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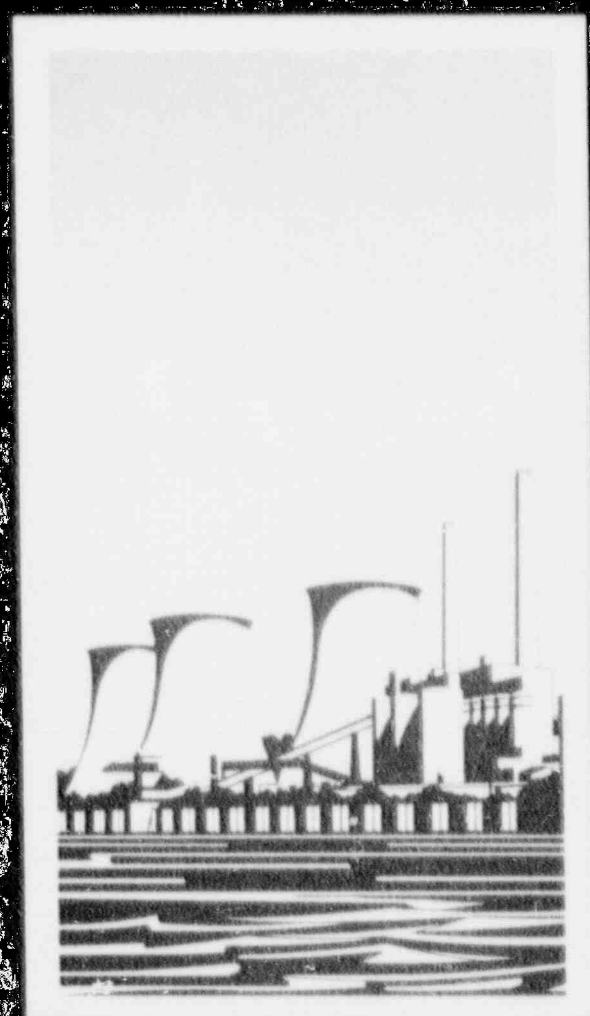
PENN POWER



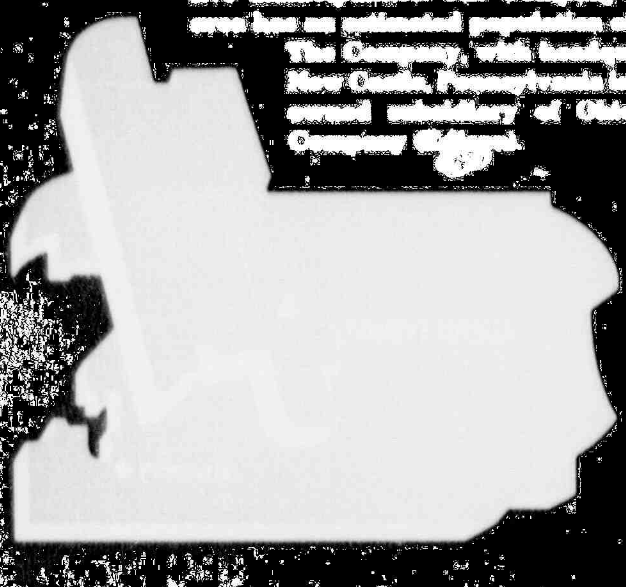
1989 ANNUAL REPORT

Contents

The Company

Pennsylvania Power Company (Penn Power or the Company) provides electric service to more than 120,000 customers in Western Pennsylvania. The Company furnishes electric service in 130 communities, as well as rural areas, and also sells electric energy at wholesale to five municipalities. The Company's service area has an estimated population of 300,000.

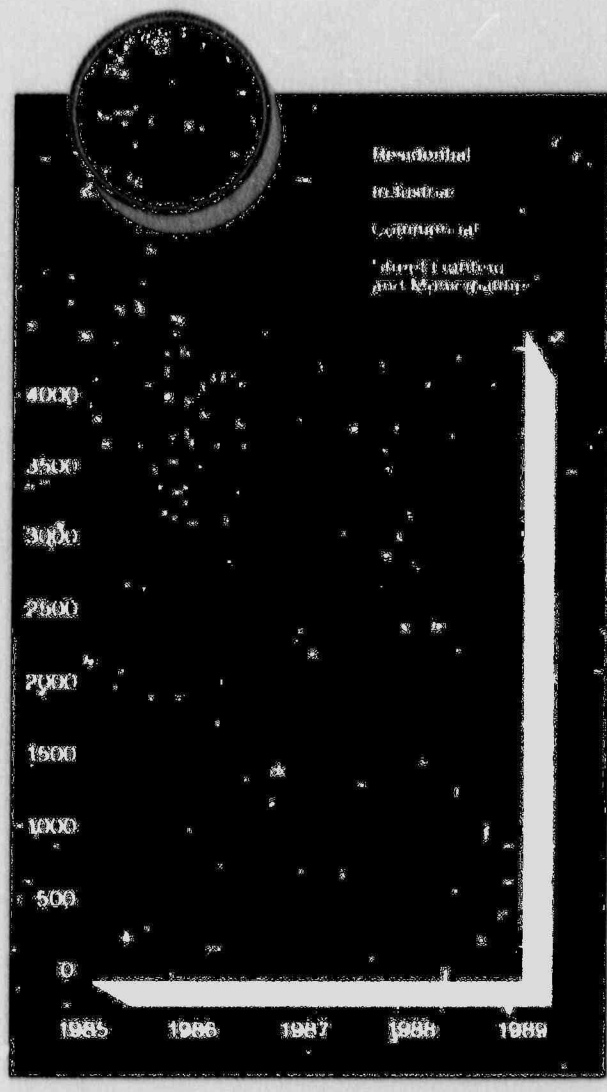
The Company, with headquarters in New Castle, Pennsylvania is a wholly owned subsidiary of Ohio Edison Company (OE).



PENN POWER

Financial Highlights

For the Years Ended December 31,	1989	1988	Change
	(In Millions)		
Kilowatt-Hour Sales	4,617.2	5,021.7	− 8.1%
Operating Revenues	$302.0	$278.2	+ 8.6%
Operating Expenses and Taxes	228.4	211.1	+ 8.2%
Operating Income	73.6	67.1	+ 9.7%
Allowance for Funds Used During Construction	4.2	3.0	+ 36.6%
Interest Expense	44.9	42.4	+ 6.0%
Net Income	34.7	38.0	− 8.7%
Earnings on Common Stock	24.0	27.0	− 11.1%
Dividends on Capital Stock	$ 38.3	$ 38.6	− 0.8%
Capital Expenditures:			
Construction of Facilities	$ 28.9	$ 21.3	
Nuclear Fuel	7.8	3.1	
Capital Leases	.8	.4	
Total	$ 37.5	$ 24.8	+ 51.2%
Internally Generated Cash	$ 16.9	$ 4.2	+300.7%
External Financing:			
New Financing	$ 56.7	$ 30.5	
Redemptions and Repayments	40.0	18.8	
Net External Financing	$ 16.7	$ 11.7	+ 42.7%
Return on Average Common Equity	8.6%	9.8%	



Message to Stockholders

Record revenues and new highs in customer demand distinguished Penn Power's performance in 1989.

Recognizing our progress, both Moody's Investor Service and Duff & Phelps upgraded their ratings of our debt and preferred stock during the year.

Retail sales remain firm

Higher kilowatt-hour sales to commercial and residential customers helped the Company nearly match its 1988 retail sales record. Continued growth of service and retail businesses in our area led to a 4.5 percent increase in sales to commercial customers — the fourth year in a row that commercial sales have set a record.

Residential sales were up 1.6 percent because of our expanding customer base and increased share of the home heating market. This continues our long history of uninterrupted annual growth in residential sales.

Industrial sales were off 3.7 percent, due mainly to lower production by steel companies — the largest segment of our industrial sales.

Total kilowatt-hour sales were down 8.1 percent, primarily because of a 28.7 percent drop in sales to other utilities. Refueling outages at Perry 1 and Beaver Valley 1 and the scheduled maintenance of other generating units reduced our opportunities for off-system sales.

However, off-system sales were bolstered by our long-term agreement with Potomac Electric Power Company (PEPCO), which in 1989 more than doubled scheduled sales from 28 to 63 megawatts. The agreement extends through the year 2005 and will produce an average of $21 million in annual revenues.

Revenues reach record level

Total revenues in 1989 were up 8.6 percent to a record $302 million because of new rates that reflect costs associated with Perry 1.

In 1988, the Pennsylvania Public Utility Commission (PPUC) approved a $67.1 million retail rate increase under a four-year phase-in plan. On May 4, 1989, the second phase of the increase took effect.

Despite the record revenues, higher operation and maintenance expenses caused an 8.7 percent decline in net income. However, the extensive maintenance of our generating units completed in 1989 should significantly improve plant performance as we begin the 1990s.

Customers set record demands

High air-conditioning use by our growing customer base pushed demand to a record peak of 667 megawatts on August 4. That record was surpassed on December 21, as greater use of electric heating during a record cold wave boosted customer demand to 683 megawatts.

Expanding our market

In 1989, we added 116 million kilowatt-hours of new business. Over the course of our five-year marketing plan, completed last year, we added a total 647 million kilowatt-hours of new business— exceeding our goal by 11.5 percent. These sales represent an estimated $38 million in additional annual revenue. As we enter the 1990s, our marketing strategy targets more sales from space heating, water heating and industrial process heating.

Incentive programs encourage new business

Economic development corporations throughout our service area are receiving $625,000 in seed money from the Company as part of a two-year refund program approved by the PPUC. The funds will help develop industrial sites and buildings that attract new business. Another $100,000 is helping needy families pay their energy bills through the Company's Project REACH Hardship Fund, administered by the Salvation Army. These funds represent interest on revenues collected from customers through PPUC-approved rates for pre-construction costs of four nuclear units canceled in 1980. Subsequent court actions disallowed those costs and resulted in refunds to customers.

Our economic development rate continues to attract new business. This special five-year incentive offers significant savings to qualified industries that move to our service area or expand existing operations here. The 48 companies on this rate have created 1,900 new jobs since 1984 and added more than $19 million in revenues from electric sales.

In an effort to expand residential heating sales, we introduced a seasonal electric rate that provides electric heating customers with reduced winter rates.

Also, municipal street lighting customers have responded favorably to a new rate program which reduces energy costs for communities that convert to sodium vapor lights, resulting in higher efficiency, lower maintenance costs and improved public safety.

PENN POWER

Success keyed to employee efforts

To help us improve performance, the Employee Savings Plan was modified to provide additional Company contributions tied to achievement of certain corporate objectives. Objectives were defined in the areas of earnings, operating effectiveness, sales growth, safety, attendance and service value. Last year, employees attained the safety, attendance and service value objectives.

Employees continue to improve productivity through their participation in the Employee Suggestion System. One idea submitted in 1989 by a power plant employee resulted in record savings of more than $502,000.

Present and past employees of the New Castle Power Plant deserve special recognition. On May 4, 1989, they celebrated 50 years of safe, reliable operation of the plant.

Meeting the challenges of 1990

Increased competition and acid rain legislation are two important issues facing Penn Power in 1990.

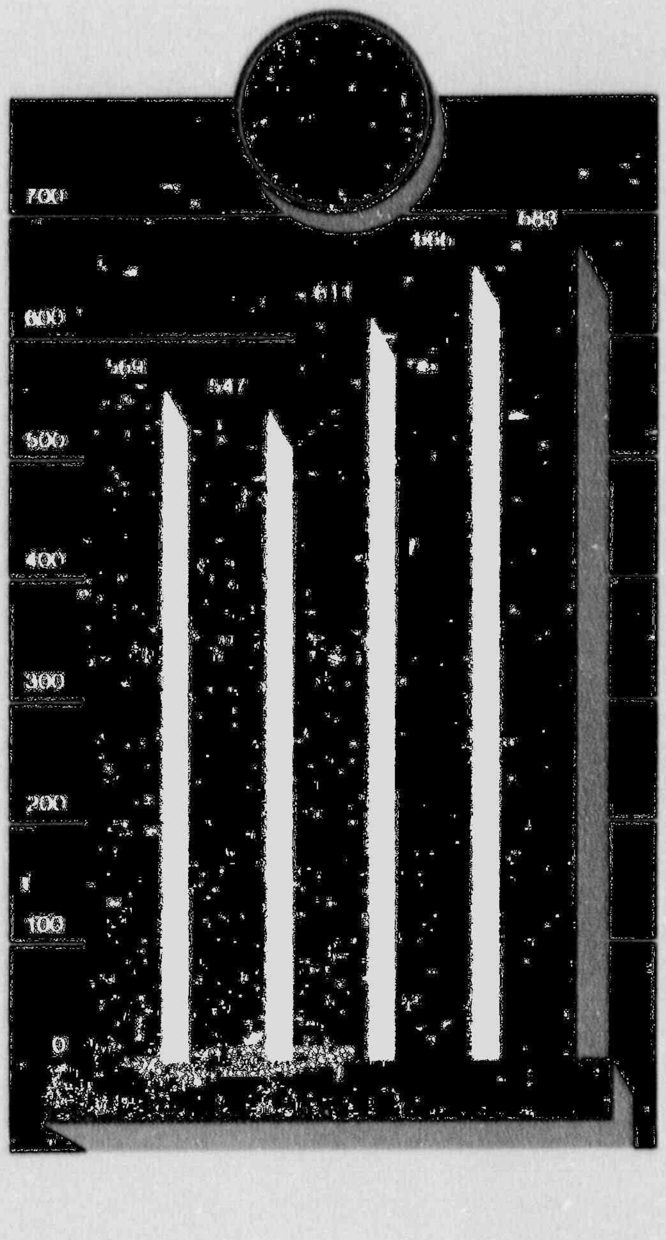
Many Washington observers predict that an acid rain proposal will become law this year. If passed, some electric companies will have to install additional environmental equipment. Fortunately, about 40 percent of our generating capacity should not need major additional environmental controls. To comply with new emissions standards, we will seek the most cost-effective solutions available.

Finding cost-effective solutions is only one of the ways we ensure quality electric service at competitive prices. We continue to emphasize customer service, marketing innovation and improved efficiency. Our extra efforts in all these areas will make Penn Power an even tougher competitor.

Justin T. Rogers, Jr.
Chairman of the Board

James E. Markle
President

New Castle, Pennsylvania
March 7, 1990



Operating Statistics

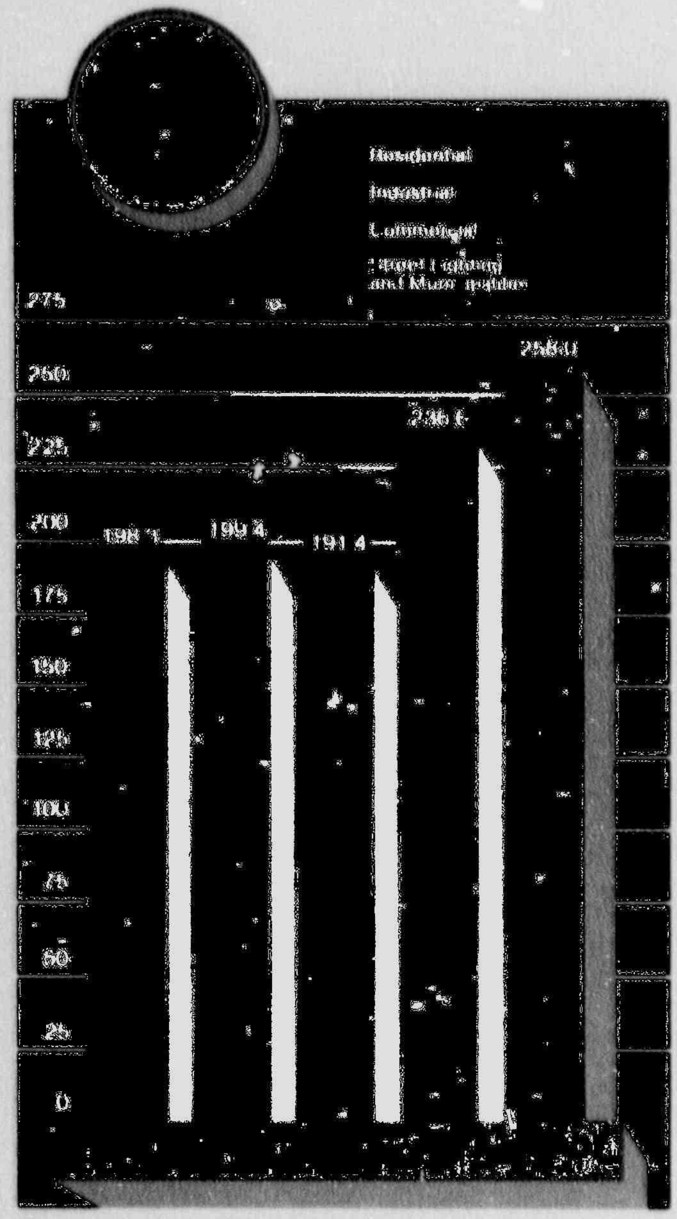
	1989	1988	1987	1986	1985
Revenue from Electric Sales (Thousands):					
Residential	$101,794	$ 91,573	$ 74,615	$ 75,751	$ 74,316
Commercial	57,004	50,648	40,209	40,772	39,266
Industrial	90,523	86,225	69,958	75,923	77,803
Other	8,640	8,145	6,611	6,982	6,916
Subtotal	257,961	236,591	191,393	199,428	198,301
Sales to Utilities	27,545	30,890	18,120	15,455	20,125
Total	$285,506	$267,481	$209,513	$214,883	$218,426
Revenue from Electric Sales – %:					
Residential	35.7%	34.2%	35.6%	35.3%	34.0%
Commercial	20.0	18.9	19.2	19.0	18.0
Industrial	31.7	32.3	33.4	35.3	35.6
Other	3.0	3.1	3.2	3.2	3.2
Subtotal	90.4	88.5	91.4	92.8	90.8
Sales to Utilities	9.6	11.5	8.6	7.2	9.2
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Kilowatt-Hour Sales (Millions):					
Residential	1,024.2	1,008.3	961.3	922.2	894.3
Commercial	698.2	668.1	627.8	597.5	565.5
Industrial	1,809.3	1,877.9	1,747.5	1,667.8	1,705.9
Other	136.5	135.6	126.7	122.0	124.8
Subtotal	3,668.2	3,689.9	3,463.3	3,309.5	3,290.5
Sales to Utilities	949.0	1,331.8	719.0	683.6	899.1
Total	4,617.2	5,021.7	4,182.3	3,993.1	4,189.6
Customers Served at December 31:					
Residential	118,285	116,988	115,793	114,646	113,697
Commercial	14,718	14,622	14,261	13,923	13,768
Industrial	264	264	273	278	283
Other	114	149	142	135	134
Total	133,381	132,023	130,469	128,982	127,882
Residential Customer Averages:					
Average kWh Used per Residential Customer	8,717	8,676	8,357	8,091	7,885
Average Price per kWh-Residential (Cents)	8.75	7.91	7.77	8.49	8.31
Kilowatt-Hours Generated (Millions)	4,040.4	4,447.1	4,197.2	3,966.8	4,012.9
Peak Load (Megawatts)	683	666	611	547	569
Cost of Coal per Million Btu	$ 1.34	$ 1.35	$ 1.34	$ 1.40	$ 1.50
Generating Capability:					
Coal	74.6%	74.6%	74.6%	80.2%	77.7%
Oil	2.8	2.8	2.8	3.0	6.1
Nuclear	22.6	22.6	22.6	16.8	16.2
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Sources of Electric Generation:					
Coal	76.6%	71.8%	75.0%	78.7%	73.8%
Nuclear	23.4	28.2	25.0	21.3	26.2
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Number of Employees at December 31	1,675	1,716	1,725	1,774	1,790

PENN POWER

Selected Financial Data

	1989	1988	1987	1986	1985
	(Dollars in Thousands)				
Operating Revenues	$ 302,038	$ 278,164	$ 223,197	$ 233,024	$ 235,406
Operating Income	$ 73,588	$ 67,054	$ 45,991	$ 51,154	$ 53,514
Net Income (i)	$ 34,660	$ 37,960	$ 37,594	$ 44,740	$ 46,593
Earnings on Common Stock (i)	$ 23,987	$ 26,993	$ 26,511	$ 33,529	$ 36,576
Cash Dividends on Common Stock	$ 27,676	$ 27,676	$ 27,676	$ 25,998	$ 23,560
Total Assets at December 31	$1,065,574	$1,014,052	$ 979,890	$ 965,663	$ 964,735
Utility Plant	$1,157,385	$1,131,962	$1,121,765	$1,063,719	$1,012,057
Depreciation Reserve	282,645	264,168	238,011	210,108	192,524
Net Utility Plant	$ 874,740	$ 867,794	$ 883,754	$ 853,611	$ 819,533
CAPITALIZATION:					
Common Stockholder's Equity	$ 274,158	$ 277,839	$ 278,510	$ 279,672	$ 260,131
Preferred Stock–					
Not Subject to Mandatory Redemption	41,905	41,905	41,905	41,905	41,905
Subject to Mandatory Redemption	59,662	65,102	68,142	69,362	70,662
Long-Term Debt	411,473	403,111	422,668	408,598	430,756
Total Capitalization	$ 787,198	$ 787,957	$ 811,225	$ 799,537	$ 803,454
CAPITALIZATION RATIOS:					
Common Stockholder's Equity	34.8%	35.3%	34.3%	35.0%	32.4%
Preferred Stock–					
Not Subject to Mandatory Redemption	5.3	5.3	5.2	5.2	5.2
Subject to Mandatory Redemption	7.6	8.3	8.4	8.7	8.8
Long-Term Debt	52.3	51.1	52.1	51.1	53.6
Total Capitalization	100.0%	100.0%	100.0%	100.0%	100.0%

(i) 1987 includes an $11,000,000 charge resulting from a Supreme Court of Pennsylvania decision concerning the recovery of costs associated with planned nuclear units which were terminated in 1980, resulting in a $7,300,000 reduction in net income and earnings on common stock (see Note 3 to the Financial Statements).



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

Results of Operations

Operating revenues increased $23,874,000 in 1989 primarily due to the full effect of a rate increase granted the Company in 1988. The following summarizes the reasons for the changes in operating revenues during 1989 and 1988:

	1989	1988
	(In Millions)	
Sales to Residential, Commercial and Industrial customers:		
Increased base rates	$21.2	$33.3
Increased kilowatt-hour sales	0.6	11.7
Decreased fuel recovery rates	(0.9)	(1.3)
Total	20.9	43.7
Sales to utilities	(3.3)	12.8
Revenue from transactions with Ohio Edison	4.8	(2.6)
Other	1.5	1.1
Net increase	$23.9	$55.0

Kilowatt-hour sales to retail customers were relatively unchanged in 1989, with increases in sales to residential and commercial customers of 1.6% and 4.5%, respectively, offset by a decrease in sales to industrial customers of 3.7%. However, total kilowatt-hour sales were down 8.1% in 1989 compared to 1988 due to a 28.7% drop in sales to other utilities.

The changes in fuel costs during the last two years were attributable to the following factors:

	1989	1988
	(In Millions)	
Change in fuel prices	$ (4.5)	$ 4.2
Change in fuel consumption	(2.0)	3.4
Difference in net deferred fuel costs	10.2	(12.2)
Net change	$ 3.7	$ (4.6)

The Company's commitment to purchase a portion of Cleveland Electric Illuminating Company's (CEI) Perry Unit 1 capacity, which began in November 1987 and ended in May 1989, was primarily responsible for the decrease in purchased and interchanged power expense in 1989. In addition to the capacity purchase arrangement, purchased and interchanged power increased in 1988, compared to 1987, as a result of additional power purchased in 1988 to meet demand during a scheduled maintenance outage at the New Castle Plant and a refueling outage at Beaver Valley Unit 1.

Other operation and maintenance expenses increased in 1989 due to costs incurred during refueling outages at the Company's nuclear generating units and outages at several other

Company generating units. The commercial operation of Perry Unit 1 in November 1987 was primarily responsible for the increases in operation and maintenance expenses, depreciation and general taxes and decreased allowance for funds used during construction in 1988 compared to 1987. Maintenance expenses also increased in 1988 as a result of the 1988 outages described in the preceding paragraph.

The increase in expenses attributable to the commercial operation of Perry Unit 1 was somewhat offset by an accounting order from the Pennsylvania Public Utility Commission (PPUC) permitting the Company to defer Perry Unit 1 costs until May 4, 1988 (see Note 2 to the Financial Statements).

Other income increased in 1989 as a result of interest earned on revenue accrued in connection with the Company's phase-in plan (see Note 2 to the Financial Statements). Other income was affected in 1987 by the write-off of approximately \$2,000,000 of costs associated with four nuclear generating units terminated in 1980, as prescribed by accounting standards of the Financial Accounting Standards Board (FASB). Also in 1987, a Supreme Court of Pennsylvania ruling disallowing the recovery of the costs of these terminated units from the Company's retail customers resulted in an additional write-off of \$8,300,000 to other income.

During 1989, the Company issued \$20,000,000 of 9.74% first mortgage bonds which mature in thirty years. The proceeds were used for the retirement at maturity of a like amount of 15% first mortgage bonds. The refunding will reduce annual interest expense by approximately \$1,000,000. The Company also increased short-term borrowings during 1989 by \$37,000,000. Those borrowings are essentially financing a portion of the revenues receivable from customers under the Company's phase-in plan. Interest expense increased in 1988 compared to 1987 due to the issuance of \$27,100,000 of long-term debt during 1988 and \$35,000,000 during the third quarter of 1987. Interest on nuclear fuel obligations increased in 1989 primarily as a result of increased interest rates on nuclear fuel obligations.

The FASB has issued Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes," which the Company must adopt by 1992. As discussed in Note 1 to the Financial Statements, this change is not expected to have a material effect on net income.

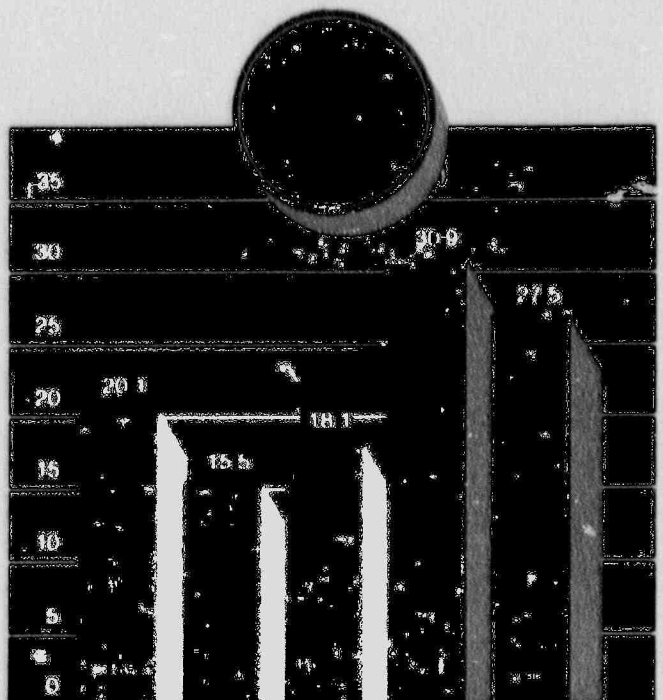
The electric utility industry is subject to inflationary pressures similar to those experienced by all other industries. To the extent that the Company incurs additional costs or receives benefits resulting from the effects of inflation, it is anticipated that those effects will ultimately be reflected in the Company's rates.

Capital Resources and Liquidity

Despite lower earnings in 1989, net cash provided from operations was higher compared to 1988 primarily due to the Company's increase in electric rates in May 1989. The increase in rates, designed to produce additional annual cash revenue of approximately \$28,000,000, was the second step in the Company's phase-in plan.

Cash and cash equivalents at December 31, 1989 were \$8,864,000. The Company also had unused bank lines of credit of \$5,000,000 at December 31, 1989, \$37,000,000 of additional funds available under a system funds agreement with Ohio Edison Company and \$25,000,000 of additional funds available under special uncommitted bank borrowing facilities.

Capital requirements in 1989 for the Company's construction programs, capital leases and nuclear fuel were approximately \$37,000,000. The 1990-1994 construction program and capital lease requirements are currently estimated to be ap-



Management's Discussion and Analysis (continued)

proximately $227,000,000 (excluding nuclear fuel), of which approximately $34,000,000 applies to 1990. The Company has additional cash requirements of approximately $116,000,000 for the 1990-1994 period to meet maturities of, and sinking fund requirements for, long-term debt (excluding nuclear fuel) and preferred stock; of that amount approximately $28,000,000 applies to 1990.

Investments for additional nuclear fuel during the 1990-1994 period are estimated to be approximately $32,000,000, of which approximately $8,000,000 applies to 1990. During the same periods, the Company's nuclear fuel investments are expected to be reduced by approximately $56,000,000 and $14,000,000, respectively, as the nuclear fuel is consumed.

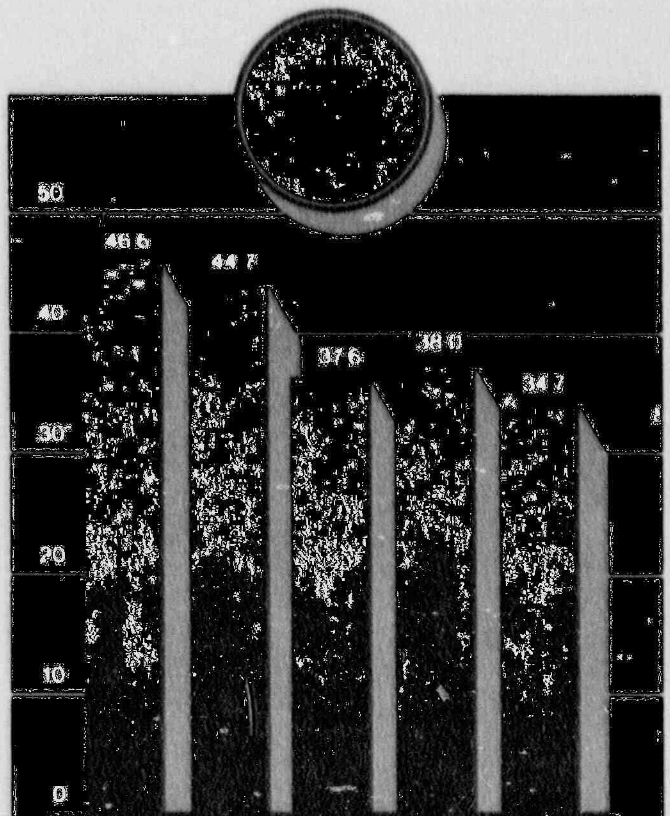
Sales by the Company of first mortgage bonds and of preferred stock require that applicable earnings coverage tests be met. With respect to issuance of first mortgage bonds, other requirements also apply and are more restrictive than the earnings test at the present time. The Company is currently able to issue $160,000,000 principal amount of first mortgage bonds ($86,000,000 against property additions, excluding Perry Unit 2 property additions, and $74,000,000 against previously retired bonds). The Company does not currently meet the requirements in its Charter for the issuance of additional preferred stock.

In February 1990, the Company issued $5,200,000 of new pollution control notes. The Company currently expects that external financings will be necessary through 1994 to provide a portion of its cash requirements. Such financings may include the sale of common stock, as well as preferred stock, first mortgage bonds and other long-term debt. The extent and mix of such financings will depend on the need for external funds as well as market conditions, the maintenance of an appropriate capital structure and the ability to comply with coverage requirements in order to issue first mortgage bonds and preferred stock.

The Company will increase its electric rates in May 1990 in connection with its phase-in plan, resulting in additional annual cash revenue of approximately $32,000,000. An additional annual rate increase of approximately $36,000,000 in 1991 will be implemented prior to a scheduled $52,000,000 reduction in 1992 which completes the phase-in program. However, there will be no material effect to net income since the Company recognizes revenue under the phase-in plan as if the full revenue level had been placed into effect in 1988. With the 1990 increase, amounts recognized as accrued revenues in 1988 and 1989 will begin to be recovered.

The Supreme Court of Pennsylvania has agreed to hear the Company's appeal of a decision of the Commonwealth Court of Pennsylvania, which affirmed the PPUC's disallowing recovery of most of the Company's costs incurred with the Perry Unit 1 capacity purchase from CEI. If the PPUC's decision is ultimately upheld, the Company would be forced to write off the deferred costs, which would reduce net income by approximately $10,000,000.

Changes in environmental regulations could substantially increase the Company's capital requirements and operating costs. Legislation amending the Clean Air Act could affect the Company's operations. See Note 7 to the Financial Statements for a further discussion and possible impact regarding environmental matters.



PENN POWER

Statements of Income

For the Years Ended December 31,	1989	1988	1987
		(In Thousands)	
Operating Revenues (Note 2)	$302,038	$278,164	$223,197
Operating Expenses and Taxes:			
Operation—			
Fuel	54,194	50,487	55,100
Purchased and interchanged power, net	15,067	24,181	3,428
Other operation expenses	62,819	53,430	48,244
Total operation	132,080	128,098	106,772
Maintenance	28,870	21,745	18,977
Provision for depreciation and amortization	28,363	28,469	22,547
General taxes	19,464	18,623	14,943
Deferred Perry Unit 1 costs (Note 2)	29	(6,334)	(1,855)
Income taxes	19,644	20,509	15,822
Total operating expenses and taxes	228,450	211,110	177,206
Operating Income	73,588	67,054	45,991
Other Income and Deductions:			
Allowance for equity funds used during construction	428	185	19,181
Miscellaneous, net (Note 3)	3,141	1,105	(9,251)
Income taxes — credit (provision)	(1,308)	(527)	2,920
Total other income and deductions	2,261	763	12,850
Total Income	75,849	67,817	58,841
Net Interest:			
Interest on long-term debt	38,216	38,437	35,793
Interest on nuclear fuel obligations	3,361	2,630	3,674
Deferred Perry Unit 1 interest (Note 2)	—	(9,651)	(3,369)
Allowance for borrowed funds used during construction	(3,725)	(2,855)	(16,593)
Other interest expense	3,337	1,296	1,742
Net interest	41,189	29,857	21,247
Net Income	34,660	37,960	37,594
Preferred Stock Dividend Requirements	10,673	10,967	11,083
Earnings on Common Stock	$ 23,987	$ 26,993	$ 26,511

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

Balance Sheets

Assets

At December 31,	1989	1988
	(In Thousands)	
Utility Plant:		
In service, at original cost	$1,067,317	$1,039,166
Less – Accumulated provision for depreciation	282,645	264,168
	784,672	774,998
Construction work in progress –		
Electric plant (Note 7)	71,309	66,293
Nuclear fuel	18,759	26,503
	90,068	92,796
	874,740	867,794
Other Property and Investments	4,050	2,346
Current Assets:		
Cash and cash equivalents	8,864	4,670
Receivables –		
Customers (less accumulated provisions of $767,000 and $734,000, respectively, for uncollectible accounts)	18,062	15,487
Parent company	15,897	14,673
Other	12,603	12,577
Materials and supplies, at average cost –		
Fuel	7,340	7,529
Other	9,735	9,025
Prepayments	1,669	1,329
	74,170	65,290
Deferred Charges:		
Deferred fuel costs (Note 7)	21,151	18,065
Accrued customer revenues (Note 2)	60,854	30,045
Deferred Perry Unit 1 costs (Note 2)	21,180	21,209
Other	9,429	9,303
	112,614	78,622
	$1,065,574	$1,014,052

PENN POWER

Capitalization and Liabilities

At December 31,

	1989	1988
	(In Thousands)	
Capitalization (See Statements of Capitalization):		
Common stockholder's equity	$ 274,158	$ 277,839
Preferred stock –		
Not subject to mandatory redemption	41,905	41,905
Subject to mandatory redemption	59,662	65,102
Long-term debt –		
Associated companies	35,196	1,742
Other	376,277	401,369
	787,198	787,957
Current Liabilities:		
Currently payable preferred stock and long-term debt –		
Associated companies	13,192	170
Other	27,761	54,336
Notes payable (Note 6) –		
Banks	28,000	4,000
Parent company	13,000	–
Accounts payable –		
Associated companies	10,345	4,411
Other	32,328	29,548
Accrued taxes	6,432	6,543
Accrued interest	9,267	9,842
Other	10,209	12,532
	150,534	121,382
Deferred Credits:		
Accumulated deferred income taxes	86,842	59,900
Accumulated deferred investment tax credits	30,405	31,576
Other	10,595	13,237
	127,842	104,713
Commitments, Guarantees and Contingencies (Notes 4 and 7)		
	$1,065,574	$1,014,052

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

Statements of Capitalization

At December 31,					1989	1988
					(In Thousands)	
Common Stockholder's Equity:						
Common stock, $30 par value, 6,500,000 shares authorized 6,290,000 shares outstanding					$188,700	$188,700
Other paid-in capital					201	209
Retained earnings (Note 5a)					85,257	88,930
Total common stockholder's equity					274,158	277,839
	Number of Shares Outstanding		Optional Redemption Price			
	1989	1988	Per Share	Aggregate (In Thousands)		
Preferred Stock (Note 5b):						
Cumulative, $100 par value						
Authorized – 1,200,000 shares						
Not Subject to Mandatory Redemption:						
4.24%-4.64%	141,049	141,049	$102.98-105.00	$14,614	14,105	14,105
7.64%-8.00%	118,000	118,000	102.56-103.27	12,144	11,800	11,800
8.48%-9.16%	160,000	160,000	103.08-104.58	16,612	16,000	16,000
Total not subject to mandatory redemption	419,049	419,049		$43,370	41,905	41,905
Subject to Mandatory Redemption (Note 5c):						
8.24%-10.50%	160,000	165,000	$104.12-107.22	$16,969	16,000	16,500
11.00%-11.50%	305,616	339,616	103.29-106.39	32,110	30,562	33,962
13.00%-15.00%	167,200	173,600	109.75-113.66	18,613	16,720	17,360
Redemption within one year					(3,620)	(2,720)
Total subject to mandatory redemption	632,816	678,216		$67,692	59,662	65,102
Long-Term Debt (Note 5d):						
First mortgage bonds –						
9.56% weighted average interest rate, due 1989 through 1994					62,938	87,268
9.79% weighted average interest rate, due 1995 through 1999					57,610	58,940
8.47% weighted average interest rate, due 2000 through 2004					53,184	54,232
9.22% weighted average interest rate, due 2005 through 2009					40,000	40,000
9.74% weighted average interest rate, due 2019					20,000	–
Total first mortgage bonds					233,732	240,440
Secured notes and obligation –						
7.85% weighted average interest rate, due 1989 through 1994					20,804	20,919
11.01% weighted average interest rate, due 1995 through 1999					49,261	49,261
10.09% weighted average interest rate, due 2000 through 2004					36,098	35,782
7.34% weighted average interest rate, due 2005 through 200[illegible]					12,720	12,720
11.12% weighted average interest rate, due 2010 through 2014					17,900	17,889
8.11% weighted average interest rate, due 2015 through 2018					24,550	24,550
Total secured notes and obligation					161,333	161,121
Other obligations –						
Nuclear fuel					46,645	43,778
Capital leases (Note 4)					8,082	10,562
Total other obligations					54,727	54,340
Net unamortized discount on debt and other					(986)	(1,004)
Long-term debt due within one year					(37,333)	(51,786)
Total long-term debt					411,473	403,111
Total capitalization					$787,198	$787,957

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

Statements of Retained Earnings

For the Years Ended December 31,	1989	1988	1987
		(In Thousands)	
Balance at beginning of year	$ 88,930	$ 89,598	$ 90,760
Net income	34,660	37,960	37,594
	123,590	127,558	128,354
Cash dividends on common stock	27,676	27,676	27,676
Cash dividends on preferred stock	10,657	10,952	11,080
	38,333	38,628	38,756
Balance at end of year (Note 5a)	$ 85,257	$ 88,930	$ 89,598

Statements of Capital Stock and Other Paid-In Capital

	Common Stock			Preferred Stock: Not Subject to Mandatory Redemption		Preferred Stock: Subject to Mandatory Redemption	
	Number of Shares	Par Value	Other Paid-In Capital	Number of Shares	Par Value	Number of Shares	Par Value
				(Dollars in Thousands)			
Balance, January 1, 1987	6,290,000	$188,700	$212	419,049	$41,905	706,591	$70,659
Sinking Fund Redemptions —							
8.24% Series						(5,000)	(500)
11.00% Series						(7,975)	(797)
Balance, December 31, 1987	6,290,000	188,700	212	419,049	41,905	693,616	69,362
Sinking Fund Redemptions —							
8.24% Series						(5,000)	(500)
11.00% Series						(4,000)	(400)
15.00% Series			(3)			(6,400)	(640)
Balance, December 31, 1988	6,290,000	188,700	209	419,049	41,905	678,216	67,822
Sinking Fund Redemptions —							
8.24% Series						(5,000)	(500)
11.00% Series						(4,000)	(400)
11.50% Series			(6)			(30,000)	(3,000)
15.00% Series			(2)			(6,400)	(640)
Balance, December 31, 1989	6,290,000	$188,700	$201	419,049	$41,905	632,816	$63,282

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

Statements of Cash Flows

For the Years Ended December 31,	1989	1988	1987
		(In Thousands)	
Cash Flows From Operating Activities:			
Net income	$ 34,630	$ 37,960	$ 37,594
Principal noncash items –			
Depreciation and amortization	37,519	40,132	31,469
Deferred income taxes, net	21,043	18,319	11,338
Investment tax credits, net	(1,171)	(748)	(1,044)
Deferred (accrued) revenue, net	(32,976)	(31,177)	39
Allowance for equity funds used during construction	(428)	(185)	(19,181)
Deferred fuel costs, net	(3,086)	(13,248)	(618)
Write-off of terminated construction projects	–	–	10,473
Deferred Perry Unit 1 costs	29	(15,985)	(5,224)
Change in applicable assets and liabilities –			
Receivables	(3,825)	(813)	12,524
Materials and supplies	(521)	4,261	(4,926)
Accounts payable	7,933	(4,587)	(2,697)
Other	(3,959)	8,913	(3,130)
Net cash provided from operations	55,218	42,842	66,617
Cash Flows From Financing Activities:			
New financing –			
Long-term debt	20,000	27,271	35,235
Notes payable, net	37,000	4,000	–
Other	(315)	(723)	(506)
Redemptions and Repayments –			
Preferred stock	4,540	1,540	1,297
Long-term debt	35,433	17,296	28,974
Dividend payments –			
Common stock	27,676	27,676	27,676
Preferred stock	10,657	10,952	11,080
Net cash used for financing activities	21,621	26,916	34,298
Cash Flows From Investing Activities:			
Property additions	27,659	21,370	41,831
Purchase of investments	932	687	370
Sale of investments	–	(1,331)	(723)
Other	812	(472)	(909)
Net cash used for investing activities	29,403	20,254	40,569
Net increase (decrease) in cash and cash equivalents	4,194	(4,328)	(8,250)
Cash and cash equivalents at beginning of year	4,670	8,998	17,248
Cash and cash equivalents at end of year	$ 8,864	$ 4,670	$ 8,998
Supplemental Cash Flows Information:			
Cash paid during the year –			
Interest (net of amounts capitalized)	$ 41,004	$ 38,495	$ 23,537
Income taxes	3,260	2,767	6,443

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

PENN POWER

Statements of Taxes

For the Years Ended December 31,	1989	1988	1987
		(In Thousands)	
General Taxes:			
State gross receipts	$10,017	$ 9,004	$ 8,566
Real and personal property	5,834	6,004	2,820
State capital stock	1,754	1,923	1,852
Social security and unemployment	1,633	1,545	1,553
Other	226	147	152
Total general taxes	$19,464	$18,623	$14,943
Provision for Income Taxes:			
Currently payable —			
Federal	$ 1,080	$ 3,592	$ 2,543
State	—	(127)	65
	1,080	3,465	2,608
Deferred, net (see below) —			
Federal	18,532	15,898	10,823
State	2,511	2,421	515
	21,043	18,319	11,338
Investment tax credits, net of amortization	(1,171)	(748)	(1,044)
Total provision for income taxes	$20,952	$21,036	$12,902
Income Statement Classification of Provision for Income Taxes:			
Operating income	$19,644	$20,509	$15,822
Other income	1,308	527	(2,920)
Total provision for income taxes	$20,952	$21,036	$12,902
Sources of Deferred Income Taxes:			
Excess of tax over book depreciation, net	$ 7,058	$ 7,245	$16,237
Difference between tax and book revenue, net	12,015	8,937	(1,930)
Allowance for borrowed funds used during construction	680	1,024	7,377
Deferred fuel costs	1,202	5,161	275
Deferred Perry Unit 1 costs	(11)	5,071	1,860
Amortization of deferred interest on leased nuclear fuel	(1,125)	(1,350)	(536)
Terminated construction projects	(20)	(15)	(3,885)
Property taxes	89	(541)	1,724
Alternative minimum tax deferral	(1,441)	(4,862)	(3,423)
Operating loss carryforward	2,244	(1,729)	(7,820)
Other, net	352	(622)	1,459
Net deferred income taxes	$21,043	$18,319	$11,338
Reconciliation of Federal Income Tax Expense at Statutory Rate to Total Provision for Income Taxes:			
Book income before provision for income taxes	$55,612	$58,996	$50,496
Federal income tax expense at statutory rate	$18,908	$20,059	$20,173
Increases (reductions) in taxes resulting from:			
Excess of book over tax depreciation, net	1,949	1,181	1,057
State income taxes, net of federal income tax benefit	1,657	1,514	349
Allowance for funds used during construction, which does not constitute taxable income	(269)	(140)	(7,663)
Amortization of investment tax credit	(1,532)	(1,690)	(1,794)
Other, net	239	112	780
Total provision for income taxes	$20,952	$21,036	$12,902

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

Notes to Financial Statements

(1) Summary of Significant Accounting Policies:

The Company, a wholly owned subsidiary of Ohio Edison Company (Edison), follows the accounting policies and practices prescribed by the Pennsylvania Public Utility Commission (PPUC) and the Federal Energy Regulatory Commission (FERC). Certain financial statement items for periods prior to 1989 have been reclassified to conform to the 1989 presentation.

Revenues –

The Company's retail customers are metered on a cycle basis. Revenue is recognized for electric service based on meters read through the end of the month. Reference is made to Note 2 with respect to the Company's policy of accruing revenues in connection with a rate phase-in plan.

Revenues from Sharon Steel Corporation, the Company's largest customer, amounted to approximately $29,335,000, $27,862,000 and $22,003,000, in 1989, 1988 and 1987, respectively, representing 9.7%, 10.0% and 9.9%, respectively, of the Company's total operating revenues. On April 17, 1987, Sharon Steel filed a Petition under Chapter 11 of the Federal Bankruptcy Code. The Company has filed a proof of claim in this proceeding of approximately $800,000 for electric service furnished to Sharon Steel prior to the Chapter 11 filing. The Company is currently being paid in weekly installments but has retained the right to be paid for current electric service on a daily basis coupled with the right to establish a security deposit of $500,000 pursuant to the Order of the Bankruptcy Court.

Fuel Costs –

The Company recovers fuel costs not otherwise recovered through base rates from its customers through an annual "levelized" energy cost rate (ECR). The ECR, which includes adjustment for any over or under collection from customers, is recalculated each year. Accordingly, the Company defers the difference between actual energy costs and the amounts currently recovered from its customers.

Utility Plant and Depreciation –

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

The Company provides for depreciation on a straight-line basis at various rates over the estimated lives of property included in plant in service. The annual composite rates for electric plant were 2.9% in 1989 and 1988 and 3.1% in 1987. The Company recognizes as depreciation expense estimated nuclear decommissioning costs as the costs are recovered from customers. Such amounts are invested in external decommissioning trust funds.

Common Ownership of Generating Facilities –

The Company and other Central Area Power Coordination Group (CAPCO) companies own, as tenants in common, various power generating facilities. Each of the companies is obligated to pay a share of the construction costs of any jointly owned facility in the same proportion as its ownership interest. The Company's portion of operating expenses associated with these jointly owned facilities is included in the corresponding operating expenses on the Statements of Income (see Note 2 with respect to the deferral of Perry Unit 1 costs). The amounts reflected on the Balance Sheet under utility plant at December 31, 1989, include the following:

Generating Units	Utility Plant in Service	Accumulated Provision for Depreciation	Construction Work in Progress (i)	Company's Ownership Interest
		(In Thousands)		
W.H. Sammis No. 7	$ 49,000	$ 15,100	$ 5,800	20.80%
Bruce Mansfield No. 1, No. 2 and No. 3	86,100	28,900	200	5.76%
Beaver Valley No. 1	236,700	64,500	2,300	17.50%
Perry No. 1 and Common Facilities	308,400	21,500	800	5.24%
Perry No. 2	–	–	55,800	5.24%
Total	$680,200	$130,000	$64,900	

(i) Excludes nuclear fuel in process which has not yet been assigned to a specific nuclear unit.

Nuclear Fuel –

During 1989, OES Fuel, Incorporated (OES Fuel), a wholly owned subsidiary of Edison, became the sole lessor for the Company's nuclear fuel requirements. The Company previously met its nuclear fuel requirements through third-party leasing arrangements. Minimum lease payments during the next five years are estimated to be as follows:

1990	$12,994,000
1991	9,882,000
1992	8,464,000
1993	6,430,000
1994	3,877,000

The Company amortizes the cost of nuclear fuel based on the rate of consumption. The Company's electric rates include amounts for the future disposal of spent nuclear fuel based upon the formula used to compute payments to the United States Department of Energy.

Allowance for Funds Used During Construction –

AFUDC represents financing costs capitalized to construction work in progress (CWIP) during the construction period. The borrowed funds portion reflects capitalized interest payments and the equity funds portion represents the noncash capitalization of imputed equity costs which are charged to construction. AFUDC varies according to changes in the level of CWIP and in the cost of capital. The Company capitalized AFUDC to electric plant utilizing a net of tax rate in 1987, which is consistent with the rate treatment. Effective January 1, 1988, substantially all of the Company's CWIP was subject to the capitalization rules for interest contained in the Tax Reform Act of 1986; therefore, no adjustment was necessary to reduce the CWIP AFUDC rate to recognize a current income tax benefit. The AFUDC rates (excluding nuclear fuel interest) were 10.9%, 10.4% and 10.1% in 1989, 1988 and 1987, respectively. Capitalization rates for interest on nuclear fuel were 10.1%, 8.5% and 8.2% in 1989, 1988 and 1987, respectively.

Income Taxes –

Details of the total provision for income taxes are shown on the Statements of Taxes. The deferred income taxes result from timing differences in the recognition of revenues and expenses for tax and accounting purposes. The Company expects that deferred taxes which have not been provided will be collected from its customers when the taxes become payable, based upon the established rate making practices of the PPUC and the FERC. As of December 31, 1989, the cumulative net income tax timing differences for which deferred income taxes have not been provided were approximately $100,000,000.

The Company defers investment tax credits (ITC) utilized and amortizes these credits to income over the estimated life of the related property. The Tax Reform Act of 1986 repealed the ITC effective January 1, 1986, except for certain transition property. As of December 31, 1989, approximately $10,000,000 of unused ITC was available to offset future federal income taxes payable, of which approximately $8,000,000 expires at the end of 2001 with the remainder expiring at the end of 2002. The Company also has approximately $9,700,000 of alternative minimum tax credits available to offset future federal income taxes payable; such credits may be carried forward indefinitely.

The Company has also accumulated approximately $17,500,000 of tax net operating losses through December 31, 1989, of which approximately $3,200,000 expires at the end of 2002 with the remainder expiring at the end of 2003. Such tax net operating losses have been recognized by not providing deferred income taxes of approximately $1,700,000 and $7,800,000 in 1988 and 1987, respectively, which would otherwise have been provided; during 1989 approximately $2,200,000 of such deferred taxes were restored due to the use of prior years' tax net operating losses for book purposes. Under the tax sharing agreement between the Company and Edison, the cash benefit of tax net operating losses is realized by the Company in the future when the Company's taxable income is sufficient to offset such losses.

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 96, "Accounting for Income Taxes" which, among other things, requires a change in the method used by enterprises to account for deferred income taxes. Under the standard, deferred income tax liabilities must be recognized at the statutory income tax rates in effect when the liabilities are expected to be paid. The new standard also requires recognition of a deferred tax liability for tax benefits that have previously been flowed through to the Company's customers and an assumed deferred tax liability applicable to the equity component of AFUDC, for which no income tax timing difference exists under current accounting standards. Since the Company expects that the additional deferred tax liabilities will be collected from its customers when the taxes become payable, an asset will be recognized for that probable future revenue. The Company is not required to adopt SFAS No. 96 until 1992. However, if the Company had adopted the standard as of December 31, 1989, it estimates that total assets would have increased by approximately $200,000,000 with no material effect to net income.

Retirement Benefits –

The Company's trusteed, noncontributory defined benefit pension plan covers almost all full-time employees. Upon retirement, employees receive a monthly pension based on length of service and compensation. The Company uses the projected unit credit method for funding purposes and was not required to make pension contributions during the three years ended December 31, 1989.

The following sets forth the funded status of the plan and amounts recognized on the Balance Sheets:

At December 31,	1989	1988
Actuarial present value of benefit obligations:		
Vested benefits	$50,836,000	$45,104,000
Nonvested benefits	262,000	341,000
Accumulated benefit obligation	$51,098,000	$45,445,000
Plan assets at fair value	$99,094,000	$84,834,000
Actuarial present value of projected benefit obligation	67,252,000	67,409,000
Plan assets in excess of projected benefit obligation	31,842,000	17,425,000
Unrecognized net gain	(24,480,000)	(5,055,000)
Unrecognized prior service cost	3,824,000	31,000
Unrecognized net transition asset	(13,691,000)	(14,745,000)
Net pension liability	$ 2,505,000	$ 2,344,000

The assets of the plan consist primarily of common stocks, United States government bonds and corporate bonds. Net pension costs for the three years ended December 31, 1989 were computed as follows:

	1989	1988	1987
Service cost – benefits earned during the period	$ 3,611,000	$ 3,480,000	$ 3,247,000
Interest on projected benefit obligation	5,908,000	5,484,000	4,883,000
Return on plan assets	(17,492,000)	(11,995,000)	(2,122,000)
Net deferral (amortization)	8,134,000	3,521,000	(5,649,000)
Net pension cost	$ 161,000	$ 490,000	$ 359,000

Notes (continued)

The assumed discount rate used in determining the actuarial present value of the projected benefit obligation was 9% in each year. The assumed rate of increase in future compensation levels used to measure this obligation was 5% in 1989 and 7% in 1988 and 1987. The assumed expected long-term rates of return on plan assets were 10% in 1989 and 1988, and 9% in 1987.

The Company provides a minimum amount of noncontributory life insurance to retired employees in addition to optional contributory insurance. Health care benefits, which include certain employee deductibles and copayments, are also available to retired employees, their dependents and, under certain circumstances, their survivors. The Company pays insurance premiums to cover a portion of these benefits in excess of set limits; all amounts up to the limits are paid by the Company. Expenses associated with health care and life insurance benefits for retirees amounted to $526,000, $668,000 and $617,000 in 1989, 1988 and 1987, respectively.

Transactions with Affiliated Companies –
Operating revenues for 1989, 1988 and 1987 include $11,108,000, $5,816,000 and $8,544,000, respectively, attributable to transactions with Edison. Such revenues resulted primarily from Edison's purchase of capacity from the Company's ownership interest in Beaver Valley Unit 1 and Sammis Unit 7. Purchased and interchanged power, net, reflects charges (credits) of $10,091,000, $9,809,000 and ($128,000) due to the Company's net interchange power transactions with Edison during 1989, 1988 and 1987, respectively. Fuel expense for 1989 includes $5,663,000 for nuclear fuel leased to the Company by OES Fuel and other interest expense includes $2,033,000 of interest on loans with Edison. Other operation expenses for 1989, 1988 and 1987 include $4,298,000, $3,779,000 and $3,542,000, respectively, primarily attributable to data processing services rendered by Edison to the Company.

Supplemental Cash Flows Information –
All temporary cash investments purchased with an initial maturity of three months or less are reported as cash equivalents on the Balance Sheets. The Company records temporary cash investments at cost, which approximates their market value. Noncash financing and investing activities included capital leases of $8,997,000, $4,553,000 and $8,331,000 for the years 1989, 1988 and 1987, respectively. Noncash investing activities also include allowance for equity funds used during construction.

(2) Recovery of Perry Unit 1 Costs:
The PPUC granted the Company a base rate increase, effective May 4, 1988, designed to produce approximately $67,100,000 of additional annual operating revenues. The increase is being phased in over several years, such that all amounts deferred during the phase-in period will be fully recovered by the end of the fourth year. Under this phase-in plan, the Company's rates were initially increased to produce approximately $24,000,000 in additional cash revenue; the second year increase of approximately $28,000,000 was implemented in 1989. The difference between revenues actually billed and revenues that would have been billed absent the phase-in plan is recognized as additional accrued revenue for financial reporting purposes. Such revenues and associated interest accrued for future collection in connection with this plan amounted to approximately $60,854,000 as of December 31, 1989, of which approximately $30,809,000 and $30,045,000 were accrued during 1989 and 1988, respectively.

The Company was ordered by the PPUC to defer Perry Unit 1 operation and maintenance costs (net of energy savings from the unit), depreciation expense, property taxes and interest expense beginning with its November 18, 1987, commercial operation date until May 4, 1988, when Perry Unit 1 operating costs were recognized in the Company's electric rates. Based on this order, the Company has deferred $21,180,000 for future recovery from its retail customers.

(3) Terminated Construction Projects:
In January 1980, the Company and all other CAPCO companies terminated plans to construct four nuclear generating units. On October 15, 1987, the Supreme Court of Pennsylvania reversed a judgment of the Commonwealth Court of Pennsylvania which affirmed the PPUC's decision to permit the Company to recover the costs of the terminated units. The Supreme Court's decision was based on its interpretation of Section 1315 of the Pennsylvania Public Utility Code (which was in effect at the time of the PPUC's rate order), which it concluded bars the recovery of such costs through the rate making process. The Company wrote off the unamortized costs of the terminated units applicable to its PPUC jurisdictional customers and established a liability for potential customer refunds of previously recovered costs, reducing net income by approximately $7,300,000 in 1987. On January 11, 1989, the U.S. Supreme Court upheld the Supreme Court of Pennsylvania's decision and refunds for amounts previously collected began in September 1989.

(4) Leases:
The Company leases certain transmission facilities, computer equipment, office space and other property and equipment under cancelable and noncancelable leases. Consistent with the regulatory treatment, rental payments for capital and

operating leases are charged to operating expenses on the Statements of Income. Such costs for the three years ended December 31, 1989, are summarized as follows:

	1989	1988	1987
	(In Thousands)		
Interest on capital leases	$1,199	$1,365	$1,665
Amortization of capital leases	2,103	3,578	5,053
Operating leases	1,294	1,177	1,173
Total rental payments	$4,596	$6,120	$7,891

The future minimum lease payments as of December 31, 1989, are:

	Capital Leases	Operating Leases
1990	$ 2,172,000	$ 161,000
1991	2,019,000	153,000
1992	1,819,000	148,000
1993	1,615,000	116,000
1994	1,573,000	101,000
Years thereafter	15,177,000	2,747,000
Total minimum lease payments	$24,375,000	$ 3,426,000
Executory costs	5,665,000	
Net minimum lease payments	18,710,000	
Interest portion	10,628,000	
Present value of net minimum lease payments	8,082,000	
Less current portion	858,000	
Noncurrent portion	$ 7,224,000	

(5) Capitalization:

(a) Retained Earnings –
Under the Company's Charter, the Company's retained earnings unrestricted for payment of cash dividends on the Company's common stock were $59,494,000 at December 31, 1989.

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

(c) Preferred Stock Subject to Mandatory Redemption –
Annual sinking fund provisions for the Company's preferred stock are as follows:

Series	Shares	Date	Beginning
8.24%	5,000	December 1	(i)
11.00%	4,000	January 1	(i)
15.00%	3,200	July 15	(i)
11.50%	15,000	July 15	(i)
13.00%	5,000	July 1	1990
11.50%B	30,000	September 1	1991
10.50%	100,000	April 1	2040

(i) Retirements of this series have begun.

Preferred shares are retired at $100 per share plus accrued dividends. The Company's sinking fund requirements for the next five years are:

1990	$3,620,000
1991	6,220,000
1992	6,220,000
1993	6,220,000
1994	6,220,000

(d) Long-Term Debt –
The mortgage and its supplements, which secure all of the Company's first mortgage bonds, serve as direct first mortgage liens on substantially all property and franchises, other than specifically excepted property, owned by the Company.

Based on the amount of bonds authenticated by the Trustee through December 31, 1989, the Company's annual sinking and improvement fund requirement for all bonds issued under the mortgage amounts to $1,220,000. The Company expects to satisfy this requirement in 1990 by certifying unfunded property additions at 166⅔% of the required amount.

Sinking fund requirements for certain series of first mortgage bonds and maturing long-term debt (excluding capital leases) for the next five years are:

1990	$23,481,000
1991	5,635,000
1992	18,444,000
1993	32,589,000
1994	3,593,000

The weighted average interest rates shown on the Statements of Capitalization relate to long-term debt outstanding at December 31, 1989. The Company's obligations to repay certain pollution control revenue bonds are secured by series of first mortgage bonds and, in some cases, by subordinate liens on the related pollution control facilities.

Notes (continued)

(6) Notes Payable to Banks and Lines of Credit:

The Company has lines of credit with banks that provide for borrowings of up to $5,000,000 based on the prevailing prime or similar interest rate. Short-term borrowings may be made under these lines of credit on the Company's unsecured notes. The Company is required to pay commitment fees of 1/2% to assure the availability of these lines of credit. All of the current lines expire December 31, 1990; however, any unused lines may be canceled by the banks at any time.

The Company also has a credit agreement with Edison whereby either company can borrow available funds from the other by issuing unsecured notes at the prevailing prime or similar interest rate. Under the terms of this agreement there is no maximum borrowing limit; however, the Company's borrowing under this agreement is currently limited by the PPUC to a total of $50,000,000. Either company can terminate the agreement with six months' notice.

(7) Commitments, Guarantees and Contingencies:
Construction Program —

The Company's current budget forecast reflects expenditures of approximately $227,000,000 for property additions and improvements from 1990 through 1994, of which approximately $34,000,000 is applicable to 1990.

The CAPCO companies are continuing to review the status of Perry Unit 2. Currently, no significant work is being performed on the unit and the Company does not capitalize AFUDC. Until review of the status of Unit 2 has been completed, there will be no defined schedule for its completion; the construction estimates for the 1990-1994 period do not include any amounts applicable to Perry Unit 2 if construction of the unit were to be resumed. Possible alternatives being reviewed with respect to Unit 2 include indefinite suspension of construction on the unit, resumption of work on the unit and termination of the unit. In accordance with the CAPCO arrangements, none of these alternatives may be implemented without the approval of each of the CAPCO companies.

Duquesne Light Company's (Duquesne) claimed "de facto" abandonment, for rate making purposes, of its 13.74% interest in Perry Unit 2 was accepted by the PPUC in a 1987 rate order and Duquesne was allowed recovery of its investment in Perry Unit 2 over a ten-year period. Duquesne has advised the PPUC that it will not agree to the resumption of construction of Perry Unit 2. Duquesne's decision was independently made and does not represent a decision on the part of the Company to abandon Unit 2 for rate making or any other purposes. However, any future decision on the status of Perry Unit 2 will have to take into account Duquesne's position and ways will have to be found to accommodate this position if construction on the unit is to resume.

Delay in the completion of Perry Unit 2 can be expected to increase its total cost by amounts which are not presently determinable. If a decision were made to terminate Unit 2, certain costs which are currently assigned to Unit 2 would be reassigned, where appropriate, to Unit 1. However, cancellation charges payable to contractors and other costs of termination could be incurred. Pending completion of the CAPCO review, the Company is unable to predict whether the construction on Unit 2 will continue or, if continued, on what basis such continuation will proceed.

Based on Section 520 of the Pennsylvania Public Utility Code (which specifically permits utilities to recover a return of, but not a return on, prudently incurred costs of any partially completed facility when cancellation is found by the PPUC to be in the public interest for any generating unit canceled after October 10, 1985), the Company believes it could recover its investment in Unit 2 with respect to its PPUC jurisdictional customers. If a decision were made to terminate Perry Unit 2, the Company's reported net income would be reduced at that time by the difference between the cost of Perry Unit 2 and the present value of revenue to be collected from retail jurisdictional customers applicable to the unit.

The FERC has revised its policy with respect to recovering the costs of terminated construction projects. As a result, if Perry Unit 2 were terminated, the Company would be required to write off one-half of its investment applicable to its FERC jurisdictional customers if and to the extent that the FERC revised policy is applicable. Under such circumstances, the remaining costs, plus a return on the unamortized investment, would be recovered from its FERC jurisdictional customers.

Guarantees —

The Company, together with the other CAPCO companies, has several guarantees of certain debt and lease obligations in connection with a coal supply contract for the Bruce Mansfield Plant. As of December 31, 1989, the Company's share of the guarantee was $18,700,000. The price under the coal supply contract, which includes certain minimum payments, has been determined to be sufficient to satisfy the debt and lease obligations. The Company's total payments under the coal supply contract amounted to $11,376,000, $11,317,000 and $6,630,000 during 1989, 1988 and 1987, respectively. Under the coal supply contract, the Company's future minimum payments are:

1990	$ 2,910,000
1991	2,833,000
1992	2,702,000
1993	2,571,000
1994	2,441,000
Years thereafter	10,281,000

PENN POWER

Energy Cost Rate Proceedings –

On January 22, 1988, the PPUC entered an order instituting an investigation into the justness and reasonableness of the Company's proposed ECR. The proposed ECR included, among other things, five months of the costs of purchasing 12 megawatts of Perry Unit 1 capacity from Cleveland Electric Illuminating Company (CEI) as provided in a 1980 agreement among the CAPCO companies. The remaining 13 months of the CEI purchase were to be reflected in a subsequent ECR filing. On April 28, 1988, the PPUC disallowed all costs attributable to this purchase to the extent that such costs exceed the Company's average energy costs. On June 16, 1989, the Commonwealth Court of Pennsylvania affirmed this decision. The Supreme Court of Pennsylvania has agreed to hear an appeal of the Commonwealth Court's decision. If this order stands after appeal, it is currently estimated that net income would be reduced by approximately $10,000,000. The Company is unable to predict the ultimate disposition of this matter.

Environmental Matters –

Various federal, state and local authorities regulate the Company with regard to air and water quality and other environmental matters. The Company estimates that compliance requires additional capital expenditures of approximately $6,000,000, which is included in the construction estimate given above under "Construction Program" for the period 1990 through 1994.

As part of the reauthorization of the Clean Air Act, legislation has been introduced in Congress to address the so-called "acid rain" problem. Various bills introduced would require reductions in emissions of sulfur dioxide (SO_2) and oxides of nitrogen from utility power plants and other sources located in several states, including Ohio and Pennsylvania. The Company is unable to predict whether legislation will be enacted and, if so, to what extent, if any, the emission limits at the Company's plants would be affected. Substantial changes in the emission limits could result in the need for changes in coal supply, significant capital investments in flue gas desulfurization or other pollution control equipment or the closing of some coal-fired generating capacity to assure compliance. If flue gas desulfurization equipment were to be installed on all of its generating units to achieve compliance, a circumstance that may be physically impossible because of space limitations at Sammis Unit 7, the Company estimates that the capital costs associated with such installation could exceed $100,000,000.

In April 1988, several states, the Province of Ontario and several environmental groups petitioned the Environmental Protection Agency (EPA) to conduct a rulemaking under Section 115 of the Clean Air Act. Section 115 is that portion of the Clean Air Act which addresses pollution across international boundaries. The petitioners claim that the EPA has already determined that sources in midwestern states contribute to air pollution which they allege is endangering public health and welfare in Canada. The EPA is being asked to officially confirm this determination. The EPA has informed the petitioners that it does not presently have sufficient information to act on the petitions. On November 1, 1988, the petitioners filed a petition for review in the U.S. Court of Appeals for the District of Columbia challenging EPA's alleged decision to reject their request for findings. The Company, along with other electric utility companies and others, intervened in the appeal. Oral arguments are scheduled for February 15, 1990. The Company is unable to predict the outcome of this proceeding.

During the past several years, the U.S. Court of Appeals for the District of Columbia reversed several significant portions of the EPA's regulations on the methods used by the EPA to determine the amount of stack height credit for establishing individual source emission limits for SO_2. Portions of the latest EPA regulations were reversed and remanded by the Court in January 1988 as a result of appeals by the Company, Edison and others. Review of this decision was sought by environmental groups before the U.S. Supreme Court and thereafter the Company, Edison and others filed their own petitions for review before that Court. The Supreme Court declined to hear the case. After the EPA promulgates new regulations in conformity with the final Court decision in this matter, Ohio and Pennsylvania must then review their emission limits to ensure conformance with the new EPA regulations. Such review could result in more stringent emission limits for some existing plants and increased capital costs and operating expenses. The Company is currently unable to predict the outcome of these proceedings.

In June 1987, the EPA announced regulations covering small particulate matter emissions from utility boilers. Although the Company has an ownership interest in a generating unit in one of the two counties in Ohio where EPA computer modeling predicts excessive small particulate emissions will be found, the Company is unable to predict the ultimate effect of these regulations.

With respect to the environmental matters described above, the Company expects that any resulting additional capital costs which may be required, as well as any required increase in operating costs, would ultimately be recovered from its customers.

Notes (continued)

(8) Summary of Quarterly Financial Data (Unaudited):
The following summarizes certain operating results by quarter for 1989 and 1988.

Three Months Ended	March 31, 1989	June 30, 1989	September 30, 1989	December 31, 1989
	(In Thousands)			
Operating Revenues	$77,126	$73,736	$76,763	$74,413
Operating Expenses and Taxes	55,546	55,001	58,079	59,824
Operating Income	21,580	18,735	18,684	14,589
Other Income and Deductions	294	481	337	1,149
Net Interest	9,857	10,269	10,481	10,582
Net Income	$12,017	$ 8,947	$ 8,540	$ 5,156
Earnings on Common Stock	$ 9,257	$ 6,240	$ 5,927	$ 2,563

Three Months Ended	March 31, 1988	June 30, 1988	September 30, 1988	December 31, 1988
	(In Thousands)			
Operating Revenues	$60,199	$65,306	$77,173	$75,486
Operating Expenses and Taxes	49,429	51,608	55,792	54,281
Operating Income	10,770	13,698	21,381	21,205
Other Income and Deductions	138	208	240	177
Net Interest	2,549	7,329	9,976	10,003
Net Income	$ 8,359	$ 6,577	$11,645	$11,379
Earnings on Common Stock	$ 5,609	$ 3,827	$ 8,915	$ 8,642

Report of Independent Public Accountants

To the Board of Directors
of Pennsylvania Power Company:

We have audited the accompanying balance sheets and statements of capitalization of Pennsylvania Power Company (a Pennsylvania corporation and wholly-owned subsidiary of Ohio Edison Company) as of December 31, 1989 and 1988, and the related statements of income, retained earnings, capital stock and other paid-in capital, cash flows and taxes for each of the three years in the period ended December 31, 1989. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pennsylvania Power Company as of December 31, 1989 and 1988, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1989, in conformity with generally accepted accounting principles.

The continued construction of Perry Unit 2 is currently being reviewed by the CAPCO companies. As discussed in Note 7 to the financial statements, possible alternatives being considered include indefinite suspension, resumption of work and termination of the Unit. Because the Company is unable to predict the results of the review, it cannot now predict if construction of Perry Unit 2 will be terminated and, if terminated, to what extent the Company's investment will be recoverable.

As discussed in Note 7, on April 28, 1988, the PPUC issued an Order in which it held that a portion of the costs associated with a purchase of Perry Unit 1 capacity from the Cleveland Electric Illuminating Company should be disallowed. The Supreme Court of Pennsylvania has agreed to hear the Company's appeal of the Commonwealth Court of Pennsylvania's affirmation of the PPUC order. The Company is unable to predict the ultimate disposition of this matter.

Arthur Andersen & Co.

Arthur Andersen & Co.

New York, N.Y.
February 7, 1990

Directors

H. Peter Burg
Senior Vice President of the Company's parent, Ohio Edison Company, Akron, Ohio

Robert H. Carlson
Consultant for and formerly President and Chief Executive Officer of Universal-Rundle Corporation, a plumbing fixture manufacturer, New Castle, Pennsylvania

James R. Edgerly
Vice President, Secretary and General Counsel of the Company, New Castle, Pennsylvania

James E. Markle
President of the Company, New Castle, Pennsylvania

Joseph J. Nowak
Executive Vice President, Operations, Cyclops Industries, Inc., a manufacturer of steel products, Pittsburgh, Pennsylvania

Robert P. Randall
President of TRACO, a manufacturer of aluminum windows and doors, Warrendale, Pennsylvania

William F. Reeher
Vice President of the Company, New Castle, Pennsylvania

Justin T. Rogers, Jr.
Chairman of the Board of the Company, and President of its parent, Ohio Edison Company, Akron, Ohio

Douglas W. Tschappat
Executive Vice President of the Company's parent, Ohio Edison Company, Akron, Ohio

DIRECTOR EMERITUS

G. Leo Winger

Management Changes

G. Leo Winger, a director of the Company since 1976, retired from the board on March 22, 1989.

Robert P. Randall, President of TRACO, was elected to the Company's board on November 22, 1989.

Officers

Justin T. Rogers, Jr.
Chairman of the Board

James E. Markle
President

James R. Edgerly
Vice President, Secretary and General Counsel

Robert P. Wushinske
Vice President and Treasurer

William F. Reeher
Vice President

Angeline Comparone
Assistant Secretary

Francis A. Fazzone
Assistant Treasurer

Clarence H. Kauffman
Assistant Treasurer

DIVISION MANAGER
James R. Topper
Mercer County

Mr. Rogers is president of the parent company. The principal employment of all other officers is with the Company.

REGISTRAR for Preferred Stock:
First Seneca Bank and Trust Company,
Washington Centre,
New Castle, Pennsylvania 16101-1547

TRANSFER AGENT for Preferred Stock:
Office of the Company,
New Castle, Pennsylvania 16103-0891

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Pennsylvania Power Company is an equal opportunity employer.

1989 ANNUAL REPORT

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