Docket No. 50-346
License No. NPF-3
Serial No. 712
April 16, 1981

TOLEDO EDISON

RECEIVED
APR 22 1981
U.S. NUCLEAR REGULATORY COMMISSION

United States Nuclear Regulatory Commission
Attn: Mr. Jerome Saltzman, Chief
Antitrust & Indemnity Group
Nuclear Reactor Regulation
Washington, D.C. 20555

Gentlemen:

Re: Davis-Besse No. 1
Retrospective Premium Guarantee

The Toledo Edison Company hereby provides the documents described below and enclosed herewith as evidence of its guarantee of its share ($4,862,000) of the retrospective premium which may be levied against the Davis-Besse Unit No. 1 reactor licensees during the period April 23, 1981 thru April 22, 1982.

1. The Toledo Edison Company 1980 Annual Report to shareowners which includes certified financial statements for the calendar year 1980.

2. The Toledo Edison Company 1980 Fourth Quarter Quarterly Report, which includes financial statements for the quarter ending December 31, 1980 (the 1981 First Quarter Quarterly Report is not yet available.)

3. A schedule of 1980 Actual Internal Cash Flow and 1981 Internal Cash Flow Projection.

Based on the data set forth above, The Toledo Edison Company believes that a cash flow can be generated which would be adequate should it be required to pay any retrospective premium in the amount of $4,862,000.

Also enclosed is The Cleveland Electric Illuminating Company's Estimate of Cash Position and Source of Funds Actual 1980 and Projected 1981. This statement shows that The Cleveland Electric Illuminating Company believes that a cash flow can be generated which would be adequate should it be required to pay any retrospective premium in the amount of $5,138,000.

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Thus, the Cash Flow Statements of the Toledo Edison Company and The Cleveland Electric Illuminating Company enclosed herein demonstrate the ability to pay a combined retrospective premium of $10,000,000 for Davis-Besse Nuclear Power Station Unit No. 1.

Richard P. Crouse
Vice President - Nuclear

Robert F. Ertle
Assistant Treasurer

cc: Luis Reyes
Enclosures

8104230464

I

THE TOLEDO EDISON COMPANY
1981 INTERNAL CASH FLOW PROJECTION
FOR DAVIS-BESSE NUCLEAR POWER STATION
(Dollars in Thousands)

	Actual 1980	Projected 1981
Net Income after Taxes(1)	$ 67,178	-
Less Dividends Declared	61,741	-
Retained Earnings(1)	$ 5,437	-
Adjustments:		
Depreciation and Amortization	$ 28,580	$ 44,000
Deferred Income Taxes and Investment Tax Credits	16,359	27,100
Allowance for Funds used During Construction	(43,591)	(49,400)
Total Adjustments	$ 1,348	$ 21,700
Internal Cash Flow	$ 6,785	$ 27,000
Average Quarterly Cash Flow	$ 1,696	$ 6,750
Percentage Ownership in: Davis-Besse Nuclear Power Station Unit No. 1	48.62%	
Maximum Total Contingent Liability		$ 4,862

(1) The Company does not publish its projections of net income after taxes and dividends paid. Thus, the Company has elected to show no estimate of Retained Earnings for 1980 since it can demonstrate that it is able to generate sufficient cash flow from net non-cash expenses and other sources to cover its maximum total contingent liability.

CERTIFICATION

I, Donald H. Saunders, Treasurer of The Toledo Edison Company, hereby certify that the foregoing Estimate of Cash Position and Source of Funds for calendar year 1981 is derived from accurate data and reasonable assumptions and is a reasonable estimate.

April 16, 1981

Donald H. Saunders

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY

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Edgar H. Maugans
VICE PRESIDENT-FINANCE

April 10, 1980

Jerome Saltzman, Chief
Antitrust & Indemnity Group
Nuclear Reactor Regulation
Nuclear Regulatory Commission
Washington, D.C. 20555

Re: Docket No. 50-346
Retrospective Premium Guarantee

Dear Mr. Saltzman:

The Cleveland Electric Illuminating Company hereby provides the documents described below and enclosed herewith as evidence of its guarantee of its share ($5,138,000) of the retrospective premium which may be levied against the Davis-Besse Unit No. 1 reactor licensees during calendar year 1980.

1. The Cleveland Electric Illuminating Company 1979 Annual Report which includes certified financial statements for the calendar year 1979.

2. The Cleveland Electric Illuminating Company 1979 Fourth Quarter Quarterly Review which includes financial statements for the quarter ending December 31, 1979 (the 1980 First Quarter Quarterly Review is not yet available).

3. An Estimate of Cash Position And Source Of Funds actual 1979 and projected 1980.

Accordingly, The Cleveland Electric Illuminating Company believes that a cash flow can be generated which would be more than adequate should it be required to pay any retrospective premium in the amount of $5,138,000.

Sincerely,

EHMaugans

E. H. Maugans
Vice President-Finance

Enclosures
RJU:ag

cc: Donald G. Nicholson
Vice President, Finance
Toledo Edison Company

DUPE 8004280386 (2pp.)

1980 Internal Cash Flow Projection
for Davis-Besse Unit No. 1 Nuclear Power Station
(Dollars in Thousands)

	1979 Actual	1980 Projected
Retained Earnings[(1)]	$20,390	$ -0-
Adjustments		
Depreciation and Amortization	59,459	71,788
Deferred Income Taxes and Investment Tax Credits	21,445	47,021
Allowance for Funds Used During Construction	(49,165)	(65,391)
Total Adjustments	31,739	53,418
Internal Cash Flow	$52,129	$53,418
Average Quarterly Cash Flow	$13,032	$13,355
Percentage Ownership in Unit	Davis-Besse Unit No. 1 = 51.38%	
Maximum Total Contingent Liability	$ 5,138	$ 5,138

(1) "Retained Earnings" means net income after income taxes and dividends paid. The Company does not publish its projections of these amounts. Accordingly, net income after taxes and dividends paid used in the 1980 projected data, although contrary to the Company's expectations, has been assumed to be zero. The figures shown for the 1980 projection year are those non-cash items necessary to establish that its maximum total contingent liability can be satisfied from internal cash flow.

C E R T I F I C A T I O N

I, Edgar H. Maugans, Vice President-Finance of The Cleveland Electric Illuminating Company, hereby certify that the foregoing Estimate of Cash Position and Source of Funds for calendar year 1980 is derived from accurate data and reasonable assumptions and is a reasonable estimate.

April 10, 1980
Date

E H Maugans
Edgar H. Maugans

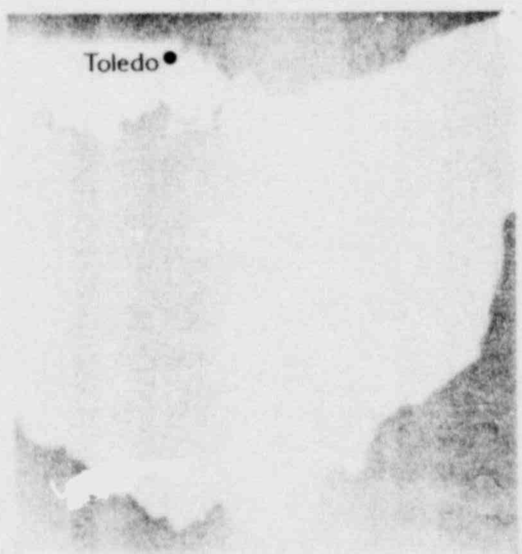
TOLEDO EDISON

Quarterly Report
December 31, 1980

Highlights

Period Ended December 31,	1980	1979	Change
Per Common Share			
Earnings			
12 Months	**$2.56**	$2.65	- 9¢
Fourth Quarter	**.50**	.45	+ 5¢
Dividends Declared			
12 Months	**$2.20**	$2.20	—
Fourth Quarter	**.55**	.55	—
System Sales-Fourth Quarter (Millions-KWH)	**1 842**	1 867	- 1%
Residential	**476**	466	+ 2%
Commercial	**305**	300	+ 2%
Industrial	**814**	856	- 5%
System Peak Load (Megawatts)			
12 Months	**1 310**	1 395	- 6%
Fourth Quarter	**1 237**	1 281	- 3%
System Load Factor			
12 Months	**68%**	67%	
Fourth Quarter	**73%**	71%	

Toledo Edison Company produces electricity for about 750,000 people in a 2,500 square mile area of Northwestern Ohio. The Company employs over 2,300 people who serve 240,000 residential, 25,000 industrial and commercial, and 15 wholesale municipal customers. The Company also supplies steam service to downtown Toledo offices and stores and natural gas to the communities of Defiance and Delta. Toledo Edison is owned by over 100,000 shareowners in all 50 states and in many countries around the world.



TOLEDO EDISON

4th Quarter Ending December 31, 1980

Balance Sheet
Thousands of Dollars

December 31,	1980	1979
Assets		
Property, Plant & Equipment		
In service	**1 208 001**	979 809
Less accumulated provision for depreciation	**220 629**	201 895
	987 372	777 914
Construction work in progress	**518 746**	519 464
Nuclear fuel—net	**17 644**	11 786
Current Assets	**103 896**	86 793
Investments and Other	**73 785**	71 555
Total Assets	**1 701 443**	1 467 512
Liabilities		
Capitalization		
Common stock equity	**478 993**	432 554
Cumulative preferred stock	**216 500**	184 000
Long-term debt	**714 406**	611 137
	1 409 899	1 227 691
Short-Term Notes Payable	**89 000**	23 500
Long-Term Debt Due Within One Year	**3 520**	41 912
Other Current Liabilities	**121 269**	113 048
Accumulated Provisions for Deferred Taxes, etc.	**77 755**	61 361
Total Liabilities	**1 701 443**	1 467 512

A standard forecast form showing our latest five year projection of capital requirements, sales, load data and certain other financial projections will be available upon request to our Vice President, Finance.

Results of Operations
Thousands of Dollars

Fourth Quarter 1980	Fourth Quarter 1979		Twelve Months Ended December 31, 1980	Twelve Months Ended December 31, 1979
		Operating Revenues		
101 085	88 085	Electric	**394 886**	358 707
1 307	1 046	Gas	**4 182**	3 583
916	855	Steam heating	**2 800**	2 831
103 308	89 986	Total operating revenues	**401 868**	365 121
		Operating Expenses		
29 928	24 612	Fuel used in power plants	**110 423**	93 295
12 760	19 623	Purchased & interchanged power—net	**45 348**	53 574
14 653	11 174	Operation	**55 842**	44 691
7 392	5 919	Maintenance	**29 319**	21 137
6 236	6 254	Depreciation provisions	**26 002**	29 117
7 637	7 040	State and local taxes	**31 202**	29 760
4 208	1 750	Federal income taxes	**23 376**	25 139
82 814	76 372	Total operating expenses	**321 512**	296 713
20 494	13 614	*Operating Income from Sales to Customers*	**80 356**	68 408
		Other Income		
6 909	6 955	Allowance for equity funds used during construction	**28 443**	23 512
3 127	2 080	Income tax credits applicable to nonoperating items	**13 218**	8 251
305	395	Other income & deductions—net	**879**	1 017
10 341	9 430	Total other income	**42 540**	32 780
30 835	23 044	*Income Before Interest Charges*	**122 896**	101 188
		Interest Charges		
16 268	13 787	Long-term debt	**56 673**	48 315
3 331	376	Short-term borrowings	**14 193**	4 269
(3 679)	(2 955)	Allowance for borrowed funds used during construction	**(15 148)**	(9 991)
15 920	11 208	Interest charges—net	**55 718**	42 593
14 915	11 836	*Net income*	**67 178**	58 595
4 906	3 827	Preferred stock dividends accrued	**18 021**	13 894
10 009	8 009	*Earnings on Common Stock*	**49 157**	44 701
20 125 266	17 891 583	*Average Number of Shares Outstanding*	**19 226 163**	16 848 431
50¢	45¢	*Earnings Per Average Common Share*	**$2.56**	$2.65
		Return on Average Common Equity	**10.5%**	10.7%

The 1980 figures are stated on an interim basis and are subject to audit and adjustment.

POOR ORIGINAL

TOLEDO EDISON

TO OUR SHAREOWNERS

EDISON PLAZA • 300 MADISON AVENUE • TOLEDO, OHIO 43652 • (419) 259-5000

John P. Williamson
Chairman

Fourth quarter earnings per share increased 1[illegible] per cent in comparison to last year due to a combination of higher revenues, low cost generation from our Davis-Besse Nuclear Station and sales of power to neighboring utilities at advantageous prices. The higher operating revenues were produced by the combination of a rate increase, which became effective in March 1980, and increases in fuel recovery revenues.

Kilowatt-hour sales for the quarter decreased because of the continuing effects of the current recession in our service area. However, residential and commercial sales continued to increase during the quarter.

Two factors which had a positive impact on fourth quarter results were the return to service of the Davis-Besse Nuclear Power Station and the start-up of the coal-fired Bruce Mansfield Unit No. 3. Davis-Besse was returned to service from a long modification and refueling outage on November 6. The Mansfield unit, in which we own a 20 per cent share, started operation September 19.

Interest charges continued to climb in the fourth quarter in comparison with the same period of 1979. Record-setting short-term interest rate levels, the issuance of 14 per cent first mortgage bonds in October 1980, and the sale of pollution control notes in August and September all contributed to the rise. Also, a $7.5 million issue of 2½ per cent 30-year first mortgage bonds became due and had to be replaced in December. Short-term interest charges in this quarter increased more than eight times the 1979 level. Preferred stock dividend cost increased as the result of additional shares issued earlier in 1980.

1980 was definitely another recession year in the Midwest and our area, as indicated by the drop in our kilowatt hour sales - down four per cent for the year. Industrial sales were off 11 per cent for the entire year as a result of the recession. Residential sales were up two per cent and commercial sales up two per cent, reflecting underlying strengths in our local economy. Fuel and purchased power costs in 1980 were influenced by the extended outage of the Davis-Besse Nuclear Power Station. The normal maintenance and refueling outage was expanded considerably because of new construction and other modifications required by the Nuclear Regulatory Commission on nuclear plants. Operation and maintenance expenses increased over 1979 levels but were off-set by lower depreciation costs for the nuclear station. Depreciation of that plant is recorded on a unit-of-production method so that while higher depreciation is expensed when the plant is on line, no depreciation is required during its periodic outages. Higher fuel expenses in 1980 reflect increased generation by our own units now that we finally own sufficient capacity to serve our own needs and due to the increased cost of coal, which was more than 17 per cent higher per ton in 1980 than in 1979.

Purchased and interchange power (net) expense was reduced in 1980 by about $8 million because we were able to generate our needs with our own generating units.

The allowance for funds used during construction (AFUDC) rate was increased at the beginning of 1980 from 7½ per cent to 8½ per cent (net of taxes), reflecting the higher embedded costs of capital. Together with the increase in the construction work-in-progress base, this produced an over-all rise in AFUDC. The increase in base included additional expenditures for fire protection equipment at Davis-Besse as well as major expenditures associated with our 20 per cent share of the three nuclear generating units under construction. A significant increase in preferred stock dividends accrued as a result of additional shares issued in 1979 as well as 1980. While net income and earnings on common stock were up in comparison to last year, earnings per common share, for the year, decreased from $2.65 to $2.56. This reflected the 14 per cent increase in shares outstanding.

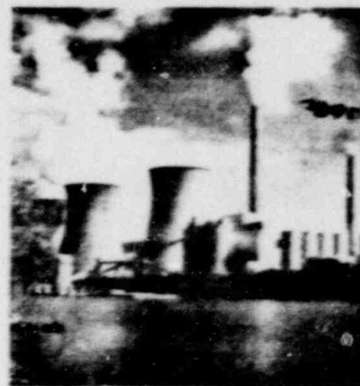
A rate increase filing, to offset the rising costs in every aspect of our business, was initiated early in the spring of 1980. Your Company requested $64.5 million in response to inflationary pressures on operation, construction, and financing. The expense of complying with state and federal regulation also continues to force up the cost of electric service.

The investigation of our request was completed by the staff of the Public Utilities Commission of Ohio and their report was issued in January of 1981. The PUCO staff report recommends that we be granted a rate increase representing between 90 per cent to 99 per cent of our original rate request. Hearings on the request are now scheduled to start in mid-February and we would normally expect a final ruling on the increase from the PUCO in April. Under Ohio regulatory law, the increase could be put into effect by us, subject to refund, if the Commission does not act by April.

A preferred stock offering of 300,000 shares of $100 par value was filed with the Securities and Exchange Commission on January 6, 1981. The $30 million proceeds from the sale are to be added to general funds and used primarily to reduce short-term debt incurred for the construction program. We plan to offer the preferred stock to the public in late January. The dividend rate and price will be determined at that time.

A major portion of the construction program involves our 20 per cent share of three generating units now being built as part of our Central Area Power Coordination power pool (CAPCO) arrangements. Also included are improvements and the final expenditures on environmental projects at our coal-fired plants as well as additional federally-required additions at the Davis-Besse Nuclear Power Station. The construction budget for 1981 has been set at $206 million.

Davis-Besse Nuclear Power Station returned to service on November 6 following an extended outage for maintenance and refueling. Although the refueling was accomplished very efficiently, the outage was prolonged by major changes mandated by the Nuclear Regulatory Commission. Among these were the installation of new instrumentation, fire-protection equipment modification, and pipe support modification. The latter was particularly frustrating because it involves time-consuming drilling into reinforced concrete walls which are nearly impenetrable due to the many reinforcing rods imbedded in the concrete. Pipe support modifications alone contributed 12 weeks to the outage and resulted from again-changed Nuclear Regulatory Commission design criteria since the plant was built.



Your Company's 20 per cent share in Bruce Mansfield Unit No. 3 adds 159 megawatts to our system. More than one dollar in three spent for Unit No. 3 went for environmental protection.

We also continued to be plagued by a generic problem within the industry of failures of seals on reactor coolant pumps. On January 6, 1981 it was necessary to remove the plant from service so that the seals on our four pumps could be rebuilt and reinstalled.

We are working with our industry in cooperation with the U.S. Department of Energy in conducting a research effort to develop a seal monitoring system. In the meantime we have been working with specialized consultants and the pump manufacturer to develop preventative measures to help improve seal life and performance. Our objective is to be better prepared to deal with problems as part of routine maintenance and avoid forced outages.

Richard P. Anderson was elected to the Toledo Edison Board of Directors in December upon the retirement of Floyd M. Canter. Mr. Anderson is the general manager of The Andersons, a large grain marketing and retailing firm which serves the agricultural area of the mid-west. He is a graduate of Michigan State University. He is chairman of the executive committee of the Ohio Agricultural Research and Development Center Support Council. He also serves as a member of the board of St. Luke's Hospital and the Children Services Board. Mr. Anderson was named Toledo Area Citizen of the Year in 1974. He is past president of the Toledo Area Council of the Boy Scouts of America, the Greater Toledo Community Chest, and Rotary Club of Toledo. He was general campaign chairman of the 1972 Crusade of Mercy. Mr. Anderson brings considerable professional business management experience and a truly commendable spirit of community service to the Toledo Edison Company board.

Floyd M. Canter was named a director emeritus in recognition of his outstanding service as a board member since 1973. Mr. Canter is a retired executive vice president and assistant to the president of Owens-Illinois, Inc.

Our 1980 dividends are non-taxable. Both common and preferred stock dividends for 1980 are estimated to be a 100 per cent return of capital and thus non-taxable as ordinary income. This status was greatly affected by the requirement to currently expense, for tax purposes only, the expenses associated with the termination of *four* CAPCO nuclear units in January 1980.

The regular 55 cent quarterly dividend on common stock was declared payable January 28 to shareholders of record January 8. Regular preferred stock dividends will be paid March 2 to shareholders of record February 13.

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY

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April 2, 1981

Jerome Saltzman, Chief
Antitrust & Indemnity Group
Nuclear Reactor Regulation
Nuclear Regulatory Commission
Washington, D.C. 20555

Re: Docket No. 50-346
Retrospective Premium Guarantee

Dear Mr. Saltzman:

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2. The Cleveland Electric Illuminating Company 1980 Fourth Quarter Quarterly Review which includes financial statements for the quarter ending December 31, 1980 (the 1981 First Quarter Quarterly Review is not yet available).

3. An Estimate of Cash Position and Source Of Funds actual 1980 and projected 1981.

Accordingly, The Cleveland Electric Illuminating Company believes that a cash flow can be generated which would be more than adequate should it be required to pay any retrospective premium in the amount of $5,138,000.

Sincerely,

EH Maugans

E. H. Maugans
Vice President-Finance

RJU:jl
Enclosures

cc: Donald G. Nicholson
Vice President, Finance
Toledo Edison Company

DUPE 8104070261 (4 pp.)

1981 Internal Cash Flow Projection
for Davis-Besse Unit No. 1 Nuclear Power Station
(Dollars in Thousands)

	1980 Actual	1981 Projected
Retained Earnings[1]	$12,721	$ -0-
Adjustments		
Depreciation and Amortization	64,640	85,741
Deferred Income Taxes and Investment Tax Credits	30,330	40,151
Allowance for Funds Used During Construction	(65,924)	(76,500)
Total Adjustments	29,046	49,392
Internal Cash Flow	$41,767	$49,392
Average Quarterly Cash Flow	$10,441	$12,348
Percentage Ownership in Unit	Davis-Besse Unit No. 1 = 51.38%	
Maximum Total Contingent Liability	$ 5,138	$ 5,138

(1) "Retained Earnings" means net income after income taxes and dividends paid. The Company does not publish its projections of these amounts. Accordingly, net income after taxes and dividends paid used in the 1981 projected data, although contrary to the Company's expectations, has been assumed to be zero. The figures shown for the 1981 projection year are those non-cash items necessary to establish that its maximum total contingent liability can be satisfied from internal cash flow.

CERTIFICATION

I, Edgar H. Maugans, Vice President-Finance of The Cleveland Electric Illuminating Company, hereby certify that the foregoing Estimate of Cash Position and Source of Funds for calendar year 1981 is derived from accurate data and reasonable assumptions and is a reasonable estimate.

4-2-81
Date

E H Maugans
Edgar H. Maugans

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY

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Sincerely,

E. H. Maugans
Vice President-Finance

RJU:jl
Enclosures

cc: Donald G. Nicholson
Vice President, Finance
Toledo Edison Company

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C E R T I F I C A T I O N

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4-2-81
Date

EHMaugans
Edgar H. Maugans

Dear Share Owner:

Earnings per share rose in the fourth quarter of 1980 to 52 cents compared to the 43 cents earned in the fourth quarter of 1979. The gain is principally attributable to the nine per cent electric rate increase placed into effect in July 1980.

Earnings per share from continuing operations in 1980 were $2.26 compared to $2.31 in 1979. Including prior period effects of an accounting change, earnings per share were $2.42 in 1979. The $2.42 figure includes an 11 cent gain for the cumulative effect of a change in computing depreciation for the Davis-Besse Nuclear Power Station for periods prior to January 1, 1979. Earnings per share from continuing operations in 1980 were lower because of the impact of reduced sales, higher operating expenses resulting from inflation and additional plant in service, higher interest charges due to increased outstanding debt and higher interest rates, and a greater number of outstanding common shares.

Operating revenues in the fourth quarter of 1980 rose 16 per cent from the comparable quarter of 1979 to $230.0 million. Operating revenues for the full year were $893.6 million, up eight per cent from 1979. The gains are attributed to the rate increase and higher fuel cost adjustments.

Kilowatthour sales to our residential and commercial customers were up 4.2 per cent and 3.4 per cent, respectively, in the fourth quarter, compared to the same quarter of 1979 as a result of colder weather and continuing growth in the commercial sector. These gains were offset by a decline in our industrial sales, especially to automobile and steel manufacturers, which continue to be adversely affected by the national economic recession. However, it appears that economic recovery is taking place in our service area as sales to industrial customers in the fourth quarter were 9.2 per cent above those in the third quarter of 1980.

KILOWATTHOUR SALES
(Millions of kwhrs)

	FOURTH QUARTER 1980	% CHANGE FROM FOURTH QUARTER 1979	12 MOS. ENDED 12/31/80	% CHANGE FROM 12 MOS. ENDED 12/31/79
RESIDENTIAL	1,028	4.2	4,468	2.5
COMMERCIAL	976	3.4	4,149	2.7
INDUSTRIAL	1,994	5.0	8,062	13.9
OTHER	104	5.9	416	4.2
SUB-TOTAL	4,102	0.7	17,090	5.4
SALES TO UTIL.	209	3.6	1,070	10.4
TOTAL	4,311	0.8	18,160	1.6

DIVIDEND INCREASED FOR 23RD CONSECUTIVE YEAR

Your Board of Directors has increased the quarterly dividend on common stock to 52 cents a share, effective with this payment. The Board has thus demonstrated its commitment to keep your Company an attractive, competitive investment and to maintain its ability to raise capital for ongoing construction of the additional facilities required to meet future energy needs. This is the 23rd consecutive year in which dividends have been increased and the 80th year of uninterrupted cash dividend payments.

We have determined that 100 per cent of the dividends on common stock and preference stock and 57 per cent of preferred stock dividends p[illegible]d in 1980 are not taxable as ordinary dividend income for Federal income tax purposes and should be treated on 1980 tax returns as non-taxable capital distributions. This results largely from the Company's tax treatment of its investment in the four nuclear units which were terminated last year. The Public Utilities Commission of Ohio has authorized amortization of this investment over a ten-year period but, for Federal income tax purposes, we are required to recognize the tax deductible portion of our entire investment as a reduction in taxable income for 1980. Without this large item, the pref[illegible]nce and preferred stock dividends would have been fully taxable and only a portion of the

common stock dividend would have been non-taxable.

Last month we mailed to you a form (IRS 1099-DIV) which shows the tax status of dividends you received in 1980. You should use the figures indicated on the form in computing your overall 1980 tax obligations, although the percentage used by the Company to arrive at these figures is subject to final determination by the Internal Revenue Service at a later date.

ANTITRUST CASE SET FOR RETRIAL

The retrial of the City of Cleveland's antitrust suit against the Company is scheduled to begin May 18. The first trial ended in a mistrial on November 19 because the six-member jury was unable to reach an unanimous decision. During the course of the first trial the City presented evidence claiming damages of $166 million, reduced from $330 million originally claimed. We are waiting for a court decision on our request for a change of venue which was made because of inflammatory publicity and the impossibility of selecting an impartial jury. Our counsel advises that the final disposition of this suit should not have a material adverse effect on our financial position or operations, although an adverse final determination could have a material adverse effect on income in the period in which it occurs.

We believe we have a strong case in legal terms. We are innocent of any wrongdoing and are confident of winning an appeal if required. Considering the possibility of appeals, a final judgment of any kind could be some years away.

CONSTRUCTION PROGRAM CONTINUES

The compound annual growth rate in the demand for electricity is expected to be about three per cent over the next three years as the Cleveland-Northeast Ohio economy recovers from the recession. Over the balance of the decade, the compound annual growth rate is expected to be about two per cent. This growth rate is one that is manageable by the Company. We believe that annual spending for the construction program will peak this year, after which time outlays should begin to diminish until the end of the decade. Consequently, as the cost of new facilities is reflected in rates and construction expenditures become lower, external financing needs will be lessened.

Our five year construction budget for the period 1981-85 amounts to $1.7 billion, essentially the same as the $1.65 billion budgeted for the 1980-84 period. The new budget includes $1.35 billion for the Company's share of the two Perry nuclear units and a nuclear unit at the Beaver Valley Plant, a program to improve the availability of existing generating units and several air and water pollution control projects which the Company has under way. The remainder of the budget is for improvement and expansion of our transmission and distribution systems and for general projects.

FINANCINGS, PAST AND FUTURE

About half of the Company's $1.7 billion construction budget will be generated internally. We will have to raise the rest through the sale of securities and borrowings. In the fourth quarter of 1980 we raised $46.6 million through a loan from the Ohio Water Development Authority of the proceeds from its sale of tax-exempt pollution control revenue bonds carrying a variable rate of interest. This was the first time this type of financing had been used by a public utility. During 1980 we raised nearly $400 million through a variety of financings. Terms were designed to minimize financing costs.

During 1981 we plan to raise about $365 million through the sale of se[illegible] and borrowings. Included will be a co[illegible] stock offering totaling about $80 million. As o[illegible] now the sale date has not been set but we are pr[illegible]ed to proceed when there is a general improvem[illegible] in the equity market.

During the first [illegible]f of 1981 we plan to raise about $40 million through a private placement of preferred stock, $21.5 million through the issuance of preferred stock pursuant to delayed delivery arrangements and about $20 million through the issuance of tax-exempt pollution control bonds by the Ohio Air Quality Development Authority. We also plan to raise an additional $120 million through the sale of first mortgage bonds.

In a move to obtain additional funds and reduce the amount of debt which matures in the next few years, the amount and repayment provisions of the Company's outstanding bank term loans are being revised. Previously, outstanding term loans totaling $84 million were to be repaid in equal annual payments of $27 million over the years

1981-83. Under the new terms, the amount of the loans was increased $50 million to $134 million and repayments will be spread over the years 1984-88 in equal payments of $26.8 m[illegible]on each year.

1980 ELECTRIC RATE CASE UNDER REVIEW; NOTICE OF NEW REQUESTS MADE

The staff of The Public Utilities Commission of Ohio is studying our application for a $172 million electric rate increase to take effect in the second quarter of 1981.

In this application, we are asking the PUCO to consider setting rates based on costs expected in 1981. We are seek[illegible]g this future test year, as it is called (although it is really the current year in which the new rates will be charged), in an effort to keep revenues current with inflation rather than always having new rates based on historic costs as has been the case in the past. We do not know what the decision will be, but we are encouraged that the PUCO has asked us to file data for both 1980 and 1981.

On Jan[illegible]ary 30, 1981, the Company gave notice of its intention to seek an increase in electric rates of $114 million, a 10 per cent increase over the requested amount in the pending application. Earlier in the month notice was given of the intention to seek a $7 million, 47 per cent increase in steam rates. Both requests, if granted, should take effect in January 1982.

In another pending rate matter, the PUCO held a rehearing on its July 1980 rate order. The PUCO allowed the Company an additional $3.7 million increase in rates in recognition of certain labor cost increases which occurred after the end of the 1979 test year. The PUCO also reaffirmed its ruling that $238,617 of advertising expenditures and $492,539 of charitable contributions should be excluded from allowable expenses. As a consequence of the rehearing, the PUCO has now granted a total of $73.3 million, or 92 per cent of the $79.4 million originally requested.

ANNUAL MEETING SET FOR APRIL 28

The annual share owners meeting will be held at 2:00 p.m. on Tuesday, April 28 in the Gold Room at Stouffers Inn on the Square in downtown Cleveland. Proxy material and the Company's 1980 annual report will be mailed in March to common

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stock owners of record on February 27, 1981. Please fill out, sign and return your proxy card as soon as possible.

PREFERRED STOCK TRANSFER AGENT AND REGISTRAR CHANGED

Owners of the Company's Serial Preferred Stock should note that all transfer and registration activity is now being handled in Cleveland. The Company is now serving as sole transfer agent and AmeriTrust Company is now serving as sole registrar for this stock. Requests for transfer of preferred stock can still be presented in New York City at Wells Fargo Securities Clearance Corporation, 45 Broad Street, New York, New York 10004. This action has been taken to provide service to our preferred stock share owners more economically.

Sincerely,

Robert M. Ginn

Robert M. Ginn
President

February [illegible], 1981

Executive Offices
Illuminating Building
55 Public Square
Cleveland, Ohio 44113

Mail Address
Post Office Box 5000
Cleveland, Ohio 44101
Phone: 216-622-9800

The Cleveland Electric Illuminating Company and Subsidiaries

RESULTS OF OPERATIONS (UNAUDITED)

	THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
	1980	1979	1980	1979
OPERATING REVENUES:				
Electric	$225,866,922	$197,290,183	$878,500,789	$811,219,040
Steam	4,171,280	3,111,615	15,064,815	[illegible]
Total Operating Revenues	230,038,202	200,401,798	893,565,604	824,[illegible]
OPERATING EXPENSES:				
Fuel	71,068,478	70,582,960	256,206,499	272,[illegible]
Purchased Power	[illegible]	22,180,178	91,231,848	[illegible]
Other Operation	[illegible]	29,579,378	120,781,880	[illegible]
Maintenance	17,744,181	17,519,025	87,058,185	[illegible]
Depreciation and amortization	16,505,539	14,388,137	64,516,970	[illegible]
Taxes, other than Federal income taxes	[illegible]	16,693,080	81,610,[illegible]	[illegible]
Federal income taxes	7,135,066	877,097	41,575,906	[illegible]
Total Operating Expenses	189,904,951	171,631,053	743,051,049	688,787,[illegible]
NET OPERATING INCOME	40,134,251	28,770,748	150,514,555	135,479,[illegible]
NONOPERATING INCOME:				
Allowance for equity funds used during construction	10,090,407	8,388,310	40,472,962	30,492,[illegible]
Other income and deductions including Federal income taxes	[illegible]	3,508,921	21,967,302	14,188,[illegible]
Total Nonoperating Income	15,[illegible]	11,901,081	62,440,285	[illegible]
INCOME BEFORE INTEREST CHARGES	56,[illegible]	40,170,074	212,954,845	[illegible]
INTEREST:				
Long-term debt (net)	26,091,178	21,044,027	96,086,007	79,[illegible]
Short-term bank loans, commercial paper and other	4,794,895	1,666,178	17,539,061	[illegible]
Allowance for borrowed funds used during construction	([illegible])	([illegible])	(26,051,162)	([illegible])
Net Interest Charges	24,396,291	16,606,921	87,571,961	[illegible]
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	31,596,619	24,140,480	125,382,879	[illegible]
Cumulative effect of change to [illegible] method on periods prior to January 1, 1979				[illegible]247
NET INCOME	31,596,619	24,140,480	125,382,879	117,[illegible]
PREFERRED AND PREFERENCE DIVIDENDS	7,429,875	6,396,791	27,710,630	[illegible]
EARNINGS AVAILABLE FOR COMMON STOCK	$ 24,166,744	$ 17,748,709	$ 97,672,249	$ [illegible]
EARNINGS PER COMMON SHARE based on weighted average outstanding shares				
Before cumulative effect of accounting change	$ .52	$ .43	$ 2.26	$ 2.51
Cumulative effect prior to January 1, 1979				.11
TOTAL EARNINGS PER SHARE	$ .52	$ .43	$ 2.26	$ 2.62
AVERAGE COMMON SHARES OUTSTANDING	46,147,353	41,175,846	43,300,457	38,103,[illegible]

A CENTURY OF SERVICE

In March 1881, the company that was to become The Cleveland Electric Illuminating Company was founded with some 50 employees to serve customers in a three quarter mile territory of downtown Cleveland. As Northeast Ohio has grown and developed, the Company has been ready with the energy it needed. Our planning now is taking us well into our second century and our 5,000 employees are looking forward to the opportunity to continue providing energy for the economic and social well being of our customers in our 1,700 square-mile territory.

TOLL-FREE LINES FOR SHARE OWNER QUESTIONS

Toll-free telephone lines are available for the exclusive use of our share owners. You may call our Share Owner Services Unit from anywhere in the continental United States, Monday through Friday from 8:00 a.m. to 5:00 p.m. Eastern Time.

Share owners should use these numbers:

Local calls in Cleveland area	622-9800, Ext. 2325
Elsewhere in Ohio	1-800-362-1227
Outside Ohio	1-800-321-3206

Please call us anytime you have questions about your account. To facilitate the handling of your inquiry, have your share owner account number ready. The numbers on the stub attached to quarterly dividend checks or on the statement of account for Dividend Reinvestment Plan participants.

Quarterly Review 1980 Fourth Quarter

Quarterly dividend No. 311, in the amount of 52 cents per share of common stock, is payable on February 15, 1981 to share owners of record on January 16, 1981. A copy of this Review also is being sent to owners of preferred and preference stock and other interested persons for their information.

The Cleveland Electric Illuminating Company