Commonwealth Edison
One First National Plaza, Chicago, Illinois
Address Reply to: Post Office Box 767
Chicago, Illinois 60690 - 0767

February 15, 1991

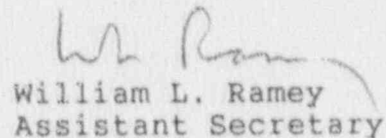
Director - Division of Reactor Licensing
Office of Nuclear Reactor Regulation
U.S. Nuclear Regulatory Commission
Washington, D.C. 20555

Gentlemen:

Pursuant to the provisions of Section 50.71 of 10CFR, there is enclosed a copy of our 1990 Annual Report for each reactor, as follows:

Dresden Station	50-10
	50-237
	50-249
Quad-Cities Station	50-254
	50-265
Zion Station	50-295
	50-304
LaSalle County Station	50-373
	50-374
Byron Station	50-454
	50-455
Braidwood Station	50-456
	50-457

Sincerely,



William L. Ramey
Assistant Secretary

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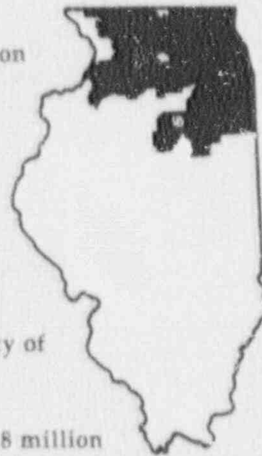
Commonwealth Edison 1990 Annual Report

We are committed to our customers

Commonwealth Edison, a company owned by more than a quarter of a million shareholders, is engaged in the production, transmission, distribution and sale of electricity to both wholesale and retail customers. The geographical area in which the Company provides retail service extends across one-fifth of the State of Illinois and includes the City of Chicago. The Company serves 3.2 million customers, representing 8 million people or 70% of the State's population.



● Commonwealth Edison Service Area

• Introduced 24-hour, toll-free telephone service for all customers. • Continued efforts to implement total quality, essential to fulfill the provisions of the Vision Statement reported on a year ago. • Maintained extremely high overall service reliability—electricity available to all customers an average of 99.98% of the time. • Increased kilowatthour sales in 1990 by 1.7%. • Earned 22¢ per share on common stock in 1990. Excluding the non-recurring charges recorded in the second quarter of 1990, would have earned $2.39 per share on common stock.

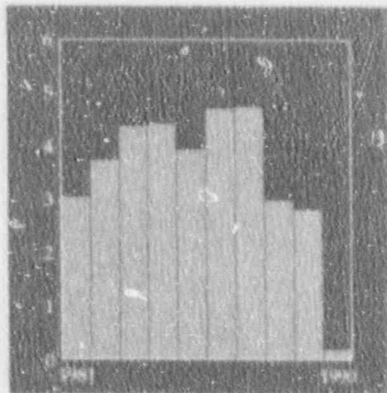
To Our Shareholders:

Although overall kilowatthour sales for 1990 remained strong, up 1.7% over 1989, and peak load grew 2.9%, 1990 was not a year we will look back on fondly.

Financial Developments

We were not allowed to implement the second step rate increase we had expected in January as part of a two step increase authorized in our last rate case. Instead, at mid-year, the Courts ordered us to roll rates back to 1985 levels. Additionally, for the last half of 1990, we were ordered to reduce rates still further in order to refund revenues from the initial step rate increase which had been in effect since January 1, 1989. These Court rulings found that the Commission had unlawfully decided our last rate case. The Courts did not rule on our right to a rate increase; rather the matter was returned to the Commission for a final decision on the level of our rates. Another unfavorable development was a Court decision upholding a Commission order requiring an additional write-down of the construction costs of Byron Unit 1. All together, these rulings resulted in a non-recurring reduction to net income of $461 million, or $2.17 per share on common stock, which was recorded in the second quarter of 1990. As a result, the financial performance we are reporting to you this year is very poor—earnings of only 22¢ per share on common stock as compared to $2.83 in 1989. Had it not been for the charges recorded in 1990 related to the revenue refunds and to Byron Unit 1, earnings would have been $2.39 per share on common stock. Had rates not been rolled back to 1985 levels, earnings would have been still higher.

Earnings Per Share*
(dollars)



**1990 earnings reflect a non-recurring charge of $2.17 per share*

Operational Developments

During last summer, we also experienced a series of extremely unusual power outages in the City of Chicago. Although these resulted in prolonged service interruptions to some areas, they were less severe than those experienced by other utilities last year, and our overall service reliability remained extremely high, at 99.98%. The interruptions were, however, highly publicized and quite understandably of great concern to our customers and to us. In large measure as a result of these service interruptions and the franchise extension provisions contained in the existing contract, we were unable to reach an agreement with the City of Chicago on a new long-term contract and instead our expiring franchise was extended for one year.

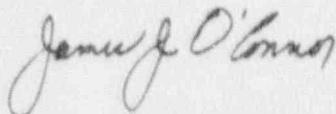
Last year, we reported to you on our new corporate vision. It is to be the supplier of electric service that best meets our customers' needs. We tried not to let the financial and operating pressures of 1990 divert our focus from that vision. Despite last year's problems, we made a great deal of progress in making our vision a reality. We have recognized that our customers expect a much higher level of service than ever before, and we have changed our budget and operating processes to help us provide that service. Our corporate strategic planning efforts have been restructured to better integrate the long-range planning activities of all our operating and support units. This should enable us to better prioritize our activities in terms of our customers' needs and to improve our financial controls as well.

As a direct result of our commitment to our customers, we recognized our need to expand and reinforce our transmission and distribution system—the facilities that actually deliver electricity to our customers. Our five-year construction budget for the period 1991-1995 includes nearly $3.2 billion or 64% of the total budget for this type of work. The $3.2 billion represents an increase of $500 million or 19% from the previous five-year budget.

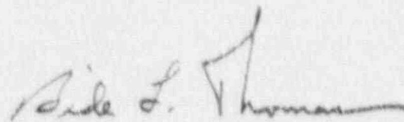
Total Quality

As a critical part of achieving our corporate vision, we devoted a great deal of attention in 1990 to our quality process. Quality has become a preoccupation for a great part of American industry, and understandably so. Customers' expectations are constantly changing and increasing, and companies must constantly improve their own performance in order to satisfy their customers and provide earnings for their shareholders. We are no exception, and in 1990 your management devoted considerable time and attention to the quality effort. This is not a short-term effort. It is a long-term commitment to excellence, to constantly meeting customers' needs, and it results in long-term benefits. When our customers are satisfied and feel that we are attentive to their needs, we will fare well competitively and will enjoy the confidence of our regulators. That will allow us to provide the returns that you, our investors, have the right to expect.

While 1990 may not be remembered fondly, we expect that these less-publicized developments will form a solid foundation on which to build in the future.



James J. O'Connor
Chairman



Bide L. Thomas
President

February 14, 1991

James J. O'Connor, Bide L. Thomas

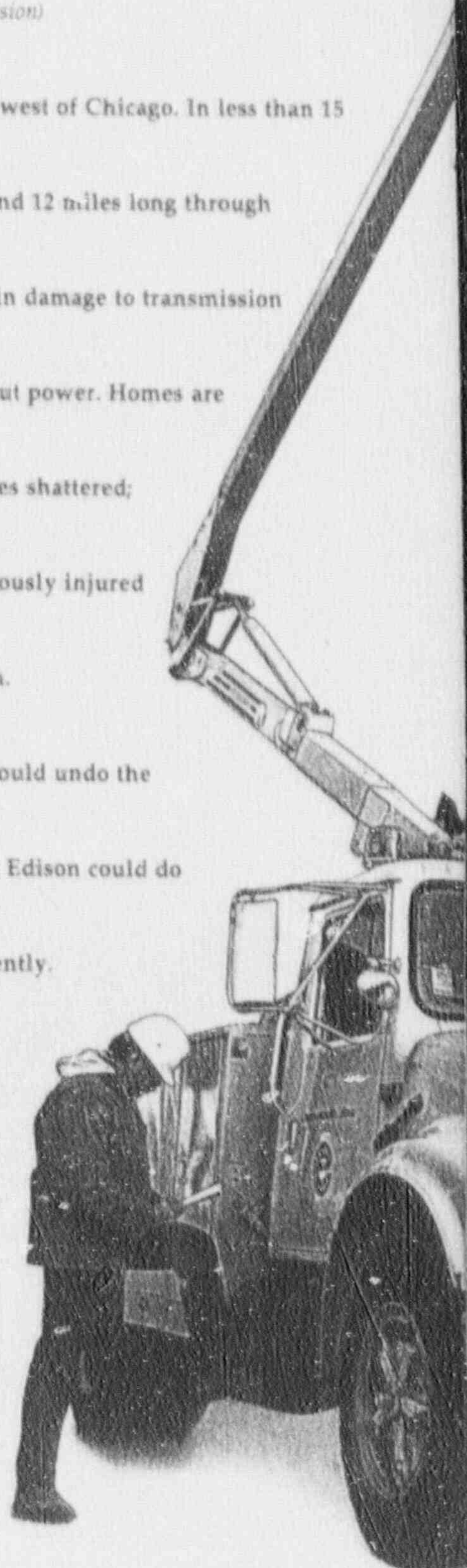
"Everything was gone. We had to rebuild from square one. Just as if it were a new subdivision."

—Dan Arthur, Overhead Crew Leader, Joliet Area (Southern Division)

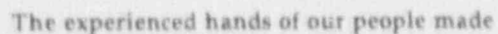
August 28, 3:30 pm — A tornado strikes southwest of Chicago. In less than 15 minutes, 200-mph winds ravage a path 300 yards wide and 12 miles long through Kane, Kendall and Will counties. Three million dollars in damage to transmission and distribution facilities leaves 61,000 customers without power. Homes are destroyed and lives shattered; hundreds are seriously injured and 29 will perish.

Meeting our customers' needs forms the heart of our vision at Commonwealth Edison.

No one could undo the devastation the tornado wrought. What Commonwealth Edison could do was restore electrical power—safely, quickly, and efficiently. The job was daunting: 126 crews worked around the clock to replace more than 280 utility poles and string more than 200,000 feet of transmission lines and overhead distribution wires.



Greg Lichamer (in the bucket) and Luis Castro (working alongside), both from our Chicago North Division, are Demonstrators at one of our Overhead Lineman Training Schools where linemen are trained in repairing storm-damaged overhead lines.



The experienced hands of our people made the difference during those critical first hours and days, helping the ravaged communities regain their footing in the least possible time. It was the kind of performance our customers have come to expect from Commonwealth Edison people—whether they are restoring power to one customer or to many thousands.

Meeting our customers' needs, including the unexpected—such as service restoration following outages and tornadoes—forms the heart of our vision at Commonwealth Edison. Our overall service reliability—electricity available to all customers an average of 99.98% of the time—is a measurement of our performance, but we are not satisfied. We continue to develop and implement new strategies in pursuit of our vision, including total quality—a term used to describe participative processes intended to improve the quality of every activity within the Company.

Our Vision states: *Commonwealth Edison will be the supplier of electric service that best meets customers' needs.* In support of this, we developed guiding principles of total quality:

We will meet the needs of our customers—external and internal.

We will make ourselves aware of our customers' needs.

We will always deliver what we promise—the first time, on time, every time.

Teamwork will be our way of assuring quality through continuous improvement.

We will create a work environment in which all are valued and respected.

We will listen to one another and work together in an atmosphere of mutual trust.

We believe *every* employe has a customer service responsibility—either serving the customer directly or assisting those who do.

We will be implementing training programs that teach skills for better problem-solving to all our employes. Preliminary results of three total quality pilot projects are encouraging. Our accounts payable department is working to further improve the on-time payment of bills, Fisk generating station to improve storeroom service, and our Bolingbrook area office to improve installation of new electric services.

Total quality is not a destination. It's a journey. It's the way we will manage our business. It involves everyone in the Company—identifying opportunities for improvement and then developing solutions that work. It means better service for our customers, increased satisfaction for employes, and greater rewards for our shareholders.

Chicagoan Doris Brown, a longtime customer, reaches Commonwealth Edison by calling our toll-free telephone number, 1-800-EDISON-1.

To achieve our vision through total quality, we at Commonwealth Edison will hold ourselves to the standards of excellence by which our customers measure us. We are committed to providing the quality of service they expect.

A new look in customer service: Keeping the lines of communication open

"People depend on Commonwealth Edison. When they have a question, a problem or just want to pay a bill, we have to be there. That's why it's so important to make it easy for our customers to reach us." —Terri M. Butts, Customer Service Representative, Elgin District (Western Division)

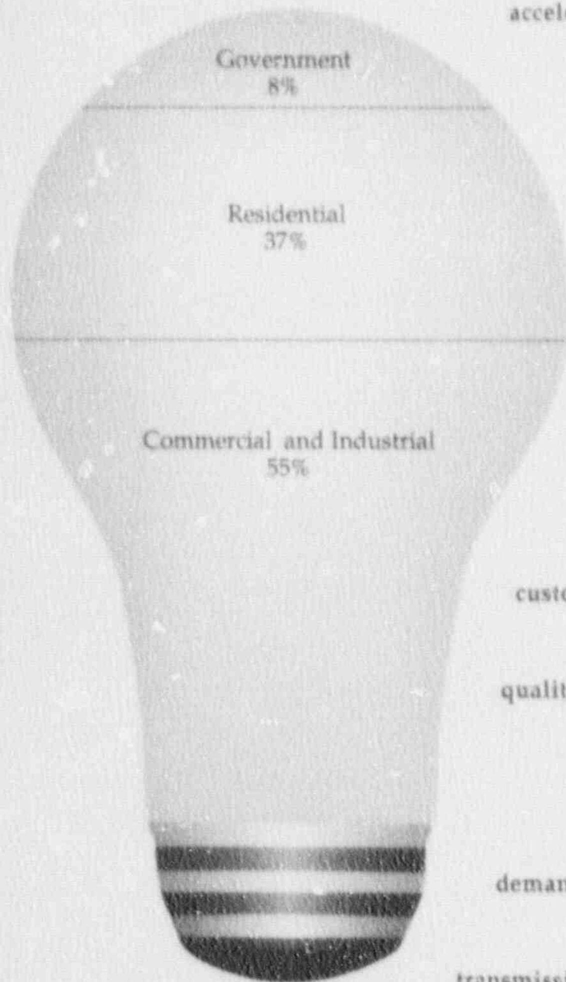
Almost one call per second. That's how many calls the Company's new electronically centralized telephone operation receives during regular business hours. More than six million calls each year. And there's one toll-free phone number for all these calls: 1-800-EDISON-1. Answering that number—24 hours a day, 7 days a week—are trained Customer Service Representatives equipped with the knowledge to respond to customer service requests or questions.

We implemented 24-hour service and the 800 number to make it easier for customers to communicate with us and obtain timely, efficient solutions to their problems.

However, responsibility for customer service does not rest solely with Customer Service Representatives. We believe *every* employe has a customer service responsibility—either serving the customer directly or assisting those who do.

Our engineering departments, for example, have initiated a major effort to enhance our service reliability. The effort includes accelerating the replacement of older equipment and adding transmission and distribution system capacity. Today's computers, as well as electronic home appliances such as VCRs and digital clocks, are vulnerable to even momentary interruptions. The quality of our service remains high, but the impact of this new equipment on our customers' lives has raised their expectations of what constitutes quality service.

1990 Revenues-Ultimate Consumers



To meet these higher expectations as well as increased demand, our five-year construction program for reinforcing our transmission and distribution system is $3.2 billion for 1991-1995. This reflects a commitment more than 50 percent higher than our five-year construction program just two years ago. It also reflects our determination to maintain and strengthen our vast, complex transmission and distribution system.

"Customer expectations change. We must anticipate those changes by listening to our customers and preparing for their future needs in an innovative, productive manner. Never promise more than we can deliver and always strive to deliver more than we promise." —*R. J. Manning, Vice President, General Office*

Commercial and industrial customers account for over half of the Company's revenue. They are also the lifeblood of the northern Illinois economy, as they account for more than three-quarters of all new jobs in our area.

Commercial and industrial customers account for more than half of our revenues, followed by residential and governmental customers. We are determined to be the supplier of electric service that best meets each of their individual needs.

Our new strategies help focus on ways to identify and satisfy customers' needs as determined by them. Pursuing our vision led to the creation of an operating team, comprised of employes from our geographical offices, to target activities for attention. For each activity, the team developed concrete objectives with measurable criteria and quantifiable goals. For example, service reliability became a strategic goal from which came three critical measures for improvement over the next five years:

- Reduce by 10 percent annually the number of primary distribution lines experiencing two or more interruptions per year.
- Develop a system for tracking momentary interruptions.
- Reduce the time it takes to restore service by 10 percent each year.

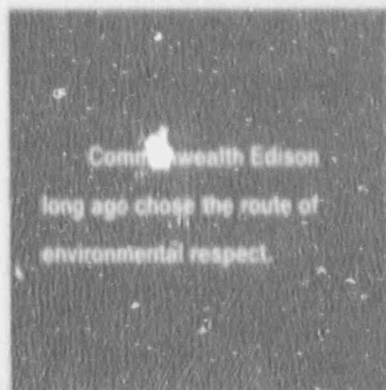
"I can pick up the phone and call the district superintendent and he takes care of it immediately." —*Marie L. Perry, Former Executive Director, Addison Industrial Association*

District and division superintendents are Commonwealth Edison employes who work with governmental units and community organizations. These men and women are a visible symbol of our commitment to the communities we serve.

The service that Commonwealth Edison provides to its governmental customers cannot be measured in kilowatthours alone. We understand their importance to the health and prosperity of people in northern Illinois. We also recognize government's need to hold down taxes while improving infrastructure and service. To aid in these efforts, Commonwealth Edison assists in whatever way it can, including the identification of various alternatives in the provision of electric service to these governmental units.

Because of our service quality as well as corporate and employe involvement, almost every community we serve values an ongoing relationship. This year seven communities—Amboy, Barrington Hills, Burr Ridge, Harmon, Hometown, South Barrington and West Brooklyn—signed new 50-year franchises with the Company. Our negotiations with the City of Chicago are aimed at obtaining a new long-term agreement before the extended pact expires on December 31, 1991.

"Our civilization—in fact, all life—is based on converting natural resour··· into other, more usable forms of matter and e··· In doing this, we can abuse our environment by despoiling and polluting it. Or we can treat our environment with care and respect. Commonwealth Edison long ago chose the route of environmental respect. That's important to me—not just as a Commonwealth Edison employe but as a parent who wants my child to grow up in a healthy world." —Judy Freitag, Senior Environmental Engineer, General Office

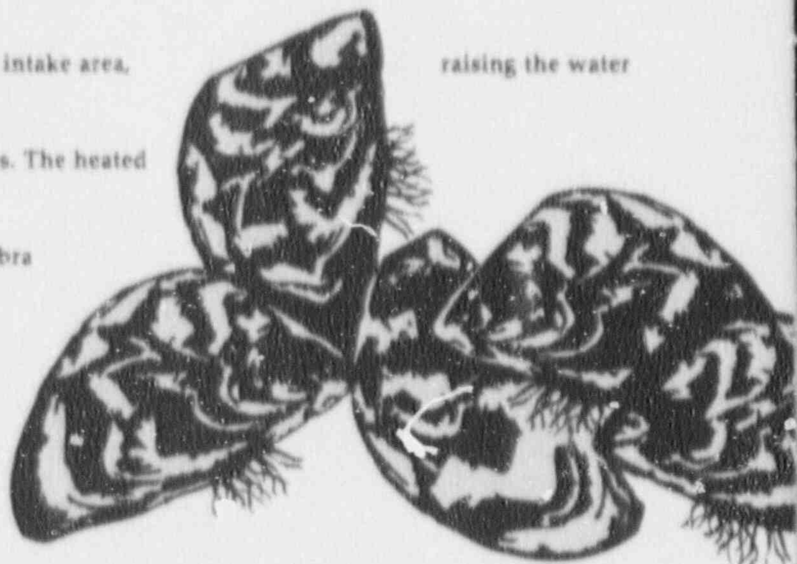


The tiny invaders came from Lake Michigan. No bigger than a human thumbnail, thousands of young zebra mussels infested water inlet screens at State Line generating station. They attached themselves to these surfaces at a concentration of 10 to 100 per square foot. If allowed to grow, clusters could develop, causing a possible shutdown of the station.

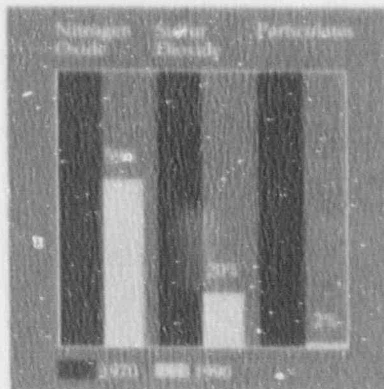
In the same way, these little mollusks had caused costly damage to other power plants in the Great Lakes. They now posed a challenge to Commonwealth Edison engineers: Eliminate the mussels before they clogged water inlet screens, yet have minimal effect on Lake Michigan water and aquatic life.

Our Company engineers succeeded in developing an environmentally benign answer with an effective water heating process. This non-chemical solution was successfully used against the mussel problem in November.

Usually, lake water drawn into the plant for cooling purposes is returned to the lake a few degrees warmer than it entered. But instead of returning the water to the lake in the normal manner, our State Line generating station employes continually recirculated it back into the intake area, raising the water temperature to 90-95 degrees. The heated water proved fatal to the zebra mussels, and because the water was allowed to cool before returning it to the lake, the process had minimal effect on other Lake Michigan aquatic life.



Relative Stack Emissions at Fossil Generating Stations
(percent)

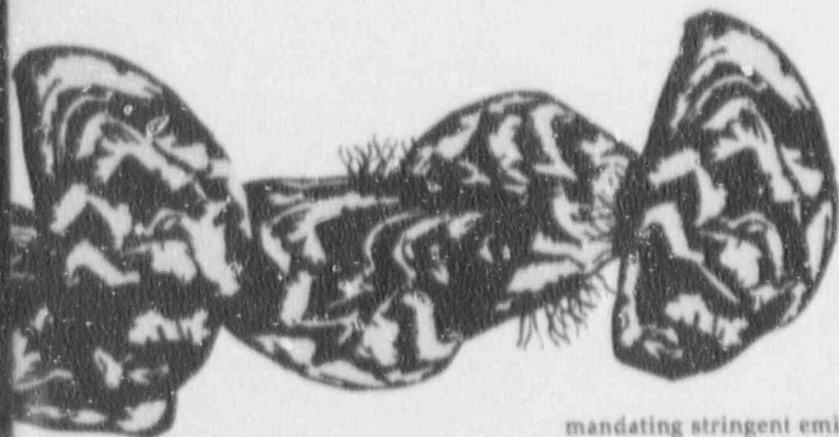


Although our primary duty is to provide dependable electric service, Commonwealth Edison is committed to responsible environmental stewardship as well. Our environmentally safe victory over the zebra mussels demonstrates this concern, as do the many recreational areas we provide to our customers free of charge.

These nature areas help people to enjoy outdoor activities, including fishing at Heidecke Lake, fossil hunting at Braidwood station, swimming at Fordam Dam and hiking along the Illinois Prairie Path.

Tiny zebra mussels in Lake Michigan (here shown approximately twice their full size) in large numbers could have played havoc with the cooling water intake at any of our generating stations. Instead, our engineers developed an environmentally benign solution.

Another measure of our long-term commitment to a better environment is the reduction in stack emissions from Commonwealth Edison generating stations. Last year, in comparison to 1970, nitrogen oxide emissions were only 59 percent, sulfur dioxide emissions only 20 percent, and stack particulate only 2 percent. We care about the environment and have one of the lowest average emission rates in the country. Signed into law in 1990, Amendments to the federal Clean Air Act mandating stringent emission standards should have little effect upon our operations. Only one of the Company's generating stations should be materially affected.

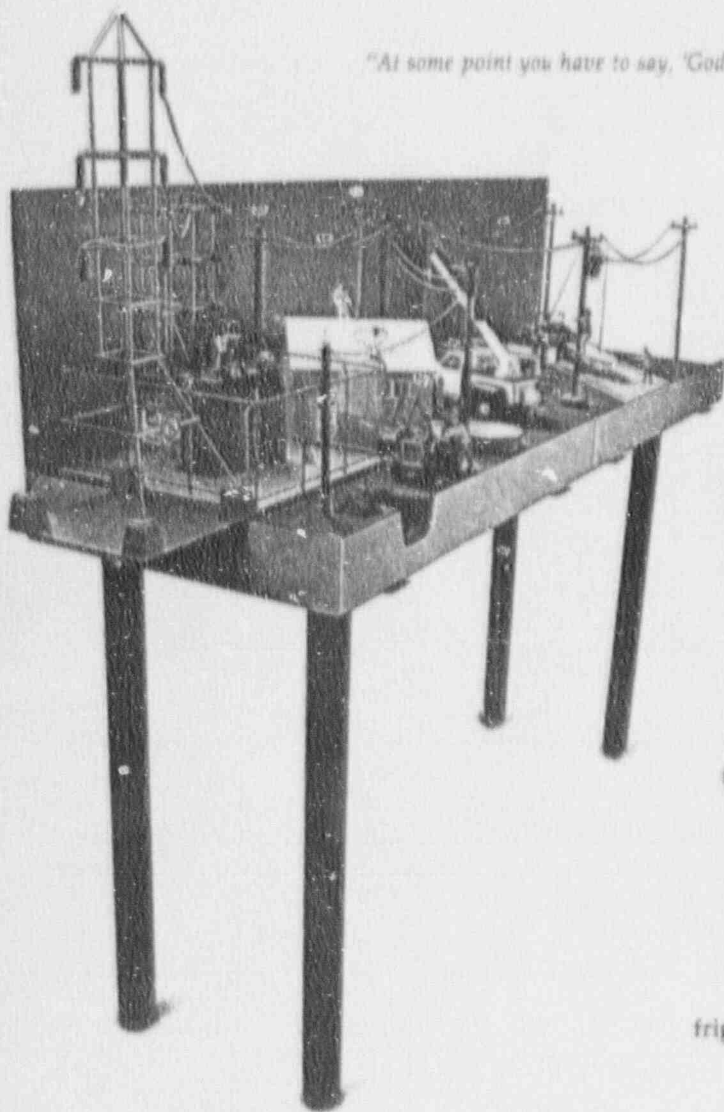


This indicates that Commonwealth Edison has been responsible in its planning, to the benefit of the Company and its customers. For example, the cost of bringing generating plants into compliance with the new Amendments to the Clean Air Act, in

many instances, is enormous. Many other utilities will have to make substantial investments and may need to increase their rates significantly to recover their costs.

In addition, the Amendments authorize the federal Environmental Protection Agency to reward utilities that surpass the new emission standards. As a result of our efforts, we'll receive allowances, which we can use in the future on our own system or sell to other utilities. As other utilities continue to operate existing non-complying plants or build new ones to meet customer demands, our allowances should prove valuable.

Corporate involvement: People caring for people in the communities we serve



"At some point you have to say, 'God bless Commonwealth Edison' for having this group of people out finding ways to respond to the community because not all institutions do." —*Jeremiah P. Boyle, Executive Director, Albany Park Chamber of Commerce*

An elderly man whose mailbox is stuffed with uncollected mail, indicating possible trouble. A frightened child looking for help. A high school

student under pressure ' drop out. An unemployed woman learning to use power tools. What do they have in common? They are recipients of Commonwealth Edison's help to the people of the communities in which we live and work. People. Not "the public." Not "consumers." People.

We are an increasingly active partner in improving the quality of people's lives.

Commonwealth Edison recognizes the importance of people to our Company. We are an increasingly active partner in improving the quality of people's lives. Our involvement with hundreds of community organizations takes place at all levels of the Company. Our employes actively serve to improve community healthcare, education and social services. Commitment to community cultural opportunities also remains a high priority for Company employes. The following examples illustrate our commitment to the people we serve. *The e-Team.* Its original purpose was to offer safety and assistance to children but, over the years, e-Team members have helped people of all ages. *The Gatekeeper Program.* Employes with frequent public contact are trained so that they may recognize when an older adult is in need of help and then contact the appropriate agency. *Speakers bureau.* Created in 1970, it provides employes to speak on topics related to the Company, and more recently, demonstrations of Safety Town—a model town used

Lindsey Dwyer, eight years old and a second grade student attending school in the western suburbs of Chicago, views "Safety Town," one of our models used to caution students about electric lines.

to explain electrical safety to children. It accounted for Company representatives addressing a record 151,600 people in 1990. *Neighborhood dialogues.* Informal meetings in homes and community buildings give customers a chance to talk to Company representatives about their concerns. *Midwest Women's Center.* A 10-day co-op training program helped improve the skills of women interested in nontraditional jobs in construction and building maintenance. This brought the Company a 1990 Edison Electric Institute award for outstanding achievement in affirmative action. *Education.* One measure of the Company's commitment to education is the wide array of educational outreach programs in which Commonwealth Edison employes participate. Among them: The Learning Power Catalogue, a description of educational materials available for students and educators; the Adopt-a-School Program, an arrangement under which employes volunteer to assist in classrooms; Career Beginnings, a program in which employes tell students about the benefits of continuing education; and the Youth Motivation Program, an opportunity for students to better understand the relationship between education and job opportunities.

A commitment to education is also reflected in Mr. O'Connor's chairmanship of the "Big Shoulders Fund," which was created to obtain financial support from companies, foundations, and individuals to assist inner city parochial schools.

Employe involvement in civic and charitable activities is also important to us. Last year our employes contributed more than $3.2 million to The United Way/Crusade of Mercy, surpassing 1989's record contribution by 10.5 percent. Commonwealth Edison reinforces employe giving through a significant corporate commitment to not-for-profit organizations throughout its service area.

> **If we are to achieve our vision, we must be concerned about the people we serve.**

We know if we are to achieve our vision, we must be concerned about the people we serve.

The bottom line: Delivering value . . . the Commonwealth Edison Vision

"This was a year that tested the character of Commonwealth Edison." —*James J. O'Connor, Chairman*

In last year's annual report, the Company unveiled its Vision of the Commonwealth Edison of the future:

Commonwealth Edison will be the supplier of electric service that best meets customers' needs.

Our customer base is one of our greatest assets. To protect that base and outperform our competitors, we will create loyal customers by meeting our customers' needs as they define them. Toward that end, we will become a flexible and responsive organization. We will provide superior value by responding to customers' varying needs for quality, reliability, and cost.

To meet these objectives, we must maintain the health and support the growth of the entire Company. Accordingly, we will become the nation's premier utility, stressing superior performance in all aspects of our operations. We will redefine how we work and deploy resources to improve our performance. We will assess every activity in terms of its contribution to customer satisfaction, and we will measure ourselves against customer-defined performance goals.

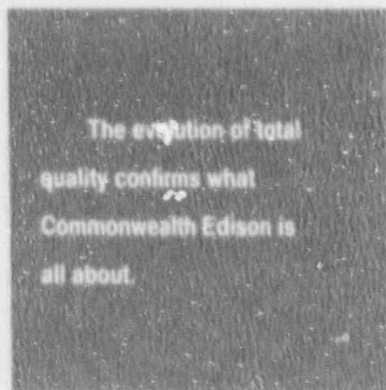
We will also serve our customers in non-traditional ways, by using our skills and assets to encourage and support electricity-related enterprises that respond to the emerging needs of our customers.

Success will create an excellent company that is valued by its customers; rewards its shareholders; recognizes the contributions of its employes; and is respected by regulators, competitors, and peers.

1990, a year of financial difficulties, put this Vision Statement on the line. The summer weather was nothing like the heat wave of 1988, but September 6 marked the third time during a mild, rain-filled summer that demand surpassed 17 million kilowatts, and we met it.

This year's demand could not have been met without the output of our two newest generating units, Braidwood Units 1 and 2. Both operated well throughout the summer.

There were other positive highlights in 1990: • New homes and businesses fueled growth in Commonwealth Edison's service area of 8 million people. • We expanded efforts to upgrade our complex transmission and distribution system, recording facilities expenditures of $370 million, a 10 percent increase over 1989, and more than 60 percent over 1988. • The design of integrated cost and schedule management computer systems progressed well. These will further improve our ability to control costs and meet service deadlines for any significant Company project. • New training programs and Company teams began the process of focusing employes on total quality and helping to transform our Vision Statement into reality.


The evolution of total quality confirms what Commonwealth Edison is all about.

The evolution of total quality confirms what Commonwealth Edison is all about. And total quality is essential if we are to deliver value to our customers and ultimately realize our corporate vision. 1990 tested the character of Commonwealth Edison. We continued to improve. We learned more about our customers' needs and began developing programs to satisfy them. We will continue to uphold our commitments to our stakeholders: shareholders, customers, employes and the communities in which we operate.

Commonwealth Edison is committed to delivering value, an essential part of our corporate vision.

Liquidity and Capital Resources

Capital Budgets. The Company's program for the construction of additional nuclear generating capacity is complete with the last unit, Braidwood Unit 2, having been placed in service on August 5, 1988. The Company's capital budg... for the five-year period 1991-95 do not include any funds to add generating capacity to the Company's system. For additional information regarding Byron and Braidwood stations, see "Rate Proceedings" below and Notes 2 and 3 of Notes to Financial Statements.

The construction program of the Company and its electric utility subsidiary, Commonwealth Edison Company of Indiana, Inc., for the five-year period 1991-95, consists principally of improvements to its existing nuclear and other electric production, transmission and distribution facilities. The construction program for the five-year period 1991-95 calls for electric plant and equipment expenditures of approximately $4,950 million (excluding nuclear fuel expenditures of approximately $1,400 million), and represents an increase of approximately $750 million over the construction program budget for the five-year period 1990-94. It is estimated that such construction expenditures, with cost escalation computed at 6% annually, will be as follows:

(millions of dollars)	1991	1992	1993	1994	1995	Five-Year Total
Production	$ 300	$ 295	$ 260	$235	$225	$1,315
Transmission	225	260	260	190	180	1,115
Distribution	390	400	395	430	445	2,060
General	135	95	85	70	75	460
Total	$1,050	$1,050	$1,000	$925	$925	$4,950

No amounts have been included in the construction program budget for compliance by the Company's Kincaid generating station with the Clean Air Act Amendments of 1990. Although those Amendments will require the reduction of sulphur emissions from Kincaid station, the Company has not made a decision as to how it will comply. If the Company were to install flue gas desulphurization equipment (i.e., scrubbers) at Kincaid station, the construction program budget for the five-year period 1991-95 would be increased by approximately $450 million. The budget also does not include certain additional costs which may be incurred in connection with the replacement of piping at certain of the Company's nuclear generating units. If the Company is required to replace all of such piping, its estimated 1991-95 construction expenditures would be increased by approximately $400 million.

Purchase commitments, principally related to construction and nuclear fuel, approximated $1,019 million at December 31, 1990. In addition, there are substantial commitments for the purchase of coal under long-term contracts as indicated in the following table.

Contract	Period	Commitments (1)
Black Butte Coal Co.	1991-2015	$2,354
Decker Coal Co.	1991-1997	$ 529
Peabody Coal Co.	1991-1992	$ 120

(1) *Estimated costs in millions of dollars FOB mine. No estimate of future escalation has been made.*

The construction program will be modified as necessary for adaptation to changing economic conditions, rate levels and other relevant factors. The construction program is subject to review and modification to reflect changing business and legal needs and requirements. Although the Company cannot anticipate all such possible needs and requirements, they are more likely, on balance, to require increases in construction expenditures than decreases.

Capital Resources. The Company had forecast that approximately one-half of the funds required for its construction program and other capital requirements, including nuclear fuel expenditures and refinancing of debt maturities and sinking fund obligations (the annual sinking fund requirements for long-term debt and preference stock are summarized in Notes 7 and 8 of Notes to Financial Statements), would be provided from internal sources. The forecast was based on the assumption that the Company would receive adequate and timely rate increases and include the costs of Byron Unit 2 and Braidwood Units 1 and 2 in rates. The Company has not published a forecast for the period 1991-95. The extent to which funds required for the 1991-95 construction program will be provided from internal sources will depend largely upon the outcome of the proceedings described in "Rate Proceedings" below and Notes 2 and 3 of Notes to Financial Statements, and particularly upon the outcome of the Company's pending rate increase request. To the extent that overall rates during the period continue significantly lower than the previously assumed rates and/or significant additional customer refunds beyond those provided for in the financial statements were to be made, then funds from internal sources for the construction program and other capital requirements would suffer correspondingly significant reductions. The type and amount of external financing will also depend on financial market conditions during the five-year period. Although the Company's new money financing requirements decreased significantly with the completion of its nuclear generating capacity construction program in 1988, they have subsequently increased due to lower operating cash flows resulting from the regulatory and court orders described in "Rate Proceedings" below and in Notes 2 and 3 of Notes to Financial Statements as well as the increase in the construction program. A portion of the Company's financing will continue to be provided through the sale and leaseback of nuclear fuel. The Company has unused bank lines of credit which may be borrowed at various interest rates and which may be secured or unsecured. Collateral, if required for the borrowings, would consist of first mortgage bonds issued under and in accordance with the provisions of the Company's mortgage. See Note 9 of Notes to Financial Statements for information concerning lines of credit. See the statements of consolidated cash flows for the construction expenditures and cash flows from operating activities for the years 1990, 1989 and 1988.

During 1990, the Company issued an aggregate of 417,779 shares of common stock for approximately $12,707,000 under its employe stock plans; issued and sold 650,000 shares of $9.00 Cumulative Preference Stock; sold and leased back an aggregate of approximately $221,514,000 of nuclear fuel; and issued $610,000,000 aggregate principal amount of first mortgage bonds and $102,880,000 of other long-term debt. The proceeds of debt securities issued during 1990 were used to discharge or refund outstanding securities and for other general corporate purposes.

The Company has filed registration statements with the Securities and Exchange Commission for the proposed sale of up to an additional $818,700,000 principal amount of debt securities, consisting of first mortgage bonds, notes and debentures and an additional $100,000,000 of cumulative preference stock, in each case for general corporate purposes of the Company, including the discharge or refund of other outstanding securities.

The Company's financial condition is dependent upon its ability to charge rates which provide for the recovery of costs of and a return on completed construction projects, and which enable it to maintain adequate debt and preferred and preference stock coverages and common stock equity earnings. The Company's ability to recover its costs to provide service to its customers is limited because the costs of Byron Unit 2 and Braidwood Units 1 and 2 are not included in rate base. Significant rate refunds other than those provided for on the Company's books and/or significant additional write-downs of nuclear power plant costs could eliminate the Company's retained earnings (approximately $1.5 billion as of December 31, 1990) and interrupt dividend payments on its capital stocks. Illinois law provides that a utility may not pay any dividend on its stock unless "[t]he utility's earnings and earned surplus are sufficient to declare and pay same after provision is made for reasonable and proper reserves," or unless the utility has specific authorization from the Illinois Commerce Commission (ICC). See "Rate Proceedings" below and Notes 2 and 3 of Notes to Financial Statements.

The current ratings of the Company's securities by three principal securities rating agencies are as follows:

	Moody's	Standard & Poor's	Duff & Phelps
First mortgage and secured pollution control bonds	Baa1	BBB+	A−
Publicly-held debentures and unsecured pollution control obligations	Baa2	BBB	BBB+
Convertible preferred stock	baa2	BBB	BBB+
Preference stock	baa3	BBB	BBB
Commercial paper	P2	A-2	Duff 1−

The Company cannot predict the effect of the proceedings described under "Rate Proceedings" below and Notes 2 and 3 of Notes to Financial Statements on the continuation of its current ratings by the securities rating agencies.

Capital Structure. The Company's ratio of long-term debt to total capitalization has increased to 49.0% at December 31, 1990 from 45.6% at December 31, 1989.

Federal Tax Changes. The Omnibus Budget Reconciliation Act of 1990 was approved by Congress and signed by the President. The tax provisions of that Act are not expected to have a significant impact on the Company. However, under the Act, the Company's user fee payment to the Nuclear Regulatory Commission (NRC) will increase by about $33 million each year for the years 1991 through 1995.

Rate Proceedings

The Company is involved in several proceedings relating to the level of its rates, including proceedings concerning the inclusion of the construction costs of its four most recently completed nuclear generating units (Byron Units 1 and 2 and Braidwood Units 1 and 2) in its rate base. As discussed below, the Company filed a rate increase request with the ICC in April 1990 seeking to reflect the costs of Byron Unit 2 and Braidwood Units 1 and 2 in its rate base. Proceedings were also pending before the ICC with respect to such inclusion as a result of an Illinois Supreme Court (Supreme Court) decision which reversed a December 30, 1988 ICC rate order (which had dealt with such costs) and remanded it to the ICC for further proceedings. In addition, the Company has been involved in judicial and ICC proceedings relating to an October 24, 1985 ICC rate order which provided for the inclusion of a portion of Byron Unit 1 costs in the Company's rate base.

Rate Increase Proceedings. On April 12, 1990, the Company filed a request with the ICC to increase annual base electric operating revenues by $982 million, or 17.7%, in excess of then current rates, which included the first step of the rate increase authorized in the December 30, 1988 rate order which has since been rolled back. On July 20, 1990, the Company filed an update to its April 12 rate request which reflected the same proposed revenue level as the April 12 filing but which made adjustments in the Company's rate request to take account of the ICC's rate rollback order. The request principally reflected the inclusion of the full costs of Byron Unit 2 and both units at Braidwood station (before any disallowance of any costs as a result of the prudence audits of those units, but including certain post-in service carrying and depreciation charges, as described below) in the Company's rate base, increased operation and maintenance expenses, a lower depreciation rate and charges, and increased amounts for contributions to the external trust funds which the Company is required to fund to cover the eventual decommissioning of its nuclear power plants. The request also contained projections of the Company's revenues and earnings at various rate levels. The ICC suspended the rates, appointed hearing examiners and ordered an investigation.

ICC hearing examiners recently issued proposed orders in both the proceedings relating to the Company's April 12, 1990 rate increase request and the remanded proceedings resulting from the Supreme Court's reversal of the December 30, 1988 rate order (described below). The proposed order in the rate increase proceedings provides, among other things, for an increase of approximately $579 million in the level of the Company's annual base electric operating revenues, which amount includes a provision for an annual increase of approximately $60 million for the required contributions to the Company's external nuclear decommissioning trust funds. The rate increase is based in large part upon the ICC hearing examiners' determinations in the rate increase proceedings and the remanded proceedings as to the rate base treatment of Byron Unit 2 and Braidwood Units 1 and 2. Specifically, the hearing examiners determined in the remanded proceedings that approximately $730 million of the units' approximately $7 billion cost was "unreasonably" incurred and should be excluded from the Company's rate base based on the audits of the units' construction costs required under Illinois law and the findings developed during hearings on those audits. Based on preliminary estimates, the approximately $730 million proposed plant disallowance, if ultimately disallowed, would result in a reduction in net income of approximately $565 million or $2.66 per common share. In addition, the hearing examiners in the rate increase proceedings determined that 100% of Byron Unit 2 is considered used and useful, approximately 29% of Braidwood Unit 1 is considered used and useful, and none of Braidwood Unit 2 is considered used and useful. They recommended that the Company be allowed a return of 11.09% on the used and useful portion of the reasonable construction costs of the units and a return of 5.29% (designed to exclude a return on the common equity portion of the investment in such costs) on the approximately $3 billion non-used and useful portion of such costs. Based on the methodology used in the hearing examiners' proposed order, the used and useful disallowance is expected to be relatively short-term in duration.

In the rate increase proceedings, the hearing examiners also recommended that the Company be allowed to recover approximately $1,162 million of post-in service carrying and depreciation charges (net of income tax effects) on Byron Unit 2 and Braidwood Units 1 and 2 over a five-year period commencing with the effectiveness of the rate increase order. This recommendation is reflected in the $579 million annual rate increase amount. The Company has not capitalized and recorded as income deferred carrying and depreciation charges because the ICC has not made any determination as to the recovery through rates of the deferred amounts.

The proposed orders in the two rate proceedings have no effect until adopted by the ICC, and the ICC is not obligated to adopt the orders as proposed by the hearing examiners. Consequently, there can be no assurance as to the ultimate effects of the proposed orders or their impact on the Company's pending rate increase request. Under the Illinois Public Utilities Act, the ICC should decide the rate increase request by early March 1991.

Generally accepted accounting principles require the Company to write off plant costs, net of the income tax effects, when it becomes probable that such plant costs will be disallowed for ratemaking purposes and a reasonable estimate of the amount of the disallowance can be made. The proposed orders are subject to revision in whole or in part by the ICC (on its own initiative as well as in response to objections filed by the Company and the intervenors in those proceedings). No portion of the Company's investment in Byron Unit 2 and Braidwood Units 1 and 2 has been written off because the Company is unable to determine the amounts which may ultimately be disallowed. When the Company is able to determine the amounts that will ultimately be disallowed in ratemaking proceedings related to those units and Byron Unit 1, a writeoff of plant costs and any associated refunds will be recorded and earnings per common share and retained earnings could be significantly adversely affected. This potential significant adverse effect could occur in 1991. Although such writeoffs of plant costs would not have a direct effect on the Company's cash position, they would reduce its retained earnings. Such reductions in retained earnings (whether alone or in combination with reductions resulting from additional refunds to customers not provided for in the financial statements) could eliminate the Company's retained earnings (approximately $1.5 billion as of December 31, 1990) and interrupt dividend payments on its capital stocks. See "Liquidity and Capital Resources" above.

Remanded Proceedings. The Supreme Court issued a unanimous decision on December 21, 1989 (subsequently modified on May 31, 1990) in which it reversed a December 30, 1988 rate order of the ICC, which order had granted the Company a rate increase of $235 million ($179 million net of a scheduled 1989 decrease in residential rates), effective January 1, 1989, and which had set the framework for a proposed second-step increase in the Company's rates of up to $245 million (contingent upon certain determinations by the ICC), which was to become effective January 1, 1990. (As a result of the Supreme Court's decision and a December 22, 1989 ICC order, the second-step increase did not become effective.) The rate order also had terminated an ICC proceeding regarding whether downward adjustments should be made to the Company's rates (and refunds ordered) as a result of the 34% federal corporate income tax rate that became effective under the Tax Reform Act of 1986. In its modified decision, the Supreme Court held applicable a provision of the December 30, 1988 rate order whereunder the Company agreed to make refunds with interest to its customers of all of the increase in charges collected pursuant to the rate order when a final judicial determination (such as the Supreme Court's decision) was made that the ICC lacked jurisdiction to enter the rate order. The Supreme Court remanded the case to the ICC "to enter an order consistent with its rules, the [Illinois Public Utilities] Act, and this opinion."

In the remanded proceedings that followed the Supreme Court's decision, the ICC issued two interim orders. The first order, which was issued on June 27, 1990, directed the Company to refund approximately $400 million to its customers (representing the estimated increase in charges collected by the Company under the December 30, 1988 rate order during the period from January 1, 1989 through June 30, 1990, plus interest at the rate of five percent per annum). Pursuant to the order, approximately 80% of the refund was effected by a temporary rate reduction over a six month period that began with the Company's July 1990 billing cycle. The second order, which was issued on June 28, 1990, directed the Company to roll back its rates to the levels that existed prior to January 1, 1989 (after reflecting a scheduled $56 million reduction in rates that took place on January 1, 1989) and terminated the fuel cost and off-system sales sharing provisions contained in the December 30, 1988 rate order. As described above, ICC hearing examiners recently issued a proposed order in these proceedings relating, among other things, to the rate base treatment of Byron Unit 2 and Braidwood Units 1 and 2.

The Company's rates were rolled back as directed and the refund process began with the July 1990 billing cycle and continued through the end of the December 1990 billing cycle. A reconciliation period is now in progress. Certain intervenors have appealed aspects of the two interim orders to the Illinois Appellate Court (Appellate Court). The appeals challenge the ICC's determination of the interest rate applicable to the refunded amounts, the amount of the refund to the residential class, and the rate design of the rates after the refund. The Appellate Court has dismissed the portion of the appeal relating to the rate design as not being ripe for review.

The Company recorded an estimate of the effect of the Supreme Court's decision in the second quarter of 1990 resulting in a reduction in net income of approximately $253 million or $1.19 per common share.

Byron Unit 1 Remand Proceedings. The Company's October 1985 rate increase, primarily reflecting the costs associated with placing Byron Unit 1 in service, has been the subject of ICC and judicial proceedings since its approval by the ICC. Following a judicial remand of the order for reconsideration, the ICC entered an order on August 23, 1989 finding approximately $200 million of additional Byron Unit 1 costs to be unreasonable, principally because of construction delays, and consequently provided for an exclusion of such costs from the Company's rate base. Based on that exclusion, the ICC also ordered the Company to refund approximately $190 million to its customers. The Company sought judicial review of the ICC order. Intervenors also sought judicial review, arguing for greater refunds in respect of the additional disallowance made and for further disallowances and refunds.

Proceedings relating to refunds arising out of the additional disallowance were also conducted before the Circuit Court of Cook County, Illinois (Circuit Court). On October 31, 1989, that Court

entered an order directing the Company to pay refunds beginning in March 1990. Refunds, if calculated on the basis of that Court order, would have approximated $248 million. The Company appealed the October 31 Circuit Court order to the Appellate Court, where it was consolidated with the appeal of the ICC order disallowing additional costs of Byron Unit 1 and directing refunds. On February 20, 1990, the Appellate Court stayed the October 31 Circuit Court order.

On June 7, 1990, the Appellate Court issued a decision essentially affirming the August 23, 1989 order of the ICC. The Appellate Court also determined that the ICC, as opposed to the Circuit Court, had jurisdiction to determine the amount of refunds to customers resulting from the additional disallowance provided for in the August 23 order. The Appellate Court remanded the proceeding to the ICC for a determination on whether the refunds should be based on the revenue projections contained in the Company's filings with respect to its October 1985 rate increase or should be based on the revenues it actually collected under the rate increase. The Appellate Court also directed that the Company "promptly implement", upon the ICC's resolution of the remand issues, the refund for the period from April 30, 1986 through December 31, 1988 to the Company's current customers with interest at five percent, compounded annually, but that the refund for calendar year 1989 and thereafter would need to await an ICC determination as to the proper level of rates for the Company in the wake of the December 21, 1989 Supreme Court decision. The Company and certain intervenors filed petitions for rehearing with the Appellate Court which have been denied. The Company and these intervenors have filed petitions for leave to appeal the Appellate Court's decision to the Supreme Court.

In October 1989 and the second quarter of 1990 the Company recorded the estimated effect of the approximately $200 million additional Byron Unit 1 disallowances and the related refund with interest which in the aggregate reduced the Company's net income by approximately $270 million or $1.27 per common share. The Company's estimate reflects a refund with interest and revenue taxes of approximately $163 million for the period from April 30, 1986 through December 31, 1988. In October 1989, the Company recorded some of these effects, amounting to $62 million or $0.29 per common share, as a result of its decision to contest only a portion of the ICC's August 23, 1989 order. In the second quarter of 1990, the Company recorded the remaining $208 million or $0.98 per common share, reflecting the Appellate Court's decision.

Summer/Non-summer Rate Differential Matter. On June 1, 1989, the Supreme Court denied the Company's petition for leave to appeal an order of the Appellate Court that affirmed an April 1988 ICC order and declared void a June 1988 ICC order. Both the April and June 1988 orders were intended to reduce the difference between the Company's summer and non-summer residential rates without affecting the Company's overall revenues provided under the then effective rates set in the October 1985 rate order. The Company billed under the rates that were the subject of the June 1988 order. Those billings resulted in 1988 revenues approximately $150 million greater than would have been billed under the specific charges set forth in the April 1988 order and approximately $5.7 million over what would have been billed under the October 1985 rate order. The Illinois Attorney General and the State's Attorney for Cook County filed complaints with the ICC asking it to order refunds based on the difference in revenues actually billed and those that would have been billed under the specific charges set forth in the April 1988 order. In June 1989, the Company recorded an estimated provision for revenue refunds of $5.7 million, representing the Company's view of the refund related to the summer/non-summer rate differential matter. On February 23, 1990, the ICC entered an order directing the Company to pay refunds of $5.7 million plus interest in May 1990. In accordance with this order, the Company refunded the amounts ordered including interest in the May 1990 billing cycle. The complainants' request for a rehearing was denied by the ICC, and they have appealed to the Appellate Court.

For additional information concerning the Supreme Court's decision reversing the December 30, 1988 rate order, the Byron Unit 1 remand proceedings, the summer/non-summer rate differential matter and other such legal and regulatory proceedings and related matters, including financial accounting requirements, see Notes 1, 2 and 3 of Notes to Financial Statements.

City of Chicago Franchise

On December 28, 1989, the Company received a notice from the City of Chicago, Illinois to terminate the Company's existing franchise agreement to provide electric service in Chicago on December 31, 1990. The Company also received on the same date from the City a "demand" to acquire the Company's "Utility Facilities", as defined in the franchise agreement. The franchise agreement allows the City to purchase the "Utility Facilities" at a formula price subject to specified minimum and maximum prices tied to the Company's investment in those "Utility Facilities." The Company had expected the City to give both the notice of termination and the demand to acquire the "Utility Facilities" as part of the City's effort to negotiate a new franchise agreement with the Company.

Statements in the public press attributed to the City indicate that the City may believe that it is entitled under the franchise agreement to acquire only certain utility facilities or only the utility facilities in Chicago. The Company believes that the reference in the franchise agreement to the "Utility Facilities" of the Company is to all of the Company's utility facilities. However, the Company is studying whether under applicable law the City's demand to acquire the utility facilities is void, defective and not curable, or unenforceable by the City or the Company.

On September 25, 1990, the Company announced it would agree to City officials' request for a one-year extension of the franchise agreement, which extension was approved by the City Council on November 7, 1990. Although the Company would have preferred concluding the negotiations on a new franchise agreement during 1990, City officials felt it was necessary to extend the current agreement so the City could have additional time to study issues it considers relevant.

Results of Operations

Earnings Per Common Share. The Company's earnings per common share were $0.22 in 1990, $2.83 in 1989 and $3.01 in 1988. The sharp decline in 1990 earnings resulted primarily from a non-recurring $461 million reduction to net income or $2.17 per common share, recorded in the second quarter to provide for revenue refunds ordered by the ICC in the remanded proceedings following the Supreme Court's reversal of the ICC's December 30, 1988 rate order and estimated to be ordered refunded following the Appellate Court's decision affirming an ICC order of August 23, 1989 disallowing $200 million additional Byron Unit 1 construction costs, and to reflect a write-down in the costs of Byron Unit 1 in accordance with Statement of Financial Accounting Standards No. 90. The portion of the effects of the ICC's August 23, 1989 order which the Company did not contest ($62 million or $0.29 per common share) was recorded in 1989. The ICC also ordered the Company to roll back its rates, effective July 1, 1990, to the levels that existed prior to January 1, 1989 (after reflecting a scheduled $56 million reduction in rates that took place on January 1, 1989) in the remanded proceedings following the Supreme Court's reversal of the December 30, 1988 rate order. The resultant reduced revenues adversely affected the Company's earnings and will continue to affect adversely its earnings until adequate rate relief is obtained. Earnings per common share in 1989 and 1988 were affected by increases in operation, maintenance and depreciation expenses as well as the substantial decrease in construction-related credits resulting from placing Byron Unit 2 and Braidwood Unit 1 in service in 1987 and Braidwood Unit 2 in service in 1988 prior to their inclusion in rate base and commensurate increases in electric service rates. These effects were partially offset by the increased electric rates in 1989 as a result of the December 30, 1988 rate order (which was subsequently reversed by the Supreme Court).

See "Rate Proceedings" above and Notes 2 and 3 of Notes to Financial Statements for information relating to the Company's recent rate orders and related ICC and judicial proceedings (including information related to the potential effects on earnings per common share), the prudence audits for Byron Units 1 and 2 and Braidwood Units 1 and 2, the Company's April 12, 1990 rate increase request, and the accounting standard which requires the Company to write off any plant costs, net of the income tax effects, when it becomes probable that such plant costs will be disallowed for ratemaking purposes.

Kilowatthour Sales. Kilowatthour sales to ultimate consumers increased 2.5% in 1990, the result of increased sales to residential, commercial and industrial, and public authority customers and a warmer than normal summer. Kilowatthour sales to ultimate consumers decreased 1.5% in 1989 reflecting a 1989 summer which was essentially normal, in terms of the number of cooling degree days, but much cooler than 1988. Kilowatthour sales to ultimate consumers increased 5.7% in 1988 as a result of increased sales to all classes of customers, reflecting an unseasonably hot summer and a strong economy. Kilowatthour sales including sales for resale increased 1.7% during 1990, 0.9% in 1989 and 6.0% in 1988. See "Purchased and Interchanged Power—Net" below for additional information related to power sales.

Electric Operating Revenues. Operating revenues decreased $489.1 million in 1990, principally reflecting the recording of provisions for revenue refunds resulting from the Supreme Court's reversal of the ICC's December 30, 1988 rate order (see "Rate Proceedings" above and Notes 2 and 3 of Notes to Financial Statements) and the Appellate Court's decision affirming the ICC's August 23, 1989 order in the Byron Unit 1 remand proceedings. The decrease also reflects the rate rollback, effective July 1, 1990, resulting from the reversal of the December 30, 1988 rate order.

Operating revenues increased $137.7 million in 1989, the result of increased revenues from the first step rate increase included in the December 30, 1988 rate order (see "Rate Proceedings" above and Notes 2 and 3 of Notes to Financial Statements), partially offset by recording provisions for revenue refunds of $31.8 million with respect to the Byron Unit 1 remand proceedings and the summer/non-summer rate differential matter, and decreased revenues from lower kilowatthour sales. A modification of the Company's fuel adjustment clause (contained in the December 30, 1988 rate order) also contributed to the increase in operating revenues.

Operating revenues decreased $60.4 million in 1988, the result of decreased recovery of energy costs partially offset by increased revenues from higher kilowatthour sales and the comparative effect of a 1987 provision for revenue refunds related to an ICC fuel adjustment clause reconciliation order for the year 1983.

Operating revenues for 1991 will be significantly affected by the outcome of the regulatory and judicial matters before the ICC and the courts referred to above and Notes 2 and 3 of Notes to Financial Statements.

Fuel Costs. Fuel expense increased in 1990 primarily as a result of the increased average cost of fuel consumed due to the change in fuel sources of electric energy generated. Fuel expense decreased in 1989 and 1988 as a result of the decreased average cost of fuel consumed primarily due to greater nuclear generation offset by an increase in net generation of electric energy. The mix of the fuel sources of electric energy generation is determined primarily by system load, the costs of fuel consumed and the availability of nuclear generating units. The cost of fuel consumed, net generation of electric energy and fuel sources of kilowatthour generation were as follows:

	1990	1989	1988
Cost of fuel consumed (per million Btu):			
Nuclear	$0.56	$0.63	$0.69
Coal	$2.70	$2.65	$2.43
Oil	$3.90	$3.45	$3.54
Natural gas	$3.04	$3.55	$3.48
Average all fuels	$1.07	$1.03	$1.14
Net generation of electric energy (millions of kilowatthours)	83,152	83,968	78,722
Fuel sources of kilowatthour generation:			
Nuclear	79%	83%	77%
Coal	20	17	22
Oil	—	—	1
Natural gas	1	—	—
	100%	100%	100%

Purchased and Interchanged Power—Net. Amounts of purchased and interchanged power are primarily affected by system load, the availability of the Company's generating units and the availability and cost of power of other utilities. Income is generated from the sale of power delivered to other utilities; and expense results from the purchase of power received from other utilities. The excess of income over expenses decreased in 1990 compared to 1989 due primarily to a decrease in kilowatthours delivered. Income exceeded expenses in 1989 compared to the net expense in 1988, and net expense in 1988 decreased from that in 1987, in both cases due principally to the greater overall availability of the Company's generating units, including additional nuclear units placed in service in 1987 and 1988, resulting in a decrease in kilowatthours received (expense) and an increase in kilowatthours delivered (income).

The number and average cost of kilowatthours purchased and interchanged were as follows:

	1990	1989	1988
Purchased and interchanged power:			
Received			
Kilowatthours (millions)	1,181	1,118	2,448
Cost per kilowatthour	2.03¢	1.90¢	2.13¢
Delivered			
Kilowatthours (millions)	4,206	5,832	2,878
Cost per kilowatthour	1.22¢	1.13¢	1.21¢

Deferred Under or Overrecovered Energy Costs—Net. Electric operating expenses for the years 1990, 1989 and 1988 reflect the net change in under or overrecovered allowable energy costs. See Notes 1, 2 and 3 of Notes to Financial Statements.

Operation and Maintenance Expenses. Operation and maintenance expenses increased during 1988 to 1990 due primarily to an increase in operation and maintenance expenses associated with nuclear generating stations, including an increase in expenses associated with placing an additional nuclear generating unit in service during that period, wage increases and inflation. Nuclear operation and maintenance expense increased approximately $114 million, $34 million and $213 million in 1990, 1989 and 1988, respectively. Nuclear regulatory initiatives and requirements necessitated the addition of personnel and resources to meet the increased regulatory demands, which increased operation and maintenance expenses. Operation and maintenance expenses associated with nuclear generating stations in future years may be significantly affected by regulatory, operational and other requirements. See "Liquidity and Capital Resources" subcaption "Federal Tax Changes" for information regarding the increase in the Company's user fee payment to the NRC.

Depreciation. Depreciation expense in 1990 was relatively level compared to 1989. Depreciation expense increased in 1989 due primarily to additions to plant in service, including the full year's effect of depreciation on Braidwood Unit 2, partially offset by lower average annual composite depreciation rates. Depreciation expense increased in 1988 due primarily to additions to plant in service, including nuclear generating units placed in service, and higher average annual composite depreciation rates. Depreciation on Byron Unit 2, Braidwood Unit 1 and Braidwood Unit 2 commenced when those units were placed in service on April 11, 1987, November 19, 1987 and August 5, 1988, respectively. See Note 1 of Notes to Financial Statements for information concerning future depreciation rates.

Interest on Debt. Changes in interest on long-term debt and notes payable for the years 1990, 1989 and 1988 were due to changes in average interest rates and in the amounts of long-term debt and notes payable outstanding. Changes in interest on long-term debt also reflect the retirement and redemption of various issues which were refinanced at lower rates. The average amounts of long-term debt and notes payable outstanding and average interest rates thereon were as follows:

	1990	1989	1988
Long-term debt outstanding:			
Average amount (millions)	$7,110.4	$6,774.0	$6,876.2
Average interest rate	9.12%	9.16%	9.44%
Notes payable outstanding:			
Average amount (millions)	$6.7	$79.2	$112.9
Average interest rate	8.62%	9.70%	7.62%

Other Items. The amounts of allowance for funds used during construction (AFUDC) reflect changes in the average levels of investment subject to AFUDC and changes in the average annual rates as discussed in Note 1 of Notes to Financial Statements. AFUDC does not contribute to the current cash flow of the Company.

See Note 13 of Notes to Financial Statements for information concerning the accounting standard which will require the Company to use an asset and liability approach for financial accounting and reporting for income taxes rather than the deferred method.

See Note 12 of Notes to Financial Statements for information concerning the accounting standard regarding post-retirement benefits other than pensions.

The ratios of earnings to fixed charges for the years 1990, 1989 and 1988 were 1.42, 2.49 and 2.45, respectively. The ratios of earnings to fixed charges and preferred and preference stock dividend requirements for the years 1990, 1989 and 1988 were 1.21, 2.06 and 2.03, respectively.

Business corporations in general have been adversely affected by inflation because amounts retained after the payment of all costs have been inadequate to replace, at increased costs, the productive assets consumed. Electric utilities in particular have been especially affected as a result of their capital intensive nature and regulation which limits capital recovery and prescribes installation or modification of facilities to comply with increasingly stringent safety and environmental requirements. Because the regulatory process limits the amount of depreciation expense included in the Company's revenue allowance to the original cost of utility plant investment, the resulting cash flows are inadequate to provide for replacement of that investment in future years or preserve the purchasing power of common equity capital previously invested.

For information concerning certain pending matters relating to the Company's rates which may have a substantial effect on the Company's future financial condition and results of operations, see "Rate Proceedings" above and Notes 2 and 3 of Notes to Financial Statements.

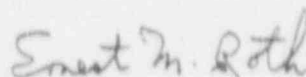
The management of the Company has prepared and is responsible for the consolidated financial statements and the related financial data contained in this annual report. In its opinion, the statements have been prepared in conformity with generally accepted accounting principles.

The Company's financial statements have been audited by Arthur Andersen & Co., independent public accountants, approved by the shareholders. The report of Arthur Andersen & Co. on the Company's financial statements contains an explanatory paragraph with respect to certain matters as described in their report appearing on page 31. Management has made available to Arthur Andersen & Co. all the Company's financial records and related data, as well as the minutes of shareholders' and Directors' meetings. Furthermore, management believes that all representations made to Arthur Andersen & Co. during their audit were valid and appropriate.

To meet its responsibilities for the reliability of the financial statements and the related financial data, the Company maintains a system of internal accounting control and supports a program of internal audits. In order to assure that the system is adequately designed and documented and that it is functioning as designed, the Company routinely reviews its system of internal accounting control. It is management's opinion that the system is adequate to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and that financial records are reliable for preparing financial information in conformity with generally accepted accounting principles. The concept of reasonable assurance is based on the recognition that the cost of a system of internal accounting control must be related to the benefits derived. The balancing of those factors requires estimates and judgment.

The Board of Directors carries out its responsibility for the financial statements and the related financial data through its Audit Committee, which is composed solely of outside directors. The Audit Committee meets periodically with management, the internal auditor, and independent public accountants to ensure that each is carrying out its responsibilities, and to discuss auditing, internal accounting control and financial reporting matters. Both the internal auditor and the independent public accountants have free access to the Audit Committee, with and without management present, to discuss the results of their audit work, the adequacy of the internal accounting control and their opinions on other financial matters.

James J. O'Connor
Chairman



Ernest M. Roth
Senior Vice President

To the Stockholders of Commonwealth Edison Company:

We have audited the accompanying consolidated balance sheets and statements of consolidated capitalization of Commonwealth Edison Company (an Illinois corporation) and subsidiary companies as of December 31, 1990 and 1989, and the related statements of consolidated income, retained earnings, premium on common stock and other paid-in capital, and cash flows for each of the three years in the period ended December 31, 1990. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Commonwealth Edison Company and subsidiary companies as of December 31, 1990 and 1989, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1990, in conformity with generally accepted accounting principles.

As discussed in Note 2, the recovery of the Company's investment in Byron Unit 2 and Braidwood Units 1 and 2 is dependent upon the ultimate resolution of Illinois Commerce Commission (ICC) proceedings regarding the allowable costs of those units. As discussed in Note 3, the Company is not able to predict the ultimate amount of refund obligations arising as a result of the ICC's Byron Unit 1 proceeding. The outcome of each of these matters is uncertain at this time.

Arthur Andersen & Co.

Chicago, Illinois
February 1, 1991

Summary of Selected Consolidated Financial Data

(millions of dollars except per share data)	1990	1989	1988	1987	1986
Electric operating revenues	$ 5,262	$ 5,751	$ 5,613	$ 5,674	$ 5,479
Net income	$ 128	$ 694	$ 738	$ 1,090	$ 1,056
Earnings per common share	$ 0.22	$ 2.83	$ 3.01	$ 4.75	$ 4.72
Cash dividends declared per common share	$ 3.00	$ 3.00	$ 3.00	$ 3.00	$ 3.00
Total assets (at end of year)	$17,889	$17,948	$17,622	$18,079	$17,316
Long-term obligations at end of year excluding current portion:					
Long-term debt and preference stock subject to mandatory redemption requirements	$ 7,341	$ 7,002	$ 7,011	$ 6,971	$ 7,143
Accrued spent nuclear fuel disposal fee and related interest	$ 500	$ 462	$ 426	$ 394	$ 372
Capital lease obligations	$ 387	$ 413	$ 418	$ 410	$ 474
Other long-term obligations	$ 225	$ 214	$ 189	$ 130	$ 104

Price Range and Dividends Paid per Share of Common Stock*

	1990 (by quarters)				1989 (by quarters)			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Price Range:								
High	36¼	33	35	37⅞	40¾	39½	38⅛	34⅝
Low	28⅞	27¼	30⅝	33⅝	35¾	36⅜	32¾	32⅛
Dividends Paid	75¢	75¢	75¢	75¢	75¢	75¢	75¢	75¢

*As reported as NYSE Composite Transactions

The Company's common stock is traded on the New York, Midwest and Pacific stock exchanges, with the ticker symbol CWE. At December 31, 1990, there were approximately 212,000 holders of record of the Company's common stock.

1990 Revenues and Sales

	Electric Operating Revenues(1) (thousands)	Increase Decrease* Over 1989	Kilowatthour Sales (millions)	Increase Decrease* Over 1989	Customers	Increase Over 1989
Residential	$2,113,733	1.0%*	19,600	2.3%	2,928,764	1.2%
Small commercial and industrial	1,767,972	1.4%	22,241	3.0%	276,206	1.9%
Large commercial and industrial	1,327,963	0.5%	22,090	1.9%	1,481	3.4%
Public authorities	433,415	1.5%	6,514	3.2%	11,965	1.5%
Electric railroads	26,585	4.8%*	408	3.4%*	2	—%
Ultimate consumers—total	$5,668,668	0.3%	70,853	2.5%	3,218,418	1.2%
Provisions for revenue refunds—ultimate consumers	(536,298)		—		—	
Ultimate consumers—net	$5,132,370		70,853		3,218,418	
Sales for resale (net of provisions for revenue refunds)	82,159		2,595		8	
Other revenues	47,457		—		—	
	$5,261,986	8.5%*	73,448	1.7%	3,218,426	1.2%

(1) *See Notes 2 and 3 of Notes to Financial Statements and the Statements of Consolidated Income for information related to revenue refunds and revenue collected subject to refund.*

	(Thousands except per-share data)	1990	1989	1988
Electric operating revenues (Notes 2 and 3):	Operating revenues	$5,798,350	$5,782,850	$5,613,338
	Provisions for revenue refunds	(536,364)	(31,800)	—
		$ 5,261,986	**$ 5,751,050**	**$ 5,613,338**
Electric operating expenses and taxes:	Fuel (Notes 1, 3 and 10)	$ 978,775	$ 951,350	$ 991,244
	Purchased and interchanged power—net	(27,209)	(44,836)	17,358
	Deferred (under)/overrecovered energy costs—net (Notes 1 and 3)	8,415	(19,059)	(89,350)
	Operation	1,160,166	1,120,941	1,072,218
	Maintenance	489,463	435,664	434,402
	Depreciation (Note 1)	878,938	865,427	837,170
	Recovery of deferred plant costs	1,659	1,659	34,060
	Taxes (except income) (Note 14)	661,432	665,072	641,475
	Income taxes (Notes 1 and 13)—			
	Current—Federal	150,917	263,879	115,493
	—State	28,773	49,684	38,479
	Deferred—Federal—net	19,456	162,088	220,873
	—State—net	17,299	38,445	47,144
	Investment tax credits deferred—net (Notes 1 and 13)	(28,386)	(83,529)	9,582
		$4,339,698	$4,406,785	$4,370,148
Electric operating income		**$ 922,288**	**$ 1,344,265**	**$ 1,243,190**
Other income and deductions:	Interest on long-term debt	$ (648,603)	$ (620,589)	$ (648,871)
	Interest on notes payable	(577)	(7,685)	(8,607)
	Allowance for funds used during construction (Note 1)—			
	Borrowed funds	13,840	17,8[illegible]	39,726
	Equity funds	22,526	24,856	94,970
	Current income taxes applicable to nonoperating activities (Notes 1 and 13)	(5,932)	2,445	17,669
	Disallowed Byron Unit 1 plant costs (Note 3)	(133,661)	(52,808)	—
	Income tax effect of disallowed Byron Unit 1 plant costs (Note 3)	(1,288)	5,570	(439)
	Miscellaneous—net	(40,302)	(20,269)	(117)
		$ (793,997)	$ (650,582)	$ (505,669)
Net income		**$ 128,291**	**$ 693,683**	**$ 737,521**
Provision for dividends on preferred and preference stocks		82,495	95,180	102,245
Net income on common stock		**$ 45,796**	**$ 598,503**	**$ 635,276**
Average number of common shares outstanding		212,032	211,647	211,233
Earnings per common share		**$0.22**	**$2.83**	**$3.01**
Cash dividends declared per common share		**$3.00**	**$3.00**	**$3.00**

( ) Indicates deduction.

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

Consolidated Balance Sheets

Assets	(thousands of dollars) December 31	1990	1989
Utility plant (Notes 1, 2, 3, 8, 15 and 17):	Plant and equipment, at original cost (includes construction work in progress of $816 million and $745 million, respectively)	$24,250,495	$23,623,290
	Less—Accumulated provision for depreciation	6,849,979	6,081,706
		$17,400,516	$17,541,584
	Nuclear fuel, at amortized cost	712,535	812,281
		$18,113,051	$18,353,865
	Less—Accumulated deferred income taxes (Note 13)	2,607,559	2,570,744
		$15,505,492	$15,7[illegible]3,121
Investments:	Nuclear decommissioning funds, at cost (Note 1)	$ 260,153	$ 171,457
	Subsidiary companies (Notes 1 and 16)	111,881	106,877
	Other investments, at cost (Note 16)	121,414	123,725
		$ 493,448	$ 402,059
Current assets:	Cash (Note 9)	$ 26,411	$ 16,048
	Temporary cash investments, at cost which approximates market	65,[illegible]76	254,030
	Other cash investments, at cost which approximates market	462,223	—
	Special deposits	21,336	16,119
	Receivables (Note 1)—		
	Customers	340,389	447,511
	Other	59,077	41,445
	Provisions for uncollectible accounts	(12,300)	(11,140)
	Coal and fuel oil, at average cost	311,580	389,157
	Materials and supplies, at average cost	370,042	325,212
	Deferred underrecovered energy costs (Notes 1 and 3)	3,920	12,335
	Prepayments and other	43,324	47,9[illegible]
		$ 1,691,978	$ 1,538,689
Deferred charges:	Deferred plant costs	$ 37,988	$ 39,647
	Other	159,918	184,605
		$ 197,906	$ 224,252
		$ 17,888,824	**$ 17,948,121**

( ) Indicates deduction

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

Liabilities

	(thousands of dollars) December 31	1990	1989
Capitalization (see accompanying statements):	Common stock equity	$ 6,345,184	$ 6,923,010
	Preferred and preference stocks without mandatory redemption requirements	443,527	444,336
	Preference stock subject to mandatory redemption requirements	422,459	451,934
	Long-term debt	6,918,855	6,550,297
		$14,130,025	$14,369,577
Current liabilities:	Notes payable—bank loans (Note 9)	$ 1,750	$ 625
	Current portion of long-term debt, redeemable preference stock and capitalized lease obligations	566,923	531,644
	Accounts payable	337,178	343,080
	Accrued interest	190,839	176,165
	Accrued taxes	151,956	229,263
	Dividends payable	179,231	180,310
	Estimated revenue refunds and related interest	255,572	34,600
	Customer deposits	48,611	49,940
	Other	58,723	58,566
		$ 1,790,783	$ 1,604,193
Other noncurrent liabilities:	Accrued spent nuclear fuel disposal fee and related interest (Note 10)	$ 499,829	$ 462,319
	Obligations under capital leases (Note 15)	386,953	413,489
	Other	225,438	214,360
		$ 1,112,220	$ 1,090,168
Accumulated deferred investment tax credits (Notes 1 and 13)		$ 855,796	$ 884,183
Commitments and contingent liabilities (Note 18)			
		$ 17,888,824	**$ 17,948,121**

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

	(thousands of dollars) December 31,	1990	1989
Common stock equity (Notes 4 and 5):	Common stock, $12.50 par value per share—		
	Outstanding—212,285,371 shares and 211,840,321 shares, respectively	$2,653,567	$2,648,004
	Premium on common stock and other paid-in capital	2,194,314	2,188,105
	Capital stock and warrant expense	(16,591)	(16,967)
	Retained earnings	1,513,894	2,103,868
		$6,245,184	$6,923,010
Preferred and preference stocks without mandatory redemption requirements (Notes 4 and 6):	Preference stock, cumulative, without par value—		
	Outstanding—10,499,549 shares	$ 432,320	$ 432,320
	$1.425 convertible preferred stock, cumulative, without par value—		
	Outstanding—352,408 shares and 377,882 shares, respectively	11,207	12,016
	Prior preferred stock, cumulative, $100 par value per share—No shares outstanding	—	—
		$ 443,527	$ 444,336
Preference stock subject to mandatory redemption requirements (Notes 4 and 7):	Preference stock, cumulative, without par value—		
	Outstanding—6,311,615 shares and 6,699,720 shares, respectively	$ 472,499	$ 502,102
	Current redemption requirements for preference stock included in current liabilities	(50,040)	(50,168)
		$ 422,459	$ 451,934
Long-term debt (Note 8):	First mortgage bonds:		
	Maturing 1990 through 1995—4⅜% to 10⅜%	$ 800,000	$1,040,000
	Maturing 1996 through 2005—5¼% to 10⅝%	1,454,655	1,329,925
	Maturing 2006 through 2015—8⅛% to 11⅜%	1,326,000	1,326,000
	Maturing 2016 through 2020—9½% to 12%	1,560,000	1,075,000
		$5,140,655	$4,770,925
	Sinking fund debentures, due 1996 through 2011—2¾% to 15⅝%	614,916	677,780
	Pollution control obligations, due 2000 through 2014—5⅝% to 11¼%	453,200	453,200
	Other long-term debt	1,098,279	1,004,706
	Current maturities of long-term debt included in current liabilities	(333,212)	(309,261)
	Unamortized net debt discount and premium (Note 1)	(54,983)	(47,053)
		$6,918,855	$6,550,297
		$14,130,025	**$14,369,577**

( ) Indicates deduction.

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

Statements of Consolidated Cash Flows

Commonwealth Edison Company and Subsidiary Companies

	(thousands of dollars)	1990	1989	1988
Cash flow from operating activities:	Net income	$ 128,291	$ 693,683	$ 737,521
	Adjustments to reconcile net income to net cash provided by operating activities:			
	Depreciation and amortization	945,462	962,709	949,734
	Deferred income taxes and investment tax credits—net	8,432	112,525	272,556
	Equity component of allowance for funds used during construction	(22,526)	(24,856)	(94,970)
	Provisions for revenue refunds and related interest	579,905	34,600	—
	Revenue refunds and related interest	(358,933)	—	(73,921)
	Disallowed Byron Unit 1 plant costs	133,661	52,808	—
	Recovery of deferred plant costs	1,6[illegible]9	1,659	32,771
	Net effect on cash flows of changes in:			
	Receivables	90,65[illegible]	3,971	(6,905)
	Coal and fuel oil	77,577	(22,463)	(100,[illegible]74)
	Materials and supplies	(44,830)	(44,341)	(34,5[illegible]1)
	Accounts payable adjusted for nuclear fuel lease principal payments	216,226	331,667	148,817
	Accrued interest and taxes	(62,633)	89,644	(109,901)
	Other changes in certain current assets and liabilities	[illegible]0,717	(35,91[illegible])	(64,816)
	Other—net	50,1[illegible]6	41,49[illegible]	86,021
		$ 1,753,854	**$ 2,197,188**	**$1,741,519**
Cash flow from investing activities:	Construction expenditures	$ (793,349)	$ (736,288)	$(765,53[illegible])
	Nuclear fuel expenditures	(165,253)	(31[illegible],330)	(199,541)
	Equity component of allowance for funds used during construction	22,526	24,556	94,970
	Investment in nuclear decommissioning funds	(88,696)	(171,457)	—
	Investment in coal reserves	(89,23[illegible])	(64,010)	(82,116)
	Investment in subsidiary companies	(3,587)	371	(1,199)
	Other cash investments	(461,27[illegible])	—	—
		$(1,579,813)	**$(1,261,358)**	**$ (953,416)**
Cash flow from financing activities:	Issuance of securities—			
	Long-term debt	$ 700,936	$ 594,802	$ 928,436
	Capital stock	76,860	9,667	11,837
	Proceeds from sale/leaseback of nuclear fuel	221,514	229,728	225,169
	Nuclear fuel lease principal payments	([illegible]72,128)	(253,917)	(245,224)
	Cash dividends paid on capital stock	(719,344)	([illegible]31,984)	(73[illegible],723)
	Retirement and redemption of long-term debt	(311,526)	(478,209)	(900,453)
	Funds held for discharge and premium on redemption of debt or refund of preference stock	(4,043)	70,1[illegible]6	(70,116)
	Premium paid on redemption of long-term debt	—	(17,381)	(63,963)
	Retirement and redemption of preference stock	([illegible]5,126)	(109,278)	(53,21[illegible])
	Increase (Decrease) in short-term borrowings	1,125	(27,375)	25,300
		$ (351,732)	**$ (713,831)**	**$ (876,954)**
Increase (Decrease) in cash and temporary cash investments		**$ (177,691)**	**$ 221,99[illegible]**	**$ (90,851)**
Cash and temporary cash investments at beginning of year		270,078	48,079	13[illegible]
Cash and temporary cash investments at end of year		$ 92,387	$ 270,078	$ 48,079

( ) Indicates deduction.

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

Statements of Consolidated Retained Earnings

Commonwealth Edison Company and Subsidiary Companies

	(thousands of dollars)	1990	1989	1988
Balance at beginning of year		$2,103,868	$2,139,402	$2,137,474
Net income		128,291	693,683	737,521
		$2,232,159	$2,833,085	$2,874,995
Deduct	Cash dividends declared on—			
	Common stock	$ [illegible]	$ 635,045	$ 633,853
	Preferred and preference stocks	82,024	94,172	101,740
		$ 718,265	$ 729,217	$ 735,593
Balance at end of year		**$ 1,513,894**	**$ 2,1[illegible],868**	**$ 2,139,402**

Statements of Consolidated Premium on Common Stock and Other Paid-In Capital

Commonwealth Edison Company and Subsidiary Companies

	(thousands [illegible])	1990	1989	[illegible]
Balance at beginning of year		$2,188,105	$2,182,956	$2,17[illegible]
Add	Premium on is[s]uance of [com]mon stock and gain on reacquired pre[f]erence [stock]s	6,209	5,149	6,22[illegible]
Balance at end of year		**$ 2,194,314**	**$ 2,188,105**	**$ 2,182,956**

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

1. *Summary of Significant Accounting Policies*

Principles of Consolidation. The consolidated financial statements include the accounts of Commonwealth Edison Company (the Company) and its wholly-owned subsidiary, Commonwealth Edison Company of Indiana, Inc., the only subsidiary engaged in the electric utility business. All significant intercompany transactions have been eliminated. The investments in other subsidiary companies, which are not material in relation to the Company's financial position and results of operations, are accounted for in accordance with the equity method of accounting.

Customer Receivables and Revenues. The Company is principally engaged in the production, purchase, transmission, distribution and sale of electricity to a diverse base of residential, commercial and industrial customers. The Company's electric service territory has an area of about 11,525 square miles and an estimated population of 8,000,000. It includes the City of Chicago, an area of about 225 square miles with an estimated population of 3,000,000 from which the Company derived approximately one-third of its electric operating revenues in 1990. See "Management's Discussion and Analysis of Financial Condition and Results of Operations," subcaption "City of Chicago Franchise" for information relating to the status of the franchise agreement with the City of Chicago. The Company had approximately 3,218,000 electric customers at December 31, 1990.

Depreciation. Depreciation is provided on the straight-line basis by amortizing the cost of depreciable plant and equipment over estimated composite service lives. Such provisions for depreciation were at average annual rates of 3.66%, 3.[illegible]5% and 4.11% of average depreciable utility plant and equipment for the years 1990, 1989 and 1988, respectively. While the eventual cost of retiring a nuclear generating unit is uncertain at the present time, the composite depreciation rates include allowances for interim chemical cleaning and, prior to 1989, end-of-life decommissioning.

The Illinois Commerce Commission's (ICC) December 30, 1988 rate order, which was reversed by the Illinois Supreme Court (see Note 2), had directed the Company to depreciate non-nuclear plant and equipment in the years 1989 through 1993 at an annual rate of 3.85% and nuclear plant and equipment at an annual rate of 3.50% which excludes decommissioning costs. The ICC hearing examiners' proposed order in the proceedings relating to the Company's April 12, 1990 rate increase request (see Note 2 below) reflects lower depreciation rates than are presently applied by the Company and would reduce annual depreciation charges for nuclear and non-nuclear plant and equipment by approximately $125 million. The lower non-nuclear depreciation charges resulted from a study performed by the Company at the direction of the ICC and the lower nuclear depreciation charges resulted from proposals by the ICC Staff and intervenors adopted in the hearing examiners' proposed order.

Decommissioning costs are estimated to aggregate $2.5 billion, in current-year dollars, for all of the Company's nuclear units. Illinois law requires public utility operators of nuclear power plants, such as the Company, to establish external trusts to hold funds to cover the costs of the eventual decommissioning of nuclear power plants. In 1988, the ICC issued an order approving, among other things, the Company's proposed method of funding its obligations with respect to decommissioning costs. In accordance with the ICC order, the Company contributed in 1990 and 1989 approximately $63,832,000 and $152,996,000 (with respect to certain past collections), respectively, to a Tax Qualified Trust, representing the maximum tax deduction allowed by rulings of the Internal Revenue Service. The Company contributed in 1990 and 1989 approximately $10,097,000 and $9,221,000, respectively, to a Non-Tax Qualified Trust, primarily representing the payments of the remaining past collections being made ratably over the remaining book lives of the plants to which the payments relate. The ICC order requires the Company to contribute future

decommissioning fund collections to the trusts annually. The December 1988 rate order had also allowed decommissioning costs of $66 million to be recovered annually in rates. This amount of decommissioning costs has been reflected in depreciation expense in 1990 and 1989. The ICC hearing examiners' proposed order of January 7, 1991 includes a provision for an increase of approximately $60 million for the annual contributions to the Company's external nuclear decommissioning trust funds.

Amortization of Nuclear Fuel. The cost of nuclear fuel is amortized to fuel expense based on the quantity of heat produced using the unit of production method. As authorized by the ICC, provisions for spent nuclear fuel disposal costs have been recorded at a rate of two mills per kilowatthour of net nuclear generation which includes the fee payable on current nuclear generation and the balance for recovery of the one-time fee for disposal of spent nuclear fuel, and related interest, applicable to nuclear generation prior to April 7, 1983. The one-time fee was recovered in January 1986 and the related interest was recovered in November 1988. In November 1988, the provision was adjusted to the level required to recover the fee payable on current nuclear generation and the current interest accrual on the one-time fee. See Note 10 for further information concerning the disposal of spent nuclear fuel. Nuclear fuel expenses, including leased fuel costs and provisions for spent nuclear fuel disposal costs, for the years 1990, 1989 and 1988 were $395,627,000, $467,989,000 and $457,267,000, respectively.

Income Taxes. Deferred income taxes are provided for significant income and expense items recognized for financial accounting purposes in periods that differ from those for income tax purposes. Income taxes deferred in prior years are charged or credited to income as the book/tax timing differences reverse.

Investment tax credits utilized are deferred for financial accounting purposes and amortized through credits to income generally over the lives of the related property.

Provisions for deferrals of construction related income tax benefits (i.e., accelerated cost recovery and liberalized depreciation) reflect consumption of the plant and equipment to which they relate. Consequently, they are similar to depreciation provisions, and the related accumulated deferred income taxes, like the accumulated provision for depreciation, is a valuation reserve deducted from plant investment in arriving at the rate base used in ratemaking proceedings.

Income tax credits resulting from interest charges applicable to nonoperating activities, principally construction, are classified as other income.

For additional information relating to income taxes, including the new accounting standard which will require the Company to use an asset and liability approach for financial accounting and reporting for income taxes, see Notes 2 and 13.

Allowance for Funds Used During Construction (AFUDC). In accordance with uniform systems of accounts prescribed by regulatory authorities, the Company capitalizes AFUDC, compounded semi-annually, which represents the estimated cost of funds used to finance its construction program. The equity component of AFUDC is recorded on an after-tax basis. For projects on which construction commenced prior to 1983, the borrowed funds component of AFUDC was recorded on a net of tax basis. For projects on which construction commenced after 1982, the borrowed funds component of AFUDC was recorded on a pre-tax basis.

The amounts of AFUDC capitalized and the average annual rates for the years 1990, 1989 and 1988 were as follows:

	1990	1989	1988
For projects on which construction commenced:			
Prior to 1983			
AFUDC capitalized (in thousands)	$ —	$ —	$110,246
Average annual rate	—%	—%	10.20%
After 1982			
AFUDC capitalized (in thousands)	$ 36,366	$ 42,754	$ [illegible] 450
Average annual rate	11.96%	11.05%	11.97%

For additional information regarding AFUDC, see Notes 2 and 13 and "Other Items" under the subcaption "Results of Operations" in "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Interest. Total interest costs incurred on debt, leases and other obligations for the years 1990, 1989 and 1988 were $808,045,000, $750,025,000 and $771,459,000, respectively.

Debt Discount, Premium and Expense. Discount, premium and expense on long-term debt are being amortized over the lives of the respective issues.

Loss on Reacquired Debt. Consistent with regulatory treatment the net loss from reacquisition of first mortgage bonds and debentures prior to the maturity date is deferred and amortized over the life of the long-term debt issued to finance the reacquisition.

Deferred Recovery of Energy Costs. The uniform fuel adjustment clause adopted by the ICC provides for the recovery of changes in fossil and nuclear fuel costs and the energy portion of purchased power costs as compared to the fuel and purchased energy costs included in base rates. As authorized by the ICC, the Company has recorded under or overrecoveries of allowable fuel and energy costs which, under the clause, are recoverable or refundable in subsequent months. For information relating to the annual reconciliation proceedings held by the ICC with respect to the Company's fuel and power purchases, see Note 3.

Statements of Cash Flows. For purposes of the statements of consolidated cash flows, temporary cash investments, generally investments with original maturities of three months or less, are considered to be cash equivalents. Supplemental information required by Statement of Financial Accounting Standards (SFAS) No. 95 for the years 1990, 1989 and 1988 is as follows:

(thousands of dollars)	1990	1989	1988
Supplemental cash flow information:			
Cash paid during the year for:			
Interest (net of amount capitalized)	$622,626	$609,599	$607,003
Income taxes	$252,037	$236,555	$228,236
Supplemental schedule of non-cash investing and financing activities:			
Capital lease obligations incurred	$227,850	$248,493	$229,518

2 *Recovery of Costs of Byron Unit 2 and Braidwood Units 1 and 2 Through Rates*

The Illinois Supreme Court (Supreme Court) issued a unanimous decision on December 21, 1989 (subsequently modified on May 31, 1990) in which it reversed a December 30, 1988 rate order of the ICC, which order had granted the Company a rate increase of $235 million ($179 million net of a scheduled 1989 decrease in residential rates), effective January 1, 1989, and which had set the framework for a proposed second-step increase in the Company's rates of up to $245 million (contingent upon certain determinations by the ICC), which was to become effective January 1,

1990. (As a result of the Supreme Court's decision and a December 22, 1989 ICC order, the second-step increase did not become effective.) Those rate increases had been based primarily on the recovery of the costs of Byron Unit 2 and Braidwood Units 1 and 2. The rate order also had terminated an ICC proceeding regarding whether downward adjustments should be made to the Company's rates (and refunds ordered) as a result of the 34% federal corporate income tax rate that became effective under the Tax Reform Act of 1986. The Supreme Court based its decision on several findings, including a determination that the ICC lacked authority to enter the order inasmuch as it reflected an "illegal settlement" as to which all of the involved parties had not agreed. Further, the Supreme Court determined that the ICC had based its decisions in the order other than on the evide. ce before it and had made its decision according to standards it had not previously articulated. In its modified decision, the Supreme Court held applicable a provision of the December 30, 1988 rate order whereunder the Company agreed to make refunds with interest to its customers of all of the increase in charges collected pursuant to the rate order when a final judicial determination (such as the Supreme Court's decision) was made that the ICC lacked jurisdiction to enter the rate order. The Supreme Court remanded the case to the ICC "to enter an order consistent with its rules, the [Illinois Public Utilities] Act, and this opinion."

In the remanded proceedings that followed the Supreme Court's decision, the ICC issued two interim orders. The first order, which was issued on June 27, 1990, directed the Company to refund approximately $400 million to its customers (representing the estimated increase in charges collected by the Company under the December 30, 1988 rate order during the period from January 1, 1989 through June 30, 1990, plus interest at the rate of five percent per annum). Pursuant to the order, approximately 80% of the refund was effected by a temporary rate reduction over a six month period that began with the Company's July 1990 billing cycle. The second order, which was issued on June 28, 1990, directed the Company to roll back its rates to the levels that existed prior to January 1, 1989 (after reflecting a scheduled $56 million reduction in rates that took place on January 1, 1989) and terminated the fuel cost and off-system sales sharing provisions contained in the December 30, 1988 rate order. As described below, ICC hearing examiners recently issued a proposed order in these proceedings relating, among other things, to the rate base treatment of Byron Unit 2 and Braidwood Units 1 and 2.

The Company's rates were rolled back as directed and the refund process began with the July 1990 billing cycle and continued through the end of the December 1990 billing cycle. A reconciliation period is now in progress. Certain intervenors have appealed aspects of the two interim orders to the Illinois Appellate Court (Appellate Court). The appeals challenge the ICC's determination of the interest rate applicable to the refunded amounts, the amount of the refund to the residential class, and the rate design of the rates after the refund. The Appellate Court has dismissed the portion of the appeal relating to the rate design as not being ripe for review.

The Company recorded an estimate of the effect of the Supreme Court's decision in the second quarter of 1990 resulting in a reduction in net income of approximately $253 million or $1.19 per common share.

Also, prior to the effectiveness of the December 30, 1988 rate order, the Company had been recording in "revenue accounts subject to refund" since July 1, 1987 a percentage of its revenues (5.54% or approximately $300 million on an annual basis) pursuant to a rider to its rate schedules that it had filed with the ICC in connection with the proceeding dealing with the change in the federal corporate income tax rate. Various intervenors are seeking to have the amount that would have been collected subject to refund had the rider remained in effect refunded. The Company believes that a refund pursuant to such rider is not warranted and does not believe that the ultimate resolution of the tax rider matter will have a material impact on its financial statements.

As required by Illinois law, audits of the construction expenditures and management practices of the Company with respect to the construction of three of its nuclear generating units, Byron Unit 2 (placed in service on April 11, 1987), Braidwood Unit 1 (placed in service on November 19, 1987) and Braidwood Unit 2 (placed in service on August 5, 1988) have been conducted for the ICC. Under Illinois law, such audits are to be conducted in accordance with generally accepted auditing standards and are to include a review of the material, labor, equipment, professional service and other direct and indirect costs associated with the construction of the generating units. The purpose of the audits is to determine the "reasonableness" of the construction costs of the units—*i.e.*, whether the Company's decisions, construction and supervision of construction in light of the knowledge and circumstances prevailing at the time "resulted in efficient, economical and timely construction" of the units. Under Illinois law, only the reasonable costs of the construction of the units may be included in the Company's rate base and recovered through rates paid by utility customers.

Audits of the construction expenditures and management practices of the Company with respect to Braidwood Unit 1 (Braidwood Unit 1 Audit), Byron Unit 2 (Byron Unit 2 Audit) and Braidwood Unit 2 (Braidwood Unit 2 Audit) were publicly released on April 14, 1988, April 18, 1988 and February 28, 1989, respectively. In each case, the auditors concluded that a portion of the Company's construction costs were unreasonable and should be excluded from the Company's rate base due to delays in the units' completion which the auditors associated with unreasonable actions. The delays were attributed to several reasons, including the Company's financing practices during the construction period and its quality control processes. But for the unreasonable schedule delays and costs, the auditors stated that the nominal (or book) cost of Braidwood Unit 1 would have been $2,492 million instead of its actual cost of $3,268 million (an approximate $776 million difference); Byron Unit 2 would have been $1,520 million instead of its actual cost of $1,899 million (an approximate $379 million difference); and Braidwood Unit 2 would have been $1,408 million instead of its actual cost of $1,863 million (an approximate $455 million difference). After considering the benefits of the delays to consumers (such benefits being principally the lower level of rates that prevailed during the period of the delay than would have existed had the generating units been included in the Company's rate base), the audits concluded that between $227 million and $241 million of the cost of Braidwood Unit 1 (7.0% to 7.4% of the cost), between $119 million and $181 million of the cost of Byron Unit 2 (6.3% to 9.5% of the cost), and between $161 million and $195 million of the cost of Braidwood Unit 2 (8.6% to 10.5% of the cost) was unreasonable.

The Company disputes the recommendations of the auditors in the Braidwood Unit 1 Audit, the Byron Unit 2 Audit and the Braidwood Unit 2 Audit, and contested those recommendations and the related findings in the ICC hearings on the audits which were conducted as part of the remanded proceedings resulting from the Supreme Court's reversal of the December 30, 1988 rate order. Those hearings concluded in October 1990. As described below, the hearing examiners have issued a proposed order determining that approximately $730 million of the units' approximately $7 billion cost was "unreasonably" incurred.

On April 12, 1990, the Company filed a request with the ICC to increase annual base electric operating revenues by $982 million, or 17.7% in excess of then current rates, which included the first step of the rate increase authorized in the December 30, 1988 rate order which has since been rolled back. On July 20, 1990, the Company filed an update to its April 12 rate request which reflected the same proposed revenue [illegible]vel as the April 12 filing but which made adjustments in the Company's rate request to take accou[illegible] the ICC's rate rollback order. The request principally reflected the inclusion of the f[illegible] Byron Unit 2 and both units at Braidwood station (before any disallowance of any costs as a result of the prudence audits of those units, but including certain post-in service carrying and depreciation charges, as described below) in the Company's rate base.

increased operation and maintenance expenses, a lower depreciation rate and charges, and increased amounts for contributions to the external trust funds which the Company is required to fund to cover the eventual decommissioning of its nuclear power plants. The request also contained projections of the Company's revenues and earnings at various rate levels. The ICC suspended the rates, appointed hearing examiners and ordered an investigation.

ICC hearing examiners recently issued proposed orders in both the proceedings relating to the Company's April 12, 1990 rate increase request and the remanded proceedings resulting from the Supreme Court's reversal of the December 30, 1988 rate order. The proposed order in the rate increase proceedings provides, among other things, for an increase of approximately $579 million in the level of the Company's annual base electric operating revenues, which amount includes a provision for an increase of approximately $60 million for the required annual contributions to the Company's external nuclear decommissioning trust funds. The rate increase is based in large part upon the ICC hearing examiners' determinations in the rate increase proceedings and the remanded proceedings as to the rate base treatment of Byron Unit 2 and Braidwood Units 1 and 2. Specifically, the hearing examiners determined in the remanded proceedings that approximately $730 million of the units' approximately $7 billion cost was "unreasonably" incurred and should be excluded from the Company's rate base based on the audits of the units' construction costs required under Illinois law and the findings developed during hearings on those audits. Based on preliminary estimates, the approximately $730 million proposed plant disallowance, if ultimately disallowed, would result in a reduction in net income of approximately $565 million or $2.66 per common share. In addition, the hearing examiners in the rate increase proceedings determined that 100% of Byron Unit 2 is considered used and useful, approximately 29% of Braidwood Unit 1 is considered used and useful, and none of Braidwood Unit 2 is considered used and useful. They recommended that the Company be allowed a return of 11.09% on the used and useful portion of the reasonable construction costs of the units and a return of 5.29% (designed to exclude a return on the common equity portion of the investment in such costs) on the approximately $3 billion non-used and useful portion of such costs. Based on the methodology used in the hearing examiners' proposed order, the used and useful disallowance is expected to be relatively short-term in duration.

In the rate increase proceedings, the hearing examiners also recommended that the Company be allowed to recover approximately $1,162 million of post-in service carrying and depreciation charges (net of income tax effects) on Byron Unit 2 and Braidwood Units 1 and 2 over a five-year period commencing with the effectiveness of the rate increase order. This recommendation is reflected in the $579 million annual rate increase amount. The Company has not capitalized and recorded as income deferred carrying and depreciation charges because the ICC has not made any determination as to the recovery through rates of the deferred amounts.

The proposed orders in the two rate proceedings have no effect until adopted by the ICC, and the ICC is not obligated to adopt the orders as proposed by the hearing examiners. Consequently, there can be no assurance as to the ultimate effects of the proposed orders or their impact on the Company's pending rate increase request. Under the Illinois Public Utilities Act, the ICC should decide the rate increase request by early March 1991.

Generally accepted accounting principles require the Company to write off plant costs, net of the income tax effects, when it becomes probable that such plant costs will be disallowed for ratemaking purposes and a reasonable estimate of the amount of the disallowance can be made. The proposed orders are subject to revision in whole or in part by the ICC (on its own initiative as well as in response to objections filed by the Company and the intervenors in those proceedings). No portion of the Company's investment in Byron Unit 2 and Braidwood Units 1 and 2 has been written off because the Company is unable to determine the amounts which may ultimately be disallowed. When the Company is able to determine the amounts that will ultimately be disallowed

in ratemaking proceedings related to those units and Byron Unit 1, a writeoff of plant costs and any associated refunds will be recorded and earnings per common share and retained earnings could be significantly adversely affected. This potential significant adverse effect could occur in 1991. Although such writeoffs of plant costs would not have a direct effect on the Company's cash position, they would reduce its retained earnings. Such reductions in retained earnings (whether alone or in combination with reductions resulting from additional refunds to customers not provided for in the financial statements) could eliminate the Company's retained earnings (approximately $1.5 billion as of December 31, 1990) and interrupt dividend payments on its capital stocks.

(3) *Other Rate Matters*

On October 24, 1985, the ICC issued an order (subsequently amended) authorizing increased electric rates for the Company which became effective on October 29, 1985. Those rates were designed to increase operating revenues by $494.8 million, or 11.0%, on an annualized basis, excluding add-on revenue taxes, based on sales estimates for the year ended December 31, 1984 used in the rate proceeding. The principal basis for the increase was the Company's right to begin recovery of its Byron Unit 1 construction costs. In the order, the ICC disallowed return and depreciation on $101.5 million of Byron Unit 1 costs. When the Company adopted SFAS No. 90 in January 1988, a net loss related to that disallowance was recognized through a restatement of prior years' financial statements.

The October 1985 rate increase has been the subject of ICC and judicial proceedings since its approval by the ICC. A Supreme Court order in those proceedings reversed and remanded the October 1985 rate order to the ICC and provided that refunds dating to April 30, 1986 would be allowable if and to the extent the ICC determined on remand that the rates granted in the October 1985 order were based upon unreasonable costs associated with the construction of Byron Unit 1.

On April 28, 1988, a re-audit of Byron Unit 1 (Byron Unit 1 Re-Audit) was publicly released. The Byron Unit 1 Re-Audit, which was conducted by Arthur Young, concluded that between $134 million and $169 million (5.4% to 6.8% of the cost of Byron Unit 1) of the $2,537 million cost of Byron Unit 1 could be deemed unreasonable and therefore subject to exclusion from the Company's rate base. Like the Byron Unit 2, Braidwood Unit 1 and Braidwood Unit 2 Audits, this conclusion was based upon the auditor's findings as to unreasonable actions by the Company in the construction process as well as the economic benefits which accrued to customers from the delayed inclusion of Byron Unit 1 in the Company's rate base. Arthur Young stated the unreasonable costs were principally the result of an aggregate 15.9 month delay in the completion of the generating unit, which delay they attributed to the same project management, cost monitoring and quality assurance problems described in the Byron Unit 2 Audit (see Note 2). Arthur Young further stated that, but for these unreasonable schedule delays and costs, the nominal (or book) cost of Byron Unit 1 would have been approximately $2,128 million instead of its actual cost of approximately $2,537 million, an approximate $409 million difference. After considering the benefits of the delay on customers, Arthur Young concluded that between $134 million and $169 million of the costs of Byron Unit 1 were unreasonable.

On August 23, 1989, the ICC entered an order finding approximately $200 million of additional Byron Unit 1 costs to be unreasonable, principally because of construction delays, and consequently provided for an exclusion of such costs from the Company's rate base. Based on that exclusion, the ICC also ordered the Company to refund approximately $190 million to its customers. The Company sought judicial review of the ICC order. Intervenors also sought judicial review, arguing for greater refunds in respect of the additional disallowance made and for further disallowances and refunds.

Proceedings relating to refunds arising out of the additional disallowance were also conducted before the Circuit Court of Cook County, Illinois (Circuit Court). On October 31, 1989, that Court entered an order directing the Company to pay refunds beginning in March 1990. Refunds, if calculated on the basis of that Court order, would have approximated $248 million. The amount ordered to be refunded, the timing of the refund and the method of allocating the refund among the Company's customers under that Court order differed from the amount, timing and allocation ordered by the ICC. The Company appealed the October 31 Circuit Court order to the Appellate Court, where it was consolidated with the appeal of the ICC order disallowing additional costs of Byron Unit 1 and directing refunds. On February 20, 1990, the Appellate Court stayed the October 31 Circuit Court order.

On June 7, 1990, the Appellate Court issued a decision essentially affirming the August 23, 1989 order of the ICC. The Appellate Court also determined that the ICC, as opposed to the Circuit Court, had jurisdiction to determine the amount of refunds to customers resulting from the exclusion provided for in the August 23 order. The Appellate Court remanded the proceeding to the ICC for a determination on whether the refunds should be based on the revenue projections contained in the Company's filings with respect to its October 1985 rate increase or should be based on the revenues it actually collected under the rate increase. The Appellate Court also directed that the Company "promptly implement", upon the ICC's resolution of the remand issues, the refund for the period from April 30, 1986 through December 31, 1988 to the Company's current customers with interest at five percent, compounded annually, but that the refund for calendar year 1989 and thereafter would need to await an ICC determination as to the proper level of rates for the Company in the wake of the December 21, 1989 Supreme Court decision. The Company and certain intervenors filed petitions for rehearing with the Appellate Court, which have been denied. The Company and these intervenors have filed petitions for leave to appeal the Appellate Court's decision to the Supreme Court.

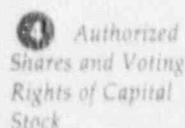
In October 1989 and the second quarter of 1990 the Company recorded the estimated effect of the approximately $200 million additional Byron Unit 1 disallowances and the related refund with interest which in the aggregate reduced the Company's net income by approximately $270 million or $1.27 per common share. The Company's estimate reflects a refund with interest and revenue taxes of approximately $163 million for the period from April 30, 1986 through December 31, 1988. In October 1989, the Company recorded some of these effects, amounting to $62 million or $0.29 per common share, as a result of its decision to contest only a portion of the ICC's August 23, 1989 order. The reduction to net income applicable to the disallowance is approximately $45 million or $0.21 per common share. The reduction to net income applicable to the related refund is approximately $17 million or $0.08 per common share. In the second quarter of 1990, the Company recorded the remaining $208 million or $0.98 per common share, reflecting the Appellate Court's decision. The reduction to net income applicable to the disallowance is approximately $131 million or $0.62 per common share. The reduction to net income applicable to the related refund is approximately $77 million or $0.36 per common share.

In addition, on December 22, 1989, the ICC ordered a $43 million reduction in the level of the Company's rates, effective January 1, 1990, based on the additional disallowance of the approximately $200 million additional Byron Unit 1 plant costs. On January 3, 1990, the Appellate Court granted the Company's request for an emergency stay of the December 22 order; however, the affected revenues are being collected subject to refund.

The Company is not able to predict the ultimate amount of refund obligations arising as a result of the Byron Unit 1 proceedings.

The Illinois Public Utilities Act requires the ICC to hold annual public hearings to determine whether each utility's fuel adjustment clause reflects actual costs of fuel and power prudently purchased and to reconcile amounts collected with actual costs. Pursuant to this requirement, the ICC conducted reconciliation proceedings with respect to the Company's 1983 fuel and purchased power costs and approved an order in the proceeding which required the Company to refund to its customers approximately $70 million plus interest from the date of the order. During the month of November 1988, the Company refunded to its customers the amounts ordered. The ICC has concluded reconciliation proceedings for the years 1984, 1985 and 1986. The orders entered in these proceedings contained no requirement for refunds. However, for the years 1985 and 1986, the ICC has reserved the right to reopen these proceedings to incorporate the results of its investigation into the prudence of the Company's fuel purchases under its western coal contracts currently being audited in the reconciliation proceeding for the year 1988. The ICC is also conducting a reconciliation proceeding with respect to the Company's 1987 fuel and purchased power costs. Certain intervenors have appealed the ICC's order issued in the 1985 and 1986 proceedings to the Appellate Court.

On June 1, 1989, the Supreme Court denied the Company's petition for leave to appeal an order of the Appellate Court that affirmed an April 1988 ICC order and declared void a June 1988 ICC order. Both the April and June 1988 orders were intended to reduce the difference between the Company's summer and non-summer residential rates without affecting the Company's overall revenues provided under the then effective rates set in the October 1985 rate order. The Company billed under the rates that were the subject of the June 1988 order. Those billings resulted in 1988 revenues approximately $150 million greater than would have been billed under the specific charges set forth in the April 1988 order and approximately $5.7 million over what would have been billed under the October 1985 rate order. The Illinois Attorney General and the State's Attorney for Cook County filed complaints with the ICC asking it to order refunds based on the difference in revenues actually billed and those that would have been billed under the specific charges set forth in the April 1988 order. In June 1989, the Company recorded an estimated provision for revenue refunds of $5.7 million, representing the Company's view of the refund related to the summer/non-summer rate differential matter. On February 23, 1990, the ICC entered an order directing the Company to pay refunds of $5.7 million plus interest in May 1990. In accordance with this order, the Company refunded the amounts ordered including interest in the May 1990 billing cycle. The complainants' request for a rehearing was denied by the ICC, and they have appealed to the Appellate Court.



Authorized Shares and Voting Rights of Capital Stock

At December 31, 1990, the authorized shares of capital stock were: common stock—250,000,000 shares; preference stock—27,321,615 shares; $1.425 convertible preferred stock—352,408 shares; and prior preferred stock—850,000 shares. The prior preferred and preference stocks are issuable in series and may be issued with or without mandatory redemption requirements. Holders of shares at any time outstanding, regardless of class, are entitled to one vote for each share held on each matter submitted to a vote at a meeting of stockholders, with the right to cumulate votes in all elections for directors.

5 Common Stock

At December 31, 1990, shares of common stock were reserved for the following purposes:

Common stock reserved	
Employe Stock Purchase Plan	2,294,515
Employe Savings and Investment Plan	1,087,243
Conversion of $1.425 convertible preferred stock	359,456
Conversion of warrants	48,509
	3,789,723

Shares of common stock, $12.50 par value per share, for the years 1990, 1989 and 1988 were issued as follows:

Common stock issued	1990	1989	1988
Employe Stock Purchase Plan	279,279	249,906	338,870
Employe Savings and Investment Plan	138,500	49,350	128,611
Conversion of $1.425 convertible preferred stock	25,973	42,469	40,458
Conversion of warrants	1,298	2,839	2,068
	445,050	344,564	510,007

At December 31, 1990 and 1989, 145,529 and 149,600 common stock purchase warrants, respectively, were outstanding. The warrants entitle the holders to convert such warrants into common stock at a conversion rate of one share of common stock for three warrants.

6 Preferred and Preference Stocks Without Mandatory Redemption Requirements

No shares of preferred or preference stocks without mandatory redemption requirements were issued or redeemed by the Company during 1990, 1989 and 1988. The series of preference stock without mandatory redemption requirements outstanding at December 31, 1990 are summarized as follows:

Series	Shares Outstanding	Aggregate Stated Value (thousands of dollars)	Redemption Price(a)	Involuntary Liquidation Price(a)
$1.90	4,249,549	$106,239	$ 25.25	$25.00
$2.00	2,000,000	51,560	$ 26.04	$25.00
$1.96	2,000,000	52,440	$ 27.11	$25.00
$7.24	750,000	74,340	$101.00	$99.12
$8.40	750,000	74,175	$101.00	$98.90
$5.38	750,000	73,566	$100.16	$98.09
	10,499,549	$432,320		

(a) *Per share plus accrued and unpaid dividends, if any.*

The outstanding shares of the $1.425 convertible preferred stock are convertible at the option of the holders thereof, at any time, into common stock at the rate of 1.02 shares of common stock for each share of convertible preferred stock, subject to future adjustment. The convertible preferred stock may be redeemed by the Company at $42 per share, plus accrued and unpaid dividends, if any. The involuntary liquidation price of the $1.425 convertible preferred stock is $31.80 per share, plus accrued and unpaid dividends, if any. During 1990, 1989 and 1988, 25,474 shares, 41,650 shares and 39,674 shares, respectively, of the convertible preferred stock were converted into common stock.

7 Preference Stock Subject to Mandatory Redemption Requirements

During 1990, 650,000 shares of preference stock subjec' .. mandatory redemption requirements were issued. During 1989 and 1988, no shares of ,reference stock subject to mandatory redemption requirements were issued. The series of preference stock subject to mandatory redemption requirements outstanding at December 31, 1990 are summarized as follows:

Series	Shares Outstanding	Aggregate Stated Value (thousands of dollars)	Optional Redemption Price(a)
$ 2.875	770,810	$ 18,577	$25.25
$ 2.375	1,289,917	31,151	$25.25
$ 8.20	428,565	42,857	$105 through October 31, 1992; $103 through October 31, 1997; and $101 thereafter
$ 8.40 Series B	509,823	50,639	$101
$ 8.85	487,500	48,750	$105 through July 31, 1993; $103 through July 31, 1998; and $101 thereafter
$ 9.25	1,050,000	105,000	$105 through July 31, 1994; $103 through July 31, 1999; and $101 thereafter
$11.70	375,000	36,776	$105 through October 31, 1994; $103 through October 31, 1999; and $101 thereafter
$11.125	160,000	15,864	$102.47 through October 31, 1991; $101.24 through October 31, 1992; and $100 thereafter
$13.25 Series B	240,000	23,769	$104.42 through October 31, 1991; $102.94 through October 31, 1992; $101.47 through October 31, 1993; and $100 thereafter
$ 9.30	350,000	34,685	Non-callable prior to November 1, 1991; $103.10 through October 31, 1992; $102.07 through October 31, 1993; $101.03 through October 31, 1994; and $100 thereafter
$ 9.00	650,000	64,431	Non-callable
	6,311,615	$472,499	

(a) *Per share plus accrued and unpaid dividends, if any.*

The annual sinking fund requirements and sinking fund and involuntary liquidation prices per share of the outstanding series of preference stock subject to mandatory redemption requirements are summarized as follows:

Series	Annual Sinking Fund Requirement	Sinking Fund Price(a)	Involuntary Liquidation Price(a)
$ 2.875	150,000 shares(b)	$ 25	$ 24.10
$ 2.375	150,000 shares(b)	$ 25	$ 24.15
$ 8.20	35,715 shares	$100	$100.00
$ 8.40 Series B	30,000 shares(b)	$100	$ 99.326
$ 8.85	37,500 shares	$100	$100.00
$ 9.25	75,000 shares	$100	$100.00
$11.70	37,500 shares(b)	$100	$ [illegible]07
$11.125	80,000 shares(b)	$100	$ [illegible]15
$13.25 Series B	80,000 shares(b)	$100	$ 99.039
$ 9.30	70,000 shares beginning in 1991(b)	$100	$ 99.10
$ 9.00	130,000 shares beginning in 1996(b)	$100	$ 99.125

(a) *Per share plus accrued and unpaid dividends, if any.*

(b) *The Company has a non-cumulative option to increase the annual sinking fund payment on each sinking fund requirement date to retire an additional number of shares, not in excess of the sinking fund requirement, at the applicable redemption price.*

Annual remaining sinking fund requirements through 1995 on preference stock outstanding at December 31, 1990 will aggregate $47,322,000 in 1991, $52,072,000 in 1992, $44,072,000 in 1993, $36,072,000 in 1994 and $36,072,000 in 1995. During 1990, 1989 and 1988, 1,038,105 shares, 1,543,225 shares and 786,511 shares, respectively, of preference stock subject to mandatory redemption requirements were reacquired to meet sinking fund requirements.

Sinking fund requirements due within one year are included in current liabilities.

On November 1, 1989, the Company redeemed all of the outstanding shares of its $10.875 series of preference stock at the applicable redemption price of $100 per share, plus accrued and unpaid dividends.

On February 1, 1990, the Company repurchased all of the outstanding shares of its $13.25 series of preference stock at a repurchase price of $100 per share, plus accrued and unpaid dividends plus indemnity payments due such holders under their purchase agreements with the Company regarding such stock.

On August 1, 1990, the Company redeemed 100,000 shares of its $12.75 series of preference stock at the sinking fund redemption price of $100 per share, plus accrued and unpaid dividends and redeemed all of the remaining 50,000 shares at the optional redemption price of $101 per share, plus accrued and unpaid dividends.

8 *Long-Term Debt*

Sinking fund requirements and scheduled maturities remaining through 1995 for first mortgage bonds, debentures and other long-term debt outstanding at December 31, 1990, after deducting debentures and first mortgage bonds reacquired for satisfaction of future sinking fund requirements and annual sinking fund requirements for first mortgage bonds to be satisfied by available property additions, are summarized as follows: 1991—$333,176,000; 1992—$475,062,000; 1993—$516,748,000; 1994—$320,950,000; and 1995—$204,900,000.

At December 31, 1990, the Company had outstanding first mortgage bonds maturing 1991 through 1995 as follows:

Series	Principal Amount (thousands of dollars)
8⅝% due April 15, 1992	$160,000
10⅜% due October 15, 1992	100,000
9¼% due May 1, 1993	100,000
8¼% due May 15, 1993	100,000
8¼% due August 15, 1993	100,000
8⅞% due June 15, 1994	140,000
10⅝% due September 1, 1995	100,000
	$800,000

Other long-term debt outstanding at December 31, 1990 are summarized as follows:

Debt Security	Principal Amount (thousands of dollars)	Interest Rate Provisions
Notes		
Medium Term Notes, Series 1N due various dates through April 1, 1998	$ 144,000	Interest rates ranging from 8.75% to 10.48%
Medium Term Notes, Series 2N due various dates through July 1, 1996	65,300	Interest rates ranging from 9.50% to 9.874%
Medium Term Notes, Series 3N due various dates through October 15, 2004	406,000	Interest rates ranging from 8.77% to 9.20%
Notes due September 15, 1993	100,000	Fixed interest rate of 9.18%
	$ 715,300	
Long-Term Notes Payable to Banks		
Notes due July 3, 1991	$ 45,000	Prevailing interest rates averaging 10.00% at December 31, 1990
Notes due various dates in November 1991	215,000	Fixed interest rates averaging 8.31%
Note due January 7, 1992	100,000	Fixed interest rate of 9.625%
Note due June 30, 1992	18,925	Fixed interest rate of 9.08%
Notes due August 28, 1992	2,880	Prevailing interest rates averaging 9.31% at December 31, 1990
	$ 381,805	
Purchase Contract Obligations		
Woodstock due January 2, 1997	$ 511	Fixed interest rate of 4.50%
Hinsdale due April 30, 2005	663	Fixed interest rate of 3%
	$ 1,174	
	$1,098,279	

Long-term debt maturing within one year is included in current liabilities.

On January 14, 1991, the Company announced that it would redeem pursuant to mandatory and optional sinking fund redemption provisions the remaining $11,986,000 principal amount of 15⅝% Sinking Fund Debentures, Series 7, due March 15, 2000, on March 15, 1991, under the sinking fund payment provisions of the series. The principal amount to be redeemed has been included in current liabilities.

The Company's outstanding first mortgage bonds are secured by a lien on substantially all property and franchises, other than expressly excepted property, owned by the Company.

9 *Lines of Credit*

The Company had unused bank lines of credit of $1,398,620,000 at December 31, 1990. Of that amount, $1,190,000,000 (which expires in equal semi-annual installments commencing on December 15, 1991 and ending on June 25, 1993) may be borrowed at various interest rates, and $208,620,000 (substantially all of which expires September 30, 1991) may be borrowed at prevailing prime interest rates. Borrowings with respect to $3,620,000 of such lines of credit may be made on unsecured notes of the Company, and borrowings with respect to the remainder may be secured or unsecured. Collateral, if required for the borrowings, would consist of first mortgage bonds issued under and in accordance with the provisions of the Company's mortgage. The Company is obligated to pay commitment fees with respect to $1,190,000,000 of such lines of credit. With respect to the remaining $208,620,000 of such lines of credit, the Company maintains cash balances on deposit to provide operating funds, to assure availability of such lines of credit and to compensate the banks for other services they perform for the Company. These bank balances and all other bank balances for the Company and its consolidated subsidiary (the

companies) are maintained at an average level of approximately $1,500,000 without formal commitments to do so. As demand deposits, these balances may be withdrawn at any time.

In addition, at December 31, 1990, the Company had $96,896,000 of unused bank lines of credit available in connection with the nuclear fuel lease agreements discussed in Note 15. The $700,000,000 maximum amount available under these lines of credit is reduced by the amount of nuclear fuel lease obligations outstanding under the agreements. Of these lines of credit, $220,000,000 expires December 1, 1993, $300,000,000 expires March 22, 1994 and $180,000,000 expires December 1, 1994, all with options for extensions, upon mutual agreement between the Company and the banks, for one or more one-year periods until either December 1, 2010 or March 22, 2009, depending upon the terms of the specific agreements. Borrowings made against these unused lines of credit will be at various interest rates.

10 *Disposal of Spent Nuclear Fuel*

Under the Nuclear Waste Policy Act of 1982, the United States Department of Energy (DOE) is responsible for the ultimate storage and disposal of spent nuclear fuel removed from nuclear reactors. The Company has a contract with the DOE for disposal of spent nuclear fuel which requires the Company to pay to the DOE a one-time fee applicable to nuclear generation through April 6, 1983 of approximately $277,000,000, with interest to date of payment, and a fee payable quarterly equal to one mill per kilowatthour of nuclear generation after April 6, 1983. The Company has elected to pay the one-time fee, with interest, just prior to the first scheduled delivery of spent nuclear fuel to the DOE scheduled to occur not later than January 1998. The DOE has stated, however, that the delivery schedule may be delayed. The Company has recorded the liability for the one-time fee and the related interest. The one-time fee and the accrued interest have been recovered through amortization to nuclear fuel expense, as discussed in Note 1.

11 *Pension Benefits*

The companies have non-contributory defined benefit pension plans which cover all regular employes. Benefits under these plans reflect each employe's compensation, years of service and age at retirement. Funding is based upon actuarially determined contributions that take into account the amount deductible for income tax purposes and the minimum contribution required under the Employee Retirement Income Security Act of 1974, as amended. The December 31, 1989 pension disclosures and related data were based upon the January 1, 1990 actuarial valuation. The December 31, 1990 pension disclosures and related data were estimated pending completion of the January 1, 1991 actuarial valuation. The funded status of these plans at December 31, 1990 and 1989 were as follows:

(thousands of dollars) December 31,	1990	1989
Actuarial present value of accumulated pension plan benefits:		
Vested benefit obligation	$ (1,544,000)	$ (1,447,000)
Nonvested benefit obligation	(55,000)	(51,000)
Accumulated benefit obligation	$ (1,599,000)	$ (1,498,000)
Effect of projected future compensation levels	(405,000)	(362,000)
Projected benefit obligation	$ (2,004,000)	$ (1,860,000)
Fair value of plan assets, invested primarily in equity index funds, U.S. Government, government-sponsored corporation and agency securities and listed corporate obligations	2,136,000	2,189,000
Plan assets in excess of projected benefit obligation	$ 132,000	$ 329,000
Unrecognized prior service cost	28,000	30,000
Unrecognized transition asset	(207,000)	(220,000)
Unrecognized net (gain)	(6,000)	(184,000)
Accrued pension liability	$ (53,000)	$ (45,000)

The assumed discount rate was 8.5% at December 31, 1990 and 1989, and the assumed annual rate of increase in future compensation levels was 5.0%. These rates were used in determining the projected benefit obligations, the accumulated benefit obligations and the vested benefit obligations.

Pension costs were determined under the rules prescribed by Statement of Financial Accounting Standards No. 87, including the use of the projected unit credit actuarial cost method and the following actuarial assumptions for periods during 1990, 1989 and 1988:

	1990	1989	1988
Annual discount rate	8.50%	9.00%	9.00%
Annual rate of increase in future compensation levels	5.00%	5.00%	5.00%
Annual long-term rate of return on plan assets	9.50%	9.50%	9.50%

The components of pension costs, portions of which were recorded as components of construction costs, for the years 1990, 1989 and 1988 were as follows:

(thousands of dollars)	1990	1989	1988
Service cost	$ 69,000	$ 61,000	$ 54,000
Interest cost on projected benefit obligation	154,000	148,000	135,000
Actual return on plan assets	(55,000)	(409,000)	(198,000)
Net amortization and deferral	(160,000)	223,000	21,000
	$ 8,000	$ 23,000	$ 12,000

12 *Post-Retirement Health Care Benefits*

The companies provide certain post-retirement health care benefits for retirees and their dependents and for the surviving dependents of eligible employes and retirees. Substantially all of the companies' employes become eligible for post-retirement health care benefits if they reach retirement age while working for the companies. In 1980, the companies began funding the liability for post-retirement health care benefits through a trust fund, and the estimated cost of post-retirement health care benefits is being accrued and funded over the working lives of the employes. Provisions for post-retirement health care benefits for the years 1990, 1989 and 1988 were $42,235,000, $42,362,000 and $38,582,000, respectively, and were based on the aggregate cost method and were equivalent to actuarial normal costs plus a ten-year amortization of the liability at January 1, 1980 for retirees and surviving spouses. The actuarial present values of accumulated post-retirement health care benefits at January 1, 1990 and 1989, the latest actuarial valuation dates, were $419,697,000 and $353,465,000, respectively. The net assets of the trust fund established for the payment of post-retirement health care benefits at January 1, 1990 and 1989 were $183,705,000 and $140,132,000, respectively.

In December 1990, the Financial Accounting Standards Board (FASB) issued an accounting standard which requires that post-retirement benefits other than pensions be accrued over employment periods of plan participants rather than on the pay-as-you-go basis. The accounting standard must be adopted by the companies not later than January 1993. When adopted, the new standard will require disclosure about the companies' obligation to provide post-retirement health care benefits and the cost of providing those benefits which are similar to the disclosures made for pension benefits in Note 11. The companies have not determined the effects of adopting the standard. The accounting is dependent on the treatment authorized in future ratemaking proceedings. However, the companies already account for post-retirement health care benefits on the accrual basis and such costs have been reflected in rates in ratemaking proceedings.

13 *Income Taxes*

Provisions for current and deferred federal and state income taxes and investment tax credits deferred resulted in the following effective income tax rates for the years 1990, 1989 and 1988:

	1990	1989	1988
Pre-tax book income (in thousands)	$321,982	$1,118,069	$1,158,880
Effective income tax rate	60.2%	38.0%	36.4%

The principal differences between these rates and the federal statutory corporate income tax rate stated in the following table for 1990, 1989 and 1988 were as follows:

	1990	1989	1988
Federal statutory corporate income tax rate	34.0%	34.0%	34.0%
Equity component of AFUDC which was excluded from taxable income	(2.4)	(0.8)	(2.8)
Amortization of investment tax credits	(12.3)	(4.1)	(4.9)
State income tax, net of federal income tax	9.3	5.1	4.8
Disallowed Byron Unit 1 plant costs	14.1	1.6	—
Differences between book and tax accounting for property related deductions	15.0	5.2	4.4
Other—net	2.5	(3.0)	0.9
Effective income tax rate	60.2%	38.0%	36.4%

Provisions for deferred income taxes on timing differences between financial accounting and for income tax purposes, net of reversals, for the years 1990, 1989 and 1988 were as follows:

(thousands of dollars)	1990	1989	1988
Accelerated cost recovery and liberalized depreciation—net of removal costs	$247,758	$225,535	$244,218
Alternative minimum tax	(49,673)	—	—
Deferred energy costs	(3,230)	7,331	39,485
Unbilled revenues	(4,791)	(27,599)	(39,466)
Overheads capitalized	(31,287)	(18,464)	(7,589)
Repair allowance	(5,617)	42,282	2,229
Interest on spent nuclear fuel disposal costs	—	—	(13,689)
Provisions for revenue refunds	(83,175)	(2,193)	30,661
Other items—net	(33,168)	(29,713)	7,125
	$ 36,817	$197,179	$262,974
Charged to:			
Electric operations	$ 36,755	$200,533	$268,017
Other income and deductions	62	(3,354)	(5,043)
	$ 36,817	$197,179	$262,974

At December 31, 1990, the estimated cumulative net amount of book/tax timing differences for property placed in service prior to 1981 for which deferred income taxes have not been recorded is approximately $336,000,000. Except for the effect of reversals of timing differences related to such unrecorded deferred income taxes, net provisions for deferred income taxes have been recorded for all material income tax timing differences for the years 1990, 1989 and 1988.

In 1990, the Company recorded a current income tax liability that includes an excess amount of $49,6"3,000 of alternative minimum tax (AMT) over the regular federal income tax. The excess amount of AMT so recorded can be carried forward indefinitely as a credit against future years' regular federal income tax liabilities. As of December 31, 1990, the excess amount of AMT of $49,673,000 was recorded as a reduction to accumulated deferred federal income taxes.

In December 1987, the FASB issued an accounting standard which requires an asset and liability approach for financial accounting and reporting for income taxes rather than the deferred method. The accounting standard must be adopted by the Company not later than January 1992. The Company has not decided whether it will reflect the initial application of the standard as a cumulative effect of a change in an accounting principle in the year of adoption or as a restatement of prior years' financial statements.

When the new standard is adopted, significant adjustments to the balances of accumulated deferred income taxes will be recorded related to the equity component of allowance for funds used during construction which was previously recorded on an after-tax basis, the portion of the borrowed funds component of allowance for funds used during construction which was previously recorded net of tax, and other temporary differences for which the related tax effects were not previously deferred. Significant balance sheet adjustments will also be recorded for the reductions to the balances of accumulated deferred income taxes resulting from income tax rate changes and the recognition of deferred income tax effects related to unamortized investment tax credits. The Company has not yet determined the amounts of these adjustments. It is expected that the adjustments to the balances of accumulated deferred income taxes will be offset primarily by plant assets and regulatory assets and liabilities representing the expected future revenue requirement impacts of these adjustments as the temporary differences reverse and are reflected in electric service rates. However, this accounting is dependent on the treatment authorized in future ratemaking proceedings.

14 *Taxes, Except Income Taxes*

Provisions for taxes, except income taxes, for the years 1990, 1989 and 1988 were as follows:

(thousands of dollars)	1990	1989	1988
Illinois public utility revenue	$194,489	$191,716	$191,791
Illinois invested capital	113,659	113,988	114,883
Municipal utility gross receipts	104,249	114,927	110,371
Real estate	127,009	117,751	108,642
Municipal compensation	62,593	70,148	68,175
Other—net	59,433	56,542	47,613
	$661,432	$665,072	$641,475

15 *Lease Obligations*

Under nuclear fuel lease agreements entered into in 1984 and 1985, the Company may sell and lease back nuclear fuel from lessors who may borrow an aggregate of $700,000,000 to finance the transactions. See Note 9 for information concerning lines of credit under the nuclear fuel lease agreements. At December 31, 1990, the Company's obligation to lessors for leased nuclear fuel amounted to $603,104,000. The Company has agreed to make lease payments which cover the amortization of the nuclear fuel used in the Company's reactors plus the lessors' related financing costs. The Company has an obligation for spent nuclear fuel disposal costs of leased nuclear fuel.

Future minimum rental payments, net of executory costs, at December 31, 1990 for all leases, are estimated to aggregate $712,970,000, including $265,750,000 in 1991, $186,410,000 in 1992, $120,950,000 in 1993, $73,090,000 in 1994, $35,440,000 in 1995 and $31,330,000 in 1996–98. The estimated interest component of such rental payments aggregates $104,150,000. The estimated portions of obligations due within one year under capital leases are included in current liabilities and approximated $183,670,000 and $172,220,000 at December 31, 1990 and 1989, respectively.

16 *Investments in Uranium- and Coal-Related Properties*

At December 31, 1990, the Company and its subsidiaries had investments of approximately $162,003,000 in uranium-related properties, equipment and activities and approximately $397,436,000 in coal reserves. Production of uranium from all of the uranium properties has been deferred due to depressed market prices for uranium. Further, the Company's commitments for the purchase of coal under long-term contracts exceed its requirements. Rather than take all the coal it was required to take, the Company agreed to purchase the coal in place in the form of coal reserves. It is currently expected that these investments will be recovered in all material respects in relation to the Company's financial position and its results of operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations," subcaption "Liquidity and Capital Resources," for information concerning coal commitments.

Actions were brought in federal and state courts in Colorado against the Company and its subsidiary Cotter Corporation (Cotter), alleging that Cotter has permitted radioactive and other hazardous material to be released from its mill into areas owned or occupied by members of the alleged plaintiff class resulting in property damage and potential adverse health effects. The plaintiffs seek compensatory damages of $300 million and punitive damages of $200 million against the Company and Cotter as well as injunctive relief. Although the case will necessarily involve the resolution of numerous contested issues of fact and law, the Company's determination is that this action will not have a material adverse impact on the Company's financial statements.

17 *Joint Plant Ownership*

The Company has a 75% undivided ownership interest in the Quad-Cities nuclear generating station. Further, the Company is responsible for 75% of all costs which are charged to appropriate investment, operation or maintenance accounts and provides its own financing. At December 31, 1990, for its share of ownership in the station, the Company had an investment of $422,165,000 in production and transmission plant in service (before reduction of $137,597,000 for the related accumulated provision for depreciation) and $49,456,000 in construction work in progress.

18 *Commitments, Contingent Liabilities and the Construction Program*

Purchase commitments, principally related to construction and nuclear fuel, approximated $1,019,000,000 at December 31, 1990. In addition, the companies have substantial commitments for the purchase of coal under long-term contracts.

The Company is a member of Nuclear Mutual Limited (NML), established to provide insurance coverage against property damage to members' nuclear generating facilities. The members are subject to a retrospective premium adjustment in the event losses exceed accumulated reserve funds. Capital has been accumulated in the reserve funds of NML to the extent that the Company would have no exposure in the event of a single incident. However, the Company could be subject to a maximum assessment of approximately $77,000,000, in any policy year, in the event losses exceed accumulated reserve funds.

The Company also is a member of Nuclear Electric Insurance Limited (NEIL), which provides insurance coverage against the cost of replacement power obtained during certain prolonged accidental outages of nuclear generating units and coverage for property losses in excess of $500,000,000 occurring at nuclear stations. All companies insured with NEIL are subject to retrospective premium adjustments if losses exceed accumulated reserve funds. Capital has been accumulated in the reserve funds of NEIL to the extent that the Company would have no exposure in the event of a single incident under the replacement power coverage and the property damage coverage. However, the Company could be subject to maximum assessments, in any policy year, of approximately $30,000,000 and $45,000,000 in the event losses exceed accumulated reserve funds under the replacement power and property damage coverages, respectively.

The NRC's indemnity for public liability coverage under the Price-Anderson Act is supported by a mandatory industry-wide program under which owners of nuclear generating facilities could be assessed in the event of nuclear incidents. Based on the number of nuclear reactors with operating licenses, the Company would currently be subject to a maximum assessment of $826,875,000 in the event of an incident, limited to a maximum of $125,000,000 in any calendar year.

In addition, the Company participates in the American Nuclear Insurers (ANI) and Mutual Atomic Energy Liability Underwriters (MAELU) Master Worker Program which provides coverage for worker tort claims filed for bodily injury caused by the nuclear energy hazard. The coverage applies to workers whose "nuclear related employment" began after January 1, 1988. The Company would currently be subject to a maximum assessment of approximately $37,000,000 in the event losses exceed accumulated reserve funds.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations," subcaption "Liquidity and Capital Resources," for information relating to the Company's construction program and coal commitments and subcaption "City of Chicago Franchise" for information relating to the status of the franchise agreement with the City of Chicago.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations," subcaption "Liquidity and Capital Resources," for information relating to the effect on the Company's construction budget program of the Clean Air Act Amendments of 1990 and the additional costs which may be incurred in connection with the replacement of piping at certain of the Company's nuclear generating units.

The Company is involved in administrative and legal proceedings concerning air quality, water quality and other matters. The outcome of these proceedings may require increases in the Company's future construction expenditures and operating expenses.

19 *Quarterly Financial Information*

Three Months Ended	Electric Operating Revenues	Electric Operating Income (Loss)	Net Income (Loss)	Net Income (Loss) on Common Stock	Average Number of Common Shares Outstanding	Earnings (Loss) Per Common Share
(thousands except per share data)						
March 31, 1989	$1,362,976	$282,347	$ 139,455	$ 115,001	211,504	$ 0.54
June 30, 1989	$1,309,824	$311,255	$ 152,613	$ 128,168	211,616	$ 0.61
September 30, 1989	$1,767,456	$515,657	$ 361,129	$ 337,083	211,685	$ 1.59
December 31, 1989	$1,310,794	$235,306	$ 40,486	$ 18,251 (a)	211,784	$ 0.09
March 31, 1990	$1,378,649	$243,315	$ 87,157	$ 66,391	211,861	$ 0.31
June 30, 1990	$ 846,399	$ (59,381)	$(378,416)	$(398,839)(b)	211,985	$(1.88)
September 30, 1990	$1,724,107	$492,763	$ 333,966	$ 313,055	212,078	$ 1.48
December 31, 1990	$1,312,831	$245,591	$ 85,584	$ 65,189	212,206	$ 0.31

(a) *See Note 7 for information concerning the reduction to net income recorded in October 1989 as a result of the Company's decision to contest only a portion of the ICC's August 23, 1989 order.*

(b) *See Note 2 for information concerning the reduction to net income recorded in May 1990 as a result of the Supreme Court's decision reversing the ICC's December 30, 1988 rate order and Note 3 for information concerning the reduction to net income recorded in May 1990 as a result of the Appellate Court's decision essentially affirming the ICC's August 23, 1989 order.*

To the Audit Committee of the Board of Directors of Commonwealth Edison Company:

We have made a study and evaluation of the system of internal accounting control of Commonwealth Edison Company and subsidiary companies in effect at December 31, 1990. Our study and evaluation was conducted in accordance with standards established by the American Institute of Certified Public Accountants.

The management of Commonwealth Edison Company is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system of internal accounting control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

In our opinion, the system of internal accounting control of Commonwealth Edison Company and subsidiary companies in effect at December 31, 1990, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the consolidated financial statements.

Arthur Andersen & Co.

Chicago, Illinois
February 1, 1991

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Operating Manager

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Rock River (Rockford)

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General Manager
Nuclear Stations

Nicholas J. Kalivianakis
General Manager
Nuclear Stations

Rubert E. Querio
General Manager
Nuclear Quality Programs & Assessment

Shareholder Inquiries

Inquiries about shareholder accounts, dividend payments and the dividend reinvestment and stock purchase plan should be directed to Shareholder Services as follows:

By Telephone:
Our toll-free number. . . . 1-800-950-2377

By Mail:
Commonwealth Edison
Attn: Shareholder Services
P. O. Box 767
Chicago, Illinois 60690-0767

Other Inquiries

Questions about stock transfers should be directed to one of the Transfer Agent—Registrars.

Annual Meeting

The annual meeting of stockholders will be held Wednesday, April 17, 1991 at 10:30 a.m. at the Clock Tower Resort & Conference Center, Rockford, Illinois. Notice of the meeting and proxy materials will be mailed to stockholders in March.

Form 10-K and Financial Review

The 1990 Form 10-K Annual Report to the Securities and Exchange Commission and the 1990 Financial Review will be available in April. A copy of both may be obtained without charge from:

David A. Scholz, Secretary
Commonwealth Edison
P. O. Box 767
Chicago, Illinois 60690-0767

Transfer Agent—Registrars

First Chicago Trust Company
of New York
30 West Broadway
New York, New York 10007-2192

Chicago Office:
1 N. State Street
9th Floor

Manufacturers Hanover Trust Company
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Church Street Station
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About the Cover

Pictured on our cover are some of the many employes committed to serving Commonwealth Edison customers. Appearing from left to right, they are:

• *Front cover:* Russell R. Reynolds, David G. Sloman, Joseph M. Zagar, Dale J. LaGesse, E. Anthony Broccolo, Jr., Margaret E. Loftus, Timothy L. Kakara, Curtis Parham, Ray Newell, Christina Hernandez and Wayne E. Morgan • *Inside front cover:* Susan E. Ogata, Paul E. Lopez, Paul R. Engler, Eustolio Huerta, Cheryl Taylor and Ernest E. Zielinski • *Inside back cover:* Ted Benson, John White, Michael O'Meara, Charyl M. Ross, Robert G. Lambke, Anne Marie Evans and Joe N. Butler, Jr.

• *Back cover:* William E. Larson, Robert T. Switak, Merle Morris, Ronald J. Chin, Christine Whitehead, Gerald A. Weiske, Benedict E. Sandrick, Robert L. Washington, Jr., Douglas Freund, Rosa Maria Andersen and James W. Becker

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