

The Toledo Edison Company Annual Report 1980

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The annual meeting of The Toledo Edison Company will be held at 10 A.M. (E.S.T.) on Tuesday, April 28, 1981 in the Company's headquarters, Edison Plaza, 300 Madison Avenue, Toledo, Ohio. Formal notice of the meeting will be sent to shareowners with the proxy statement.

	1979
Earnings per Common Share	\$2.65
Dividends Declared per Common Share	\$2.20
Operating Revenues (millions)	\$ 365
Operating Income (millions)	\$ 68
System Energy Sales (million kwh)	7709
System Peak Load (megawatts)	1395

The Toledo Edison Company is a public utility engaged primarily in the generation, transmission, distribution and sale of electric energy in Toledo and Northwestern Ohio covering an area of 2,500 square miles, with an estimated population of 750,000. The Company also provides relatively small amounts of natural gas and steam heating services. Toledo Edison is owned by over 100,000 shareowners in all 50 states and in many countries around the world.

Our 1980 earnings per share decreased 3 per cent to \$2.56—a 9 cent decrease. While an increase would have been much better, the \$2.56 was a very good result considering all the adverse factors that hit us last year.

Dividends were continued in 1980 reflecting our 58th consecutive year of payments. Increases have been made in eight out of the last ten years. Our Board of Directors continues to carefully study our dividend rate each quarter as we are only too well aware of the continuing impact of inflation on our shareowners as well as our customers and employees.

1980 was another year of recession in the Midwest—including our service area. The auto and construction industries both had a very bad year. This resulted in reduced auto parts and glassmaking production in local manufacturing facilities, resulting in an 11 per cent decrease in our industrial sales on top of a 2 per cent drop the prior year (1979). Naturally this depressed our revenues and earnings, significantly.

1980 was also a year in which we faced our first refueling of the Davis-Besse Nuclear Station which represents 25 per cent of our generating capacity. The refueling procedure itself required only four weeks time—just as scheduled. However, modifications and additions required to meet changing Nuclear Regulatory Commission requirements extended the outage to a seven-month period. This was in line with similar modification projects required at some other nuclear plants built in the same time frame. But it did deprive us of the use of this low-cost capacity, and naturally had an impact on our 1980 earnings. No refueling outage is scheduled in 1981. The next one is due in early 1982.

As previously reported, we reached agreement with our CAPCO Power Pool partners, in January 1980, to cancel the construction of four of the seven nuclear units the pool had under construction. This was done in recognition of the great difficulty of proceeding with such a heavy nuclear construction program these days from a regulatory, financial and load-growth point of view. At the time the decision was made, we knew that we would be taking a short-term earnings penalty in order to achieve sounder long-range capacity additions and financing programs. The effect of the cancellations was to cause an immediate earnings loss of about 21 cents per share for 1980 as we stopped charging the construction program, and crediting our earnings, with the carrying costs of the four cancelled projects. Without this penalty our earnings per share would have increased, rather than decreased, last year. We had \$46 million invested in the four projects at the time of cancellation. If our 20 per cent share of the cost to carry the projects to completion would have been an estimated \$1.4 billion.

We have received permission from the Federal Energy Regulatory Commission to amortize, over a 10-year period, the \$46 million of costs and any additional cancellation costs we may incur, subject to the concurrence of the Public Utilities Commission of Ohio.

We have secondarily requested that the amortization be included as an allowable cost to be recovered from customers in our current \$65 million rate increase request before the Ohio Commission. (This same rate and accounting treatment has been authorized by the Ohio Commission for these same projects for the two other CAPCO companies in Ohio in their recent rate decisions.) These actions would have the net effect of recouping our investments in the cancelled projects and gradually eliminating the initial 21-cent earnings loss over the 10-year period. The Commission Staff has now completed their investigation of our request and their report recommends that we be granted between 90 and 99 per cent of the amount of our requested increase including the recovery of the cancellation costs. Hearings on our request started in February and we would normally expect a final Commission decision by April.

If a review of the above makes 1980 sound like a particularly adverse, and we hope unusual, year—such is the truth. We have responded by even stronger efforts to reduce operating costs, increased our efforts to achieve good reliability of our Davis-Besse Nuclear Station generating capacity, and placed a hold-down on our construction program to only those expenditures absolutely necessary to meet our continuing customer growth requirements.

The future truly looks brighter, especially after weathering the economic storms of the 1970's; and the year 1980, in particular. With a new Administration and Congress in Washington promising to slow inflation and ease the burden of over-regulation that affects our industry and company so particularly; with a more balanced legislature in our state capital to better understand our state regulatory problems; with a continuation of one of the best customer relations programs in the nation; with a balanced mix of lower-cost coal and nuclear generation; and with an increasingly aggressive, knowledgeable management team anticipating and solving problems, we believe that there will be a lot going for your company in the decade of the 80's.

May I end by saying thank you to a dedicated and hard-working group of employees. Thanks, too, to our management team, from foremen through vice presidents. And most of all, thanks to you shareowners who have invested in our company. We appreciate the confidence and support you have displayed in all of us, by trusting your savings to us. We look upon your investment in our stock as a trust—and are doing our very best to protect and enhance your interests.

Cordially,

John P. Williamson
Chairman and Chief Executive Officer



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In evaluating our ability to provide reliable, adequate electric power to our customers, it is clear that decisions made as long as 12 years ago were sound. Looking to the decade ahead, we have:

A strong energy supply because of our favorable mix of coal and nuclear generating capacity:

An extensive transmission network with strong ties to neighboring utilities:

A completed \$64 million environmental improvement program begun in 1978 at our coal-fired facilities:

A nuclear power program that is getting progressively better evaluations following many months of expensive rebuilding and changes in equipment.

The best planning, however, could not quite prepare us for the sometimes shocking challenges of the past few years. Challenges like the huge inflationary jump in the cost of everything we buy, the sudden recognition by the nation of an unfortunate reliance on foreign oil supplies, and the impact of our own government's intervention in our operations through ever-changing regulation.

The most recent capacity addition to meet our customers' needs was the 155,000 kilowatts we received from our 20 per cent ownership share of a coal-fired generating unit located in Pennsylvania on the Ohio River. This puts our coal-fired capacity at 69 per cent of our system. By 1988 we expect to have added another 636,000 kilowatts of nuclear capacity through our ownership shares in three units under construction, two in Ohio and one in Pennsylvania.

When the current construction schedule is completed in the late 1980's we will have a favorable generating mix of 50 per cent coal, 45 per cent nuclear, and about 5 per cent oil.

A balanced mix of coal and nuclear power is cited in several government studies as the only large-scale alternative to oil and natural gas in the near term. The availability of all other possible generating fuels is severely limited. As we see it, nuclear power has significant advantages in terms of fuel cost and environmental protection despite the accompanying regulatory

constraints which we must face. Coal is abundant and readily available in our region. Here, too, environmental requirements add about one third to the cost of building and operating a new coal-fired unit, assuming we can even locate a unit in a service area under current environmental restrictions. It is prudent to avoid total reliance upon any single fuel source as we planned our generation mix accordingly.

We expect no major transmission additions will be necessary this decade because of our existing strong transmission network and interconnections with neighboring utilities.

A number of changes have been made at our nuclear and coal-fired stations to meet regulatory requirements. These are discussed elsewhere but as an example we cite the investment of \$53 million in environmental protection equipment at Bay Shore station, including new electrostatic precipitators which remove 99.5% of particulates from the stack gases, and a new 475-foot stack.

It should be noted that environmental protection involves not only the cost of installing the new equipment but also the cost of operating it. At Bay Shore station, however, the power required to operate the new precipitators is essentially balanced by the power savings attributable to advanced technology involving new variable speed fans. The long-standing commendable operating performance of the station is credited both to sound engineering design and to the quality of the people who maintain and operate it. Our Bay Shore personnel take particular pride in continuing its high ranking as one of the most efficient fossil stations in the country.

Circumstances can change dramatically in the eight to fourteen years between the time a power plant is ordered and when it comes on line. Planning and management flexibility become increasingly important. At the beginning of the Eighties we have adjusted to new load forecasts, higher costs, and the growing burden of government regulation. A revised construction schedule, new cost-cutting initiatives, and a sound environmental protection program demonstrate that we can have flexibility within the traditionally stable structure of an electric utility.

Cordially,

Wendell A. Johnson
President and Chief Operating Officer

Electric sales in 1980 decreased 4 per cent overall at 7,388 million kilowatt hours. Residential customers required 37 million kilowatt hours more in 1980 than in 1979, a 2 per cent increase. Commercial sales increased by 26 million kilowatt-hours, also a 2 per cent increase. Industrial sales reflected the depth of the recession in the industrial Midwest with an 11 per cent drop.

The annual rate of growth is obviously slower than in the decade of the Sixties and before. Historically, electric sales growth in our service area had been at six to seven per cent annually. In the years after the oil embargo of 1973 with subsequent shortages and highly inflated oil prices, the growth rate fell to below four per cent. Today, it is clear that a depressed economy, a conservation and energy management ethic, and the rising cost of all energy sources will likely keep the growth rate low, at least for the short term.

Average annual residential usage, however, was 8,232 kilowatt hours in 1980 up from 8,166 in 1979.

Toledo Edison provided 7.9 million megawatt hours of electricity in 1980 through generation and purchased

power. This included 6.6 million megawatt hours generated at our own stations and other units in which we share through the Central Area Power Coordination group (CAPCO). Bay Shore station produced over 4 million MWH. Davis-Besse produced over one million MWH (Toledo Edison's share), and Acme Station produced 629,000 MWH. In addition, we received 612,000 MWH from CAPCO sources and some one million MWH from other sources. Our coal-fired units were responsible for 84 per cent of our requirements and the nuclear unit 16 per cent.

The net system capability at year's end was 1789 megawatts. The Company had a favorable load factor of 68 per cent, which was an increase of about 2 per cent over 1979. Net generating capability is about 25 per cent nuclear, 69 per cent coal and 6 per cent other.

A third coal-fired unit at the \$1.3 billion Bruce Mansfield station in western Pennsylvania came on line on September 29. The unit, in which we have 20 per cent ownership, is operated by Pennsylvania Power Company. Toledo Edison, as part of the Central Area Power Coordination group, receives about 155,000 kilowatts from the unit. More than one dollar out of every three dollars spent for the Bruce Mansfield plant went for environmental controls. The third unit's output is added to 135,000 kilowatts we receive from a second unit which went into service in 1977.

The issue which occupied our attention for a good portion of 1980 was the operation of Davis-Besse. In April the plant was removed from service for maintenance, testing, and refueling after several months of full operation. More than 1,000 tasks involving more than 1,200 workers were involved in the outage. The chief purpose of the outage after the successful refueling was to conduct tests and perform modifications required by the U.S. Nuclear Regulatory Commission.

Included was a project to upgrade the ability of pipe support equipment to withstand seismic stresses of greater intensity than any ever recorded in this area. At Davis-Besse, about 780,000 manhours and \$39 million were involved in the upgrading of the pipe supports and the fire protection system. These projects added many weeks to the extensive outage time.

Costs Reduced

Increasing coal prices and freight rates in 1980 were somewhat counteracted by lower nuclear fuel costs. Nuclear fuel cost was .3 cents per kilowatt hour, while coal was 1.87 cents per KWH. The radical increase in coal costs during this past decade can be seen by comparing the 1980 figure of 1.87 cents to the 1970 cost of about .36 cents per KWH.

Overall Efficiency Continues

Toledo Edison's over-all heat rate efficiency for its coal-fired generation system ranked 19th among the top 100 electric utilities in 1979. This excellent rate was attributable in large measure to an efficient basic equipment design, our rigorous preventative maintenance program and the competence of our operating staff. Bay Shore station again ranked among the top ten in the country. The Bay Shore units were designed and built to take advantage of the best technical advances of their day.

Construction Plans Reduced

Construction expenditures in 1980 were \$235 million. The 1981 program is estimated to be \$206 million, reflecting a downward trend made possible in part by cancellation of construction of four units planned by the CAPCO group of five utility companies, including Toledo Edison. The majority of the 1980 construction expenditures were for our portion of three nuclear units still under construction, although on a delayed schedule, and to complete a coal-fired unit which began operation in 1980. Environmental work at Bay Shore and Acme stations also were major projects completed during the year.

The new environmental control installation at Bay Shore includes the first application by any utility in the United States of an energy-efficient variable speed draft fan system. The adjustable frequency fan system requires about 30 per cent less electricity than a standard system of that size. The environmental project includes raising the efficiency of the electrostatic precipitators to 99.5 per cent and addition of a 475-foot stack. Fly ash now recovered in dry form will be sold for manufacture of concrete materials and road-building uses as a further cost reduction measure.

Wages, Benefits Improved

It is necessary that we balance the Company's responsibility to keep electric rates as low as possible while providing fair wages and benefits for our employees. Wage and benefit improvements were negotiated with union locals representing operating, office and professional employees, and security personnel in 1980. The basic package includes an 8.5 per cent wage increase, a limited cost of living adjustment, a new dental coverage plan, improvements in pension benefits and other related changes in the retirement program.

Quality Service Important

Customers look to us for more than just their energy supply. We took steps in 1980 to further improve the *quality* of service to our customers.

The primary measurement of service is whether or not the power is there when you want it. Toledo Edison has traditionally provided customers with quick restoration of power following storms and other disruptions of service. In 1979 Toledo Edison had a very low average outage time per customer affected. About 60 per cent of the customers who did experience outages had service restored within an hour. In 1980, this service restoration record improved to 76 per cent of customers back in service within an hour.

Good service comes in other ways, too, such as responding to telephone inquiries quickly and efficiently and by helping customers better understand how to use energy wisely. In September we sponsored *Energy Expo 1980*. It featured over 100 displays from companies who specialize in energy-related products and services. Some 30,000 people were attracted to the three-day event which featured insulation materials, load control devices, electric vehicles, solar technologies, and high-efficiency electric heat pumps.

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Where the 1980 dollar came from and how it was used.

Residential 28¢ _____	Fuel and purchased power 35¢ _____
Commercial 18¢ _____	Operation and maintenance 19¢ _____
Industrial 31¢ _____	Depreciation 6¢ _____
Municipal & Other 11¢ _____	Taxes 9¢ _____
Gas and Steam heating 2¢ _____	Interest 16¢ _____
Other income 10¢ _____	Preferred stock dividends 4¢ _____
	Common dividends . ¢ _____
	Earnings reinvested : _____

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The following discussion concerning the trends of financial results of the Company refers to the Results of Operations statement, Balance Sheet and detailed ten-year summaries of financial and statistical information found in the Financial Review (p.24) and Statistical Review (p.25).

Depressed Economy Affects Company Operations

Toledo Edison has experienced moderate increases in total operating revenues during the last three years. The increase in 1980 over 1979 is due primarily to an increase in rates granted by the Public Utilities Commission of Ohio and increased fuel clause recovery revenues resulting from substantially higher fuel expenses encountered in 1980.

A request by the Company for an increase in electric rates was filed with the Public Utilities Commission of Ohio on May 22, 1979. Its February 29, 1980 approval of a \$30.7 million increase on an annual basis became effective March 5, 1980.

On July 3, 1980 the Company filed a new request for rate relief affecting

the Public Utilities Commission of Ohio jurisdictional retail customers. The requested increase averages 18.3% and would yield approximately \$65 million in increased revenues annually. This is pending with Commission action on the proposed increase anticipated in the spring of 1981.

An application seeking an increase in the wholesale rates charged to four municipal systems and one rural electric co-operative was filed with the Federal Energy Regulatory Commission (FERC) on July 31, 1980. Being sought is an increase of 29.1% or approximately \$6 million on an annual basis. The FERC authorized the Company to place the proposed rates into effect October 1, 1980, subject to refund after further proceedings. A tentative settlement was reached with customer representatives resolving points at issue and providing that the full increase would go into effect in two steps, October 1, 1980 and April 1, 1981. This agreement is subject to FERC approval.

On December 31, 1980, the Company notified the Public Utilities Commission of Ohio and the communities of Defian and Delta that it intended to seek an increase in the rates for natural gas service supplied in those two areas. The proposed increase of 5.1% would produce \$226,000 of additional revenue on an annual basis.

In comparison to the three previous years, residential and commercial kilowatt-hour (KWH) sales in 1980 increased while industrial sales decreased. Historically, industrial KWH sales represent approximately one-half of the Company's electric sales. The decrease in 1980 industrial sales helped drop total electric sales to the lowest level recorded within the past four years. Throughout 1980, the Company, as well as much of the nation, experienced record-setting high interest rate levels, heightened unemployment, and a depressed economy. The decrease in industrial sales is the direct result of the depressed status of the economy and its effect on the industrial sector, particularly the automotive area, in our service area. This lower level of sales is anticipated to continue well into 1981.

Along with inflation and the general economic slowdown, another key factor that affected 1980 operating results was a outage at the Davis-Besse Nuclear Power Station. The scheduled refueling outage was extended an additional six months to complete mandated major modifications and its effect was felt in operation and maintenance expenses as well as in construction expenditures.

The Company has had its cost of coal used in generating electricity rise dramatically from \$8.54 per ton in 1970 to 47.76 in 1980. Fuel expense increased due to higher coal prices and additional generation from Company-owned coal-fired generating stations. (Chart A)

Somewhat offsetting these higher costs were both decreased purchased and interchanged power expenses and depreciation expense. Despite the extended outage at the Davis-Besse Nuclear Power Station, purchased and interchanged power decreased from 1979 as result of an increase in Company-owned capacity, reduced industrial KWH sales and increased interchanged power deliveries. Toledo Edison's dependence on purchased power has continued to diminish from \$86.7 million in 1977 to \$45.3 million in 1980. (Chart B)

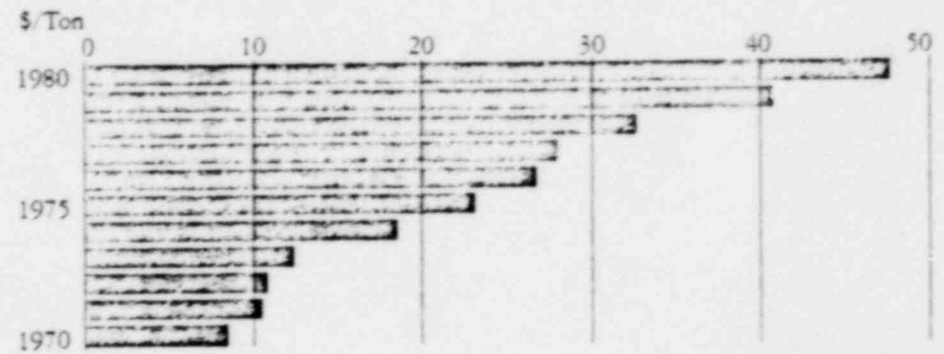
Prior to January 1, 1980, the Company agreed as part of its Central Area Power Coordination Group (CAPCO Group) commitments to share the fixed costs of and receive entitlements to purchase power from new CAPCO units as they were placed into commercial operation. Late in December 1977, when Davis-Besse Unit No. 1 was in service at the 10% level and Mansfield Unit No. 2 had been placed into commercial service, the Company's CAPCO purchase commitment was 294 megawatts. Davis-Besse Unit No. 1 was declared in 100% commercial service in late July 1978, reducing the Company's CAPCO purchased power commitments to 227 megawatts and the fixed monthly capacity charges to about \$1.3 million. In January 1979, the Company's CAPCO purchased power commitment decreased to 156 megawatts and the fixed monthly capacity charges decreased to approximately \$950,000.

Effective January 1, 1980, the CAPCO Group agreed to change the basic agreements which had been previously employed to calculate mandatory annual purchases and sales of power among pool members. For 1980 the Company had an agreement to buy 150 megawatts of capacity under an arrangement with another CAPCO member. The fixed monthly capacity charges for this power amounted to approximately \$750,000 in 1980.

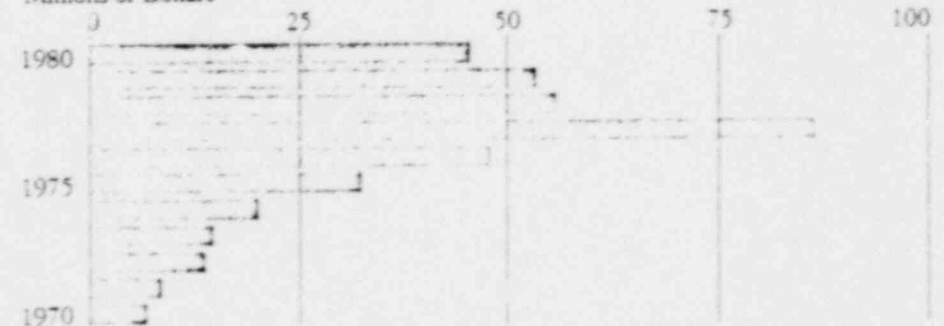
Interchanged power deliveries increased due to the need for supplemental power by neighboring utility companies and the Company's ability to provide such power at advantageous prices.

Depreciation expense decreased, despite a higher level of depreciable plant assets, due to the unit-of-production depreciation method applied to the Davis-Besse plant which accrues depreciation based upon the amount of generation. As a result of decisions contained in a recent Public Utilities Commission of Ohio rate order, the Company reduced depreciation expense in 1980 by approximately \$2 million.

The Cost of Mining and Transporting Coal Increased Significantly During the Last Decade (Chart A)



Dependence on Purchased Power Reduced for First Consecutive Year (Chart B)



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In early 1980, the Company along with the other CAPCO companies announced the termination of construction on four nuclear generating units and the delays in the completion of three other nuclear units. Our reviews of the existing circumstances and future prospects indicate that within the next decade our customers' electricity requirements are expected to grow approximately 3 to 4 percent annually. In the longer time frame, when electricity will be needed as an increasing share of the country's energy needs, the delayed units are expected to be completed. This decision is aligned with one of our corporate objectives: to serve our customers at the lowest rates consistent with sound management and ensure the integrity of the system and a reliable and economic power supply.

Credits for allowance for funds used during construction (AFUDC) were discontinued for the terminated generating units, effective January 1, 1980. This reduced earnings for the 1980 year by 21 cents per share, although total AFUDC in 1980 was greater than prior years. The third unit of the three-unit coal-fired Bruce Mansfield Station was placed in commercial service in late September allowing this unit to be included in rate base to support additional cash revenues from customers, replacing the non-cash credit allowance for funds used during construction. This addition to owned capacity should allow an even greater reduction in purchased power expense in the future.

Total interest charges continued to increase in 1980, reflecting record-setting high interest rate levels, and the issuance of additional first mortgage bonds and pollution control notes as well as a larger amount of short-term borrowings.

The effects of inflation on the Company's operations are discussed further on pages 12 and 13.

Liquidity and Capital Resources

The liquidity and capital resources of the Company, like most electric utility companies, are influenced most significantly by construction required to provide the environmentally-acceptable facilities

needed to meet the anticipated energy needs of its customers. The rate-making practices of most utility regulatory commissions, including those to which the Company is subjected, effectively require substantial external financing of the investment in additional facilities and equipment. In addition, these practices generally provide that the financial costs of construction projects be treated as part of the cost of the new facilities. The inclusion of financing costs in the cost of new facilities is accomplished by recording a non-cash credit allowance for funds used during construction in the statement of Results of Operations. Although this accounting treatment allows recovery of the cost of construction funds through depreciation over the life of the facilities, the recording of the income credits is not immediately accompanied by cash flow. As a result, the quantity of earnings may not be greatly reduced during periods of heavy construction but the cash flow content of earnings is reduced. The low internal cash generation requires a large proportion of external financing to support the construction program. Consideration of liquidity and capital resources for electric utility companies must primarily be directed toward an assessment of continued ability to attract the capital necessary to support the construction program.

The Company continues to rely upon financing in the external public and private securities markets. The Company currently estimates that approximately 45% of its 1981-1985 construction program will require external financing. Approximately 77% of the 1976-1980 construction program required external financing. The amount of external financing that will be required and the Company's ability to obtain such financing will depend upon such factors as timing and amount of rate increases, changes in the Company's construction program, the level of kilowatt hours and the effect of general inflation on construction costs and other expense along with other factors.

The Company utilizes short-term debt obtained from commercial paper borrowings and bank lines of credit to pro-

new capital between external long-term financings. The Company is currently authorized by the Public Utilities Commission of Ohio to issue up to \$150 million of short-term debt. At December 31, 1980, \$89 million of short-term debt was outstanding.

Unused bank lines of credit at December 31, 1980 were \$94 million. Included in this amount is a \$20 million Eurodollar revolving line of credit which was established during the year to facilitate future entry into the European long-term capital markets and to provide the availability of additional short-term credit.

The completion of a \$235 million construction program in 1980 appears to have marked the start of the downward trend in construction expenditures after the peak was reached in 1979. External financing for the 1980 program included \$37.3 million from the sale of two million new shares of common stock; \$4.2 million from the sale of 236,361 common shares through the Shareowner Dividend Reinvestment and Stock Purchase Plan; \$33 million from the sale of 330,000 shares of cumulative preferred stock; \$65.6 million from the sale of first mortgage bonds; \$31.5 million from the sale of pollution control notes; a net increase of \$65.5 million in short-term debt. This external financing, together with \$21.9 million of funds generated internally, was used to meet construction expenditures and repay \$7.5 million of first mortgage bonds and a \$30 million long-term bank loan note that matured during the year. The Company's construction program is presently estimated to be \$206 million for the year 1981.

It is currently planned that external financing for the 1981 program, amounting to approximately \$130 million, will be provided from the net proceeds of the 14.80% preferred stock issue offered in January 1981, the issuance of common stock, long-term debt and a minor amount from the Company's Shareowner Dividend Reinvestment and Stock Purchase Plan. In addition, the Company anticipates the conversion of \$50 million of short-term debt to long-term notes under provisions of an existing bank credit agreement. The

cost and availability of new capital to the Company is affected by the credit ratings on its securities. The ratings on the Company's securities have been revised downward in recent years by the major rating agencies. These changes, in most instances, cause new capital to be more expensive to the Company.

Despite the adverse factors associated with the general economic slowdown of 1980, the Company experienced a 10% growth in earnings on common stock to \$49 million. An increase of 14% in the average number of common shares outstanding caused the earnings per share to decline somewhat from the 1979 level of \$2.65 to \$2.56 in 1980.

Continuing an uninterrupted dividend record extending 58 years from 1922 to the present, the Company declared the 55 cent dividend on its common stock in each quarter of 1980. For federal income tax purposes, the 1980 common and preferred stock dividends are treated as a 100% return of capital and thus non-taxable as ordinary income. This status was affected by the requirement to currently expense, for tax purposes only, the termination expenses associated with the four CAPCO nuclear unit terminated in January, 1980.

Price Range and Dividends Paid Per Share of Common Stock

	Price Range		Dividends
	High	Low	Paid
1980 First Quarter	18 $\frac{3}{8}$	15 $\frac{1}{4}$	\$.55
Second Quarter	20 $\frac{1}{4}$	15 $\frac{3}{8}$.55
Third Quarter	19 $\frac{1}{2}$	17 $\frac{3}{8}$.55
Fourth Quarter	18 $\frac{1}{2}$	15	.55
1979 First Quarter	23 $\frac{3}{8}$	21 $\frac{1}{2}$	\$.55
Second Quarter	21 $\frac{1}{8}$	19	.55
Third Quarter	20 $\frac{3}{8}$	19 $\frac{3}{4}$.55
Fourth Quarter	19 $\frac{3}{8}$	17 $\frac{3}{8}$.55

The Common Stock is listed on The New York Stock Exchange. These price quotations are from the Wall Street Journal.

The number of common stock shareholders as of December 31, 1980 and 1979 were 84,855 and 83,842, respectively.

Thousands of Dollars

For The Years Ended December 31.	1979	1978
OPERATING REVENUES		
Electric	358 707	334 083
Gas	3 583	3 085
Steam heating	2 831	2 888
Total operating revenues	365 121	340 056
OPERATING EXPENSES		
Fuel used in power plants	93 295	82 039
Purchased and net interchanged power	53 574	55 850
Operation	44 691	38 883
Maintenance	21 137	19 604
Depreciation provisions	29 117	26 532
State and local taxes	29 760	24 320
Federal income taxes	25 139	27 397
Total operating expenses	296 713	274 625
OPERATING INCOME FROM SALES TO CUSTOMERS	68 408	65 431
OTHER INCOME		
Allowance for equity funds used during construction	23 512	17 470
Income tax credits applicable to nonoperating activities	8 251	6 484
Other income and deductions—net	1 017	720
Total other income	32 780	24 674
INCOME BEFORE INTEREST CHARGES	101 188	90 105
INTEREST CHARGES		
Long-term debt	48 315	41 094
Short-term borrowings	4 269	1 652
Allowance for borrowed funds used during construction	(9 991)	(7 090)
Interest charges—net	42 593	35 656
NET INCOME	58 595	54 449
PREFERRED STOCK DIVIDENDS ACCRUED	13 894	13 020
EARNINGS ON COMMON STOCK	44 701	41 429
EARNINGS PER COMMON SHARE		
(Average shares outstanding—19,226,163 in 1980, 16,848,431 in 1979 and 14,900,405 in 1978)	\$2.65	\$2.78
DIVIDENDS DECLARED PER COMMON SHARE	\$2.20	\$2.14

The notes on pages 18 through 23 are an integral part of this statement.

Thousands of Dollars

December 31, 1979

ASSETS

PROPERTY, PLANT AND EQUIPMENT

Plant in service, at original cost	979 809
Less accumulated provision for depreciation	201 895
	777 914
Construction work in progress	519 464
Nuclear fuel in service, at amortized cost	11 786
	1 309 164

CURRENT ASSETS

Cash	4 302
Temporary cash investments	—
Accounts receivable—net	38 480
Refundable federal income taxes	—
Fuel for use in power plants, priced at average cost	24 307
Materials and supplies, priced at average cost	9 430
Prepaid taxes	5 024
Special deposits and other	5 250
	86 793

INVESTMENTS AND OTHER

Construction funds (pollution control) held in escrow	3 322
Investments, at cost	1 015
Property taxes applicable to subsequent years	15 840
Deferred charges—Cancelled generating projects	45 719
Other	5 659
	71 555

TOTAL ASSETS 1 467 512

LIABILITIES

CAPITALIZATION

Common stock equity	432 554
Cumulative preferred stock	150 000
Cumulative preferred stock with mandatory redemption	34 000
Long-term debt	611 137
	1 227 691

CURRENT LIABILITIES

Short-term notes payable	23 500
Preferred stock and long-term debt due within one year	41 912
Accounts payable	43 113
Accrued taxes	38 413
Accrued interest	12 313
Dividends declared	13 679
Accrued expenses and other	5 530
	178 460

ACCUMULATED PROVISIONS AND OTHER

Deferred federal income taxes	
Accelerated depreciation	29 435
Accelerated amortization	2 447
Cancelled generating projects	—
Property taxes applicable to subsequent years and other	7 389
Federal investment tax credits	20 801
Deferred credits and other	1 289
	61 361

TOTAL LIABILITIES 1 467 512

The notes on pages 18 through 23 are an integral part of this statement.

Thousands of Average 1980 Dollars

	Constant Dollar Accounting	Current Cost Accounting
For the Year Ended December 31, 1980		
Earnings on Common Stock From Continuing Operations (as reported on page 10)	49 157	49 157
Effects of Inflation on Common Stock Equity:		
Inflation effect during 1980 on capital investment:		
Increase in specific prices to current costs	—	209 51
Effect of change in general price level	—	(302 26)
Reduction to net recoverable cost	(152 499)	(55 40)
Additional provision for depreciation	(12 827)	(17 16)
	(165 326)	(165 32)
Gain from decline in purchasing power of net amounts owed (primarily debt)	111 727	111 72
	(53 599)	(53 59)
Loss on Common Stock From Continuing Operations Adjusted for Changing Prices	(4 442)	(4 44)

The traditional method of reporting Results of Operations (as shown on page 10) on the basis of historical costs has the effect of overstating the earnings of a business in "real" terms—especially during a period of high inflation. The primary reason is that depreciation expense, as reported, does not adequately reflect the rapidly increasing costs of replacing property, plant and equipment. When depreciation expense is based upon values that are less than current value, the difference not only appears as a profit out, even worse, it is taxed as though it were profit.

The above table is based upon a 1979 pronouncement by the Financial Accounting Standards Board, Statement No. 33, which involves presenting financial information to show the effects of general inflation (Constant Dollar Accounting) and changes in prices of specific assets, namely property, plant and equipment (Current Cost Accounting).

Although inflation affects all industries, it has a more severe impact on the regulated public utilities than on industry in general. The regulatory process does not permit utilities to recover through revenues any more than the historical cost of their plant assets even though in an inflationary economy the cost to replace such assets upon their retirement will substantially exceed historical cost. Accordingly, the amount by which inflation during 1980 increased the cost to replace the Company's plant assets is not reflected in the historical cost upon which the Company's rates are based and therefore is an economic loss to the Company. This loss is shown in the above table under the caption "Inflation effect during 1980 on capital investment".

During a period of inflation, holders of monetary liabilities experience an inflationary gain to the extent such debts are fixed amounts which will be repaid with dollars of reduced purchasing power. This type of inflationary gain is particularly significant for electric utilities due to the

substantial amounts of debt used to finance property, plant and equipment. The economic gain to the Company by reason of the decrease during 1980 in the value of the net amounts owed is shown in the table presented above under the caption "Gain from decline in purchasing power of net amounts owed".

During the year 1980, the gain from the decline in value of net amounts owed by the Company was more than offset by the economic loss resulting from regulatory requirements which prevent the Company from recovering through depreciation the inflation-adjusted cost of its plant assets.

The same generally accepted accounting principles used in preparing the Conventional Historical Cost Accounting financial statements are used in preparing the Constant Dollar financial statements. Only the measuring unit is restated from dollars recorded at the date of the original transactions to units of average 1980 purchasing power as measured by the Consumers Price Index for all Urban Consumers.

Current Cost values represent the changes in specific prices of property, plant and equipment, from the year the plant was acquired to average 1980 values and is determined by indexing surviving plant by the Handy Whitman Index of Public Utility Construction Costs. The amounts restated to Constant Dollar and Current Cost are estimates of the effects of inflation on the Company. As of December 31, 1979, the current costs of property, plant and equipment, net of accumulated depreciation, in average 1980 dollars, was \$2,389,879,000. As of December 31, 1980, current cost of property, plant and equipment, net of accumulated depreciation was \$2,796,858,000 while the historical cost (net recoverable through depreciation) was \$1,524,808,000, which includes non-utility plant of \$1,046,000. At year end, the net recoverable cost of net assets is \$413,658,000, a

calculated under Constant Dollar and Current Cost Accounting.

The comparative Constant Dollar and Current Cost values of all items on the income statement, except depreciation, represent the amounts recorded in the conventional historical cost income statement, which amounts generally occurred ratably throughout the year. Fossil fuel inventories and the cost of fuel used in generation have not been restated from their historical cost basis. Public Utilities Commission of Ohio and Federal Energy Regulatory Commission regulations limit the recovery of fuel and purchased power and gas costs through the operation of adjustment clauses or adjustments in basic rate schedules to actual costs (historical cost basis). Also, fuel inventories turn over approximately three times a year. For these reasons fuel inventories are effectively monetary assets. No federal income tax benefits for any inflation adjustment are reflected since current tax law does not allow any consideration for the erosion of capital which exists during inflationary periods. The current year's provision for depreciation on the Constant Dollar and Current Cost amounts of property, plant and equipment was determined by applying the ratio of the provision for depreciation over the average property, plant and equipment on the Historical Cost basis, to the indexed plant values.

The erosion in the value of money through inflation has been at or near the double-digit level during the last five years. The cumulative effect of recent annual rates

of inflation have had substantial impact on all sectors of the economy, especially electric utilities. The following table presents selected operating and financial data for the most recent five years on a historical cost basis and on an adjusted for inflation basis as measured by the Consumer Price Index for all Urban Consumers.

Earnings on common stock and earnings per share on a constant dollar basis and on a current cost basis are shown below as if only the amount reportable as an additional provision for depreciation were deducted from the reported amount of such income. The 1979 data has been revised to reflect the cancellation of the four CAPCO generating projects as well as actual indices.

Year	Consumer Price Index (Annual Average)	Operating Revenues (thousands)			Cash Dividends Declared Per Share			Consumer Price Index (Year End)	Market Value at Year End Per Share		
		Historical Cost Basis	Restated to Average		Historical Cost Basis	Restated to Average 1980 \$'s	Restated to Average 1976 \$'s		Historical Cost Basis	Restated to Year End	
			1980 \$'s	1976 \$'s						1980 \$'s	1976 \$'s
1980	246.8	\$401,868	\$401,868	\$277,628	\$2.20	\$2.20	\$1.52	258.5	\$15.88	\$15.88	\$10.71
1979	217.4	365,121	414,498	286,353	2.20	2.50	1.73	229.9	17.50	19.68	13.27
1978	195.4	340,056	429,508	296,722	2.14	2.70	1.87	202.9	21.63	27.56	18.58
1977	181.5	276,794	376,379	260,019	2.12	2.88	1.99	186.1	25.13	34.91	23.54
1976	170.5	223,736	323,860	223,736	2.12	3.07	2.12	174.3	26.50	39.30	26.50

Year	Earnings on Common (thousands)			Earnings Per Share			Common Stock Equity (thousands)		Excess or Increase in General Price Level Over Specific Prices (thousands)	Gain From Decline in Purchasing Power (thousands)
	Historical Cost Basis	Constant Dollar Accounting	Current Cost Accounting	Historical Cost Basis	Constant Dollar Accounting	Current Cost Accounting	Historical Cost Basis	Current/Constant Accounting		
1980	\$49,157	\$36,330	\$31,990	\$2.56	\$1.89	\$1.66	\$478,993	\$425,394	\$92,753	\$111,727
1979	44,701	28,559	23,340	2.65	1.70	1.39	432,554	380,518	76,891	101,398

Thousands of Dollars

For The Years Ended December 31.	1979	1978
BALANCE, BEGINNING OF YEAR	111 110	102 187
Add—Net income	58 595	54 449
Deduct—Preferred stock quarterly dividends declared	14 276	13 020
Common stock cash dividends declared	38 123	32 506
EARNINGS REINVESTED DURING THE YEAR	6 196	8 923
BALANCE, END OF YEAR	117 306	111 110

Thousands of Dollars

Thousands of Dollars

For The Years Ended December 31.	1979	1978
PROVIDED FROM INTERNAL OPERATIONS		
Earnings reinvested during the year	6 196	8 923
Principal income charges not requiring current funds:		
Depreciation provisions	29 117	26 532
Amortization of nuclear fuel	4 089	3 665
Deferred federal income taxes—net	9 636	11 726
Investment tax credits—net	4 828	7 139
Allowance for equity funds used during construction	(23 512)	(17 470)
Total provided from internal operations	30 354	40 515
PROVIDED FROM NEW FINANCING		
Sale of securities:		
Common stock	44 275	45 069
Preferred stock	25 000	—
First mortgage bonds (principal amount)	75 000	65 000
Pollution control notes—Proceeds on issuance	16 500	—
Change in escrow deposit	(878)	307
Net change in temporary short-term investments	4 500	(4 500)
Net change in short-term borrowings	23 500	19 500
Reduction of long-term debt and preferred stock	(7 440)	(5 897)
Total provided from new financing	180 457	90 479
OTHER		
Allowance for equity funds used during construction	23 512	17 470
Net change in current assets and liabilities, and other accounts	4 687	21 424
Total other	28 199	38 894
TOTAL SOURCES OF CONSTRUCTION FUNDS	239 010	169 888
CAPITALIZED NUCLEAR FUEL LEASE	—	10 800
INVESTED IN PLANT AND FACILITIES	239 010	180 688

The notes on pages 18 through 23 are an integral part of these statements

Thousands of Dollars

For The Years Ended December 31, 1979 1978

FEDERAL INCOME TAX EXPENSE WAS COMPUTED AS FOLLOWS

Tax at statutory rates on pre-tax income	34,722	36,174
Less tax effects due to—		
Allowance for funds used during construction	15,411	11,789
Accelerated depreciation methods and other depreciation differences	(329)	975
Removal cost of property retired	623	681
Miscellaneous	2,129	1,816
Total federal income tax expense	16,888	20,913
Tax included as credit in Other Income	8,251	6,484
Federal Income Taxes Included in Operating Expenses	25,139	27,397

FEDERAL INCOME TAX EXPENSE DETAILS ARE AS FOLLOWS

Payable (Refundable)	2,245	2,189
Investment tax credits—Deferred	5,713	7,518
Amortized	(756)	(570)
Deferred taxes—Accelerated depreciation (net)	9,716	11,661
Cancelled generating projects	—	—
Property taxes applicable to subsequent years	(80)	65
Other provisions	50	50
Total Federal Income Tax Expense	16,888	20,913

Thousands of Dollars

Thousands of Dollars

For The Years Ended December 31, 1979 1978		
BALANCE, BEGINNING OF YEAR	192,332	157,612
ADD or (DEDUCT)		
Premium (net of expense) on sale of common shares	33,493	34,728
Premium (net of expense) on sale of preferred shares	(139)	(8)
BALANCE, END OF YEAR	225,688	192,332

And Capitalization Ratios
Thousands of Dollars

December 31,

1979

COMMON STOCK EQUITY

Common Stock, \$5 par value, authorized 30,000,000 shares, outstanding at year end, 20,148,332 in 1980 and 17,911,971 in 1979	89 560
Premium on capital stock	225 688
Earnings reinvested	117 306
	432 554 35%

CUMULATIVE PREFERRED STOCK

	Shares outstanding		Redemption price				
	(Thousands)		Current	Through	Eventual minimum		
	1980	1979					
\$100 par value							
4¼%	160	160	\$104.625	—	\$104.625		16 000
4.56%	50	50	101.00	—	101.00		5 000
4.25%	100	100	102.00	—	102.00		10 000
8.32%	100	100	107.70	9-1-81	102.46		10 000
7.76%	150	150	107.257	9-1-82	102.437		15 000
7.80%	150	150	106.50	9-1-83	101.63		15 000
10%	190	190	105.00	2-28-83	101.00		19 000
\$ 25 par value							
8.84%	1 000	1 000	27.20	11-30-81	25.25		25 000
\$2.365	1 400	1 400	29.85	9-30-82	27.75		35 000
							150 000 12%

CUMULATIVE PREFERRED STOCK WITH MANDATORY REDEMPTION,

excluding current sinking fund requirements

	Shares outstanding		Redemption price				
	(Thousands)		Current	Through	Eventual minimum		
	1980	1979					
\$100 par value							
11%	85	90	\$111.00	8-31-84	101.00		9 000
9¾%	250	250	106.92	5-31-85	100.00		25 000
13¼%	130	—	113.25	5-31-81	100.00		—
12.65%	200	—	112.65	6-1-85	100.00		—
							34 000 3%

FIRST MORTGAGE BONDS, excluding current maturities and bonds
acquired and held for sinking fund purposes

10%, due 1982	40 000
3 $\frac{3}{8}$ %, due 1984	14 000
9.35%, due 1985	50 000
3 $\frac{3}{8}$ %, due 1986	15 000
4%, due 1988	15 000
14%, due 1990	—
6 $\frac{1}{8}$ %, due 1997	35 000
10%, due 1998	—
9%, due 2000	35 000
7 $\frac{1}{2}$ %, due 2002	30 000
8%, due 2003	40 000
9.65%, due 2006	50 000
9 $\frac{1}{8}$ %, due 2008	65 000
11%, due 2009	75 000
Discount in process of amortization	(363)
	463 637

OTHER LONG-TERM DEBT

Unsecured notes, 8.75%, due 1983 through 1997	110 000
Unsecured pollution control note, average interest rate 5.71%, due 1984 through 2003	6 000
Unsecured pollution control note, 7 $\frac{1}{8}$ %, due 1992 through 2006	15 000
Unsecured pollution control note, 7 $\frac{3}{4}$ %, due 1999 through 2009	16 500
Unsecured pollution control loan agreement, average interest rate of 10.055%, due 1990 through 2010	—
Secured pollution control loan agreement, 10% due 2000 through 2010	—
Nuclear fuel lease	—
	147 500

TOTAL LONG-TERM DEBT 611 137 50%

TOTAL CAPITALIZATION 1 227 691 100%

December 31, 1980

b. Depreciation and Maintenance

Depreciation rates used in computing depreciation expense shown in the financial statements, except for Davis-Besse Unit No. 1, are based upon age-life studies and averaged 3.3% in 1980 and 3.4% in 1979 and 1978, and are applied on a straight-line basis. Depreciation expense on Davis-Besse Unit No. 1 is based on the unit-of-production method using a rate which includes a provision for the Company's share of total estimated decommissioning costs of \$40 million.

In accordance with a Public Utilities Commission of Ohio (PUCO) rate order effective January 1977, the Company began accruing additional depreciation of approximately \$1.4 million annually to adjust past depreciation provisions. As a result of decisions contained in a recent PUCO rate order, the Company reduced depreciation expense in 1980 by approximately \$2 million. This reduction conforms the balance of accumulated provision for depreciation with the rate-making treatment as applicable to common facilities at Beaver Valley Unit No. 2 and the composite depreciation rate for Bruce Mansfield Unit No. 2.

Expenditures for maintenance and repairs of property including renewals of minor items are charged to maintenance expense. Costs of replacements and renewals of items considered to be units of property are charged to the property accounts.

When property is retired, the cost thereof plus the removal cost less any salvage is charged to the reserve for depreciation.

c. Federal Income Taxes

The Company provides deferred federal income taxes on the additional depreciation resulting from the difference between straight-line and accelerated tax depreciation methods for property additions placed in service after December 1973 in accordance with provisions of PUCO rate orders. The Company does not provide deferred federal income taxes resulting

a. Construction Overheads

Construction costs of property, plant and equipment include overheads for payroll-related costs such as taxes, pensions and other fringe benefits, and administrative and general expenses, as well as an allowance for funds used during construction (AFUDC). AFUDC represents the estimated composite interest and equity costs of capital funds used to finance construction to the extent that such costs have been transferred to property, plant and equipment from the statement of Results of Operations. Effective January 1, 1980, 1979 and 1978, the Company's AFUDC rate net-of-tax was 8½%, 7¾% and 7½%, respectively.

from other depreciation differences or from the use of accelerated tax depreciation methods for property additions prior to January 1974 since, based on Ohio court and PUCO decisions, the Company is of the opinion that such future taxes will be recoverable out of future revenues. Book depreciation rates include an allowance for removal costs with such costs charged to the accumulated provision for depreciation as incurred. Removal costs are deducted for federal income tax purposes as incurred.

All interest costs are deducted for tax purposes as incurred. Tax deductions applicable to interest expense arising from investments in non-utility properties, primarily construction work in progress, have been classified in income tax credits applicable to non-operating activities.

For federal income tax purposes, the Company's federal income tax return will show a net operating loss in 1980. This loss will be used to reduce the tax liability for the years 1978 and 1979. The balance will be available to reduce the tax liability in 1981. The expected tax refund for the prior years is included as a receivable on the balance sheet.

Investment tax credits have been deferred and are being added to income over the life of the property giving rise to the credits. Unrealized investment tax credits from 1976 to 1980 aggregate \$52 million and will be recorded in future years when utilized.

d. State and Local Taxes

State and local taxes for 1980 consisted of \$15,569,000 of local property taxes, \$14,446,000 of Ohio State excise taxes and \$1,187,000 of other taxes. These taxes in 1979 were \$14,100,000, \$13,466,000 and \$2,194,000, and in 1978 were \$11,405,000, \$10,867,000 and \$2,048,000, respectively.

e. Revenues and Fuel

Revenues are included in income as billed to customers on a daily cycle billing basis. Revenues from the larger industrial customers are based on month-end meter readings.

Virtually all of the Company's rate schedules include fuel adjustment provisions under which almost all fuel costs are permitted to be billed to customers during the month following recording of the expense. Such adjustments are subject to periodic review and hearings by the PUCO. The Company charges to expense the cost of fuel as it is consumed.

f. Retirement Income Plan

The Company has a non-contributory retirement income plan covering all employee groups. The Company's provision for pension cost was \$4,464,431 in 1980. The Company's policy is to fund annual costs as accrued each year, including amortization of unfunded actuarial liability over the 20-year period ending December 31, 1995.

The actuarial present value of accumulated vested and nonvested plan benefits as of January 1, 1980 was \$35,814,872 and \$1,612,941, respectively. The weighted average assumed rate of return used in determining these values was 6 percent. Market value of assets available for benefits amounted to \$44,505,129 as of January 1, 1980.

g. Provision for Doubtful Accounts

The Company's accumulated provisions for doubtful accounts amounted to \$302,000 in 1980 and \$272,000 in 1979.

h. Reclassifications

Certain minor reclassifications have been made to amounts reported in 1978 and 1979 to conform to the presentation used for 1980.

i. Capitalization

In 1980, the Company sold 2,000,000 shares of Common Stock at a public offering price of \$19.25 per share, 236,361 shares of Common Stock at an average price of \$17.97 per share through the Shareowner Dividend Reinvestment and Stock Purchase Plan, and sold 330,000 shares of Preferred Stock (\$100 par value). In 1979, the Company sold 2,000,000 shares of Common Stock through a public offering, 183,497 shares of Common Stock through the Shareowner Dividend Reinvestment and Stock

Purchase Plan, and sold 250,000 shares of Preferred Stock (\$100 par value). In 1978, the Company sold 2,000,000 shares of Common Stock through a public offering and 68,349 shares of Common Stock through the Shareowner Dividend Reinvestment and Stock Purchase Plan.

On January 29, 1981 the Company issued 300,000 shares of 14.80% Preferred Stock (\$100 par value).

The Company estimates, subject to final determination by the Internal Revenue Service, that 100% of the 1980 Common Stock and Preferred Stock dividend payments will be considered a return of capital for federal income tax purposes.

The Company is authorized to issue 2,000,000 shares of \$100 par value and 6,000,000 shares of \$25 par value Cumulative Preferred Stock under the Company's amended articles of incorporation. The annual dividend requirement on Preferred Stock outstanding at December 31, 1980 is \$19,506,250 for an average dividend rate of 8.99%. At the option of the Board of Directors, the Company may redeem the whole or any part of its outstanding Preferred Stock at any time upon thirty days notice at the amounts disclosed in the statement of Capitalization, subject to the following additional restrictions applicable to specific issues. The Company may not redeem the shares of the 13 $\frac{1}{4}$ % series prior to June 1, 1990, the 12.65% series prior to June 1, 1985, the 11% series prior to September 1, 1984, the 9 $\frac{3}{8}$ % series prior to June 1, 1989, the 8.84% series prior to December 1, 1981 and the \$2.365 series prior to October 1, 1982 through certain refunding operations involving an effective cost of money to the Company of less than 13 $\frac{1}{4}$ %, 12.65%, 11%, 9 $\frac{3}{8}$ %, 8.84% and 8.60% per annum, respectively. In addition, the Company may not redeem any shares of the 9 $\frac{3}{8}$ % series prior to June 1, 1984 regardless of the effective cost of money.

The annual interest requirement on long-term debt outstanding at December 31, 1980, including amortization of debt discount and expense, but excluding interest on nuclear fuel lease, is \$65,369,847 for an average interest rate of 9.22%.

Sinking fund redemption requirements and scheduled maturities for long-term debt through 1985 are as follows:

	First Mortgage Bonds		Other Long-Term Debt	Preferred Stock
	Sinking Fund Redemption Requirements	Scheduled Maturities	Scheduled Maturities	Sinking Fund Redemption Requirements
1981	\$2,340,000	\$ —	\$ —	\$ 500,000
1982	2,340,000	40,000,000	—	500,000
1983	2,990,000	—	6,600,000	500,000
1984	3,600,000	14,000,000	6,700,000	500,000
1985	3,600,000	50,000,000	6,700,000	2,165,000

In addition, bond sinking fund redemption premiums for these periods total \$12,873. The bond indenture covering the first mortgage bonds also provides for a required annual payment after certain credits, as defined, to the Trustee as a Maintenance and Replacement Fund. This requirement may be satisfied by (a) payment of cash, (b) delivery of bonds issued under the indenture, or (c) certification of the cost of property additions which have not theretofore become funded property. The Company has been following alternative (c) in satisfying this requirement.

3. Cumulative Preferred Stock With Mandatory Redemption

The 11% series includes provisions for a mandatory sinking fund sufficient to retire a minimum of 5,000 shares of the series on or prior to September 1 in each year, beginning in 1979. The 9 $\frac{3}{4}$ % series includes provisions for a mandatory sinking fund sufficient to retire a minimum of 16,650 shares on June 1 in each of the years 1985-1998 and 16,900 shares on June 1, 1999. The 13 $\frac{3}{4}$ % series includes provisions for a mandatory sinking fund sufficient to retire a minimum of 8,660 shares of the series on June 1 in each of the years 1986-1999 and 8,760 shares on June 1, 2000. The 12.65% series includes provisions for a mandatory sinking fund sufficient to retire a minimum of 8,000 shares of the series on

June 1 in each year, beginning in 1986. The shares of all the issues will be purchased at the sinking fund redemption price of \$100 per share plus accrued and unpaid dividends.

4. Assets Subject to Lien

The mortgage and supplements thereto securing first mortgage bonds issued by the Company constitute a direct first mortgage lien on substantially all proper and franchises owned by the Company, other than expressly excepted property which includes cash and securities, accounts receivable, fuel, supplies and automotive equipment.

5. Short-Term Borrowing Arrangements

The Company has unused lines of credit at December 31, 1980 with various banks aggregating \$93,970,000. The Company has informal compensating balance arrangements with some of these banks and is expected to maintain average deposits, based on bank ledger records, equal to 10% to 20% of the line of credit depending on the amount of borrowing outstanding at the respective bank. The balances are not legally restricted and also serve to compensate the banks for banking services and to provide operating balances to the Company. The Company pays commitment fees to other banks to the lines of credit.

The Company, in the interest of reliability and economy, entered into a power-pooling arrangement with four other utilities (CAPCO Group) which involves substantial commitments for joint participation in purchased power as well as additional power generation and transmission facilities. The Company's commitment to purchase power from various other CAPCO companies, which has been decreasing during the previous three years, expired at midnight on December 31, 1980. At the beginning of 1978, the Company's CAPCO purchase power commitment was 294 megawatts. In conjunction with Davis-Besse Unit No. 1 being placed into 100% commercial operation in July 1978, the Company's CAPCO purchase commitment dropped to 227 megawatts and the fixed annual capacity charges amounted to approximately \$17 million for the year. During 1979, the Company's CAPCO purchase commitment and fixed annual capacity charges decreased to 158 megawatts and

about \$11 million, respectively. Effective January 1, 1980, the CAPCO Group agreed to change the basic agreements and the Company arranged to buy 150 megawatts of capacity from another CAPCO member for the year 1980 with fixed annual capacity charges amounting to approximately \$9 million.

The Company will have an ownership share in six CAPCO generating units (of which four are nuclear and two are coal) with three of these units presently in service. The Company's ownership share in the other three CAPCO units, which are under construction and planned for operation in 1984 and beyond, will total an investment of approximately \$1.3 billion. The Company provides its own financing for this investment. The Company's share of direct expenses for operation of the jointly-owned units in service is included in the operating expenses on the statement of Results of Operations.

The following represents the Company's ownership in each of the CAPCO jointly-owned units at December 31, 1980:

Generating Unit	Actual or		(thousands of dollars)		
	Scheduled Completion	Ownership Share	Plant In-Service	Accumulated Depreciation	Construction Work in Progress
Davis-Besse #1	1977	48.62%	360,741	18,292	21,417
Mansfield #2	1977	17.30%	66,848	5,519	1,338
Mansfield #3	1980	19.91%	124,010	2,188	1,004
Perry #1	1984	19.91%	—	—	158,761
Beaver Valley #2	1986	19.91%	9,559*	—	169,649
Perry #2	1988	19.91%	—	—	144,416

*The plant in-service amount for this unit, currently under construction, represents facilities which are common to the operation of both the units at the generating station. These facilities are classified as electric plant held for future use.

7. Debt Guarantee

The Company, together with the other CAPCO companies, has made long-term coal supply arrangements with Quarto Mining Company (Quarto), a subsidiary of North American Coal Company. The CAPCO companies have severally, and not jointly, agreed to guarantee their proportionate shares of Quarto's debt and lease obligations incurred in connection with developing and equipping the mines, projected to produce 4.7 million tons per year. As of December 31, 1980, the Company's share of the guarantee was \$28,600,000. At December 31,

1979, the coal mining systems were certified as complete. Because of difficulties experienced during the development period, the unit production costs of Quarto coal have been in excess of the current spot market price of coal. The CAPCO companies are reviewing the various alternatives available to reduce these unit production costs.

The Company owns 4% of the common stock of Ohio Valley Electric Corporation (OVEC), which has a long-term contract to supply power to the Department of Energy (DOE). The proceeds from the

sales of power are designed to be sufficient for OVEC to earn a return on its common stock after meeting all of its costs, including (in lieu of depreciation) amortization of debt capital. At December 31, 1980, debt capital of approximately \$4 million remained to be amortized by OVEC over the period ending in 1981. The Company is entitled to receive and obligated to pay for the right to receive 4% of any available power not contracted for by DOE.

Construction expenditures in 1981 are estimated at \$206 million, including \$158 million toward CAPCO generating units. The Company's financing program is estimated to require approximately \$130 million of external funds in 1981 to meet the above construction program. The Company has limitations imposed upon it by the first mortgage bond indenture and articles of incorporation which require the maintenance of required earnings coverage ratios in order to issue additional first mortgage bonds and preferred stock. The Company's coverage under the limitations for first mortgage bonds at December 31, 1980 was 2.45 and would allow the issuance of \$74 million of first mortgage bonds at an assumed interest rate of 15%. In addition, the Company's coverage for preferred stock under the articles of incorporation at December 31, 1980 was 1.60 and would allow the issuance of \$38 million (including the \$30 million issued January 29, 1981) of additional preferred stock at an assumed dividend rate of 15%.

9. Cancelled Generating Projects

In January 1980, the Company, along with the other CAPCO companies, terminated plans for the construction of the Davis-Besse No. 2, Davis-Besse No. 3, Erie No. 1, and Erie No. 2 nuclear generating units scheduled for completion in 1988, 1990, 1989 and 1991, respectively. At December 31, 1980, the Company's share of the amounts already expended on these projects amounted to \$46,771,000. Additional costs could be incurred as the Company terminates the outstanding contracts associated with these projects. Such additional termination costs cannot be reasonably estimated

at this time but could be substantial. The Company is seeking in its current rate case to amortize the costs already expended over a ten-year period. It is the opinion of the Company that the anticipated regulatory treatment of the amounts already expended on the projects together with termination costs, if any, would not result in any material adverse effect on the Company's financial condition or results of operations.

The Company is subject to environmental regulation as to air, water, solid waste and noise matters and as to location of certain facilities by federal, state and local authorities. In 1980, the Company spent approximately \$24 million for pollution control facilities. The Company's future five-year construction program includes \$10 million toward initiation and completion of such pollution control facilities as it presently foresees as being required at its present generating stations. In order to assure continued compliance with all applicable laws and regulations, the Company has plans for installation of equipment, has applied for permits or variances, is awaiting promulgation of applicable regulations or is contesting the validity of existing or proposed regulations.

Since environmental controls are still in the process of development, the Company can not estimate the effects of existing and potential regulations and legislation. The Company may incur substantial civil and criminal penalties if it fails to comply with environmental control regulations.

11. Leases

The initial nuclear fuel core for Davis-Besse Unit No. 1 is leased. The nuclear fuel lease was capitalized in July 1978 in accordance with provisions of the June 9, 1978 PUCO rate order. Members of the CAPCO Group have entered into a lease for additional nuclear fuel to be loaded through 1982 for Davis-Besse Unit No. 1. The Company capitalized its share of this additional nuclear fuel lease relating to the portion loaded into the reactor in June 1980 subject to approval from the PUCO in a pending rate case. The Company's share of these CAPCO leases, aggregating \$254.5 million,

amounts to approximately \$47.4 million. Estimated payments including interest for the Company's share of these nuclear fuel leases are \$4,118,000 in 1981, \$5,219,000 in 1982, \$9,789,000 in 1983, \$15,416,000 in 1984 and \$19,483,000 in 1985. The burn-up rate is designed to amortize the total investment in nuclear fuel as well as provide for the Company's share of the total disposal costs. The fuel will be replaced over an approximate three-year production cycle.

Other financing leases entered into by the Company are not significant.

The following represents the quarterly results, which are unaudited, but in the opinion of the Company reflect all adjust-

ments (which are of a normal recurring nature) necessary for a fair statement of results for such periods:

Three Months Ended	(thousands of dollars)			
	Total Operating Revenues	Total Operating Income	Earnings on Common Stock	Earnings Per Common Share
1980 March 31	97,976	19,956	13,645	\$.76
June 30	93,202	18,589	10,982	.59
September 30	107,382	21,317	14,520	.72
December 31	103,308	20,494	10,009	.50
1979 March 31	99,680	19,412	12,736	\$.81
June 30	87,888	16,737	10,268	.65
September 30	87,567	18,645	13,689	.77
December 31	89,986	13,614	8,009	.45

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

We have examined the balance sheets and statements of capitalization and capitalization ratios of The Toledo Edison Company (an Ohio corporation) as of December 31, 1980 and 1979, and the related statements of results of operations, earnings reinvested, premium on capital stock, Federal income taxes and source of funds invested in plant and facilities for each of the three years in the period ended December 31, 1980. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of The Toledo Edison Company as of December 31, 1980 and 1979, and the results of its operations and the source of funds invested in plant and facilities for each of the three years in the period ended December 31, 1980, all in conformity with generally accepted accounting principles applied on a consistent basis.

Toledo, Ohio.
January 30, 1981.

OPERATING REVENUES thousands of dollars and percent of electric revenues

Year	Residential	%	Commercial	%	Industrial	%	Other	%	Total Electric	Gas	Steam Heating	Total Operating Revenues	Incl.
1980	126 085	32	80 836	20	137 860	35	50 105	13	394 886	4 182	2 800	401 868	
1979	113 464	32	72 354	20	128 931	36	43 958	12	358 707	3 583	2 831	365 121	
1978	106 512	32	67 563	20	120 570	36	39 438	12	334 083	3 085	2 888	340 056	
1977	86 977	32	55 870	21	97 586	36	31 296	11	271 729	2 743	2 322	276 794	
1976	71 562	33	45 384	21	76 998	35	25 185	11	219 129	2 315	2 292	223 736	
1975	61 236	33	39 566	21	64 767	34	21 803	12	187 372	1 924	2 268	191 564	
1974	46 590	32	30 566	21	49 203	34	17 868	13	144 227	1 901	1 667	147 795	
1973	40 696	32	27 390	21	43 632	35	14 697	12	126 415	1 682	1 050	129 147	
1972	37 055	32	24 698	21	38 013	33	16 001	14	115 767	1 619	1 196	118 582	
1971	32 071	32	21 194	21	33 838	33	14 599	14	101 702	1 531	1 131	104 364	
1970	29 952	33	18 721	20	29 442	32	13 674	15	91 789	1 431	925	94 145	

OPERATING EXPENSES thousands of dollars and percent of total revenues

Year	Fuel	%	Purchased & Net Interchanged Power	%	Operation	%	Maintenance	%	Depreciation	%	State & Local Taxes	%	Federal Income Taxes	%	Total Operating Expenses
1980	110 423	27	45 348	11	55 842	14	29 319	7	26 002	7	31 202	8	23 376	6	321 512
1979	93 295	25	53 574	15	44 691	12	21 137	6	29 117	8	29 760	8	25 139	7	296 713
1978	82 039	24	55 850	16	38 883	12	19 604	6	26 532	8	24 320	7	27 397	8	274 625
1977	73 677	27	86 735	31	27 951	10	12 249	5	19 565	7	19 129	7	6 173	2	245 479
1976	61 227	27	46 950	21	26 612	12	9 148	4	15 964	7	15 956	7	12 446	6	188 303
1975	51 411	27	32 328	17	25 059	13	7 955	4	14 305	8	14 091	7	13 062	7	158 211
1974	40 648	27	20 077	14	23 160	16	7 677	5	13 089	9	12 922	9	5 081	3	122 654
1973	27 697	21	14 810	12	22 098	17	7 471	6	12 318	10	11 822	9	8 040	6	104 256
1972	23 721	20	13 959	12	20 097	17	6 799	5	11 778	10	10 513	9	8 209	7	95 076
1971	21 573	21	8 643	8	18 306	17	6 700	7	10 617	10	10 075	10	7 755	7	83 669
1970	16 885	18	6 934	7	16 085	17	6 082	7	10 232	11	9 427	10	8 568	9	74 213

INCOME thousands of dollars

Year	Operating Income	Total Allowance For Funds Used During Construction	Income Tax Credits—Non-operating Activities	Income Before Interest Charges	Interest Charges	Net Income	Earnings On		Return On Average Common Equity	Market Price Range			Div. Dec. P. Com. Sh.		
							Preferred Stock Dividends	Common Stock		Share**	High	Low		Year End	
1980	80 356	43 591*	13 218	138 044*	70 866*	67 178	18 021	49 157	2.56	10.5	21	15	16	23.77	2..
1979	68 408	33 503*	8 251	111 179*	52 584*	58 595	13 894	44 701	2.65	10.7	23	17	17	24.15	2..
1978	65 431	24 560*	6 484	97 195*	42 746*	54 449	13 020	41 429	2.78	11.3	26	21	22	24.29	2..
1977	31 315	43 564*	9 032	83 904*	35 249*	48 655	10 518	38 137	2.95	12.4	27	24	25	24.02	2..
1976	35 433	24 457	6 087	67 923	28 460	39 463	7 683	31 780	2.82	12.2	27	22	27	22.85	2..
1975	33 353	20 458	5 820	59 453	24 071	35 382	7 135	28 247	3.29	14.5	24	16	24	22.39	2..
1974	25 141	15 886	4 323	45 554	20 904	24 650	4 964	19 686	2.85	17.5	28	15	16	21.73	2..
1973	24 891	10 282	2 294	37 694	14 126	23 568	3 911	19 657	3.13	14.3	31	23	27	22.20	1..
1972	23 506	4 458	1 004	29 058	9 972	19 086	2 650	16 436	2.91	14.5	32	26	30	20.44	1..
1971	20 695	2 672	562	24 038	8 754	15 284	1 675	13 609	2.64	14.4	36	27	31	18.39	1..
1970	19 932	1 050	264	21 397	6 555	14 842	1 333	13 509	2.62	14.9	35	28	35	17.68	1..

*In the 1980, 1979, 1978 and 1977 Results of Operations, the allowance for funds used during construction is reported in two portions, equity borrowed, with the borrowed amount shown as a credit to interest charges.

**Average number of shares outstanding (thousands): 1980—19,226; 1979—16,848; 1978—14,900; 1977—12,909; 1976—11,250; 1975—8,194; 1974—6,917; 1973—6,282; 1972—5,649; 1970 through 1971—5,160.

COMMON STOCK
dollars per share and percent

SALES millions of kilowatt hours

CUSTOMERS end of year

USAGE, residential

Year	SALES					CUSTOMERS				USAGE, residential			Number of Employees Year End
	Residential	Commercial	Industrial & Other	Total Electric	% Increase (Decrease)	Residential	Commercial	Industrial & Other	Total Electric	Annual KWH Per Customer	Price Per KWH (Cents)	Annual Revenue Per Customer (Dollars)	
1980	1 971	1 282	4 135	7 388	(4)	240 142	23 532	3 818	267 492	8 232	6.40	52	2 331
1979	1 934	1 256	4 519	7 709	—	238 353	23 636	3 695	265 684	8 166	5.87	479	2 260
1978	1 914	1 231	4 540	7 685	3	234 450	23 334	3 551	261 335	8 244	5.57	459	2 188
1977	1 874	1 233	4 381	7 488	4	230 583	23 226	3 478	257 287	8 192	4.64	380	2 062
1976	1 782	1 203	4 237	7 222	8	227 167	22 912	3 428	253 507	7 903	4.02	317	1 997
1975	1 722	1 156	3 780	6 658	2	223 807	22 495	3 340	249 642	7 732	3.56	275	1 937
1974	1 634	1 107	3 801	6 542	(1)	221 846	22 360	3 249	247 455	7 419	2.85	212	1 971
1973	1 552	1 102	3 937	6 591	3	218 105	22 591	2 927	243 623	7 187	2.62	188	1 960
1972	1 460	1 014	3 947	6 421	9	213 546	22 471	3 015	239 032	6 916	2.54	176	1 912
1971	1 366	924	3 589	5 879	7	208 448	21 984	2 963	233 395	6 640	2.35	156	1 809
1970	1 281	838	3 388	5 507	(1)	203 808	21 313	2 939	228 060	6 348	2.34	148	1 741

LOAD megawatts

ENERGY

FUEL

Year	Net Capability			Toledo Edison System					millions of kilowatt hours			Efficiency	
	Year End			At Time of Peak	Peak Load	Load Factor (%)	Reserve Factor at Peak (%)	Generated (Net)	Purchased & Net Interchanged Power		Fuel Cost Per KWH (Cents)	BTU Per KWH	
	Purchased	Owned	Total						Total				
1980	52*	1 737	1 789*	1 760	1 310	68	34	6 560	1 352	7 912	1.65	10 245	
1979	259	1 625	1 884	1 825	1 395	67	31	6 884	1 348	8 232	1.33	10 262	
1978	267	1 625	1 892	1 813	1 386	67	31	6 674	1 566	8 240	1.20	10 283	
1977	482	1 295	1 777	1 536	1 393	66	10	5 972	2 128	8 100	1.19	10 247	
1976	423	1 042	1 465	1 465	1 340	66	9	5 421	2 394	7 815	1.11	9 963	
1975	368	1 042	1 410	1 397	1 256	64	11	4 877	2 227	7 104	1.04	9 982	
1974	367	1 045	1 412	1 453	1 249	64	16	5 259	1 737	6 996	.75	10 065	
1973	465	1 045	1 510	1 358	1 246	64	9	5 376	1 670	7 046	.52	9 880	
1972	332	1 045	1 377	1 273	1 096	68	16	5 036	1 837	6 873	.47	10 030	
1971	216	1 079	1 295	1 228	1 054	65	17	4 845	1 435	6 280	.44	10 037	
1970	165	1 079	1 244	1 217	939	67	30	4 604	1 275	5 879	.36	10 022	

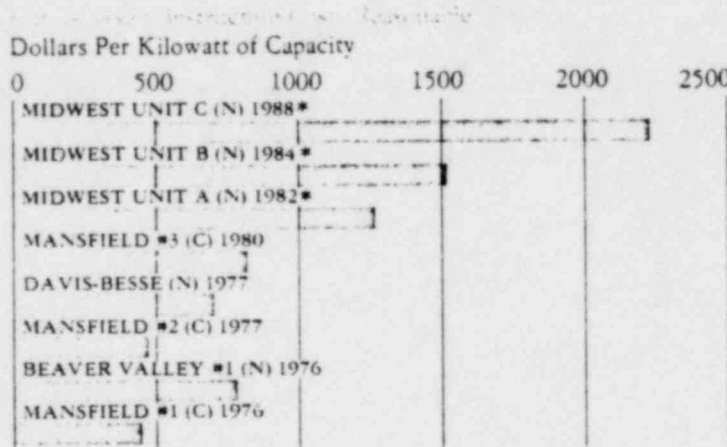
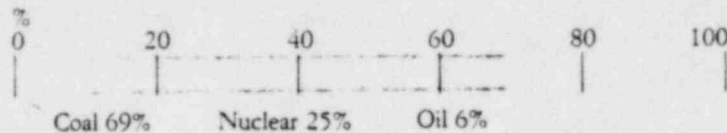
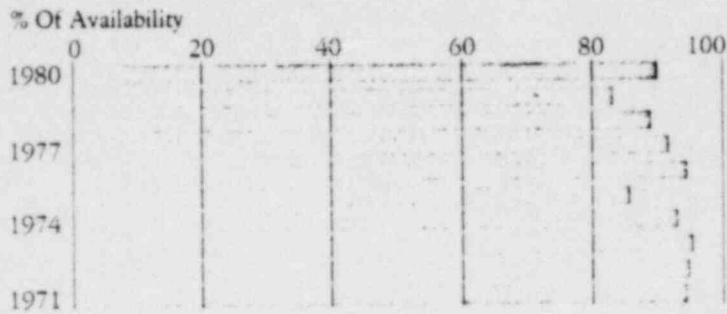
INVESTMENT thousands of dollars

TOTAL ASSETS

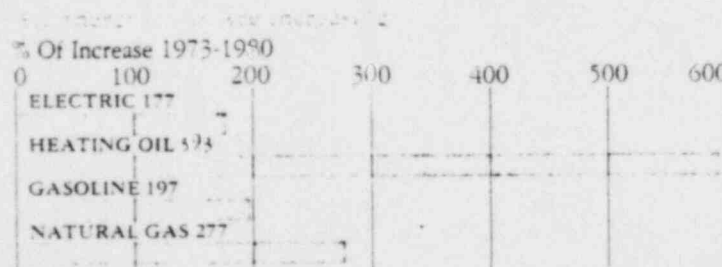
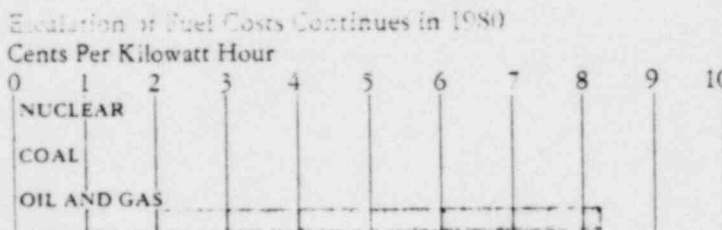
CAPITALIZATION thousands of dollars

Year	Plant In Service (Yr. End)	Accumulated Provisions for		Thousands Of Dollars (Yr. End)	Cumulative								
		Depreciation (Yr. End)	Annual Construction Expenditures		Common Stock Equity	% Of Total	Cumulative Preferred Stock	% Of Total	Preferred with Mandatory Redemption	% Of Total	Long-Term Debt	% Of Total	Total
1980	1 208 001	220 629	234 827	1 701 443	478 993	34	150 000	10	66 500	5	714 406	51	1 409 899
979	979 809	201 895	239 010	1 467 512	432 554	35	150 000	12	34 000	3	611 137	50	1 227 691
978	950 873	176 450	169 888	1 255 947	382 084	35	150 000	13	9 500	1	560 644	51	1 102 228
977	727 226	153 463	194 283	1 101 610	328 100	34	150 000	15	10 000	1	494 280	50	982 380
976	531 459	137 540	144 714	904 524	266 469	34	115 000	15	10 000	1	388 270	50	779 739
975	479 723	126 149	112 399	759 044	216 277	33	90 000	14	10 000	1	349 181	52	665 458
974	438 639	116 062	121 360	654 983	177 296	32	71 000	13	10 000	1	299 172	54	557 468
973	407 195	108 467	119 524	540 896	145 665	31	71 000	15	—	—	259 164	54	475 829
972	387 874	100 305	75 278	422 511	117 745	33	56 000	16	—	—	183 969	51	357 714
971	367 918	95 589	53 056	355 797	94 908	33	41 000	14	—	—	154 687	53	290 595
970	344 898	92 957	34 762	312 630	91 211	33	31 000	11	—	—	154 952	56	277 163

Purchased capability at year end reflects the expiration of a 150 MW commitment from another CAPCO company at midnight on December 31, 1980.



(C) Coal Unit (N) Nuclear Unit *Estimated



Toledo Edison's Bay Shore Station is located on the Maumee Bay, just outside the city limits of Toledo. There are four generating units with a combined capacity of 621,000 kilowatts. The first unit was placed in service in 1955. Three more units were added over the next 13 years.

The Bay Shore Station has consistently ranked as one of the top ten most efficient stations among the hundreds of fossil stations in the country.

Environmental additions have kept pace with increasing strict requirements. Through 1980, more than \$53 million was invested to upgrade precipitators to 99.5 per cent efficiency and to construct a new stack to serve all units. The station now contains one of the most technologically advanced energy-saving air pollution control systems in the country.

Sixty-nine per cent of the Company's net generating capability is by coal, twenty-five per cent by nuclear and about six per cent by oil.

In retrospect, the construction costs of the jointly-owned nuclear station were a bargain. The unit began initial generation in 1977 and in mid-1978 reached its 100 per cent commercial rating.

By late 1980, a coal unit of about the same size began providing power to Ohio and Pennsylvania. Due largely to environmental facilities and regulation the coal unit showed a construction cost of \$812 per installed kilowatt. This compares to \$741 per installed kilowatt for our nuclear unit and \$1270 per kilowatt for a new nuclear unit not yet in service elsewhere in the Midwest.

Once the initial investment in a nuclear plant is made, the comparatively low operating costs tend to be inflation-resistant. This is particularly true in comparison to the much higher and ever increasing cost of other fuels.

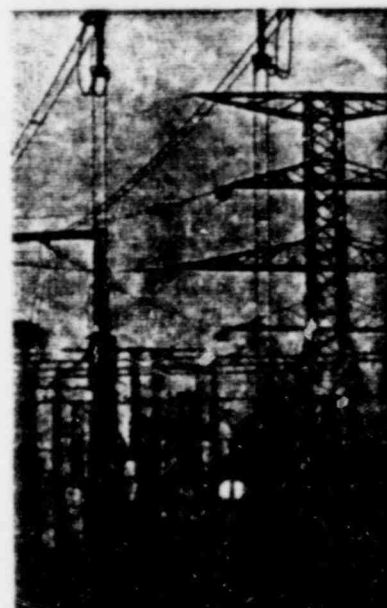
A really good bargain for customers of Toledo Edison is found in the costs of the nuclear and coal fuels used in our base load generating units.

Nuclear fuel costs were projected to be about one-third a cent per kilowatt-hour in 1980; coal was projected at less than two cents for the efficient Bay Shore Station. Oil and gas, when used, was projected to cost over eight cents per kilowatt hour.

Since 1973, costs of natural gas and heating oil have increased at a faster rate than the cost of electricity. This trend is expected to continue and even escalate as the reserves of petroleum and natural gas diminish in future years.

Substitution of electricity as a major energy source is expected to continue into the Nineties — again as use of scarce fuels declines. Electrification of transportation is a very real probability. Additions of efficient heating systems using electric pumps are a reality.

POOR ORIGINAL



Nuclear Energy is Restrictive

Our current energy "crisis" is not simply one of insufficient resources. The dilemma is much more complex. Of *costs*—since we've depleted most of the relatively inexpensive fuel supplies. Of the *types* of energy on which we've become dependent—largely oil, among the least of domestic natural reserves and therefore supplemented by massive imports. Of *inaction* on national policy—the inability to obtain binding decisions for any large-scale energy project.

Conservation and Fuel Substitution

A study of the National Academy of Sciences, *Energy in Transition: 1985-2010*, the most painstaking and comprehensive of all recent studies, concluded that this nation's major concern over the next 25 years is with the supply of fluid fuels. As a result, it stated, the highest priority should be placed on conservation and fuel substitution. The report has this to say about the use of electricity as a substitute for fluid fuels (natural gas and oil):

"... accelerated *electrification* could contribute significantly to relieving future fluid fuel problems... As fluid fuels are phased out of use for *electricity* generation, coal and nuclear power are the only economic alternatives for large-scale application in the remainder of this century. A balanced mix of coal and nuclear-generated electricity is preferable to the preponderance of either."

Northwestern Ohio has a favorable balance of coal and nuclear electric generating capabilities, with 69 per cent coal and 25 per cent nuclear. Oil accounts for the remainder.

The two largest cost items in a customer's electrical bill are fuel and the production equipment used to generate electricity. Most of the fuel used is coal, and the rapid escalation in coal prices (1980 coal costs over five times as much as in 1970) has been the single biggest factor in increasing electric rates. The cost of transporting coal has zoomed too, with large increases in freight rates.

If we had built a coal-burning plant in the 1970's instead of our nuclear station, our customers would be paying the higher costs of generating with coal with every monthly bill. It's a fact that when the nuclear station is operating our customers pay less for their electricity, substantially less.

Obviously, the plant must stay on line as base load to capitalize on its potential economic advantage. Admittedly, our unit has been out of service more than is desirable. The operating record has suffered due to failure of various components along with shutdowns for additions and modifications

as mandated by the Nuclear Regulatory Commission. To improve the unit's reliability, we have reorganized the management structure, added manpower, and have employed engineering and various other consultants to review operations. We are seeing greatly improved performance of the unit and are optimistic about its future economic viability.

Why Nuclear?

- Nuclear fuel is the most economical and inflation-resistant of all the fuels available for generating electricity.
- Nuclear unit operating costs are expected to be less than a comparable coal unit over the next 10 years, despite the higher initial investment and carrying charges.
- The investment of \$741 per kilowatt of installed capacity in the Davis-Besse unit was a bargain in comparison to the investment required for units now coming into service—either coal or nuclear.
- Large coal generating units today are at least as costly to build as the Davis-Besse unit was because of the required environmental protection equipment.
- Construction of another coal unit in northwestern Ohio would be very difficult and expensive today because of environmental restrictions.
- A nuclear fuel unit has the least impact on the environment of all the fuel sources.
- Oil and natural gas are too scarce and too expensive to be used as a boiler fuel.
- In every month that the nuclear unit is in full operation, customers of the two utilities owning the station have lower bills than if power were to be supplied by any other source.

Any sudden surge in growth in the Eighties will have to be met by capacity already installed or being built today. There is no easy way to increase electric generating capability quickly. It takes 10 to 14 years to build a major generating unit.

Providing adequate supplies of electricity to insure full employment in northwestern Ohio in the decade ahead depends upon the coal and nuclear resources available to us now.

POOR ORIGINAL



Samuel G. Carson



Richard P. Grouse



Robert H. Davies



Elwood L. Elber



Virgil A. Gladieux



Wendell A. Johnson



Marvin S. Kobacker



Isabel F. Martin



Donald G. Nicholson



Henry A. Page



Lowell E. Roe



Willard I. Webb, III



John P. Williamson



Robert G. Wingerter



was elected to the Board of Directors in December. Mr. Anderson is a partner and General Manager of The Andersons, a grain and farm supply complex serving Northwest Ohio and other midwestern areas. A graduate magna cum laude from Michigan State University School of Agriculture. He was named Toledo Area's Citizen of the Year in 1974.



Retired Executive Vice President, Owens-Illinois, Inc., Mr. Canter retired from the Toledo Edison Board of Directors in December. He was elected Director Emeritus in recognition of his seven years of excellent counsel and service.

Other directors emeriti are William S. Carlson, former President of the University of Toledo and Fred E. Fuller, retired partner in the law firm of Fuller, Henry, Hodge & Snyder.

Chairman, Toledo Trust Co. and T. Trustcorp, Inc. Graduate of Dartmouth College and Tuck School of Business Administration. A Director since 1971.

Vice President, clear. Graduate, chemical engineer, University of Toledo. Honored in 1978 Chemical Engineer of the Year. A Director since 1979.

Senior President. Director of Corporate Development, Owens-Illinois, Inc. (glass, plastic, forest products). Mechanical engineer-graduate, University of Minnesota. A Director since 1976.

President Chief Executive Officer, Dinner Foods, Inc. Board Chairman, Four Corners Technical Institute, Trustee of DePaul College. Attended University of Indiana. A Director since 1977.

Board Chairman. Chief Executive Officer, Glac Corporation (food services). Board Chairman, Toledo Hockey, Inc., President, Sports Arena, Inc., North Shores Investment Company, Inc., Canteen Service Toledo. A Director since 1960.

President Chief Operating Officer. Graduate electrical engineer. University of Minnesota. He has a master's degree in industrial engineering, University of Toledo. A Director since 1975.

Board Vice Chairman. Kobacker Stores, Inc. (retail stores). Graduate, University of Michigan (economics). holds a master's degree from Harvard School of Business. A Director since 1969.

Consultant to Toledo's United Way. She was named Outstanding Chi Omega in Ohio. Graduate of the University of Toledo. A Director since 1979.

Vice President, Finance. Graduate cum laude. Bowling Green State University. holds a master's degree in business administration from the University of Toledo. A Director since 1973.

Director of Development. The Medical College of Ohio at Toledo. former President. Page Dairy Company. Graduate in industrial engineering. Cornell University. A Director since 1967.

Vice President. Energy Supply. Registered Professional Engineer in Ohio. Graduate mechanical engineer, recipient of Ohio State University College of Engineering Distinguished Alumnus Award. A Director since 1975.

Board Chairman. Chief Executive Officer. Ohio Citizens Bancorp. Inc. Board Chairman. Lower Hospital. Graduate of Williams College. A Director since 1968.

Chairman. Chief Executive Officer. Chairman. East Central Area Reliability Coordinating Group. President. Ohio Electric Utilities Institute; Chairman. Ohio Chamber of Commerce. Graduate. business administration. Kent State University. Distinguished Alumnus Award. C.P.A. Named Toledo's Outstanding Citizen of 1976. A Director since 1962.

Chairman. Executive Committee. Libbey-Fewens-Ford Company (glass and plastic products, fluid systems components). President. Toledo Museum of Art. Mechanical engineering graduate. Wayne State University. A Director since 1974.

POOR ORIGINAL

Vice President,
Public Relations

Vice President,
Administration

Vice President,
Corporate Development

Vice President,
Administrative Services

Vice President,
Customer Services

Secretary

Treasurer

Controller

This report, including the financial statements, is submitted for the general information of Toledo Edison Company's shareowners. It is not intended to be used in connection with any sale or purchase of any securities.

A copy of Form 10-K as filed with the Securities and Exchange Commission will be available to shareowners upon written request to the Company's Vice President, Finance.

Audit Committee
Compensation Committee
Executive Committee
Nominating Committee
Operations Committee
Committee Chairman

300 Madison Avenue
Toledo, Ohio 43652
Phone (419) 259-5000

The Toledo Trust Company
Toledo, Ohio 43603

The Toledo Trust Company
Toledo, Ohio 43603
Morgan Guaranty Trust
Company of New York
New York, N.Y. 10015

Citibank, N.A.
Box 3305
New York, N.Y. 10043

Ohio Citizens Bank
Toledo, Ohio 43603
Manufacturers Hanover Trust
Company
New York, N.Y. 10022

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

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

Fuller, Henry, Hodge & Snyder
300 Madison Avenue
Toledo, Ohio 43604

Common
New York Stock Exchange
Midwest Stock Exchange
Amsterdam Stock Exchange

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

Preferred—\$25 par value—8.84%
\$2.365
New York Stock Exchange

Preferred—\$100 par value—4¼%,
8.32%, 7.76% and 10%
American Stock Exchange

Bonds
10%—Due 1982, 9.35%—Due 1985
9%—Due 2000, 7½%—Due 2002
8%—Due 2003, 9.65%—Due 2006
9½%—Due 2008, 11%—Due 2009
New York Stock Exchange

POOR ORIGINAL

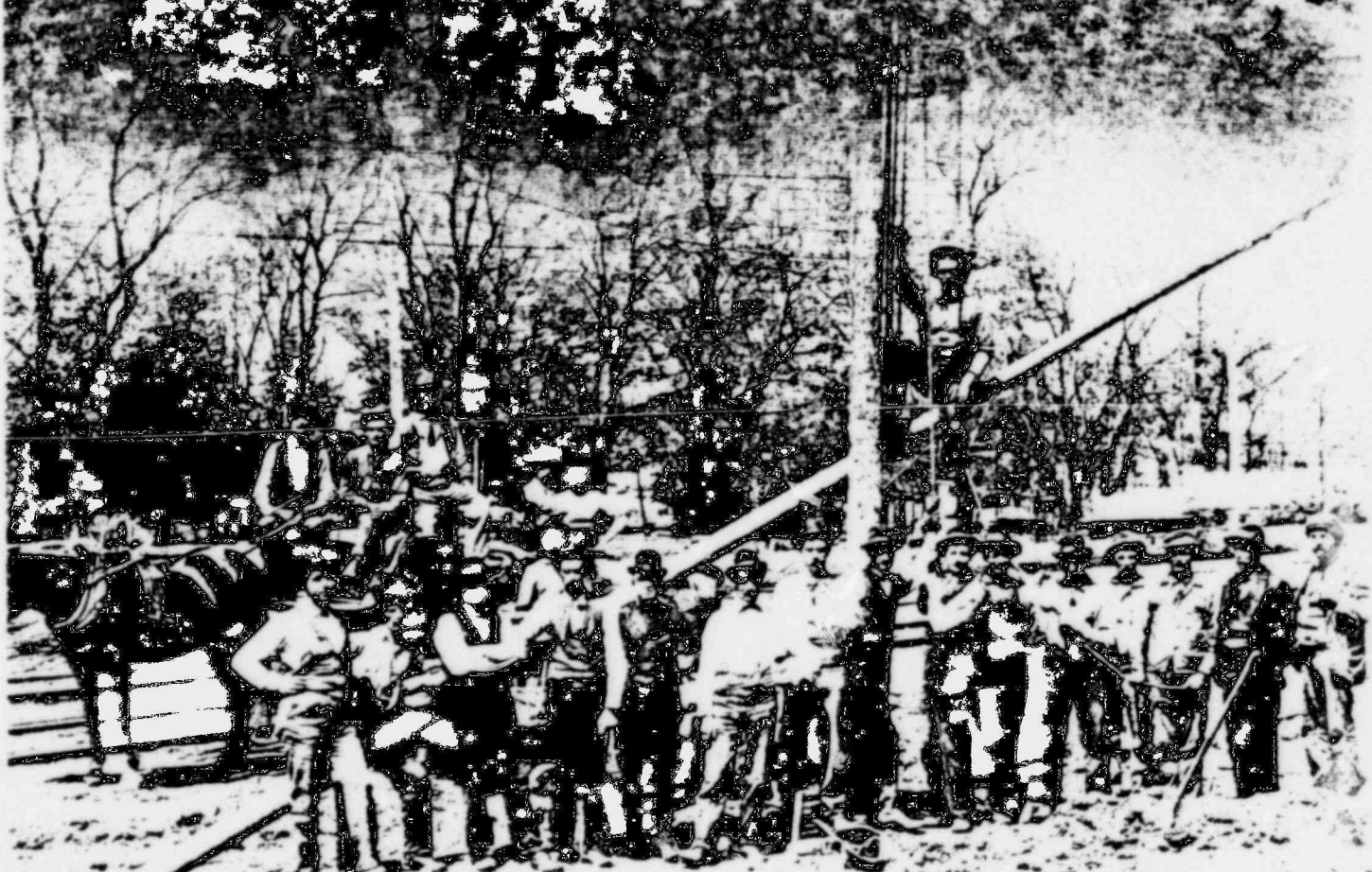


POOR ORIGINAL



**THE CLEVELAND ELECTRIC ILLUMINATING COMPANY
1980 ANNUAL REPORT**

100 years of service to Northeast Ohio



DUPE 8:04070266 (478P)

DUPLICATE

Financial Summary

	<u>1980</u>	<u>1979</u>	<u>Percent Change</u>
Earnings Per Share of Common Stock (a)	\$ 2.26	\$ 2.42	(6.6)
Dividends Paid Per Share of Common Stock	\$ 2.00	\$ 1.92	4.2
Book Value Per Share of Common Stock	\$ 19.72	\$ 19.88	(0.8)
Common Stock Share Owners	101,001	94,851	6.5
Operating Revenues (000)	\$893,566	\$824,267	8.4
Operating Expenses (000)	\$743,051	\$688,788	7.9
Net Income (000)	\$125,383	\$117,659	6.6
Earnings Available for Common Stock (000)	\$ 97,672	\$ 92,072	6.1
Kilowatthour Sales (Millions of Kilowatthours)			
Residential	4,463	4,353	2.5
Commercial	4,149	4,041	2.7
Industrial	8,062	9,269	(13.0)
Other	416	398	4.2
Sub-total	17,090	18,061	(5.4)
Sales to Utilities	1,070	969	10.4
Total	18,160	19,030	(4.6)

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

	<u>1980</u>		<u>1979</u>	
	<u>Earnings</u>	<u>Dividends</u>	<u>Earnings (b)</u>	<u>Dividends</u>
First Quarter	45	50	61	48
Second Quarter	45	50	45	48
Third Quarter	83	50	93	48
Fourth Quarter	52	50	43	48

Quarterly High, Low and Closing Prices of Common Stock (dollars)

	<u>1980</u>			<u>1979</u>		
	<u>High</u>	<u>Low</u>	<u>Close</u>	<u>High</u>	<u>Low</u>	<u>Close</u>
First Quarter	17 $\frac{3}{8}$	13 $\frac{1}{2}$	14 $\frac{1}{2}$	19 $\frac{1}{4}$	16 $\frac{3}{4}$	18 $\frac{1}{2}$
Second Quarter	18 $\frac{1}{2}$	14 $\frac{1}{2}$	17 $\frac{3}{4}$	19 $\frac{5}{8}$	16 $\frac{3}{8}$	19
Third Quarter	18 $\frac{3}{8}$	15 $\frac{3}{4}$	16 $\frac{1}{8}$	19 $\frac{1}{2}$	17 $\frac{1}{2}$	17 $\frac{3}{4}$
Fourth Quarter	15 $\frac{5}{8}$	13 $\frac{3}{8}$	14 $\frac{5}{8}$	18 $\frac{1}{4}$	15 $\frac{1}{2}$	16 $\frac{1}{4}$

(a) See Note B of "Notes to Consolidated Financial Statements"

(b) See Note P of "Notes to Consolidated Financial Statements"