18	1 524	235	1 702
1974	439	116	323	276	–	599	121	655

Capitalization (millions of dollars)

Year	Common Shareowners Equity	%	Cumulative Preferred Stock	%	Cumulative Preferred with Mandatory Redemption	%	Long-Term Debt	%	Total
1984	**814**	**36**	**200**	**9**	**158**	**7**	**1 110**	**48**	**2 282**
1983	716	36	200	10	94	5	985	49	1 995
1982	617	35	170	10	95	5	876	50	1 758
1981	550	35	150	10	96	6	762	49	1 558
1980	479	34	150	11	67	5	708	50	1 404
1974	177	32	81	15	–	–	299	53	557

BOARD OF DIRECTORS

Richard P. Anderson (O)
Managing Partner
The Andersons (Agribusiness)

Samuel G. Carson (E)(N*)(S)
Chairman (Retired)
The Toledo Trust Company
(Commercial Banking)

Richard P. Crouse
Vice President, Nuclear

Chester Devenow (A)(C*)(S)
Chairman and Chief Executive Officer
Sheller-Globe Corporation (Automotive)

Edwin D. Dodd (C)(O)
Chairman Emeritus and Director
Owens-Illinois, Inc. (Packaging Products)

Elwood L. Elberson (C)
Chairman, President and Chief Executive
Dinner Bell Foods, Inc. (Meat Packing)

Wendell A. Johnson (E)
President and Chief Operating Officer

Isabel F. Martin (A)
Former Consultant, Toledo Area United Way

Donald G. Nicholson
Senior Vice President, Finance

Henry A. Page, Jr. (E)(N)
Director of Development
The Medical College of Ohio at Toledo

Lyman C. Phillips
Vice President, Corporate
Planning and Administration

Paul M. Smart
Senior Vice President
Corporate Development and General Counsel

Willard I. Webb, III (A*)(E)(S)
Chairman and Chief Executive Officer
Ohio Citizens Bank (Commercial Banking)

John P. Williamson (E*)(S*)
Chairman and Chief Executive Officer

Robert G. Wingerter (N)(O*)(S)
Chairman, Executive Committee
Libbey-Owens-Ford Company
(Glass Products)

KEY TO DIRECTORS' COMMITTEES

(A) Audit Committee
(C) Compensation Committee
(E) Executive Committee
(N) Nominating Committee
(O) Operations Committee
(S) Strategic Planning
* denotes committee chairman

DIRECTORS EMERITI

Floyd M. Canter
William S. Carlson
Virgil A. Gladieux
Marvin S. Kobacker

OFFICERS

John P. Williamson
Chairman and Chief Executive Officer

Wendell A. Johnson
President and Chief Operating Officer

Donald G. Nicholson
Senior Vice President, Finance

Paul M. Smart
Senior Vice President,
Corporate Development and General Counsel

Anthony A. Bosch, Jr.
Vice President, Customer Services

Richard P. Crouse
Vice President, Nuclear

John R. Dyer
Vice President, Public Relations

Joseph E. Murray
Vice President, Energy Supply

Lyman C. Phillips
Vice President, Corporate Planning
and Administration

Stratman Cooke
Secretary

Donald H. Saunders
Treasurer

Paul G. Busby
Controller

THE ANNUAL MEETING

The Annual Meeting of The Toledo Edison Company will be held at 10 a.m. (E.D.T.) on April 23, 1985 in the Company's headquarters, Edison Plaza, 300 Madison Avenue, Toledo, Ohio. Formal notice of the meeting will be sent to shareowners with the proxy statement.

The Annual Report, including financial statements, is for the general information of the Company's shareowners. It is not intended to be used in connection with any sale or purchase of securities.

A copy of Form 10-K as filed with the Securities and Exchange Commission may be obtained by writing: D. G. Nicholson, Senior Vice President, Finance, 300 Madison Avenue, Toledo, Ohio 43652.

EXECUTIVE OFFICES

300 Madison Avenue
Toledo, Ohio 43652
Phone (419) 259-5000
(after 3/29/85 - 249-5000)

STOCK TRANSFER AGENT, REGISTRAR, DIVIDEND DISBURSING AND REINVESTMENT AGENT

The Toledo Trust Company
Toledo, Ohio 43603

MORTGAGE TRUSTEE

The Chase Manhattan Bank, N.A.
New York, N.Y. 10081

AUDITORS

Arthur Andersen & Co.
300 Madison Avenue
Toledo, Ohio 43604

EXCHANGE LISTINGS

Common
New York Stock Exchange (TED)
Midwest Stock Exchange
Pacific Stock Exchange

Unlisted Trading Privileges
Boston Stock Exchange
Cincinnati Stock Exchange
Philadelphia, Baltimore and
Washington Stock Exchange

Preferred – $25 par value – 8.84%, $2.365, $4.28, $3.47, $3.75 and $3.72 series
New York Stock Exchange

Preferred – $100 par value – 4¼%, 8.32%, 7.76% and 10% series
American Stock Exchange

Bonds
7½% – Due 2002
8% – Due 2003
9% – Due 2000
9.35% – Due 1985
9⅝% – Due 2008
9.65% – Due 2006
11% – Due 2009
New York Stock Exchange

NEW DIRECTOR

Edwin D. Dodd, Director, Consultant and Chairman Emeritus of Owens-Illinois, Inc., was elected in July to the Toledo Edison Board of Directors. His election filled a vacancy left by the May 1984 death of Robert H. Davies, who had served ably on the Board for eight years.

Mr. Dodd joined the multinational packaging products company in 1946 and was named chief executive officer in 1972. He has played a leadership role in numerous Toledo, Ohio and national civic and business organizations, and has served on several Presidential commissions. He was 1983-84 chairman of the Chamber of Commerce of the United States.

TOLEDO
EDISON

EDISON PLAZA
300 MADISON AVENUE
TOLEDO, OHIO 43652

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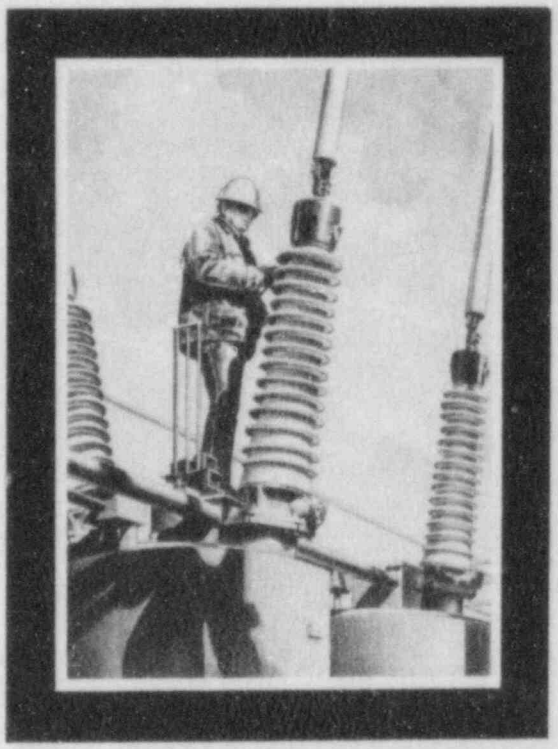
PENN POWER
The Energy Makers



PENNSYLVANIA POWER COMPANY

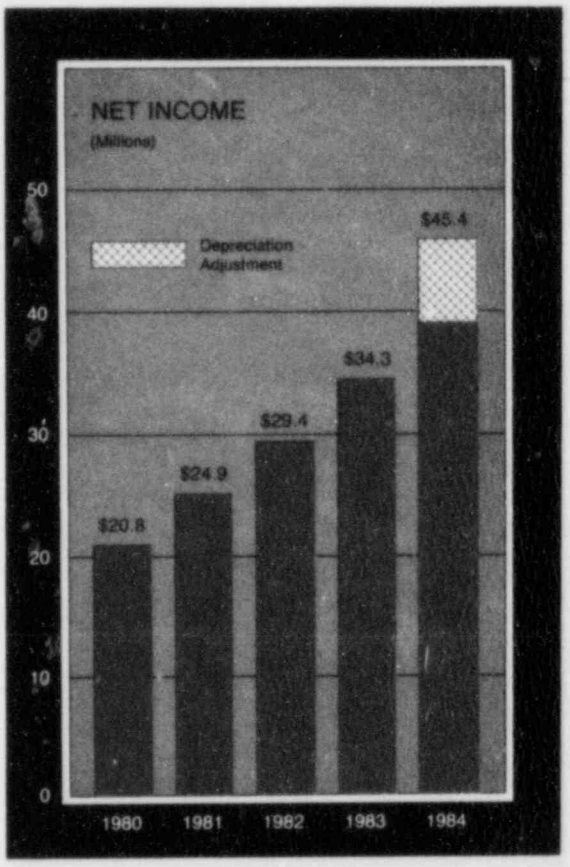
1984 ANNUAL REPORT

Financial Highlights

PENN POWER

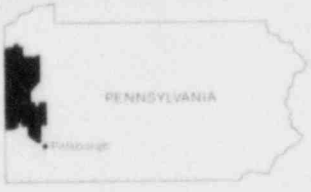
For the Years Ended December 31,	1984	1983	Change
	(In Millions)		
Kilowatt-Hour Sales	3,805.6	3,396.5	+ 12.0%
Operating Revenues	$213.2	$191.2	+ 11.5%
Fuel Expense	56.1	47.7	+ 17.7%
Operating Income	44.5	44.0	+ 1.2%
Allowance for Funds Used During Construction, Net	24.4	18.4	+ 32.4%
Interest Expense	39.8	35.1	+ 13.5%
Net Income (i)	45.4	34.3	+ 32.2%
Earnings on Common Stock (i)	36.4	27.0	+ 34.7%
Dividends on Capital Stock	$ 29.8	$ 26.6	+ 12.2%
Capital Expenditures:			
Construction of Facilities	$ 80.9	$ 71.6	
Nuclear Fuel	13.4	8.5	
Capital Leases	1.1	3.2	
	$ 95.4	$ 83.3	+ 14.5%
Internally Generated Funds	31.4	26.7	+ 17.6%
Net Financing Activities	55.0	57.3	- 4.0%
Return on Average Common Equity	16.0%	13.0%	

(i) 1984 includes a noncash depreciation adjustment of $6.7 million which increased net income and earnings on common stock (See Note 2).



The Company

Pennsylvania Power Company (Penn Power or the Company) provides electric service to approximately 127,400 customers in Western Pennsylvania. The Company furnishes electric service in 139 communities, as well as rural areas, and also sells electric energy at wholesale to five municipalities. The Company's service area has an estimated population of 350,000. The Company, with headquarters in New Castle, Pennsylvania, is a wholly-owned subsidiary of Ohio Edison Company (Edison).



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Letter to the Stockholders

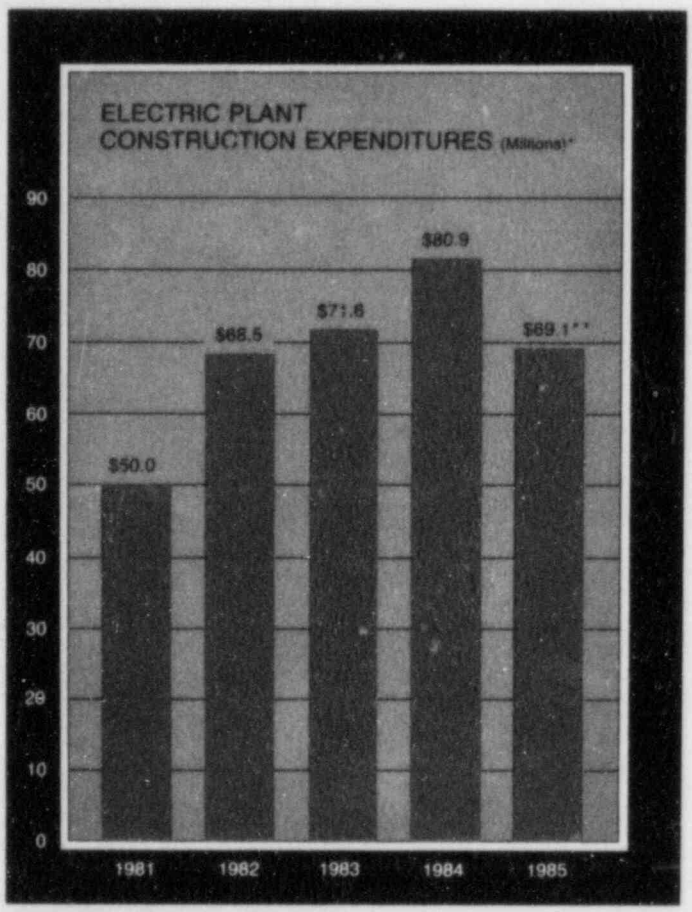
The year 1984 was a successful one for the Company with several notable accomplishments.

- *Increased sales and new rates produced record operating revenues.*
- *For the fourth year in a row, a gain was posted in net income.*
- *A long and costly dispute between the Company and its municipal resale customers was successfully resolved.*
- *Off-system sales hit a record high.*

Record sales

Sales increased by 12 percent from 1983 to a record 3.8 billion kilowatt-hours due to increased industrial use and substantial gains in off-system sales. Sales to retail and wholesale customers of 3.4 billion kilowatt-hours for 1984 were only two percent below 1981, a record year.

Industrial sales of 1.9 billion kilowatt-hours were up 13.7 percent from 1983, lagging 1981 by only 3.5 percent and leading 1982, the recession's downturn year, by 24 percent. Sales to other utilities were more than doubled due to a full year of sales from the long-term contracts made in 1983.



* Excludes nonutility property, nuclear fuel and capital leases
** Authorized

Record operating revenues

Operating revenues totaled $213.2 million, an 11.5 percent increase from 1983. A $15.4 million rate increase approved by the Pennsylvania Public Utility Commission (PPUC) in April 1984 contributed to the increase.

The PPUC required the Company to make a noncash adjustment that decreased the depreciation reserve and, thus, increased net income for the year by $6.7 million. Net income, excluding the depreciation change, increased by 12.5 percent over 1983.

For the second year in a row, the Company reduced maintenance expenses, but financing and operating costs continue to rise, adversely affecting the Company's earnings potential. As a result, the Company has a $20.4 million retail rate increase request pending before the PPUC. Filed in October 1984, a final decision by the Commission on the request for new rates is expected by July 1985.

Company reaches agreement with municipalities

We are pleased to report that the Company and the five municipalities it provides wholesale electric service have reached a seven-year agreement that ends equally as many years of legal and regulatory controversy. The agreement, accepted by the Federal Energy Regulatory Commission (FERC) in December, began September 1, 1984. The five boroughs are now being charged the applicable retail rate, set by the PPUC, for their electric service. The boroughs have agreed not to intervene in the Company's rate cases. Additionally, the Boroughs of Ellwood City and Grove City dropped an antitrust action and other litigation against the Company pending before courts and FERC.

No short-term debt outstanding

The Company minimized bank borrowing throughout 1984 and, like 1983, had no short-term debt outstanding at the end of the year. Along with funds remaining from a December 1983 bond issue and funds generated internally, the 1984 construction program was financed by taking advantage of a receptive capital market to issue $20 million in first mortgage bonds, $10 million in preferred stock and $12.7 million in pollution control notes. A sale of $12 million of common stock to the parent company, Ohio Edison, was made in December. A portion of the proceeds from the 1984 financings will fund 1985 capital requirements. The remainder of the 1985 construction funds and maturing obligations will be met with planned issues of additional first mortgage bonds, pollution control notes, and common stock as well as funds generated internally.

Air quality construction program completed

In 1984, construction work was completed on the air quality control project for Unit 7 at the W. H. Sammis Plant, partially owned by the Company. The Company's share of the project amounted to $19 million. The completion of the project concluded the Company's program to bring its coal-fired generation in compliance with air quality regulations. However, special interest groups using circumstantial evidence continue to pressure Congress for "acid rain" legislation requiring more costly controls. Before a new round of expensive projects is

required to satisfy "acid rain" lobbies, there should be reasonable assurance of real benefits. So far, that assurance is missing, and we're doing everything we can to convince Congress to recognize this fact.

It appears the Company will not need to install cooling towers, estimated to cost as much as $32 million, to meet water quality thermal standards for the New Castle Power Plant. The Pennsylvania Department of Environmental Resources accepted a proposal made by the Company in May 1984 that provides an alternate means of compliance.

Property additions and improvements

Penn Power will spend approximately $214 million for property additions and improvements over the next five years. Construction of facilities amounted to $81 million in 1984 and are budgeted at $69 million this year. The joint development of power plants and transmission facilities with the Central Area Power Coordination Group (CAPCO) continues to constitute the greater part of current construction activities.

The Company has partial ownership in three CAPCO nuclear units, one operating and two under construction. Unit 1 at the Beaver Valley Power Station supplied 21 percent of the Company's electric generation in 1984. The unit had an impressive operating record in 1984, achieving a 93 percent operating availability for the year before the unit went off line for scheduled refueling and maintenance in October. During the planned shutdown, modifications were completed that now permit 15 months of continuous operation between refuelings. The unit returned to service in January 1985 and the next refueling is planned for early 1986.

The projected completion cost for Unit 1 at CAPCO's Perry Nuclear Plant is $3.9 billion, amounting to $204 million for the Company based on its 5.24 percent share of ownership. The unit is expected to be completed by late 1985. The construction schedule and budget for Unit 2 is currently under review.

Deferred coal costs

The PPUC issued an order pertaining to the recovery by the Company of deferred costs for coal from Quarto mines used at the Bruce Mansfield Plant. As it stands, the order could result in unrecovered costs, detailed in Note 8. The Company has appealed the decision to Pennsylvania's Commonwealth Court.

New peak load

The combination of hot weather and increased industrial activity resulted in a new peak demand of 597 megawatts on June 13, 1984. The previous peak demand was 577 megawatts recorded in 1981.

Aggressive and innovative sales efforts

Penn Power's aggressive marketing efforts produced more than 360 million kilowatt-hours of new business in 1984. The Company added an economic development rider to its industrial rates in 1984 as an incentive for manufacturers to expand or locate within Penn Power territory. The rider extends over five years and offers reduced charges for any new or additional demand. Also, residential customers can take advantage of reduced billing demands for electric home heating and water heating systems, under a new interruptible rate. The rate applies to add-on heat pumps, dual-fuel resistance heaters and certain water heaters operated in line with a radio-controlled, load-shedding device.

We foresee continued sales growth within our service area for 1985, but at a slower pace compared to other parts of the state and nation. Our 1985 goal is to increase new business by 115 million kilowatt-hours.

Reaching out

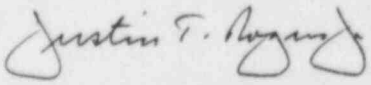
In addition to our ongoing effort to improve the area's economic outlook through plant expansions and jobs, we started an emergency fund to aid our hardship customers along the way. Project REACH started with a corporate gift. Then, we enlisted the support of our employees, our customers and the Salvation Army. Together, we're helping our neighbors in need pay their energy bills this winter. It's been a successful and gratifying program.

In tribute

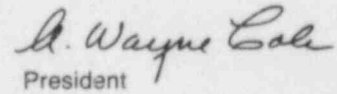
Clyde M. Whittaker, a director of the Company since 1960, passed away in July 1984. Mr. Whittaker was retired chairman of the board of Universal-Rundle Corporation, New Castle. We greatly associate his presence on the board with our successes. He is deeply missed.

Thanks to dedicated employees

The Company's ability to succeed during this period of economic resurgence pays particular tribute to the perseverance and dedication of Penn Power employees. Our plans for future successes could not be in better hands.



Chairman of the Board



President

New Castle, Pennsylvania
March 12, 1985

Operating Statistics

	1984	1983	1982	1981	1980
Revenue from Electric Sales (Thousands):					
Residential	$ 69,133	$ 63,994	$ 61,628	$ 52,649	$ 50,251
Commercial	35,542	36,841	36,068	30,225	28,374
Industrial	77,210	61,959	61,611	64,787	58,623
Other	6,963	6,989	7,082	5,347	5,472
Subtotal	188,848	169,783	166,389	153,008	142,720
Sales to Utilities	9,305	4,277	20	24	73
Total	$198,153	$174,060	$166,409	$153,032	$142,793
Revenue from Electric Sales—%:					
Residential	34.9%	36.7%	37.0%	34.4%	35.2%
Commercial	17.9	21.2	21.7	19.8	19.9
Industrial	39.0	35.6	37.0	42.3	41.0
Other	3.5	4.0	4.3	3.5	3.8
Subtotal	95.3	97.5	100.0	100.0	99.9
Sales to Utilities	4.7	2.5	—	—	0.1
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Kilowatt-Hour Sales (Millions):					
Residential	890.7	876.0	865.0	862.4	845.5
Commercial	548.4	589.5	578.2	566.1	536.9
Industrial	1,849.7	1,627.3	1,487.7	1,915.8	1,737.2
Other	125.9	123.7	125.5	131.5	129.7
Subtotal	3,414.7	3,216.5	3,056.4	3,475.8	3,249.3
Sales to Utilities	390.9	180.0	1.0	1.0	2.1
Total	3,805.6	3,396.5	3,057.4	3,476.8	3,251.4
Customers Served at December 31:					
Residential	113,368	112,768	111,931	111,121	110,012
Commercial	13,601	13,474	12,994	12,902	12,839
Industrial	285	104	106	109	107
Other	128	129	122	118	117
Total	127,382	126,475	125,153	124,250	123,075
Residential Customer Averages:					
Average Kwh Used per Residential Customer	7,884	7,804	7,755	7,813	7,726
Average Price per Kwh-Residential (Cents)	7.76	7.30	7.12	6.10	5.94
Kilowatt-Hours Generated (Millions)	4,063.5	3,563.7	3,546.7	3,834.6	3,146.0
Kilowatt-Hours Purchased and (Interchanged), Net (Millions)	(59.4)	(3.3)	(400.2)	(256.4)	296.5
Peak Load (Megawatts)	597	567	562	577	548
Cost of Coal per Million BTU	$ 1.50	$ 1.57	$ 1.66	$ 1.60	$ 1.71
Generation Capability:					
Coal	77.7%	77.7%	77.7%	77.7%	77.5%
Oil	6.1	6.1	6.1	6.1	6.3
Nuclear	16.2	16.2	16.2	16.2	16.2
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Sources of Electric Generation:					
Coal	79.3%	77.1%	86.7%	78.3%	97.7%
Oil	—	—	0.1	0.2	0.7
Nuclear	20.7	22.9	13.2	21.5	1.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Number of Employees at December 31	1,828	1,838	1,868	1,779	1,682

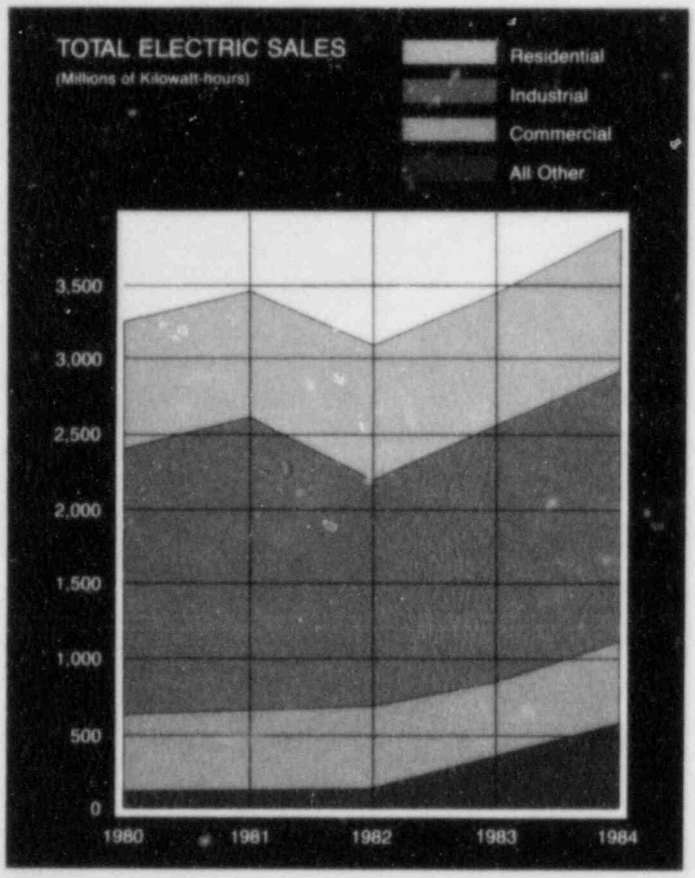
Selected Financial Data

PENN POWER

	1984	1983	1982	1981	1980
			(Dollars in Thousands)		
Operating Revenues	$213,150	$191,172	$185,883	$174,488	$157,208
Operating Income	$ 44,519	$ 43,977	$ 40,590	$ 37,412	$ 32,427
Net Income (i)	$ 45,404	$ 34,343	$ 29,392	$ 24,936	$ 20,822
Earnings on Common Stock (i)	$ 36,439	$ 27,047	$ 23,294	$ 19,331	$ 15,590
Cash Dividends on Common Stock	$ 20,862	$ 19,203	$ 18,324	$ 15,876	$ 14,301
Total Assets at December 31	$875,604	$797,180	$710,886	$637,607	$588,624
Utility Plant	$923,420	$829,915	$733,395	$649,350	$599,982
Depreciation Reserve	171,483	157,329	137,016	124,115	113,044
Net Utility Plant	$751,937	$672,586	$596,379	$525,235	$486,938
Property Additions	$ 95,383	$ 83,337	$ 86,889	$ 52,858	$ 57,204
Long-Term Obligations	$ 52,179	$ 41,351	$ 22,847	—	—
CAPITALIZATION:					
Common Stockholder's Equity	$247,096	$219,474	$199,680	$194,666	$170,755
Preferred Stock—					
Not Subject to Mandatory Redemption	41,905	41,905	41,905	41,905	41,905
Subject to Mandatory Redemption	56,562	47,471	33,395	26,298	27,200
Long-Term Debt	317,764	323,363	295,405	262,011	242,194
Total Capitalization	$663,327	$632,213	$570,385	$524,880	$482,054
CAPITALIZATION RATIOS:					
Common Stockholder's Equity	37.3%	34.7%	35.0%	37.1%	35.4%
Preferred Stock—					
Not Subject to Mandatory Redemption	6.3	6.6	7.3	8.0	8.7
Subject to Mandatory Redemption	8.5	7.5	5.9	5.0	5.6
Long-Term Debt	47.9	51.2	51.8	49.9	50.3
Total Capitalization	100.0%	100.0%	100.0%	100.0%	100.0%

(i) 1984 includes a noncash depreciation adjustment of $6,751,000 which increased net income and earnings on common stock (See Note 2).

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



Results of Operations

Results of operations for 1984 reflect the improved economy in the Company's service area. Increased total kilowatt-hour sales of 12.0% and a rate increase effective in April 1984 contributed to increased earnings on common stock of 9.8% (excluding the effect of a noncash depreciation adjustment to income in 1984 as discussed below) recorded over 1983 levels.

Increased operating revenues of 11.5% in 1984 compared to 1983 resulted primarily from a $15.4 million rate increase that became effective in April of 1984 which accounted for approximately one half of the total increase. Also contributing to this increase was a 13.7% increase in kilowatt-hour sales to the Company's industrial customers and increased bulk power sales to non-associated utilities resulting from two long-term contracts entered into in mid-1983. The 1983 operating revenue increase of 2.8% was primarily due to a $10.8 million rate increase that became effective in September of 1982. Industrial kilowatt-hour sales increased in 1983 following a substantial decrease in 1982. In addition, increased bulk power sales to non-associated utilities in mid-1983 contributed to this increase. Partially offsetting this 1983 revenue increase was a reduction to the levelized energy cost rate.

Fuel costs increased in 1984 compared to 1983 resulting principally from greater quantities of fuel consumed due to improved availability of the Company's generating units and increased generation required to supply the demand for increased sales within the system and to non-associated utilities for bulk power sales. The reduction in fuel costs in 1983 from 1982 was primarily attributable to reduced consumption of coal as a result of outages to generating units at the New Castle Plant and Sammis Unit No. 7 during the year 1983. Net purchased and interchanged power expenses decreased in 1984 compared to 1983 due to improved availability of the Company's generating units. The increase in net purchased and interchanged power expenses in 1983 over 1982 was principally due to reduced deliveries of power to Ohio Edison in 1983 and increased purchases of low-cost power resulting principally from the Company's contractual obligations with Ohio Valley Electric Corporation.

Other operation expenses increased in 1984 over 1983 due primarily to increased employee benefits, injuries and damages, legal costs associated with the recently settled antitrust case, and expenses relating to rate cases.

The provision for depreciation and amortization increased in 1984 over 1983 due primarily to the amortization of the retail portion of terminated construction project costs approved by the PPUC in April 1984. In addition, depreciation increased due to a higher level of utility plant in service.

Other income increased in 1984 compared to 1983 due to a noncash depreciation reserve adjustment of $6,751,000 necessitated by a PPUC rate order. The adjustment resulted in a reduction to the Company's reserve for depreciation and reflects previously recorded depreciation not recovered in

retail rates but which will be recovered in future rates.

Increases in interest on long-term debt and preferred stock dividend requirements in 1984 and 1983 reflect the effects of financing for the Company's construction program. The increase in allowance for funds used during construction resulted principally from capitalizing financing costs applicable to higher levels of construction work in progress. Increased interest on nuclear fuel obligations reflects the Company's increased investment in nuclear fuel during 1984 and 1983.

Information with respect to the estimated effects of inflation upon the Company is given in Note 10 of Notes to Financial Statements.

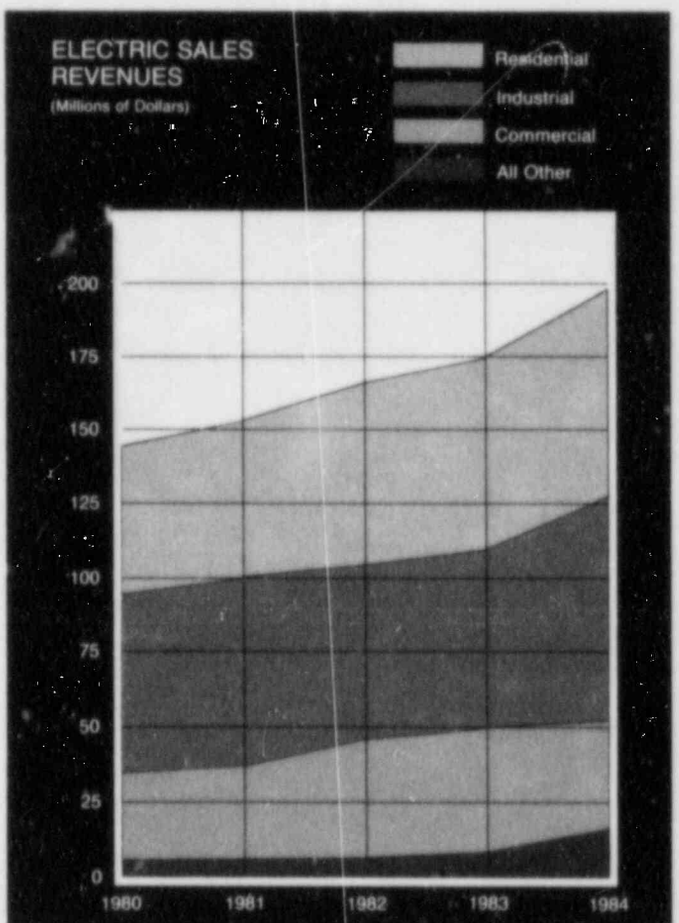
Capital Resources and Liquidity

The 1985-1989 construction budget is currently estimated to be $214,000,000; the issuance of additional common stock and other securities will be necessary to fund a portion of this new construction. During the same five-year period, maturities of, and sinking fund requirements for, long-term debt, long-term obligations and preferred stock will require the expenditure by the Company of approximately $140,000,000. In addition, the Company expects to invest approximately $40,000,000 for nuclear fuel during the 1985-1989 period.

The Company's current budget forecast reflects expenditures of approximately $69,000,000 for new construction in 1985. Also, approximately $27,000,000 of first mortgage bonds mature in 1985 and are expected to be refunded. At December 31, 1984, the Company had available approximately $22,000,000 of temporary cash investments and approximately $13,000,000 of funds held in escrow from previous pollution control financings. The Company also has $30,000,000 of short-term bank lines of credit available for interim financing purposes, none of which had been drawn down at December 31, 1984. All of the current lines expire December 31, 1985; however, all unused lines may be canceled by banks. The Company expects to finance the majority of its 1985 capital requirements through the issuance of additional first mortgage bonds, common stock and pollution control notes. The Company also expects to invest approximately $6,000,000 for additional nuclear fuel in 1985 through the incurrence of additional long-term obligations.

Based upon earnings as of December 31, 1984, the Company would be permitted, under its first mortgage indenture, to issue approximately $31,000,000 principal amount of first mortgage bonds assuming an interest rate of 14%, or under its charter, would be permitted to issue approximately $41,000,000 of preferred stock assuming a dividend rate of 13.5%, or to issue some lesser combination of both first mortgage bonds and preferred stock.

The Company has a rate case pending with the PPUC which, if granted in full, is designed to produce additional annual revenues of approximately $20,400,000. New rates are expected to become effective by July 16, 1985.



Balance Sheets

Assets

At December 31,	1984	1983
	(In Thousands)	
Utility Plant:		
In service, at original cost	$611,615	$576,258
Less-Accumulated provision for depreciation	171,483	157,329
	440,132	418,929
Construction work in progress—		
Electric plant	265,139	220,420
Nuclear fuel	46,666	33,237
	311,805	253,657
	751,937	672,586
Other Property and Investments	2,706	2,688
Current Assets:		
Cash	624	635
Temporary cash investments, at cost, which approximates market value	21,900	22,993
Receivables—		
Customers (less accumulated provision of $112,000 and $432,000, respectively, for uncollectible accounts)	15,963	14,212
Parent company	18,435	16,762
Other	12,020	14,447
Materials and supplies, at average cost—		
Fuel	11,209	8,871
Other	5,494	5,072
Prepayments	817	426
	86,462	83,418
Deferred Charges:		
Deferred Quarto coal and energy costs (Note 8)	10,902	9,879
Unamortized costs of terminated construction projects (Note 3)	14,818	16,000
Other	8,779	12,609
	34,499	38,488
	$875,604	$797,180

Capitalization and Liabilities

At December 31,	1984	1983
	(In Thousands)	
Capitalization (See Statements of Capitalization):		
Common stockholder's equity	$247,096	$219,474
Preferred stock—		
Not subject to mandatory redemption	41,905	41,905
Subject to mandatory redemption	56,562	47,471
Long-term debt	317,764	323,363
	663,327	632,213
Long-Term Obligations:		
Nuclear fuel (Note 6)	47,129	32,614
Capital leases (Note 4)	5,050	8,737
	52,179	41,351
Current Liabilities:		
Currently payable preferred stock, long-term debt and long-term obligations	34,014	5,241
Notes payable to banks (Note 7)	—	—
Accounts payable—		
Parent company	3,879	2,069
Other	40,002	41,610
Accrued taxes	4,603	4,562
Accrued interest	8,068	6,978
Other	8,164	4,987
	98,730	65,447
Deferred Credits:		
Accumulated deferred income taxes	36,931	31,002
Accumulated deferred investment tax credits	19,443	15,179
Energy costs recovered in advance	—	3,569
Other	4,994	8,419
	61,368	58,169
Commitments, Guarantees and Contingencies (Notes 4 and 8)		
	$875,604	$797,180

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

Statements of Income

For the Years Ended December 31,	1984	1983	1982
		(In Thousands)	
Operating Revenues	$213,150	$191,172	$185,883
Operating Expenses and Taxes:			
Operation—			
Fuel	56,124	47,666	61,974
Purchased and interchanged power, net	(4,410)	(3,818)	(14,534)
Other operation expenses	43,477	36,339	32,841
Total operation	95,191	80,187	80,281
Maintenance	18,263	18,467	18,585
Provision for depreciation and amortization	18,810	16,845	15,857
General taxes	15,733	13,475	12,590
Income taxes	20,634	18,221	17,980
Total operating expenses and taxes	168,631	147,195	145,293
Operating Income	44,519	43,977	40,590
Other Income and Deductions:			
Allowance for equity funds used during construction	15,997	12,219	10,464
Miscellaneous, net (Note 2)	8,167	892	763
Income taxes—credit	8,150	6,149	3,871
Total other income and deductions	32,314	19,260	15,098
Total Income	76,833	63,237	55,688
Net Interest:			
Interest on long-term debt	33,640	30,300	27,019
Interest on nuclear fuel obligations	5,030	2,931	1,068
Allowance for borrowed funds used during construction, net of deferred income taxes	(8,357)	(6,173)	(4,040)
Other	1,116	1,836	2,249
Net interest	31,429	28,894	26,296
Net Income	45,404	34,343	29,392
Preferred Stock Dividend Requirements	8,965	7,296	6,098
Earnings on Common Stock	$ 36,439	$ 27,047	$ 23,294

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

Statements of Capitalization

PENN POWER

At December 31,	Number of Shares Outstanding 1984	Number of Shares Outstanding 1983	Optional Redemption Price Per Share	Optional Redemption Price Aggregate (In Thousands)	1984	1983
					(In Thousands)	
Common stockholder's equity:						
Common stock, $30 par value, 6,500,000 shares authorized 5,890,000 and 5,490,000 shares outstanding, respectively					$176,700	$164,700
Other paid-in capital					200	177
Retained earnings (Note 5a)					70,196	54,597
Total common stockholder's equity					247,096	219,474
Preferred stock (Note 5b):						
Cumulative, $100 par value						
Authorized—1,200,000 shares						
Not Subject to Mandatory Redemption:						
4.24% - 4.64%	141,049	141,049	$102.98 - 105.00	$14,614	14,105	14,105
7.64% - 8.00%	118,000	118,000	104.47 - 105.27	12,374	11,800	11,800
8.48% - 9.16%	160,000	160,000	105.20 - 106.87	16,966	16,000	16,000
Total not subject to mandatory redemption	419,049	419,049		$43,954	41,905	41,905
Subject to Mandatory Redemption (Note 5c):						
8.24%	85,000	90,000	$108.24	$ 9,200	8,500	9,000
10.50%	100,000	100,000	109.04	10,904	10,000	10,000
11.00%	55,616	59,708	112.11	6,235	5,562	5,971
11.50%	150,000	150,000	103.29	15,494	15,000	15,000
13.00%	100,000	—	113.00	11,300	10,000	—
15.00%	80,000	80,000	114.62	9,169	8,000	8,000
Redemption within one year					(500)	(500)
Total subject to mandatory redemption	570,616	479,708		$62,302	56,562	47,471
Long-term debt (Note 5d):						
First mortgage bonds—						
13.32% weighted average interest rate, due 1985 through 1989					97,890	37,512
9.54% weighted average interest rate, due 1990 through 1994					61,890	99,890
9.33% weighted average interest rate, due 1995 through 1999					23,940	11,890
8.52% weighted average interest rate, due 2000 through 2004					54,240	67,620
9.26% weighted average interest rate, due 2005 through 2008					41,040	42,088
Total first mortgage bonds					279,000	259,000
Secured notes and obligation—						
5.88% weighted average interest rate, due 1985 through 1989					328	263
8.45% weighted average interest rate, due 1990 through 1994					9,204	8,104
7.72% weighted average interest rate, due 1995 through 1999					9,261	8,086
10.09% weighted average interest rate, due 2000 through 2004					36,098	28,839
7.34% weighted average interest rate, due 2005 through 2009					12,720	22,369
12.00% weighted average interest rate, due 2010 through 2014					12,700	—
					80,311	67,661
Amount held by Trustee					(13,305)	(2,572)
Total secured notes and obligation					67,006	65,089
Net unamortized discount on debt					(814)	(676)
Long-term debt due within one year					(27,428)	(50)
Total long-term debt					317,764	323,363
Total capitalization					$653,327	$632,213

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

Statements of Retained Earnings

For the Years Ended December 31,	1984	1983	1982
		(In Thousands)	
Balance at beginning of period	$ 54,597	$ 46,820	$ 41,850
Net income	45,404	34,343	29,392
	100,001	81,163	71,242
Deduct:			
Cash dividends on common stock	20,862	19,203	18,324
Cash dividends on preferred stock	8,943	7,363	6,098
	29,805	26,566	24,422
Balance at end of period (Note 5a)	$ 70,196	$ 54,597	$ 46,820

Statements of Capital Stock and Other Paid-In Capital

	Common Stock			Preferred Stock			
				Not Subject to Mandatory Redemption		Subject to Mandatory Redemption	
	Number of Shares	Par Value	Other Paid-In Capital	Number of Shares	Par Value	Number of Shares	Par Value
			(Dollars in Thousands)				
Balance, January 1, 1982	5,090,000	$152,700	$116	419,049	$41,905	267,984	$26,798
Sale of 15.00% Series of Preferred Stock	—	—	—	—	—	80,000	8,000
Preferred Stock Sinking Fund Redemptions—							
8.24% Series	—	—	—	—	—	(5,000)	(500)
11.00% Series	—	—	44	—	—	(4,033)	(403)
Balance, December 31, 1982	5,090,000	152,700	160	419,049	41,905	338,951	33,895
Sale of Common Stock	400,000	12,000	—	—	—	—	—
Sale of 11.50% Series of Preferred Stock	—	—	—	—	—	150,000	15,000
Preferred Stock Sinking Fund Redemptions—							
8.24% Series	—	—	—	—	—	(5,000)	(500)
11.00% Series	—	—	17	—	—	(4,243)	(424)
Balance, December 31, 1983	5,490,000	164,700	177	419,049	41,905	479,708	47,971
Sale of Common Stock	400,000	12,000	—	—	—	—	—
Sale of 13.00% Series of Preferred Stock	—	—	—	—	—	100,000	10,000
Preferred Stock Sinking Fund Redemptions—							
8.24% Series	—	—	—	—	—	(5,000)	(500)
11.00% Series	—	—	23	—	—	(4,092)	(409)
Balance, December 31, 1984	5,890,000	$176,700	$200	419,049	$41,905	570,616	$57,062

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

Statements of Sources of Funds for Property Additions

PENN POWER

For the Years Ended December 31,	1984	1983	1982
		(In Thousands)	
Internally generated funds—			
Net income	$ 45,404	$ 34,343	$ 29,392
Principal noncash items—			
Depreciation and amortization	17,112	21,325	16,128
Deferred income taxes, net	15,052	13,585	6,653
Investment tax credits, net	4,264	3,182	7,847
Allowance for equity funds used during construction	(15,997)	(12,219)	(10,464)
Deferred fuel and energy costs, net	(4,592)	(6,924)	1,898
	61,243	53,292	51,454
Less—Dividends on common stock	20,862	19,203	18,324
Dividends on preferred stock	8,943	7,363	6,098
	31,438	26,726	27,032
Financing activities—			
Common stock	12,000	12,000	—
Preferred stock	10,000	15,000	8,000
Long-term debt	21,776	27,955	39,173
Long-term obligations	17,043	13,156	22,847
Repayment of preferred stock, long-term debt and long-term obligations	(5,779)	(10,776)	(6,708)
Notes payable to banks	—	—	(11,400)
	55,040	57,335	51,912
Net change in current assets and current liabilities excluding notes payable to banks and currently payable preferred stock, long-term debt and long-term obligations—			
Cash and temporary investments	1,104	(15,036)	(1,044)
Receivables	(997)	2,898	2,931
Materials and supplies	(2,760)	3,917	(344)
Accounts payable	202	1,896	(7,545)
Accrued taxes	41	(2,350)	2,877
Accrued interest	1,090	217	3,096
Miscellaneous, net	2,786	1,037	1,038
	1,466	(7,421)	1,009
Other, net—			
Allowance for equity funds used during construction	15,997	12,219	10,464
Deferred income taxes on allowance for borrowed funds used during construction	(8,872)	(6,559)	(4,291)
Miscellaneous, net	314	1,037	763
	7,439	6,697	6,936
Total Sources of Funds for Property Additions	$ 95,383	$ 83,337	$ 86,889
Property Additions—			
Electric plant	$ 80,862	$ 71,592	$ 68,533
Nuclear fuel	13,429	8,526	18,146
Capital leases	1,023	3,207	—
Nonutility property	69	12	210
	$ 95,383	$ 83,337	$ 86,889

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

Statements of Taxes

PENN POWER

For the Years Ended December 31,	1984	1983	1982
		(In Thousands)	
General Taxes:			
State gross receipts	$ 8,503	$ 7,7[illegible]	$ 7,473
Real and personal property	3,669	2,212	2,172
State capital stock	1,788	1,902	1,675
Social security and unemployment	1,713	1,587	1,207
Miscellaneous	60	47	63
Total general taxes	$ 15,733	$ 13,475	$ 12,590
Provision for Income Taxes:			
Currently payable—			
Federal	$ 614	$ 647	$ 1,644
State	1,426	1,217	2,256
	2,040	1,864	3,900
Deferred, net (see below)—			
Federal	12,079	10,708	5,253
State	2,973	2,877	1,400
	15,052	13,585	6,653
Investment tax credits, net of amortization	4,264	3,182	7,847
Total provision for income taxes	$ 21,356	$ 18,631	$ 18,400
Income Statement Classification of Provision for Income Taxes:			
Operating expenses	$ 20,634	$ 18,221	$ 17,980
Other income	(8,150)	(6,149)	(3,871)
Allowance for borrowed funds used during construction	8,872	6,559	4,291
Total provision for income taxes	$ 21,356	$ 18,631	$ 18,400
Sources of Deferred Income Taxes:			
Allowance for borrowed funds used during construction, which is credited to plant	$ 8,872	$ 6,559	$ 4,291
Excess of tax over book depreciation, net	4,096	4,145	3,375
Cost of terminated construction projects, net	(609)	(43)	460
Deferred fuel and energy costs, net	2,365	3,567	(977)
Deferred interest on leased nuclear fuel, net	(2,089)	(608)	(13)
Nuclear fuel disposal costs	1,786	(575)	(497)
Other, net	631	540	14
Net deferred income taxes	$ 15,052	$ 13,585	$ 6,653
Reconciliation of Federal Income Tax Expense at Statutory Rate to Total Provision for Income Taxes:			
Book income before provision for income taxes	$ 66,780	$ 52,974	$ 47,792
Federal income tax expense at statutory rate	$ 30,710	$ 24,368	$ 21,984
Increases (reductions) in taxes resulting from:			
Allowance for equity funds used during construction, which does not constitute taxable income	(7,359)	(5,621)	(4,813)
Excess of tax over book depreciation, net	(223)	(839)	(1,307)
State income taxes, net of Federal income tax benefit	2,375	2,211	1,974
Depreciation reserve adjustment (Note 2)	(3,106)	—	—
Other, net	(1,041)	(1,488)	562
Total provision for income taxes	$ 21,356	$ 18,631	$ 18,400

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies:

The Company, a wholly-owned subsidiary of Ohio Edison Company (Edison), follows the accounting policies and practices prescribed by the Pennsylvania Public Utility Commission (PPUC) and the Federal Energy Regulatory Commission (FERC).

Revenues–

The Company's residential and commercial customers are metered on a cycle basis. Revenue is recognized for electric service based on meters read through the end of the month.

Revenues from the Company's largest customer, Sharon Steel Corporation, amounted to approximately $23,894,000, $22,846,000 and $19,370,000, in 1984, 1983 and 1982, respectively. These amounts represented 11.2%, 12.0% and 10.4%, respectively, of the Company's total operating revenues.

Deferred Fuel and Energy Costs–

The Company recovers fuel and energy costs, in excess of amounts recovered through base rates, from its customers through an annual "levelized" energy cost rate (ECR). The ECR, which includes adjustment for any over or under collection from customers, is recalculated each year. Accordingly, the Company defers the difference between actual energy costs and the amounts currently recovered from its customers.

Reference is made to Note 8 with respect to accounting for the cost of coal received from Quarto Mining Company (Quarto).

Utility Plant and Depreciation–

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

The Company provides for depreciation on a straight-line basis at various rates over the estimated lives of property included in plant in service. The annual composite rate for electric plant was 3.2% in 1984 (see Note 2), 1983 and 1982. The Company provides for the estimated cost of decommissioning the radioactive components of its only nuclear generating unit in service, in accordance with a PPUC rate order. Amounts collected from customers for decommissioning are accumulated in an escrow account.

Common Ownership of Generating Facilities–

The Company and other Central Area Power Coordination Group (CAPCO) companies own, as tenants in common, various power generating facilities. Each of the companies is obligated to pay a share of the construction costs of any jointly owned facility in the same proportion as its ownership interest. The Company's portion of operating expenses associated with these jointly owned facilities is included in the corresponding operating expenses on the Statements of Income. The amounts reflected on the Balance Sheet under utility plant at December 31, 1984, include the following:

Generating Units	Utility Plant in Service	Accumulated Provision for Depreciation	Construction Work in Progress	Company's Ownership Interest
		(In Thousands)		
W. H. Sammis No. 7	$ 46,073	$ 8,340	$ 168	20.80%
Bruce Mansfield No. 1, No. 2 and No.3	84,389	17,655	230	5.76%
Beaver Valley No. 1	163,889	35,804	21,129	17.50%
Perry No. 1 and No. 2	—	—	225,091	5.24%
Total	$294,351	$ 61,799	$246,618	

All nuclear fuel in process relates to the CAPCO units but is not segregated among them.

Nuclear Fuel–

The Company amortizes the cost of nuclear fuel based on the rate of consumption. The Company also makes provision for future disposal costs associated with nuclear fuel.

Allowance for Funds Used During Construction (AFUDC)–

AFUDC represents the net financing costs capitalized to construction work in progress during the construction period. The borrowed funds portion reflects capitalized interest payments and the equity funds portion represents the noncash capitalization of imputed equity costs which are charged to construction. AFUDC varies according to changes in the level of construction work in progress and in the cost of capital. The Company computes AFUDC utilizing a net of tax rate, which is consistent with the rate treatment. The AFUDC rate related to nuclear fuel financed only through the incurrence of long-term obligations (see Note 6) is based on actual interest accrued on the obligations during the period. The annual rates used by the Company for all other construction projects were 9.45% during 1984 and 9.25% during 1983 and 1982.

Income Taxes–

Details of the total provision for income taxes are shown on the Statements of Taxes. The deferred income taxes result from timing differences in the recognition of revenues and expenses for tax and accounting purposes.

The Company allocates the income tax benefit which results from interest expense related to construction work in progress, to income taxes-credit included under other income and deductions on the Statements of Income.

For income tax purposes, the Company claims liberalized depreciation and, consistent with the rate treatment, generally provides deferred income taxes. The Company expects that deferred taxes which have not been provided will be collected from its customers when the taxes become payable, based upon the established ratemaking practices of the PPUC and the FERC. As of December 31, 1984, the cumulative net income tax timing differences for which deferred income taxes have not been provided were approximately $100,000,000.

The Company defers investment tax credits utilized and amortizes these credits to income over the estimated life of the

related property. At December 31, 1984, approximately $10,000,000 of unused investment tax credits were available to offset future Federal income taxes payable. These credits expire at the end of the following years:

1996	$ 2,000,000
1997	2,000,000
1998	4,000,000
1999	2,000,000
	$10,000,000

Retirement Benefits–

The Company's trusteed, noncontributory pension plan covers most full-time employees. Upon retirement, employees receive a monthly pension based on length of service and compensation. Pension costs for 1984, 1983 and 1982, were $4,393,000, $3,397,000 and $2,987,000, respectively. Of those amounts, $1,827,000, $1,309,000 and $666,000, respectively, were charged to operating expenses; the balances were primarily billed to the other CAPCO companies or charged to construction. Such costs include the amortization of unfunded past service costs on an actuarial basis over approximately 35 years in 1984 and 1982, and 40 years in 1983. The Company funds pension costs accrued. A comparison of accumulated plan benefits and plan net assets from the two latest actuarial reports is as follows:

	June 30,	
	1984	1983
Actuarial present value of accumulated plan benefits:		
Vested	$24,879,000	$22,468,000
Nonvested	4,606,000	3,500,000
	$29,485,000	$25,968,000
Net assets available for benefits	$46,952,000	$45,233,000
Assumed rate of return for actuarial present value of accumulated plan benefits	8%	8%

The above total actuarial present value of accumulated plan benefits reflects pension benefits applicable to eligible employees based upon present salary levels and past years of service accumulated through the valuation date. This is the generally accepted reporting procedure currently set forth by the Financial Accounting Standards Board. The Company's annual contribution to the plan, however, considers estimated ultimate salary increases due to inflation and other factors and the estimated total service expected to be accumulated by employees. This is a widely recognized funding technique and is consistent with the recommendation of the Company's actuary. In addition, the actuary recommended, and the Company utilized, a discount rate of 7% for funding purposes. Differences between funding bases and reporting requirements can have a significant effect on the comparisons above.

The Company provides a minimum amount of noncontributory life insurance to retired employees in addition to optional contributory insurance features. Health care benefits, which include certain employee deductibles and co-payments, are also available to retired employees, their dependents and, under certain circumstances, to their survivors. The Company pays insurance premiums to cover a portion of these benefits in excess of set limits; all amounts up to the limits are paid by the Company. Expenses associated with health care and life insurance benefits for retirees amounted to $456,000 in 1984 and are charged to income during the applicable payment periods.

Significant Parent Company Transactions–

Operating revenues for 1984, 1983 and 1982 include $10,693,000, $12,745,000 and $14,141,000, respectively, attributable to transactions with Edison. Such revenues resulted primarily from Edison's purchase of capacity from the Company's ownership interest in Beaver Valley Unit No. 1. Purchased and interchanged power, net, reflects credits of $7,973,000, $8,290,000 and $18,467,000 due to the Company's net delivery of interchanged power to Edison during 1984, 1983 and 1982, respectively. In addition, other operation expenses for 1984, 1983 and 1982 include $3,535,000, $2,794,000 and $2,251,000, respectively, primarily attributable to data processing services rendered by Edison to the Company.

(2) Depreciation Reserve Adjustment:

In the third quarter of 1984, the Company made a noncash depreciation reserve adjustment of $6,751,000 as required by a PPUC rate order. The adjustment resulted in an increase to other income and a decrease to the Company's reserve for depreciation and reflects previously recorded depreciation not recovered in retail rates, but which will be recovered in future rates.

(3) Terminated Construction Projects:

In January 1980, the Company 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 as of December 31, 1984, applicable to these units amounted to approximately $14,818,000. The Company is recovering these costs from customers but is not earning a return on the unamortized investment. The remaining period of recovery is approximately nine years.

(4) Leases:

The Company leases a portion of its nuclear fuel requirements, certain transmission facilities, computer equipment, office space and other property and equipment under cancelable and noncancelable leases. Consistent with the regulatory treatment, rental payments for capital and operating leases are charged to operating expenses on the Statements of Income. Such costs for the three years ended December 31, 1984 are summarized as follows:

	1984	1983	1982
	(In Thousands)		
Interest on capitalized leases	$ 3,824	$ 3,000	$ —
Amortization of capital leases	4,828	4,219	—
All other leases	1,218	1,427	4,618
Total rental payments	$ 9,870	$ 8,646	$ 4,618

Certain leases entered into prior to January 1, 1983, which would be reflected as capital leases on the Balance Sheets, have not yet been capitalized as permitted by Statement of Financial Accounting Standards No. 71 (SFAS No. 71). If they had been capitalized, total assets and liabilities would have increased by $5,515,000 and $5,703,000 at December 31, 1984 and 1983, respectively. Also, in accordance with SFAS No. 71, the December 31, 1983 Balance Sheet and Statement of Sources of Funds for Property Additions for 1983 have been restated to include capital leases entered into during 1983.

The future minimum rental commitments as of December 31, 1984, for leases reported as capital leases and noncancelable operating leases are:

	Capital Leases	Operating Leases
1985	$ 3,319,000	$ 1,183,000
1986	2,987,000	1,139,000
1987	1,022,000	1,124,000
1988	726,000	1,113,000
1989	500,000	1,098,000
Years thereafter	9,789,000	13,757,000
Total minimum lease payments	18,343,000	$19,414,000
Less: Amount representing estimated executory costs (such as taxes, maintenance and insurance) included in total minimum lease payments	3,044,000	
Net minimum lease payments	15,299,000	
Less: Amount representing interest	7,527,000	
Present value of net minimum lease payments	$ 7,772,000	

(5) Capitalization:

(a) Retained Earnings–

Under the Company's Charter, the Company's retained earnings unrestricted for payment of cash dividends on the Company's Common Stock were $46,338,000 at December 31, 1984.

(b) Preferred Stock–

At the Company's option, all preferred stock may be redeemed in whole, or in part, at any time upon not less than 30 nor more than 60 days notice, unless otherwise noted. Redemption of all preferred stock issued within the past five years is subject to certain restrictions regarding refunding operations. The optional redemption prices shown on the Statements of Capitalization will decline to eventual minimums per share according to the Charter provisions that establish each series.

(c) Preferred Stock Subject to Mandatory Redemption–

The Company's 8.24% Series and 11.00% Series each include provisions for a mandatory sinking fund to retire a minimum of 5,000 shares and 4,000 shares, respectively, every year on December 1 and January 1, respectively, at $100 per share plus accrued dividends. Its 15.00% Series and 11.50% Series each include provisions for a mandatory sinking fund to retire a minimum of 3,200 shares and 15,000 shares, respectively, on July 15 of each year beginning in 1988 and 1989, respectively, at $100 per share plus accrued dividends. The Company's 13.00% Series includes a provision for a mandatory sinking fund to retire a minimum of 5,000 shares on July 1 of each year beginning in 1990, at $100 per share plus accrued dividends. The Company's 10.50% Series includes a provision for mandatory redemption of the entire series on April 1, 2040, at $100 per share plus accrued dividends.

The Company's sinking fund requirements for the next five years are:

1985	$ 500,000
1986	900,000
1987	900,000
1988	1,220,000
1989	2,720,000

(d) Long-Term Debt–

The mortgage and its supplements, which secure all of the Company's first mortgage bonds, serve as direct first mortgage liens on substantially all property and franchises, other than specifically excepted property, owned by the Company.

Based on the amount of bonds authenticated by the Trustee through December 31, 1984, the Company's annual sinking and improvement fund requirements for all bonds issued under the mortgage amounts to $2,784,000. The Company expects to satisfy these requirements in 1985 by certifying unfunded property additions of 166-2/3% of the required amount.

As of December 31, 1984, the Company's sinking fund requirements for certain series of first mortgage bonds and maturing long-term debt for the next five years are:

1985	$27,428,000
1986	2,428,000
1987	2,428,000
1988	5,441,000
1989	60,493,000

The weighted average interest rates shown on the Statements of Capitalization relate to long-term debt outstanding at December 31, 1984.

Total secured notes outstanding at December 31, 1984 and

1983, exclude $13,305,000 and $2,572,000, respectively, of certain pollution control notes, the proceeds of which were then in escrow pending their disbursement for construction of pollution control facilities. The Company's obligations to repay certain pollution control notes are secured by series of first mortgage bonds.

(6) Long-Term Obligations:

Pennsylvania Power Fuel Corporation (a corporation in which the Company has no ownership interest) provides funds for the procurement of nuclear fuel on behalf of the Company. The Company also participates in arrangements wherein the Central Area Energy Trust (CAET) finances the acquisition of nuclear material that will ultimately be used to fuel various CAPCO generating units. Under ordinary circumstances, the Company will make payments for nuclear fuel as it is consumed. Financing on behalf of the Company of up to $48,000,000 is currently available through the Pennsylvania Power Fuel Corporation, either through revolving credit arrangements or the issuance of commercial paper, which is supported by a bank letter of credit, or a combination of both. Financing of up to $29,000,000 is available to CAET on behalf of the Company, subject to certain limitations.

The Company accrues interest applicable to the nuclear fuel obligations (for fuel which is not included in utility plant in service) which is subsequently capitalized, net of income tax effect. No direct borrowings have been or are expected to be made against the line of credit available to the fuel corporation; the fuel corporation has issued and has outstanding commercial paper supported by the line of credit. To the extent that borrowings are less than the $48,000,000 available under this credit line, the fuel corporation must pay a commitment fee of 1/8% to 1/2% on the available portion of the line of credit. It also pays a fee of 5/8% to 7/8% for the letter of credit on the aggregate amount of outstanding commercial paper. Interest on CAET purchase commitments is at rates which vary from 1-1/8% to 1-1/2% over the interest rates applicable to certain dealer placed commercial paper. The effective average annual interest rates applicable to nuclear fuel obligations were 11.9%, 10.6% and 12.0% during 1984, 1983 and 1982, respectively.

The Company presently expects to make payments applicable to these obligations during the next five years as follows:

1985	$ 3,364,000
1986	7,844,000
1987	8,315,000
1988	9,271,000
1989	6,968,000

(7) Notes Payable to Banks and Lines of Credit:

The Company has lines of credit with banks that provide for borrowings of up to $30,000,000 at the prevailing prime or similar interest rate. Short-term borrowings may be made under these lines of credit on the Company's unsecured notes. All of the current lines expire December 31, 1985; however, all unused lines may be canceled by the banks.

The Company maintains cash balances on deposit with banks to provide operating funds and to assure availability of $8,000,000 of the lines of credit and for other banking arrangements. Such compensating balances, net of "float", are expected to be maintained at an average of approximately $700,000 and are not subject to any contractual restriction against withdrawal. The Company is required to pay commitment fees that vary from a flat rate of 3/8% to a variable rate of 5% of the applicable prime interest rate to assure the availability of $16,000,000 of the lines of credit.

(8) Commitments, Guarantees and Contingencies
Construction Program -

The Company's current budget forecast reflects expenditures of approximately $214,000,000 for property additions and improvements from 1985 through 1989, of which approximately $69,000,000 is applicable to 1985. In addition, 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. The major portion of the Company's construction activities during this five-year period relates to the CAPCO companies' program for the joint development of power generation and transmission facilities.

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. Possible alternatives being reviewed with respect to Unit 2 include temporary cessation of work on the Unit and termination of the Unit. Presently, the only significant work being performed on Unit 2 is that necessary to enable Unit 1 to be placed in service. This work is expected to be completed sometime in 1985. Whether under those circumstances it would still be appropriate to continue capitalizing AFUDC (as described in Note 1) to Unit 2 is uncertain at this time. Accordingly, if the CAPCO companies do not decide to resume significant construction, the Company may not be able to include the AFUDC in net income. Instead, a reserve may be provided for AFUDC capitalized to Unit 2 prospectively. Currently, the Company's AFUDC for Unit 2 is being included in net income at a rate of approximately $600,000 per month.

As of December 31, 1984, the Company had invested approximately $57,300,000 applicable to Perry Unit 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 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 2 through its rates if the Unit were terminated.

Quarto Project–

The Company, together with the other CAPCO companies, has entered into a long-term coal supply contract with Quarto. The CAPCO companies have also agreed to guarantee severally, and not jointly, their proportionate shares of Quarto's debt and lease obligations incurred while developing and equipping the mines. As of December 31, 1984, the Company's share of the guarantee was $29,507,000.

Under the terms of the coal supply contract, which expires December 31, 1999, the Company must reimburse Quarto for its share of the costs of operating the Quarto mines, including those costs associated with mine construction, whether or not it receives coal from Quarto. These payments will permit Quarto, over the life of the contract, to meet the debt and lease obligations it incurred while developing and equipping the mines. The Company's total payments under this contract, including amounts related to mine construction costs, amounted to $8,995,000, $10,708,000 and $9,369,000 during 1984, 1983 and 1982, respectively. Under the coal supply contract, the Company's future minimum payments related solely to mine construction costs are:

1985	$ 2,855,000
1986	2,785,000
1987	2,715,000
1988	2,645,000
1989	2,575,000
Years thereafter	22,409,000

Following the end of the development period, the Company was ordered by the 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.

Although the PPUC issued an order which found that the Company was not imprudent in initiating and continuing the Quarto project, it prescribed a method for recovery of the current cost of Quarto coal and the deferred Quarto coal costs (amounting to $9,916,000 at December 31, 1984) which could result in a substantial underrecovery of Quarto coal costs. The Company has appealed the order to the Commonwealth Court of Pennsylvania. If the PPUC method stands and no other means of recovery could be found or anticipated, a loss equivalent to the amount not recoverable 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.

Environmental Matters–

Various federal, state and local authorities regulate the Company with regard to air and water quality and other environmental matters. The Company estimates that compliance requires additional capital expenditures of approximately $4,000,000, which is included in the construction estimate given above under "Construction Program" for 1985 through 1989.

On December 5, 1984, the Federal Environmental Protection Agency (EPA) denied a petition from the Commonwealth of Pennsylvania and the states of New York and Maine, which sought to force the 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 sulfur dioxide (SO_2) 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. The Company is unable to predict the outcome of these proceedings.

As 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 SO_2 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 SO_2 emission limits at the Company's plants

would be affected. Substantial changes in the SO_2 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 one of the Company's plants, the Company estimates that the capital costs associated with such installation could exceed $100,000,000. The Company expects that any such capital costs, as well as any increased operating costs associated with such equipment, would ultimately be recovered from its customers.

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 with the court's decision. Final regulations are to be issued by April 4, 1985. 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 as proposed.

On October 2, 1984, the Pennsylvania Department of Environmental Resources (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.

Other Legal Actions and Complaints–

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 Company's applicable prevailing retail electric rates. No damages, costs or attorney fees on behalf of these customers were paid by the Company in the settlement.

The PPUC is investigating an outage of Beaver Valley Unit No. 1 which occurred during the period March-August 1979. The outage had been ordered by the Nuclear Regulatory Commission 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.

(9) Summary of Quarterly Financial Data:

The following summarizes certain operating results for the four quarters of 1984 and 1983.

	Three Months Ended (Unaudited)			
	March 31, 1984	June 30, 1984	September 30, 1984(i)	December 31, 1984
	(In Thousands)			
Operating Revenues	$ 51,157	$ 53,891	$ 54,750	$ 53,352
Operating Expenses and Taxes	40,438	42,517	42,242	43,434
Operating Income	10,719	11,374	12,508	9,918
Other Income and Deductions	5,897	6,191	13,263	6,963
Net Interest	7,599	7,674	7,949	8,207
Net Income	$ 9,017	$ 9,891	$ 17,822	$ 8,674
Earnings on Common Stock	$ 6,937	$ 7,804	$ 15,421	$ 6,277

(i) Includes a noncash depreciation adjustment of $6,751,000 which increased net income and earnings on common stock (See Note 2).

	Three Months Ended			
	March 31, 1983	June 30, 1983	September 30, 1983	December 31, 1983
	(In Thousands)			
Operating Revenues	$ 46,966	$ 45,724	$ 50,189	$ 48,293
Operating Expenses and Taxes	34,992	35,087	39,817	37,299
Operating Income	11,974	10,637	10,372	10,994
Other Income and Deductions	4,356	4,571	4,885	5,448
Net Interest	7,261	7,194	7,359	7,080
Net Income	$ 9,069	$ 8,014	$ 7,898	$ 9,362
Earnings on Common Stock	$ 7,395	$ 6,341	$ 6,042	$ 7,269

(10) Supplementary Financial Data–
Financial Reporting and Changing Prices (Unaudited)

Statement of Financial Accounting Standards No. 33, "Financial Reporting and Changing Prices" (SFAS No. 33), as amended, provides for the preparation of supplementary financial information to disclose the estimated effects of inflation and changes in prices on property, plant and equipment. This data is presented in accordance with SFAS No. 33; however, it is not intended as a substitute for earnings reported on a historical cost basis.

Results of Operations Adjusted for the Effects of Changing Prices for the Year Ended December 31, 1984

	(Thousands of average 1984 dollars)
Historical income from continuing operations	$ 36,439
Inflationary Effects on Common Equity:	
Capital Investments Effects—	
Increase in specific prices (Current cost) of property held during the year (i)	23,178
Change in general price level on property held during the year	(45,351)
Adjustment to net recoverable cost	17,009
Additional provision for depreciation	(22,176)
Advantage from the decrease in purchasing power of net monetary liabilities	18,707
Net erosion of common stockholder's equity	(8,633)
Income from continuing operations adjusted for changing prices (ii)	$ 27,806

(i) At December 31, 1984, net property, plant and equipment, adjusted for changes in specific prices (current cost) was $1,214,783,000, while historical cost (net recoverable cost) was $741,721,000.

(ii) Income from continuing operations, adjusted for changes in specific prices (current cost) would be $14,233,000, if only the amount reportable as additional provision for depreciation was included in the adjustment.

Comparison of Supplementary Financial Data For the Years Ended December 31	1984	1983	1982	1981	1980
			(Dollars in Thousands)		
Operating Revenues—					
Historical	$213,150	$191,172	$185,883	$174,488	$157,208
Adjusted to Average 1984 Dollars	$213,150	$199,308	$200,029	$199,278	$198,166
Income (Loss) from Continuing Operations—					
Historical	$ 36,439	$ 27,047	$ 23,294	$ 19,331	$ 15,590
Adjusted for changing prices (Average 1984 Dollars)	$ 27,806	$ 20,536	$ 17,084	$ 5,161	$ (3,068)
Return from Continuing Operations on Average Common Equity—					
Historical	16.0%	13.0%	11.8%	11.1%	9.9%
Adjusted for changing prices	12.2%	9.5%	8.0%	2.6%	(1.5)%
Effective Income Tax Rate—					
Historical	32.0%	35.2%	38.5%	25.1%	26.4%
Adjusted for changing prices	36.7%	40.8%	45.6%	45.2%	72.7%
Excess of Increase in the Specific Level of Prices on Property, Plant and Equipment Over General Price Changes (Average 1984 Dollars)	$ (22,173)	$ 2,275	$ 10,506	$ (867)	$ (28,166)
Advantage Resulting from the Decrease in Purchasing Power of Net Monetary Liabilities (Average 1984 Dollars)	$ 18,707	$ 16,661	$ 14,532	$ 32,634	$ 46,123
Year End Common Stockholder's Equity—					
Historical	$247,096	$219,474	$199,680	$194,666	$170,755
Adjusted for changing prices (Average 1984 Dollars)	$243,950	$225,428	$212,562	$215,989	$206,838
Average Consumer Price Index	311.1	298.4	289.1	272.4	246.8

The increase in specific prices of property held during the year attempts to measure increasing asset values which approximate dollars that would have to be spent today to acquire property, plant and equipment identical to assets currently owned. The Company uses the Handy-Whitman Index of Public Utility Construction Costs and the Bureau of Labor and Statistics engineering indices to calculate the current cost of those assets. The indices are applied to actual dollars spent on large construction projects according to the year of expenditure. For all other plant facilities, the current cost is determined based upon the year the facilities were placed in service.

Additional depreciation expense adjusted for the change in specific prices was determined using the same rates and methods used for computing the historical cost provision for depreciation. No inflation adjustment has been reflected for income taxes, in conformity with the reporting requirements of SFAS No. 33.

During periods of inflation, the Company's net monetary liabilities (principally long-term debt and preferred stock) will be repaid with dollars having less purchasing power than dollars had when the original liability was incurred. This economic benefit is portrayed on the summary as the advantage from the decrease in purchasing power of net monetary liabilities, which serves as an offset to the inflationary effects of replacing the Company's property, plant and equipment.

Auditors' Report

ARTHUR ANDERSEN & CO.

NEW YORK, N. Y.

To the Board of Directors of Pennsylvania Power Company:

We have examined the balance sheets and statements of capitalization of Pennsylvania Power Company (a Pennsylvania corporation and a wholly-owned subsidiary of Ohio Edison Company) as of December 31, 1984, and 1983, and the related statements of income, retained earnings, capital stock and other paid-in capital, sources of funds for property additions and taxes for each of the three years in the period ended December 31, 1984. Our examinations 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.

In our opinion, the financial statements referred to above present fairly the financial position of Pennsylvania Power Company as of December 31, 1984, and 1983, and the results of its operations and the sources of funds for property additions for each of the three years in the period ended December 31, 1984, in conformity with generally accepted accounting principles applied on a consistent basis after giving retroactive effect to the change, with which we concur, in the method of accounting for capital leases as discussed in Note 4 to the financial statements.

Arthur Andersen & Co.

February 8, 1985.

Directors

Robert H. Carlson
Senior Vice President, Universal-Rundle Corporation, a plumbing fixture manufacturer, New Castle, Pennsylvania

A. Wayne Cole
President of the Company, New Castle, Pennsylvania

J. F. Dunlevy
Vice President of the Company, New Castle, Pennsylvania

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

D. Bruce Mansfield
Retired—formerly Chairman of the Board and President of the Company, Akron, Ohio

Joseph J. Nowak
President of Sawhill Tubular Division, Sharon, Pennsylvania, and Tex-Tube Division, Houston, Texas, both pipe and tubing divisions of Cyclops Corporation

V. A. Owoc
Executive Vice President of the Company's parent, Ohio Edison Company, Akron, Ohio

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

Justin T. Rogers, Jr.
Chairman of the Board of the Company, and President of its parent, Ohio Edison Company, Akron, Ohio

W. H. Sammis
Retired—formerly Chairman of the Board and President of the Company, Akron, Ohio

D. W. Tschappat
Executive Vice President of the Company's parent, Ohio Edison Company, Akron, Ohio

G. Leo Winger
President and Chief Operating Officer of Steel Castings Corporation, Unitcast Canada Inc., a castings manufacturer, Sharon, Pennsylvania

Officers

Justin T. Rogers, Jr.
Chairman of the Board

A. Wayne Cole
President

J. F. Dunlevy
Vice President

J. R. Edgerly
Vice President and General Counsel

W. F. Reeher
Vice President

Robert P. Wushinske
Secretary and Treasurer

B. D. Burford
Comptroller

R. P. Armstrong*
Assistant Comptroller

Angeline Comparone
Assistant Secretary

F. A. Fazzone
Assistant Treasurer

W. A. Margraf
Assistant Treasurer

*Retired January 1, 1985

DIVISION MANAGER
J. R. Topper
Mercer County

Mr. Rogers is president of the parent company, Ohio Edison Company. The principal employment of all other officers is with the Company.

REGISTRAR for Preferred Stock:
First Seneca Bank and Trust Company, Washington Centre, New Castle, Pennsylvania 16101

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

PRINCIPAL OFFICES:
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Duquesne Light Company

Annual Report 1984

Financial and Operating Highlights

Duquesne Light Company Financial	1984	1983	Percent Change
Electric Operating Revenues (000)	$ 861,775	$ 800,345	+
Net Income (000)	$ 156,794	$ 145,226	+
Earnings Per Share of Common Stock	$2.21	$2.20	+
Dividends Paid Per Share of Common Stock	$2.045	$1.975	+
Shares of Common Stock Outstanding at Year End	64,774,591	58,419,659	+10
Operating			
Electric Plant (000)	$ 3,799,499	$ 3,293,481	+15
MWH Sales	11,562,846	10,990,239	+ 5
Peak Load Megawatts	2,172	2,184	— 0
Cost of Fuel Per Million BTU	165.9¢	167.1¢	— 0
Average BTU Per KWH Output	10,682	10,635	+ 0
Annual System Output MWH	12,179,795	11,736,037	+ 3

About the Cover

During the early Eighties, when many U.S. cities were holding back until the recession went away, Pittsburgh contracted a case of Building Fever. Builders, entrepreneurs and other people with new ideas changed the town. Transformed it, you might say.

The cover photo shows one aspect of the change. If you haven't seen downtown Pittsburgh in a while, you might not recognize the skyline. Four large office towers completed since the spring of 1982—and more started since this picture was taken. For those of you who are interested in the new Pittsburgh, we have a limited number of lithographs of our cover photograph available. If you would like one, write: Duquesne Light Company, Pittsburgh Photo, One Oxford Centre (30-4), Pittsburgh, PA 15279.

You can see more new sides of our community on pages 5 to 15.

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Company Officers ..... Inside Back Cover
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Corporate Management Group

Seated, from left, Walter T. Wardzinski, John M. Arthur and Charles M. Atkinson. Standing, from left, Roger D. Beck, Clifford N. Dunn, William F. Gilfillan Jr., Earl J. Woolever, John J. Carey and Wesley W. von Schack.

To Our Stockholders

Despite a drop in industrial sales in the fourth quarter, our total kilowatt-hour sales in 1984 were 5.2% higher than in 1983. Revenues also were up 7.7%, from $800 million to $862 million, and earnings rose from $2.20 per share to $2.21 per share.

In 1984 we took a one-time write-off of approximately $5 million, or 4¢ per share, to pay for an early retirement incentive program that helped us accomplish the objectives of our on-going, Companywide reorganization. Three hundred twenty-four employees elected to take early retirement.

Economy

The economy of our service territory is rapidly changing from an industrial base to a research and service base. Today more than 80 percent of the work force is employed outside of the traditional manufacturing environment, and despite a seven percent regional population decline during the past 20 years, 180,000 new jobs have been created in our service area and the surrounding seven county southwestern Pennsylvania region.

In 1984, the growing segment of our "commercial" market was medical and research facilities, fast-food restaurants, and new office buildings.

We are particularly pleased that Carnegie-Mellon University was chosen by the federal government as the site of the new $103 million Software Engineering Institute, a computer software research center. More than 400 advanced technology companies, employing nearly 40,000 people are now located in the Pittsburgh region, and it is predicted that a growing number of these types of businesses will locate in our area in the near future.

Tartan Laboratories, Inc. which is automating the process of compiling computer software, is one of many examples of local advanced technology success stories. Formed in 1981 by three Carnegie-Mellon professors, the firm now employs 50. Tarta executives project sales of $70 million and employment to leap to 250 by 1986.

The production of steel in Pittsburgh is about half of what it was three years ago. However, agreements being negotiated by the Reagan administration with foreign pro ducers could help to stabilize the domestic steel industry and possibly increase steel production in and around Pittsburgh.

During late February 1985, LTV Steel Co restarted one of two 100 megawatt electric arc furnaces and the blooming mill at its Southside facility, resulting in the recall of about 275 workers. Both units had been idl for most of 1984.

Our Economic Development Department continues to work with many local businessmen and government officials to expan and diversify the region's economic base.

A source of added business in 1984 was the sale of bulk power to other utilities. Revenues from the sale of bulk power to such companies as Allegheny Power, Cleveland Electric, Ohio Edison and Toledo Edison amounted to $27 million in 1984 versus $7 million the prior year.

Rate Changes

In April, your Company filed for a 4.8% ($42 million) rate increase. On January 24, 1985, the Public Utility Commission approved an increase of $31.4 million. This rate adjustment, which went into effect January 26, 1985, should allow earnings to show further improvement in 1985.

Early in 1985, we expect to file for an additional increase in rates.

organization

Throughout 1984, all areas of the Company were involved in our extensive organization program. We are concentrating responsibility for running the Company in five major functional groups plus a legal and corporate communications organization, reducing the number of departments from 44 to 25. The overall goals of the reorganization plan are to strengthen our planning and control functions, to reduce management costs, and to further enhance our ability to manage future changes.

ost Containment

Several years ago we formalized our on-going cost containment program. 1984, the documented savings amounted $3.5 million. Since the inception of the ogram in late 1981, we have documented vings of approximately $26 million.

ur Community

ocal basic industry remained depressed in 1984, and unemployment was higher an the national average. Growth in other eas of the economy is helping to relieve e impact on our community; nevertheless, nemployment remained a grave concern, nd some of our customers have found emselves unable to cope with their utility lls.

Duquesne Light is committed to help the oor, the unemployed and the elderly cope ith their utility bills. The Dollar Energy Fund, a non-profit agency we helped launch and continue to support, paid all or part of the electric bills of 642 Duquesne Light residential customers in 1984. In a remarkable demonstration of community spirit, 20,000 of our customers voluntarily added an extra $1 to their electric bills each month as their contribution to the Fund.

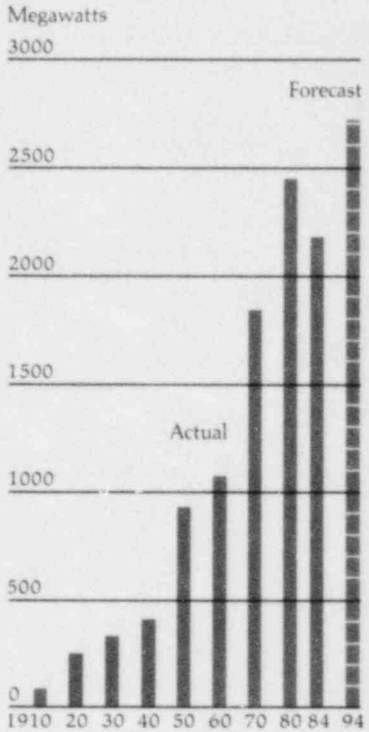
Deserved Praise

We especially want to salute our fellow Duquesne Light employees, who joined together to go the extra mile in 1984 when friends and neighbors needed help. One small example: 2,400 Duquesne Light employees gave more than $57,000 to the Salvation Army Food Fund.

The Company also wishes to thank its stockholders for their support through the difficulties of the year. Speaking for all members of management, we pledge our continued efforts to earn your support and confidence.

John M. Arthur
Chairman of the Board and President

February 14, 1985



Annual System Peak Load

Perspective on 1984

REVENUES/EARNINGS/ CUSTOMER SERVICES

Operating Revenues Post 7.7 Percent Gain

Duquesne Light's revenues rose 7.7 percent —from $800 million in 1983 to $862 million in 1984. A rate increase approved in the fall of 1983, an adjustment to the energy cost rate in April 1984, and improved sales to certain customer groups were the principal reasons for the increase.

Earnings per share of common stock were $2.21 in 1984 compared to $2.20 with a lower average number of shares outstanding in 1983.

Sales Increase 5.2 Percent

A drop in fourth quarter industrial sales and cooler-than-average summer temperatures combined to moderate sales gains made in the first half of the year. Overall, sales increased 5.2 percent—from 10,990 million kilowatt-hours in 1983 to 11,563 million kilowatt-hours in 1984.

The commercial market remains strong, with the continuing expansion of medical and office facilities leading the way. Currently, six medical facilities totalling more than 10 megawatts of new load and $2.5 million in revenues are in the design stage or are under construction in our territory.

Several major projects also are planned for the downtown area. Construction is expected to begin in the spring of 1985 on a 32-story, 1.3 million square foot corporate headquarters building for Allegheny International, Inc. In a related project, work has begun on the $36 million renovation of a nearby theater into a second major performing arts center. A few blocks away, directly across the street from the David L. Lawrence Convention Center, ground has been broken for Liberty Center, a 1.5 million square-foot hotel/office/parking complex.

Advanced Technology Makes Gains

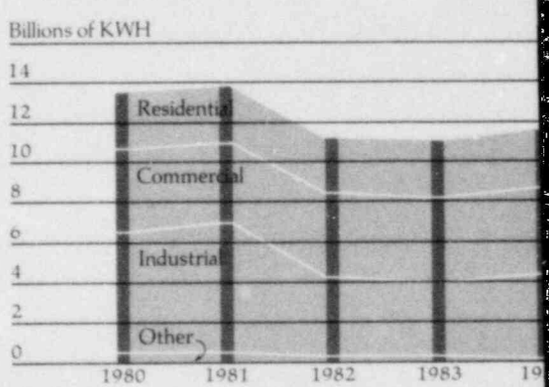
While still working to revitalize our traditional industrial base, Duquesne Light has been an active participant in the continued efforts to diversify our service area. Our Third Quarter Report to Stockholders detailed the emergence of advanced technology industries in our service area over the past five years. That diversification movement received a major boost in November when the U.S. Department of Defense announced that Carnegie-Mellon University had been selected as the site for the Software Engineering Institute, a $103 million computer software research center which is expected to employ up to 250 people and to attract related firms that will employ many more.

Helping Those in Need

The continued steel industry slump has caused hardship in pockets of our service area. The Company has supported economic development groups throughout our service territory in their efforts to publicize positive development features, to encourage inquiries from prospective new companies and to improve employment. Duquesne Light Company and its employees have a long tradition of taking an active role in the community. For example, in 1984, employees donated $363,000 to the local United Way campaign and $57,000 to a Salvation Army food bank. The Company pledged an additional $318,000 to the local United Way.

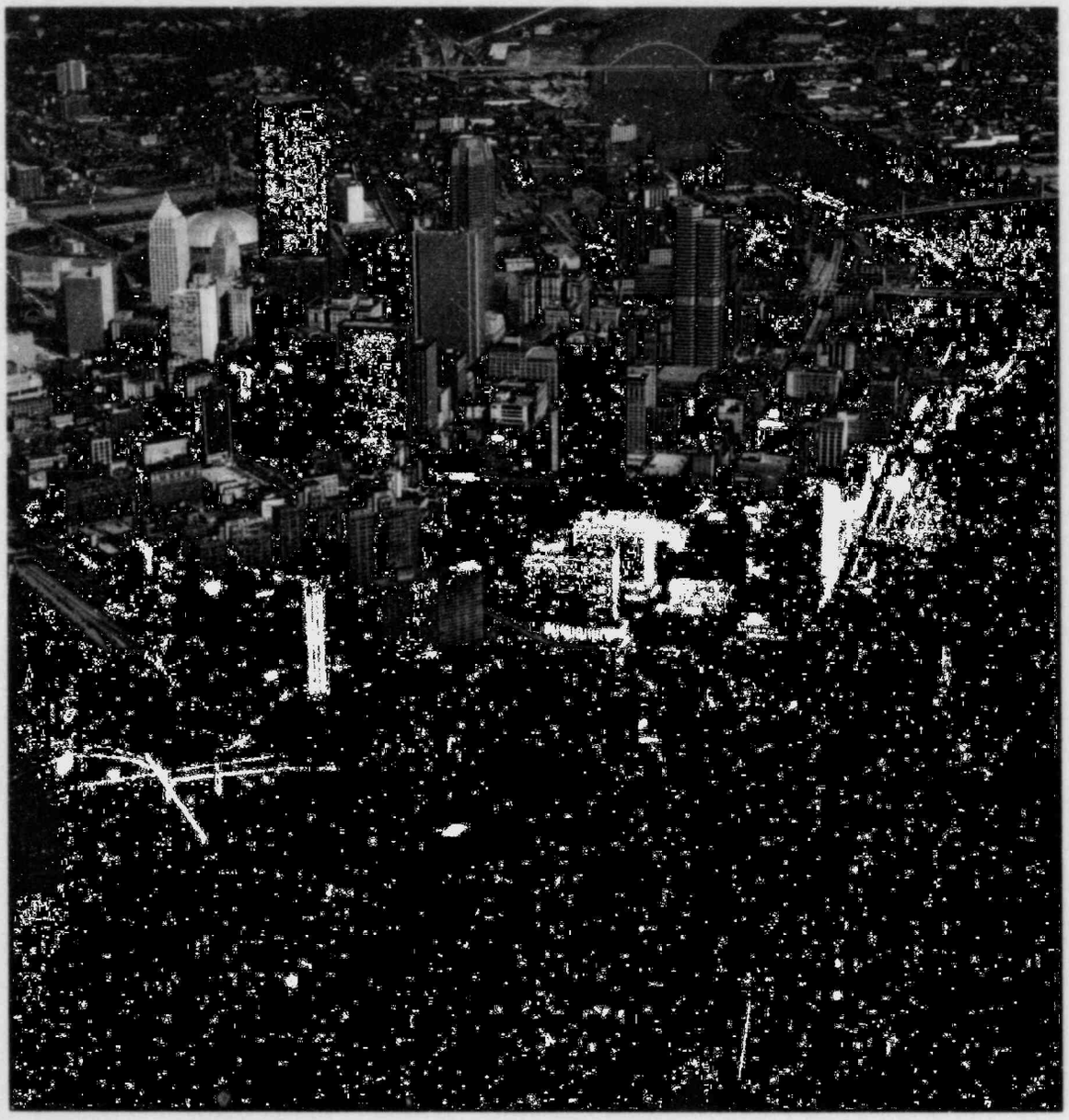
The Dollar Energy Fund, a non-profit energy assistance program Duquesne Light helped to establish and continues to support, was honored by a governor's task force as one of 25 model programs in Pennsylvania. For its efforts, Duquesne Light was a recipient of the Keystone Award. Customers are encouraged to voluntarily add $1 to their monthly bills in support of the program to help those who legitimately have a verified inability to pay their utility bills.

The Company also worked to simplify eligibility standards for the state's energy assistance program. In the past, grant

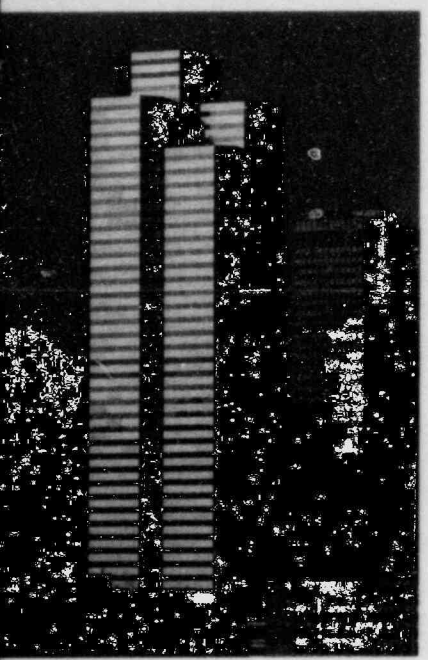


KWH Sales

Suddenly new. Perhaps more than any other U. S. city, Pittsburgh changed during the recession. The most conspicuous changes occurred downtown. Confined by hill and river, downtown tends to grow upward: three of the four tallest buildings seen here are new.



Complementary combination. One Oxford Centre combines a 46-story office tower with a public urban plaza into a single flowing structure. Duquesne Light, Westinghouse Credit Corporation and Joy Manufacturing Company are all headquartered there. The five-story atrium is home to a variety of shops and restaurants.



money could be paid only to the supplier of the primary heat source. We successfully sought a modification of this provision to include the secondary heat source, since virtually all sources of home heat rely on electricity to operate.

For the fourth year, Duquesne Light honored 30 of its commercial, industrial and governmental customers for their implementation of conservation measures that resulted in significant energy savings as part of the Edison Electric Institute's National Energy Watch program. Energy Watch is a voluntary program to meet national energy conservation objectives through local and individual initiatives.

OPERATIONS

Power Sales

Successful negotiations resulted in the sale of 100 megawatts of power to the Michigan Power Pool from December 1983 through April 1, 1984, and to The Cleveland Electric Illuminating Company from April 23, 1984 through October 21, 1984. In addition to these long-term arrangements, other power sales were negotiated for weekly and daily periods.

UMWA Coal Contract

A 40-month labor agreement between the United Mine Workers of America and the Bituminous Coal Operators of America (of which the Company is a member) was signed in September. This is the first time in 20 years that such a labor agreement was signed without a national coal strike.

Test Scrubber at Elrama

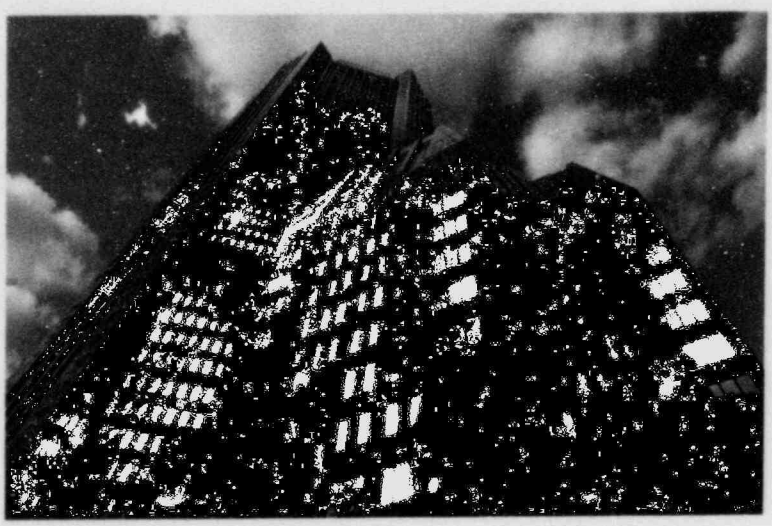
Elrama Power Station is the site of a wet scrubber research project designed to improve the efficiency of sulfur dioxide removal and the reliability of the equipment, thus reducing operating costs. The new system could have advantages in term of improved use of lime, higher sulfur dioxide removal, use of less costly additive better sludge dewatering characteristics an decreased power usage. The testing, which is expected to cover a one-year period, is being conducted by our Environmental Affairs and Fossil Generation units.

Renewable Resources

Duquesne Light currently has contracts with four renewable resource electric gene ating facilities located within our service area. These include a small hydroelectric plant and three windmills. During 1984, th hydro facility supplied about 7.4 million kilowatt-hours of electricity to the Company's system, and two of the windmills supplied 423 kilowatt-hours. The combine total from all of the sources was approximately .06 percent of the Company's total generation, or enough to supply energy to over 1,000 homes for a year.

Research and Development

Duquesne Light pools its research dollars with more than 450 other electric utilities across the country to fund the Electric Power Research Institute's (EPRI) development of technology options for better production, transmission, distribution and utilization of electric power. During 1984 we contributed $2,437,000 to EPRI's research



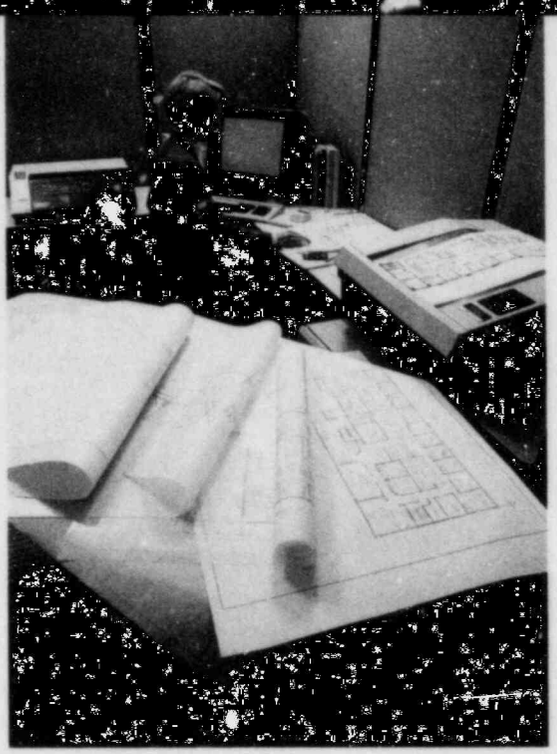
Financial hub. The 54-story One Mellon Bank Center is the focal point of a four-building financial complex, and headquarters of the state's largest bank.

The skyscraper as palace. PPG Place is that rare modern building that is fanciful and fun to look at. The walls are faceted mirrors, sheathed with almost 50 acres of reflective glass. The structures are topped with spires, 231 of them. The six buildings of the complex surround a block-sized public square.

Topped by a heliport, National Intergroup Inc.'s new headquarters looks south across the Monongahela River. The first building on the site was Samuel Semple's tavern; in 1770, George Washington wined and dined local dignitaries there.

Computer U. By the beginning of the 1986 school year, every student, professor and administrator at Carnegie-Mellon University (CMU) will have a personal computer with the ability to link up with any of the other 7,500 personal computers, and the university mainframes. CMU recently contracted to run the new Software Engineering Institute for the Department of Defense.

High-tech immigrant. American Robot moved its five employees from North Carolina to be handy to Pittsburgh's research concentration. Two years later it has more than 130 employees, is shipping production robots, and—exceptional in its industry—has broken into the black.



University spinoff. Formative Technologies offers a computer-powered design system that can link scores or even hundreds of engineers and handle the largest projects. Most new Pittsburgh companies of the "high tech" variety are spinoffs of local industrial or university research, and Formtek is typical—it was founded by a pair of professors.

d development efforts. Through member-ip in EPRI, Duquesne Light maximizes its turn on every R&D dollar, avoids costly plication of research, and allows for tensive projects far beyond the financial pability of any one utility.

UCLEAR

VPS Unit No. 1 Has Good Year

ior to its October 11, 1984 shutdown for fueling, maintenance and modification ork, the nuclear Beaver Valley Power Sta-on Unit No. 1 attained an on-line operat-g availability of 92.3 percent for 1984. The nit's annual availability for 1984 was 71.8 ercent. During this refueling, the fourth in e 810-megawatt unit's eight-year history, e reactor core was upgraded to an 8-month refueling cycle, which should crease its availability in 1985. The unit as returned to service on January 5, 1985.

APCO Reviews Construction

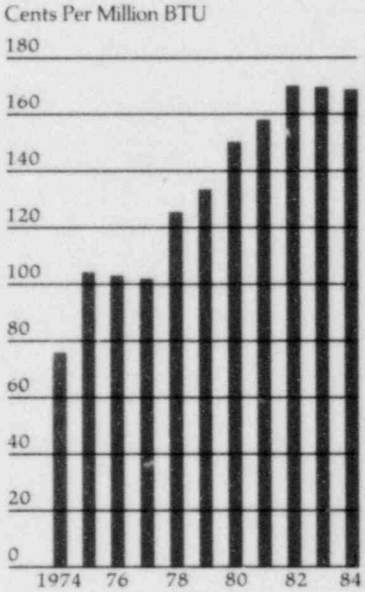
On January 28, 1985, the CAPCO compa-ies announced a delay in the completion ate of Beaver Valley Unit No. 2, which is bout 83% complete, from late 1986 to bout the end of 1987. The new schedule ecognizes the need for more time to com-lete the unit in light of regulatory and afety requirements adopted since the unit as 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 the unit from about $3.5 billion to approximately $3.9 billion, including allowance for funds used during construction. Duquesne Light's share of the increase is $55 million, bringing our total commitment in the unit to about $536 million.

The estimated completion date of Perry Unit No. 1, which is about 97% complete, remains unchanged—around the end of 1985—and the cost estimate for this unit remains unchanged. 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.

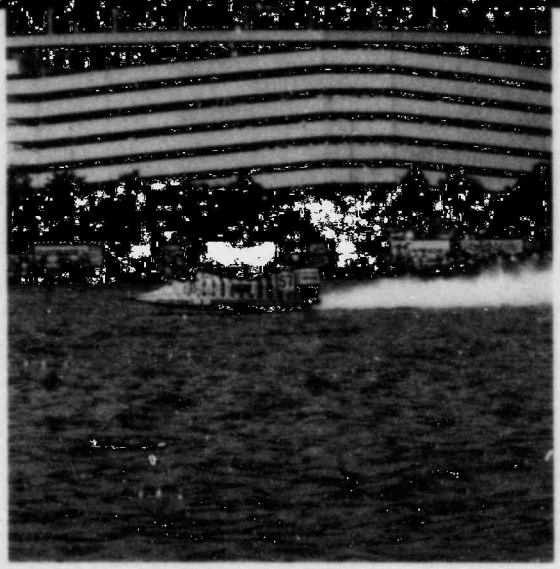
The estimated cost and completion timetable for Perry Unit No. 2 remain under review. And, as announced previously, the CAPCO companies are considering all options with respect to this unit, including cancellation. Duquesne Light owns 13.74% of each of the three units under construction.

Last Fuel Removed from Shippingport

The final shipment of spent nuclear fuel from the historic, and now closed, Shippingport Atomic Power Station (SAPS) was completed on September 6, 1984. This ended the defueling of the plant and for-



Cost of Fossil and Nuclear Fuel



Watery weekend. During the Three Rivers Regatta, half a million spectators flock to riverbanks and downtown buildings to watch them race: sternwheelers, 100-mph Formula One hydroplanes, leather boats, crew shells, Anything That Floats. Between races there are sky shows, stage shows and a boat show. Dessert, of course, is fireworks.

Classics in the park. The Pittsburgh Symphony has its summer home in 36-acre Point State Park, at the tip of downtown. For a dozen performances during July, music lovers need bring only lawn chairs and picnic baskets; the concerts are free.

Racers in the park. Bugatti, Morgan Three Wheeler, Frazier-Nash, Turner, Elva—and other makes of yore. Pittsburgh's Vintage Grand Prix is an annual weekend-long event.

ally terminated the contract for operation f the station between Duquesne Light and e Naval Reactors branch of the U.S. epartment of Energy (DOE). Responsibil- y for decommissioning of the plant was ansferred from Naval Reactors to the ichland Operations Office of the DOE that me day.

The decommissioning of SAPS once again ill focus the world's attention on Ship- ingport, Pa. Within 20 to 30 years, over 00 nuclear units could be decommissioned s their useful lives end. It is predicted that ngineers from as many as 19 foreign coun- ies and 50 domestic utilities may visit APS during the decommissioning period. hen the job is completed in 1988, it is xpected that the level of residual back- round radiation remaining on the property ill be low enough to allow unrestricted use f the property. Present plans call for using e land for facilities needed by the adjacent eaver Valley Power Station.

uclear Fuel Savings

he CAPCO companies have renegotiated ontracts with the U.S. Department of nergy to provide nuclear fuel enrichment ervices on a requirements basis at a price ower than previous arrangements. The new ontracts also provide for accelerated liqui- ation of anticipated future inventories plus dditional flexibility features, all of which will provide significant cost savings for nuclear fuel processing.

Successful Emergency Drill

Beaver Valley Power Station and 27 surrounding communities, along with emergency agencies from Pennsylvania, Ohio and West Virginia, participated in a full-scale emergency exercise on June 27, 1984. Nuclear Regulatory Commission (NRC) evaluators did not find any deficiencies in meeting on-site emergency planning requirements during this exercise. The Federal Emergency Management Agency (FEMA) evaluated the performance of state and local governments during the drill.

INTERNAL OPERATIONS

Reorganization Making Progress

The reorganization implementation plan, which was started late last year, continues to make good progress. The purpose of the reorganization is to develop an organizational structure which focuses attention on the Company's external marketplace and to provide efficient, cost-effective service to the community.

The new organization has brought about the consolidation of 44 departments into 25 departments through the integration of related functions. This provides for maximum operating efficiency within functional gr ups by expanding responsibility and

Pittsburgh's own annual Jazz Festival starred Lionel Hampton, George Shearing, Roy Eldridge, Maxine Sullivan, Stan Getz and too many other Hall-of-Famers to list here. The finale, on Labor Day, was a free concert by Sarah Vaughan and her Trio.

Formerly a warehouse, Commerce Court was a monumental turn-of-the-century building that stood empty for many years. Now it is 380,000 square feet of shops and offices located just a five-minute walk across the bridge from downtown.

avoiding duplication. The structural reorganization phase of the implementation process is expected to be completed in earl 1985. However, the reorganization process will continue throughout 1985, with emph sis on developing and expanding management information and planning and contr systems to support the new organization.

Safety Record Best in State

For the second consecutive year, Duquesne Light Company is the recipient of safety awards from the Pennsylvania Electric Association (PEA) and the Edison Electric Institute (EEI). The PEA award honored th Company for achieving the best results in accident prevention in 1983 among those Pennsylvania electric utilities with more than one million work-hours annually. It marks the first time in Duquesne Light history that this honor has been achieved two years in a row.

The EEI award, also received for the second year in a row, recognizes electric utility companies in the United States which achieve a 25 percent or greater reduction in injuries as compared with the preceding three years.

BVPS Computer System

A major new computer system to process the scheduling and project management system for the nuclear refueling outage at Beaver Valley Unit No. 1 has been installed to reduce outside expenditures and improve operational control. The fourth refueling just completed at Unit No. 1 was successfully accomplished using this computer system.

Management Audit Completed

The Company completed its program to implement a series of recommendations aimed at improving its operating efficiency and performance resulting from a 1982

nnsylvania Public Utility Commission UC) mandated management audit. In ugust 1984, a final implementation report cumenting the Company's progress was bmitted to, and accepted by, the PUC.

qual Employment

August 1984, the Office of Federal Contact Compliance Programs conducted a view of Duquesne Light's equal mployment opportunity policies and practes and found the Company to be in comiance with federal requirements.

On July 10, Duquesne Light and the Vestern Pennsylvania Branches of the ational Association for the Advancement f Colored People (NAACP) joined together formally declare their support for the Fair hare Principles endorsed by the Edison lectric Institute and the national office of he NAACP. The declaration sets forth utually beneficial goals that the Company as supported in the past and will continue support as part of its commitment to the ommunity. Duquesne Light was the first tility company in Pennsylvania to achieve uch an agreement with the NAACP.

upervisory Training/Management evelopment

n January 1984, a new supervisory training rogram for first-line supervisors and a anagement development program for id-level managers were initiated. Supervirs receive skills training in handling veryday supervisory situations. Mid-level anagers learn techniques to increase productivity, through and with their staffs, by sing a participative management style vhen appropriate. One-third of the Comany's mid-level management and supervirs completed the two programs during 984. All supervisors and managers are cheduled to complete the programs by the irst quarter of 1986.

Formerly a freight house. In the old days, freight trains pulled in here to be loaded. Now, still called The Freight House, it shelters 10 restaurants and 55 shops that sell mostly out-of-the-ordinary things. Some are housed in old (but shiny) freight cars.

CONSTRUCTION AND FINANCING

Capital Expenditures

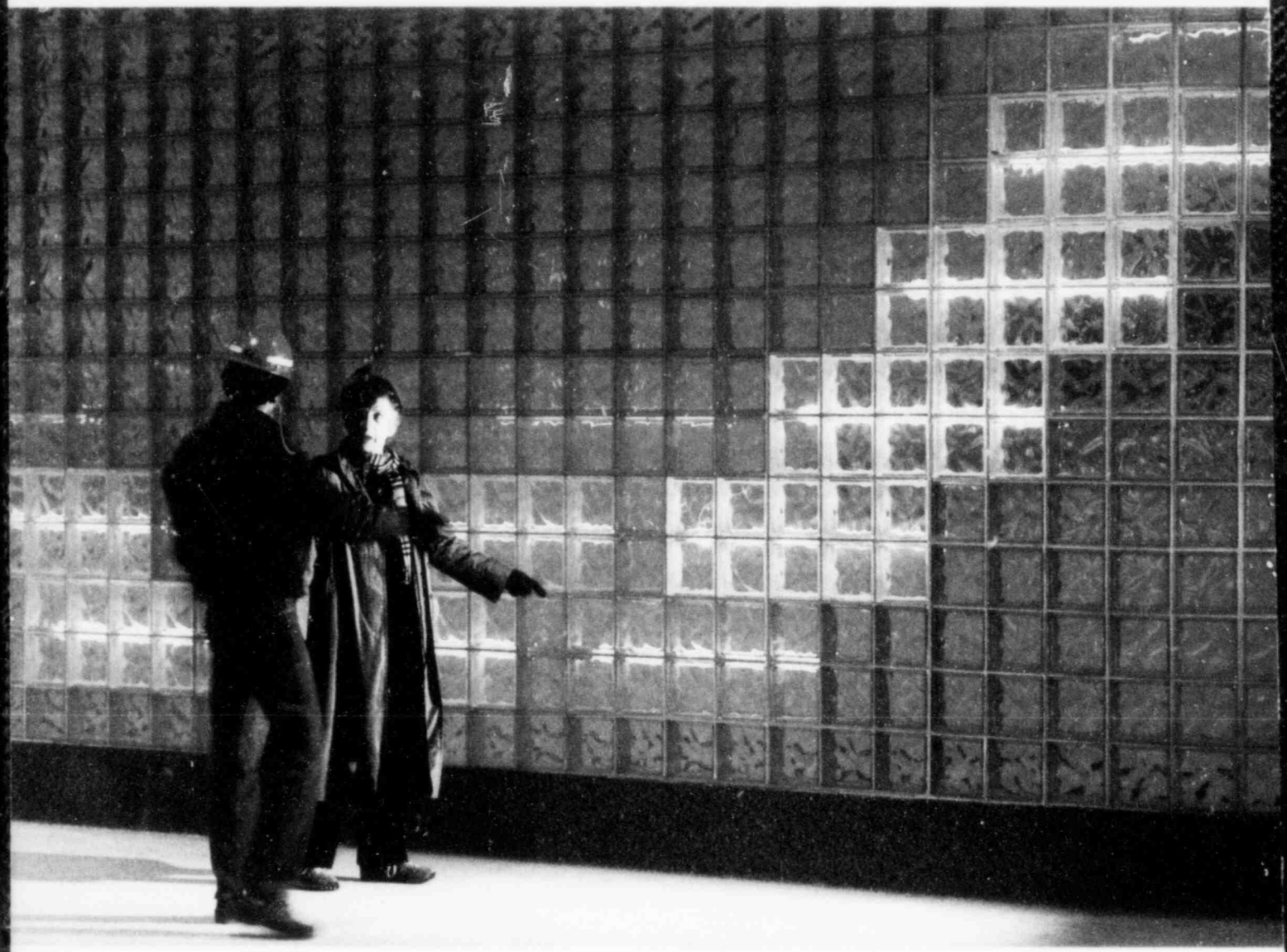
Our net capital expenditures for the year came to $251 million. About 26 percent of this was generated internally. The balance was raised by outside financing. This included the following:

1. On March 27, 1984, the Company issued $50,000,000 principal amount of 13⅜% First Mortgage Bonds, Series due March 1, 1991. Net proceeds to the Company were approximately $49.6 million.
2. On November 14, 1984, the Company issued 2,500,000 shares of Common Stock. Net proceeds to the Company were approximately $37.4 million.
3. On December 19, 1984, the Beaver County Industrial Development Authority issued $51 million of 11⅝% tax-exempt pollution control revenue bonds, Series due December 1, 2014, to finance the Company's share of the costs of certain pollution control facilities at the nuclear Beaver Valley Power Station. Net proceeds made available for payment of such costs amounted to approximately $49.7 million.
4. The Company issued 3,793,836 shares of Common Stock in 1984 pursuant to its Dividend Reinvestment Plan. Issuances of Common Stock through this Plan aggregated approximately $48 million. In addition, 61,096 shares of Common Stock were issued pursuant to employee stock ownership plans.

Standby Credit

The Company completed arrangements for an increase in its existing revolving credit agreement with two banks from $60 million to $100 million. In addition, the Company

Formerly a grand hotel. Teddy Roosevelt and Woodrow Wilson stayed here. So did Caruso and Carnegie, Sarah Bernhardt and Lillian Russell. The renovators restored the best of the old grandeur and completely rebuilt everything else. Now it's the University of Pittsburgh student union.



cently reached agreement with several nks on the basic terms and conditions for additional standby credit facility of $125 llion. The detailed documentation for the reement currently is being finalized, but is t yet complete. The main purpose of the panded credit facilities is to assure all vestors, including stockholders, that the ompany has the financial capabilities to mplete its major construction projects rrently underway.

ates

n January 25, 1985, the Pennsylvania Pub- Utility Commission entered a final order ncerning the Company's request for a $42 illion increase in annual rates which was ed on April 27, 1984. The order allowed 31.4 million of the rate increase requested.

HAREHOLDER RELATIONS/ OMMUNICATIONS

ew Transfer Agent, Registrar

he First Jersey National Bank of Jersey ity, N.J., has been named by the Board of irectors as the Company's sole transfer gent and registrar, effective February 1, 985. This change was initiated by the nnouncement by Chemical Bank of New ork, the Company's previous major trans- r agent, that it would discontinue stock ransfer services. First Jersey, one of six otential transfer agents invited to submit roposals to the Company, is expected to rovide excellent service. The change to one ransfer agent and registrar will result in ignificant cost savings to the Company.

Dividend Reinvestment Plan

The Shareholder Relations Department continues to improve its administration of the Dividend Reinvestment Plan, which was brought in-house late last year at a significant cost savings to the Company. The current annual cost savings are approximately $175,000.

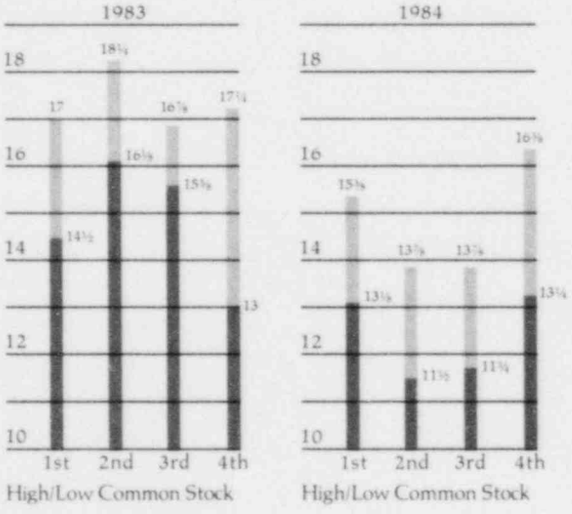
Toll-Free Numbers

Two toll-free numbers have been established for Duquesne Light stockholders. A major advantage will be the expediting of stockholder inquiries. The following numbers should be used for calling Shareholder Relations: Outside Pennsylvania (1-800-247-0400); Pennsylvania, except Pittsburgh (1-800-367-6400); Pittsburgh (393-6167).

Film Receives National Award

In December, the Company was awarded a CINE Golden Eagle Certificate by the Council on International Nontheatrical Events for its film "The Changing Nuclear Neighborhood." The new public service film, used by our Company's Speakers' Team, deals with the controversial issue of nuclear energy—how it affects and is accepted by people living near a nuclear plant. This award is made annually for films judged suitable to represent American cinematography in international film festivals. This is the second time the Company has won the award. In 1980, the film "Pittsburgh—an American Industrial City" also was honored. Both films were produced by the Corporate Communications Unit.

Downtown keeps changing. A new headquarters for Allegheny International (model shown here) is about to start construction. Half a block away, a huge old movie palace is being transformed into a Center for the Performing Arts. (It's the second one downtown, but the first, Heinz Hall, houses symphony, dance and opera companies, and can no longer meet the increasing scheduling demands of the performing arts community.) A few blocks away, across the street from the Convention Center, the double towers of a hotel-plus-office building will soon rise.



High/Low Common Stock

High/Low Common Stock

The principal trading market for the Company's Common Stock is the New York Stock Exchange. The stock is also listed on the Philadelphia Stock Exchange.

Company Report on Financial Statements

The Company is responsible for the financial information and representations contained in the financial statements and other sections of this Annual Report. The Company believes that the financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances to reflect, in all material respects, the substance of events and transactions that should be included and that the other information in the Annual Report is consistent with those statements. In preparing the financial statements, the Company makes informed judgments and estimates based on currently available information on the effects of certain events and transactions.

The Company maintains a system of internal accounting controls designed to provide reasonable assurance that the Company's assets are safeguarded and that transactions are executed and recorded in accordance with established procedures. There are limits inherent in any system of internal control based on the recognition that the cost of such a system should not exceed the benefits to be derived. The system of internal accounting control is supported by written policies and guidelines and is supplemented by a staff of internal auditors. The Company believes that the internal accounting control system provides reasonable assurance that its assets are safeguarded and the financial information is reliable.

The accompanying consolidated financial statements have been audited by Deloitte Haskins & Sells, independent certified public accountants, whose appointment was approved at the 1984 Annual Meeting of Stockholders. Their examination was made in accordance with generally accepted auditing standards and included a review of the system of internal accounting controls and tests of transactions to the extent they considered necessary to provide reasonable assurance that the financial statements are not misleading and do not contain material errors.

The Board of Directors has an Audit Committee composed of four non-officer directors which met four times in 1984. The Audit Committee has the following duties and responsibilities: (1) recommend the independent public accountants; (2) review the planned scope and results of their audit and other services to be performed; (3) review the financial statements and the related report of the independent public accountants; (4) review with the officers, internal auditors and the independent public accountants the adequacy of the Company's system of internal accounting control, including their recommendations with respect thereto; and (5) review the planned scope and results of the internal audit function. The independent certified public accountants and internal auditors have full and free access to the Audit Committee and meet with it, with and without management being present, to discuss internal accounting controls, auditing and financial reporting matters.

Wesley W. von Schack
Vice President-Finance Group
and Chief Financial Officer

John M. Arthur
Chairman of the
Board and President

Opinion of Independent Certified Public Accountants

DELOITTE HASKINS & SELLS
Certified Public Accountants
2400 One PPG Place
Pittsburgh, Pennsylvania 15222

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. Our examinations 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.

In our opinion, such consolidated financial statements present fairly the consolidated financial position of Duquesne Light Company at December 31, 1984 and 1983 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1984, in conformity with generally accepted accounting principles consistently applied during the period except for the change, with which we concur, in 1984 in the method of accounting for leases as described in Note L to the financial statements.

Deloitte Haskins & Sells

February 14, 1985

uquesne Light Company

tatement of Consolidated Income

or the Three Years Ended December 31, 1984
housands of Dollars, Except Per Share Amounts)

	1984	1983	1982
LECTRIC OPERATING REVENUES	$861,775	$800,345	$746,462
PERATING EXPENSES:			
Fuel	234,910	192,512	229,693
Purchased power (sales)—net	(26,637)	(7,330)	(23,172)
Other operation	149,477	136,188	126,151
Maintenance (Note N)	73,214	65,016	66,855
Depreciation	77,532	73,682	62,939
Taxes other than income taxes (Note N)	70,279	60,651	57,476
Income taxes (Note H)	97,266	92,954	71,213
Total Operating Expenses	676,041	613,673	591,155
PERATING INCOME	185,734	186,672	155,307
THER INCOME:			
Allowance for equity funds used during construction	60,133	50,709	35,415
Income taxes—credit (Note H)	22,666	16,760	17,906
Other income and deductions—net	4,594	246	8,913
Total Other Income	87,393	67,715	62,234
NCOME BEFORE INTEREST CHARGES	273,127	254,387	217,541
NTEREST CHARGES:			
Interest on long-term debt	133,431	118,813	111,726
Other interest	3,611	5,736	3,471
Allowance for borrowed funds used during construction, net of income taxes	(20,709)	(15,388)	(14,853)
Total Interest Charges	116,333	109,161	100,344
NCOME FROM CONTINUING ELECTRIC OPERATIONS BEFORE EXTRAORDINARY GAIN	156,794	145,226	117,197
OSS FROM DISCONTINUED STEAM HEATING OPERATIONS (Note C)	—	—	(9,924)
NCOME BEFORE EXTRAORDINARY GAIN	156,794	145,226	107,273
XTRAORDINARY GAIN ON EARLY EXTINGUISHMENT OF BONDS (Note D)	—	—	9,609
NET INCOME	156,794	145,226	116,882
IVIDENDS ON PREFERRED AND PREFERENCE STOCK	21,955	22,411	22,701
ARNINGS FOR COMMON STOCK	$134,839	$122,815	$ 94,181
VERAGE NUMBER OF COMMON SHARES OUTSTANDING (000)	61,054	55,883	48,236
ARNINGS PER SHARE OF COMMON STOCK:			
Income from continuing electric operations	$2.21	$2.20	$1.96
Loss from discontinued steam heating operations (Note C)	—	—	(.21)
Extraordinary gain (Note D)	—	—	.20
Earnings for common stock	$2.21	$2.20	$1.95
IVIDENDS DECLARED PER SHARE OF COMMON STOCK	$2.06	$2.00	$1.90

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

Duquesne Light Company

Consolidated Balance Sheet

December 31, 1984 and 1983
(Thousands of Dollars)

	1984	1983
ASSETS		
PROPERTY, PLANT AND EQUIPMENT:		
Electric plant in service	$2,537,398	$2,436,715
Construction work in progress	1,077,992	856,766
Property held under capital leases (Note L)	184,109	—
Total	3,799,499	3,293,481
Less accumulated depreciation and amortization	659,745	555,641
Property, Plant and Equipment—Net	3,139,754	2,737,840
OTHER PROPERTY AND INVESTMENTS	32,358	14,474
CURRENT ASSETS:		
Cash and temporary cash investments (at cost which approximates market)	50,416	73,751
Accounts receivable:		
Customers (less reserve for uncollectible accounts of $2,976 and $2,652, respectively)	70,467	69,822
Other	32,094	19,797
Materials and supplies (generally at average cost):		
Coal	55,708	59,205
Other operating and construction	37,528	34,983
Deferred income taxes	—	3,121
Other current assets	12,291	13,028
Total Current Assets	258,504	273,707
DEFERRED DEBITS:		
Extraordinary property losses (Note B)	32,526	36,565
Deferred coal costs (Notes G and M)	22,635	22,343
Other deferred debits	44,533	60,882
Total Deferred Debits	99,694	119,790
Total	$3,530,310	$3,145,811

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

	1984	1983
IABILITIES		
APITALIZATION (Note E):		
Common Stock (authorized—75,000,000 shares; outstanding—64,774,591 and 58,419,659 shares, respectively)	$ 64,775	$ 58,420
Capital surplus	804,377	724,147
Retained earnings	184,313	175,938
Total Common Stockholders' Equity	1,053,465	958,505
Non-redeemable Preferred and Preference Stock	156,137	156,137
Redeemable Preferred and Preference Stock	127,414	134,979
First mortgage bonds	1,149,547	1,100,147
Other long-term debt	278,384	234,019
Unamortized debt discount and premium—net	(10,896)	(10,967)
Total Capitalization	2,754,051	2,572,820
OBLIGATIONS UNDER CAPITAL LEASES (Note L)	119,335	—
URRENT LIABILITIES:		
Long-term debt maturing within one year (Note E)	700	16,700
Lease obligations due within one year (Note L)	25,582	—
Accounts payable	113,487	95,030
Accrued income taxes (Note H)	3,139	5,778
Other accrued and deferred income taxes	17,363	19,430
Energy cost rate refunds	2,775	—
Accrued interest	35,131	40,390
Dividends declared	38,808	34,771
Sinking fund and purchase requirements (Note E)	16,423	13,391
Spent nuclear fuel (Note E)	9,131	—
Reserve for loss on discontinued steam heating operations (Note C)	—	3,181
Total Current Liabilities	262,539	228,671
DEFERRED CREDITS:		
Investment tax credits	165,802	143,764
Accumulated deferred income taxes	222,633	193,649
Other deferred credits	5,950	6,907
Total Deferred Credits	394,385	344,320
COMMITMENTS AND CONTINGENT LIABILITIES (Notes B, G, I, L and M)		
Total	$3,530,310	$3,145,811

Duquesne Light Company

Statement of Changes in Consolidated Financial Position

For the Three Years Ended December 31, 1984 (Thousands of Dollars)	1984	1983	1982
SOURCE OF FUNDS:			
Continuing electric operations:			
Income from continuing electric operations before extraordinary gain	$156,794	$145,226	$117,197
Items not affecting working capital:			
Depreciation and amortization	92,810	79,800	66,303
Investment tax credit deferred—net	22,038	17,317	17,335
Income taxes deferred—net (noncurrent portion)	28,984	21,049	18,466
Allowance for equity and borrowed funds used during construction	(80,842)	(66,097)	(50,268)
Total	219,784	197,295	169,033
Discontinued steam heating operations	—	—	(9,924)
Items not affecting working capital (including depreciation: 1982, $595)	—	—	(349)
Total From Operations (excluding extraordinary gain)	219,784	197,295	158,760
Extraordinary gain on early extinguishment of bonds	—	—	9,609
Sale of bonds	50,000	110,000	65,000
Issuance of Common Stock	86,466	80,485	107,369
Obligations under capital leases	155,805	—	—
Nuclear fuel obligations	4,269	6,125	24,221
Construction costs reimbursed by trustees from proceeds of pollution control financings	35,453	19,680	—
Decrease in working capital (exclusive of current maturities of long-term debt and lease obligations) (a)	39,489	—	30,312
Total Source of Funds	$591,266	$413,585	$395,271
APPLICATION OF FUNDS:			
Construction expenditures (net of allowance for equity and borrowed funds used during construction)	$250,522	$224,280	$231,022
Dividends on capital stock	148,419	134,628	115,247
Property held under capital leases	155,805	—	—
Reduction of bonds	16,700	12,500	43,852
Reduction of obligations under capital leases	10,888	—	—
Sinking fund and purchase requirements	6,417	4,696	2,691
Deferred coal costs	292	4,005	2,669
Other—net	2,223	14,742	(210)
Increase in working capital (exclusive of current maturities of long-term debt and lease obligations) (a)	—	18,734	—
Total Application of Funds	$591,266	$413,585	$395,271
(a) The components of working capital (exclusive of current maturities of long-term debt and lease obligations) were as follows:			
Current assets:			
Cash and temporary cash investments	$ 50,416	$ 73,751	$ 33,663
Accounts receivable	102,561	89,619	86,968
Materials and supplies and other current assets	105,527	107,216	117,009
Deferred income taxes	—	3,121	7,265
Total	258,504	273,707	244,905
Current liabilities:			
Accounts payable and accrued interest	148,618	135,420	127,881
Accrued taxes	20,502	25,208	20,061
Energy cost rate refunds	2,775	—	9,974
Dividends declared	38,808	34,771	30,302
Sinking fund and purchase requirements	16,423	13,391	10,987
Spent nuclear fuel	9,131	—	—
Reserve for loss on discontinued steam heating operations	—	3,181	2,698
Total	236,257	211,971	201,903
Working capital at close of year	22,247	61,736	43,002
Working capital at beginning of year	61,736	43,002	73,314
Increase (decrease) in working capital (exclusive of current maturities of long-term debt and lease obligations)	$(39,489)	$ 18,734	$(30,312)

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

Duquesne Light Company

Statement of Consolidated Retained Earnings

For the Three Years Ended December 31, 1984
(Thousands of Dollars)

	1984	1983	1982
BALANCE AT BEGINNING OF YEAR	$175,938	$165,340	$163,705
NET INCOME FOR THE YEAR	156,794	145,226	116,882
Total	332,732	310,566	280,587
DEDUCT:			
Cash dividends declared:			
Preferred Stock:			
4% Series	1,100	1,100	1,100
3.75% Series	281	281	281
4.15% Series	291	291	291
4.20% Series	210	210	210
4.10% Series	246	246	246
$2.10 Series	336	336	336
$8.64 Series	2,168	2,219	2,271
$7.20 Series	2,520	2,520	2,520
$8.375 Series	2,437	2,512	2,512
Preference Stock:			
$7.50 Series	1,859	1,944	2,038
$2.75 Series	646	891	1,035
$2.315 Series	2,778	2,778	2,778
$2.10 Series	2,520	2,520	2,520
$9.125 Series	4,563	4,563	4,563
Common Stock (Per Share: 1984—$2.06; 1983—$2.00; 1982—$1.90)	126,464	112,217	92,546
Total Cash Dividends	148,419	134,628	115,247
BALANCE AT CLOSE OF YEAR	$184,313	$175,938	$165,340

Statement of Consolidated Capital Surplus

For the Three Years Ended December 31, 1984
(Thousands of Dollars)

	1984	1983	1982
BALANCE AT BEGINNING OF YEAR	$724,147	$649,376	$550,244
Premium on Common Stock issued	80,111	75,342	99,395
Other	119	(571)	(263)
BALANCE AT CLOSE OF YEAR	$804,377	$724,147	$649,376

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

Notes to Financial Statements

A. SUMMARY OF ACCOUNTING POLICIES

Consolidation

The consolidated financial statements include the Company and its wholly-owned subsidiary. See Note C concerning disposition of the subsidiary.

Property, Plant and Equipment

The properties of the Company are carried at original cost and, with minor exceptions, are subject to a first mortgage lien. All maintenance and repairs and replacements of minor units of property are charged to income. Replacements of retirement units of property and betterments are capitalized. In connection with retirements, reserves are charged with the carrying value, plus dismantling charges, less salvage, of property retired.

Revenues

Customer meters are read monthly or bimonthly and bills are rendered on a monthly basis. Revenues are recorded when billed.

Allowance for Funds Used During Construction

In accordance with the uniform system of accounts prescribed by regulatory authorities, an allowance for funds used during construction (AFC) is included in construction work in progress and credited to other income for AFC attributable to equity funds and to interest charges for AFC attributable to borrowed funds, net of income taxes. AFC is a non-cash item and is computed using a composite rate, which is applied to the balance of construction work in progress and assumes that funds used for construction are provided by borrowings and by preferred, preference and common stock equity. The rates were 9.4%, 9.6% and 8.5% in 1984, 1983 and 1982, respectively. This accounting procedure results in the inclusion in property, plant and equipment of amounts considered by regulatory authorities as appropriate costs for the purpose of establishing rates for utility charges to customers.

Depreciation

The Company provides for depreciation of electric plant, exclusive of coal properties, on a straight-line basis determined in a manner consistent with applicable Pennsylvania law and with methods applied by the Pennsylvania Public Utility Commission (Commission) in the determination of depreciation in rate proceedings. Provisions for depreciation, amortization and depletion of other Company property are made on various bases such as amount of nuclear fuel burned and tons of coal mined.

The Company provides for decontamination and dismantling costs for the Beaver Valley No. 1 nuclear generating unit in accordance with the provisions of the orders of the Commission. The Company is allowed to recover from its customers annual decommissioning annuity payments to provide for the decommissioning of radioactive components only. Such recoverable costs are currently estimated to be approximately $31,000,000. The Company deposits applicable revenues in a trust fund which has been established to pay for such costs. At December 31, 1984, $1,971,000 was included in the Decommissioning Trust Fund.

Income Taxes

Deferred income taxes are provided principally for differences between depreciation for income tax purposes and depreciation for accounting purposes to the extent permitted by the Commission for ratemaking purposes, and for fuel and extraordinary property losses deferred for accounting purposes but deducted currently for income tax purposes. In compliance with regulatory accounting, income taxes are allocated between operating expenses and other income, principally with respect to interest charges related to construction work in progress. Investment tax credits are deferred and amortized over the life of the related facilities.

At December 31, 1984 the cumulative net amount of income tax timing differences for which deferred income taxes have not been provided was approximately $168 million. These timing differences relate primarily to accelerated depreciation on assets which was flowed through for ratemaking purposes and other flow-through tax deductions, which are deductible currently for tax purposes but capitalized for accounting and ratemaking purposes, including certain taxes, the debt portion of AFC, pensions and certain other employee benefits.

Deferred Fuel Costs

The Company defers the difference between actual fuel costs and base fuel costs until the period in which such costs are billed to its customers through its energy cost rate. The energy cost rate is based on projected costs, with provisions for subsequent adjustments to actual cost. Any overcollections of revenues are refunded to customers with interest.

Nuclear Fuel Costs

The Company's share of nuclear fuel costs under lease agreements is charged to fuel expense based on the quantity of electric energy generated. In 1982 the Company began capitalizing acquisitions of nuclear material through a trust arrangement that is intended to finance a portion of the Company's requirements for nuclear fuel. In 1984 all nuclear fuel leases were capitalized. See Note L concerning the capitalization of leases.

Under the Nuclear Waste Policy Act of 1982 (the Act), the United States Department of Energy (DOE) is responsible for the ultimate storage and disposal of spent nuclear fuel removed from reactors. Under the Act the Company is required to pay a quarterly fee to DOE of one mill per kilowatt-hour on nuclear generation after April 6, 1983 and a one-time fee for nuclear generation through April 6, 1983. The one-time fee of approximately $8,921,000 is expected to be paid in June 1985. The Company began recovering the one-time fee in rates in February 1983 and has established a fund for the deposit of the amounts recovered. The balance of the Spent Nuclear Fuel Fund was $2,896,000 at December 31, 1984. The Company also is recovering the fees for generation after April 6, 1983 and is making payments to DOE on a quarterly basis.

Other

Other property and investments are stated principally at cost, less accumulated depreciation where applicable. Other operating and construction inventories are stated at average cost and include certain general and administrative costs related to operating the storerooms. General and administrative costs remaining in inventory at December 31, 1984 and 1983 were $3,985,000 and $3,316,000, respectively. Debt discount or premium and related expenses are amortized over the lives of the issues to which they pertain.

B. EXTRAORDINARY PROPERTY LOSSES

In January 1980, the Company and the other CAPCO companies cancelled the construction of four nuclear generating units. On October 1, 1982 the Shippingport Atomic Power Station was removed from commercial operation. The Company received approval from the Federal Energy Regulatory Commission (FERC) and the Pennsylvania Public Utility Commis-

on (Commission) to amortize and recover from its customers s share of the accumulated construction costs and a portion of he undepreciated cost of the Shippingport station, over a ten-ear period which began January 29, 1983. The unrecovered osts as of December 31, 1984 were $32,526,000. The Com-ission's order approving the amortization and recovery of the ccumulated construction costs has been appealed by the Penn-lvania Consumer Advocate to the Pennsylvania Common-ealth Court.

The Company is not earning any return on the unamortized osts of either of the property losses.

. DISCONTINUED STEAM HEATING OPERATIONS

he Company's steam heating subsidiary, Allegheny County team Heating Company, discontinued steam service to the ublic effective May 31, 1983 and transferred to Pittsburgh llegheny County Thermal, Ltd. (PACT) a major portion of the ubsidiary's assets for nominal consideration.

The provision for loss on the disposition of the subsidiary's ssets was $9,000,000 (net of income tax benefit of approxi-mately $8,712,000) and the loss from operations was $924,000 (net of income tax benefit of approximately $1,028,000) for the nine months ended September 30, 1982. The provision for loss on disposition included estimated operating losses for the subsidiary of $1,100,000 (net of income tax benefit of approximately $970,000) for the period October 1, 1982 through May 31, 1983. These losses were charged against 1982 income and no additional loss was incurred due to the disposition. At December 31, 1984 assets and liabilities included in the consolidated balance sheet applicable to the subsidiary were not material.

D. EARLY EXTINGUISHMENT OF BONDS

In December 1982, the Company exchanged 1,406,898 shares of Common Stock for approximately $29,852,000 principal amount of outstanding First Mortgage Bonds which were owned by an investment banking firm. The exchange resulted in a nontaxable extraordinary gain of $9,609,000, or $.20 per share, which was the difference between the exchange value of the Common Stock and the net carrying amount of the bonds.

. CAPITALIZATION

	December 31, 1984		December 31, 1983	
	Shares Outstanding	Amount	Shares Outstanding	Amount
ommon Stock—$1 par value (1)	64,774,591	$ 64,774,591	58,419,659	$ 58,419,659
apital Surplus:				
Premium on Common Stock		$811,446,733		$731,335,853
Capital stock expense		(7,536,995)		(7,622,344)
Other		467,941		433,442
Capital surplus		$804,377,679		$724,146,951
on-redeemable Preferred and Preference Stock:				
Preferred Stock—$50 par value (cumulative) (1)				
4% Series (2)	549,969	$ 27,498,450	549,969	$ 27,498,450
3.75% Series (2)	150,000	7,500,000	150,000	7,500,000
4.15% Series (2)	140,000	7,000,000	140,000	7,000,000
4.20% Series (2)	100,000	5,000,000	100,000	5,000,000
4.40% Series (2)	120,000	6,000,000	120,000	6,000,000
$2.10 Series (2)	160,000	8,000,000	160,000	8,000,000
$7.20 Series (3)	350,000	17,500,000	350,000	17,500,000
Preference Stock—$1 par value (cumulative) (1)				
$2.315 Series (4)	1,200,000	1,200,000	1,200,000	1,200,000
$2.10 Series (4)	1,200,000	1,200,000	1,200,000	1,200,000
		80,898,450		80,898,450
Premium on Non-redeemable Preferred and Preference Stock		75,238,760		75,238,760
Non-redeemable Preferred and Preference Stock		$156,137,210		$156,137,210
Involuntary liquidation value		$155,998,450		$155,998,450
edeemable Preferred and Preference Stock:				
Preferred Stock—$50 par value (cumulative) (1)				
$8.64 Series (3)	250,872	$ 12,543,600	256,872	$ 12,843,600
$8.375 Series (3)	288,000	14,400,000	300,000	15,000,000
Preference Stock—$1 par value (cumulative) (1)				
$7.50 Series (3)	245,320	245,320	255,920	255,920
$2.75 Series (4)	192,665	192,665	270,570	270,570
$9.125 Series (3)	500,000	500,000	500,000	500,000
		27,881,585		28,870,090
Premium on Redeemable Preferred and Preference Stock		105,354,240		109,173,360
Purchase and Sinking Fund Requirements		(5,821,625)		(3,064,250)
Redeemable Preferred and Preference Stock		$127,414,200		$134,979,200
Involuntary liquidation value		$127,414,200		$134,979,200

(1) Authorized shares: Common Stock—75,000,000; Preferred Stock—4,000,000; and Preference Stock—8,000,000.

(2) $50 per share involuntary liquidation value.
(3) $100 per share involuntary liquidation value.
(4) $25 per share involuntary liquidation value.

The following summary indicates the changes in the number of shares of Common Stock outstanding during 1984, 1983 and 1982:

	Year Ended December 31,		
	1984	1983	1982
Common Stock:			
Shares outstanding at beginning of year	**58,419,659**	53,276,525	45,302,52
Issuances:			
Common Stock sales	**2,500,000**	2,475,000	4,500,0
Dividend Reinvestment Plan	**3,793,836**	2,524,407	1,962,3
Employee Stock Ownership Plans	**61,096**	143,727	104,7
Exchanged for outstanding First Mortgage Bonds	**—**	—	1,406,8
Shares outstanding at end of year	**64,774,591**	58,419,659	53,276,52

The number of shares of Common Stock reserved at December 31, 1984 for issuance under the Dividend Reinvestment Plan and the Employee Stock Ownership Plans are 2,570,288 and 737,019, respectively.

The Preference Stock is entitled to quarterly cumulative dividends except that no dividends may be paid if dividends on any series of the Preferred Stock are accumulated and unpaid. If six quarterly dividends on any series of Preference Stock are in default, the holders of the Preference Stock are entitled to elect two directors until all dividends in arrears have been paid.

The outstanding Preference Stock of the Company is callable on not less than thirty days' notice at the following redemption prices plus accrued dividends: $7.50—redeemable at $105 through April 1, 1986; $103 through April 1, 1989; and $101 thereafter; $2.75—redeemable at $26.50 through July 31, 1989; and $25.25 thereafter; $2.315—redeemable at $26.60 through March 31, 1986; $25.90 through March 31, 1991; and $25.25 thereafter; $2.10—redeemable at $26.40 through March 31, 1987; $25.70 through March 31, 1992; and $25.00 thereafter; $9.125—not redeemable prior to January 1, 1989 through certain refunding operations, otherwise redeemable at $100 plus the applicable redemption premium decreasing from $6.24 in 1985 to $.48 in 1997.

The Preferred Stock is entitled to quarterly cumulative dividends. If four quarterly dividends on any series of Preferred Stock are in default, the holders of the Preferred Stock are entitled to elect a majority of the Board of Directors until all dividends in arrears and current dividends have been paid.

The outstanding Preferred Stock of the Company is callable on not less than thirty days' notice at the following redemption prices plus accrued dividends: 4%—$51.50; 3.75%—$51.00; 4.15%—$51.73; 4.20%—$51.71; 4.10%—$51.75; $2.10—$51.84; $8.64—redeemable at $104 through September 30, 1989; and $101 thereafter; $7.20—redeemable at $102.50 through March 31, 1987; and $101 thereafter; $8.375—redeemable at $112 through March 31, 1988, and thereafter at $100 plus the applicable redemption premium decreasing from $5.03 in 1988 to $.34 in 2003.

Redeemable Preferred and Preference Stock

The shares of $7.50 Preference Stock are entitled to a non-cumulative purchase fund under which the Company offers to purchase annually at $100 per share up to 4% of the number of shares originally issued. The shares of $2.75 Preference Stock are subject to a cumulative sinking fund which will retire 55,000 shares by August 1 in each year at $25 per share. The Company may on a non-cumulative basis retire an additional 55,000 shares in each such year. The shares of $9.125 Preference Stock are subject to a cumulative sinking fund beginning with the year 1985 and continuing through 1997 which will retire 33,300 shares on January 1 in each year at $100 per share. The Company may, on a non-cumulative basis, retire an additional 33,300 shares in each such year, provided that the Company may not redeem through the exercise of this option more than an aggregate of 150,000 shares.

The shares of $8.64 Preferred Stock are entitled to a non-cumulative purchase fund under which the Company offers to purchase annually up to 6,000 shares at not more than $100 per share. The shares of $8.375 Preferred Stock are subject to a cumulative sinking fund which will retire 12,000 shares on April 1 in each year at $100 per share. The Company may on a non-cumulative basis retire an additional 12,000 shares in each such year.

The combined aggregate sinking fund and mandatory purchase requirements for the next five years as of December 31, 1984 are as follows:

Year Ending December 31,	Sinking Fund and Mandatory Purchase Requirements
1985	$7,121,625
1986	7,805,000
1987	7,805,000
1988	7,805,000
1989	6,430,000

The following summary indicates the changes in the number of shares of Redeemable and Non-redeemable Preferred and Preference Stock outstanding during 1984, 1983 and 1982:

	Year Ended December 31,		
	1984	1983	1982
Preference Stock:			
Shares outstanding at beginning of year	**3,426,490**	3,533,940	3,565,220
Purchases and redemptions—$2.75 Series	**(77,905)**	(94,450)	(20,080)
—$7.50 Series	**(10,600)**	(13,000)	(11,200)
Shares outstanding at end of year	**3,337,985**	3,426,490	3,533,940
Preferred Stock:			
Shares outstanding at beginning of year	**2,126,841**	2,132,841	2,138,841
Purchases—$8.375 Series	**(12,000)**	—	—
—$8.64 Series	**(6,000)**	(6,000)	(6,000)
Shares outstanding at end of year	**2,108,841**	2,126,841	2,132,841

Gains on the redemption of capital stock are recorded in capital surplus; losses, to the extent they exceed cumulative gains, are charged to retained earnings.

First Mortgage Bonds (amount authorized is unlimited by indenture)

	December 31,	
	1984	1983
Series due July 1, 1984 (3⅛ %)	**$ —**	$ 16,000,000
Series due April 1, 1986 (3½ %)	**20,000,000**	20,000,000
Series due April 1, 1988 (3¾ %)	**15,000,000**	15,000,000
Series due March 1, 1989 (4¼ %)	**10,000,000**	10,000,000
Series due March 1, 1991 (13⅜ %)	**50,000,000**	—
Series due February 1, 1996 (5⅛ %)	**22,800,000**	22,800,000
Series due February 1, 1997 (5¼ %)	**24,600,000**	24,600,000
Series due February 1, 1998 (6⅜ %)	**34,700,000**	34,700,000
Series due January 1, 1999 (7%)	**30,000,000**	30,000,000
Series due July 1, 1999 (7¾ %)	**28,947,000**	28,947,000
Series due March 1, 2000 (8¾ %)	**30,000,000**	30,000,000
Series due March 1, 2001 (7⅞ %)	**35,000,000**	35,000,000
Series due December 1, 2001 (7½ %)	**26,461,000**	26,461,000
Series due June 1, 2002 (7½ %)	**28,470,000**	28,470,000
Series due January 1, 2003 (7¼ %)	**32,670,000**	32,670,000
Series due July 1, 2003 (7¾ %)	**35,000,000**	35,000,000
Series due April 1, 2004 (8⅝ %)	**44,100,000**	44,100,000
Series due March 1, 2005 (9½ %)	**50,000,000**	50,000,000
Series due June 1, 2006 (9%)	**80,000,000**	80,000,000
Series due April 1, 2007 (8⅜ %)	**97,400,000**	97,400,000
Series due February 1, 2009 (10⅛ %)	**100,000,000**	100,000,000
Series due January 1, 2010 (12¼ %)	**60,000,000**	60,000,000
Series due September 1, 2010 (14¼ %)	**50,000,000**	50,000,000
Series due June 1, 2011 (16%)	**80,000,000**	80,000,000
Series due May 1, 2012 (16¼ %)	**65,000,000**	65,000,000
Series due April 1, 2013 (12⅛ %)	**60,000,000**	60,000,000
Series due December 1, 2013 (13%)	**50,000,000**	50,000,000
Total	**1,160,148,000**	1,126,148,000
Less: Current maturities—Series due July 1, 1984 (3⅛ %)	**—**	16,000,000
Current sinking fund requirements	**10,601,480**	10,001,480
First Mortgage Bonds	**$1,149,546,520**	$1,100,146,520

Other Long-Term Debt

Pollution Control Obligations: Date of Issuance	Average Interest Rate	Serial Maturity or Mandatory Redemption Beginning	Final Maturity	December 31, 1984	December 31, 1983
September 21, 1972	5.49%	1983	2002	$ 23,000,000	$ 23,500,000
June 21, 1973	5.685%	1984	2003	11,800,000	12,000,000
October 25, 1973	5.755%	1984	2003	15,000,000	16,000,000
August 13, 1974	7.97%	1989	2004	14,000,000	14,000,000
April 2, 1975	7.50%	1993	2005	17,000,000	17,000,000
October 29, 1975	8.40%	1991	2005	18,000,000	18,000,000
September 29, 1976	6.90%	1994	2011	15,000,000	15,000,000
March 24, 1981	12.00%	2002	2011	50,000,000	50,000,000
November 1, 1983	10.50%	—	2013	20,500,000	20,500,000
December 19, 1984	11.625%	—	2014	51,000,000	—
Total				235,300,000	186,000,000
Less: Current maturities				700,000	700,000
Current sinking fund requirements				—	325,000
Pollution Control Obligations				234,600,000	184,975,000
Nuclear Fuel Obligations				34,614,888	30,345,499
Spent Nuclear Fuel Liability				—	8,920,790
5% Sinking Fund Debentures (authorized $20,000,000) due March 1, 2010				9,169,000	9,778,000
Total Other Long-Term Debt				$278,383,888	$234,019,289

The pollution control obligations arise from arrangements between the Company and governmental authorities whereby the construction of certain pollution control facilities has been financed through the sale of bonds by those authorities, and the Company is obligated to pay to the authorities amounts equal to the principal of and interest on such bonds.

The nuclear fuel obligations result from a trust arrangement for the procurement of a portion of the Company's requirements for nuclear fuel. Interest amounts applicable to the trust are capitalized and included in construction work in progress, at rates ranging from 1⅛% to 1½% over the trustee's commercial paper rate. Trust obligations will be paid by the Company as the related nuclear fuel is withdrawn from the trust.

The spent nuclear fuel liability results from a requirement to provide for payment of a one-time fee to the United States Department of Energy for ultimate storage and disposal of spent nuclear fuel used in the generation of electricity through April 6, 1983 and was reclassified to current liabilities in 1984. See Note A to the financial statements.

Sinking fund requirements and maturities for the next five years for long-term debt outstanding, exclusive of nuclear fuel obligations, as of December 31, 1984 are as follows:

Year Ending Dec. 31,	Sinking Fund Requirements	Maturities
1985	$11,601,480	$ 700,000
1986	11,401,480	20,700,000
1987	11,776,480	800,000
1988	11,995,480	15,800,000
1989	12,251,480	10,900,000

The sinking fund requirements in each year relate primarily to the First Mortgage Bonds, which requirements may be satisfied by the certification of property additions at 166⅔% of the Bonds required to be redeemed, and the pollution control obligations. The remaining sinking fund requirement relates to the 5% Sinking Fund Debentures. At December 31, 1984, sinking fund requirements for the 5% Debentures had been satisfied for 1985, 1986 and 1987, and the 1988 sinking fund requirement had been partially satisfied in the amount of $31,000.

Total interest costs incurred during 1984, 1983 and 1982 were $152,251,000, $131,248,000 and $125,004,000, respectively, of which $96,676,000, $73,310,000 and $60,075,000 were capitalized or deferred, including allowance for funds used during construction.

F. SHORT-TERM BORROWING ARRANGEMENTS

At December 31, 1984, the Company had lines of credit with three banks totaling $33,500,000, all of which were unused. Effective January 1, 1985 one of these lines, in an amount of $20,000,000, expired. The range of interest rates under these lines of credit is from prime rate less one half of one percent to prime rate or basic rate or a special rate as may be offered from time to time by the banks. There are no commitment fees or compensating balances associated with the existing lines of credit. In addition, the Company has a $100,000,000 revolving credit agreement available to December 15, 1988. At December 31, 1984, no loans were outstanding under the revolving credit agreement. Borrowings outstanding at December 15, 1988 may be converted to term notes payable in six equal semiannual installments commencing June 15, 1989 and concluding December 15, 1991. Interest rates fluc-

ate during the revolving and term periods, depending on e period of borrowings, at fluctuating prime rate and at rcentages in excess of prime, Euro-Rate, certificate of posit or component cost of funds rates. There is a com- tment fee of ⅜% per annum on the average daily borrowed amount of the commitment.

During the years ended December 31, 1984, 1983 and 1982 e maximum amount of short-term borrowings outstand- , consisting principally of commercial paper borrowings, as $25,500,000, $48,020,000 and $37,000,000, the average ily short-term borrowings outstanding were $4,631,000, 2,251,000 and $1,559,000 and the weighted average daily terest rate applicable to such short-term borrowings was .46%, 9.40% and 15.39%, respectively.

DEFERRED COAL COSTS

he Company and the other CAPCO companies have long- rm coal supply arrangements with Quarto Mining Com- ny (Quarto), an unaffiliated company, to supply coal for e Bruce Mansfield Units. In December 1980 the Pennsylva- a Public Utility Commission (Commission) instituted an vestigation into the reasonableness of the cost of coal sup- ied by Quarto. By Interim Order entered January 12, 1981 e Commission directed that, pending conclusion of the vestigation or further order of the Commission, the Com- ny limit its recovery of the cost of Quarto coal through its ergy cost rate to approximately the prevailing market price similar coal rather than the actual cost of Quarto coal. As quired by the Interim Order, the Company is deferring the cess of the actual cost of Quarto coal over the cost allowed be recovered through its energy cost rate until recovery of e actual cost is permitted by the Commission. At December 1, 1984 the unrecovered cost of Quarto coal paid by the ompany was approximately $22,155,000. If recovery of ch excess is disallowed, the amount deferred would be harged to income in the year of disallowance. Thereafter, ny excess of actual cost over the amount permitted to be ecovered would be charged to income on a current basis.

A Stipulation Agreement between the Company and the ommission staff which set forth a method intended to per- nit the eventual recovery of the unrecovered cost of Quarto oal was the subject of hearings during 1983 in which the onsumer Advocate and the Commission staff participated. n February 3, 1984 the administrative law judge issued a ecommended decision, subject to the Commission's pproval, concluding that the Company was prudent in initi- ting and continuing the Quarto project and that the Stipula- ion Agreement was in the public interest and was a fair and easonable resolution of the investigation into the reason- bleness of the cost of Quarto coal. The administrative law dge recommended that the Stipulation Agreement and its ethodology for recovering the cost of the Quarto coal be pproved and the Commission's investigation terminated. xceptions to the recommended decision were filed by the ommission staff and the Consumer Advocate. On March 0, 1984 the administrative law judge denied the exceptions nd the Commission staff and Consumer Advocate appealed uch 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 believes that 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 on January 1, 1984. At December 31, 1984, the Company estimates the deferred Quarto costs would have been $12.4 million had the final order been implemented and approved in a new energy cost rate.

On September 26, 1984 the Company filed with the Commission a petition for clarification, rehearing and reconsideration, including a request that the Commission stay the effectiveness of the final order as it applies to the period commencing January 1, 1984. On December 10, 1984 the Commission entered an order denying the Company's petition in all material respects.

The Company believes that the revised methodology provided in the Commission's final order may not, under certain circumstances, permit full recovery of the deferred coal costs by the scheduled expiration dates of the Quarto coal sales agreements in the year 1999. Fluctuations in the 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 January 30, 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 of the accumulated deferred Quarto coal costs. 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 of such costs ultimately will be recovered. See Note M to the financial statements.

In accordance with the Commission's February 20, 1981 rate order, the cost of coal mined at the Company's wholly-owned Warwick Mine in excess of the average market prices of similar quality coal purchased by Pennsylvania utilities may not be passed through the energy cost rate, but may be deferred and recovered to the extent that the cost of Warwick coal falls below such market price. Such deferred costs amounted to $480,000 at December 31, 1984. Additionally, the Commission eliminated the Warwick mine from the Company's rate base for ratemaking purposes. The exclusion from rate base is approximately $48,000,000.

H. INCOME TAXES

Total income taxes in 1984, 1983 and 1982 were comprised of the following components:

	1984	1983	1982
		(Thousands of Dollars)	
Included in operating expenses:			
Currently payable:			
Federal	$ 38,004	$ 33,931	$ 25,257
State	16,042	14,295	12,694
Income taxes deferred—net:			
Federal	16,577	22,955	13,997
State	4,893	5,555	(228)
Investment tax credit deferred—net	21,750	16,218	19,493
Total	97,266	92,954	71,213
Included in other income (income taxes—credit):			
Currently payable:			
Federal	(18,060)	(13,354)	(14,267)
State	(4,606)	(3,406)	(3,639)
Total income tax expense	$ 74,600	$ 76,194	$ 53,307
Taxes currently payable—federal and state	$ 31,380	$ 31,466	$ 20,045
Taxes deferred—net	21,470	28,510	13,769
Investment tax credit deferred—net	21,750	16,218	19,493
Total income tax expense	$ 74,600	$ 76,194	$ 53,307

Total income tax expense is exclusive of income taxes applicable to discontinued steam heating operations. See Note C to the financial statements.

Sources of income taxes deferred and the tax effects were:

Excess of tax over book depreciation	$ 24,281	$ 20,920	$ 14,490
Fuel costs expensed on tax return and deferred on books	(3,683)	9,786	(3,552)
Extraordinary property losses expensed on tax return and deferred on books	(1,703)	(1,562)	3,019
Other	2,575	(634)	(188)
Total income taxes deferred—net	$ 21,470	$ 28,510	$ 13,769

Total income taxes from continuing electric operations were less than the amount computed by applying the statutory federal income tax rate of 46% to income from continuing electric operations before income taxes. The reasons for this difference in each year were as follows:

Computed federal income tax on continuing electric operations at statutory rate	$106,441	$101,853	$ 78,432
Increase (decrease) in taxes resulting from:			
Allowance for funds used during construction	(37,187)	(30,405)	(23,123)
Excess of book over tax depreciation	4,979	3,246	1,131
State income taxes, net of federal income tax benefit	8,828	8,880	4,766
Amortization of deferred investment tax credits	(5,750)	(5,266)	(4,251)
Other-net	(2,711)	(2,114)	(3,648)
Total income tax expense	$ 74,600	$ 76,194	$ 53,307

I. PRIOR YEARS' INCOME TAXES

The Company's income tax returns are settled through 1970. Income tax returns for 1971 through 1981 have been examined, and the 1982 and 1983 returns are being examined. The Internal Revenue Service assessed deficiencies regarding the Company's computation of percentage depletion on coal mined for 1956 through 1979, as well as certain other issues of relatively minor importance for 1971 through 1979. A settlement of the depletion issue for the years 1962 through 1970 occurred in June 1983 based on an earlier court decision which was generally in favor of the Company concerning percentage depletion for the years 1956 through 1961. The Company expects that this court decision will serve as the basis for settlement of the depletion issue for the years 1971 through 1979. Management of the Company believes that the settlement of federal and state taxes will not have a material effect on the Company's financial position or results of operations.

EMPLOYEE BENEFITS

The Company has trusteed retirement plans to provide pensions for all employees, except coal mine employees who are covered under a plan administered by the United Mine Workers of America. Since it is a multi-employer plan, information concerning the plan covering coal mine employees is not determinable and is not included in the data below. Pension costs are funded as accrued and include amortization of cost prior service costs over 30 years and prior service costs related to the early retirement program over 15 years. Pension costs charged to expense or construction for the years ended December 31, 1984, 1983 and 1982 were $14,188,000, $10,803,000 and $12,313,000, respectively. The increase in pension costs in 1984 was due principally to the impact of the refund of employee contributions in 1983 and the early retirement program supplemental benefits. In 1983 the Company adopted an early retirement program under which certain benefits will be paid from the assets of the retirement plans. The decrease in pension costs in 1983 resulted principally from an increase in the actuarial interest assumption.

The accumulated plan benefits and net assets available for benefits for the trusteed plans are presented as of the December 31 benefit information dates. The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 5½% for 1983 and 1982 and % for 1981.

	December 31,		
	1983	1982	1981
	(Thousands of Dollars)		
Actuarial present value of accumulated plan benefits:			
Vested	**$189,312**	$159,956	$151,756
Nonvested	**11,945**	11,494	11,566
Total	**$201,257**	$171,450	$163,322
Net assets available for benefits (at fair value)	**$141,235**	$135,571	$111,013

The Company is liable under federal and state laws for the payment of benefits to coal mine employees disabled by black lung and to their survivors and dependents. The estimated costs of providing such benefits, including amortization of prior service costs over the remaining estimated life of the Warwick mine, are actuarially determined and accrued on the basis of mine payroll costs and are deposited with a trustee. Such costs were $1,658,000, $1,574,000 and $1,417,000 for the years ended December 31, 1984, 1983 and 1982, respectively. At July 31, 1984 (the date of the latest actuarial valuation), the unfunded prior service cost for these disability benefits was approximately $18,777,000.

K. JOINTLY-OWNED GENERATING UNITS

The Company, together with other electric utilities, primarily the CAPCO companies, has an ownership interest in certain jointly-owned units. Information regarding the Company's share of such jointly-owned units as of December 31, 1984 is as follows (thousands of dollars):

	Company's Interest				
Unit	Utility Plant in Service	Accumulated Depreciation	Construction Work in Progress	Percentage Ownership	Megawatts
Fort Martin No. 1	$ 46,131	$ 15,830	$ 4,054	50.0	276
CAPCO Units:					
Eastlake No. 5	51,280	12,666	1,392	31.2	202
Sammis No. 7	69,428	14,251	3,843	31.2	187
Bruce Mansfield No. 1	72,390	17,295	847	29.3	228
Bruce Mansfield No. 2	20,251	4,120	113	8.0	62
Bruce Mansfield No. 3	71,123	9,432	558	13.74	110
Bruce Mansfield Common and Shared Facilities	62,748	14,365	466		
Beaver Valley No. 1	347,572	63,299	14,961	47.5	385
Beaver Valley No. 2	18	—	316,262	13.74	114
Beaver Valley Common Facilities	69,689	6,945	65,548		
Perry No. 1, Including Common Facilities	—	—	374,101	13.74	165
Perry No. 2, Including Common Facilities	—	—	215,178	13.74	165
Total	$810,630	$158,203	$997,323		

Under terms of the arrangements with the other owners of such jointly-owned units, the Company is required to provide its share of financing the cost of such units. The Company's share of the direct expenses (fuel, maintenance and other operation expenses) of the jointly-owned units is included in the corresponding operating expenses in the Statement of Consolidated Income.

L. LEASES

In accordance with Statement of Financial Accounting Standards No. 71 (SFAS 71), "Accounting for the Effects of Certain Types of Regulation," capital leases entered into in 1983, as well as such leases executed prior to 1983, have been capitalized. This change had no impact on 1984 net income.

Leased property consists of the following:

	December 31, 1984 (Thousands of Dollars)
Nuclear fuel	$164,001
Electric plant (principally buildings and data processing equipment)	20,108
	184,109
Accumulated amortization	(39,192)
Property held under capital leases—net	$144,917

In accordance with SFAS 71, leased property is amortized in conjunction with the amortization of the related lease obligation. The leased nuclear fuel is amortized as the fuel is burned. The amortization of electric plant is based on the rental payments made. Amortization of leased property amounted to $10,888,000 for the year ended December 31, 1984. If the noncapitalized financing leases had been capitalized at December 31, 1983, property, plant and equipment-net would have been increased by approximately $143,547,000, with related increases in current liabilities and long-term debt of $24,271,000 and $119,761,000.

Lease payments in 1984, 1983 and 1982 amounted to $26,203,000, $30,028,000 and $17,679,000, respectively, of which $34,976,000, $31,994,000 and $15,393,000 were charged to operating expenses. The Company has an undivided interest in nuclear fuel lease agreements. Rental payments are made monthly during the terms of the leases based on the amount of nuclear fuel leased and the amount of nuclear fuel burned. The increase in 1984 and 1983 amounts charged to operating expenses resulted from higher building rentals and an increased amount of nuclear fuel being burned.

The nuclear fuel leases may be terminated by the lessees or lessors with notice as defined in the agreements or by casualty or certain other contingencies, including default by the lessees. In certain situations involving a termination, the lessees may be required to purchase the leased nuclear fuel at the higher of fair market value or unamortized cost. At December 31, 1984, the Company's share of the lessors' unamortized cost of the leased nuclear fuel was $126,863,000, and the Company expects to finance an additional $51,226,000 of such costs under current leasing arrangements.

The Company has certain buildings or portions thereof under lease, including its corporate headquarters, subject to renewal options and in certain cases purchase options.

At December 31, 1984 future minimum lease payments for capital leases are based principally on estimated usage of nuclear fuel and building leases, and minimum lease payments for operating leases are based principally on the corporate headquarters lease, as follows:

	Capital Leases	Operati Lease
	(Thousands of Dolla	
1985	$ 28,270	$10,81
1986	30,334	8,66
1987	29,118	8,03
1988	34,230	7,04
1989	30,598	6,83
1990 and thereafter	95,426	85,98
Total minimum lease payments	247,976	$127,38
Less amount representing interest	68,444	
Present value of net minimum lease payments	$179,532	

M. COMMITMENTS AND CONTINGENT LIABILITI

Construction

The Company presently estimates that it will spend on con struction, exclusive of nuclear fuel and allowance for funds used during construction, between $794 million and $898 million during the period 1985 through 1989, depending on the construction schedule for Perry Unit No. 2. See Manage ment's Discussion and Analysis of Financial Condition and Results of Operations—Capital Resources and Liquidity—Construction.

Perry Unit No. 2

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 group filed a petition with the Public Utilities Commission of Ohi (Ohio Commission) and the Power Siting Board of Ohio (Board) against The Cleveland Electric Illuminating Company, Ohio Edison Company and The Toledo Edison Company (respondents) requesting that the Ohio Commission and the Board jointly and/or individually investigate the public need for the Perry Nuclear Power Plant Unit No. 2 (Unit) presently under construction by the CAPCO companies. The petition also requests that the Ohio Commission and the Board order the cessation of construction of the Uni and of the accrual by the respondents of allowance for fund used during construction (AFC) with respect to the Unit and a declaration that the issuance of securities by the respondents, the proceeds of which will be used to finance construction of the Unit, will not be approved. The respondents have filed a motion to dismiss the petition filed with the Board and an answer to the petition filed with the Ohio Commission requesting that the petition be dismissed. While the Company is not a party to the proceedings, it has 13.74% ownership interest in the Unit.

The Unit, exclusive of common facilities required for the operation of Perry Unit No. 1, is about 45% complete. The Company's investment in the Unit, including AFC and excluding common facilities required for the operation of Perry Unit No. 1, was approximately $152 million at Decem ber 31, 1984. An order in the proceeding requiring that construction of the Unit be terminated could have the effect of cancelling the Unit. In such event, the Company would seek regulatory approval for the recovery from its customers of it

hen investment in the Unit, together with any related can-ellation costs. Based on its present knowledge of the pro-eedings, management of the Company has no reason to elieve that the proceedings will result in decisions adverse o the CAPCO companies, and the Company believes that he ultimate resolution thereof will not have a material effect n the Company's financial position.

The CAPCO companies presently are reviewing their ptions with respect to the Unit. The alternatives include esumption of construction, with a new estimated cost and ompletion date, or cancellation. It is not certain how soon his review will be completed. In the meantime, the principal ork being performed on the Unit is that necessary to enable erry Unit No. 1 to be placed in service. This reduced effort ill result in only minimal expenditures for construction on he Unit during 1985. The Company has been accruing AFC uring the construction period, and such AFC accruals on he Unit are expected to be about $14.4 million in 1985. If the APCO companies do not decide during 1985 to increase onstruction significantly on the Unit, a reserve will be pro-ided against subsequent accruals of AFC on the Unit until onstruction is resumed. A deferral of AFC would not affect ash flow, but it would cause an equal reduction in reported arnings from what they otherwise would be.

If it ultimately is determined to cancel the Unit, the Com-any would seek to recover its investment therein and elated cancellation costs as discussed above.

Quarto Mining Company (Quarto)

The Company and the other CAPCO companies have made long-term coal supply arrangements with Quarto, an unaffiliated company, to supply coal for the Bruce Mans-field Units. As part of these arrangements the individual CAPCO companies are severally, and not jointly, guarantee-ing their proportionate shares of Quarto's debt and lease obligations incurred in connection with the development, equipping and operation of two mines from which the coal is supplied. At December 31, 1984 the Company had guaran-teed the obligations of Quarto with respect to approximately $51,074,000 of indebtedness and lease obligations relating to approximately $25,257,000 of capital equipment for the mines. In general, it is contemplated that the purchase prices to be paid for the coal to be received under the foregoing arrangements will include amounts sufficient to service the guaranteed obligations.

Under the terms of the coal supply contracts, which con-tinue until December 31, 1999 with options to extend for ten additional years, the CAPCO companies must reimburse Quarto for their share of the costs of operating the Quarto mines, including those costs associated with mine construc-tion, whether or not they receive coal from Quarto. The Company's total payments under these contracts amounted to $30,729,000 and $28,512,000 for the years ended Decem-ber 31, 1984 and 1983, respectively.

The Company's estimated future minimum payments under the coal supply contracts related to mine construction and equipment costs are:

Year Ending December 31,	
1985	$ 8,402,000
1986	8,195,000
1987	7,989,000
1988	7,782,000
1989	7,579,000
After 1989	65,942,000
Total	$105,889,000

The current price of Quarto coal to the CAPCO companies is based principally on the actual current production costs plus amortization of certain production expenses incurred during the development period. See Note G to the financial statements.

Beaver Valley Replacement Power

In connection with a February 20, 1981 rate order, the Commission found that the Company had not proven that the costs of replacement power during a 1979 outage of Beaver Valley Unit No. 1 were prudently incurred. On November 19, 1982 the Commission adopted an order nisi which ordered refunds of $12.5 million plus interest over a two-year period less a $1 million offset from another proceeding. The order nisi became final on June 10, 1983. The Company filed an appeal with the Pennsylvania Commonwealth Court and filed with the Commission a petition for an extension of time in which to file a refund plan together with an applica-tion for a stay of the final order. On August 24, 1983 the Commission denied the application for a stay but granted the petition for an extension of time in which to file a refund plan. Subsequently, the Company filed an application with the Commonwealth Court for a stay of the final order, and on September 28, 1983 the Commonwealth Court granted the application. The Company does not agree with the Com-mission's order, and no provision has been recorded by the Company for any such refunds. While the Company is unable to predict what action the appellate courts may ultimately take and although the amount of such refunds could be substantial, management of the Company believes that the replacement power costs were prudently incurred and the eventual outcome of this matter will not have a material effect on the Company's financial position or results of operations.

Rate Matters

Effective July 15, 1981 the Company increased its rates by about $64.2 million annually in accordance with an option order of the Pennsylvania Public Utility Commission (Com-mission). On April 15, 1982 the Commission adopted its final order in the rate proceeding which determined that the option rate increase of $64.2 million annually was just and reasonable. The final order was appealed to the Pennsylvania Commonwealth Court by a commercial customer. On November 29, 1983 the Court affirmed the Commission's final order. The Court's order was appealed to the Pennsyl-vania Supreme Court by the commercial customer.

On December 19, 1984 the Supreme Court ruled that the Commission's June 29, 1981 option 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's opinion. The Company has filed an application for reargument with the Supreme Court.

Since the Supreme Court's opinion did not provide any guidance as to what action might be appropriate for the Commission to take on remand, the Company is unable to determine what effect the Supreme Court's decision will ultimately have. The Company believes that the most adverse effect that might result would be an order by the Commission requiring the Company to refund to its customers amounts collected under the option rates in excess of amounts which it otherwise would have been entitled to collect as just and reasonable. While the Company estimates that such refund, after reflecting possible offsetting credits, could amount to as much as $13 million, it believes that additional credits might be available which could further offset any such refund either in whole or in part.

On April 30, 1982 the Company filed with the Commission a new rate schedule estimated to increase annual revenues by approximately $165 million (subsequently reduced to approximately $155 million). On January 28, 1983 the Commission entered a final order allowing an increase of $105.8 million beginning on January 29, 1983. The Commission's order was appealed to the Pennsylvania Commonwealth Court by both the Pennsylvania Consumer Advocate and the Company. Except for the Consumer Advocate's appeal with respect to the Commission's allowance of the recovery of the cancellation costs of four nuclear generating units (see Note B to the financial statements), both appeals have been discontinued.

Management believes that the ultimate resolution of these rate matters will not have a material adverse effect on the Company's financial position or results of operations.

Nuclear Insurance

The CAPCO companies have coverage with American Nuclear Insurers (ANI) and Mutual Atomic Energy Liability Underwriters (MAELU) to provide primary property insurance coverage for Beaver Valley Power Station Units Nos. 1 and 2 in the aggregate amount of $500 million.

The CAPCO companies are members of Nuclear Electric Insurance Limited (NEIL), a mutual insurer established by the utility industry to provide Decontamination Liability and Excess Property Insurance in excess of $500 million for members' nuclear generating facilities. NEIL presently provides such excess coverage in the amount of $475 million. Under this policy the CAPCO companies are subject to a retrospective premium assessment of approximately $9.5 million per year for a period of seven years in the event of accidents at nuclear plants of member companies if losses exceed premiums, reserves and other NEIL resources. The Company's share of any such retrospective premium assessment would be approximately $2.9 million a year.

Damages in excess of the primary $500 million coverage also are covered by excess property insurance policies issued to the CAPCO companies by ANI and MAELU which provide $85 million of coverage. The ANI/MAELU and NEIL policies provide coverage for losses in excess of $500 million up to $1.06 billion.

The property insurance policies described above provide the CAPCO companies with $1.06 billion of coverage on an investment in the two Beaver Valley Units at December 31, 1984 of about $3.5 billion.

In addition, NEIL also provides insurance coverage for the extra expense of replacement power during prolonged accidental outages of nuclear plants. Coverage is provided for the Company's interest in Beaver Valley Power Station Unit No. 1 and, after a deductible period of 26 weeks, weekly payments of up to $729,000 are provided for one year and up to $364,000 for an additional year. If losses exceed accumulated funds available to NEIL, the Company could be assessed approximately $1.9 million a year for payment of NEIL's obligations.

The Price-Anderson Amendments to the Atomic Energy Act limit liability to third parties to $595 million for each nuclear incident. Coverage of the first $160 million of such liability is provided through ANI and MAELU. The next $435 million is provided by retroactive assessments of up to a limit of $5 million per operating nuclear reactor per incident, but not more than $10 million per operating reactor in any calendar year. Based on its present ownership interest in one operating nuclear reactor, the Company's maximum potential assessment under these provisions would be $2.4 million per incident but not more than $4.8 million per calendar year.

Other

In connection with coal supply arrangements for its wholly-owned generating units the Company has contracted with an unaffiliated coal supplier to purchase a minimum of 750,000 tons of coal per year through December 31, 1986. In 1983 the contract was amended to provide that if the Company requests deliveries in 1983 and 1984 below the minimum annual tonnage, the Company will make up the shortfall (plus a 63,000 ton shortfall in 1982) by purchasing additional tons during the remaining term of the contract or by extending the term of the contract. The contract also provides that any shortfall can be sold to purchasers other than the Company. The total shortfall under the contract at December 31, 1984 was approximately 463,000 tons.

The Company is involved in various other legal proceedings. In the opinion of management of the Company such legal proceedings will not have a material effect on the financial position or results of operations of the Company.

N. SUPPLEMENTARY INCOME STATEMENT INFORMATION

	Year Ended December 31,		
	1984	1983	1982
	(Thousands of Dollars)		
Maintenance	**$83,914**	$75,947	$78,431
Amortization of extraordinary property losses	**4,033**	6,099	—
Taxes other than payroll and income taxes:			
Gross receipts	**38,349**	35,576	33,186
Property	**16,604**	14,374	14,139
State capital stock	**8,901**	5,501	6,601

Under the system of accounting followed by the Company, a portion of maintenance expenses and of taxes other than payroll and income taxes represents amounts charged to coal inventories. The inventory accounts are relieved and operations expense charged as the coal is used.

. QUARTERLY FINANCIAL INFORMATION (Unaudited)

he following is a summary of selected quarterly financial data (in thousands of dollars, except per share amounts):

Quarter Ended	Electric Operating Revenues	Operating Income	Net Income	Earnings Per Share
larch 31, 1983	$185,848	$43,918	$32,975	$.51
ne 30, 1983	198,666	45,287	34,883	.54
ptember 30, 1983	215,141	49,491	39,392	.60
ecember 31, 1983	200,690	47,976	37,977	.56
larch 31, 1984	**213,485**	**50,989**	**42,611**	**.63**
ne 30, 1984	**214,045**	**45,301**	**37,473**	**.53**
ptember 30, 1984	**223,488**	**49,773**	**42,919**	**.61**
ecember 31, 1984	**210,757**	**39,671**	**33,790**	**.45**

. SUPPLEMENTARY INFORMATION TO DISCLOSE THE EFFECTS OF CHANGING PRICES (Unaudited)

he following supplementary information is supplied in ccordance with the requirements of the Statement of Financial Accounting Standards No. 33, Financial Reporting and hanging Prices. This Statement requires adjustments to istorical costs to estimate the effects that changes in specific prices (current cost) have had on the Company's results of operations. The data provided are not intended as a substitute for earnings reported on a historical basis, but offer some perspective of the approximate effects of inflation rather than a precise measurement of these effects.

TATEMENT OF INCOME ADJUSTED FOR CHANGING PRICES

or The Year Ended December 31, 1984

Thousands of Dollars)

	Conventional Historical Cost	Current Cost Average 1984 Dollars
lectric operating revenues	$861,775	$861,775
uel	234,910	234,910
urchased power (sales)—net	(26,637)	(26,637)
ther operation and maintenance expenses	222,691	222,691
epreciation expense	77,532	185,937
axes other than income taxes	70,279	70,279
ncome taxes	97,266	97,266
ther income and deductions—net	(87,393)	(87,393)
nterest charges	116,333	116,333
	704,981	813,386
ncome from continuing electric operations (excluding adjustment of property, plant and equipment to net recoverable cost)	$156,794	$ 48,389
ncrease in specific prices (current cost) of property, plant and equipment held during the year*		$216,023
djustment of property, plant and equipment to net recoverable cost		32
ffect of increase in general price level		(212,822)
xcess of increase in specific price level over increase in general prices after adjustment of property, plant and equipment to net recoverable cost		3,233
ain from decline in purchasing power of net amounts owed		72,125
et		$ 75,358

At December 31, 1984, current cost of property, plant and equipment (exclusive of capitalized leases), net of accumulated depreciation, was $5,985,993, while historical cost or net cost recoverable through depreciation was $2,996,867.

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

(In Thousands, Except Per Share Amounts)	Year Ended December 31,				
	1984	1983	1982	1981	1980
Current cost information:					
Income from continuing electric operations (excluding adjustment of property, plant and equipment to net recoverable cost) (1)	**$ 48,389**	$46,702	$24,567	$24,430	$24,216
Income (loss) per share from continuing electric operations (after dividend requirements on preferred and preference stock) (1)	**.43**	.42	—	(.04)	(.14
Excess of increase in general price level over increase in specific prices after adjustment of property, plant and equipment to net recoverable cost	**(3,233)**	2,767	(247)	125,660	245,461
Net assets at year-end at net recoverable cost	**1,039,107**	999,286	934,346	867,398	869,413
General information:					
Gain from decline in purchasing power of net amounts owed	**72,125**	70,614	66,856	154,353	215,541
Cash dividends declared per share of common stock	**$2.06**	$2.09	$2.04	$2.11	$2.27
Market price per share of common stock at year-end	**$15.125**	$14.07	$15.88	$15.14	$15.92
Average consumer price index	**311.2**	298.5	289.1	272.4	246.8
Historical basis:					
Electric operating revenues	**$861,775**	$800,345	$746,462	$786,229	$674,744
Cash dividends declared per share of common stock	**$2.06**	$2.00	$1.90	$1.85	$1.80
Market price per share at year-end	**$15.125**	$13.50	$14.75	$13.25	$12.63
Proven and probable coal reserves at beginning of year (tons)	**23,200**	25,100	26,300	28,100	29,900
Tons of coal mined	**860**	785	942	680	875
Average cost per ton of mined coal	**$34.65**	$36.59	$31.62	$35.10	$31.14

(1) Amounts for 1982 are before extraordinary gain.

The current cost of property, plant and equipment, which includes land, land rights, intangible plant, property held for future use, construction work in progress and nuclear fuel in process, represents the estimated cost of replacing existing plant assets and was primarily determined by indexing surviving plant by the Handy-Whitman Index of Public Utility Construction Costs. The current cost of coal properties was determined by indexing coal reserves and machinery and equipment by the Marshall-Stevens Mining and Milling Index. The current cost of property, plant and equipment does not include capitalized leases. The current year's provision for depreciation and depletion on the current cost amounts of property, plant and equipment was determined by applying the Company's depreciation and depletion rates to the indexed plant amounts.

Fuel inventories, the cost of fuel used in generation and purchased power have not been restated from their historical cost in nominal dollars. Rate regulation limits the recovery of fuel and purchased power costs through the operation of adjustment clauses or adjustments in basic rate schedules to actual costs. For this reason fuel inventories are effectively monetary assets.

As prescribed in Statement 33, income taxes were not adjusted.

The regulatory process limits the Company to the recovery of the cost of service in its rates. Therefore, any excess of the value of plant at current cost must be reduced to the net recoverable cost, which is historical cost. The amount of this excess that accumulated as a result of inflation in the current year must be reduced to net recoverable cost.

The Company, by holding assets such as receivables, prepayments and inventory, suffers a loss of purchasing power during periods of inflation because the amount of cash received in the future for these items will purchase less. Conversely, by owing monetary liabilities, primarily long-term debt, the Company benefits because the payment in the future will be made with nominal dollars having less purchasing power. The Company has significant amounts of long-term debt outstanding which will be paid back in dollars having less purchasing power and, therefore, for purposes of these calculations, has a net gain from holding monetary liabilities in excess of monetary assets.

The regulatory process limts the amount of depreciation expense included in the Company's revenue allowance and limits utility plant in rate base to original cost. Such amounts produce cash flows which are inadequate to replace such property in the future or preserve the purchasing power of common equity capital previously invested. While this effect is partially mitigated by the benefit derived from holding long-term debt, the Company has a net purchasing power loss which is experienced by the common shareholder and can only be overcome by adequate rate relief. However, the Company expects that it will be able to establish rates which will recover the increased costs of new plant.

uquesne Light Company

elected Financial Data and Statistical Summary

housands of Dollars, Except Per Share Amounts)

	1984	1983	1982	1981	1980	1979
MMARY RESULTS OF OPERATIONS						
sidential revenues	**280,647**	267,110	238,496	223,146	196,400	176,744
mmercial revenues	**314,129**	290,370	263,374	243,501	209,871	185,880
dustrial revenues	**244,970**	221,107	225,292	300,066	250,295	232,389
eet lighting and other revenues	**14,689**	14,357	13,240	12,383	11,052	10,370
scellaneous revenues	**7,340**	7,401	6,060	7,133	7,126	6,164
Total electric revenues	**861,775**	800,345	746,462	786,229	674,744	611,547
peration and maintenance expenses	**430,964**	386,386	399,527	435,589	380,973	351,731
preciation	**77,532**	73,682	62,939	60,854	53,316	47,885
xes other than income taxes	**70,279**	60,651	57,476	57,694	47,637	46,956
come taxes	**74,600**	76,194	53,307	57,801	50,643	41,592
erest charges, net of allowance for borrowed funds used during construction	**116,333**	109,161	100,344	92,968	75,629	65,414
her income, principally allowance for equity funds used during construction	**64,727**	50,955	44,328	28,086	26,749	21,587
come from continuing electric operations before extraordinary gain	**156,794**	145,226	117,197	109,409	93,295	79,556
ss from discontinued steam heating operations	—	—	9,924	538	333	1,194
come before extraordinary gain	**156,794**	145,226	107,273	108,871	92,962	78,362
traordinary gain	—	—	9,609	—	—	—
et income	**156,794**	145,226	116,882	108,871	92,962	82,207†
vidends on Preferred and Preference Stock	**21,955**	22,411	22,701	22,976	23,353	23,721
rnings for Common Stock	**134,839**	122,815	94,181	85,895	69,609	58,486
erage number of common shares outstanding	**61,054**	55,883	48,236	41,764	38,267	32,239
rnings per share of Common Stock:						
Income from continuing electric operations	**2.21**	2.20	1.96	2.07	1.83	1.73
Earnings for Common Stock	**2.21**	2.20	1.95	2.06	1.82	1.81†
vidends declared on Common Stock	**2.06**	2.00	1.90	1.85	1.80	1.76

ncludes cumulative effect to January 1, 1979 of the change in billing practice, net of income taxes, of $3,845 or $.12 per share.

ANT						
operty, plant and equipment	**3,799,499**	3,293,481	3,024,554	2,809,753	2,604,333	2,380,805
cumulated depreciation and amortization	**659,745**	555,641	504,680	477,009	424,653	386,479
Property, plant and equipment—net	**3,139,754**	2,737,840	2,519,874	2,332,744	2,179,680	1,994,326
OTAL ASSETS	**3,530,310**	3,145,811	2,883,424	2,668,577	2,447,163	2,222,537

Notes (continued)

	1984	1983	1982	1981	1980	1979
CAPITALIZATION						
Common Stock	**64,775**	58,420	53,277	45,303	40,166	35,550
Capital surplus	**804,377**	724,147	649,376	550,244	494,228	433,984
Retained earnings	**184,313**	175,938	165,340	163,705	155,102	155,328
Non-redeemable Preferred and Preference Stock	**156,137**	156,137	156,137	156,137	156,137	156,137
Redeemable Preferred and Preference Stock	**127,414**	134,979	140,829	143,924	146,867	149,998
First mortgage bonds	**1,149,547**	1,100,147	1,006,637	983,870	918,230	808,830
Other long-term debt	**278,384**	234,019	199,934	176,682	126,981	127,436
Unamortized debt discount and premium—net	**(10,896)**	(10,967)	(9,488)	(9,453)	(7,161)	(5,770)
Total capitalization	**2,754,051**	2,572,820	2,362,042	2,210,412	2,030,550	1,861,493
AVERAGE REVENUE PER KILOWATT-HOUR—ALL CUSTOMERS	**7.389¢**	7.215¢	6.708¢	5.715¢	5.019¢	4.546¢
SALES OF ELECTRICITY						
Average annual residential kilowatt-hour use	**5,768**	5,752	5,668	5,698	5,770	5,629
Electric energy sales billed (millions of kilowatt-hours)						
Residential	**2,918**	2,905	2,853	2,858	2,876	2,778
Commercial	**4,393**	4,257	4,163	4,069	4,024	3,870
Industrial	**4,148**	3,717	3,902	6,582	6,272	6,546
Street lighting and other	**104**	111	120	125	129	131
Total	**11,563**	10,990	11,038	13,634	13,301	13,325
ENERGY SUPPLY AND PRODUCTION DATA						
Energy supply (millions of kilowatt-hours)						
Generated in system plants	**12,983**	11,900	12,352	13,914	13,485	13,884
Purchased and net interchange	**(803)**	(164)	(689)	410	541	125
Losses and Company use	**(617)**	(746)	(625)	(690)	(725)	(684)
Total	**11,563**	10,990	11,038	13,634	13,301	13,325
Generating capability (thousands of kilowatts)	**3,148**	3,148	3,144	3,177	3,179	3,294
Peak load (thousands of kilowatts)	**2,172**	2,184	2,158	2,522	2,474	2,296
Cost of fuel per million BTU	**165.868¢**	167.140¢	167.865¢	159.660¢	149.768¢	131.779¢
BTU per kilowatt-hour generated	**10,682**	10,635	10,853	10,931	10,811	10,924
Average production cost per kilowatt-hour	**2.559¢**	2.541¢	2.575¢	2.354¢	2.202¢	1.913¢
NUMBER OF ELECTRIC CUSTOMERS—At End of Year						
Residential	**506,883**	505,781	503,987	503,044	500,466	496,005
Commercial	**49,837**	49,493	49,320	48,859	48,308	47,978
Industrial	**1,990**	1,984	1,999	2,016	2,005	1,975
Street lighting and other	**1,588**	1,633	1,647	1,713	1,725	1,746
Total	**560,298**	558,891	556,953	555,632	552,504	547,704

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

Capital Resources and Liquidity

Construction

Construction expenditures during 1984, exclusive of allowance for funds used during construction and nuclear fuel, were approximately $251 million. These expenditures were primarily for the construction of three CAPCO generating units in addition to improving and expanding production, transmission and distribution systems and pollution control equipment.

On January 28, 1985, the CAPCO companies announced a delay in the completion date of Beaver Valley Unit No. 2, which is about 83% complete, from late 1986 to about the end of 1987. This delay is expected to increase the total estimated cost of the unit from about $3.5 billion to approximately $3.9 billion, including allowance for funds used during construction. The Company's share of the increase is $55 million, bringing its total commitment in the unit to $536 million. 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.

The Company currently estimates that it will spend, exclusive of allowance for funds used during construction (AFC) and nuclear fuel, approximately $229, $173, $186, $169 and $141 million for each of the years 1985 through 1989, respectively. These estimates assume a severely restricted construction schedule for Perry Unit No. 2 in 1985 and resumption of construction in 1986.

Estimated Construction Program
($ in millions)

	1985	1986	1987	1988	1989
Including AFC	$329	$240	$247	$203	$180
Excluding AFC	$229	$173	$186	$169	$141

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 AFC and nuclear fuel. See Note M to the financial statements.

The amount which the Company must spend for its construction program is regularly under review and is subject to changes influenced by business and economic conditions and other factors, such as escalation of labor, material and equipment costs, rate of construction progress, the development of environmental and nuclear safety regulations, service reliability and system efficiencies. In addition, this review also must take into account difficulties in obtaining rate increases sufficient to generate adequate earnings, possible changes in load growth trends and, in the case of the CAPCO construction program, the ability of each of the CAPCO companies to finance its capital requirements.

Financing

The Company anticipates that funds required for planned construction expenditures in the next several years will be provided principally from the issuance of additional equity and debt securities and in part from cash becoming available from operations. On March 27, 1984 the Company issued $50 million of 13⅜% First Mortgage Bonds, Series due March 1, 1991. On November 14, 1984 the Company issued and sold 2.5 million shares of Common Stock. Net proceeds from the sale of the Common Stock were approximately $37.4 million. Funds provided to the Company under its Dividend Reinvestment Plan in 1984 amounted to approximately $48 million, and an additional $10.7 million was reinvested on January 1, 1985. On December 19, 1984 the Beaver County Industrial Development Authority issued $51 million of 11⅝% tax-exempt pollution control revenue bonds to reimburse the Company for its share of the cost of certain pollution control facilities at the Beaver Valley Nuclear Power Station. Principal and interest on the bonds will be funded by the Company. Portions of the net proceeds from these issues were used to pay short-term indebtedness incurred principally for construction purposes, and the balance was applied to construction expenditures. The Company currently estimates that approximately 79% of the funds required for its 1985 construction program will come from outside financing. The Company expects to complete a pollution control financing in the first quarter of 1985 for the Perry Nuclear Power Station through the issuance of $39 million State of Ohio Pollution Control Revenue Bonds secured by First Mortgage Bonds. The exact timing of this sale will depend on market conditions.

The Company finances its nuclear fuel requirements primarily by leasing and other arrangements pursuant to which it 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.

In addition to the funds required for the construction program, $23.1 million was required in 1984 for maturities of long-term debt and sinking fund and purchase requirements, and $7.8 million will be required in 1985 for such purposes.

Interim financing will be through bank borrowings and sales of commercial paper. See Note F to the financial statements for short-term borrowing arrangements. Variable market and general economic conditions may affect the Company's selection of financing alternatives and adversely affect its ability to raise capital. In order to maintain earnings adequate to finance construction expenditures and refunding requirements, the Company requires rate increases sufficient to offset increased costs and provide a fair rate of return.

The Restated Articles of the Company require that as a condition to the issuance of Preferred Stock, earnings (after income taxes) available for interest charges be at least 1.5 times the sum of interest charges on all indebtedness and Preferred Stock dividend requirements. This restriction currently precludes the Company from issuing Preferred Stock. There is no similar restriction upon the issuance of the Company's Preference or Common Stock.

Perry Unit No. 2

The CAPCO companies are presently reviewing their options with respect to completion of the Perry Nuclear Power Plant Unit No. 2 (Unit). The alternatives include resumption of construction, with a new estimated cost and completion date, or cancellation. It is not certain how soon this 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 on 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 in 1985. If the CAPCO companies do not decide during 1985 to increase construction significantly on the Unit, a reserve will be provided against subsequent accruals of AFC on the Unit until construction is resumed. A deferral of AFC would not affect cash flow, but it would cause an equal reduction in reported earnings from what they otherwise would be. The Unit is about 45% complete. The Company's investment in the Unit, including allowance for funds used during construction and excluding common facilities required for the operation of Perry Unit No. 1, was approximately $152 million at December 31, 1984. If it is ultimately determined to cancel the Unit, the Company would seek regulatory approval for the recovery from its customers of its then investment in the Unit, together with any related cancellation costs. See Note M to the financial statements.

Rate Matters

Effective July 15, 1981 the Company increased its rates by about $64.2 million annually in accordance with an option order of the Commission. On April 15, 1982 the Commission adopted its final order in the rate proceeding which determined that the option rate increase of $64.2 million annually was just and reasonable. The final order was appealed to the Pennsylvania Commonwealth Court by a commercial customer. On November 29, 1983 the Court affirmed the Commission's final order. The Court's order was appealed to the Pennsylvania Supreme Court by the commercial customer. On December 19, 1984 the Supreme Court ruled that the Commission's June 29, 1981 option order was invalid under the applicable provision of the Pennsylvania Public Utility Code. The Company has filed an application for reargument with the Supreme Court. The Company believes that the most adverse effect that might result would be an order by the Commission requiring the Company to refund to its customers amounts collected under the option rates in excess of amounts which it otherwise would have been entitled to collect as just and reasonable. While the Company estimates that such refund, after reflecting possible offsetting credits, could amount to as much as $13 million, it believes that additional credits might be available which could further offset any such refund either in whole or in part. See Note M to the financial statements.

On April 27, 1984 the Company filed a request for a $42 million annual rate increase with the Commission. The Commission's final order allowed an increase of $31.4 million beginning on January 26, 1985. This rate increase should result in improved earnings in 1985.

Extraordinary Property Losses

In 1980 the CAPCO companies cancelled the construction of four nuclear generating units. In January 1983 the Commission approved the recovery of the accumulated costs from the Company's customers but did not allow any return on these costs. The Commission's order has been appealed by the Pennsylvania Consumer Advocate to the Pennsylvania Commonwealth Court. See Note B to the financial statements.

Deferred Coal Costs

By Interim Order entered January 12, 1981 the Commission directed that 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. The Company is 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. If recovery of such excess is disallowed, the amount deferred would be charged to income in the year of disallowance. See Note G to the financial statements.

Beaver Valley Replacement Power

In connection with a February 20, 1981 rate order, the Commission found that the Company had not proven that the costs of replacement power during a 1979 outage of Beaver Valley Unit No. 1 were prudently incurred. Further hearings in the Beaver Valley refund proceedings were held 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. The order nisi became final on June 10, 1983, and the Company filed an appeal with the Commonwealth Court. See Note M to the financial statements.

Other

Under provisions of the Economic Recovery Tax Act of 1981 eligible individuals who are participants in the Company's Dividend Reinvestment Plan may elect to exclude from current federal taxable income each tax year from 198 through 1985 the fair market value of shares of Common Stock received from the reinvestment of dividends to the extent the aggregate fair market value of such shares does not exceed $750 ($1,500 for spouses who file a joint return). This provision has provided incentive for stockholders to reinvest dividends and thereby ease the cash requirements of the Company.

In 1984 the Company capitalized all of its nuclear fuel ses and certain property leases. There was no impact on Company's results of operations.

The Company has generated in each year funds from erations sufficient to meet its operating expenses, pay idends and finance a portion of its capital needs. The mands and commitments detailed in Note M to the finan- l statements and those noted above are not expected to terially affect the Company's ability to finance its opera- ns or its construction program or to pay dividends.

sults of Operations

Operating revenues from continuing electric operations reased (decreased) in the years 1982 through 1984 over the pective preceding years, for the following reasons:

	1984	1983	1982
	(Millions of Dollars)		
neral rate increases	**$26.9**	$88.4	$ 43.0
ctrical consumption	**12.8**	(10.0)	(62.3)
ergy clause revenues	**18.3**	(31.0)	(19.0)
ate tax adjustment and other	**3.4**	6.5	(1.5)
	$61.4	$53.9	$(39.8)

The operating revenues of the Company are based on rates thorized by the Pennsylvania Public Utility Commission. hese rates are designed to recover the Company's operating penses, plus a rate of return on the investment in utility te base. The Company also has an energy cost rate which nerally allows it to recover the difference between actual el costs and fuel costs included in base rates. Any ercollections of revenues are refunded, with interest, to stomers.

The Company was permitted two rate increases in 1983 fective January 29 and September 17. See Note M to the nancial statements. The increases in electrical consumption d energy clause revenues in 1984 were due principally to creased sales to all significant customer groups and a higher erage energy cost rate. The decreases in electrical consump- n in 1982 and 1983 were due primarily to the severe impact the economic recession in the Company's service area, par- ularly on steel and other industrial customers.

Total operation expenses (fuel, purchased power and other eration) increased in 1984 compared to 1983 primarily due increases in deferred energy expenses, increased genera- n of electricity and increased administrative and general penses which included a one-time charge of approximately million to pay for an early retirement program. These creases were partially offset by increases in 1984 in net sales power to other utilities due to favorable capacity situations d the requirements of neighboring utilities which resulted increased power deliveries. Maintenance expenses creased in 1984 compared to 1983 due primarily to increased nerating outage expenses. The decrease in operation and maintenance expenses in 1983 compared to 1982 was due primarily to a substantial reduction in fuel expenses resulting from higher generation from the Beaver Valley No. 1 nuclear unit, decreased deferred energy expenses and lower generation of electricity. Net sales of power to other utilities decreased as the market for such sales was not as favorable in 1983.

Depreciation expense increased in 1984 and 1983 as a result of increases in utility plant and changes in depreciation rates in 1983 to conform with the depreciation rates allowed by the Pennsylvania Public Utility Commission in its rate orders. Additionally, beginning in January 1983 depreciation expense includes the amortization of the cancelled nuclear generating units and Shippingport. See Note B to the financial statements.

Taxes other than income taxes increased in 1984 compared to 1983 due primarily to increased Pennsylvania gross receipts taxes, which vary in direct relationship to revenues, and as a result of increases in Pennsylvania capital stock taxes and Pennsylvania public utility realty taxes relating principally to legislative changes implemented in 1984. Fluctuations in income taxes are due primarily to changes in taxable income. The effective income tax rate for the three years ended December 31, 1984, 1983 and 1982 was 32%, 34% and 31%, respectively. See Note H to the financial statements.

The increases in allowance for equity and borrowed funds used during construction were primarily due to the increased cost of construction. Fluctuations in interest income resulted from changes in cash available for temporary investments. Interest expense for each of the years 1984, 1983 and 1982 was higher due to increased total borrowings to finance the Company's capital expenditures.

Earnings per share of Common Stock for 1984, 1983 and 1982 were adversely affected by increases in the average number of shares outstanding, which reduced earnings per share by $.20, $.35 and $.31, respectively.

The Company has prepared information on the effects of inflation and changing prices as prescribed by the Financial Accounting Standards Board. Such information is in Note P to the financial statements.

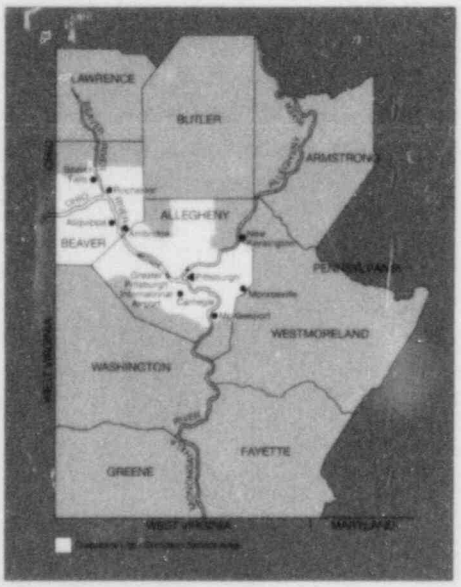
Business of the Company

Duquesne Light Company is engaged principally in the production, transmission, distribution and sale of electric energy. The Company serves an area of approximately 800 square miles in Allegheny and Beaver Counties. This area, which includes the City of Pittsburgh, is located in Southwestern Pennsylvania and has a population of about 1,430,000.

The executive offices of Duquesne Light are located at:
One Oxford Centre
301 Grant Street
Pittsburgh, Pennsylvania 15279.

Duquesne Light Company is an Equal Opportunity Employer.

Service Area Map



1974-1984 Dimensions Magazine

In mid-year 1985, the Company plans to publish Duquesne Light *Dimensions*, containing in-depth information concerning the Company. *Dimensions* will include an 11-year statistical review and a discussion of some of the important issues affecting Duquesne Light Company. For a copy of *Dimensions* write:

Duquesne Light Company
Corporate Communications (30-5)
One Oxford Centre
301 Grant Street
Pittsburgh, Pennsylvania 15279

Common Stock Dividends

The Company has paid cash dividends on its 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 beginning in 1953 after becoming publicly owned. The quarterly dividend related to the first quarter of 1983 was paid at the rate of 47½¢ per share. Quarterly dividends related to the last three quarters in 1983 and the first quarter in 1984 were paid at the rate of 50¢ per share. Commencing April 1, 1984 the quarterly dividend rate was increased to 51½¢ per share. Future dividends will depend upon future earnings, the cash position of the Company, construction requirements, rate regulation and other relevant factors. The Company expects that dividends will continue to be paid in the future.

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 are in general limited to (1) 50% of consolidated net income 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 (2) 75% of such consolidated net income if the effect would be to reduce such ratio to 20% or more but less than 25%. No portion of retained earnings at December 31, 1984 was restricted by virtue of this provision. The approximate number of holders of Common Stock as of the March 1, 1985 record date for the 1985 Annual Meeting was 147,000.

Federal Income Tax Status of Common Stock Dividends

The Company estimates that portions of the Common Stock dividends paid in 1984 represent a return of capital and are not taxable as dividend income as follows:

Payment Dates	Taxable As Dividend Income	Not Taxable As Dividend Income
January 1	100.00%	0.00%
April 1	100.00%	0.00%
July 1	79.77%	20.23%
October 1	68.09%	31.91%

These estimates are subject to audit by the Internal Revenue Service.

Form 10-K Offer

If you are a holder or beneficial owner of any class of the Company's stock as of March 1, 1985, the record date for the 1985 Annual Meeting, the Company will send you, upon request and at no charge, a copy of the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year 1984 (including a list of exhibits). All requests must be made in writing to the Secretary, (29-7) Duquesne Light Company, One Oxford Centre, 301 Grant Street, Pittsburgh, Pennsylvania 15279.

CAPCO

In 1967, Duquesne Light joined four other electric utilities to form the Central Area Power Coordination (CAPCO) group.

Prior to 1980, 10 generating units were committed under the CAPCO arrangements, which provided for joint ownership interests based on individual requirements. To date, seven are in service, and three are under construction. Duquesne Light shares in nine of the CAPCO units.

Since 1980 each CAPCO company has been responsible for establishing its own level of reserves and generating capacity needs beyond the jointly-owned units still under construction. Duquesne Light is now developing a program to meet its future capacity requirements.

***Duquesne Light Company**

Beaver Valley # 1
Nuclear—1976
Capacity: 810,000 KW
D.L. Ownership: 47.5%
D.L. Share: 385,000 KW

Beaver Valley # 2
Nuclear—1987
Capacity: 833,000 KW
D.L. Ownership: 13.74%
D.L. Share: 114,000 KW

***Pennsylvania Power Company**

Mansfield # 1
Coal—1976
Capacity: 780,000 KW
D.L. Ownership: 29.3%
D.L. Share: 228,000 KW

Mansfield # 2
Coal—1977
Capacity: 780,000 KW
D.L. Ownership: 8.0%
D.L. Share: 62,000 KW

Mansfield # 3
Coal—1980
Capacity: 800,000 KW
D.L. Ownership: 13.74%
D.L. Share: 110,000 KW

***Ohio Edison Company**

Sammis # 7
Coal—1971
Capacity: 600,000 KW
D.L. Ownership: 31.2%
D.L. Share: 187,000 KW

***The Cleveland Electric Illuminating Company**

Perry # 1
Nuclear—1985
Capacity: 1,205,000 KW
D.L. Ownership: 13.74%
D.L. Share: 165,000 KW

Perry # 2
Nuclear—**
Capacity: 1,205,000 KW
D.L. Ownership: 13.74%
D.L. Share: 165,000 KW

Eastlake # 5
Coal—1972
Capacity: 648,000 KW
D.L. Ownership: 31.2%
D.L. Share: 202,000 KW

***The Toledo Edison Company**

Davis-Besse # 1
Nuclear—1977
Capacity: 880,000 KW
D.L. Ownership: 0
D.L. Share: 0

*Constructing and operating company
**Construction schedule under review

Board of Directors

John M. Arthur ‡‡°
Chairman of the Board and President

Charles M. Atkinson ‡°
Executive Vice President

Henry G. Allyn, Jr.* †
Retired President and Chief Executive Officer of The Pittsburgh and Lake Erie Railroad Company

Daniel Berg* ‡‡°
Acting President, Provost and Institute Professor, Rensselaer Polytechnic Institute

Doreen E. Boyce ‡‡
Director, The Buhl Foundation

John H. Demmler* †
Partner, Reed Smith Shaw & McClay Attorneys-at-Law

Sigo Falk* ‡
Associate Director, Health Systems Agency of Southwestern Pennsylvania

William H. Knoell †°
President and Chief Executive Officer, Cyclops Corporation

G. Christian Lantzsch †‡°
Vice Chairman of Mellon Bank, and Vice Chairman and Treasurer of Mellon Bank Corporation

Eric W. Springer ‡
Partner, Horty, Springer and Mattern Attorneys-at-Law

* Member of Audit Committee
† Member of Compensation Committee
‡ Member of Employment and Community Relations Committee
‡ Member of Nominating Committee
° Member of Nuclear Review Committee

Transfer Agent and Registrar

Common, Preference and Preferred Stock
The First Jersey National Bank
Jersey City, New Jersey

Annual Meeting of Stockholders

The annual meeting of stockholders will be held at 10 a.m., Pittsburgh time, on Tuesday, April 30, 1985 in the David L. Lawrence Convention Center, Pittsburgh, Pennsylvania.

Company Officers

John M. Arthur
Chairman of the Board and President

Charles M. Atkinson(1)
Executive Vice President

Roger D. Beck
Vice President—Administrative Services Group

John J. Carey
Vice President—Nuclear Group

Clifford N. Dunn
Vice President—Power Supply Group

William F. Gilfillan, Jr.
Vice President—Customer Services Group

Wesley W. von Schack(2)
Vice President—Finance Group

Walter T. Wardzinski
Vice President—Legal and Corporate Communications

Earl J. Woolever
Vice President—Nuclear Construction

Diane S. Eismont(3)
Secretary

James O. Ellenberger
Controller

Ronald G. Males
Treasurer

Richard J. Ciora
Assistant Treasurer

Lawrence P. Galie
Assistant Treasurer

Joan S. Senchyshyn
Assistant Secretary

A. William Stein(4)
Assistant Secretary

(1)On April 17, 1984, the Board of Directors elected Charles M. Atkinson Executive Vice President. Prior to his appointment, Mr. Atkinson was Vice President, Finance and Accounting Group.

(2)On August 21, 1984, the Board of Directors elected Wesley W. von Schack Vice President—Finance Group. In addition, on September 18, 1984 the Board assigned Mr. von Schack the duties of Chief Financial Officer. Prior to his appointment, Mr. von Schack was Senior Vice President—Finance and Administrative Services for Central Vermont Public Service Corporation.

(3)On April 17, 1984, the Board of Directors elected Diane S. Eismont Corporate Secretary. Prior to her appointment, Ms. Eismont was a Senior Attorney in the Company's Legal Unit.

(4)On June 19, 1984, the Board of Directors elected A. William Stein Assistant Secretary. In addition, Mr. Stein is an Attorney in the Company's Legal Unit.

Duquesne Light
One Oxford Centre
Pittsburgh, PA 15279