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JAY E. SILBERG, P.C.

January 31, 1986

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

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

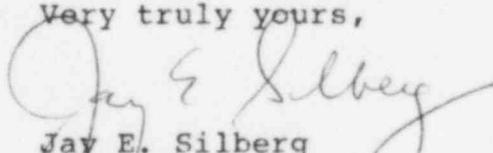
Duquesne Light Company
(Beaver Valley Power Station, Unit 2)
Docket No. 50-412

Toledo Edison Company
(Davis-Besse Nuclear Power Plant)
Docket No. 50-346

Dear Sir:

My letters of August 14, 1985, November 13, 1985, and January 8, 1986 transmitted to you documents (Form U-1, Amendments 1 and 2 to Form U-1, and Form S-4) that had been filed with the Securities and Exchange Commission in connection with the proposed affiliation between The Cleveland Electric Illuminating Company and The Toledo Edison Company. Enclosed for your information are Amendments 3 and 4 to Form U-1 which were recently filed with the SEC to provide additional information concerning the proposed affiliation.

Very truly yours,



Jay E. Silberg
Counsel for Cleveland Electric
Illuminating Company,
Duquesne Light Company, and
Toledo Edison Company

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Enclosure

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SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

AMENDMENT NO. 3

to

FORM U-1

APPLICATION

UNDER

THE PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

CENTERIOR ENERGY CORPORATION
(formerly North Holding Company)
c/o Squire, Sanders & Dempsey
1800 Huntington Building
Cleveland, Ohio 44115

(Name of company filing this statement
and address of principal executive offices)

None

Name of top registered holding company parent
of each applicant or declarant)

Paul M. Smart, Secretary and Treasurer
Centerior Energy Corporation
300 Madison Avenue
Toledo, Ohio 43652

(Name and address of agent for service)

The Commission is requested to mail copies of
all orders, notices and communications to:

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Centerior Energy Corporation ("Centerior") is filing this Amendment No. 3 to its Form U-1 Application (file no. 70-7149) for the purpose of providing additional information and filing additional exhibits.

ITEM 1. Description of Transaction.

The following additional information is furnished in response to that portion of Section 10(b)(2) of The Public Utility Holding Company Act of 1935 (the "Act") which provides that:

"If the requirements of subsection (f) are satisfied, the Commission shall approve the acquisition unless the Commission finds that --

. . . .

(2) In case of the acquisition of securities . . . , the consideration, . . . to whomsoever paid, to be given, directly or indirectly, in connection with such acquisition is not reasonable or does not bear a fair relation to the sums invested in or to earning capacity of . . . the utility assets underlying the securities to be acquired"

Throughout the period of the negotiation of the affiliation transaction, The Cleveland Electric Illuminating Company ("CEI") was represented by and was receiving the advice and assistance of its investment banker, Morgan Stanley & Co. Incorporated ("Morgan Stanley"). During this same period The Toledo Edison Company ("TE") was represented by and was receiving the advice and assistance of its investment banker, Merrill Lynch Capital Markets ("Merrill Lynch").

At an early stage in the discussions between CEI and TE, an understanding was reached to the effect that, if a transaction were to go forward, it would be on the basis of:

1. The establishment of a holding company (Centerior was ultimately established as the holding company pursuant to this understanding).

2. A merger transaction whereby all of the outstanding common stock of CEI would become owned by Centerior (thereby making CEI a wholly-owned

subsidiary of Centerior), and the interests of the existing common stock owners of CEI would be converted into common stock ownership of Centerior.

3. A merger transaction whereby all of the outstanding common stock of TE would become owned by Centerior (thereby making TE a wholly-owned subsidiary of Centerior), and the interests of the existing common stock owners of TE would be converted into common stock ownership of Centerior.

4. As a result of the foregoing, immediately upon consummation of the transactions, the only holders of common shares of Centerior would be those former owners of common shares of CEI and TE whose shares were converted into shares of Centerior.

Within the structural framework so established, the negotiations between the parties focused upon the appropriate exchange ratios, i.e. the number of shares of Centerior common stock to be issued for each share of CEI and the number of shares of Centerior common stock to be issued for each share of TE.

The studies by the management of both companies, and by their respective investment bankers, thus focused upon those factors deemed to be relevant to exchange ratios.

Morgan Stanley studies on behalf of CEI focused upon the following areas:

1. The history of the market value of the common stock of CEI in the trading market; the history of the market value of the common stock of TE in the trading market; the ratio of the trading market value of each CEI share to the trading market value of each TE share, and the trend of such ratio. Over the period of approximately 4 1/2 years, there was a gradual increase in the market value relationship of a CEI common share to a TE common share. On June 21, 1985, (the last trading day for which market value information was

available prior to agreement being reached on an exchange ratio), each CEI share was worth 118% of the value of each TE share. Considered over a somewhat longer period of trading activity (one week average, two week average and four week average), the market value relationships were about the same, ranging from 116% to 118% as the value of each CEI share in relation to each TE share.

2. Relative book value per common share was also studied. The unadjusted book value of TE shares was greater than the unadjusted book value of CEI shares. For the latest period studied, the unadjusted book value of each CEI share was 89% of the unadjusted book value of each TE share.

3. An extensive study was undertaken to resolve the significant difference between market and book ratios. This study was aimed at deriving an adjusted book value per share for each company (sometimes called "recoverable net assets per share" and sometimes called "tangible book value per share"). The adjustments were intended to reflect a range of possible values depending on various accounting differences between the companies, possible future discounting which may be required by the proposed revisions to the Financial Accounting Standards #71, and to recognize the market-place's perception of possible disallowances of investment in incomplete nuclear facilities not yet included in the companies' rate base. Such adjustments, prepared under various assumptions, reduced the book value per share of TE to a lower amount than the comparably adjusted book value of CEI.

4. Consideration was also given to the historical relationship of earnings per share of the two companies, and the trends of such earnings per share. For the most recent period, the earnings per share of CEI were 96% of the earnings per share of TE. However, the historical trend of the relative earnings per share had been for CEI earnings per share to improve in relation to the TE earnings per share.

5. Studies were also undertaken of the relative dividends per share of the two companies. For the most recent period studied, the dividend rate per share of the two companies was identical, but the historical trend had shown an increase in the ratio of CEI dividends per share to the dividends per share of TE.

6. Studies were undertaken of the relative cash flow per share. For the most recent period studied, the cash flow per share of CEI was 156% of the cash flow per share of TE. The historical trend had shown a gradual increase in the cash flow per share of CEI in relation to TE.

7. Study was undertaken, using selected exchange ratios, to determine the potential impact of selected exchange ratios upon market value, stated book value, adjusted book value (sometimes called recoverable net assets per share and sometimes called tangible book value per share), historical earnings per share and cash flow per share.

Just as Morgan Stanley, on behalf of CEI, studied various financial relationships, so also did Merrill Lynch, on behalf of TE, study various financial relationships. For this purpose Merrill Lynch studied and reported to TE management with respect to:

1. Historical operating data of TE (called "Tophat" in the studies).
2. Historical cash flow data of TE.
3. Historical selected financial ratios of TE.
4. Historical operating data of CEI (called "Chapeau" in the studies).
5. Historical cash flow data of CEI.
6. Historical selected financial ratios of CEI.
7. Summary operating statistics of the two companies, including pro forma combined operating statistics.

8. Summary power plant data with respect to the two companies.

9. Impact of the proposed transaction upon the book value, earnings per share, cash flow per share, dividend and dividend yield, and certain assumptions as to market value prices, based upon the proposed transaction.

10. Relative contribution of the two companies to the net property, plant and equipment; total common equity; net income applicable per common share; allowance for funds used during construction applicable to common stock equity; and operating cash flow.

11. Relative stock market trading values per share of TE and CEI stock, for historical periods and for current periods, were also studied. This study, as did the study of the same subject matter by Morgan Stanley, on behalf of CEI, showed:

(a) A CEI share value equal to 118% of a TE share on June 21, 1985.

(b) A range during calendar year 1985 whereby CEI shares were in the range of 103% to 122% of the value of a TE share, depending upon the trading period.

12. Studies were also made, for comparative purposes, with respect to selected comparable companies, showing selected financial data and market value data of CEI and TE in comparison to these other companies.

Negotiations then took place between CEI and TE against the background of agreement between the parties as to the structural form of a transaction, as set forth above, and with the benefit of the analysis provided by their respective investment bankers, including the analyses listed above. These negotiations were handled in part through direct discussions between the chief executive officers of CEI and TE, and were handled in part through discussions between the respective investment banking firms.

The exchange ratio initially proposed by TE suggested that the unadjusted book value of the respective companies should form the foundation for the exchange ratio. CEI found that basis for exchange unacceptable, and rejected it.

The exchange ratio initially proposed by CEI suggested that the market value of the common shares of the respective companies on the date of agreement should form the foundation for the exchange ratio. TE found that basis for exchange unacceptable, and rejected it.

Negotiations continued, and in due course, through the process of negotiation and compromise, an exchange ratio of 1.11 shares of Centerior for each CEI common share, and one share of Centerior for each TE common share, was agreed upon. This agreed upon exchange ratio has the effect of valuing each CEI common share at 111% of the value of each TE common share.

The respective investment banking firms then tested the agreed upon exchange ratio against the standards set forth above. Morgan Stanley and Merrill Lynch were each requested to study and confirm that they could give opinions to the Board of Directors of CEI and TE, respectively, that the proposed affiliation, at the agreed upon exchange ratio, was fair to the common shareholders of the respective companies from a financial point of view. Each of the respective investment banking firms confirmed, after study that they were able to furnish such opinions. The opinions of such firms (as set forth in the merger proxy statements of CEI and TE, filed with the Securities and Exchange Commission as part of Registration Statement on Form S-4, Registration No. 2-99531) were heretofore filed, in connection with Amendment No. 1 to the Centerior filing on Form U-1, and were identified therein as Exhibits L and M. For convenience purposes, such opinion letters are refiled herewith, maintaining the identification as Exhibits L and M.

Also filed herewith, as Exhibits Y and Z are the study reports of Morgan Stanley and Merrill Lynch, respectively, to the Boards of Directors of CEI and TE, each dated June 25, 1985. These reports set forth the studies of such firms testing the agreed upon exchange ratio against the standards set forth above. In each case, for the purpose of this filing, such reports have been abridged to eliminate information containing forecasts for future operating periods, because it is deemed inappropriate to include information as to forecasted future operating results of CEI, TE and Centerior in a public record.

As is readily apparent, the agreed upon exchange ratio, while not directly tying exactly to any other specific financial ratio (such as relative book value, adjusted or unadjusted; relative market value; relative earnings per share; or relative dividends per share) bears a closer relationship to relative market value than it does to any other ratio.

Centerior believes that the agreed upon exchange ratio constitutes consideration to the common shareholders of CEI and TE that is reasonable and bears a fair relation to the sums invested in and to the earning capacity of the utility assets of CEI and TE.

Furthermore, Centerior believes that there is nothing in the record of this proceeding, and there is no basis for a credible assertion to the effect that, the consideration to the common shareholders of CEI and TE in this proposed affiliation transaction:

1. Is not reasonable, or
2. Does not bear a fair relation to the sums invested in or the earning capacity of the utility assets of CEI and TE.

On November 26, 1985, at separate meetings of the shareholders of CEI and TE, the proposed affiliation transaction was approved by the following voting margins:

1. 63,485,215 common shares of CEI voted in favor of the transaction, constituting an approval ratio of 96.5% of the shares that voted on the transaction.

2. 32,206,402 common shares of TE voted in favor of the transaction, constituting an approval ratio of 96.6% of the shares that voted on the transaction.

ITEM 3. Applicable Statutory Provisions.

The following additional information is furnished in response to that portion of Section 10(c)(2) of the Act which provides that:

"Notwithstanding the provisions of subsection (b), the Commission shall not approve --

. . . .

(2) the acquisition of securities . . . of a public utility unless the Commission finds that such acquisition will serve the public interest by tending towards the economical and the efficient development of an integrated public utility system"

In that connection, reference is also made to Section 2(a)(29) of the Act which provides that:

"When used in this title, unless the context otherwise requires --

(29) 'Integrated public utility system' means --

(A) As applied to electric utility companies, a system consisting of one or more units of generating plants and/or transmission lines and/or distributing facilities, whose utility assets, whether owned by one or more electric utility companies, are physically interconnected or capable of physical interconnection and which under normal conditions may be economically operated as a single interconnected and coordinated system confined in its operations to a single area or region, in one or more states, not so large as to impair (considering the state of the art and the area or region affected) the advantages of localized management, efficient operation, and the effectiveness of regulation;"

Integrated Operation of The Centerior Power System

Background

For many years the managements of CEI and TE have aggressively pursued the goals of improved reliability and lower cost to the customer through coordination with other electric systems. Examples of actions taken include construction of high-capacity extra-high-voltage (345 kV) interconnections with other systems. These include interconnections between the CEI system and General Public Utilities (GPU) system in 1966 and between the TE system and The Michigan Power Pool system beginning in 1970. Both CEI (in 1963) and TE (in 1969) have constructed major 345 kV interconnections with Ohio Power, a member of the American Electric Power (AEP) system. More recently, in 1968 through 1970, CEI developed with Ohio Edison (OE) a series of projects which included construction of a 600 MW generating unit on each system under a mutual back-up arrangement for those units and two 345 kV interconnections between the systems. A result of these coordinated projects was the development of significant portions of a 345 kV network in northern Ohio.

In 1967 CEI and TE joined with OE and Duquesne Light Company (DL) in a Memorandum of Understanding concerning the formation of The Central Area Power Coordination Group. The purposes of that agreement were to "coordinate the installation of generation and transmission capacity on the systems of the parties in order to enable each party, on an equitable basis, to:

1. Further the reliability of bulk power supply through assurance of:
 - (a) An adequate reserve capacity level with reserve capacity coordination.
 - (b) An adequate transmission network.
2. Take advantage of such economies of scale as will be available."

Among other things, the Memorandum of Understanding provided for the construction of certain generation and transmission facilities, provided the basis for committing additional generation and transmission facilities, established the ownership and the basis for financial responsibility of each facility and committed to development of definitive agreements covering the construction, operation and maintenance of such facilities.

Specifically the Memorandum of Understanding provided for the construction of four major generating units as follows:

Generating Unit Commitments
in
CAPCO Memorandum of Understanding

<u>Ultimate Designation</u>	<u>Nominal Capacity</u>	<u>Constructor (Operator)</u>	<u>Location</u>	<u>Ownership (MW)</u>			
				<u>CEI</u>	<u>DL</u>	<u>OE</u>	<u>TE</u>
Sammis 7	625 MW	OE	Ohio River	-	195	430	-
Eastlake 5	625 MW	CEI	Lake Erie	430	195	-	-
Beaver Valley 1	800 MW	DL	Ohio River	-	380	420	-
Davis-Besse	800 MW	TE	Site to be selected	380	-	-	420

In addition, the Memorandum of Understanding committed what was considered a "back bone" 345 kV transmission system. This back bone system was considered necessary not only to make available to the owners of the jointly committed generating units their capacity in units located outside of their service territory, but to provide for the various transactions between the parties essential to attaining the goal of reliability and economy. This back bone system is shown on Exhibit A which was Exhibit A of the Memorandum of Understanding. This Exhibit shows, specifically, a 345 kV line from the substation labeled "Beaver" to a location identified as "TE Site", later known as Davis-Besse. It also shows that the "back bone" (Required CAPCO Group EHV

Transmission Facilities) extends to locations within each of the parties' service areas (Lemoyne in TE territory, Juniper in CEI territory, Star in OE territory and Ewing in DL territory). This back bone ultimately came to be designated as consisting of "CAPCO Lines" and "50% CAPCO Lines".

The Memorandum of Understanding also includes specific designation of the investment responsibility for the facilities of the "back bone" system. This system consisted not only of 345 kV transmission lines but an appropriate allocation of 345 kV substation facilities. The general basis for sharing investment responsibility, not only in the "back bone" system, but in lines subsequently agreed to be required, is that each company should carry responsibility in proportion to its share of the peak load of the group. The investment responsibility for the "back bone" system considered all of the facilities as a group and a share of the total investment was determined for each party. OE chose to undertake total financial responsibility for certain facilities that existed at the time. These facilities are the Sammis-Star (North) line, the Star-Beaver line and its share of the Star-Juniper line. Financial responsibility for these facilities basically fulfilled OE's share of the total financial responsibility and so the responsibility for the remaining back bone facilities was shared by only CEI, DL and TE. As a result the responsibility for the Beaver-Davis Besse line is shared 48% CEI, 32% DL and 20% TE. Responsibility for construction of CAPCO lines and subsequent ownership rests with the company in whose service area the facility resides. Similarly, operational responsibility for operation and maintenance rests in the owning company.

The Memorandum of Understanding provides that appropriate payments be made to the owner of a CAPCO facility to cover annual fixed charges based upon levelized factors of cost of money, Federal income taxes, depreciation, insur-

ance and appropriate state and local taxes. Operation and maintenance costs are allocated on the same basis as investment responsibility and paid to the party incurring such costs.

In November 1971 the parties signed, effective as of September 14, 1967 (the date of the Memorandum of Understanding), the CAPCO Transmission Facilities Agreement, heretofore filed in connection with Amendment No. 1 to the Centerior filing on Form U-1, and identified therein as Exhibit O. The purpose of this Agreement is to "provide for the installation on the system of the Parties an adequate transmission network, and the operation and maintenance thereof, which will 1) permit the utilization by the parties of their various capacity entitlements in generating units from time to time as provided for pursuant to the CAPCO Basic Generating Agreement among the parties, (Writer's note: A CAPCO Basic Generating Agreement has never been executed but the parties have proceeded under the Memorandum of Understanding as if it were a Basic Generating Agreement), 2) permit the Parties to meet their obligations to each other as provided for pursuant to the CAPCO Basic Operating Agreement, 3) provide a means for more effective coordination with other systems, power pools and coordination groups, 4) provide a high degree of operating flexibility under a wide range of contingencies with respect to the foregoing, and 5) achieve an equitable sharing of the resulting benefits and responsibilities including investment responsibilities, operation and maintenance expenses."

The CAPCO Transmission Facilities Agreement has no termination date except by mutual agreement of all parties. Important provisions of this Agreement are Article 5 and 6.07. Article 5 covers Individual Transmission facilities, which is defined as bulk power transmission facilities of the parties other than CAPCO lines. This article provides that Individual Trans-

mission facilities are mutually available for the purposes of the CAPCO Transmission Facilities agreement, which includes activities pursuant to the CAPCO Operating Agreement. This section also provides that if the use by others of Individual Transmission facilities of a party "materially interfere(s)" with the owning party's use of such facilities, the matter shall be considered by the CAPCO Executive Committee to determine what action should be taken to eliminate the interference. Similarly, Section 6.07 provides that CAPCO lines shall also be available for individual use of the parties, provided that material interference does not result, and as in the case of Individual Transmission, the Executive Committee shall determine the action to be taken in the event of interference.

Subsequent to the execution of the Memorandum of Understanding, the CAPCO Parties committed a number of additional generating units and transmission facilities. The generating units so-committed are:

Subsequent Generating Unit Commitments

<u>Ultimate Designation</u>	<u>Capacity</u>	<u>Constructor (Operator)</u>	<u>Location</u>	<u>Ownership (MW)</u>			
				<u>CEI</u>	<u>DL</u>	<u>OE</u>	<u>TE</u>
Mansfield 1	780 MW	PP ¹	Ohio River	51	228	501	-
Mansfield 2	780 MW	PP	Ohio River	223	62	360	135
Mansfield 3	800 MW	PP	Ohio River	196	110	335	159
Beaver Valley 2	833 MW	DL	Ohio River	204	114	349	166
Perry 1	1205 MW	CEI	Lake Erie East of Cleveland	375	165	425	240
Perry 2 ²	900 MW Class Each	TE	Lake Erie Davis Besse				
Erie County	1100 MW	OE	Lake Erie				

1. PP - Pennsylvania Power Company, an Affiliate of OE
2. Construction Suspended

1&2³

Each

OE

Erie County
OE Service
Area

During this same period, a number of additional 345 kV transmission facilities were committed. Exhibit BB shows the 345 kV transmission system in Northern Ohio as it existed as of December 31, 1985. Many of the lines shown on Exhibit BB that have been added since the commitments of the Memorandum of Understanding are CAPCO and 50% CAPCO lines while others are Individual Lines. Taken altogether these lines, along with facilities of others, form an extensive extra high voltage network supported by a network of individually owned lower voltage transmission lines.

In January 1975 the CAPCO Basic Operating Agreement was executed. This Agreement was extensively amended in September 1980 and remains in effect in that form with minor subsequent Amendments. This Agreement was heretofore filed in connection with Amendment No. 1 to the Centerior filing of Form U-1, and was identified therein as Exhibit Q. The purposes of this Agreement are "to provide for the coordinated operation of the systems of the Parties, so as to 1) provide for the utilization by each of the Parties of facilities heretofore provided for by the Parties; 2) provide a degree of mutual support; 3) provide for capacity and energy transactions by and among the Parties; 4) permit coordination of the operation of the systems of the Parties; and 5) achieve an equitable sharing of the responsibilities, risks and expenses and of the resulting benefits of coordinated operation of the systems of the Parties."

One of the provisions of the Basic Operating Agreement, Article 4, established the CAPCO Coordinating Office in Massillon, Ohio. A principal

3. Projects Terminated

function of the Office is "To collect, record and disseminate operating information as may be assigned by the Operating Committee."

In addition to outlining principles of interconnected operation, the Basic Operating Agreement contains Service Schedules, each of which provides the characteristics and cost basis for a specific class of interconnection transactions. The following Service Schedules are currently in effect:

Schedule A	CAPCO Back-Up Power
Schedule B	Short Term Power
Schedule C	Non Displacement Power
Schedule D	Economy Power
Schedule E	Unit Power
Schedule G	Emergency Power
Schedule H	Transmission of Non-CAPCO Power
Schedule I	Replacement Power

Schedule F identifies the components of "Out-of-Pocket" cost and is not a Service Schedule as such.

The CAPCO Transmission Facilities Agreement and the Basic Operating Agreement are complementary. The Transmission Agreement not only establishes the facilities but also the basis for cost-sharing necessary to establish the rights, privileges, and responsibilities of the parties for use of the transmission system to execute the transactions provided for in the Basic Operating Agreement.

The CAPCO 345 kV network is substantial, consisting of many miles of circuits costing millions of dollars. The sharing of investment responsibility is also a major undertaking. For example, in 1985, CEI paid to the other CAPCO systems about \$6.5 million representing its share of the fixed charges, operation and maintenance for CAPCO lines owned by other systems. Each of the

CAPCO systems, in turn, made similar payments to the others. In return, each enjoys the right to conduct coordinated transactions among themselves according to the Basic Operating Agreement over the physically interconnected system. Again, these rights are not subject to termination except by mutual agreement of all CAPCO parties.

Transmission Facilities

The service area of CEI is in northeast Ohio and that of TE is northwest Ohio. Between these areas lies a portion of the OE service area.

Although this service area of OE is interposed, it is physically interconnected by 345 kV interconnecting lines extending from CEI's Avon Lake power plant and TE's Davis-Besse power plant. Each of these power plants is electrically integrated into the system of the respective Operating Company.

Exhibit CC shows details of physical ownership and the agreed basis for sharing financial responsibility of transmission facilities which connect CEI and TE. While the Davis-Besse to Beaver 345 kV line and #2 Avon-Beaver line are CAPCO facilities whose financial responsibility is shared in the percentages shown, the #1 Avon-Beaver 345 kV line is a bi-lateral interconnection between CEI and OE and as such is an Individual Transmission facility. As is customary with bi-lateral interconnections, the ownership of #1 Avon-Beaver is divided by sections. Financial responsibility follows ownership in this case, but ownership of a section of an interconnection entitles each party to use of the entire length of the line. Similarly, assumption of the assigned financial responsibility for CAPCO and 50% CAPCO lines affords the physical interconnections which entitles one to use the entire network of CAPCO, 50% CAPCO and Individual Transmission lines, subject to the provisions of the CAPCO Transmission Facilities Agreement and the CAPCO Basic Operating Agreement.

The CAPCO Transmission Facilities Agreement provides for use of the CAPCO and Individual facilities by the individual CAPCO systems, for their individual purposes. As stated above, such use is subject to the limitation that it not result in "material interference" with uses of the CAPCO Group and Individual facility owners (Sections 5.04 and 6.07). One method for determining whether "material interference" is likely to exist is to simulate system operation over a range of circumstances and examine the relationships of specific facility electrical loading to the electrical rating or capability of those facilities. Some technical studies were undertaken to determine if the proposed integration and coordination of CEI and TE bulk power operations would approach "material interference."

Exhibits DD and EE summarize the studies of the transmission that were reviewed. Based on an ample margin between facility loading levels and facility ratings it can be concluded that for a range of operating conditions ranging from normal to extreme emergency conditions, the integration of CEI and TE operations will not result in "material interference" with OE's use of its transmission facilities.

Exhibit DD, which is labeled Case 1, represents essentially normal peak load period conditions. Shown on the diagram, for each 345 kV line, is the electrical loading, expressed in megavolt-ampere (MVA) with an arrow showing direction of power flow. In addition, the two numbers below the loading are the electrical ratings of the 345 kV line and its terminal equipment expressed in MVA for summer normal and summer emergency conditions. In parentheses, for each line, the loading is expressed as a percentage of the normal and emergency ratings. This power flow transcription depicts peak 1985 summer flows on the CAPCO lines between TE and CEI. For the purpose of this analysis, the Davis-Besse operating unit is assumed to be in service (880 MW) and

TE is transferring 452 MW to CEI (CEI's share of Davis-Besse). The CAPCO 345 kV lines between CEI and TE are lightly loaded and large transmission system margins for additional transfers between TE and CEI exist. The heaviest loaded line is the Davis-Besse to Lemoyne 345 kV line which is loaded to 53% of its normal and 43% of its emergency rating. The loading of this line is primarily a function of the Davis-Besse Unit output.

Exhibit EE shows the results of a study of higher level power transfer between CEI and TE. For each 345 kV line assumed to be in operation a loading expressed in MVA, with power flow direction indication is shown. In addition, since this study is predicated on the operational outage of the 345 kV connections between Beaver and Davis-Besse the loadings on the underlying 138 kV transmission are also shown on Exhibit EE. Summer normal and emergency ratings are also shown for each 138 kV transmission line. This power-flow transcription is a "worst TE-CEI transfer case scenario" developed to stress the transmission system between TE and CEI. All of the TE system generation is out of service and the entire TE load of 1400 MW is supplied from the CEI system. In addition, the Beaver to Davis-Besse 345 kV CAPCO Line is taken out of service to stress the underlying 138 kV transmission system. No loading problems exist on the 345kV or underlying 138 kV system for this transfer condition, and every line has a significant margin between its loading level and its rating.

Transfers from TE to CEI do not stress the transmission system as severely as the illustrated CEI to TE transfer condition because TE to CEI power transfers counterflow the normal 138 kV system flows. Also, the maximum power TE has available to transfer to CEI is only 600 MW (based on existing TE load and generating capability).

The transmission system is under continuous study to detect the development of conditions which compromise reliability. Appraisals and other studies of the northern Ohio area have indicated that the area is not now nor is it expected to be under tight transmission conditions and that ample margin exist. The studies cited above show the ability of CEI and TE to undertake further coordination and integration of their facilities utilizing the physical interconnections that exist. The margins shown by these studies are sufficient to undertake any and all transactions envisioned or remotely possible as a part of the economic coordinated operation of the CEI and TE systems.

Integrated and Coordinated Operation

Interconnected, electrically parallel operation of the alternating-current bulk power systems of North America is governed by the laws of physics, by contractual arrangements entered into by various combinations of participants and by voluntarily following guidelines established by the industry. These guidelines are recorded in the Reliability Criteria for Interconnected Systems Operation of the North American Reliability Council.

Control of electrical energy production and the necessary instantaneous matching of production output to consumer requirements is achieved by the subdivision of the interconnected grid into Energy Control Areas. In general, an Energy Control Area consists of a group of generating units together with a group of electric energy consumers. Instantaneous matching of supply with demand is achieved by monitoring the instantaneous mismatch of supply and demand, thereby generating a control signal for adjustment of generation output. This mismatch is detected as the instantaneous energy flow into or out of an Energy Control Area with respect to the remaining interconnected network. This mismatch, called Area Control Error, must recognize the possible

existence of an intentional net flow into or out of an Energy Control Area. Such an intentional net flow would be the result of Scheduled Interchange.

Energy Control Areas in the United States often are coincident with a utility's ownership of generating facilities and the utility's customer service area. In some cases Energy Control Areas include generating facilities owned by more than one utility, in other cases facilities of a single utility might be split between two or more energy Control Areas. An example of the latter includes Carolina Power & Light which is an integrated utility with two geographically remote Energy Control Areas. Other examples of utility operations split between two or more Energy Control Areas are utilities which share ownership of generating units. In CAPCO, CEI owns 470 MW of generating capacity in the OE system Energy Control Area, 445 MW in the TE Energy Control Area, 305 MW in the Pennsylvania-New Jersey-Maryland Interconnection Energy Control Area and when Beaver Valley #2 unit is in operation, 204 MW in the DL Energy Control Area. Access to the output of these generating units located in the Energy Control Areas is achieved by arranging scheduled Interchange with the appropriate Energy Control Area.

Significant contributions to economy and reliability have been attained in the United States through the coordination of operations between Energy Control Areas. The limit to the attainment of economy lies in the extent to which the managements of Energy Control Areas share goals, procedures, management systems and corporate culture. There is a need to be assured that all costs of undertaking a system operation transaction to the benefit of another system are fully recognized and covered, and subject to an equitable sharing of benefits. It is important that cost accounting schemes supporting operation coordination be at least compatible and that agreement exists between parties as to the appropriateness of cost components and the

basis for their establishment. Achieving totally integrated and coordinated operation also can involve undertaking frequent and small changes in operating status for the benefit of others. Closeness of management goals would promote such transactions. At arms length, unaffiliated managements would be more inclined to undertake each transaction on its own merits, while affiliated managements are able to integrate the costs and benefits of several phases of operations.

The customers of the CAPCO systems have benefited from coordination of bulk power operations. The generation dispatching function of each of the systems is responsible for optimizing the utilization of the capacity resources at its disposal. Each system carries out this responsibility by establishing a program for maintenance of its facilities, by designating which of its available generating units to deploy for each peak period, including its share of jointly-owned capacity, by allocating the instantaneous load of its customers among its generating units operating at the time and by contacting the other CAPCO systems and other systems with whom it might be interconnected to explore and exploit opportunities for coordination by means of Scheduled Interchange transactions.

The CAPCO Coordinating Office fills a useful function in this process, acting in its capacity as an information and record center. Instead of each owner of a jointly-owned unit contacting every operating company sharing ownership of such unit to arrange scheduled output and the resultant Scheduled Interchange, the CAPCO Coordinating Office gathers and collates these requests and supplies the desired net total unit loading to the operators of the jointly-owned unit and also provides Net Scheduled Interchange data to all parties. In the process, this data is recorded for later use by the Operating Party in assigning responsibility for fuel consumed and for accounting for

transmission losses. Transactions between pairs of CAPCO parties pursuant to Schedules of the CAPCO Basic Operating Agreement are arranged by the parties involved. When such a transaction is agreed upon it is executed by parties by modifying their Net Scheduled Interchange. Each transaction is reported before-the-fact to the CAPCO Coordinating Office. This information keeps all of the CAPCO systems informed of the use of the CAPCO network and is used to establish balances in the CAPCO transmission loss banking system.

The operations of CEI and TE have had some level of coordination under the system outlined above. Corporate affiliation will result in changes in many of the procedures currently employed and will result in savings to the combined group of customers of the companies. The overall operational objective of Centerior's system operations will be to attain the lowest overall cost for the combined group of customers. CEI and TE will each individually be regulated by the Public Utility Commission of Ohio (PUCO). Accordingly the benefits of such operation will be realized by customers of the two operating companies in accordance with the orders of the PUCO. Because existing agreements, specifically the CAPCO Transmission Facilities Agreement and the Basic Operating Agreement, are sufficient to achieve the degree of integration envisioned, coordinated and integrated operation of the CEI and TE facilities under Centerior direction will be implemented under the provisions of those agreements.

A number of areas of benefits resulting from integrated and coordinated operation of the bulk power facilities of CEI and TE are described in Exhibit C of the first amendment to the U-1. The following will describe the proposed method of operation and relate it to the benefits achieved by economical and efficient interconnected and coordinated operation of the facilities of CEI and TE. Section I of Exhibit C to the first amendment to the U-1 des-

cribed seven areas from which the full integration and coordination on the basis of a single system will produce benefits to the customer by affiliation. Much of this coordination will be the responsibility of the Centerior System Engineering and Operations function. This function will have as an objective attainment of lowest overall cost to the consumer of the use of the generating facilities of the two operating companies.

A Centerior-administered function which will contribute to economic operation as a single interconnected and coordinated system will be a coordinated maintenance schedule for the generating units of the two operating companies. The present practice is for each operating company to develop a schedule for maintenance outages of generating units based on the analysis of its own requirements, costs and benefits. Coordination between CEI and TE has heretofore been associated mainly with those generating units in which both operating companies have an ownership interest, principally Davis-Besse. Coordinated maintenance under Centerior will be achieved by the participation of the operating companies in identifying generating unit maintenance requirements and plans as well as the costs and benefits of each planned outage with interaction of Centerior System Engineering and Operations and the operating companies to arrive at a Centerior-optimized maintenance schedule. This optimized overall schedule can be expected to minimize costs by taking advantage of the larger system, and thus more effectively mold maintenance into the valleys of the combined annual load curve. It is expected to result in lower costs of energy during outage by coordination between the needs of the operating companies and by more effective utilization of maintenance energy banking arrangements that exist with outside systems.

Each day, before the daily load curve begins to rise, the dispatching staffs of CEI and TE each estimate the peak load for that day and, considering

the capability of the capacity resources expected to be available to meet that peak, make a determination as to which generating units to commit to service for that day to meet the peak. Following affiliation, it is planned that the dispatching staffs of each operating company will forecast the daily peak load for their respective areas, communicate with power plant operators in their areas and by interactions under Centerior purview develop an integrated unit commitment for the upcoming peak period. This process will result in optimizing of unit start-up costs as well as minimize physical stress on power plant equipment by reductions in start-ups and shut downs for some equipment.

CEI is a majority owner of the Seneca Pumped Storage Plant. This plant which operates on a weekly storage cycle requires a relatively longer term for optimization of its characteristics. The ability to coordinate, through Centerior, the availability of larger amounts of lower-cost off-peak energy can reduce the dispatching cost of Seneca on-peak generation, thereby reducing total energy costs to its customers. As explained in Exhibit C of the first amendment to the U-1 it is anticipated that full coordination of off-peak resources and on-peak requirements can produce annual fuel savings of about \$1 million.

Similar benefits are expected to accrue through a more fully optimized response coordinated through Centerior to unexpected or unusual system conditions such as sudden forced outage of generating units, periods with a significant accumulation of forced outages or of unanticipated higher loads.

A major reduction in production costs achieved through economical operation an an interconnected and coordinated system will occur as a result of hour-to-hour loading of individual generating units that are in operation. Although CEI and TE will continue to operate as two energy control areas, conducting operations by Scheduled Interchange between them pursuant to the

Schedules of the CAPCO Basic Operating Agreement, certain differences in operating procedures will be introduced. Among these changes will be the revision by both companies of their practices in pricing transactions with each other. In order to insure optimum dispatch of the capacity of TE and CEI, pricing of these transactions will be the lowest of any interchange transaction. In practice this will place transactions between the parties at the lowest incremental cost following supply of the respective area load and ahead of all other interconnection transactions with other parties. Another change will involve arranging economy, split savings transactions with each other if any differential exists between incremental production costs rather than ignoring potential interchange if the differential is less than 3 or 4 mills per kilowatthour as is now the case. As reported in Exhibit C of the first amendment to the U-1 it is expected that this change of practice will result in a saving in fuel cost of about \$2 million per year. This will result in the two operating systems operating at essentially equal incremental cost. Transactions with outside systems will then be arranged to achieve overall economy for the combined system. As explained earlier, these kinds of changes in practice are feasible to the extent that interests of the managements of the two operating companies are congruent as in an affiliated arrangement.

Initially it is planned to achieve coordination through existing dispatching organizations under the oversight and direction of Centerior, utilizing existing CAPCO Basic Operating Agreement Schedules. It is fully anticipated that all savings currently envisioned in coordinated operation of the two operating companies, whether quantified at this time or not, can be realized by this mode of operation. Changes in organization, facilities or other arrangements will be considered and adopted only if there is a high degree of certainty that they will result in still further coordination, integration and economic operation.

Complete integration and coordination of generating capacity resource ultimately will influence total capacity requirements as system load grows. As is well known, an increased system size has relatively lower overall capacity requirements. Based on some preliminary probability studies described in the Exhibit C to the first amendment of the U-1, it is estimated that this integration can be expected to result in the deferral by two years, of capacity additions that might be contemplated individually. If, as outlined in Exhibit C, future additions might be 300 MW class coal-fired units the present value of savings in fixed charges could reach \$300 million through the year 2000 or levelized savings of \$53.4 million per year over the period 1986-2000.

Overall, it is expected that significant near-term as well as long range savings will accrue to the customers of CEI and TE through increasingly coordinated economic operation of their interconnected systems. The provisions of the CAPCO Basic Operating Agreement and the CAPCO Transmission Agreement make this possible and the planning of specific changes in procedures and staffing to achieve these benefits is underway. The affiliation transaction is necessary to cause these benefits to be realized.

Summary and Conclusion

The generating plants and transmission lines of CEI and TE clearly are physically interconnected. Upon consummation of the affiliation transaction that is the subject matter of this application, the generating plants and transmission lines of CEI and TE will, under normal conditions, be operated as a single interconnected and coordinated system. The facilities of CEI and TE are confined to a single area or region. That region, upon consummation of the affiliation transaction, will not be so large as to impair the advantages of localized management, efficient operation, and the effectiveness of regulation.

Different people might have different opinions as to the specific amount of savings that will be realized by a particular item of change in operations of TE and CEI that will be brought about by the affiliation transaction. However, without regard to such differences of opinion, there is no doubt about the ultimate conclusion of fact - namely - THE PROPOSED AFFILIATION TRANSACTION THAT IS THE SUBJECT MATTER OF THIS APPLICATION WILL SERVE THE PUBLIC INTEREST BY TENDING TOWARD THE ECONOMICAL AND EFFICIENT DEVELOPMENT OF AN INTEGRATED PUBLIC UTILITY SYSTEM.

ITEM 6. Exhibits and Financial Statements.

Exhibit L	Morgan Stanley Letter
Exhibit M	Merrill Lynch Letter
Exhibit Y	Morgan Stanley Report to the CEI Board of Directors dated June 25, 1985
Exhibit Z	Merrill Lynch Report to the TE Board of Directors dated June 25, 1985
Exhibit AA	CAPCO Backbone Transmission System
Exhibit BB	Chart of 345 kV Transmission System in Northern Ohio
Exhibit CC	Chart of Physical Ownership and Agreed Upon Basis for Sharing Financial Responsibility for Transmission Facilities
Exhibit DD	Transmission Line Usage in Relation to Capacity Under Normal Operating Conditions
Exhibit EE	Transmission Line Usage in Relation to Capacity Under Outage Operating Conditions

SIGNATURE

Pursuant to the requirements of the Public Utility Holding Company Act of 1935, the undersigned company has duly caused this statement (or amendment) to be signed on its behalf by the undersigned thereunto duly authorized.

CENTERIOR ENERGY CORPORATION

By: /s/ Robert M. Ginn
President and Chief
Executive Officer

Date: January 24, 1986

MORGAN STANLEY

*MORGAN STANLEY & CO.
INCORPORATED
1251 AVENUE OF THE AMERICAS
NEW YORK, NEW YORK 10020*

October 4, 1985

Board of Directors
The Cleveland Electric Illuminating Company
The Illuminating Building
55 Public Square
Cleveland, Ohio 44113

Dear Sister and Gentlemen:

The Cleveland Electric Illuminating Company ("CEI"), The Toledo Edison Company ("Toledo Edison") and Centerior Energy Corporation, a newly formed Ohio corporation ("Centerior"), have entered into an agreement pursuant to which CEI and Toledo Edison will become wholly-owned subsidiaries of Centerior. The terms of the proposed transaction are set forth in an Agreement and Plan of Reorganization, dated June 25, 1985, as amended (the "Agreement"), among CEI, Toledo Edison and Centerior, which appears as Appendix I to the Joint Proxy Statement/Prospectus dated October 4, 1985 of Centerior, CEI and Toledo Edison (the "Proxy Statement") relating to the transaction. The Agreement provides, among other things, that each outstanding share of CEI Common Stock will be converted into 1.11 shares of Centerior Common Stock, and each share of Toledo Edison Common Stock will be converted into one share of Centerior Common Stock (together, the "Exchange Ratios"). You have asked us whether, in our opinion, the Exchange Ratios are fair to the Common Stockholders of CEI from a financial point of view.

For purposes of this opinion and in connection with our review of the proposed transaction, we have studied, among other things, the pro forma percentage of Common Stockholders' Equity of Centerior which would be owned by present Common Stockholders of CEI. We have reviewed certain publicly available information with respect to CEI and Toledo Edison including, among other things, the historical earnings, cash flows, dividends and book values, both in the aggregate and on a per share basis, as well as the current capitalization of CEI and Toledo Edison. We have studied the consolidated financial statements of CEI and Toledo Edison for recent years and interim periods to date and certain other relevant financial and operating data for CEI and Toledo Edison available from published sources. We have analyzed published information regarding certain other comparable electric utilities and have compared the operations of CEI and Toledo Edison to these companies from a financial point of view. We have reviewed certain internal financial and operating data, including financial projections, provided to us by CEI and Toledo Edison. We have had discussions regarding the businesses, prospects, facilities and certain assets of CEI and Toledo Edison with certain members of their respective managements. We have reviewed and analyzed the ongoing commitments of CEI and Toledo Edison for construction and operation of nuclear power facilities, as members of the Central Area Power Coordinating Group ("CAPCO"). We have analyzed the pro forma effect of the proposed transaction on CEI's Common Stockholders with respect to prospective earnings, dividends, cash flows and book values, both in the aggregate and on a per share basis. We have also analyzed the prospective pro forma credit statistics of Centerior.

We have reviewed the terms of the Agreement and, to the limited extent publicly available, of certain comparable business combinations. We have also reviewed certain market price, trading volume and dividend data for CEI Common Stock and Toledo Edison Common Stock from 1978 to date. We have made such other studies and analyses as we deemed necessary.

In arriving at our opinion expressed herein, we have taken into account certain strategic benefits arising from the combination as expressed to us by the senior management of CEI. Such benefits include, but are not limited to, the prospects for rationalization of operations and generating capacity among the two companies; diversification of service territory; and economies of future generating capacity additions.

We have read the Proxy Statement and relied on the information contained therein. We have not undertaken any independent verification of the accuracy or completeness of any information concerning CEI or Toledo Edison which has been furnished to us or other data which we have considered in our review and, for the purposes of the opinion set forth below, have relied upon and assumed the accuracy and completeness of all such information and data.

As you are aware, Morgan Stanley has from time to time rendered various investment banking services to Toledo Edison.

Based on the foregoing, we are of the opinion that the Exchange Ratios are fair to the Common Stockholders of CEI from a financial point of view.

Very truly yours,

MORGAN STANLEY & CO. INCORPORATED

By: /s/ PETER L. KELLNER

Peter L. Kellner
Managing Director

Merrill Lynch Capital Markets

Investment Banking Division

One Liberty Plaza
165 Broadway
New York, New York
10080Telephone
212/637-7455

October 4, 1985

Board of Directors
The Toledo Edison Company
Edison Plaza
300 Madison Avenue
Toledo, Ohio 43652

Gentlemen:

You have asked us to render our opinion as to the fairness, from a financial point of view, to the common shareholders of The Toledo Edison Company ("Toledo") of the exchange ratios (the "Exchange Ratios"), as described in the following paragraph, in a proposed reorganization (the "Reorganization") as set forth in an Agreement and Plan of Reorganization, dated June 25, 1985, as amended (the "Agreement"), among Toledo, The Cleveland Electric Illuminating Company ("CEI") and Centerior Energy Corporation ("Centerior"), a newly formed Ohio corporation.

The Agreement provides, among other things, that Toledo and CEI will become wholly-owned subsidiaries of Centerior. Holders of Toledo common stock will be entitled to receive 1.00 share of Centerior common stock in exchange for each share of Toledo common stock and holders of CEI common stock will be entitled to receive 1.11 shares of Centerior common stock in exchange for each share of CEI common stock. The Agreement establishes the aforesaid fixed Exchange Ratios without any limitations.

In developing our opinion, we have, among other things:

(1) Reviewed the Annual Reports, Forms 10-K and certain other public financial information of Toledo and CEI for the five years ended December 31, 1984;

(2) Reviewed the quarterly reports on Form 10-Q of Toledo and CEI for the quarters ended March 31, 1985 and June 30, 1985;

(3) Reviewed certain internal historical and projected financial and operating data provided to us by Toledo and CEI;

(4) Discussed with the managements of each of Toledo and CEI the operations and future business prospects for each company;

(5) Reviewed the trading activity for Toledo and CEI common stocks, and considered the historical and current market prices of each and their relationship to each other;

(6) Reviewed and analyzed the status of current and anticipated future commitments of Toledo and CEI for construction and operation of nuclear power facilities as members of the Central Area Power Coordinating Group ("CAPCO");

(7) Compared the financial performance and financial condition of Toledo and CEI with those of certain publicly traded utilities which we deemed to be reasonably similar to Toledo and CEI;

(8) Considered the relative contributions of each company on a pro forma historical and projected basis to the combined net income applicable to common stock, book value of common equity, operating cash flow and fixed assets of Centerior;

(9) Considered the pro forma historical and projected per share earnings, cash flow and dividends of Centerior shares to be exchanged for Toledo and CEI shares;

(10) Compared the combination of Toledo and CEI with certain other mergers and acquisitions which we deemed to have certain characteristics reasonably similar to certain characteristics of the proposed transaction; and

(11) Reviewed the joint Proxy Statement dated October 4, 1985 in connection with the proposed Reorganization.

In arriving at our opinion, we also have considered such other factors as we deemed appropriate.

In preparing our opinion, we have relied upon Toledo and CEI with respect to the accuracy and completeness of the financial and other information respectively provided by each company. We have neither independently verified such information, nor made an independent evaluation of any of the assets of Toledo or of CEI.

Based upon the foregoing, it is our opinion that the Exchange Ratios contemplated in the proposed Reorganization are fair, from a financial point of view, to the common shareholders of Toledo.

Very truly yours,

MERRILL LYNCH CAPITAL MARKETS

Merrill Lynch, Pierce, Fenner & Smith Incorporated

By: /s/ ROBERT A. KING

Managing Director

PROJECT ERIE

Presentation to the
Board of Directors

June 25, 1985

PROJECT ERIE

Presentation to the
Board of Directors

June 25, 1985

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DRAFT

6/24/85

_____, 1985
(Date of Proxy)

Board of Directors
The Cleveland Electric Illuminating Company
The Illuminating Building
55 Public Square
Cleveland, Ohio 44113

Sister and Gentlemen:

The Cleveland Electric Illuminating Company ("Cleveland"), The Toledo Edison Company ("Toledo") and North Holding Company, a newly formed Ohio Corporation ("Holding"), have entered into an agreement pursuant to which Cleveland and Toledo will become wholly-owned subsidiaries of Holding. The terms of the proposed transaction are set forth in an Agreement and Plan of Reorganization and Merger, dated June __, 1985 (the "Agreement"), among Cleveland, Toledo and Holding, which appears as Annex I to the Joint Proxy Statement-Prospectus dated _____ of Cleveland and Toledo (the "Proxy Statement") relating to the transaction. The Agreement provides, among other things, that each outstanding share of Cleveland Common Stock will be converted into _____ shares of Holding Common Stock and each share of Toledo Common Stock will be converted into _____ shares of Holding Common Stock (together, the "Exchange Ratios"). You have asked us whether, in our opinion, the Exchange Ratios are fair to the Common Stockholders of Cleveland from a financial point of view.

For purposes of this opinion and in connection with our review of the proposed transaction, we have studied, among other things, the pro forma percentage of Common Stockholders' Equity of Holding which would be owned by present Common Stockholders of Cleveland. We have reviewed certain publicly available information with respect to Cleveland and Toledo including, among other things, the historical earnings, cash flows, dividends, and book values, both in the aggregate and on a per share basis, as well as the current capitalization of Cleveland and Toledo. We have studied the consolidated financial statements of Cleveland and Toledo for recent years and interim periods to date and certain other relevant financial and operating data for Cleveland and Toledo available from published sources. We have analyzed published information regarding certain other comparable electric utilities and have compared the operations of Cleveland and Toledo to these companies from a financial point of view. We have reviewed

certain internal financial and operating data provided to us by Cleveland and Toledo and have had discussions regarding the businesses, prospects, facilities and certain assets of Cleveland and Toledo with certain members of their respective managements. We have reviewed and analyzed the ongoing commitments of Cleveland and Toledo for construction and operation of nuclear power facilities, as members of the Central Area Power Coordinating Group ("CAPCO"). We have analyzed the pro forma effect of the proposed transaction on Cleveland's Common Stockholders with respect to prospective earnings, dividends, cash flows and book values, both in the aggregate and on a per share basis, as well as the pro forma effect of the proposed transaction on Cleveland's credit statistics.

We have reviewed the terms of the Agreement and, to the limited extent publicly available, of certain comparable business combinations. We have also reviewed certain market price, trading volume and dividend data for Cleveland Common Stock and Toledo Common Stock from 1978 to date.

We have made such other studies and analyses as we deemed necessary.

In arriving at our opinion expressed herein, we have taken into account certain strategic benefits arising from the combination as expressed to us by the senior management of Cleveland. Such benefits include, but are not limited to, the prospects for rationalization of operations and generating capacity among the two companies; diversification of service territory; and economies of future generating capacity additions.

We have read the Proxy Statement and relied on the information contained therein. We have not undertaken any independent verification of the accuracy or completeness of any information concerning Cleveland or Toledo which has been furnished to us by either of them or other data which we have considered in our review and have relied upon and assumed the accuracy and completeness of all such information and data.

As you are aware, Morgan Stanley has from time to time rendered various investment banking services to Toledo.

Based on the foregoing, we are of the opinion that the Exchange Ratios are fair to the Common Stockholders of Cleveland from a financial point of view.

Very truly yours,

MORGAN STANLEY & CO. INCORPORATED

By: _____

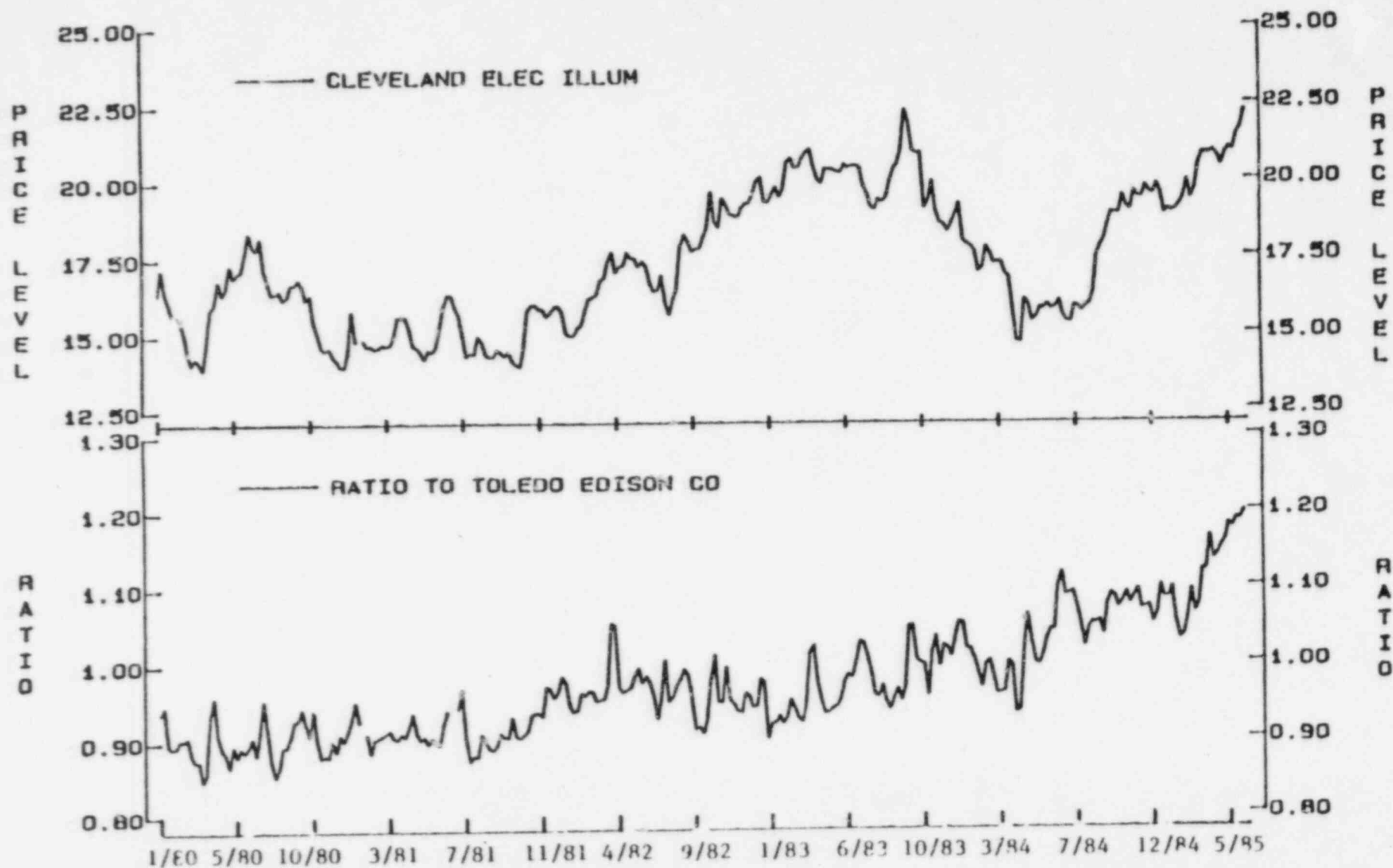
PROJECT ERIE

Fifty Largest Utilities by Market Value

Company	Market Value	Company	Market Value
1 Pacific G&E	6338.2	26 Alleg. Power	1678.9
2 So. Calif. Edison	5738.9	27 Cleveland Electric	1550.5
3 Com. Edison	5410.5	28 San Diego G&E	1534.1
4 Southern Company	5282.3	29 No. States Power	1502.3
5 Consolidated Edison	4660.1	30 Potomac Electric	1486.5
6 American Electric power	4433.8	31 Illinois Power	1430.7
7 Texas Utilities	3632.6	32 Gulf States Utilities	1428.8
8 Public Service E&G	3461.3	33 N.Y. State E&G	1367.0
9 Duke Power	3401.3	34 Utah Power and Lt.	1338.3
10 FPL Group	2986.4	35 Wisconsin Electric	1272.7
11 Houston Ind.	2747.6	36 Florida Progress	1251.5
12 Dominion Resources	2766.2	37 P.S. of Colorado	1174.6
13 Middle South Utilities	2648.3	38 New England Electric	1133.3
14 Detroit Edison	2451.3	39 SCANA Corp.	1093.0
15 Philadelphia Electric	2394.0	40 Duquesne Light	1068.8
16 Central & S.W.	2341.0	41 Oklahoma G&E	1005.8
17 Niagra Mohawk	2322.4	42 Long Island Lt.	895.5
COMBINED EAST AND WEST	2220.2	43 TECO Energy	876.7
18 Penn. Power and Lt.	1965.3	44 No. Indiana P.S.	808.1
19 Caro. Power and Lt.	1916.2	45 Delmarva P&L	777.3
20 Union Electric	1883.9	46 Dayton Power and Lt.	718.4
21 Ohio Edison	1848.8	47 Cincinnati G&E	672.3
22 Arizona Public Svc.	1823.3	48 Toledo Edison	669.7
23 PacifiCorp.	1807.7	49 Boston Edison	647.6
24 Baltimore G&E	1773.9	50 Consumers Power	594.4
25 Northeast Utilities	1737.8		

NOTE: Market Value as of June 6, 1985.

ABSOLUTE WEEKLY PRICE LEVEL RATIO LINE PLOT



PROJECT ERIC
Closing Price Analysis

<u>Date</u>	<u>West</u>	<u>East</u>	<u>XR</u>
Jan 1980	17.375	15.625	0.90
Feb	16.125	14.375	0.89
Mar	15.375	14.500	0.94
Apr	18.500	16.250	0.88
May	19.125	17.250	0.90
Jun	20.375	17.750	0.87
Jul	19.250	16.375	0.85
Aug	17.625	16.625	0.94
Sep	18.500	16.125	0.87
Oct	16.375	14.500	0.89
Nov	15.500	14.125	0.91
Dec	15.875	14.625	0.92
Jan 1981	16.125	14.750	0.91
Feb	16.125	14.625	0.91
Mar	17.125	15.625	0.91
Apr	15.875	14.375	0.91
May	16.625	14.875	0.89
Jun	17.250	16.000	0.93
Jul	16.250	14.375	0.88
Aug	16.125	14.250	0.88
Sep	15.875	14.250	0.90
Oct	15.625	14.125	0.90
Nov	17.125	16.000	0.93
Dec	16.500	16.000	0.97
Jan 1982	15.875	15.125	0.95
Feb	16.375	16.000	0.98
Mar	17.375	16.750	0.96
Apr	17.875	17.250	0.97
May	17.625	17.250	0.98
Jun	18.000	16.250	0.90
Jul	16.250	15.500	0.95
Aug	18.875	18.000	0.95
Sep	19.250	18.125	0.94
Oct	19.500	18.375	0.94
Nov	20.125	18.750	0.93
Dec	21.000	19.750	0.94
Jan 1983	21.125	19.250	0.91
Feb	21.375	20.125	0.94
Mar	21.875	20.875	0.95
Apr	21.000	19.875	0.95
May	21.500	20.125	0.94
Jun	20.625	20.625	1.00
Jul	19.750	19.000	0.96
Aug	20.750	19.375	0.93
Sep	21.750	21.250	0.98
Oct	21.000	20.875	0.99
Nov	19.250	19.250	1.00
Dec	18.000	18.625	1.03
Jan 1984	17.750	17.375	0.98
Feb	17.875	17.500	0.98
Mar	17.875	17.375	0.97
Apr	14.000	14.000	1.00
May	15.750	15.500	0.98
Jun	15.125	15.750	1.04
Jul	15.750	14.750	1.07
Aug	15.000	16.000	1.07
Sep	17.375	18.000	1.04
Oct	17.375	18.750	1.08
Nov	18.000	19.625	1.09
Dec	18.875	19.500	1.03
Jan 1985	17.375	18.875	1.09
Feb	18.250	19.875	1.09
Mar	18.375	20.875	1.14
Apr	18.125	20.875	1.15
May	17.750	21.375	1.20
Jun 21	19.000	22.375	1.18

Trading Averages

		West	East	AR	1 week	2 week	4 week
MAY	15	18.125	21.250	1.172			
	16	18.125	20.500	1.116			
	17	18.375	20.500	1.116			
	18	18.500	20.875	1.125			
	19	18.500	21.000	1.135	1.133		
	22	18.250	20.875	1.144			
	23	18.375	20.750	1.129			
	24	18.250	21.000	1.151			
	25	18.250	20.875	1.144			
	26	18.500	21.000	1.135	1.141	1.131	
	29	18.250	20.875	1.144			
	30	18.125	20.875	1.152			
JUN	1	18.000	20.750	1.153			
	2	17.750	20.500	1.155			
	3	17.750	20.500	1.155	1.152	1.141	
	4	17.625	20.375	1.156			
	7	17.875	20.375	1.140			
	8	17.500	20.375	1.164			
	9	17.500	20.375	1.164			
	10	17.500	20.500	1.171	1.154	1.155	1.140
	13	17.500	20.250	1.157			
	14	17.500	20.125	1.150			
	15	17.500	20.625	1.179			
	16	17.750	21.125	1.190			
	17	18.000	22.000	1.222	1.180	1.164	1.175
	20	18.250	21.750	1.174			
	21	18.000	21.000	1.167			
	22	17.750	21.000	1.181			
	23	17.750	20.625	1.162			
	24	17.625	20.625	1.170	1.175	1.177	1.165
	27	17.625	20.250	1.150			
	28	17.625	20.250	1.150			
	29	17.625	20.750	1.177			
	30	17.375	21.125	1.216			
	31	17.750	21.375	1.204	1.174	1.177	1.173
JULY	1	17.875	21.375	1.176			
	4	17.875	21.500	1.203			
	5	18.250	21.125	1.158			
	6	18.250	21.625	1.185			
	7	18.250	21.625	1.185	1.185	1.182	1.180
	10	18.000	21.625	1.201			
	11	18.000	21.625	1.201			
	12	18.000	21.750	1.206			
	13	18.125	21.625	1.191			
	14	18.375	21.625	1.177	1.196	1.191	1.184
	17	18.750	21.750	1.160			
	18	19.250	22.125	1.149			
	19	19.250	22.375	1.162			
	20	19.500	22.375	1.147			
	21	19.000	22.375	1.178	1.159	1.178	1.160
	22	19.125	22.500	1.175			
Average		18.096	21.099	1.166			

PROJECT ERIE

Calculation of Recoverable Net Assets

(\$Millions except per share)

	East		West	
	12/31/84	3/31/85	12/31/84	3/31/85
Reported Common Equity	\$1,592.8	\$1,577.3	\$814.0	\$889.4
Additions:				
Tax Reserves--Cancelled Projects	18.3	18.0	12.8	12.3
Reserves to be Reversed	8.1	8.1		
Unamortized ITC	265.4	266.1	48.9	54.4
Unamortized TBT Proceeds	22.6	22.3		
Deferred Taxes-Accel. Depr.	197.1	229.5	122.1	122.7
Recoverable Net Assets	\$1,352.1	\$1,334.3	\$504.4	\$575.0
Common Shares Outstanding at End of Period (000)	74,040	75,138	34,258	37,670
Recoverable Net Assets Per Share	\$18.26	\$17.76	\$14.72	\$15.26
Memo: Book Value Per Share	\$21.51	\$20.99	\$23.76	\$23.61
RNA as Percent of Book Value	84.9%	84.6%	62.0%	64.7%
Implied Exchange Ratio (West Shares per East Share)			1.240	1.163

te: Excludes Perry 1 and Beaver Valley 2 Disallowances.

PROJECT ERIE

Calculation of Recoverable Net Assets

(\$Millions except per share)

	East		West	
	12/31/84	3/31/85	12/31/84	3/31/85
Reported Common Equity	\$1,592.8	\$1,577.3	\$814.0	\$889.4
Adjustments:				
Tax Reserves--Cancelled Projects	18.3	18.0	12.8	12.3
Reserves to be Reversed	8.1	8.1		
Unamortized ITC	265.4	266.1	48.9	54.4
Unamortized TBT Proceeds	22.6	22.3		
Deferred Taxes-Accel. Depr.	197.1	229.5	122.1	122.7
Recoverable Net Assets	\$1,618.7	\$1,604.0	\$907.3	\$781.9
Common Shares Outstanding at End of Period (000)	74,040	75,138	34,258	37,670
Recoverable Net Assets Per Share	\$21.86	\$21.35	\$20.65	\$20.76
Ratio: Book Value Per Share	\$21.51	\$20.99	\$23.76	\$23.61
NA as Percent of Book Value	101.6%	101.7%	86.9%	87.9%
Implied Exchange Ratio (West Shares per East Share)			1.059	1.029

PROJECT ERIE

Alternative Bases for Exchange Ratio

	Earnings per Share			Book Value per Share			Dividends per Share (2)		
	West	East	XR (1)	West	East	XR (1)	West	East	XR (1)
Latest 12 mos.	\$ 3.73	\$ 3.61	0.96x	\$23.61 (3)	\$21.00	0.89x	\$2.52	\$2.52	1.00x
1984	3.70	3.64	0.98	23.76	21.51	0.91	2.52	2.43	0.96
1983	3.50	3.28	0.94	24.12	20.79	0.86	2.46	2.31	0.94
1982	3.18	3.01	0.95	23.53	19.86	0.84	2.38	2.19	0.92
1981	2.77	2.52	0.91	23.46	19.63	0.84	2.30	2.08	0.90
1980	2.56	2.26	0.88	23.77	19.72	0.83	2.20	2.00	0.91
1979	2.65	2.42	0.91	24.15	19.88	0.82	2.20	1.92	0.87
1978	2.78	2.20 (3)	0.79	24.29	19.69	0.81	2.14	1.84	0.86
1977	2.95	2.91 (4)	0.99	24.02	19.57	0.81	2.12	1.76	0.83
1976	2.82	2.38	0.84	22.85	18.04	0.79	2.12	1.71	0.81
1975	3.29	2.11	0.64	22.39	17.25	0.77	2.06	1.65	0.80
C.G.R. 1975-84	1.8%	4.8%		0.4%	1.9%		2.2%	4.4%	
1980-84	12.4	12.9		0.3	2.3		3.4	5.1	
	Cash Flow per Share			Market Value per Share (4)			Tangible Book Value Per Share		
	West	East	XR (1)	West	East	XR (1)	West	East	XR (1)
Latest 12 mos.	\$ 2.36	\$ 3.67	1.56x	\$19.250 (5)	\$22.125 (5)	1.15x	\$15.26 (3)	\$17.76	1.16x
				18.100 (6)	20.000 (6)	1.10	20.76 (7)	21.35 (7)	1.03
1984	2.52	3.61	1.43	17.250	17.750	1.03	14.72	18.26	1.24
							20.65 (7)	21.86 (7)	1.06
1983	2.86	4.38	1.53	20.875	20.000	0.96			
1982	3.23	3.98	1.23	18.625	17.875	0.96			
1981	3.66	3.52	0.96	16.500	14.625	0.89			
1980	3.96	2.97	0.75	17.250	15.750	0.91			
1979	3.97	3.14	0.79	19.875	17.750	0.89			
1978	4.42	3.33	0.75	23.375	19.750	0.84			
1977	1.68	4.47	2.66	-	-				
1976	2.52	2.50	0.99	-	-				
1975	3.92	3.79	0.97	-	-				
C.G.R. 1975-84	(0.2)%	1.8%		-	-				
1980-84	(10.9)	6.3		2.4%	5.7%				

- NOTE:**
- (1) Exchange Ratios ("XR") are presented as the number of TED shares to be paid per CVX share.
 - (2) West's next ex-dividend date is expected to be 7/8/85.
East's next ex-dividend date is expected to be 7/17/85.
 - (3) Adjusted for 3.0 million common share offering on 4/4/85.
 - (4) Estimated median trading price in period, except where noted.
 - (5) Closing price at 6/18/85.
 - (6) Estimated median trading price for period 1/1/85 to 6/18/85.
 - (7) Excludes Perry 1 and Beaver Valley 2 disallowances.

PROJECT ERIE

Relative Valuation Matrix -- West Perspective

Implied Relative Price per Share	Ratio of Implied Price to:					% Increase (Decrease) in:										
	West Share	Market Value	3/31/85		1984 EPS	L12 EPS	1985E EPS	1984 CFPS	L12 CFPS	3/31/85		1984 EPS	L12 EPS	1985E EPS	1984 CFPS	L12 CFPS
			Book	Tan.Book						Book	Tan.Book					
1.20	18.65	98.1%	79.0%	89.8%	5.04	4.93	5.48	7.40	7.90	-18.3%	-10.1%	-13.0%	-14.7%	-15.3%	13.9%	21.2%
1.19	18.80	99.0%	79.6%	90.6%	5.08	4.97	5.53	7.46	7.97	-17.8%	-9.6%	-12.4%	-14.1%	-14.8%	14.6%	22.0%
1.18	18.96	99.8%	80.3%	91.3%	5.12	5.02	5.58	7.52	8.03	-17.3%	-9.0%	-11.9%	-13.6%	-14.3%	15.3%	22.7%
1.17	19.12	100.7%	81.0%	92.1%	5.17	5.06	5.62	7.59	8.10	-16.8%	-8.5%	-11.4%	-13.1%	-13.8%	16.0%	23.5%
1.16	19.29	101.5%	81.7%	92.9%	5.21	5.10	5.67	7.65	8.17	-16.3%	-7.9%	-10.8%	-12.6%	-13.3%	16.7%	24.2%
1.15	19.46	102.4%	82.4%	93.7%	5.26	5.15	5.72	7.72	8.24	-15.8%	-7.4%	-10.3%	-12.0%	-12.7%	17.4%	25.0%
1.14	19.63	103.3%	83.1%	94.5%	5.30	5.19	5.77	7.79	8.32	-15.3%	-6.8%	-9.7%	-11.5%	-12.2%	18.2%	25.8%
1.13	19.80	104.2%	83.9%	95.4%	5.35	5.24	5.82	7.86	8.39	-14.8%	-6.2%	-9.1%	-10.9%	-11.7%	18.9%	26.6%
1.12	19.98	105.1%	84.6%	96.2%	5.40	5.29	5.88	7.93	8.47	-14.2%	-5.6%	-8.6%	-10.4%	-11.1%	19.7%	27.3%
1.11	20.16	106.1%	85.4%	97.1%	5.45	5.33	5.93	8.00	8.54	-13.7%	-5.1%	-8.0%	-9.8%	-10.6%	20.4%	28.2%
1.10	20.34	107.1%	86.2%	98.0%	5.50	5.38	5.98	8.07	8.62	-13.2%	-4.5%	-7.4%	-9.2%	-10.0%	21.2%	29.0%
1.09	20.53	108.0%	86.9%	98.9%	5.55	5.43	6.04	8.15	8.70	-12.6%	-3.9%	-6.8%	-8.6%	-9.4%	22.0%	29.8%
1.08	20.72	109.0%	87.7%	99.8%	5.60	5.48	6.09	8.22	8.78	-12.1%	-3.3%	-6.2%	-8.1%	-8.8%	22.8%	30.6%
1.07	20.91	110.1%	88.6%	100.7%	5.65	5.53	6.15	8.30	8.86	-11.5%	-2.6%	-5.6%	-7.5%	-8.3%	23.5%	31.5%
1.06	21.11	111.1%	89.4%	101.7%	5.70	5.58	6.21	8.38	8.94	-11.0%	-2.0%	-5.0%	-6.9%	-7.7%	24.4%	32.3%
1.05	21.31	112.2%	90.3%	102.6%	5.76	5.64	6.27	8.46	9.03	-10.4%	-1.4%	-4.4%	-6.2%	-7.1%	25.2%	33.2%
1.04	21.51	113.2%	91.1%	103.6%	5.81	5.69	6.33	8.54	9.12	-9.8%	-0.8%	-3.7%	-5.6%	-6.5%	26.0%	34.1%
1.03	21.72	114.3%	92.0%	104.6%	5.87	5.75	6.39	8.62	9.20	-9.2%	-0.1%	-3.1%	-5.0%	-5.8%	26.8%	35.0%
1.02	21.94	115.5%	92.9%	105.7%	5.93	5.80	6.45	8.70	9.30	-8.6%	0.6%	-2.4%	-4.4%	-5.2%	27.7%	35.9%
1.01	22.15	116.6%	93.8%	106.7%	5.99	5.86	6.52	8.79	9.39	-8.0%	1.2%	-1.8%	-3.7%	-4.6%	28.6%	36.8%
1.00	22.38	117.8%	94.8%	107.8%	6.05	5.92	6.58	8.88	9.48	-7.4%	1.9%	-1.1%	-3.1%	-3.9%	29.4%	37.7%

PROJECT ERIE

Relative Valuation Matrix -- East Perspective

Change in Ratio	Implied Price per Share	Ratio of Implied Price to:								% Increase (Decrease) in:						
		Market	3/31/85	3/31/85	1984	L12	1985E	1984	L12	3/31/85	3/31/85	1984	L12	1985E	1984	L12
		Value	Book	Tan.Book	EPS	EPS	EPS	CFPS	CFPS	Book	Tan.Book	EPS	EPS	EPS	CFPS	CFPS
1.20	22.80	101.9%	108.6%	106.8%	6.26	6.32	7.13	6.32	6.21	10.3%	4.9%	6.2%	7.2%	8.0%	-4.6%	-6.4%
1.19	22.61	101.1%	107.7%	105.9%	6.21	6.26	7.07	6.26	6.16	10.0%	4.7%	5.9%	7.0%	7.7%	-4.8%	-6.7%
1.18	22.42	100.2%	106.8%	105.0%	6.16	6.21	7.01	6.21	6.11	9.8%	4.4%	5.7%	6.7%	7.4%	-5.0%	-6.9%
1.17	22.23	99.4%	105.9%	104.1%	6.11	6.16	6.95	6.16	6.06	9.5%	4.1%	5.4%	6.5%	7.2%	-5.2%	-7.1%
1.16	22.04	98.5%	105.0%	103.2%	6.05	6.11	6.89	6.11	6.01	9.2%	3.9%	5.2%	6.2%	6.9%	-5.5%	-7.3%
1.15	21.85	97.7%	104.1%	102.3%	6.00	6.05	6.83	6.05	5.95	8.9%	3.6%	4.9%	5.9%	6.6%	-5.7%	-7.6%
1.14	21.66	96.8%	103.2%	101.5%	5.95	6.00	6.77	6.00	5.90	8.6%	3.3%	4.6%	5.7%	6.3%	-6.0%	-7.8%
1.13	21.47	96.0%	102.3%	100.6%	5.90	5.95	6.71	5.95	5.85	8.3%	3.0%	4.4%	5.4%	6.1%	-6.2%	-8.0%
1.12	21.28	95.1%	101.4%	99.7%	5.85	5.89	6.65	5.89	5.80	8.0%	2.8%	4.1%	5.1%	5.8%	-6.4%	-8.3%
1.11	21.09	94.3%	100.5%	98.8%	5.79	5.84	6.59	5.84	5.75	7.7%	2.5%	3.8%	4.8%	5.5%	-6.7%	-8.5%
1.10	20.90	93.4%	99.6%	97.9%	5.74	5.79	6.53	5.79	5.69	7.4%	2.2%	3.5%	4.6%	5.2%	-6.9%	-8.8%
1.09	20.71	92.6%	98.7%	97.0%	5.69	5.74	6.47	5.74	5.64	7.1%	1.9%	3.3%	4.3%	4.9%	-7.2%	-9.0%
1.08	20.52	91.7%	97.8%	96.1%	5.64	5.68	6.41	5.68	5.59	6.8%	1.6%	3.0%	4.0%	4.6%	-7.5%	-9.3%
1.07	20.33	90.9%	96.9%	95.2%	5.59	5.63	6.35	5.63	5.54	6.5%	1.3%	2.7%	3.7%	4.3%	-7.7%	-9.5%
1.06	20.14	90.0%	96.0%	94.3%	5.53	5.58	6.29	5.58	5.49	6.2%	1.0%	2.4%	3.4%	4.0%	-8.0%	-9.8%
1.05	19.95	89.2%	95.0%	93.4%	5.48	5.53	6.23	5.53	5.44	5.9%	0.7%	2.1%	3.1%	3.7%	-8.3%	-10.1%
1.04	19.76	88.3%	94.1%	92.6%	5.43	5.47	6.18	5.47	5.38	5.5%	0.4%	1.8%	2.8%	3.4%	-8.5%	-10.3%
1.03	19.57	87.5%	93.2%	91.7%	5.38	5.42	6.12	5.42	5.33	5.2%	0.1%	1.5%	2.5%	3.0%	-8.8%	-10.6%
1.02	19.38	86.6%	92.3%	90.8%	5.32	5.37	6.06	5.37	5.28	4.9%	-0.3%	1.2%	2.1%	2.7%	-9.1%	-10.9%
1.01	19.19	85.8%	91.4%	89.9%	5.27	5.32	6.00	5.32	5.23	4.5%	-0.6%	0.8%	1.8%	2.4%	-9.4%	-11.1%
1.00	19.00	84.9%	90.5%	89.0%	5.22	5.26	5.94	5.26	5.15	4.2%	-0.9%	0.5%	1.5%	2.1%	-9.6%	-11.4%

Relative Change Ratio	Relative Exchange Ratio	West per East Implied		Price per Implied		Total		Projected 1986		1986 Dividend Pickup	
		West Share	Value of West	Value of East	Value	West Percent Owned	East Percent Owned	Dividend		West	East
								West	East		
1.20	0.833	\$18.65	\$702.4	\$1,681.2	\$2,383.6	29.5%	70.5%	\$2.56	\$3.07	1.6%	15.1%
1.19	0.840	18.80	708.3	1,681.2	2,389.5	29.6%	70.4%	2.56	3.05	1.6%	14.1%
1.18	0.847	18.96	714.3	1,681.2	2,395.5	29.8%	70.2%	2.56	3.02	1.6%	13.1%
1.17	0.855	19.12	720.4	1,681.2	2,401.6	30.0%	70.0%	2.56	3.00	1.6%	12.2%
1.16	0.862	19.29	726.6	1,681.2	2,407.8	30.2%	69.8%	2.56	2.97	1.6%	11.2%
1.15	0.870	19.46	732.9	1,681.2	2,414.1	30.4%	69.6%	2.56	2.94	1.6%	10.3%
1.14	0.877	19.63	739.4	1,681.2	2,420.6	30.5%	69.5%	2.56	2.92	1.6%	9.3%
1.13	0.885	19.80	745.9	1,681.2	2,427.1	30.7%	69.3%	2.56	2.89	1.6%	8.3%
1.12	0.893	19.98	752.6	1,681.2	2,433.8	30.9%	69.1%	2.56	2.87	1.6%	7.4%
1.11	0.901	20.16	759.3	1,681.2	2,440.6	31.1%	68.9%	2.56	2.84	1.6%	6.4%
1.10	0.909	20.34	766.2	1,681.2	2,447.5	31.3%	68.7%	2.56	2.82	1.6%	5.5%
1.09	0.917	20.53	773.3	1,681.2	2,454.5	31.5%	68.5%	2.56	2.79	1.6%	4.5%
1.08	0.926	20.72	780.4	1,681.2	2,461.6	31.7%	68.3%	2.56	2.76	1.6%	3.6%
1.07	0.935	20.91	787.7	1,681.2	2,468.9	31.9%	68.1%	2.56	2.74	1.6%	2.6%
1.06	0.943	21.11	795.2	1,681.2	2,476.4	32.1%	67.9%	2.56	2.71	1.6%	1.6%
1.05	0.952	21.31	802.7	1,681.2	2,483.9	32.3%	67.7%	2.56	2.69	1.6%	0.7%
1.04	0.962	21.51	810.4	1,681.2	2,491.7	32.5%	67.5%	2.56	2.66	1.6%	-0.3%
1.03	0.971	21.72	818.3	1,681.2	2,499.5	32.7%	67.3%	2.56	2.64	1.6%	-1.2%
1.02	0.980	21.94	826.3	1,681.2	2,507.6	33.0%	67.0%	2.56	2.61	1.6%	-2.2%
1.01	0.990	22.15	834.5	1,681.2	2,515.7	33.2%	66.8%	2.56	2.59	1.6%	-3.2%
1.00	1.000	22.38	842.9	1,681.2	2,524.1	33.4%	66.6%	2.56	2.56	1.6%	-4.1%

PROJECT ERIE

Relative Valuation Matrix

ASSUMPTIONS

	East	West
	----	----
Stock Price 6/21/85	22.375	19.00
Book Value 12/31/84	21.51	23.76
Book Value 3/31/85	20.99	23.61
Adj. Book Value 12/31/84	21.81	20.65
Adj. Book Value 3/31/85	21.35	20.76
PS 1984	3.64	3.70
PS L12 (3/31/85)	3.61	3.78
PS 1985E	3.20	3.40
FFPS 1984	3.61	2.52
FFPS L12 (3/31/85)	3.67	2.36
Avg. Comm. Shares 1984	68.191	32.014
Avg. Comm. Shares L12	70.411	33.164
Avg. Comm. Shares 1985E	76.391	37.387
Common Shares Out 12/31/84	74.040	34.258
Common Shares Out 3/31/85	75.138	37.670
1986 Dividend (Standalone)	2.67	2.52
Delta Increase to West		0.04

PROJECT TOPHAT

PRESENTATION TO THE BOARD OF DIRECTORS

June 25, 1985

PROJECT TOPHAT

PRESENTATION TO THE BOARD OF DIRECTORS

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PROJECT TOPHAT

PRESENTATION TO THE BOARD OF DIRECTORS

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PROJECT TOPHAT
Historical Operating Data - TOPHAT

(\$000's)

	For Fiscal Year Ended December 31,					Compound Growth Rate	For the Three Months Ended		For the Twelve Months Ended 3/31/85
	1980	1981	1982	1983	1984		3/31/84	3/31/85	
Operating Revenues	\$491,868	\$442,284	\$481,725	\$504,616	\$551,000	8.2 %	\$140,037	\$151,608	\$562,877
Cost of Operations (a)	237,515	229,845	247,330	254,745	277,000	3.9	67,763	75,090	284,327
Operating Profit	164,253	212,439	234,395	249,871	274,000	13.6	72,274	76,518	278,550
Other Operating Expenses (b)	60,521	68,607	80,099	77,944	84,000	8.5	20,986	21,218	84,232
Operating Profit	103,732	143,832	154,296	171,927	190,000	16.3	51,288	55,300	194,318
Total Interest Expense (c)	70,866	86,310	94,713	108,612	140,000	18.6	31,341	39,088	147,747
Allowance for Funds Used During Construction	43,591	47,989	71,211	96,028	128,000	30.9	27,775	37,545	137,770
Other Income (Expense), Net	879	8,852	1,017	1,617	8,000	73.7	1,064	3,057	9,993
Pre-Tax Income	77,336	114,363	131,811	160,960	186,000	24.5	48,786	56,814	194,334
Income Taxes (Benefit)	10,158	31,126	26,277	32,616	32,000	33.2	10,203	9,138	31,714
Income (Loss)	67,178	83,237	105,534	128,344	154,000	23.0	38,583	47,676	162,620
Dividend Requirements on Pre- ferred and Preference Stock	18,021	23,542	26,221	30,129	35,000	18.1	7,826	10,230	37,401
Earnings Available for Common Stock	\$49,157	\$59,695	\$79,313	\$98,215	\$119,000	24.7 %	\$30,757	\$37,446	\$125,219
Average Shares Outstanding (Thousands)	19,201	21,507	24,842	28,000	32,162	-	29,892	33,031	33,164
Earnings Per Share	\$2.56	\$2.77	\$3.18	\$3.50	\$3.70	9.6 %	\$1.03	\$1.13	\$3.78

(a) Includes costs for generation, energy purchased, depreciation and amortization.
(b) Includes maintenance and taxes, other than federal income taxes.
(c) Including interest capitalized.

PROJECT TOPHAT
Historical Cash Flow Data; TOPHAT

(000's)

	For Fiscal Year Ended December 31,					For the Three Months Ended		For the Twelve Months Ended
	1980	1981	1982	1983	1984	3/31/84	3/31/85	3/31/85
Net Income	\$67,178	\$83,237	\$105,534	\$128,344	\$154,000	\$38,583	\$47,676	\$162,620
Less: Preferred Dividends	18,021	23,542	26,221	30,129	35,000	7,826	10,230	37,404
AFUDC	43,591	47,989	71,211	96,028	128,000	27,775	37,545	137,770
Plus: Depreciation	26,002	43,427	43,838	51,000	50,000	13,964	13,159	49,195
Deferred Taxes	29,056	13,295	13,380	19,000	19,000	2,063	15	16,952
Deferred ITC	(12,697)	9,466	13,394	9,000	9,000	4,400	5,488	10,088
Total Operating Cash Flow	\$47,927	\$77,894	\$78,714	\$81,187	\$69,000	\$23,409	\$18,563	\$63,681
Common Dividends Paid	\$42,297	\$49,466	\$59,302	\$68,880	\$80,640	\$18,905	\$21,822	\$87,920
Operating Cash Flow/ Common Dividends Paid	1.13 x	1.57 x	1.33 x	1.18 x	0.86 x	1.24 x	0.85 x	0.72 x
Operating Cash Flow Per Share	\$2.50	\$3.62	\$3.17	\$2.90	\$2.15	\$0.78	\$0.56	\$1.92

PROJECT TOPHAT
Historical Selected Financial Ratios - TOPHAT

	At or for the Fiscal Years Ended December 31,					At or for the 12 Months Ended 3/31/85
	1980	1981	1982	1983	1984	
<u>Coverage and Capitalization Ratios</u>						
Pre-Tax Interest Coverage (a)	1.9 x	2.1 x	2.2 x	2.2 x	2.0 x	2.0 x
Operating Cash Flow(b)/Long-Term Debt	0.1	0.1	0.1	0.1	0.1	0.1
Net Tangible Assets(c)/Long-Term Debt	2.3	2.4	2.4	2.4	2.6	2.5
Operating Cash Flow(b)/Preferred Dividends	266.0	330.9	300.2	269.5	197.1	170.3
Operating Cash Flow(b)/ Common Dividends Paid	113.3	157.5	132.7	117.9	85.6	72.4
Total Debt(d)/Shareholders' Equity (e)	116.0 %	104.6 %	105.7 %	100.5 %	103.2 %	109.2 %
Total Debt(d)/Total Capitalization (f)	57.2	53.3	53.0	50.9	53.0	54.6
<u>Profitability Ratios</u>						
Return on Average Total Capitalization (g)	5.1 %	5.6 %	6.4 %	6.8 %	7.2 %	7.4 %
Return on Average Common Equity (h)	10.8	11.6	13.6	14.7	15.6	16.0
Return on Average Total Assets (i)	4.2	4.7	5.3	5.7	5.8	5.9
AFUDC (j) as a % of Net Income	64.9 %	57.7 %	67.5 %	74.8 %	83.1 %	84.5 %
<u>Utility Plant Ratios</u>						
CWIP as % of Shareholders' Equity	108.3%	119.4%	142.4%	156.3%	181.8%	176.3%
CWIP as % Net Plant + CWIP	34.4%	39.4%	46.2%	52.0%	59.1%	59.6%

- (a) Pre-tax income plus interest expense minus allowance for borrowed funds used during construction minus unremitted earnings of unconsolidated affiliates divided by total interest incurred.
- (b) Net income less preferred dividends and AFUDC plus depreciation expense, deferred taxes and deferred ITC.
- (c) Total assets less deferred charges.
- (d) The total of short-term and long-term debt.
- (e) The total of preferred and preference stock and common shareholders' equity.
- (f) Including long-term debt.
- (g) Net income divided by average year-to-year total capitalization.
- (h) Earnings available for common stock divided by average year-to-year common equity.
- (i) Net income divided by average year-to-year total assets.
- (j) Allowance for funds used during construction.

PROJECT TOPHAT
Historical Operating Data - CHAPEAU
((\$000's))

	For Fiscal Year ended December 31,					Compound Growth Rate	For the Three Months Ended		For the Twelve Months Ended 3/31/85
	1980	1981	1982	1983	1984		3/31/84	3/31/85	
Operating Revenues	\$893,566	\$1,012,930	\$1,108,571	\$1,210,316	\$1,215,353	8.0 %	\$298,597	\$316,357	\$1,233,113
Cost of Operations (a)	552,789	586,078	584,669	609,612	599,249	2.0	140,386	164,463	623,326
Gross Profit	340,777	426,852	523,902	600,704	616,104	16.0	158,211	151,894	609,787
Other Operating Expenses (b)	148,688	166,573	188,593	214,912	222,638	10.6	54,888	54,278	222,028
Operating Profit	192,089	260,279	335,309	385,792	393,466	19.6	103,323	97,616	387,759
Total Interest Expense (c)	112,623	146,712	144,072	152,974	180,864	12.6	39,928	50,195	191,131
Allowance for Funds Used During Construction	65,924	83,000	104,336	114,542	171,606	27.0	37,518	50,338	184,426
Other Income (Expense), Net	21,567	26,742	19,773	27,096	38,779	15.8	7,578	11,369	42,570
Pre-tax Income	166,957	223,309	315,346	373,456	432,987	26.2	108,491	109,128	423,624
Income Taxes (Benefit)	27,612	51,450	84,128	104,139	131,355	47.7	28,036	20,229	123,548
Net Income (Loss)	139,345	171,859	231,218	269,317	291,632	20.3	80,455	88,899	300,076
Dividend Requirements on Pre- ferred and Preference Stock	27,711	34,917	38,295	38,426	43,353	11.8	10,900	10,415	42,868
Earnings Available for Common Stock	\$111,634	\$136,942	\$192,923	\$230,891	\$248,279	22.1 %	\$69,555	\$78,484	\$257,208
Average Shares Outstanding (Thousands)	46,289	51,055	61,775	65,198	74,040	-	65,693	74,576	74,308
Earnings Per Share	\$2.26	\$2.52	\$3.01	\$3.28	\$3.64	12.7 %	\$0.94	\$0.91	\$3.61

(a) Includes costs for generation, energy purchased, depreciation and amortization.

(b) Includes maintenance and taxes, other than federal income taxes.

(c) Including interest capitalized.

PROJECT IOMIAI
Historical Cash Flow Data: CHAPEAU
(000's)

	For Fiscal Year Ended December 31,				For the Three Months Ended		for the Twelve Months Ended 3/31/85
	1980	1981	1982	1983	1984	3/31/84	
						3/31/85	
Income	\$139,345	\$171,859	\$231,218	\$269,317	\$291,632	\$80,455	\$300,076
Less: Preferred Dividends	27,711	34,917	38,295	38,426	43,353	10,900	42,868
AFUDC	65,924	83,030	104,336	114,542	171,606	37,518	184,426
Plus: Depreciation	64,619	65,294	86,588	94,196	95,274	24,369	95,381
Deferred Taxes	30,330	43,931	72,103	89,125	73,467	10,319	76,209
Deferred ITC	-	-	-	-	-	-	-
Operating Cash Flow	\$140,659	\$183,167	\$247,278	\$299,670	\$245,414	\$66,725	\$244,372
Less: Dividends Paid	\$85,296	\$99,134	\$124,841	\$145,077	\$164,690	\$61,751	\$170,803
Operating Cash Flow/ Common Dividends Paid	1.65 x	1.85 x	1.98 x	2.07 x	1.49 x	1.08 x	1.43 x
Operating Cash Flow Per Share	\$3.04	\$3.59	\$4.00	\$4.60	\$3.31	\$1.02	\$3.29

PROJECT TOPHAT
Historical Selected Financial Ratios - CHAPEAU

	At or for the Fiscal Years Ended December 31,					At or for the 12 Months Ended 3/31/85
	1980	1981	1982	1983	1984	
<u>Coverage and Capitalization Ratios</u>						
Pre-Tax Interest Coverage (a)	2.1 x	2.2 x	2.8 x	3.1 x	2.9 x	2.8 x
Operating Cash Flow(b)/Long-Term Debt	0.1	0.2	0.2	0.2	0.2	0.2
Net Tangible Assets(c)/Long-Term Debt	2.5	2.5	2.6	2.7	2.6	2.6
Operating Cash Flow(b)/Preferred Dividends	507.6	524.6	645.7	779.9	566.1	570.1
Operating Cash Flow(b)/Common Dividends Paid	164.9	184.8	198.1	206.6	149.0	143.1
Total Debt(d)/Shareholders' Equity (e)	109.5 %	101.7 %	93.2 %	87.9 %	96.2 %	97.7 %
Total Debt(d)/Total Capitalization (f)	56.0	52.6	49.6	47.9	49.9	50.5
<u>Profitability Ratios</u>						
Return on Average Total Capitalization (g)	5.4 %	6.0 %	7.2 %	7.7 %	8.0 %	8.3 %
Return on Average Common Equity (h)	11.3	12.6	15.3	16.1	16.8	17.4
Return on Average Total Assets (i)	4.3	4.8	5.7	6.0	6.3	6.4
AFUDC (j) as a % of Net Income	52.6 %	53.3 %	49.9 %	46.6 %	58.8 %	62.0 %
<u>Utility Plant Ratios</u>						
CWIP as % of Shareholders' Equity	88.9%	98.4%	104.8%	119.3%	132.7%	140.4%
CWIP as % Net Plant + CWIP	30.5	33.0	38.6	43.3	50.0	49.9

- (a) Pre-tax income plus interest expense minus allowance for borrowed funds used during construction minus unremitted earnings of unconsolidated affiliates divided by total interest incurred.
- (b) Net income less preferred dividends and AFUDC plus depreciation expense, deferred taxes and deferred ITC.
- (c) Total assets less deferred charges.
- (d) The total of short-term and long-term debt.
- (e) The total of preferred and preference stock and common shareholders' equity.
- (f) Including long-term debt.
- (g) Net income divided by average year-to-year total capitalization.
- (h) Earnings available for common stock divided by average year-to-year common equity.
- (i) Net income divided by average year-to-year total assets.
- (j) Allowance for funds used during construction.

PROJECT TOPHAT

Summary Shareholder Profiles

	Tophat		Chapeau	
	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>
Insiders (a)	34,700	0.091%	113,588	0.151%
Institutions (b)				
Bank Trust Portfolios	1,627,051	4.282	7,692,910	10.235
Insurance Companies	787,363	2.072	3,527,423	4.693
Investment Companies	735,500	1.936	1,612,085	2.145
College Endowments	--	-	31,200	0.042
Total Institutions	3,149,914	8.291	12,863,618	17.114
Other	<u>34,809,731</u>	<u>91.618</u>	<u>62,188,632</u>	<u>82.735</u>
TOTAL SHARES OUTSTANDING (c)	<u>37,994,345</u>	<u>100.000%</u>	<u>75,165,838</u>	<u>100.000%</u>

(a) As of March 18, 1985 for Tophat and as of March 14, 1985 for Chapeau.
Source: Proxy Statements of respective companies for 1985 annual shareholders' meetings.

(b) As of December 31, 1984. Source: Vicker's Investment Guide, 4th Quarter.

(c) As of April 30, 1985 for Tophat and May 7, 1985 for Chapeau.
Source: March 31, 1985 quarterly reports of respective companies.

Cross Ownership of Common Stock

<u>Bank Trust Portfolios:(a)</u>	<u>Tophat Shares</u>		<u>Chapeau Shares</u>	
	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>
American Bank & Trust - Pennsylvania	13,100	0.048%	13,720	0.018%
American National Chicago	52,000	0.137	118,550	0.158
Bank of New England	87,265	0.230	496,577	0.661
Bankers Trust	189,635	0.499	204,465	0.272
First Pennsylvania Corp.	72,505	0.191	260,830	0.347
South Carolina National	22,401	0.059	21,250	0.028
Wells Fargo	97,558	0.257	211,620	0.282
	<u>539,464</u>	<u>1.420</u>	<u>1,327,012</u>	<u>1.765</u>
<u>Insurance Companies:(a)</u>				
Aetna Insurance	100,000	0.263	26,400	0.035
American National Insurance	42,000	0.111	60,000	0.080
Equitable Life	553,500	1.457	32,500	0.043
	<u>695,500</u>	<u>1.831</u>	<u>118,900</u>	<u>0.158</u>
<u>Investment Companies:(a)</u>				
ABT Utility, Inc.	90,000	0.237	140,385	0.187
ADV Fund, Inc.	18,000	0.047	17,000	0.023
Fidelity Equity - Income	271,800	0.715	186,100	0.248
Fidelity Magellan Fund, Inc.	126,700	0.333	271,700	0.361
	<u>506,500</u>	<u>1.332</u>	<u>615,185</u>	<u>0.818</u>
TOTAL	<u>1,741,464</u>	<u>4.583%</u>	<u>2,061,097</u>	<u>2.742%</u>
TOTAL SHARES OUTSTANDING	<u>37,944,345</u>	<u>100.000%</u>	<u>75,165,838</u>	<u>100.000%</u>

(a) As of December 31, 1984. Source: Vicker's Investment Guide, 4th Quarter.

PROJECT TOPHAT

Summary Operating Statistics

At or For the Fiscal Year
Ended December 31, 1984

	<u>Tophat</u>	<u>Chapeau</u>	<u>Pro Forma Combined</u>
Total Customers	271,723	714,768	986,491
<u>KWH Sales by Customer (000's)</u>			
Residential	1,958,000	4,446,352	6,404,352
Commercial	1,398,000	4,596,395	5,794,395
Industrial	3,444,000	7,997,000	11,441,000
Other	745,000	433,310	1,178,310
Total	<u>7,545,000</u>	<u>17,273,057</u>	<u>24,818,057</u>
<u>KWH Sales by Customer as a % of Total Electricity Sales</u>			
Residential	25.95%	25.74%	25.81%
Commercial	18.53	25.45	23.35
Industrial	45.65	46.30	46.10
Other	9.87	2.51	4.74
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
<u>Residential Sales Data</u>			
Average KWH per Customer	8,045	6,646	7,019
Average Revenue per Customer	\$709.00	\$563.60	\$602.38
Average Revenue per KWH	\$0.0881	\$0.0848	\$0.0858
<u>Electricity Production</u>			
Sources:			
Nuclear	28.75%	13.00%	17.72%
Fossil	71.25	87.00	82.21
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
Net Received from Others as % of Net Generated	9.89%	13.54%	12.43%
BTU per KWH of Net Output	10,193	10,416	10,348
Fuel Cost Per Million BTU	\$1.73	\$1.63	\$1.66

Summary Power Plant Data
(As of 12/31/84)

Utility Plant (\$MM)

	<u>Chapeau</u>		<u>Tophat</u>	
	\$	%	\$	%
Plant in Service	\$2,909	67.4%	\$1,391	54.6%
Less Depreciation Reserve	799	18.5	365	14.3
Net Plant in Service	<u>2,110</u>	<u>48.9</u>	<u>1,026</u>	<u>40.3</u>
Construction Work in Progress	2,209	51.1	1,520	59.7
Total	<u>\$4,319</u>	<u>100.0%</u>	<u>\$2,546</u>	<u>100.0%</u>

Construction Costs Through
December 1984 (\$MM's)

	<u>\$</u>		<u>\$</u>	
		%		%
	\$	Ownership	\$	Ownership
PY1	\$ 990	31.11%	\$ 642	19.91%
BV2	630	24.47%	515	19.91%
PY2	<u>340</u>	<u>31.11%</u>	<u>222</u>	<u>19.91%</u>
Total	<u>\$1,960</u>		<u>\$1,379</u>	

Estimated Cost to Complete (\$MM's)

PY1	\$ 236	\$ 154
BV2	300	253
PY2	N.A.	N.A.
Total	<u>\$ 530</u>	<u>\$ 407</u>

Generating Capacity-MW (12/31/84)	4,439	1,718
Total Power Plant Investment (\$MM's)	\$1,676	\$ 892
Power Plant Investment/KW	\$ 378	\$ 519
Estimated Power Plant Investment/KW		
After PY1 in Service (1/1/86)	\$ 600	\$ 860
After BV2 in Service (1/1/88)	\$ 760	\$1,160
CWIP/Book Value	140.4%(a)	176.3%(a)
CWIP/Net Plant + CWIP	49.9%(a)	59.6%(a)

(a) As of March 31, 1985.

PROJECT TOPHAT

KEY FINANCIAL TERMS OF THE PROPOSED MERGER OF TOPHAT AND CHAPEAU

- o Each Tophat common share will be exchanged for 1 common share of the Pro Forma Combined Entity ("Newco").
- o Each Chapeau common share will be exchanged for 1.11 common shares of Newco.
- o Newco is expected to pay annual dividends of \$2.56 per share. Quarterly payments at such annualized rate will commence in the first dividend period following the closing of the merger.

PROJECT TOPHAT

SHARE PRICE STATISTICS FOR TOPHAT AND CHAPEAU AT CURRENT AND IMPUTED MARKET PRICES

Pro Forma Share Price Statistics at Exchange
Ratios of one Newco Share per old Tophat Share
and 1.11 Newco Shares per old Chapeau Share:

	Current Share Price Statistics	\$19.69	\$20.48	\$21.33	\$22.26
A. TOPHAT(a)					
Book Value Per Share	\$23.41	\$23.41	\$23.41	\$23.41	\$23.41
Earnings Per Share	\$ 3.78	\$ 3.78	\$ 3.78	\$ 3.78	\$ 3.78
Cash Flow Per Share	\$ 1.92	\$ 1.92	\$ 1.92	\$ 1.92	\$ 1.92
Dividend Yield	\$ 2.52 <u>12.9%</u>	\$ 2.56 <u>13.0%</u>	\$ 2.56 <u>12.5%</u>	\$ 2.56 <u>12.0%</u>	\$ 2.56 <u>11.5%</u>
Current or Imputed Price	\$19.00	\$19.69	\$20.48	\$21.33	\$22.26
Current or Imputed Price/ Current Market Price	1.00x	1.04x	1.08x	1.12x	1.17x
Current or Imputed Price/ Book Value Per Share	0.81x	0.84x	0.88x	0.91x	0.95x
Current or Imputed Price/ Earnings Per Share	5.03x	5.21x	5.42x	5.64x	5.89x
Current or Imputed Price/ Cash Flow Per Share	9.90x	10.26x	10.67x	11.11x	11.59x
B. CHAPEAU					
Book Value Per Share	\$20.91	\$20.91	\$20.91	\$20.91	\$20.91
Earnings Per Share	\$ 3.61	\$ 3.61	\$ 3.61	\$ 3.61	\$ 3.61
Cash Flow Per Share	\$ 3.29	\$ 3.29	\$ 3.29	\$ 3.29	\$ 3.29
Dividend Yield	\$ 2.52 <u>11.3%</u>	\$ 2.84 <u>13.0%</u>	\$ 2.84 <u>12.5%</u>	\$ 2.84 <u>12.0%</u>	\$ 2.84 <u>11.5%</u>
Current or Imputed Price Received (b)	\$22.38	\$21.85	\$22.73	\$23.67	\$24.70
Current or Imputed Price Received/ Current Market Price	1.00x	.98x	1.02x	1.06x	1.10x
Current or Imputed Price Received/ Book Value Per Share	1.07x	1.04x	1.09x	1.13x	1.18x
Current or Imputed Price Received/ Earnings Per Share	6.20x	6.05x	6.30x	6.56x	6.84x
Current or Imputed Price Received/ Cash Flow Per Share	6.80x	6.64x	6.91x	7.19x	7.51x

(a) All Per Share Data is at or for the twelve months ended March 31, 1985. Current Market Prices are as of June 21, 1985.

(b) Imputed Price Received by Chapeau shareholders is 1.11x Imputed Newco Price.

PROJECT TOPHAT

Historical Relative Contribution Analysis

Ownership of Pro Forma Company by Former Holders Assuming an Exchange Ratio of One Newco Share for Each Tophat Share and 1.11 Newco Shares for Each Chapeau Share:

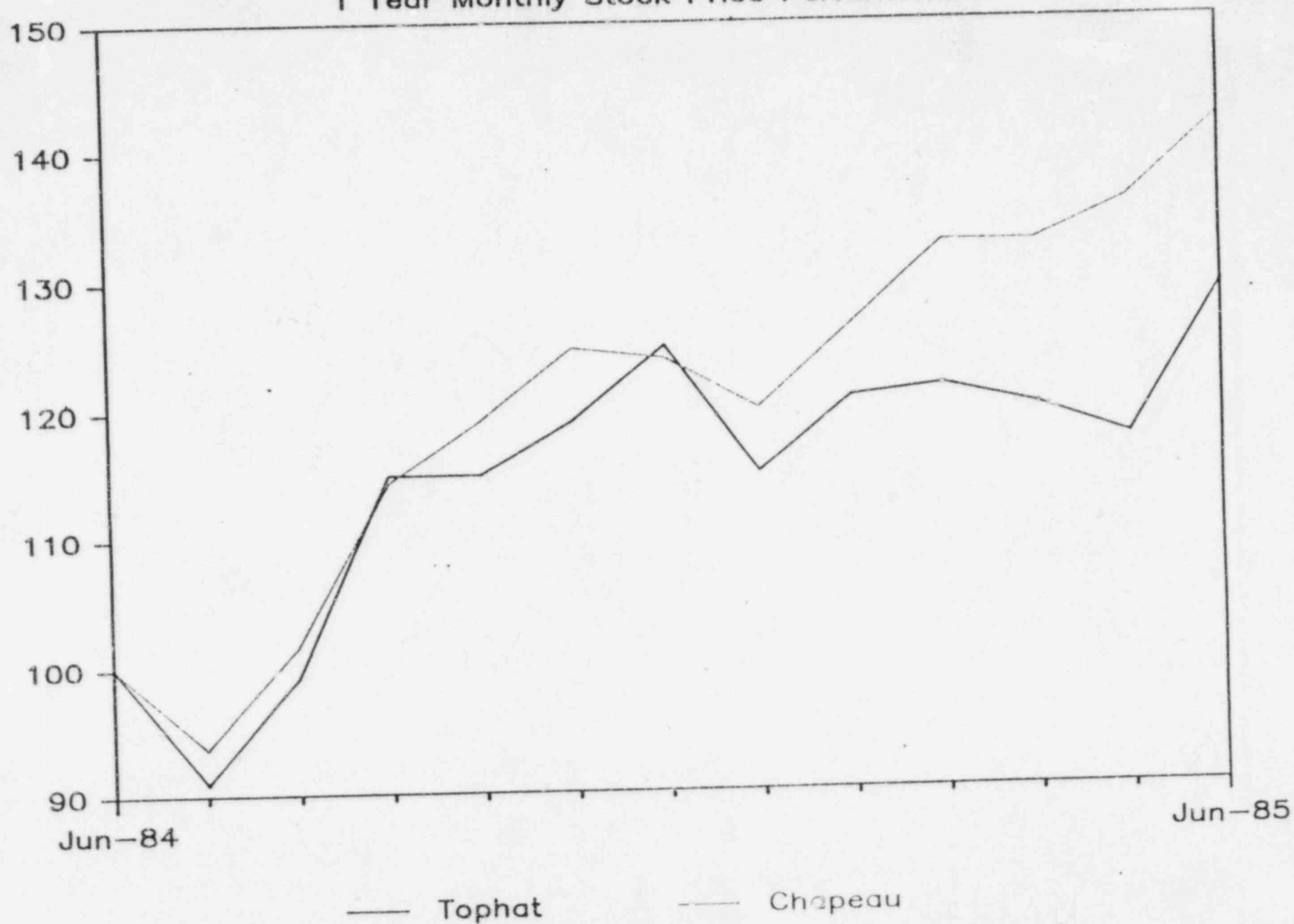
Tophat Holders 31.29%
Chapeau Holders 68.71%

Relative Contribution

	At or For the Fiscal Years Ending December 31,				
	1980	1981	1982	1983	1984
Net Property, Plant and Equipment					
Contribution of Tophat	36.26%	35.93%	36.01%	36.76%	37.09%
Contribution of Chapeau	63.74%	64.07%	63.90%	63.24%	62.91%
Total Common Equity					
Contribution of Tophat	34.42%	35.43%	33.46%	34.57%	33.82%
Contribution of Chapeau	65.58%	64.57%	66.54%	65.43%	66.18%
Net Income Applicable to Common Stock					
Contribution of Tophat	28.10%	33.18%	31.64%	32.07%	32.40%
Contribution of Chapeau	71.90%	66.82%	68.33%	67.93%	67.60%
Net Income Applicable to Common Stock - AFUDC					
Contribution of Tophat	9.17%	25.56%	9.55%	0.00%	(13.30)%
Contribution of Chapeau	90.83%	74.42%	90.45%	100.00%	113.30%
Total Operating Cash Flow					
Contribution of Tophat	23.85%	32.04%	25.74%	22.23%	21.95%
Contribution of Chapeau	76.15%	67.96%	74.26%	77.77%	78.05%

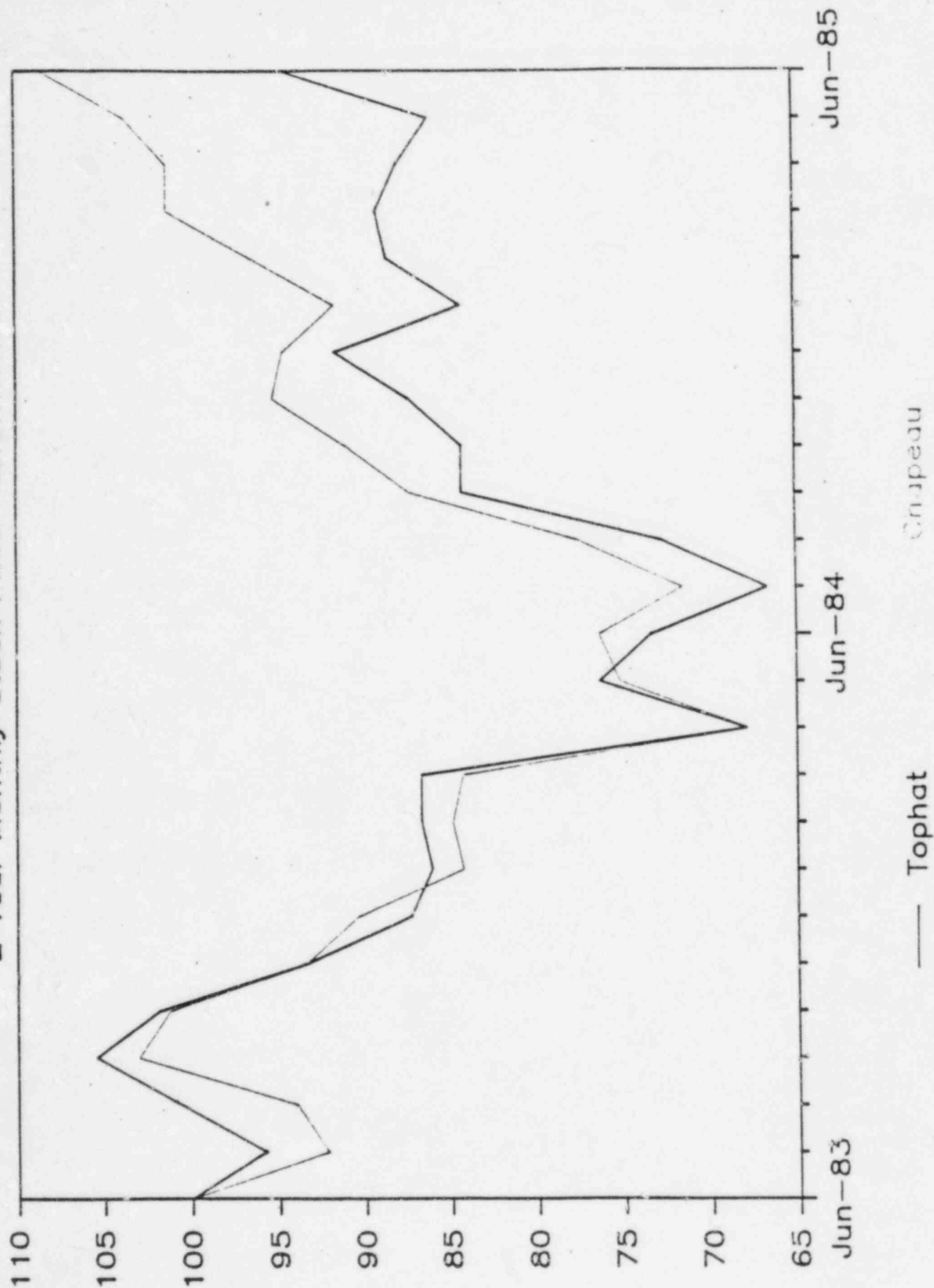
TOPHAT/CHAPEAU

1 Year Monthly Stock Price Performance



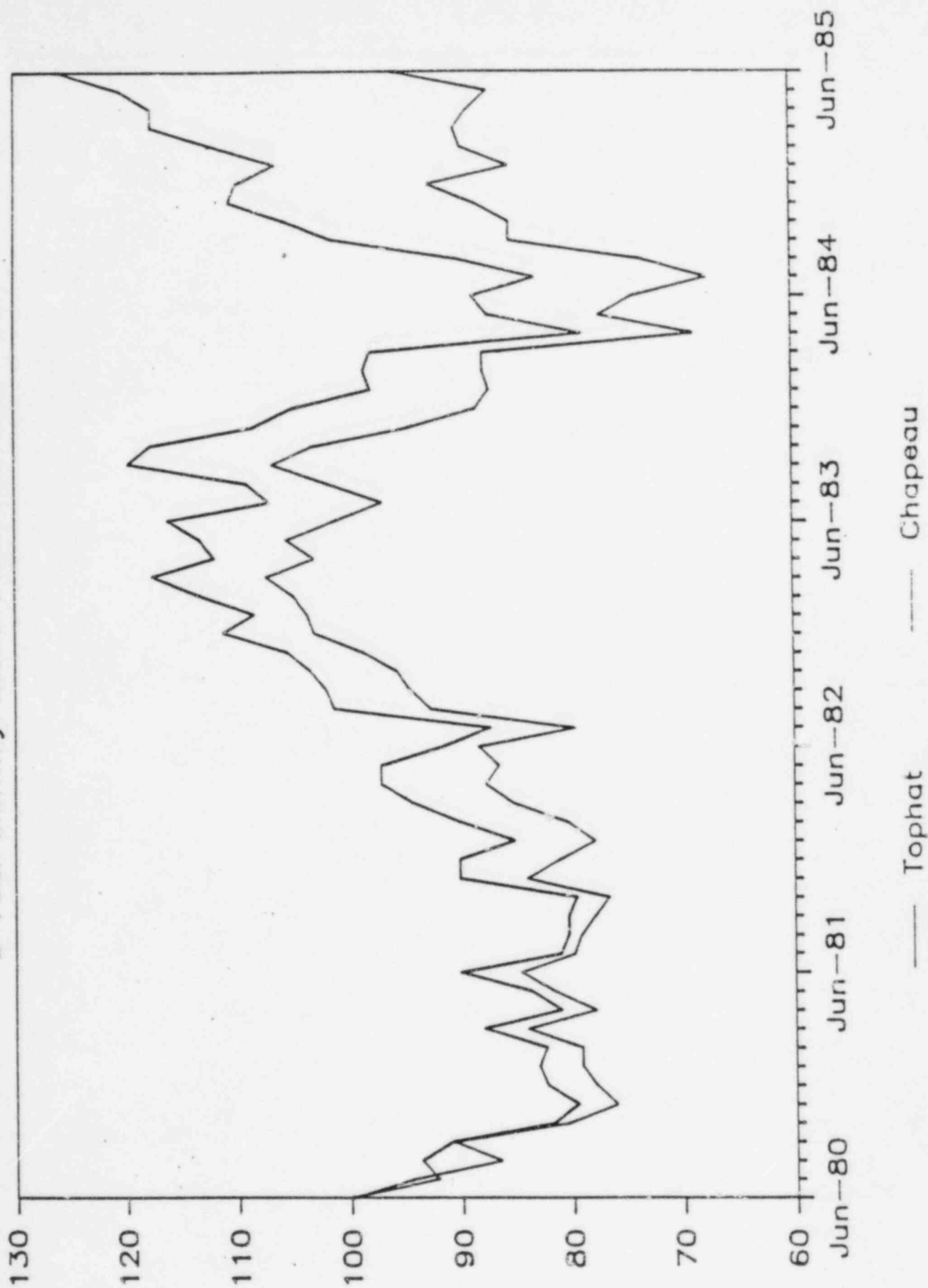
TOPHAT/CHAPEAU

2 Year Monthly Stock Price Performance



TOPHAT/CHAPEAU

5 Year Monthly Stock Price Performance



PROJECT TOPHAT

Weekly Stock Prices - CHAPEAU / TOPHAT

(6/25/84 - 6/21/85)

Date	TOPHAT	CHAPEAU	Tophat/ Chapeau	Chapeau/ Tophat
25-Jun-84	\$15.25	\$15.75	0.97	1.03
29-Jun-84	15.13	15.75	0.96	1.04
06-Jul-84	14.25	15.75	0.90	1.11
13-Jul-84	14.25	16.13	0.88	1.13
20-Jul-84	14.38	15.38	0.93	1.07
27-Jul-84	13.68	15.25	0.91	1.10
03-Aug-84	14.75	16.00	0.92	1.08
10-Aug-84	14.88	15.88	0.94	1.07
17-Aug-84	15.13	15.75	0.96	1.04
24-Aug-84	15.50	15.63	0.99	1.01
31-Aug-84	15.00	16.00	0.94	1.07
07-Sep-84	15.38	16.00	0.96	1.04
14-Sep-84	16.00	16.88	0.95	1.05
21-Sep-84	17.13	18.13	0.94	1.06
28-Sep-84	17.38	18.00	0.97	1.04
05-Oct-84	16.50	18.00	0.92	1.09
12-Oct-84	17.38	19.00	0.91	1.09
19-Oct-84	18.13	18.88	0.96	1.04
26-Oct-84	17.38	18.75	0.93	1.08
02-Nov-84	17.63	19.00	0.93	1.08
09-Nov-84	17.75	19.38	0.92	1.09
16-Nov-84	17.75	19.00	0.93	1.07
23-Nov-84	17.50	19.00	0.92	1.09
30-Nov-84	18.00	19.63	0.92	1.09
07-Dec-84	18.13	19.63	0.92	1.08
14-Dec-84	18.38	19.38	0.95	1.05
21-Dec-84	18.50	19.50	0.95	1.05
28-Dec-84	18.75	19.75	0.95	1.05
04-Jan-85	18.00	19.38	0.93	1.08
11-Jan-85	18.13	19.88	0.91	1.10
18-Jan-85	17.75	19.38	0.92	1.09
25-Jan-85	17.13	19.00	0.90	1.11
01-Feb-85	17.38	19.00	0.91	1.09
08-Feb-85	18.38	19.00	0.97	1.03
15-Feb-85	18.50	19.13	0.97	1.03
22-Feb-85	18.38	19.13	0.96	1.04
01-Mar-85	18.38	19.25	0.95	1.05
08-Mar-85	18.13	19.13	0.95	1.06
15-Mar-85	18.38	19.38	0.95	1.05
22-Mar-85	18.38	20.00	0.92	1.09
29-Mar-85	18.38	20.88	0.88	1.14
06-Apr-85	17.88	20.63	0.87	1.15

PROJECT TOPHAT

Weekly Stock Prices - CHAPEAU / TOPHAT

(6/25/84 - 6/21/85)

Date	TOPHAT	CHAPEAU	Tophat/ Chapeau	Chapeau/ Tophat
12-Apr-85	18.00	21.13	0.85	1.17
19-Apr-85	18.50	21.00	0.88	1.14
26-Apr-85	18.50	21.00	0.88	1.14
03-May-85	17.75	20.50	0.87	1.15
10-May-85	17.50	20.50	0.85	1.17
17-May-85	18.00	22.00	0.82	1.22
24-May-85	17.63	20.63	0.85	1.17
31-May-85	17.75	21.38	0.83	1.20
07-Jun-85	18.25	21.63	0.84	1.18
14-Jun-85	18.38	21.63	0.85	1.18
21-Jun-85	19.00	22.38	0.85	1.18

PROJECT TOPHAT

Daily Stock Prices - CHAPEAU / TOPHAT

(6/1/85 - 6/21/85)

Date	TOPHAT	CHAPEAU	Tophat/ Chapeau	Chapeau/ Tophat
03-Jun-85	\$17.88	\$21.38	0.84	1.20
04-Jun-85	17.88	21.50	0.83	1.20
05-Jun-85	18.25	21.13	0.86	1.16
06-Jun-85	18.25	21.63	0.84	1.18
07-Jun-85	18.25	21.63	0.84	1.18
10-Jun-85	18.00	21.63	0.83	1.20
11-Jun-85	18.00	21.63	0.83	1.20
12-Jun-85	18.00	21.75	0.83	1.21
13-Jun-85	18.13	21.63	0.84	1.19
14-Jun-85	18.38	21.63	0.85	1.18
17-Jun-85	18.75	21.75	0.86	1.16
18-Jun-85	19.25	22.13	0.87	1.15
19-Jun-85	19.25	22.38	0.86	1.16
20-Jun-85	19.50	22.38	0.87	1.15
21-Jun-85	19.00	22.38	0.85	1.18

PROJECT TOPHAT

Financial Data of Selected Comparable Companies
(At or For the 12 Months Ended March 31, 1985)

	Chapeau	Tophat	Comparable Companies(a)		
			High	Low	Mean
<u>Operations</u>					
AFUDC as % of Net Income	62.0%	84.5%	128.1%	39.2%	68.4%
Return on Average Total Capitalization(b)	8.3%	7.3%	12.8%	5.5%	7.8%
Return on Average Common Equity(c)	17.4	15.0	28.2	12.3	17.1
Return on Average Total Assets(d)	6.4	5.9	9.8	4.3	6.2
Operating Cash Flow(e)/Common Dividends Paid	143.0%	72.0%	268.8%	24.6%	136.3%
<u>Breakdown of Total Capitalization</u>					
% Long-Term Debt	48.3%	50.0%	-	-	-
% Preferred Stock	11.2	15.0	-	-	-
% Common Stock	40.5	35.0	-	-	-
Total	100.0%	100.0%	-	-	-
Construction Work in Progress/ Book Value	140.4%	176.3%	225.9%	7.6%	126.1%
Construction Work in Progress/ Net Plant Plus Construction Work in Progress	49.9%	59.6%	64.7%	3.1%	42.7%

(a) Comparable companies include The Cincinnati Gas & Electric Company, The Dayton Power and Light Co., The Detroit Edison Company, Duquesne Light Company, Illinois Power Company, Kansas City Power & Light Company, Kansas Gas & Electric Company, New York State Electric & Gas Corporation, Niagara Mohawk Power Corporation, Ohio Edison Company and Philadelphia Electric Company.

(b) Net income divided by average year-to-year capitalization.

(c) Net income less preferred dividend requirement divided by average year-to-year common equity.

(d) Net income divided by average year-to-year total assets.

(e) Net income less AFUDC and preferred dividends plus deferred taxes, deferred ITC and depreciation.

PROJECT TOPHAT

Ranking of Financial Data of Selected Comparable Companies

Return on Average Total Capitalization		Return on Average Common Equity		Return on Average Total Assets		AFUDC as a Percent of Net Income	
Ohio Edison Co.	12.8 %	Ohio Edison Co.	28.2 %	Ohio Edison Co.	9.8 %	Ohio Edison Co.	128.1
Kansas City Power & Light Co.	9.9	Detroit Edison Co.	21.1	Kansas City Power & Light Co.	7.5	Kansas Gas & Electric Co.	115.4
CHAPPAQUOT	8.3	Kansas City Power & Light Co.	21.0	CHAPPAQUOT	6.4	TOPHAT	84.5
Illinois Power Co.	7.6	CHAPPAQUOT	17.4	Niagara Mohawk Power Corp.	6.3	Kansas City Power & Light Co.	88.8
Niagara Mohawk Power Corp.	7.6	Illinois Power Co.	16.4	New York State Electric & Gas Corp.	6.2	Philadelphia Electric Co.	72.1
New York State Electric & Gas Corp.	7.6	New York State Electric & Gas Corp.	15.9	Illinois Power Co.	6.1	Detroit Edison Co.	68.8
The Cincinnati Gas & Electric Co.	7.4	The Cincinnati Gas & Electric Co.	15.8	Kansas Gas & Electric Co.	6.1	CHAPPAQUOT	62.8
TOPHAT	7.3	Niagara Mohawk Power Corp.	15.2	The Cincinnati Gas & Electric Co.	5.9	Illinois Power Co.	54.4
Kansas Gas & Electric Co.	7.1	Kansas Gas & Electric Co.	15.1	TOPHAT	5.9	Duquesne Light Co.	51.3
Detroit Edison Co.	6.9	Philadelphia Electric Co.	15.0	The Dayton Power & Light Co.	5.7	The Dayton Power & Light Co.	46.8
Philadelphia Electric Co.	6.9	TOPHAT	15.0	Philadelphia Electric Co.	5.4	Niagara Mohawk Power Corp.	46.6
The Dayton Power & Light Co.	6.6	The Dayton Power & Light Co.	13.5	Detroit Edison Co.	4.7	The Cincinnati Gas & Electric Co.	40.8
Duquesne Light Co.	5.5	Duquesne Light Co.	12.3	Duquesne Light Co.	4.3	New York State Electric & Gas Corp.	39.2
Median	7.4	Median	15.8	Median	6.1	Median	62.8
Mean	7.8	Mean	17.1	Mean	6.2	Mean	68.4

Operating Cash-Flow/Common Dividends		CWIP/Book Value		CWIP/Net Plant Plus CWIP	
Kansas City Power & Light Co.	268.8 %	Illinois Power Co.	225.9 %	Kansas Gas & Electric Co.	64.7 %
The Dayton Power & Light Co.	228.1	Kansas City Power & Light Co.	188.8	Illinois Power Co.	62.7
The Cincinnati Gas & Electric Co.	209.3	TOPHAT	176.3	Kansas City Power & Light Co.	60.4
Kansas Gas & Electric Co.	204.7	Kansas Gas & Electric Co.	173.7	TOPHAT	59.6
CHAPPAQUOT	143.8	Ohio Edison Co.	157.3	Philadelphia Electric Co.	52.8
Niagara Mohawk Power Corp.	118.6	Philadelphia Electric Co.	152.2	Ohio Edison Co.	51.5
Duquesne Light Co.	109.8	Detroit Edison Co.	145.8	CHAPPAQUOT	49.9
Ohio Edison Co.	109.8	CHAPPAQUOT	140.4	Detroit Edison Co.	42.8
Philadelphia Electric Co.	103.5	Duquesne Light Co.	132.3	Duquesne Light Co.	34.3
Illinois Power Co.	103.5	The Dayton Power & Light Co.	78.4	The Dayton Power & Light Co.	31.4
New York State Electric & Gas Corp.	86.4	New York State Electric & Gas Corp.	56.2	New York State Electric & Gas	22.6
TOPHAT	72.8	The Cincinnati Gas & Electric Co.	50.9	The Cincinnati Gas & Electric	20.9
Detroit Edison Co.	24.6	Niagara Mohawk Power Corp.	7.6	Niagara Mohawk Power Corp.	3.1
Median	109.8	Median	145.8	Median	49.9
Mean	136.3	Mean	126.1	Mean	42.7

PROJECT TOPHAT

Market Data of Selected Comparable Companies(a)

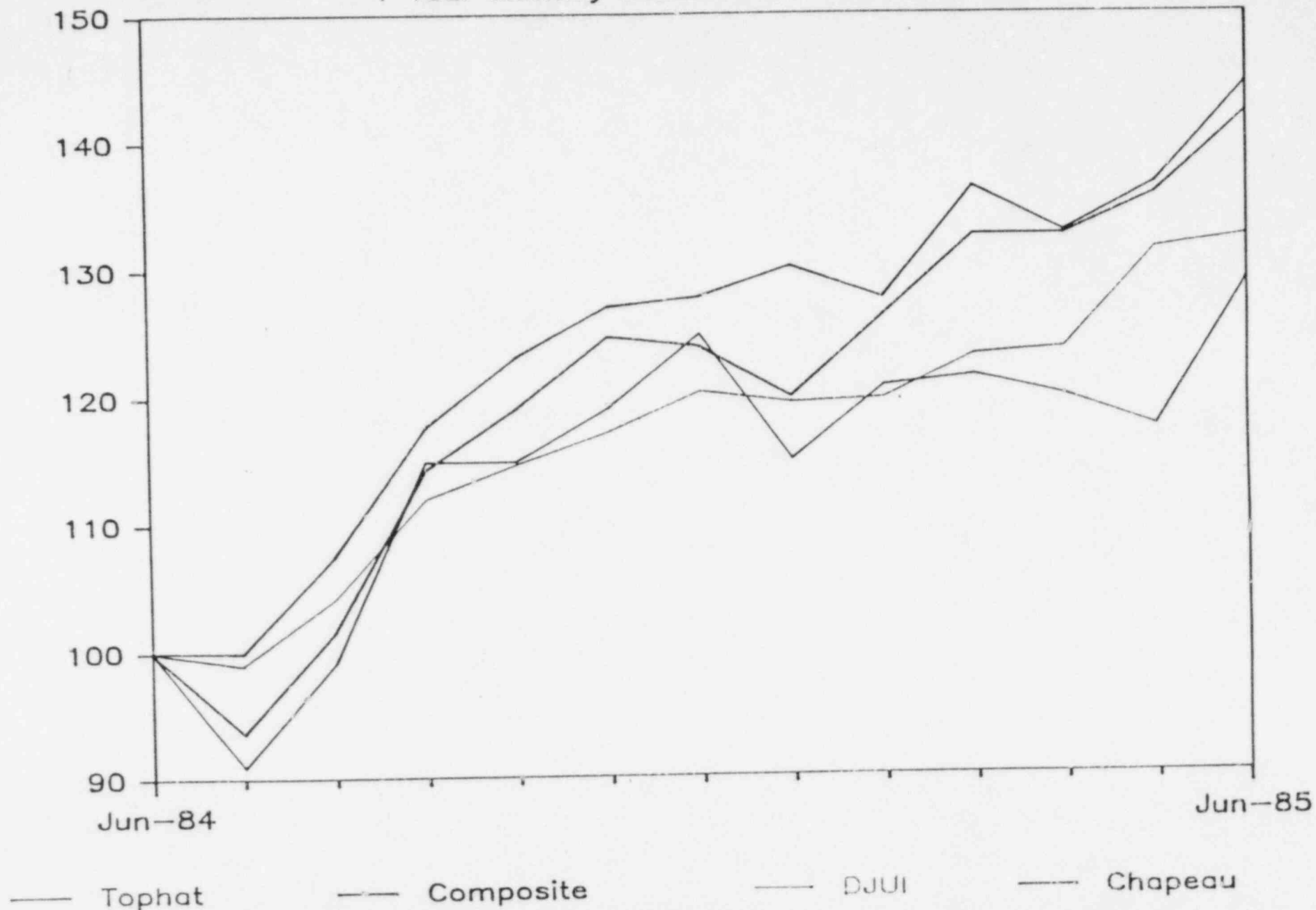
	<u>Chapeau</u>	<u>Tophat</u>	<u>Comparable Companies</u>		
			<u>High</u>	<u>Low</u>	<u>Mean</u>
<u>Earnings Per Share</u>					
Price to Earnings	6.0x	4.9x	8.1x	4.7x	6.4x
Price to [Earnings - AFUDC]	18.6x	NM	71.9x	10.3x	20.1x
Price to Average					
5-Year Earnings	7.4x	5.8x	8.7x	5.8x	7.2x
Price to Peak					
5-Year Earnings	5.9x	5.0x	7.8x	4.8x	6.2x
5-Year EPS Growth	12.7%	9.6%	13.2%	0.8%	7.8%
<u>Price to Cash Flow Multiple</u>	6.5x	9.6x	17.9x	3.3x	6.2x
<u>Price to Book Value Multiple</u>	1.03x	0.78x	1.10x	0.78x	0.95x
<u>Dividends</u>					
Current Dividend Yield	11.7%	13.7%	14.8%	9.1%	11.7%
5-Year Average Dividend Yield	13.0%	13.3%	14.0%	9.9%	12.5%
Current Dividend Payout Ratio (as a % of Net Income)	70.6%	70.2%	94.1%	51.1%	74.3%
Current Dividend Payout Ratio (as a % of Operating Cash Flow)	71.7%	138.1%	406.5%	37.2%	105.7%
5-Year Average Dividend Payout Ratio (as a % of Net Income)	76.2%	75.9%	94.0%	59.2%	77.3%
5-Year Dividend Growth	5.0%	3.5%	7.2%	1.1%	4.2%

(a) Comparable companies include The Cincinnati Gas & Electric Company, The Dayton Power and Light Co., The Detroit Edison Company, Duquesne Light Company, Illinois Power Company, Kansas City Power & Light Company, Kansas Gas & Electric Company, New York State Electric & Gas Corporation, Niagara Mohawk Power Corporation, Ohio Edison Company and Philadelphia Electric Company. Market Prices as of 6/14/85. Operating Data For The 12 Months Ended 3/31/85.

Price/Earnings		Price/ Average 3-Year Earnings		Price/ Peak 3-Year Earnings		5-Year EPS Growth Rate	
The Dayton Power & Light Co.	8.1 x	Detroit Edison Co.	8.7 x	Detroit Edison Co.	7.8 x	Ohio Edison Co.	13.2 x
Detroit Edison Co.	7.8	New York State Electric & Gas Corp.	8.5	Duquesne Light Co.	7.4	CHAPPA	12.7
Duquesne Light Co.	7.5	Duquesne Light Co.	8.0	New York State Electric & Gas Corp.	7.3	Kansas City Power & Light Co.	11.4
New York State Electric & Gas Corp.	7.1	Niagara Mohawk Power Corp.	7.9	Niagara Mohawk Power Corp.	7.0	Niagara Mohawk Power Corp.	11.0
The Cincinnati Gas & Electric Co.	6.9	The Dayton Power & Light Co.	7.7	The Dayton Power & Light Co.	6.6	TOPHAT	9.6
Niagara Mohawk Power Corp.	6.7	Illinois Power Co.	7.7	Illinois Power Co.	6.3	Illinois Power Co.	8.8
Illinois Power Co.	6.6	CHAPPA	7.4	Ohio Edison Co.	6.0	New York State Electric & Gas Corp.	8.0
CHAPPA	6.0	Ohio Edison Co.	7.3	CHAPPA	5.9	Philadelphia Electric Co.	7.8
Ohio Edison Co.	5.9	The Cincinnati Gas & Electric Co.	6.8	The Cincinnati Gas & Electric Co.	5.9	Detroit Edison Co.	5.9
Kansas Gas & Electric Co.	5.7	Philadelphia Electric Co.	6.3	Kansas Gas & Electric Co.	5.6	Duquesne Light Co.	5.0
Philadelphia Electric Co.	5.5	Kansas City Power & Light Co.	6.2	Philadelphia Electric Co.	5.5	The Dayton Power & Light Co.	4.4
TOPHAT	5.1	TOPHAT	5.8	TOPHAT	5.0	The Cincinnati Gas & Electric Co.	2.2
Kansas City Power & Light Co.	4.7	Kansas Gas & Electric Co.	5.8	Kansas City Power & Light Co.	4.8	Kansas Gas & Electric Co.	0.8
Median	6.6	Median	7.4	Median	6.0	Median	8.0
Mean	6.4	Mean	7.2	Mean	6.2	Mean	7.8
Price/Cash Flow		Price/Book Value		Current Dividend Yield		5-Year Average Dividend Yield	
Illinois Power Co.	17.9 x	New York State Electric & Gas Corp.	1.18 x	Philadelphia Electric Co.	14.8 x	Ohio Edison Co.	14.8 x
Kansas Gas & Electric Co.	10.3	Illinois Power Co.	1.07	TOPHAT	13.7	The Cincinnati Gas & Electric Co.	13.9
TOPHAT	9.6	CHAPPA	1.03	Kansas Gas & Electric Co.	13.7	Duquesne Light Co.	13.7
CHAPPA	6.5	Niagara Mohawk Power Corp.	1.02	Duquesne Light Co.	12.6	TOPHAT	13.3
New York State Electric & Gas Corp.	4.9	Duquesne Light Co.	1.01	Ohio Edison Co.	12.5	The Dayton Power & Light Co.	13.1
Kansas City Power & Light Co.	4.9	Detroit Edison Co.	1.01	The Cincinnati Gas & Electric Co.	12.4	CHAPPA	13.0
Niagara Mohawk Power Corp.	4.6	The Dayton Power & Light Co.	0.94	CHAPPA	11.7	Detroit Edison Co.	12.9
Duquesne Light Co.	4.4	Ohio Edison Co.	0.94	Kansas City Power & Light Co.	10.9	Kansas Gas & Electric Co.	12.8
Detroit Edison Co.	3.9	Kansas Gas & Electric Co.	0.90	The Dayton Power & Light Co.	10.8	New York State Electric & Gas Corp.	12.0
The Cincinnati Gas & Electric Co.	3.9	Kansas City Power & Light Co.	0.84	Niagara Mohawk Power Corp.	10.5	Philadelphia Electric Co.	11.8
Philadelphia Electric Co.	3.6	Philadelphia Electric Co.	0.84	Detroit Edison Co.	9.7	Niagara Mohawk Power Corp.	11.7
Ohio Edison Co.	3.5	The Cincinnati Gas & Electric Co.	0.83	Illinois Power Co.	9.3	Illinois Power Co.	10.6
The Dayton Power & Light Co.	3.3	TOPHAT	0.78	New York State Electric & Gas Corp.	9.1	Kansas City Power & Light Co.	9.9
Median	4.6	Median	0.94	Median	11.7	Median	12.9
Mean	6.2	Mean	0.95	Mean	11.7	Mean	12.5
Current Dividend Payout		5-Year Average Dividend Payout		5-Year Dividend Growth		Price/(Earnings - AFUDC)	
Duquesne Light Co.	94.1 x	Duquesne Light Co.	94.0 x	Niagara Mohawk Power Corp.	7.2 x	Detroit Edison Co.	71.9 x
The Dayton Power & Light Co.	88.1	Ohio Edison Co.	89.5	New York State Electric & Gas Corp.	6.9	Ohio Edison Co.	38.5
The Cincinnati Gas & Electric Co.	86.1	Philadelphia Electric Co.	86.1	Kansas City Power & Light Co.	6.8	Philadelphia Electric Co.	37.2
Philadelphia Electric Co.	81.5	Detroit Edison Co.	84.2	Philadelphia Electric Co.	5.1	The Dayton Power & Light Co.	24.3
Kansas Gas & Electric Co.	77.6	The Cincinnati Gas & Electric Co.	83.7	CHAPPA	5.0	CHAPPA	18.6
Detroit Edison Co.	75.7	The Dayton Power & Light Co.	80.1	Illinois Power Co.	4.7	Duquesne Light Co.	18.6
Ohio Edison Co.	74.0	CHAPPA	76.2	Kansas Gas & Electric Co.	4.7	Illinois Power Co.	15.5
Niagara Mohawk Power Corp.	70.7	TOPHAT	75.9	The Dayton Power & Light Co.	3.5	Niagara Mohawk Power Corp.	13.5
CHAPPA	70.6	Kansas Gas & Electric Co.	72.1	TOPHAT	3.5	New York State Electric & Gas Corp.	12.5
TOPHAT	70.2	Niagara Mohawk Power Corp.	70.7	Duquesne Light Co.	3.4	The Cincinnati Gas & Electric Co.	10.3
New York State Electric & Gas Corp.	64.7	New York State Electric & Gas Corp.	66.0	The Cincinnati Gas & Electric Co.	1.7	Kansas City Power & Light Co.	NM
Illinois Power Co.	61.0	Illinois Power Co.	66.0	Detroit Edison Co.	1.2	Kansas Gas & Electric Co.	NM
Kansas City Power & Light Co.	51.1	Kansas City Power & Light Co.	59.2	Ohio Edison Co.	1.1	TOPHAT	NM
Median	74.0	Median	76.2	Median	4.7	Median	18.6
Mean	74.3	Mean	77.3	Mean	4.2	Mean	20.1

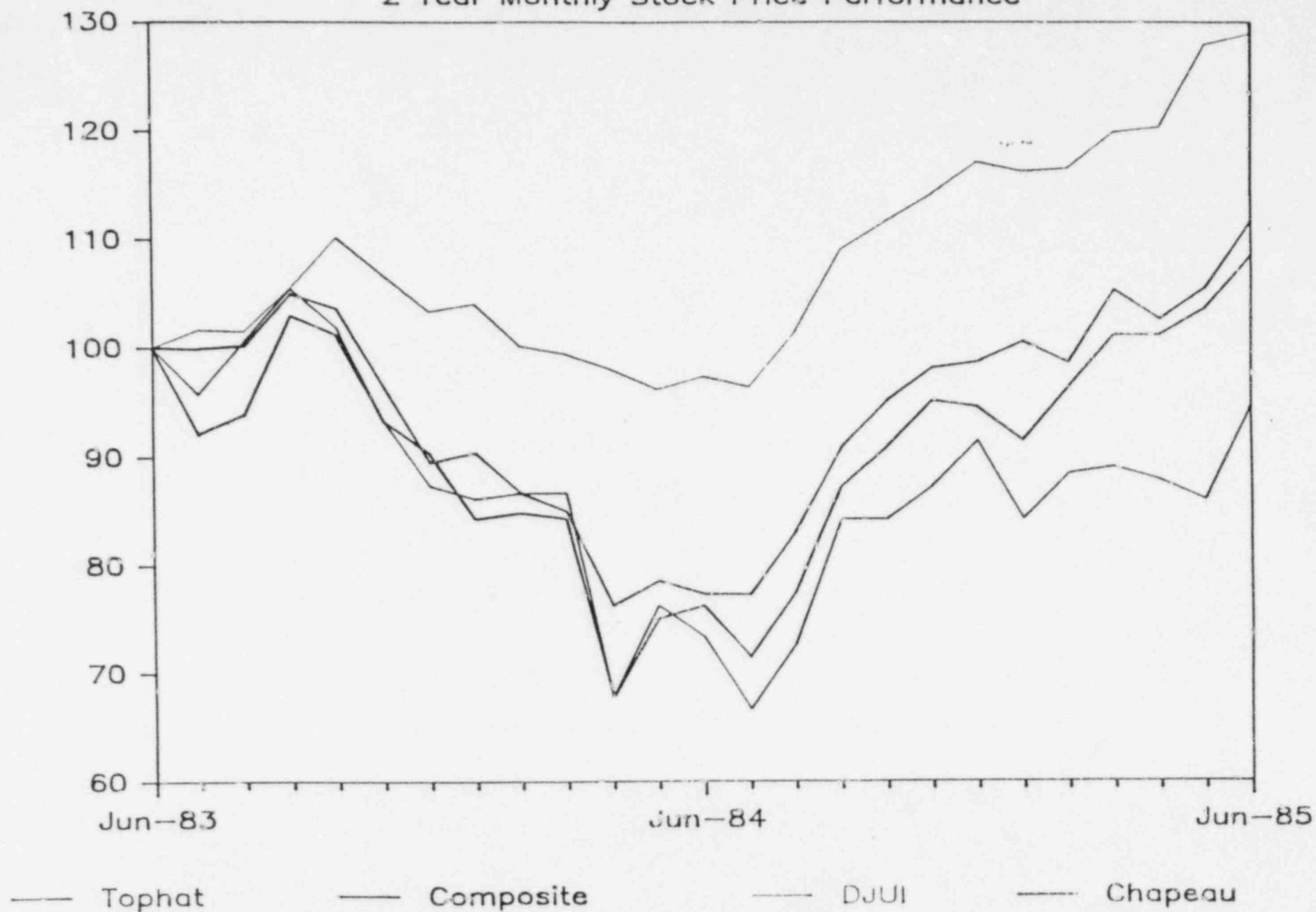
TOPHAT/CHAPEAU/COMPOSITE

1 Year Monthly Stock Price Performance



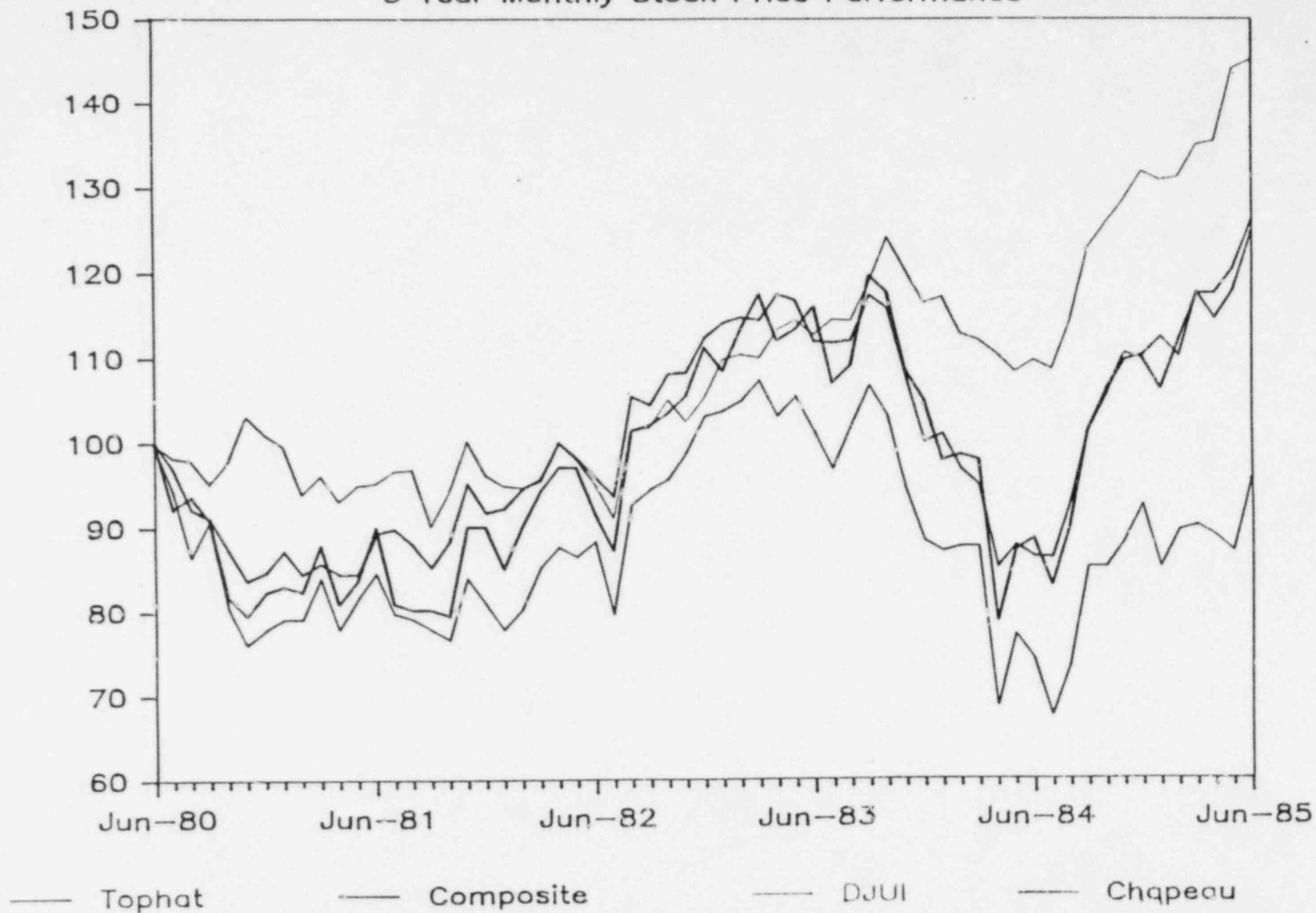
TOPHAT/CHAPEAU/COMPOSITE

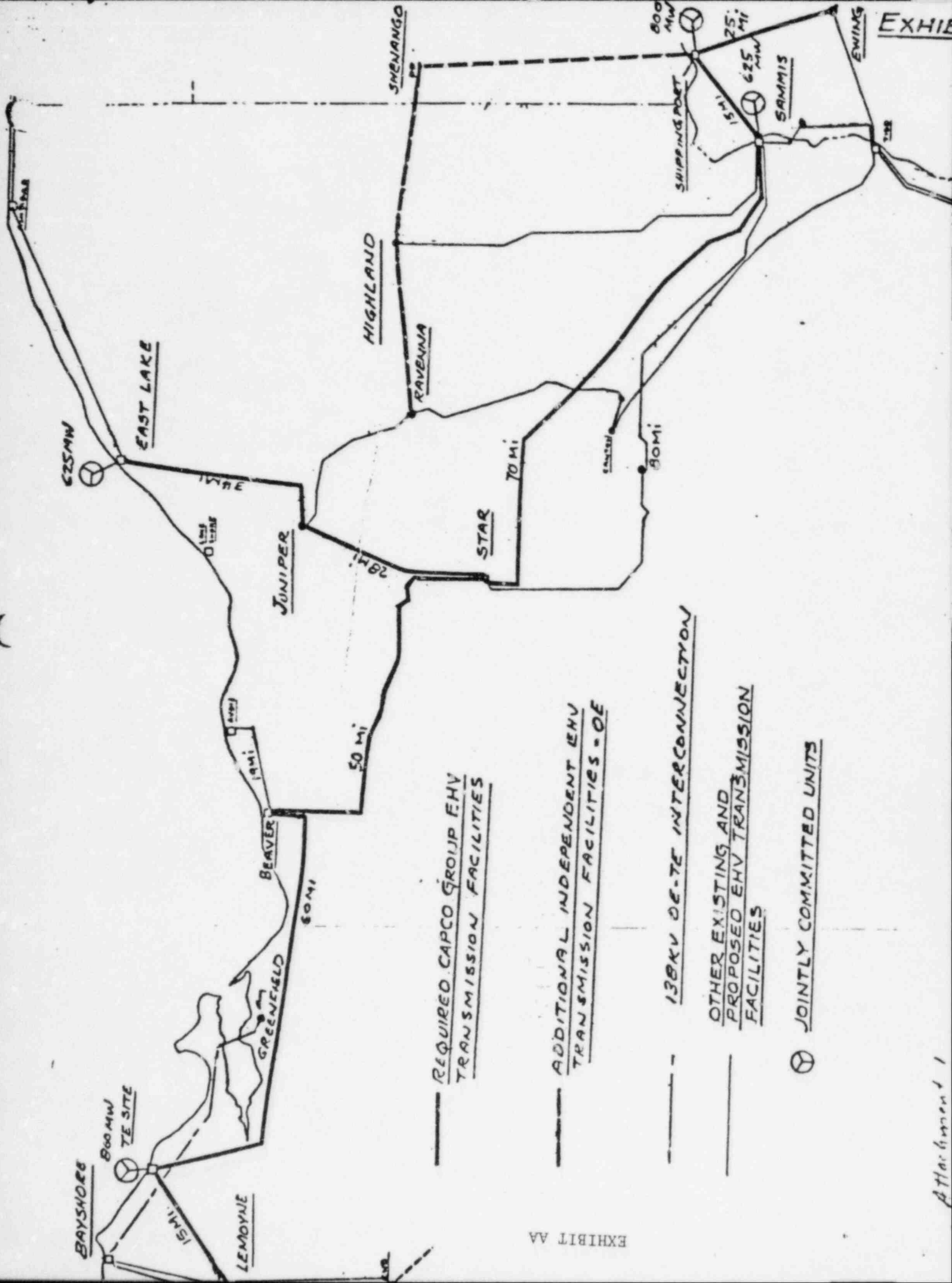
2 Year Monthly Stock Price Performance

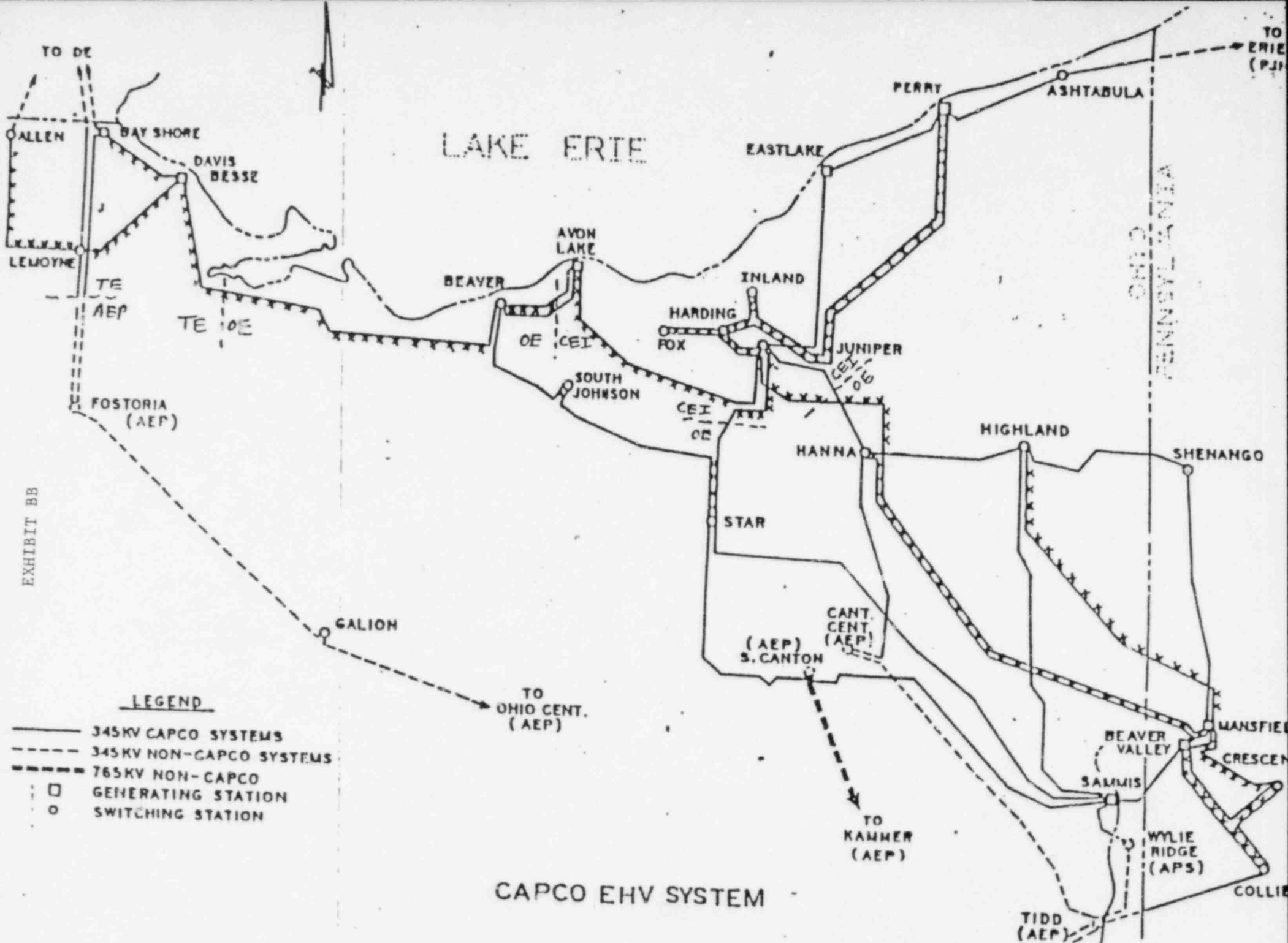


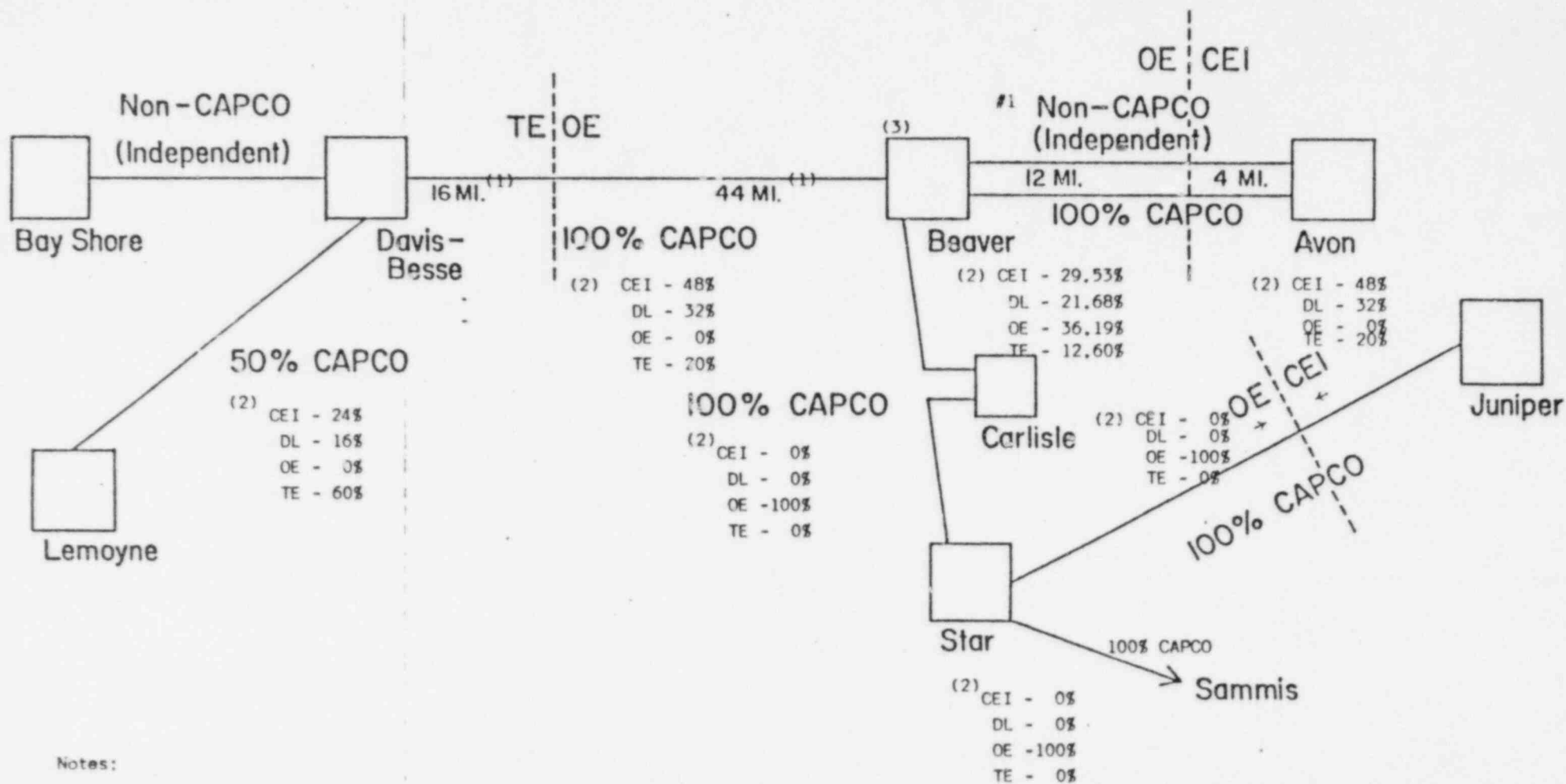
TOPHAT/CHAPEAU/COMPOSITE

5 Year Monthly Stock Price Performance









THE TOLEDO EDISON CO.

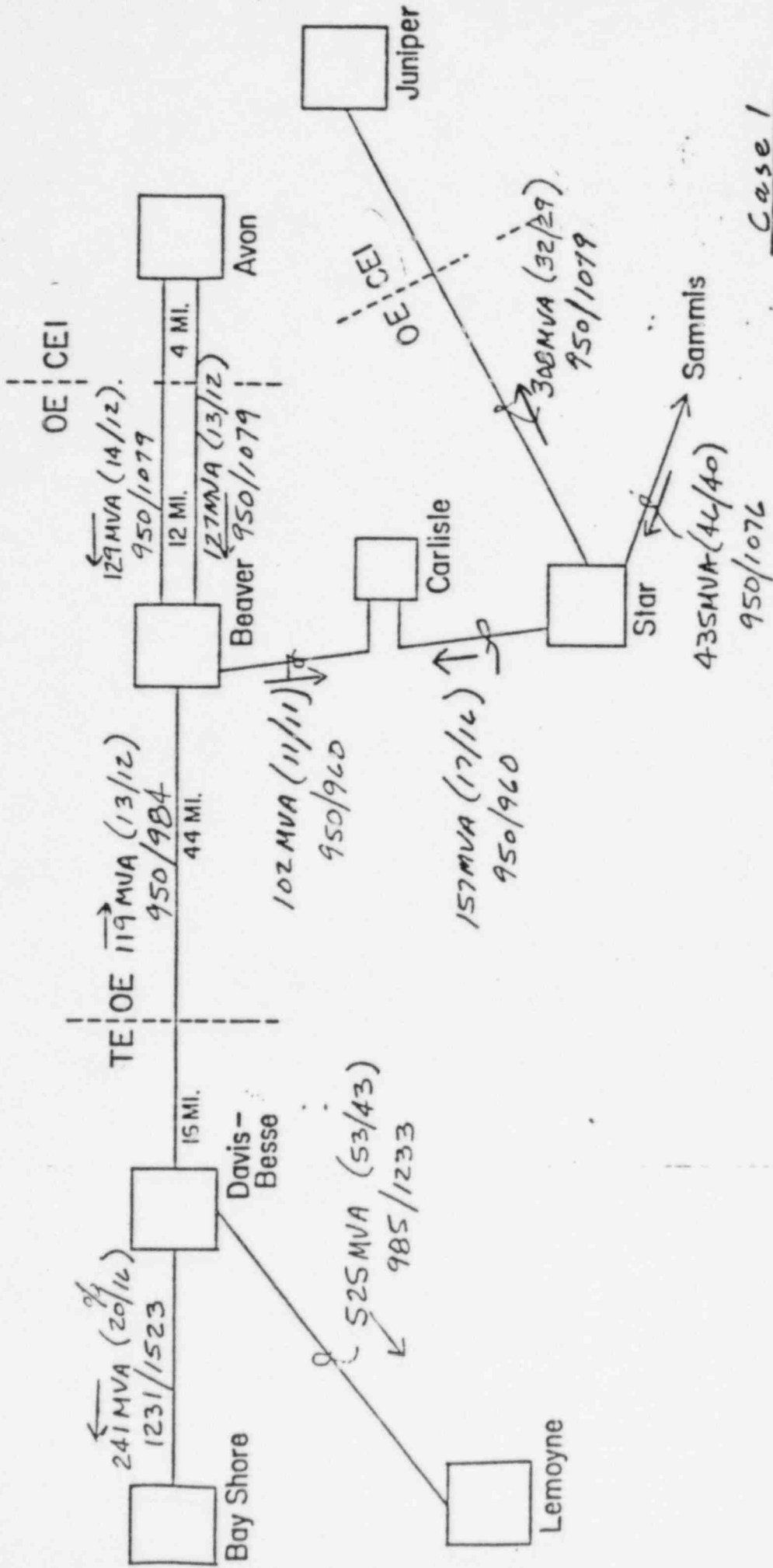
CAPCO 345 KV LINES
BETWEEN TE AND CEI

DRAWN BY

DH

APPROVED BY

CHECKED BY



Case 1

ECAR 19855 CONDITIONS

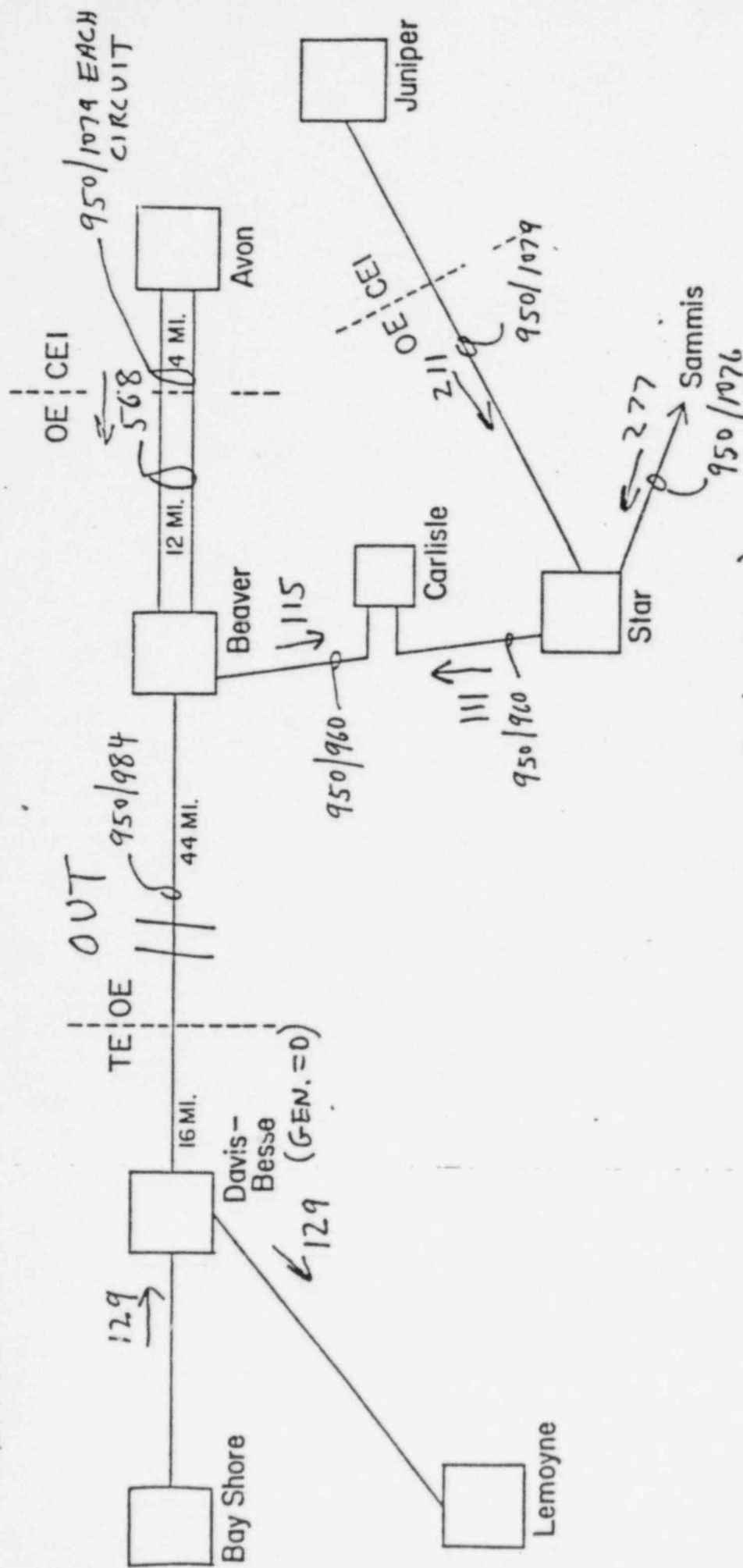
THE TOLEDO EDISON CO.

CAPCO 345 KV LINES

BETWEEN TE AND CEI

DRAWN BY DH APPROVED BY

MVA (SN/SE % LOADING)



LINE FLOWS IN MVA

Case 2 (345 KV)
1986 SUMMER

ALL THE SYSTEM GENERATION
OUT SUPPLIED FROM CEI
DAVIS-BESSE - BEAVER OUT

THE TOLEDO EDISON CO.	
CAPCO 345 KV LINES	
BETWEEN TE AND CEI	
DRAWN BY	DH
CHECKED BY	
APPROVED BY	

