

The Cincinnati Gas & Electric Company

and Subsidiary Companies

Annual Report

1981

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The Cincinnati Gas & Electric Company
139 East Fourth Street, Cincinnati, Ohio 45202
Telephone 513-381-2000

Annual Report 1981

This annual report and the financial statements contained herein are submitted to the shareholders of the Company for their general information and not in connection with any sale, or offer to sell, or solicitation of an offer to buy any securities.

The annual meeting of shareholders of the Company will be held at the office of the Company in Cincinnati, Ohio on April 28, 1982, at 11 A.M.

PROXIES for the annual meeting will be requested from shareholders when notice of meeting, proxy statement and form of proxy are mailed on or about March 26, 1982.

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Shareholders' Inquiries

Communications regarding stock transfer requirements or lost certificates may be directed to either Stock Transfer Agent. All communications regarding a Shareholder's account, dividends and changes of address should be directed to The Cincinnati Gas & Electric Company, Attention: Corporate Department, P.O. Box 960, Cincinnati, Ohio 45201.

Public Accountants:
Arthur Andersen & Co.
125 Walnut Street,
Cincinnati, Ohio 45202

Trustee for Bonds and Interest
Paying Agent:
Irving Trust Company
One Wall Street,
New York, N.Y. 10015

Preferred Shares Listed on:
New York and
Cincinnati Stock Exchanges

Common Shares Listed on:
New York, Cincinnati, Midwest
and Pacific Stock Exchanges

Transfer Agents and Registrars for
Common Shares:
The First National Bank of
Cincinnati, P.O. Box 2058,
Cincinnati, Ohio 45201
Manufacturers Hanover Trust Company
Four New York Plaza,
New York, N.Y. 10015

Transfer Agents for Preferred Shares:
The First National Bank of
Cincinnati, P.O. Box 2058,
Cincinnati, Ohio 45201
Manufacturers Hanover Trust Company
Four New York Plaza,
New York, N.Y. 10015

Registrars for Preferred Shares:
The Central Trust Company, N.A.
Fifth and Main Streets,
Cincinnati, Ohio 45202
Morgan Guaranty Trust Company
of New York, 30 West Broadway,
New York, N.Y. 10015

Administrator of Dividend
Reinvestment and Stock
Purchase Plan:

The Central Trust Company, N.A.
Corporate Trust, P.O. Box 1198,
Cincinnati, Ohio 45201

SEC Form 10-K to be Available

A copy of CG&E's annual report on SEC Form 10-K will be available, without charge, on or about April 1, 1982 to each holder of common shares upon written request to C. Robert Everman, Treasurer, P.O. Box 960, Cincinnati, Ohio 45201.

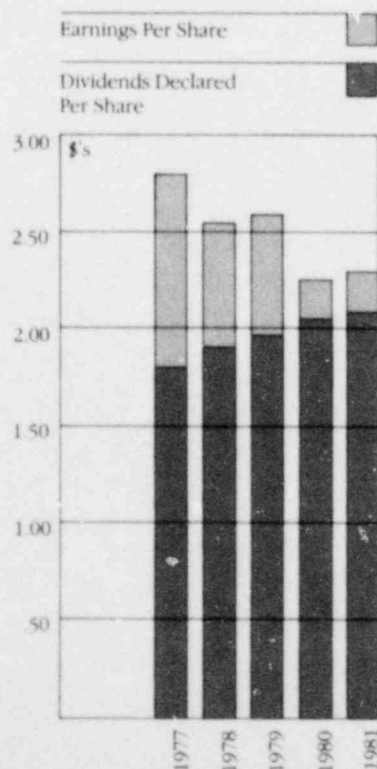
Cover Photo

East Bend Generating Station, the newest electric generating unit in the CG&E system, was placed in service in 1981. It is located along the Ohio River in Boone County, Kentucky.

Summary

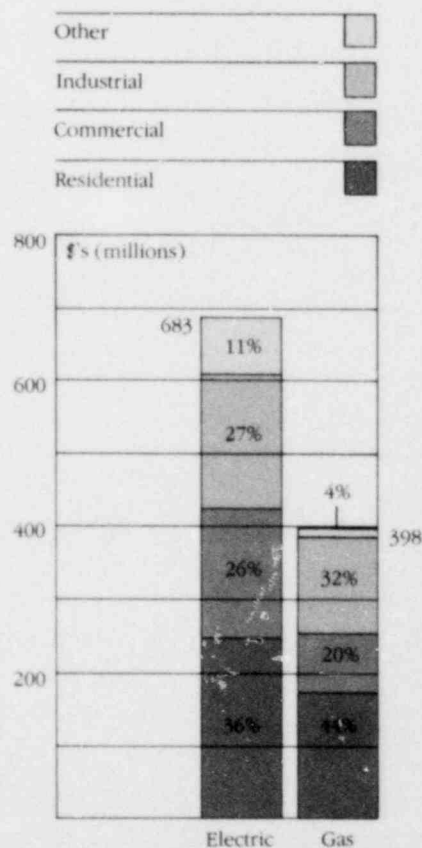
	1981	1980	% Increase (Decrease)
Earnings on Common Shares (000 omitted)	\$ 77,825	\$ 69,183	12.5
Average Number of Common Shares Outstanding (000 omitted)	33,830	30,765	10.0
Earnings per Common Share	\$ 2.30	\$ 2.25	2.2
Year End Annual Dividend Rate	\$ 2.10	\$ 2.04	2.9
Number of Holders of Common Shares	76,000	75,000	1.3
Electric Sales (million Kwh)			
Residential	5,117	5,277	(3.0)
Commercial	3,407	3,333	2.2
Industrial	4,666	4,493	3.9
Other Retail	1,233	1,242	(.7)
Total Retail	14,423	14,345	.5
Other Utilities	363	174	108.9
Total	14,786	14,519	1.8
Gas Sales (million cu. ft.)			
Residential	43,714	45,746	(4.4)
Commercial	20,764	21,071	(1.5)
Industrial	36,341	32,390	12.2
Other	3,916	4,403	(11.1)
Total	104,735	103,610	1.1
Electric Net System Peak Load (thousand Kw)	3,140	3,154	(.4)
Construction Expenditures (000 omitted)	\$ 273,602	\$ 296,957	(7.9)
Gross Plant—Year End (000 omitted)	\$2,757,122	\$2,499,083	10.3

**Earnings and Dividends
Per Common Share**



Source of Revenue 1981

Total electric and gas revenue for 1981 was \$1,081 million.



To Our Shareholders:

This has been an eventful, and an unusual, year for CG&E. While there were a series of difficult short-term problems, there was also substantial progress in areas which will be beneficial in the future.

On the positive side of the 1981 ledger:

- Earnings and dividends per common share increased during 1981.
- We made significant movement toward our goal of achieving adequate rate relief, although much additional improvement is necessary.
- A new coal-burning electric generating unit was placed into commercial operation and has performed with high availability.
- A federal test on emergency preparedness and coordination, demonstrating our ability to protect the public in the event of an accident at the Wm. H. Zimmer Nuclear Power Station (Zimmer Nuclear Station), was completed, thereby taking a major step toward final approval of an operating license.

On the other side of the ledger:

- The economic downturn and relatively mild weather during the second half of the year adversely affected earnings.
- The staff of the Nuclear Regulatory Commission (NRC) proposed a fine for inadequate supervision of the contractor's quality assurance program at the Zimmer Nuclear Station.
- We faced continuing unfavorable public reaction toward higher customer bills.

Our revenues reached an all-time high, surpassing the billion dollar mark for the first time, and our 1981 earnings of \$2.30 per common share were \$.05 above 1980's earnings per share of \$2.25. The quarterly cash dividend per common share was increased from 51¢ to 52½¢ during 1981.

The past year has been especially troublesome for most of the nation's utilities due to the capital intensive nature of their business, and CG&E has been no exception. Inflation and high interest rates have a profound effect when regulated rates are not adjusted in a timely manner. This is frequently not the fault of the regulators, but of the outmoded laws under which regulatory commis-

sions must work. The regulatory climate in the states of our service area has improved significantly in recent years. However, the controlling laws were not written for an inflationary economy.

The major task before us now is to obtain an operating license for the Zimmer Nuclear Station, place it into commercial operation, and get its total cost into our rate base. When this has been accomplished, our most difficult financial period will be behind us.

In April, we dedicated the first coal-burning generating unit at the new East Bend Station in Kentucky. The station is jointly owned with The Dayton Power and Light Company. East Bend reflects our continuing commitment to provide adequate and dependable power for our service area. In remarks at the dedication ceremony, Kentucky's Governor John Y. Brown noted the need for such power to support economic development. He also applauded our installation of the unit's pollution control systems. This equipment required an investment of \$125 million, which is about one-third of the unit's total construction cost.

A significant milestone toward the licensing of the Zimmer Nuclear Station was reached in November in the test of the nuclear emergency plans. While the final reports are not yet in, it appears that both the NRC and the Federal Emergency Management Agency, which reviewed our performance and that of State and County emergency service agencies, found that the test went well. After the station is in operation, similar exercises annually will test the emergency procedures.

The Atomic Safety and Licensing Board's hearings on the operating license for Zimmer Nuclear Station resumed in late January, 1982. This phase of the hearings concerns emergency planning and radiological monitoring, the remaining contentions from intervenors not yet heard by this Board.

In November CG&E received a Notice of Violation from the Office of Inspection and Enforcement of the NRC that a fine of \$200,000 was being proposed because of failure to exercise adequate oversight and control of the contractor's quality assurance program at the Zimmer Nuclear Station. We have taken steps to improve our performance in this area. At the same time, we are preparing a response to the Notice of Violation in which we will attempt to persuade the NRC that the proposed fine should not be imposed.

In order to further strengthen our nuclear operations, we have added to the Company organization a vice-president of Nuclear Operations who has extensive nuclear



William H. Dickhoner
President and
Chief Executive Officer



B. John Yeager
Chairman of the Board

management experience. His new organization has taken over, from the contractor, control of the quality assurance program, under the supervision of an experienced nuclear quality assurance manager.

When the Zimmer Nuclear Station goes into commercial operation, our ownership share will provide about 8% of our total generating capability and will play an important role in maintaining the reliability of our electric system. It will also provide power to the customers of its other two co-owners, The Dayton Power and Light Company and Columbus and Southern Ohio Electric Company.

There is a growing public awareness of the crucial role of energy in all facets of our modern industrial society. The price and supply of energy cannot be treated as a problem apart from other problems, such as inflation, the environment, economic growth, and the creation of jobs for an expanding work force.

The increased public understanding of the difficult circumstances under which gas and electric services are supplied has nurtured a somewhat more reasonable attitude toward necessary rate increases. This is not to say that high bills are no longer a serious problem. However, this small improvement in public understanding of the utility industry's problems emphasizes the importance of communicating with our customers, persistently and clearly. We will continue to put into sharp focus the basic fact that our customers are best served by a financially healthy utility.

CG&E will continue its efforts to communicate factually with its customers and shareholders. Rising prices for gas and electricity have made it more important for us to keep our customers informed of our efforts to control costs while we continue to provide reliable service.

We have used a variety of methods to reach our customers, including bill inserts, mass media ads, news briefings, meetings with local editors, meetings with local government officials, and seminars for industrial and commercial customers.

We have attempted to relay the facts as we know them about energy supply and prices. We have also tried to help our customers with useful tips on conservation and billing assistance. In 1982, we expect to continue with a broad-based, but conservative, communications program to further increase awareness of the issues confronting the Company and its customers.

The long-term economic health of this country is an attainable goal, but will be impossible to reach without adequate and reliable energy supplies. The cancellation and deferral of new electric generating units to

meet forecasts of reduced electric demand, without careful monitoring, could endanger tomorrow's power supplies. The financial health of the utility industry is clearly in the national interest, and regulatory barriers to needed rate increases today could spell social and economic troubles for our society in the future. Additionally, the time required to license and construct generating facilities must be shortened, and costly and unnecessary government rules and regulations must be eliminated. As participants in a capital intensive, regulated utility, all of us — managers, employees, and shareholders alike — must communicate to our elected government representatives the urgency of these problems.

One of our greatest strengths as a Company lies in the loyal, highly skilled, and motivated people who work here. A great majority of them play a multiple role as shareholders, customers, and employees of the Company. Thanks to them, we have achieved our goals in the past; because of them, we look to the future with confidence.

We are deeply appreciative of our loyal employees who continue to demonstrate pride in their task of providing reliable gas and electric service to our customers. We are grateful to our shareholders and investors whose support during a difficult period contributes greatly to the stability and continued success of the Company. We are confident as we face the future.

Sincerely,

William H. Dickhoner
President and
Chief Executive Officer

B. John Yeager
Chairman of the Board

January 27, 1982.



Nick Purdin, Sr. Rad-Chem Technician, Electric Production Department, Zimmer Nuclear Station

Year In Review

CG&E's earnings on common shares in 1981 totalled \$77.8 million compared with 1980 earnings of \$69.2 million. The Company experienced relatively flat sales of gas and electricity caused by stagnant economic conditions and mild weather in the second half of the year.

Electric Sales Total kilowatt-hour (kwh) sales were up 1.8% in 1981. Industrial sales were up 3.9% over 1980; commercial sales were up 2.2% in spite of a cooler summer than the year before, which meant a considerable loss in air-conditioning sales; and residential sales were down 3.0% from 1980 because of the cooler summer and customer conservation.

CG&E's electric power system customarily experiences its peak demand during the summer, which it did in 1981 on July 13. The peak was 3,140 megawatts. Because of the cooler summer in 1981 than in 1980, this peak was down 0.4% from 1980's peak. However, the average compound growth rate, when comparing 1981's peak to 1979's peak, is 2.7% per year.

Our forecast indicates that electric sales and peak demands are expected to grow on the average at a rate of approximately 3% per year throughout the remainder of this decade.

Gas Sales Total gas sales in 1981 were 104.7 million mcf, 1.1% greater than sales in 1980. The primary reason for the increase in total gas sales was a 12.2% increase in industrial sales, partially offset by decreases in residential sales of 4.4% and in commercial sales of 1.5%.

Our customers are continuing to prac-

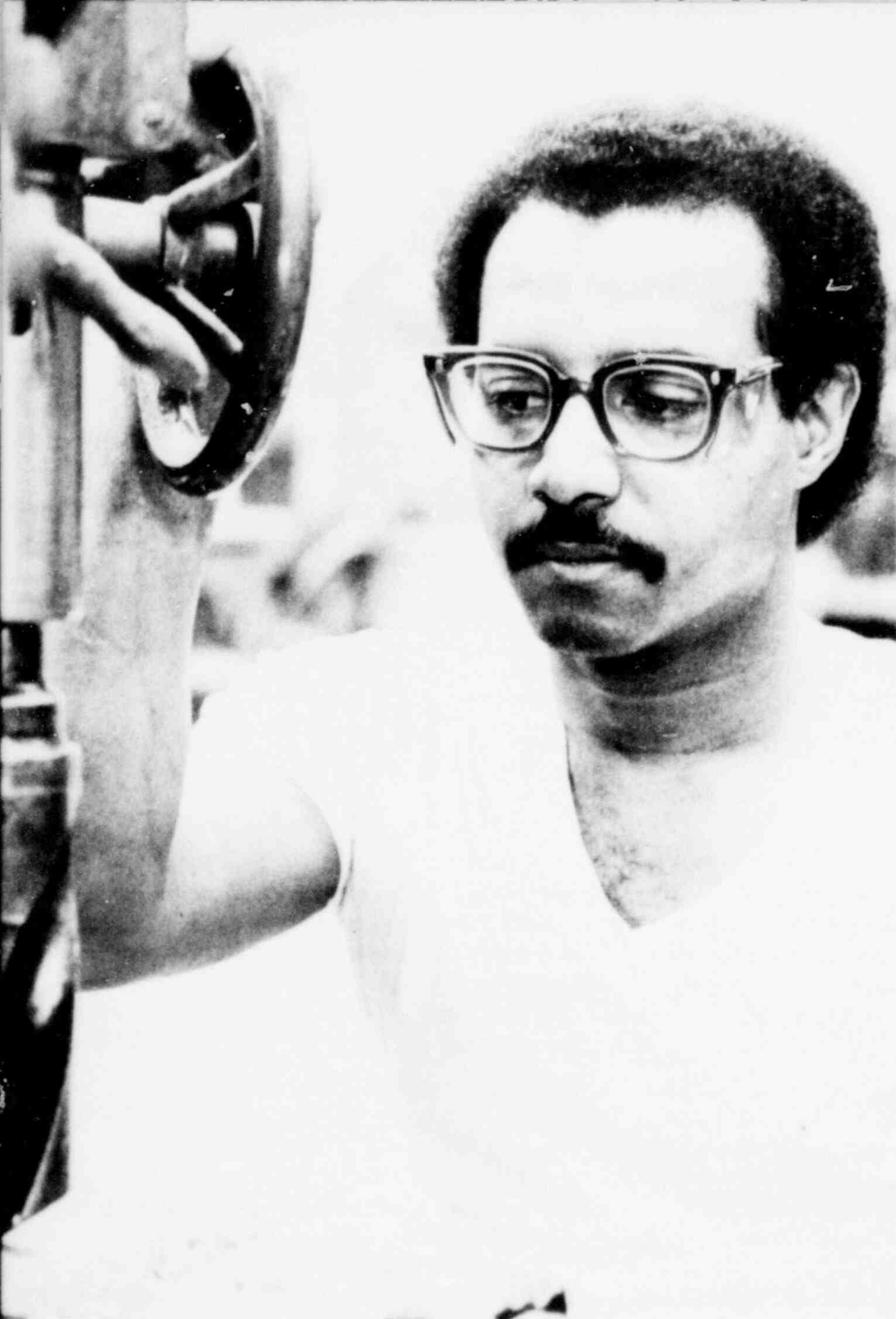
tice conservation. Since 1973, when conservation's importance was recognized, our residential and commercial customers have reduced their average use of gas for space heating by approximately 25%.

Rate Matters CG&E and its subsidiaries continue to seek rate increases regularly to offset inflation and rising construction and financing costs.

In March, 1981, The Public Utilities Commission of Ohio (PUCO) authorized an annual electric rate increase of \$50.5 million for CG&E. CG&E filed a petition for rehearing contending that the order contained an error in the determination of the authorized increase. Following the rehearing, the PUCO in June, 1981, authorized an additional increase of \$5.2 million annually.

In April, 1981, the PUCO issued an order authorizing CG&E to recover approximately \$12 million in unrecovered gas costs. These unrecovered costs resulted from the implementation of the new gas cost recovery rule which changed the manner in which CG&E applies the purchased gas adjustment clause.

On January 27, 1982, the PUCO issued an order authorizing CG&E an annual increase in electric revenues of \$85.4 million and an annual increase in gas revenues of \$19.4 million. The new rates are expected to become effective in early February, 1982. The increases approved by the PUCO represented 63% of CG&E's \$135 million electric rate request and 92% of CG&E's \$21 million gas rate request. The PUCO found that a rate of return of 11.80% was fair and reasonable, which included a return of 16.84% on common equity. The electric rate request was necessary, in part, to recover the fixed charges of the East Bend Station which became operational in March, 1981, to allow the recovery of that portion of the cost of fuel used to generate electricity which cannot be recovered under the new PUCO fuel adjustment clause, and to recover a portion of the financing costs associated with the



Jimmy Lytle, Sr. Welding
Machinist, Electric Operating Department

Zimmer Nuclear Station. The PUCO allowed 50% of our investment in the Zimmer Nuclear Station as of March 31, 1981 in the rate base (Ohio's rate base law permits the PUCO, at its discretion, to include in the rate base construction work in progress on projects at least 75% completed, but only in an aggregate amount up to 20% of the remainder of the rate base). The last gas rate increase was granted in 1976. That request was based on 1974 costs.

The Federal Energy Regulatory Commission issued an order in November approving CG&E's request to increase rates for electricity sold wholesale to our Kentucky subsidiary,



Pat Dischar, Expediter,
Customer Services Department

The Union Light, Heat and Power Company (Union Light). The order provided CG&E with an increase in electric revenues of \$9.1 million annually. CG&E's original request for an annual increase of \$10.9 million was placed into effect on June 25, 1981. The difference between the originally requested rates and the approved final rates has been refunded to Union Light, and will be refunded to Union Light's customers in accordance with a refund plan approved in January, 1982 by the Kentucky Public Service Commission (KPSC).

In October, 1981, Union Light filed with the KPSC an application for a \$6.5 million annual increase in its gas rates. If approved, the new rates would take effect in the second quarter of 1982.

Electric Production The first 600-megawatt unit at the East Bend Station in Boone County, Kentucky, went into service earlier this year. A second unit of the same size is scheduled for completion in 1988.

At East Bend, the first generation of electricity occurred late in December, 1980. After approximately three months of pre-operational testing, the unit became available for commercial service on March 24, 1981. After a few problems were solved during April and May, the unit had a remarkably good record of availability for the remainder of the year.

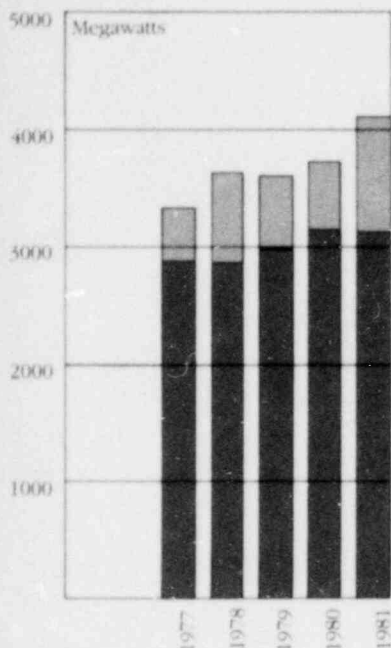
Construction of the second unit at East Bend Station has begun. Foundations in the boiler and turbine area, along with installation of the circulating water pipe, have been completed.

The Killen Generating Station in Adams County, Ohio, is scheduled for commercial operation in October, 1982.

System Capability and Peak Load

System Capability
at Time of Peak

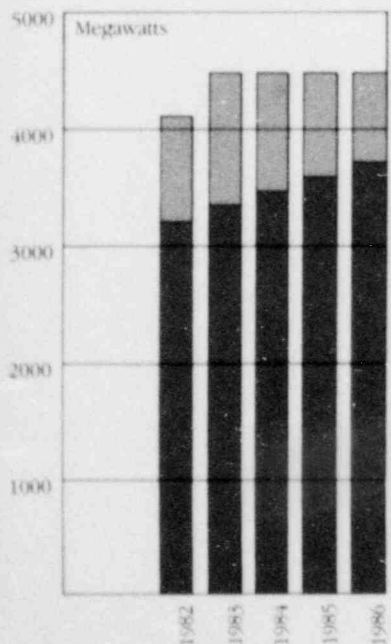
Summer Peak



System Capability and Peak Load Forecast

System Capability

System Peak



The 600-megawatt coal-fired unit is expected to cost about \$588 million when completed. CG&E is a co-owner of the unit with The Dayton Power and Light Company, which is responsible for constructing and operating the station.

CG&E is studying an Ohio Supreme Court decision that a utility cannot charge its customers for planning and preliminary construction costs of a cancelled power plant, where later information shows that the project would not be required. It appears that the decision could force CG&E to write off costs associated with canceling the construction of the second unit at the Killen Generating Station. This cancellation was announced in September, 1980. The write-off could reduce net income by approximately \$3 million.

Construction of the Zimmer Nuclear Station continued with substantial progress being made. In addition to installing required modifications in the primary containment, work on the Service Building Addition, which includes a Technical Support Center mandated as a result of Three Mile Island, has progressed such that it will be occupied by the end of 1982. The estimated cost of this addition is approximately \$5 million. The Zimmer Nuclear Station, which is now approximately 97% complete, is presently estimated to be in service in early 1983.

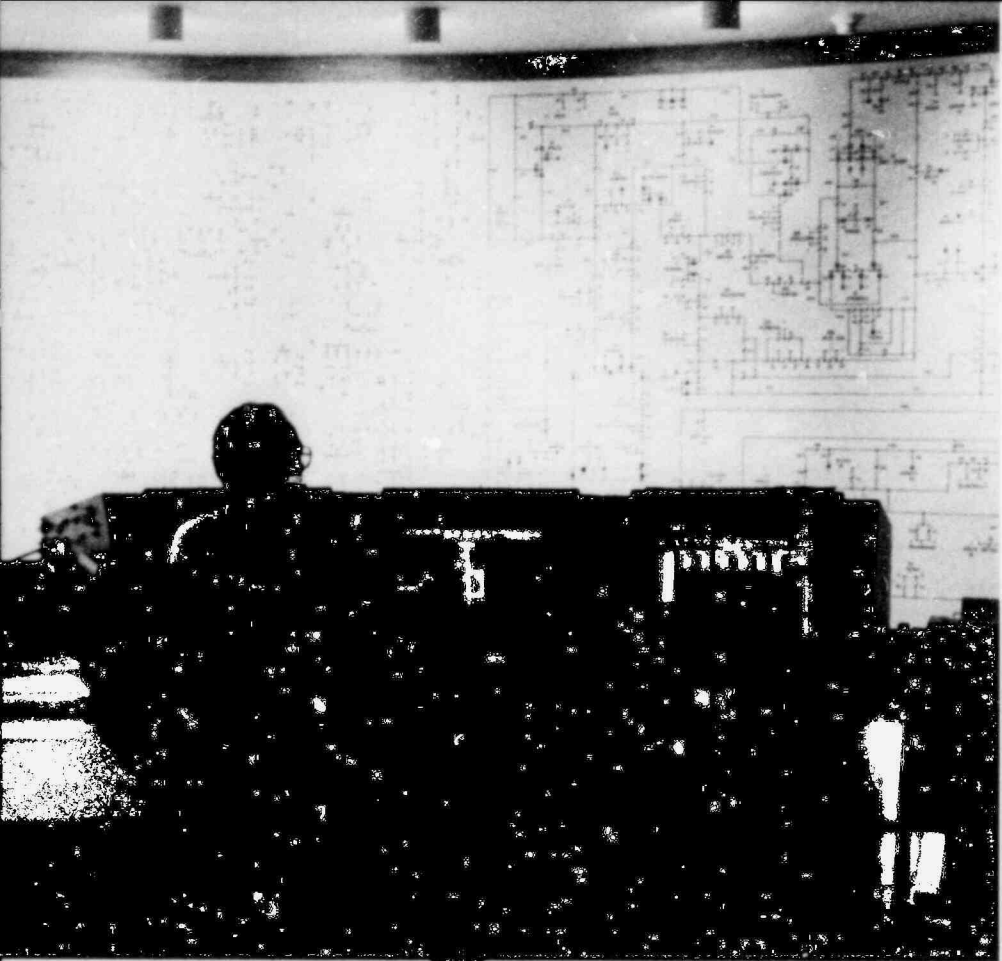
Total construction costs are estimated to be \$1¼ billion. CG&E has a 40% interest in the Zimmer Nuclear Station.

Emergency planning work leading toward a goal of federal approval of the emergency preparedness for the Zimmer Nuclear Station continued throughout the year. Emergency Plans for the Commonwealth of Kentucky, Campbell, Pendleton, and Bracken Counties in Kentucky, and Clermont County in Ohio are being prepared in close cooperation with the emergency and disaster agencies and government authorities at both the State and County levels. Training in emergency procedures for on-site and off-site personnel has been conducted.

A prompt notification system for the four counties within the station's emergency planning zone was developed. A combination of fixed sirens and residential alert monitors was chosen as the most effective system. Installation of the system is under way at this time, with an integrated system test planned soon after installation has been completed.

A test of emergency procedures involving CG&E, the States of Ohio and Kentucky, and the Counties of Clermont, Campbell, Pendleton, and Bracken was held on November 18, 1981. Federal officials from the NRC and the Federal Emergency Management





Control of the electric system through the new Power Management System in the Systems Operation Center will result in cost savings to the Company's customers. The facility provides system operators direct control of the Company's generating units and major transmission and distribution substations.

Agency observed the exercise and found that the test went well.

A final determination as to the overall adequacy of emergency response plans will be made by the NRC, after receiving the Federal Emergency Management Agency's evaluation of off-site plans and warning systems.

Other construction projects at generating stations include a new ash storage basin, costing in excess of \$4 million, nearing completion at the Miami Fort Station. The unique design of the dike surrounding this basin utilized fly ash generated at the station, in construction of the dike, thereby reducing the cost of construction as well as saving on the cost of disposing of the fly ash.

Extensive structural repairs to the cooling section of the natural draft cooling tower at the Miami Fort Station have been completed. Construction of an \$8 million supplemental cooling tower, which will permit increased generation from Units 7 and 8 during the hot

summer months, is near completion.

Substantial modifications to some units at the Walter C. Beckjord Station have been made to improve the performance of electrostatic precipitators, reducing fly ash emissions.

Electric Operations CG&E continues to make improvements in its transmission and distribution systems to provide electricity more efficiently to its customers.

The new Power Management System (PMS), the most technically advanced available, is comprised of six computers and seventy-three remote substation controllers and is now 90% complete. The system provides for centralized control of the electric generation, transmission, and distribution systems.

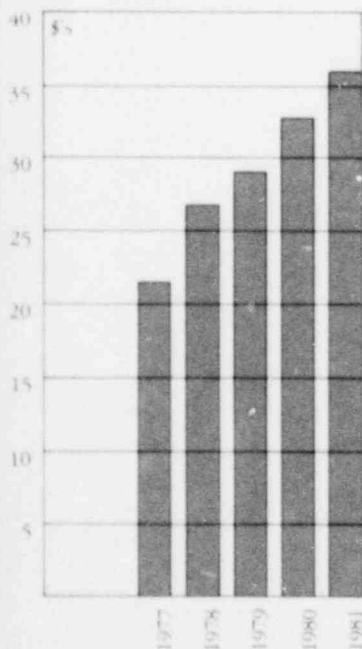
Phased implementation of PMS control of major remote substation controllers began in April of 1981. Generation control and testing began during the latter part of 1981. Total operational capability of the PMS is now expected to be achieved during the first quarter of 1982.

Red Bank Substation, a major new 345,000/138,000 volt transmission substation, is nearly complete. This addition will provide for the reliable delivery of power, to be produced by the Zimmer Nuclear Station and the Killen Generating Station, into the Company's transmission network. Equipment using the latest technology allows for a marked reduction in the land area requirements for the substation.

Work began in 1981 on a computer assisted Electric Trouble System that will substantially improve the efficient handling of electric trouble on the transmission and distribution systems from storms and other causes affecting service to large numbers of customers. The computerized Electric Trouble System is scheduled for completion in November, 1982.

Load Management CG&E continues to be involved in a variety of load management programs to promote conservation and the efficient use of

Cost of Coal per Ton



Comparative City Rates

1. New York	\$123.91
2. Boston	113.45
3. Philadelphia	92.57
4. Baltimore	88.62
5. Washington	85.06
6. Milwaukee	84.26
7. Chicago	82.61
8. Detroit	77.48
9. Buffalo	76.85
10. Cleveland	76.17
11. St. Louis	76.14
12. Atlanta	73.87
13. Pittsburgh	72.75
14. Minneapolis	72.53
15. Cincinnati	72.22
16. Kansas City	67.83
AVERAGE \$83.52	

Figures reflect the average price paid by residential customers for 500 kilowatt-hours of electricity and 10,000 cubic feet of gas in November 1981, for major metropolitan areas within 750 miles of Cincinnati. (U.S. Department of Labor, Bureau of Labor Statistics — November 1981.)



Curtis Terry, Meter Specialist II, Gas Operating Department

facilities and resources. Electric meters equipped with microprocessor-based, solid state electronic registers are being installed at our customers' option to implement a load management rate available to commercial and industrial customers. The electronic register can be programmed for five years to distinguish between the customers' use of power and energy based on the time of the day, the day of the week and holidays.

CG&E continues efforts to aid non-residential customers in load management techniques. A series of 24 one-day seminars for small commercial firms were held throughout the service territory to train these users on energy audits, demand control, energy management plans, and efficient use of electricity. The free seminars were attended by more than 400 non-residential customers.

A CG&E customer participating in a load management course, which we conducted for large users, won a national award for its energy management efforts. Bedinghaus Business Forms won the second highest award in the National Electrification Council's National Achievement Award Program, which is open to organizations completing an energy management course. In 1981, 25 of our customers completed the education program.

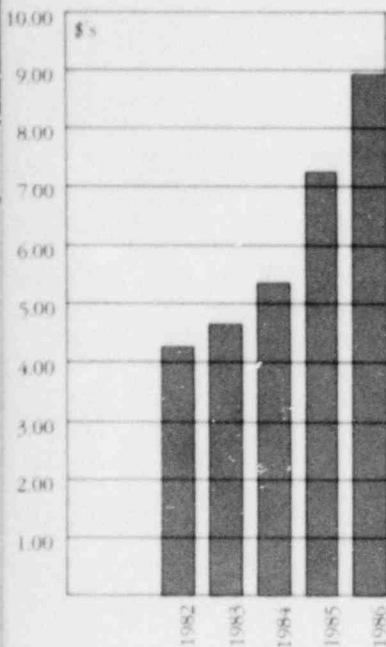
Two wind-powered generators, including a unit funded by the U.S. Department of Energy and the National Aeronautics and Space Administration, have been placed in service by customers on the Company's electric distribution system. The 1.8 kw and 6 kw generators will provide valuable data on the feasibility of using these generators in our service area, as well as their effect on the operation of our electric system. A third wind-powered generator project is under construction.

The Company continues to monitor the development of cogeneration by industrial users. At this time, CG&E does not believe it can purchase power in sufficient quantities from cogenerators to offset the need for future capacity.

Gas Operations Our gas supply is continuing to improve. Columbia Gas System, Inc., our principal supplier, will be able to furnish us our requirements during the next ten years, including the necessary amount for winters as much as 10% colder than normal. In April, 1981, the PUCO authorized CG&E to supply gas to new boiler loads in excess of 300,000 cubic feet per day on a lowest priority fully interruptible basis. In June, 1981, the KPSC authorized Union Light to accept similar loads on a similar basis.

We installed 68 miles of new gas

**Purchased Gas Costs Projected
Per Mcf**



distribution mains and added 3,600 gas customers to our lines in 1981. We anticipate an average annual increase of 1.4% in our gas sales over the next five years.

The price we must pay for gas will continue to increase. Our suppliers forecast that our cost of gas in 1990 will be almost five times higher than the 1981 level. CG&E opposes the accelerated deregulation of natural gas prices. We believe it will result in higher prices immediately without a commensurate benefit to supply.

The Residential Conservation Service (RCS) program was initiated in CG&E's service area in August, 1981. During the following months, approximately 400,000 initial program announcements were mailed to Ohio gas and electric customers. This program was mandated by the National Energy Conservation Policy Act of 1978. The response to the Ohio program announcements has been disappointing. Only 1.7% of those receiving the announcements have made requests for the energy audits. The KPSC has not announced a starting date for the RCS program in that state.

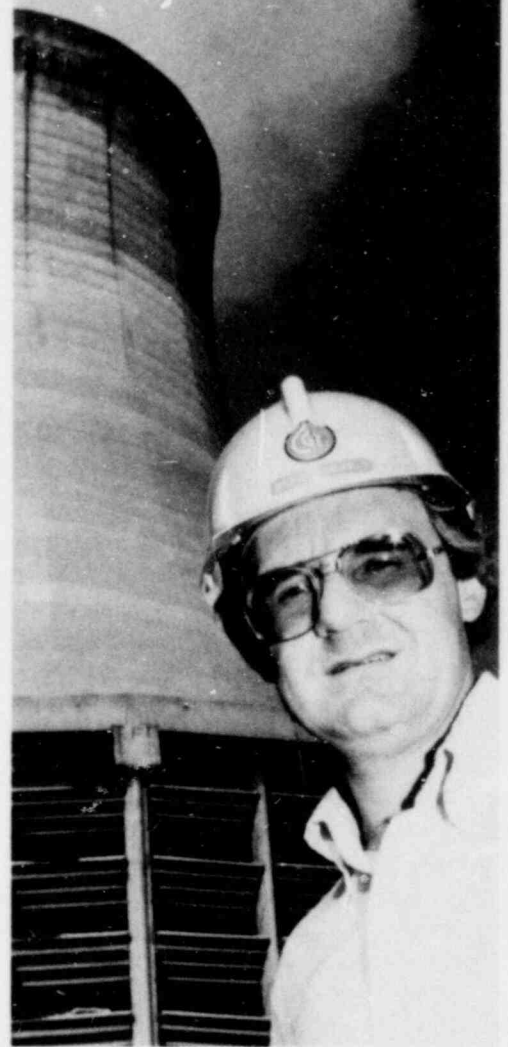
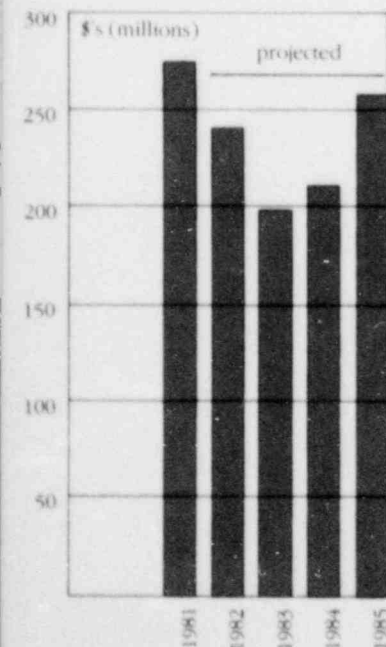
The Company completed in 1981 a planned program of modernization of its Gas Control Center. The Center, located in the Headquarters Building, manages the gas supply of the entire service area. The 24-hour staffed Center arranges for the daily supply of gas and controls the flow of the gas throughout the system.

Five outlying stations have been modernized over a five-year period. Using computerized remote control units, these stations control gas flow, change pressure settings, and calculate the instantaneous gas flow at various locations in the system. The Control Center integrates the entire system into a composite center for controlling the functions of the gas system.

Construction and Financing

During 1981, CG&E and its subsidiaries invested \$274 million for both new facilities and the replacement and upgrading of existing facilities. Included in the

Construction Expenditures



J. Eugene Kissel, Associate
Engineer, General
Engineering

1981 expenditures were \$252 million for electric facilities, \$19 million for gas facilities, and \$3 million for common facilities used in both gas and electric operations.

Construction expenditures for 1982 are expected to be \$240 million. Over the next five years (1982-1986), construction expenditures are expected to total \$1,178 million, primarily for electric generating, transmission, and distribution facilities. An estimated \$119 million will be spent for gas facilities.

In January, 1981, CG&E sold through underwriters 300,000 shares of 12.52% series \$100 par value Cumulative Preferred Stock and an additional 2 million shares of common stock at a price of \$15.25 per share. In May, \$100 million of 10-year First Mortgage Bonds bearing interest at a rate of 16% were sold through underwriters. The proceeds from these sales were used to repay short-term indebtedness incurred in connection with our construction program and for additional construction.



Ron Cecil, Meter Specialist I,
Gas Operating Department

In July, as a result of the 1980 realignment of the ownership interest in the East Bend Station, CG&E obtained from The Dayton Power and Light Company \$12.7 million of the proceeds from pollution control revenue bonds issued in 1979. The bonds have an average life of approximately 25 years and an annual cost of money to CG&E of 8.24%.

Union Light issued in December, through a private placement, \$10 million of First Mortgage Bonds having an average life of 8½ years and bearing interest at a rate of 15¾%. The proceeds were used to repay Union Light's short-term indebtedness incurred in connection with its construction program and the retirement at maturity of \$1.4 million of 3¾% First Mortgage Bonds.

Additional equity capital of \$15 million was provided by the issuance of 991,939 shares of CG&E common stock through the Dividend Reinvestment and Stock Purchase Plan, the Employee Incentive Thrift Plan, and the Employee Stock Ownership Plan.

Congressional approval of President Reagan's tax package may be helpful to CG&E shareholders. The Economic Recovery Tax Act of 1981 allows individuals participating in one or more qualifying plans (including CG&E's Dividend Reinvestment and Stock Purchase Plan) to defer federal income taxes on up to \$750 per year (\$1,500 for a joint return) of the dividends reinvested.

The tax basis of shares purchased from the reinvested dividends would be



zero for the purpose of determining taxable gain when shares are sold. The gain from such a sale will qualify for long-term capital gain treatment if the shares are held for more than one year from the dividend payment date on which they were purchased. However, if any shares of CG&E's common stock (regardless of how acquired) would be sold within one year from the date when shares were acquired through the reinvestment of dividends, the entire net proceeds from shares sold (up to the number of shares so acquired) would be treated as ordinary income.

CG&E's Plan was amended effective January 5, 1982, for the purpose of revising the section relating to federal income taxes to reflect the new tax provisions. The Plan was also amended to provide for participation by holders of preferred stock; to provide for the reinvestment of dividends from less than the total number of shares held in one account, since many shareholders wish



Beverly Stevenson, Draftsman,
Electric Distribution Engineering Department

to participate only to the extent of the applicable tax deferral, and to decrease the minimum contribution under the optional cash provisions to \$25 for any dividend payment date and increase the maximum optional cash contribution to \$40,000 per calendar year. At the present time, approximately 9,200 shareholders are enrolled in the Dividend Reinvestment and Stock Purchase Plan.

CG&E has retained its "Aa" first mortgage bond rating and its "a" preferred stock rating from Moody's rating agency. However, in May, Standard & Poor's rating agency downrated all of CG&E's outstanding issues of first mortgage bonds from "AA" to "A". In addition, the rating on all outstanding series of CG&E's preferred stock was lowered from "A" to "BBB".

Reasons given by Standard & Poor's were that CG&E's large capital outlays for construction of new generating



Mike Boats, Control Operator,
Electric Production Department,
East Bend Generating Station

capacity have strained internal cash resources and required heavy external financing, and that substantial debt additions to the capital structure have resulted in increased fixed charges and declining measures of earnings protection. However, as discussed in "Rate Matters," we have taken steps to increase the internal generation of funds.

As of the date of this Report, CG&E plans to offer through underwriters three million shares of new common stock in February, 1982, subject to market conditions. The proceeds of the proposed sale of common stock will be used to repay a portion of CG&E's short-term indebtedness. CG&E also plans to obtain a loan of about \$15 million through the issuance by a public authority of pollution control bonds during the first quarter of 1982.

Shares of common stock will be issued through the Plans mentioned above, and additional long-term debt and equity securities may be issued later in 1982. Any additional requirements will be obtained through the issuance of short-term indebtedness.

Litigation Union Light has been named defendant in various actions filed in the Kenton County, Kentucky Circuit Court. The actions allege damages of approximately \$32 million in connection with explosions and fire on October 9, 1980, at Simon Kenton High School in Independence, Kentucky.

The basis for the actions is Union Light's alleged negligence in installing, maintaining, and operating gas regulating equipment at the school. CG&E is unable to predict the outcome of such litigation at this time.

Shareholders Survey In a comprehensive survey last year, CG&E's shareholders expressed their opinions about Company operations and policies. Approximately 30% of our shareholders answered our questionnaire.

Management was pleased by the high rate of participation in the survey, and learned a lot about the owners of the Company. The information will be useful in planning for improved communication with our shareholders and in the formulation of new investor programs. We believe that mutual understanding of the issues and opportunities facing our changing industry is helpful to shareholders and managers alike.

Many of the questions were designed to collect the usual demographic information about our shareholders. In addition, we learned that our owners are overwhelmingly in favor of CG&E management voicing its opinion on government actions that affect our business. More than 98% of the shareholders responding urged us to speak up on government-industry issues.

We learned, too, that 85% of the shareholders responding believe the United States should increase its reliance on nuclear power. It is good to know that they support our plans to use this proven technology in order to assure a dependable supply of electricity for our customers.

It is always interesting to find out more about shareholders, where they live and what they do for a living. The survey shows that CG&E investors are mature: 55% are 65 years of age or over, and 20% are 75 and over. Most of them are retired (53%), and the largest single category of occupation is Professional

(19%). The next largest occupational group is Homemaker (13%).

More than a third of our shareholders live in our home state of Ohio (36%). In fact, 43% of our shareholders live in Ohio, Kentucky, and Indiana — parts of which comprise our service area. With the high percentage of retirees among our shareholders, it is not surprising that a significant number reside in Florida (10%) and California (6%).

The majority of our representative group of shareholders (68%) own 250 or fewer shares of stock, and 70% rely on their investments for living expenses, either wholly or in part. Three-fourths of them own between 50 and 500 shares; 12.5% own 50 shares or less, and 12.3% own more than 500 shares. More than half (60%) have annual household incomes of \$30,000 or less, and 19% have incomes of \$15,000 or less. Our typical shareholder is a mature, retired professional in modest circumstances, who depends on investments to meet daily living expenses.

Current income from dividends was the most frequently mentioned primary reason for holding CG&E stock (56%). A combination of income and long-term growth was second (37%). A typical CG&E shareholder has owned CG&E stock for approximately 5½ years. More than one-fourth (26%) have owned their shares for more than 10 years, and 28% are newcomers to CG&E ownership, owning their stock 2 years or less. Shareholders who have owned their shares for more than 20 years represent 11% of our shareholders.

Our shareholders are independent-minded investors. More than 40% cited their own judgment as the primary influence in their decision to buy stock in our Company. Advice from brokers accounted for 31% of the decisions to buy CG&E stock.

CG&E owners keep themselves well informed on matters of business and investments. Almost 84% are daily readers of the business sections of their local newspapers, and 42% regularly read the Wall Street Journal.

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

Results of Operations

The increase in earnings per common share for 1981 compared to 1980 was due to several factors including increases in electric rates and increases in total electric and gas sales volumes. The effect of these increases was partially offset by depreciation and other costs associated with the first unit at the East Bend Electric Generating Station, which began commercial operation in March 1981 and are not fully reflected in rates charged to CG&E's customers; higher interest charges and preferred dividends due to the issuance of additional securities; general inflation which caused increases in labor and material costs; and a larger number of shares outstanding. For further discussion of the effects of inflation, see Note 11 to the Consolidated Financial Statements.

Increases in operating revenues in 1980 and 1981 were primarily due to the operation of fuel adjustment clauses reflecting changes in the cost of fuel used for electric production, to the operation of escalation clauses reflecting changes in the cost of gas purchased, to increases in total electric sales volumes during 1980 and 1981, to an increase in total gas sales volumes in 1981, and to rate increases granted by regulatory bodies.

Increases in gas purchased expense resulted from increases in average cost per Mcf purchased in 1980 and 1981. Increases in fuel used in electric production resulted from increased fuel prices in 1980 and 1981 and from increased electric generation in 1981.

The increase in other operation expense in 1980 was due to a number of factors including significant purchases of electricity, wage increases and the general effects of inflation.

The increases in maintenance costs during 1980 largely were attributable to increased maintenance on electric generating units.

Depreciation expense increased in 1981 primarily as a result of an increase in depreciable plant in service.

Taxes other than income taxes increased in 1981 primarily as a result of higher public utilities gross receipts taxes resulting from increased revenues and increased rates.

For discussion of the fluctuations in income taxes, see Note 1 to the Consolidated Financial Statements.

The allowance for funds used during construction increased primarily due to the application of the allowance for funds rate to higher levels of construction work in progress and to an increase, effective January 1, 1980, in the allowance for funds rate from an annual pre-tax rate of 8½% to a net-of-tax rate of 8¼% compounded semi-annually.

Interest on long-term debt and preferred dividends increased due to the issuance of additional securities to finance a portion of the construction program.

Reference is made to "Rate Matters" herein with respect to electric and gas rate matters.

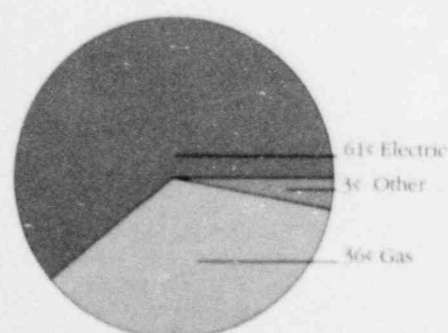
Liquidity and Capital Resources

The construction expenditures for CG&E and its subsidiaries for 1982 are expected to be \$240 million. Over the next five years (1982-1986) construction expenditures are expected to be \$1,178 million. CG&E contemplates continuing debt and equity financings in the capital markets. The amount of these financings is subject to the amount and timing of rate increases, sales volumes, changes in construction plans, and market conditions.

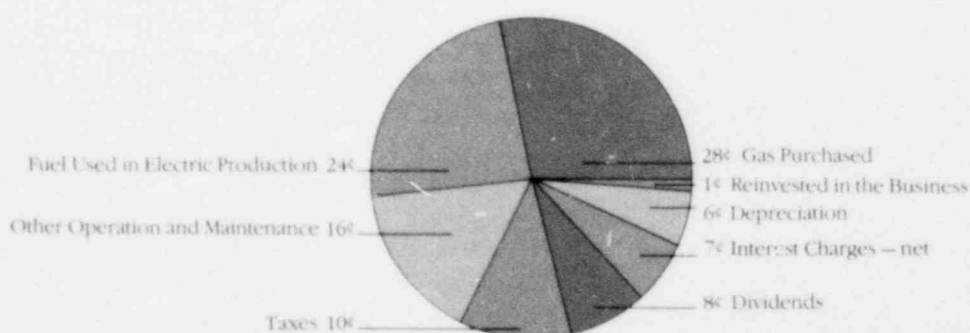
Short-term indebtedness will be used to supplement internal sources of funds for the interim financing of the construction program. CG&E and its subsidiaries presently have authorized a maximum amount of short-term indebtedness of \$140 million and \$51 million of short-term borrowings were outstanding at December 31, 1981. For further discussion of financing, see "Construction and Financing" herein.

The Revenue Dollar 1981

Where It Comes From...



Where It Goes...



Consolidated Statement of Income

for the years ended December 31,

*The Cincinnati Gas & Electric Company
And Subsidiary Companies*

	(Thousands of Dollars)	1981	1980	1979
OPERATING REVENUES				
Electric		\$ 683,090	\$599,142	\$518,916
Gas		398,383	355,893	306,910
Total operating revenues		<u>1,081,473</u>	<u>955,035</u>	<u>825,826</u>
OPERATING EXPENSES				
Gas purchased		314,076	280,168	232,055
Fuel used in electric production		263,469	234,938	216,279
Other operation		107,711	109,877	83,673
Maintenance		70,581	65,131	50,337
Provision for depreciation		62,589	52,740	49,711
Taxes other than income taxes (Schedule on page 21)		82,603	65,542	59,941
Income taxes (Schedule on page 21)		47,814	36,942	21,442
Total operating expenses		<u>948,843</u>	<u>845,338</u>	<u>713,438</u>
OPERATING INCOME		<u>132,630</u>	<u>109,697</u>	<u>112,388</u>
OTHER INCOME AND DEDUCTIONS				
Allowance for other funds used during construction (Note 1)		33,538	31,051	19,218
Income taxes—credit (Schedule on page 21 and Note 1)		12,363	10,264	(442)
Other—net		1,822	2,187	1,056
Total other income and deductions		<u>47,723</u>	<u>43,502</u>	<u>19,832</u>
INCOME BEFORE INTEREST CHARGES		<u>180,353</u>	<u>153,199</u>	<u>132,220</u>
INTEREST CHARGES				
Interest on long-term debt		89,103	73,484	61,052
Other interest		4,785	3,529	2,977
Amortization of debt discount, premium and expense		193	59	20
Allowance for borrowed funds used during construction—credit (Note 1)		(16,187)	(13,854)	(17,577)
Net interest charges		<u>77,894</u>	<u>63,218</u>	<u>46,472</u>
NET INCOME		<u>102,459</u>	<u>89,981</u>	<u>85,748</u>
Preferred dividends		24,634	20,798	15,924
EARNINGS ON COMMON SHARES		<u>\$ 77,825</u>	<u>\$ 69,183</u>	<u>\$ 69,824</u>
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (000 omitted) ..				
		33,830	30,765	26,964
EARNINGS PER COMMON SHARE		\$ 2.30	\$ 2.25	\$ 2.59
DIVIDENDS DECLARED PER COMMON SHARE		\$ 2.08½	\$ 2.04	\$ 1.96

The accompanying notes are an integral part of the financial statements and schedules.

Consolidated Statement of Sources of Funds for Construction Expenditures

for the years ended December 31.

	(Thousands of Dollars)	1981	1980	1979
SOURCES OF FUNDS				
Operations				
Net income		\$102,459	\$ 89,981	\$ 85,748
Non-cash provisions deducted in arriving at net income				
Deferred electric fuel costs—net		(3,022)	—	—
Deferred gas costs—net		(14,190)	(2,820)	—
Depreciation		62,589	52,740	49,711
Deferred income taxes—net		21,310	3,904	150
Investment tax credits—net		17,454	20,438	24,719
Total allowance for funds used during construction		(49,725)	(44,905)	(36,795)
Funds provided by operations		136,875	119,338	123,533
Less—Dividends declared on common shares		71,129	63,583	52,964
Dividends declared on preferred shares		24,634	20,798	15,924
Net Funds provided by operations		41,112	34,957	54,645
Financing				
Common shares				
Public offering		30,500	54,825	—
Dividend Reinvestment and Stock Purchase Plan		3,596	3,359	2,210
Employee Incentive Thrift Plan		5,571	4,667	3,885
Employee Stock Ownership Plan		5,862	5,895	2,859
Cumulative preferred shares		30,000	50,000	—
First mortgage bonds		110,500	100,000	100,000
Other long-term debt		12,826	5,149	48,109
Repayment of long-term debt		(2,013)	(611)	(5,545)
Increase (decrease) in short-term debt—net		(17,390)	(8,073)	53,705
Funds provided by financing		179,452	215,211	205,223
Other Sources of Funds—net				
Decrease (increase) in net current assets (excluding short-term debt and temporary investments)		8,713	(141)	(43,389)
Decrease (increase) in temporary investr. ents		(150)	300	2,666
Refunds from gas suppliers received (distributed)—net		4,406	(6,493)	12,100
Other—net		(9,656)	8,218	1,258
Funds provided from other sources		3,313	1,884	(27,365)
Total Funds for Construction from above Sources		223,877	252,052	232,503
Total Allowance for Funds used during Construction		49,725	44,905	36,795
CONSTRUCTION EXPENDITURES		\$273,602	\$296,957	\$269,298

The accompanying notes are an integral part of the financial statements and schedules.

Consolidated Balance Sheet

December 31, 1981 and 1980

*The Cincinnati Gas & Electric Company
And Subsidiary Companies*

	(Thousands of Dollars)	1981	1980
ASSETS			
PROPERTY, PLANT AND EQUIPMENT, at original cost (Notes 2, 7 and 8)			
In service —			
Electric		\$1,801,183	\$1,457,684
Gas		245,230	229,511
Common		39,726	38,125
		2,086,139	1,725,320
Less — Accumulated provisions for depreciation		579,429	529,209
Net property, plant and equipment in service		1,506,710	1,196,111
Construction work in progress		670,983	773,763
		2,177,693	1,969,874
OTHER PROPERTY AND INVESTMENTS		10,424	9,502
CURRENT ASSETS			
Cash (Note 6)		4,832	5,698
Construction funds (pollution control) held in escrow		—	2,514
Accounts receivable, less accumulated provision of \$3,286,000 in 1981 and \$2,810,000 in 1980 for doubtful accounts		120,278	99,502
Materials, supplies and fuel, at average cost —			
Fuel for use in electric production		53,505	74,785
Other		37,045	31,081
Taxes applicable to subsequent year		36,013	33,479
Prepayments		34,341	26,595
Other		619	337
		286,633	273,991
OTHER ASSETS			
Deferred gas costs		16,162	2,808
Other		10,595	6,093
		26,757	8,901
		\$2,501,507	\$2,262,268

The accompanying notes are an integral part of the financial statements and schedules.

Consolidated Balance Sheet

December 31, 1981 and 1980

*The Cincinnati Gas & Electric Company
And Subsidiary Companies*

	(Thousands of Dollars)	1981	1980
LIABILITIES AND SHAREHOLDERS' EQUITY			
CAPITALIZATION (Schedules on pages 19 and 20)			
Common shareholders' equity	\$	678,400	\$ 628,138
Cumulative preferred shares (Note 4)—			
Not subject to mandatory redemption		200,000	200,000
Subject to mandatory redemption		80,000	50,000
Long-term debt (Note 2)		1,049,646	948,864
		<u>2,008,046</u>	<u>1,827,002</u>
CURRENT LIABILITIES			
Current portion of bonds		20,050	1,450
Notes payable (Note 6)—bank		—	22,800
— commercial paper		51,102	45,790
— other		580	518
Accounts payable		94,801	85,565
Dividends payable on common shares		18,099	16,055
Dividends payable on preferred shares		6,195	5,256
Accrued taxes		65,930	60,846
Accrued interest on debt		17,293	14,295
Other current and accrued liabilities		18,486	17,582
		<u>292,536</u>	<u>270,157</u>
DEFERRED CREDITS AND OTHER			
Deferred income taxes		57,275	38,190
Investment tax credits		124,149	106,695
Other liabilities and deferred credits		19,501	20,224
		<u>200,925</u>	<u>165,109</u>
		<u>\$2,501,507</u>	<u>\$2,262,268</u>

The accompanying notes are an integral part of the financial statements and schedules.

Consolidated Statement of Changes in Shareholders' Equity

for the years ended December 31,

	(Thousands of Dollars)	1981	1980	1979
COMMON SHARES				
Balance, beginning of year		\$267,533	\$231,484	\$227,392
\$8.50 par value of 2,991,939, 4,241,124 and 481,403 shares sold in 1981, 1980 and 1979, respectively		25,432	36,049	4,092
Balance, end of year		\$292,965	<u>\$267,533</u>	<u>\$231,484</u>
PREMIUM ON COMMON SHARES				
Balance, beginning of year		\$177,627	\$144,930	\$140,068
Premium on sale of common shares		20,097	32,697	4,862
Balance, end of year		\$197,724	<u>\$177,627</u>	<u>\$144,930</u>
RETAINED EARNINGS				
Balance, beginning of year		\$196,530	\$190,930	\$174,070
Net income		102,459	89,981	85,748
Cash dividends declared on capital shares —				
Cumulative preferred (See page 19 for rates)		(24,634)	(20,798)	(15,924)
Common (See page 14 for rates)		(71,129)	(63,583)	(52,964)
Balance, end of year		\$203,226	<u>\$196,530</u>	<u>\$190,930</u>
CAPITAL STOCK EXPENSE				
Balance, beginning of year		\$ 13,552	\$ 10,840	\$ 10,715
Common stock expense		1,386	2,050	125
Preferred stock expense		577	662	—
Balance, end of year		\$ 15,515	<u>\$ 13,552</u>	<u>\$ 10,840</u>
CUMULATIVE PREFERRED SHARES				
Balance, beginning of year		\$250,000	\$200,000	\$200,000
Sale of 300,000 and 500,000 shares in 1981 and 1980, respectively		30,000	50,000	—
Balance, end of year		\$280,000	<u>\$250,000</u>	<u>\$200,000</u>

The accompanying notes are an integral part of the financial statements and schedules.

Schedule of Shareholders' Equity

December 31, 1981 and 1980

*The Cincinnati Gas & Electric Company
And Subsidiary Companies*

	(Thousands of Dollars)	1981	1980
COMMON SHAREHOLDERS' EQUITY			
Common shares, par value \$8.50 per share (Note 3) —			
Authorized — 60,000,000 and 40,000,000 shares, respectively			
Outstanding — 34,466,462 and 31,474,523 shares, respectively		\$292,965	\$267,533
Premium on common shares		197,724	177,627
Retained earnings		203,226	196,530
Capital stock expense		(15,515)	(13,552)
Total common shareholders' equity		<u>\$678,400</u>	<u>\$628,138</u>
 CUMULATIVE PREFERRED SHARES, par value \$100 per share (Note 4) —			
Authorized — 6,000,000 and 3,000,000 shares, respectively			
Outstanding — not subject to mandatory redemption			
4% series — 270,000 shares (redeemable, upon call, at \$108)		\$ 27,000	\$ 27,000
4¾% series — 130,000 shares (redeemable, upon call, at \$101)		13,000	13,000
9.30% series — 350,000 shares (redeemable, upon call, prior to July 1, 1985 at \$105; reduced amounts thereafter)		35,000	35,000
7.44% series — 400,000 shares (redeemable, upon call, prior to April 1, 1982 at \$105; reduced amounts thereafter)		40,000	40,000
9.28% series — 400,000 shares (redeemable, upon call, prior to July 1, 1984 at \$106; reduced amounts thereafter)		40,000	40,000
9.52% series — 450,000 shares (redeemable, upon call, prior to January 1, 1986 at \$106; reduced amounts thereafter)		45,000	45,000
		<u>200,000</u>	<u>200,000</u>
Outstanding — subject to mandatory redemption			
10.20% series — 500,000 shares (redeemable, upon call, prior to January 1, 1985 at \$110.20; reduced amounts thereafter)		50,000	50,000
12.52% series — 300,000 shares (redeemable, upon call, prior to January 1, 1986 at \$112.52; reduced amounts thereafter)		30,000	—
		<u>80,000</u>	<u>50,000</u>
Total cumulative preferred shares		<u>\$280,000</u>	<u>\$250,000</u>

The accompanying notes are an integral part of the financial statements and schedules.

Schedule of Long-Term Debt

December 31, 1981 and 1980

The Cincinnati Gas & Electric Company
And Subsidiary Companies

	(Thousands of Dollars)	1981	1980
The Cincinnati Gas & Electric Company			
First mortgage bonds —			
3¼ % series due 1982	\$	20,000	\$ 20,000
3¼ % series due 1983		20,000	20,000
4½ % series due 1987		25,000	25,000
5 % series due 1990		30,000	30,000
16 % series due 1991		100,000	—
4¾ % series due 1992		25,000	25,000
5¾ % series due 1997		30,000	30,000
7¾ % series due 1999		50,000	50,000
8½ % series due 2000		60,000	60,000
7¾ % series due 2001		60,000	60,000
8½ % series due 2003		60,000	60,000
9.15 % series due 2004		60,000	60,000
9.85 % series due 2005		60,000	60,000
8.55 % series due 2006		75,000	75,000
9½ % series due 2008		75,000	75,000
10 % series due 2009		100,000	100,000
12 % series due 2010		100,000	100,000
		<u>950,000</u>	<u>850,000</u>
Less 3¼ % series due 1982		20,000	—
		<u>930,000</u>	<u>850,000</u>
Notes payable —			
4% due through 1984		1,461	1,890
6%-10% due through 1984		137	76
Other long-term debt —			
6.70 % due 1997 through 2006		10,000	10,000
7.10 % due 2004		10,500	10,500
7.20 % due 2005 through 2009		37,500	37,500
8½ % due 2000		5,000	5,000
7½ % and 7¾ % due 1999 through 2009		12,721	—
		<u>1,007,319</u>	<u>914,966</u>
The Union Light, Heat and Power Company			
First mortgage bonds —			
3¾ % series due 1981		—	1,400
3½ % series due 1984		1,500	1,500
5 % series due 1989		6,100	6,100
15¾ % series due 1988 through 1991		10,000	—
4¾ % series due 1993		6,500	6,500
8 % series due 2003		10,000	10,000
9½ % series due 2008		10,000	10,000
		<u>44,100</u>	<u>35,500</u>
Less 3¾ % series due 1981		—	1,400
		<u>44,100</u>	<u>34,100</u>
Other Subsidiary Companies' Debt		863	468
Unamortized premium and discount (net)		(2,636)	(670)
Total long-term debt		<u>\$1,049,646</u>	<u>\$948,864</u>

The accompanying notes are an integral part of the financial statements and schedules.

Schedule of Taxes

for the years ended December 31,

*The Cincinnati Gas & Electric Company
And Subsidiary Companies*

	(Thousands of Dollars)	1981	1980	1979
TAXES OTHER THAN INCOME TAXES				
Property		\$ 34,424	\$ 32,304	\$ 28,396
Public Utility Gross Receipts		40,627	27,010	25,904
Payroll		5,616	4,356	3,850
Other		1,936	1,872	1,791
		<u>\$ 82,603</u>	<u>\$ 65,542</u>	<u>\$ 59,941</u>
INCOME TAXES				
Included in operating expenses—				
Currently payable		\$ 8,099	\$ 9,231	\$ (6,708)
Deferred—net				
Accelerated amortization		(463)	(462)	(563)
Liberalized depreciation		8,995	4,109	1,061
Contingent gas revenues		3,036	(3,036)	—
Gas costs		6,660	1,294	8
Other		3,082	1,999	(356)
Investment tax credits—net		18,405	23,807	28,000
Total		<u>47,814</u>	<u>36,942</u>	<u>21,442</u>
Included in other income and deductions—				
Currently payable		(12,317)	(10,218)	489
Deferred—net		(46)	(46)	(47)
Total		<u>(12,363)</u>	<u>(10,264)</u>	<u>442</u>
Total provision		<u>\$ 35,451</u>	<u>\$ 26,678</u>	<u>\$ 21,884</u>
Analysis of provision				
Federal income taxes		\$ 35,132	\$ 26,023	\$ 21,269
State income taxes		319	655	615
		<u>\$ 35,451</u>	<u>\$ 26,678</u>	<u>\$ 21,884</u>
COMPUTATION OF FEDERAL INCOME TAX PROVISION				
Pre-tax income		<u>\$137,591</u>	<u>\$116,004</u>	<u>\$107,017</u>
Tax at statutory Federal income tax rate applied to pre-tax income		\$ 63,292	\$ 53,362	\$ 49,228
Reductions in Federal income taxes resulting from—				
Allowance for funds used during construction				
which does not constitute taxable income		(22,874)	(20,657)	(16,926)
Excess of tax depreciation over book depreciation		(1,035)	(3,244)	(5,885)
Cost of removal for property retired		(1,175)	(1,061)	(1,190)
Amortization of investment tax credits		(2,105)	(1,777)	(1,503)
Other—net		(971)	(600)	(2,455)
Federal income tax provision		<u>\$ 35,132</u>	<u>\$ 26,023</u>	<u>\$ 21,269</u>

The accompanying notes are an integral part of the financial statements and schedules.

Notes to Consolidated Financial Statements

The Cincinnati Gas & Electric Company
And Subsidiary Companies

(1) Summary of Significant Accounting Policies:

CG&E and its subsidiaries follow the Uniform Systems of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). The more significant accounting policies are summarized below:

Principles of Consolidation. All subsidiaries of CG&E are included in the consolidated statements. Intercompany items and transactions have been eliminated.

Utility Plant. Property, plant and equipment is stated at the original cost of construction, which includes payroll and related costs such as taxes, pensions and other fringe benefits, general and administrative costs, and an allowance for funds used during construction.

Revenues and Fuel. Revenues are included in income as billed to customers on a cycle basis. CG&E charged to expense the cost of gas as it was purchased and the cost of fuel used to generate electricity as it was consumed prior to January 1980 and July 1981, respectively. Effective in January 1980, The Public Utilities Commission of Ohio (PUCO) implemented a rule which changed the manner in which CG&E applies the purchased gas adjustment clause. Effective July 1981, the PUCO implemented a rule which allows changes to be made in the electric fuel adjustment charge every six months, following hearings by the PUCO. In conjunction with these changes, CG&E began expensing purchased gas costs and the cost of fuel used in electric production as recovered through revenues and began deferring the portion of these costs recoverable or refundable in future periods.

Depreciation and Maintenance. The companies determine their provision for depreciation using the straight-line method and by the application of rates to various classes of property, plant and equipment. The rates are based on periodic studies of the estimated service lives of the properties. The percentages of the annual provisions for depreciation to the weighted average of depreciable property during the three years ended December 31, 1981, were equivalent to:

	1981	1980	1979
Electric	3.4	3.3	3.4
Gas	2.9	2.9	2.9
Common	2.3	2.3	2.2

All expenditures for maintenance and repairs of units of property, including renewals of minor items, are charged to the appropriate maintenance expense accounts. A betterment or replacement of a unit of property is accounted for as an addition and retirement of property, plant and equipment. At the time of such a retirement, the accumulated provision for depreciation is charged with the original cost of the property retired and also for the net cost of removal.

Income Taxes. For income tax purposes, CG&E and its subsidiaries use liberalized depreciation methods including ADR depreciation and cost of removal deductions. For property placed in service after 1980, CG&E and its subsidiaries utilize the Accelerated Cost Recovery System (ACRS) provided for by the Economic Recovery Tax Act of 1981. In February 1980, pursuant to a PUCO rate order, CG&E began providing for income tax deferrals resulting from the use of liberalized tax depreciation for property additions from October 1978 forward. CG&E does not provide for income tax deferrals resulting from the use of liberalized depreciation methods for property additions prior to October 1978 in accordance with an order of the PUCO. Based on a decision of the Supreme Court of Ohio, CG&E will be allowed to collect through future rates the income taxes payable in the future as a result of currently using liberalized depreciation methods for pre-October 1978 property additions. CG&E and its subsidiaries provide for deferred taxes arising from the use of liberalized depreciation for operations regulated by utility commissions other than the PUCO.

In January 1980, pursuant to a PUCO rate order, CG&E began allocating the tax benefits associated with borrowed funds used during construction to other income and deductions rather than as a reduction in income taxes included in operating expenses.

Investment tax credits are deferred and amortized over the estimated useful lives of the applicable properties. CG&E estimates that it has an unused investment tax credit carryforward of approximately \$5 million which can be used to reduce its future Federal income tax liability.

Retirement Income Plan. CG&E and its subsidiaries have a trustee non-contributory retirement income plan covering substantially all regular employees. The total accrued pension expense, including administrative expense, for 1981, 1980 and 1979 was \$4,380,000, \$6,300,000 and \$5,310,000, respectively, which includes amortization of the unfunded actuarial liability over periods ranging from 15 to 40 years. The pension expense for 1981 reflects an increase in benefits for retired participants and beneficiaries and changes in actuarial assumptions (principally assumptions for future wage levels, assumed rate of return on investments, and rates for projecting Social Security benefits). The net effect of these changes was to reduce pension expense for the year by approximately \$2.8 million. The companies make annual contributions to the plan equal to the amounts accrued for pension expense (exclusive of administrative expenses which are paid directly by the companies). Accumulated plan benefits and plan net assets at the date of the most recent actuarial evaluation are as follows:

	<u>January 1, 1981</u>
	(Thousands)
Actuarial present value of accumulated plan benefits (based on salary rates and years of service at present time and does not include the additional actuarial liability for future service and salary increases):	
Vested	\$ 89,000
Nonvested	5,000
	<u>\$ 94,000</u>
Net assets at market value available for benefits	<u>\$163,000</u>

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits as of January 1, 1981 was 7.5%.

Allowance for Funds Used During Construction. The applicable regulatory uniform systems of accounts define "allowance for funds used during construction" (AFC) as including "the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used." This amount of AFC constitutes an actual cost of construction and, under established regulatory rate practices, a return on and recovery of such costs heretofore has been permitted in determining the rates charged for utility services. AFC was accrued at an annual pre-tax rate of 8½% for 1979, and at a net-of-tax rate of 8¼% compounded semi-annually for 1980 and 1981.

(2) Long-Term Debt:

Under the terms of the respective mortgage indentures securing first mortgage bonds issued by CG&E and its subsidiaries, substantially all property is subject to a direct first mortgage lien, except that a portion of CG&E's headquarters property is pledged as collateral for a purchase-money 4% note payable in installments through 1984.

Improvement and sinking fund provisions contained in the indentures applicable to the First Mortgage Bonds of CG&E and Union Light, except CG&E's 12% Series due 2010 and 16% Series due 1991 and Union Light's 15¾% Series due 1991, require deposits with the Trustee, on or before April 30 of each year, of amounts in cash and/or principal amounts of bonds equal to 1% (\$7,641,000) of the principal amount of bonds of the applicable series originally outstanding less certain designated retirements.

In lieu of such cash deposits or delivery of bonds and as permitted under the terms of the indentures, the companies have been following and plan to continue the practice of pledging unfunded property additions to the extent of 166⅔% of the annual sinking fund requirements.

The amount of maturities of Notes Payable during the next five years will be approximately \$580,000 in 1982, \$570,000 in 1983, and \$1,040,000 in 1984. First Mortgage Bonds of either CG&E or Union Light will mature as follows: \$20 million in 1982; \$20 million in 1983; and \$1.5 million in 1984. The annual sinking fund requirements with respect to the First Mortgage Bonds of Lawrenceburg Gas Company range from \$50,000 to \$100,000 in 1982 through 1986. The amounts due during the 12 months after the balance sheet date are reflected in Current Liabilities in the accompanying Balance Sheet.

(3) Common Stock:

CG&E issued authorized but previously unissued shares of Common Stock pursuant to three plans as follows:

	Shares Issued		Shares Reserved for Issuance at December 31, 1981
	1981	1980	
Dividend Reinvestment and Stock Purchase Plan	235,541	208,510	1,300,244
Employee Incentive Thrift Plan	365,242	286,225	1,337,416
Employee Stock Ownership Plan	391,156	346,389	295,878
	<u>991,939</u>	<u>841,124</u>	<u>2,933,538</u>

Reference is made to "Construction and Financing" herein for information concerning the proposed sale of additional common stock on or about February 10, 1982.

(4) Cumulative Preferred Stock — Subject to Mandatory Redemption (Redeemable Preferred Stock):

The Cumulative Preferred Stock, 10.20% Series and 12.52% Series are subject to mandatory redemption in an amount sufficient to retire on each January 1, beginning in 1985 and 1987, respectively, 15,000 shares and 9,000 shares, respectively, at \$100 per share plus accrued dividends, and CG&E will have the noncumulative option to redeem up to a like amount of additional shares in each year. CG&E will have the option to satisfy the mandatory redemption requirement in whole or in part by crediting shares of the applicable series acquired by CG&E. To the extent CG&E does not satisfy its mandatory sinking fund obligation in any year such obligation must be satisfied in the succeeding year or years. If CG&E is in arrears in the redemption of either series pursuant to the mandatory sinking fund requirements, CG&E shall not purchase or otherwise acquire for value, or pay dividends on, Common Stock.

Under a restriction imposed by CG&E's Articles of Incorporation which requires consolidated income (as defined) to be at least 1½ times the sum of annual interest charges on consolidated debt and annual dividend requirements on preferred stock, CG&E would have been able to issue approximately 140,000 additional shares of preferred stock on December 31, 1981.

(5) Rates:

Reference is made to "Rate Matters" herein with respect to electric and gas rate matters.

(6) Compensating Bank Balances and Notes Payable:

Substantially all of the cash balances of CG&E and its subsidiaries are maintained to compensate the respective banks for banking services and to obtain lines of credit; however, no specific amounts have been designated as compensating balances and CG&E and its subsidiaries have the right of withdrawal of such funds. Unused lines of credit under agreements in effect at December 31, 1981, totaled \$65 million. The maximum amount of outstanding short-term notes payable, including commercial paper, authorized by CG&E's Board of Directors and approved by the PUCO to be incurred at any time in 1982 is \$125 million and, in addition, FERC authorized Union Light to issue a maximum of \$15 million of short-term notes payable through December 31, 1982.

(7) Common Ownership of Electric Utility Plant:

CG&E, Columbus and Southern Ohio Electric Company, and The Dayton Power and Light Company have constructed or have made commitments for the construction of electric generating units and related transmission facilities on varying common ownership bases as set forth below:

		CG&E's share at December 31, 1981		
	% owned by CG&E	Property, Plant and Equipment, in service (a)	Accumulated Provisions for Depreciation	Construction Work in Progress (b)
		(Thousands of Dollars)		
Production				
Miami Fort Generating Station (Units 7 and 8)	64	\$166,596	\$27,870	\$ 7,674
W.C. Beckjord Generating Station (Unit 6)	37½	\$ 29,030	\$ 9,468	\$ 346
J.M. Stuart Generating Station	39	\$192,901	\$39,196	\$ 2,625
Conesville Generating Station (Unit 4)	40	\$ 53,290	\$15,787	\$ 1,014
Wm. H. Zimmer Nuclear Power Station (Unit 1)	40	\$ —	\$ —	\$422,820 (c)
East Bend Generating Station (Unit 1)	75	\$ —	\$ —	\$ 9,550
(Unit 2)	69	\$282,054	\$ 7,711	\$ 311
Killen Generating Station (d)	33	\$ 8,085	\$ —	\$154,181
Transmission	various	\$ 56,018	\$ 9,455	\$ 735

(a) The Consolidated Statement of Income reflects CG&E's portion of all operating costs associated with the commonly owned facilities.

(b) Each participant must provide funds for its share of the construction project.

(c) Excludes cost of nuclear fuel.

(d) Reference is made to "Electric Production" herein with respect to the cancelled second Unit.

(8) Commitments and Litigation:

The companies estimate that their construction programs will require expenditures of approximately \$1.2 billion during the period 1982 through 1986. Reference is made to Note 7 above and "Electric Production" herein for further information.

CG&E owns 9% 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 by OVEC are to be sufficient to meet all of its costs. CG&E and other sponsoring utilities are entitled to receive, and are obligated to pay for the right to receive, any available power from OVEC's facilities not required by DOE; CG&E's portion of available OVEC capacity is 9%.

Reference is made to "Litigation" herein with respect to lawsuits against Union Light.

(9) Quarterly Financial Data (Thousands):

Quarter Ended	Total Operating Revenues	Operating Income	Net Income	Earnings on Common Shares	Average Number of Common Shares Outstanding	Earnings per Common Share
March 31, 1980	\$ 304,210	\$ 36,246	\$ 33,221	\$28,192	29,583	\$.95
June 30, 1980	205,610	22,348	17,590	12,334	30,839	.40
September 30, 1980	208,948	30,091	24,071	18,815	31,219	.60
December 31, 1980	236,267	21,012	15,099	9,842	31,418	.31
	<u>\$ 955,035</u>	<u>\$109,697</u>	<u>\$ 89,981</u>	<u>\$69,183</u>		(a)
March 31, 1981	\$ 333,762	\$ 47,295	\$ 41,723	\$35,674	32,916	\$1.08
June 30, 1981	234,417	24,404	17,153	10,958	33,825	.32
September 30, 1981	235,902	33,063	24,625	18,430	34,175	.54
December 31, 1981	277,392	27,868	18,958	12,763	34,403	.37
	<u>\$1,081,473</u>	<u>\$132,630</u>	<u>\$102,459</u>	<u>\$77,825</u>		(a)

(a) Total does not equal annual earnings per share due to change in shares outstanding.

(10) Financial Information By Business Segments (Thousands of Dollars):

	Operating Revenues	Operating Income	Income Taxes	Provision for Depreciation	Construction Expenditures (a)
Year Ended December 31, 1979					
Electric	\$ 518,916	\$ 95,258	\$14,319	\$43,358	\$256,771
Gas	306,910	17,130	7,123	6,353	12,731
Total	<u>\$ 825,826</u>	<u>\$112,388</u>	<u>\$21,442</u>	<u>\$49,711</u>	<u>\$269,502</u>
Year Ended December 31, 1980					
Electric	\$ 599,142	\$ 95,735	\$31,283	\$46,019	\$276,655
Gas	355,893	13,962	5,659	6,721	19,834
Total	<u>\$ 955,035</u>	<u>\$109,697</u>	<u>\$36,942</u>	<u>\$52,740</u>	<u>\$296,489</u>
Year Ended December 31, 1981					
Electric	\$ 683,090	\$118,623	\$43,629	\$55,742	\$253,495
Gas	398,383	14,007	4,185	6,847	19,206
Total	<u>\$1,081,473</u>	<u>\$132,630</u>	<u>\$47,814</u>	<u>\$62,589</u>	<u>\$272,701</u>

(a) Excludes construction expenditures for non-utility plant of \$(204,000) in 1979, \$468,000 in 1980, and \$901,000 in 1981.

	Years Ended December 31		
	1981	1980	1979
Property, Plant and Equipment, net —			
Electric	<u>\$2,004,948</u>	<u>\$1,808,530</u>	<u>\$1,580,541</u>
Gas	<u>172,745</u>	<u>161,344</u>	<u>148,302</u>
	<u>2,177,693</u>	<u>1,969,874</u>	<u>1,728,843</u>
Other Corporate Assets	<u>323,814</u>	<u>292,394</u>	<u>251,992</u>
Total Assets	<u>\$2,501,507</u>	<u>\$2,262,268</u>	<u>\$1,980,835</u>

(11) Supplemental Information Concerning the Effects of Inflation (Unaudited):

The estimates of the effects of inflation on the operations of CG&E and its subsidiaries, as set forth below, were prepared on the basis prescribed by the Financial Accounting Standards Board (FASB) Statement No. 33, "Financial Reporting and Changing Prices". This Statement requires adjustments to historical costs to estimate the effects that general inflation, "Constant Dollar," and changes in specific prices, "Current Cost," have had on the Company's results of operations. This data is not intended as a substitute for earnings reported on a historical cost basis. It offers some perspective of the approximate effects of inflation rather than a precise measurement of these effects.

Statement of Income Adjusted for Changing Prices
For the Year Ended December 31, 1981

	Conventional Historical Cost	Constant Dollar Average 1981 Dollars	Current Cost Average 1981 Dollars
		(Thousands of Dollars)	
Total operating revenues	\$1,081,473	\$1,081,473	\$1,081,473
Gas purchased	314,076	314,076	314,076
Fuel used in electric production	263,469	263,469	263,469
Provision for depreciation	62,589	123,860	138,713
Other operating expenses	260,895	260,895	260,895
Income taxes	47,814	47,814	47,814
Total other income and deductions	(47,723)	(47,723)	(47,723)
Net interest charges	77,894	77,894	77,894
	979,014	1,040,285	1,055,138
Net income	102,459	41,188	26,335
Preferred dividends	24,634	24,634	24,634
Earnings on common shares	\$ 77,825	\$ 16,554(a)	\$ 1,701
Increase in specific prices (current cost) of property, plant and equipment held during the year (b)			\$ 440,388
Reduction to net recoverable cost		\$ (116,547)	(194,996)
Effect of increase in general price level			(347,086)
Excess of increase in general price level over increase in specific prices, after reduction to net recoverable cost			(101,694)
Gain from decline in purchasing power of net amounts owed		121,856	121,856
Net		\$ 5,309	\$ 20,162

(a) Including the reduction to net recoverable cost, the earnings on common shares on a constant dollar basis would have been \$(99,993,000) for 1981.

(b) At December 31, 1981, current cost of property, plant and equipment, net of accumulated depreciation, was \$4,371,112,000 while historical cost was \$2,177,693,000.

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

	Years Ended December 31				
	1981	1980	1979	1978	1977
	(Thousands of Average 1981 Dollars, Except as Specified)				
Total operating revenues					
Actual	\$1,081,473	\$ 955,035	\$ 825,826	\$ 772,676	\$ 689,866
Adjusted to average 1981 dollars	\$1,081,473	\$1,054,099	\$1,034,752	\$1,077,159	\$1,035,369
Constant dollar information					
Earnings on common shares	\$ 16,554	\$ 14,131	\$ 32,082		
Earnings per common share	\$.49	\$.45	\$ 1.19		
Net assets at year end at net recoverable cost	\$ 656,470	\$ 661,402	\$ 660,243		
Current cost information					
Earnings on common shares	\$ 1,701	\$ 4,175	\$ 15,844		
Earnings per common share	\$.05	\$.13	\$.59		
Excess of increase in general price level over increase in specific prices, after reduction to net recoverable cost	\$ 101,694	\$ 168,982	\$ 179,850		
Net assets at year end at net recoverable cost	\$ 656,470	\$ 661,402	\$ 660,243		
General information					
Gain from decline in purchasing power of net amounts owed	\$ 121,856	\$ 164,123	\$ 166,912		
Cash dividends declared per common share					
Actual	\$ 2.085	\$ 2.04	\$ 1.96	\$ 1.90	\$ 1.79
Adjusted to average 1981 dollars	\$ 2.085	\$ 2.25	\$ 2.45	\$ 2.65	\$ 2.68
Market price per common share at year end					
Actual	\$ 15.750	\$ 15.250	\$ 16.625	\$ 20.000	\$ 23.125
Adjusted to average 1981 dollars	\$ 15.241	\$ 16.076	\$ 19.698	\$ 26.851	\$ 33.849
Average consumer price index	272.4	246.8	217.4	195.4	181.5

Property, Plant and Equipment (Plant). Estimated plant primarily consisting of plant in service and construction work in progress, was determined in constant dollars by applying the Consumer Price Index for All Urban Consumers to the historical cost of plant. The current cost estimates were determined by applying the Handy-Whitman Index of Public Utility Construction Costs to plant accounts. Current cost is an estimate of the cost of currently replacing existing plant. The resulting adjusted data for plant under either of the above methods is not indicative of the Company's future capital requirements because the actual replacement of existing plant will take place over many years and is not likely to be a reproduction of presently existing plant.

The difference between current cost and the constant dollar data results from specific prices of plant increasing at a rate different from the rate of general inflation.

Accumulated Depreciation. The accumulated provisions for depreciation under both of the methods described above were developed by applying the same percentage relationship that existed between gross plant and accumulated provision for depreciation on a historical cost basis to the respective adjusted plant data.

Depreciation Expense. Depreciation expense for both methods was determined by applying the Company's depreciation rates to the respective indexed plant amounts.

Writedown of Property, Plant and Equipment to Net Recoverable Cost. The regulatory process limits the Company to the recovery of the historical cost of plant in its rates. Therefore, any excess of the value of plant stated in constant dollars or current cost must be reduced to the net recoverable cost, which is historical cost. The amount of this excess that occurred in the current year is reflected as a writedown of plant to net recoverable cost.

Gain from the Decline in Purchasing Power of Net Amounts Owed. The Company, by holding assets such as cash, receivables, and inventory, loses purchasing power during periods of inflation because the amount of cash received in the future for these items will purchase less. Conversely, by holding monetary liabilities, primarily long-term debt, the Company benefits because the payment in the future will be made with dollars having less purchasing power. The Company has significant amounts of long-term debt outstanding which will be paid back in dollars having less purchasing power and therefore, for purposes of these calculations, has a net "gain" from holding monetary liabilities in excess of monetary assets.

Other Items. As permitted by FASB Statement No. 33, items in the income statement, other than depreciation expense, were not adjusted. The cost of fuel used in electric production and gas purchased were not adjusted because the effect on earnings on common shares was not material due to the relatively short turnover period.

The regulatory process limits the amount of depreciation expense included in the Company's revenue allowance and the amount of plant in rate base to the original cost investment. Such amounts produce cash flows which are inadequate to replace such property in the future or preserve the purchasing power of common equity capital previously invested. While this effect is mitigated by the benefit derived from holding long-term debt and preferred stock, the Company's common shareholders experienced a reduction in reported historical earnings as a result of inflation which can only be overcome by obtaining adequate rate relief. However, the Company expects that it will be able to establish rates which will cover the increased costs of new plant.

Auditors' Report

To the Shareholders of The Cincinnati Gas & Electric Company:

We have examined the consolidated balance sheet and schedules of shareholders' equity and long-term debt of THE CINCINNATI GAS & ELECTRIC COMPANY (an Ohio corporation) and its subsidiary companies as of December 31, 1980, and December 31, 1981, and the related consolidated statements of income, changes in shareholders' equity, and sources of funds for construction expenditures and schedule of taxes for each of the three years in the period ended December 31, 1981. 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 accompanying consolidated financial statements and schedules referred to above present fairly the financial position of The Cincinnati Gas & Electric Company and its subsidiary companies as of December 31, 1980, and December 31, 1981, and the results of their operations and their sources of funds for construction expenditures for each of the three years in the period ended December 31, 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

Cincinnati, Ohio,
January 25, 1982.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Sale Prices of CG&E's Common Stock (Stock Symbol — CIN)				
1980 — High	17½	19¼	19¼	18⅞
— Low	14¾	15¾	15½	14
1981 — High	17¾	16½	16¼	16½
— Low	14¾	14	14¾	14½
Dividends Declared per Common Share in				
1980	\$.51	\$.51	\$.51	\$.51
1981	\$.51	\$.52½	\$.52½	\$.52½

Consolidated Statistics: 1971-1981

		1981	1980
GENERAL	Earnings on common shares (\$000 omitted)	77,825	69,183
	Average number of common shares outstanding (000 omitted)	33,830	30,765
	Earnings per common share (\$)	2.30	2.25
	Cash dividends declared per common share (\$)	2.08½	2.04
	Pay out ratio (%)	90.7	90.7
	Total assets (\$000 omitted)	2,501,507	2,262,268
	Construction expenditures (\$000 omitted)	273,602	296,957
	Plant retirements (\$000 omitted)	14,662	10,943
	Long-term debt and redeemable preferred stock (\$000 omitted)	1,129,646	998,864
ELECTRIC DEPARTMENT	Electric revenues (\$000 omitted)		
	Residential	245,198	222,952
	Commercial	180,584	157,551
	Industrial	185,188	159,051
	All other	72,120	59,588
	Total revenue	683,090	599,142
	Electric sales (million kwh)		
	Residential	5,117	5,277
	Commercial	3,407	3,333
	Industrial	4,666	4,493
	All other	1,596	1,416
	Total sales	14,786	14,519
	Number of customers December 31	596,849	591,459
	Average annual sales per residential customer (kwh)	9,592	9,994
	Electricity generated—net (million kwh)	15,583	14,664
	Electricity purchased and interchanged—net (million kwh)	215	942
	Total available (million kwh)	15,798	15,606
	KW capability at 12/31—net (thousand kw)	4,266	3,867
	System peak load—net (thousand kw)	3,140	3,154
	Fuel cost per kwh generated (cents)	1.715	1.602
	Btu per kwh sendout	10,441	10,364
	Load factor—electric	56.6	56.2
GAS DEPARTMENT	Gas revenues (\$000 omitted)		
	Residential	174,944	166,271
	Commercial	78,931	72,462
	Industrial	127,335	100,383
	All other	17,173	16,777
	Total revenue	398,383	355,893
	Gas sales (million cu. ft.)		
	Residential	43,714	45,746
	Commercial	20,764	21,071
	Industrial	36,341	32,390
	All other	3,916	4,403
	Total sales	104,735	103,610
	Annual degree days—billing	5,481	5,686
	Number of customers December 31	366,725	365,313
	Average annual sales per residential customer (thousand cu. ft.)	133	140
	Gas purchased (million cu. ft.)	106,111	106,541
	Gas produced (million cu. ft.)	92	12
	Total available (million cu. ft.)	106,203	106,553
	System maximum day sendout (million cu. ft.)	784	736
	Average cost per Mcf purchased (cents)	296.0	263.0
	Mean temperature on maximum day (°F)	6	10
	Load factor—gas	37.1	39.5

*) See Note 10 to the Consolidated Financial Statements for additional financial information by business segments.

The Cincinnati Gas & Electric Company
And Subsidiary Companies

1979	1978	1977	1976	1975	1974	1973	1972	1971
69,824	61,808	60,191	38,639	38,097	35,736	42,241	40,108	32,771
26,964	24,253	21,450	21,000	20,233	18,700	18,700	17,000	16,001
2.59	2.54	2.80	1.84	1.88	1.91	2.25	2.35	2.04
1.96	1.90	1.79	1.64	1.64	1.64	1.64	1.58	1.56
75.7	74.8	63.9	89.1	87.2	85.9	72.9	67.2	76.5
1,980,835	1,719,273	1,537,614	1,442,918	1,304,551	1,191,566	1,061,279	973,598	877,686
269,298	206,876	154,231	133,828	142,294	136,578	126,004	113,500	141,710
13,802	8,371	20,042	26,632	14,825	11,806	17,953	10,139	15,496
846,652	698,974	618,876	644,333	560,753	501,936	487,793	416,746	417,212
186,216	180,476	161,531	132,093	125,887	100,899	89,097	81,155	74,976
135,705	129,402	120,399	91,534	83,786	69,758	61,109	53,981	47,824
146,490	136,903	123,721	94,748	83,188	73,151	59,870	53,788	47,988
50,505	46,542	44,531	34,044	31,649	29,707	21,439	19,174	17,208
518,916	493,323	450,182	352,419	324,510	273,515	231,515	208,098	187,996
4,822	4,728	4,569	4,068	3,969	3,574	3,510	3,228	3,042
3,182	3,069	3,057	2,873	2,755	2,644	2,632	2,398	2,209
4,757	4,517	4,487	4,295	3,938	4,334	4,373	4,118	3,926
1,327	1,254	1,312	1,193	1,178	1,319	1,059	961	910
14,088	13,568	13,425	12,429	11,840	11,871	11,574	10,705	10,087
583,195	570,536	560,551	553,915	544,494	533,079	521,833	510,324	499,797
9,303	9,328	9,149	8,251	8,183	7,551	7,574	7,117	6,836
14,879	14,196	13,848	13,247	12,352	11,886	11,830	10,936	9,899
240	332	586	189	476	899	684	685	1,001
15,119	14,528	14,434	13,436	12,828	12,785	12,514	11,621	10,900
3,880	3,800	3,480	3,492	3,739	3,482	3,254	2,934	2,461
2,978	2,835	2,841	2,598	2,511	2,402	2,439	2,243	2,093
1,454	1,383	1,172	1,034	.944	.761	.444	.411	.382
10,409	10,555	10,500	10,252	10,183	10,262	10,024	10,178	10,308
57.8	58.4	57.8	58.4	58.1	59.3	58.2	58.8	59.3
143,657	137,440	123,082	94,775	76,038	63,567	54,745	57,736	51,528
61,166	58,010	50,105	40,381	32,322	27,478	23,256	23,783	20,481
89,250	72,756	56,856	49,321	37,369	40,161	30,716	27,805	25,734
12,837	11,147	9,641	10,237	9,629	11,365	8,989	8,613	8,633
306,910	279,353	239,684	194,714	155,358	142,571	117,706	117,937	106,376
48,213	50,312	48,769	50,156	48,527	50,201	50,137	55,182	53,044
21,837	22,589	21,238	22,902	22,356	24,114	24,072	26,047	24,463
35,929	32,004	27,465	33,823	31,433	47,687	47,474	47,945	47,641
4,104	3,747	3,484	5,536	6,150	12,353	11,138	10,912	13,587
110,083	108,652	100,956	112,417	108,466	134,355	132,821	140,086	138,735
5,669	6,145	5,749	5,360	4,712	5,034	4,725	5,362	4,928
361,190	360,988	363,275	366,288	367,427	369,329	370,441	366,277	361,661
149	155	149	152	147	151	152	169	165
111,890	109,753	100,352	115,723	110,216	134,485	134,350	142,026	137,907
28	36	1,353	77	—	20	135	540	661
111,918	109,789	101,705	115,800	110,216	134,505	134,485	142,566	138,568
747	803	832	770	720	767	781	900	884
207.4	181.6	167.8	121.5	106.1	71.1	56.2	53.2	49.9
13	1	-17	6	16	20	14	-5	6
41.0	37.4	33.5	41.1	41.9	48.0	47.2	43.3	43.0

Executive Officers

William H. Dickhoner
President and
Chief Executive Officer

B. John Yeager
Chairman of the Board

Earl A. Borgmann
Senior Vice-President
Engineering Services and
Electric Production

Arthur R. Ehrnschwender
Senior Vice-President
Administrative Services

Donald R. Blum
Secretary

C. Robert Everman
Treasurer

R. Gregory Graham
Vice-President
Customer Relations

Paul W. Herking
Vice-President
Gas Operations

William J. Moran
General Counsel

Jackson H. Randolph
Vice-President
Finance and Corporate Affairs

William L. Sheaffer
Controller

B. Ralph Sylvia
Vice-President
Nuclear Operations

Milton L. Van Schoik
Vice-President
Corporate Planning and
Information Services

Robert P. Wiwi
Vice-President
Electric Operations

Board of Directors

Neil A. Armstrong (2)(5)
Chairman,
Cardwell International Ltd.,
Lebanon, Ohio

Elmer R. Best (2)(3)
Retired President,
The Union Central Life
Insurance Company, Cincinnati

Oliver W. Birckhead (3)(4)
President and Chief
Executive Officer,
The Central Bancorporation, Inc.
and Chairman of the Board and
Chief Executive Officer,
The Central Trust Company, N.A.,
Cincinnati

Robert E. Boni, Ph.D. (4)
Group Vice President,
Armco Inc., Middletown, Ohio

Sanford M. Brooks (1)(5)
Chairman of the Board and
Consultant, Xtek, Inc.,
Cincinnati

William H. Dickhoner (1)(3)(6)
President and Chief Executive
Officer, CG&E

James P. Herring (4)
Retired Chairman of the Board,
The Kroger Co., Cincinnati

George C. Juilfs (2)(4)
President and Chief Executive
Officer, Senco Products, Inc.,
Cincinnati

William N. Liggett (3)(4)
Chairman of the Board and
Chief Executive Officer, First
National Cincinnati Corporation
and Chairman of the Executive
Committee, The First National
Bank of Cincinnati

Donald I. Lowry (1)(5)
Senior Vice-President,
The Procter & Gamble Company,
Cincinnati

Henry E. Pogue, IV (5)
Real Estate Counselor and
Developer,
President, Pogue Inc. and
Ft. Thomas Enterprises Inc.,
Ft. Thomas, Kentucky

Jane L. Rees, Ph.D. (4)
Professor and Chair of the
Department of Home Economics
and Consumer Sciences and
Director of Family Child Studies
Center, Miami University,
Oxford, Ohio

William S. Rowe (1)(3)
Chairman of the Board,
Fifth Third Bancorp and
The Fifth Third Bank, Cincinnati

Richard E. Wagner (5)
Former President, and
Consultant, Pepsi-Cola Bottling
Company of Cincinnati

B. John Yeager (1)
Chairman of the Board,
CG&E

(1) Member of Executive
Committee

(2) Member of Committee on
Audit

(3) Member of Finance
Committee

(4) Member of Management
Compensation Committee

(5) Member of Nominating
Committee

(6) Ex-officio member of all
standing committees

Organizational Changes

At the Annual Meeting of Shareholders, held on April 22, 1981, Henry E. Pogue, IV, was elected to the Board of Directors. Mr. Pogue, a real estate counselor and developer in Northern Kentucky, succeeded William Beckett who retired after 25 years of valuable service.

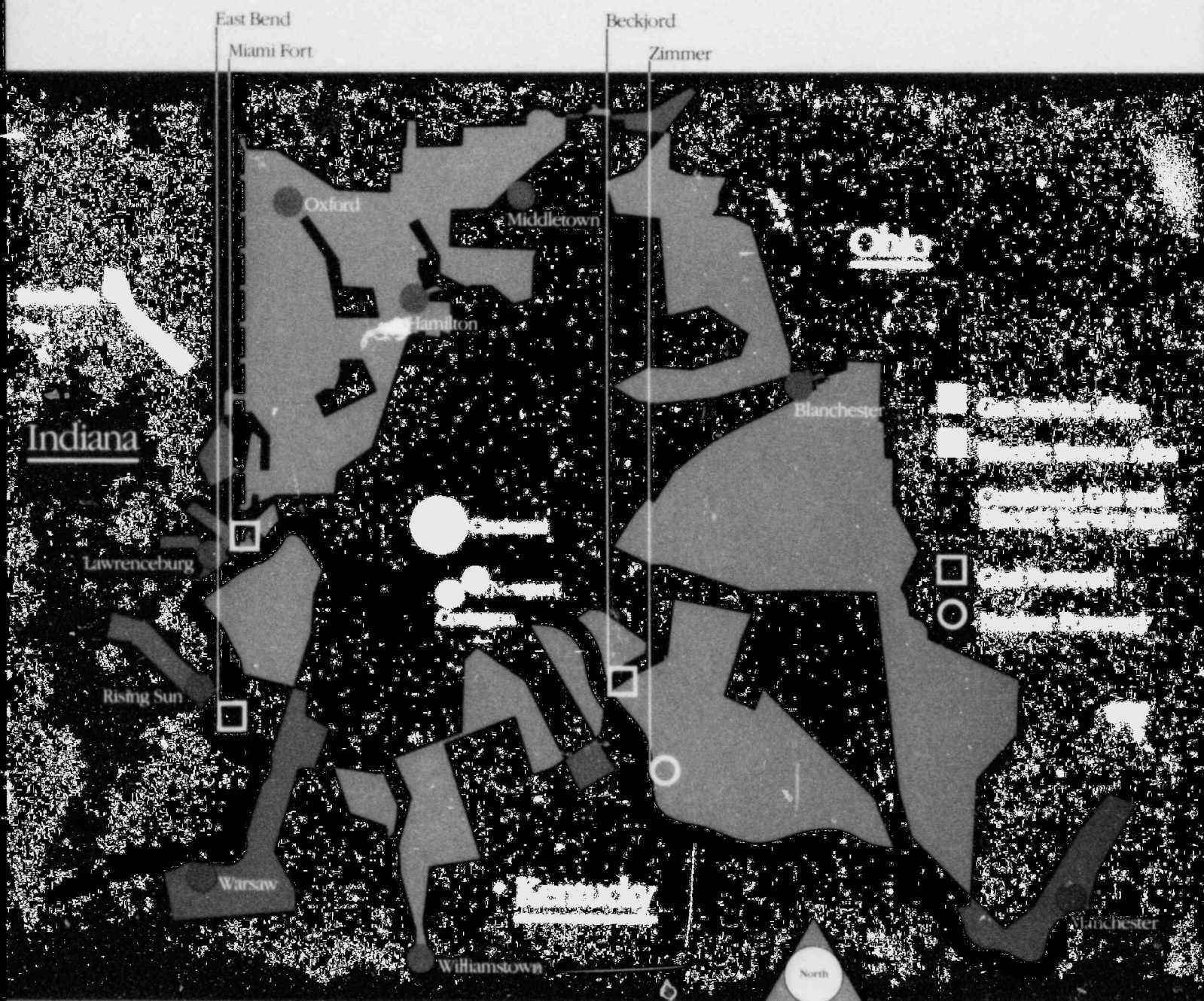
Robert E. Boni, Ph.D., was elected to the Board of Directors in October, 1981. Dr. Boni, Group Vice President in charge of steel activities at Armco Inc., was elected to fill the unexpired term of Harry Holiday, Jr., who resigned after nine years of valuable service because of other business commitments.

On March 19, 1981, Jackson H. Randolph was appointed Vice-President — Finance and Corporate Affairs. Mr. Randolph formerly served as Vice-President — Rates and Economic Research. At the April 22 organization meeting of the Board of Directors, following the Annual Meeting of Shareholders, five management changes were approved.

Arthur R. Ehrnschwender, formerly Vice-President — Administrative Services, was elected Senior Vice-President. Milton L. Van Schoik, who had formerly served as CG&E's Controller, was elected Vice-President — Corporate Planning and Information Services. William L. Sheaffer, formerly an Assistant Controller, was appointed Controller. James R. Mosley was elected Assistant Treasurer, and James J. Mayer was appointed Assistant General Counsel.

Effective September 1, 1981, B. Ralph Sylvia was elected Vice-President — Nuclear Operations. Mr. Sylvia joined CG&E after 19 years with the Virginia Electric and Power Company (VEPCO) where he served as manager of nuclear operations and maintenance. In that capacity, he was responsible for the daily operation of VEPCC's four nuclear power units. Mr. Sylvia brings to CG&E an extensive background in nuclear power plant management, including start-up and operations, and experience on various licensing and regulatory matters before the Nuclear Regulatory Commission.

Company Service Area



The Company (CG&E and its subsidiaries)

The Company primarily is engaged in providing electric and gas service in the southwestern portion of Ohio and adjacent areas in Kentucky and Indiana. The area served with electricity or gas, or both, covers approximately 3,000 square miles with an estimated population of 1.7 million. Among the major communities served are the cities of Cincinnati and Middletown in Ohio, Covington and Newport in Kentucky, and Lawrenceburg in Indiana.

CG&E and its subsidiary companies, The Union Light, Heat and Power Company (Union Light), Miami Power Corporation, The West Harrison Gas and Electric Company, Lawrenceburg Gas Company, and Lawrenceburg Gas Transmission Corporation, operate in contiguous territories. Tri-State Improvement Company is a wholly-owned real estate development company and YGK Inc. is a wholly-owned rail and barge terminal company organized to service Zimmer Nuclear Station. All of the companies are managed by substantially the same officers.

The Cincinnati Gas & Electric Company
139 East Fourth Street, Cincinnati, Ohio 45202
Telephone 513-381-2000

Bulk Rate
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Cincinnati, Ohio
Permit No. 874