ANNUAL REPORT 1993

PENN POWER
The Energy Makers

CONTENTS

COMPANY PROFILE

Pennsylvania Power Company provides electric service to more than 139,000 customers in western Pennsylvania. The Company furnishes electric service in 139 communities, as well as rural areas, and also sells electric energy at wholesale to five municipalities. Its service area has an estimated population of 360,000. The Company, with headquarters in New Castle, Pennsylvania, is a wholly owned subsidiary of Ohio Edison Company.

SELECTED FINANCIAL DATA

	1993	1992	1991	1990	1989
			(Dollars in thousands)		
Operating Revenues	$ 292,084	$ 315,458	$ 321,845	$ 318,056	$ 313,757
Operating Income	$ 62,777	$ 66,525	$ 81,102	$ 65,992	$ 73,588
Net Income	$ 21,317	$ 30,956	$ 40,197	$ 25,519	$ 34,660
Earnings on Common Stock	$ 15,454	$ 24,457	$ 32,475	$ 15,537	$ 23,987
Return on Average Common Equity	5.9%	9.2%	12.2%	5.7%	8.6%
Cash Dividends on Common Stock	$ 21,386	$ 27,676	$ 27,676	$ 27,676	$ 27,676
Total Assets	$1,180,983	$ 986,158	$1,022,099	$1,091,090	$1,065,574
CAPITALIZATION:					
Common Stockholder's Equity	$ 254,782	$ 261,518	$ 266,058	$ 262,059	$ 274,158
Preferred Stock—					
Not Subject to Mandatory Redemption	50,905	41,905	41,905	41,905	41,905
Subject to Mandatory Redemption	20,500	30,362	34,282	38,722	59,662
Long-Term Debt	440,555	398,630	408,443	431,146	411,473
Total Capitalization	$ 766,742	$ 732,415	$ 750,688	$ 773,832	$ 787,198
CAPITALIZATION RATIOS:					
Common Stockholder's Equity	33.2%	35.7%	35.4%	33.9%	34.8%
Preferred Stock—					
Not Subject to Mandatory Redemption	6.6	5.7	5.6	5.4	5.3
Subject to Mandatory Redemption	2.7	4.2	4.6	5.0	7.6
Long-Term Debt	57.5	54.4	54.4	55.7	52.3
Total Capitalization	100.0%	100.0%	100.0%	100.0%	100.0%

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

RESULTS OF OPERATIONS

Net income decreased approximately $9,639,000 during 1993 compared to 1992. The decrease was a result of nonrecurring charges which reflect a $17,029,000 after-tax write-off in the fourth quarter due to the termination of Perry Unit 2 and expected resolution of fuel cost recovery issues. The effect on 1993 net income from these items was partially offset by a $5,653,000 credit from the cumulative effect of a change in accounting to accrue metered but unbilled revenue (see Note 2).

The shutdown of Sharon Steel in November 1992 significantly reduced the Company's retail sales, which dropped 10.2% in 1993 compared to 1992. Industrial sales were down 27.6% during the year as a result of the shutdown. Excluding the effect of Sharon Steel, industrial and retail sales increased 0.2% and 3.5%, respectively, during 1993. Residential and commercial sales were up 5.2% and 6.2%, respectively, over 1992 levels as a result of more extreme weather conditions in 1993. A 28.1% drop in sales to other utilities had an adverse effect on total kilowatt-hour sales, which were down 15.6% in 1993 compared to 1992. The reduction in sales to other utilities resulted from lower sales to Ohio Edison (Edison) coupled with decreased demand for bulk power in the spot market. Sales to Edison decreased 40.3% and sales to non-associated utilities fell 17.5%. Total kilowatt-hour sales were up 3.8% in 1992 compared with 1991, primarily due to a 25.6% increase in sales to other utilities.

The following summarizes the sources of changes in operating revenues during 1993 and 1992 as compared to the previous year:

	1993	1992
	(In millions)	
Change in Sharon Steel revenue	$(20.5)	$ (6.7)
Change in retail kilowatt-hour sales	9.4	1.9
Change in average retail electric price	(3.1)	1.5
Sales to utilities	(7.7)	0.4
Other	(1.5)	(3.5)
Net Decrease	$(23.4)	$ (6.4)

As discussed in Note 3, the Company will not participate in further construction of Perry Unit 2 and has abandoned it as a possible electric generating plant. The unit was approximately 50% complete when construction was suspended in 1985. Based on section 520 of the Pennsylvania Public Utility Code, the Company expects to recover its investment in Perry 2 from its customers. However, due to the anticipated delay in commencement of recovery and taking into account the expected rate treatment, the Company recognized an impairment to its Perry Unit 2 investment of $24,458,000. As a result, net income for the year ended December 31, 1993, was reduced by $14,165,000.

The Company has taken steps to conserve cash and improve earnings opportunities in light of the adverse effects resulting from the shutdown of Sharon Steel. The Company closed two old coal-fired generating units in 1993 which is expected to reduce annual operating costs by approximately $3,200,000. This action will also eliminate the need to make additional capital expenditures of approximately $10,000,000 over the next five years. In February 1993, the Company's Board of Directors reduced the quarterly common stock dividend to $.85 per share from the previous level of $1.10 per share. This action reduced the Company's annual cash outlay for dividends by approximately $6,300,000.

The 1993 decrease in fuel and purchased power costs was due to reduced requirements associated with the drop in sales. The decrease was partially offset by a nonrecurring charge of approximately $4,950,000 for the expected resolution of fuel cost recovery issues (see Note 1).

The increase in nuclear operating costs over last year was mainly due to increased expenses resulting from forced and scheduled outages. Contributing to the increase were expenses associated with performance results at Perry Unit 1 during the year. As a result of mechanical failures, Perry produced electricity for less than half the year. The operating company is undertaking significant corrective actions, including additional maintenance work to be performed during the refueling outage currently in process and for the refueling outage scheduled for 1995. Work done during the outages is expected to enhance systems and improve Perry's performance. The 1992 reduction in nuclear operating costs resulted from additional costs, in 1991, of approximately $7,000,000 related to the refueling of Beaver Valley Unit 1.

The decrease in other operating costs during 1993 was due primarily to last year's $13,900,000 increase in the provision for uncollectible accounts. That decrease was partially offset by a $3,400,000 charge in 1993 for a voluntary early retirement program offered to production department employees and additional costs of $4,500,000 resulting from the January 1, 1993, adoption of Statement of Financial Accounting Standards (SFAS) No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The Company is deferring incremental costs resulting from the adoption of SFAS No. 106, which are reflected in the change in amortization of net regulatory assets compared with the 1992 amounts.

Lower depreciation expense in 1993 reflects depreciation rates that were reduced in 1993 as a result of an updated depreciation study filed with the Pennsylvania Public Utility Commission (PPUC). The depreciation study takes into consideration extended useful lives of certain generation and distribution facilities.

Interest on long-term debt decreased in 1993 and 1992 compared to 1992 and 1991, respectively, as a result of long-term debt refinancings at lower rates. During 1993, the Company issued approximately $153,000,000 principal amount of new debt at a weighted average cost of 6.56% and redeemed approximately $130,000,000 principal amount of debt with a weighted average cost of 8.84%. The Company also paid off all short-term debt that was outstanding at the beginning of the year. The 1993 increase in other interest expense compared to last year is due primarily to costs associated with the debt refinancings. The 1992 reduction in other interest expense, compared with 1991, reflects reduced short-term borrowing in 1992 and the absence of a 1991 provision for interest associated with outage-related refunds and estimated interest payable in connection with federal income tax adjustments for prior years.

The electric utility industry is subject to the same inflationary pressures as those experienced by other industries. To the extent that the Company incurs additional costs or receives benefits resulting from the effects of inflation, those effects are generally reflected in the Company's electric rates through the traditional rate making process.

CAPITAL RESOURCES AND LIQUIDITY

Despite the decrease in sales, the Company improved its cash position compared to the end of 1992. All cash requirements for 1993 were met with internally generated funds, with cash and cash equivalents increasing by nearly $9,200,000 during the year. All financing activities during the year were for refunding purposes, as discussed above.

At December 31, 1993, the Company had approximately $13,000,000 of cash and temporary investments and no short-term indebtedness. At the end of the year, the Company had available $35,000,000 of bank lines of credit and $52,000,000 of bank facilities which may be borrowed on a short-term basis at the banks' discretion.

Capital requirements in 1993 for the Company's construction programs, capital leases and nuclear fuel were approximately $36,000,000. The 1994-1998 construction program and capital lease requirements are currently estimated to be approximately $140,000,000 (excluding nuclear fuel), of which approximately $27,000,000 applies to 1994. The Company has additional cash requirements of approximately $58,000,000 for the 1994-1998 period to meet maturities of, and sinking fund requirements for, long-term debt (excluding nuclear fuel) and preferred stock; of that amount approximately $2,000,000 applies to 1994.

Investments for additional nuclear fuel during the 1994-1998 period are estimated to be approximately $38,000,000, of which approximately $9,000,000 applies to 1994. During the same periods, the Company's nuclear fuel investments are expected to be reduced by approximately $44,000,000 and $10,000,000, respectively, as the nuclear fuel is consumed.

Sales by the Company of first mortgage bonds and of preferred stock require that applicable earnings coverage tests be met. With respect to the issuance of first mortgage bonds, other requirements also apply and are more restrictive than the earnings test at the present time. The Company is currently able to issue $96,000,000 principal amount of first mortgage bonds, with up to $15,000,000 of such amount issuable against property additions; the remainder could be issued against previously retired bonds. The Company could issue approximately $50,000,000 of additional preferred stock before the end of the first quarter of 1994. For the remainder of 1994, however, the earnings coverage test contained in the Company's charter precludes the issuance of additional preferred stock due to the inclusion of the charge for the Perry Unit 2 impairment in the earnings test. Additional preferred stock capability is expected to be restored in January 1995.

In January 1994, the Central Area Power Coordination Group (CAPCO) companies reached a settlement in connection with a 1991 lawsuit against General Electric Company regarding the Perry Plant. The settlement provides for cash payments to the CAPCO companies and discounts on future purchases from General Electric. This settlement will not materially affect the Company's results of operations in future years.

The CAPCO companies filed suit against Westinghouse Electric Corporation in 1991 alleging that six steam generators supplied by Westinghouse for the Beaver Valley Plant are defective and that replacement could be required earlier than their 40-year design life. The operating company has no current plans to replace the steam generators and is evaluating the feasibility of applying new technologies to repair the generators. If the generators would need to be replaced the capital costs to the CAPCO companies could range from $100,000,000 to $150,000,000 for Beaver Valley Unit 1 based upon the costs other utilities have experienced. The Company has a 17.5% ownership interest in Beaver Valley Unit 1.

The Clean Air Act Amendments of 1990 require significant reductions of sulfur dioxide and oxides of nitrogen from the Company's coal-fired generating units by 1995 and additional emission reductions by 2000. Compliance options include, but are not limited to, installing additional pollution control equipment, burning less polluting fuel, purchasing emission allowances from others, operating existing facilities in a manner which minimizes pollution and retiring facilities. In a system compliance plan for the Company and Edison submitted to the PPUC and to the Environmental Protection Agency, the Company stated that reductions for the years 1995 through 1999 are likely to be achieved by burning lower sulfur fuel, generating more electricity at their lower emitting plants and/or purchasing emission allowances. The Company continues to evaluate its compliance plan and other compliance options as they arise. Plans for complying with the year 2000 reductions are less certain at this time.

OUTLOOK

The changing environment in the utility industry is posing competitive challenges for the Company. Many of these challenges are a result of the Energy Policy Act of 1992. Others result from attempts by large users of electricity to choose their supplier. In order to meet the competitive challenges that may lie ahead, the Company is aggressively pursuing opportunities to reduce costs, increase revenues, and improve operating efficiencies, which, if successful will improve its competitive position. The Company and Edison are currently in the process of a comprehensive review of their business operations as part of a performance initiative, to further identify opportunities for improvement. Operating results should improve as a result of these activities.

	1993	1992	1991	1990	1989
REVENUE FROM ELECTRIC SALES (Thousands):					
Residential	**$107,593**	$104,133	$103,009	$ 99,979	$101,794
Commercial	**65,332**	62,554	61,172	58,646	57,004
Industrial	**61,760**	82,145	87,908	88,407	90,523
Other	**8,751**	8,633	8,645	8,269	8,640
Subtotal	**243,436**	257,465	260,734	255,301	257,961
Parent Company	**8,759**	15,311	14,576	16,591	11,719
Other Utilities	**24,935**	26,073	26,369	26,718	27,545
Total	**$277,130**	$298,849	$301,679	$298,610	$297,225
REVENUE FROM ELECTRIC SALES:					
Residential	**38.8%**	34.9%	34.1%	33.5%	34.2%
Commercial	**23.6**	20.9	20.3	19.6	19.2
Industrial	**22.3**	27.5	29.1	29.6	30.5
Other	**3.1**	2.9	2.9	2.8	2.9
Subtotal	**87.8**	86.2	86.4	85.5	86.8
Parent Company	**3.2**	5.1	4.8	5.6	3.9
Other Utilities	**9.0**	8.7	8.8	8.9	9.3
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%
KILOWATT-HOUR SALES (Millions):					
Residential	**1,105**	1,050	1,061	1,019	1,024
Commercial	**831**	782	772	732	698
Industrial	**1,212**	1,674	1,823	1,795	1,809
Other	**139**	138	138	135	137
Subtotal	**3,287**	3,644	3,794	3,681	3,668
Parent Company	**469**	786	556	743	388
Other Utilities	**748**	906	790	847	949
Total	**4,504**	5,336	5,140	5,271	5,005
CUSTOMERS SERVED AT DECEMBER 31:					
Residential	**123,316**	121,879	120,537	119,530	118,285
Commercial	**15,593**	15,348	15,127	14,948	14,718
Industrial	**221**	235	243	257	264
Other	**97**	100	100	117	115
Total	**139,227**	137,562	136,007	134,852	133,382
Average Annual Residential Kilowatt-Hours Used	**9,017**	8,672	8,839	8,585	8,717
Retail Price per Kilowatt-Hour (Cents)	**7.49**	7.66	7.89	7.09	6.33
Kilowatt-Hours Generated (Millions)	**4,190**	4,659	4,135	4,525	4,040
Peak Load (Megawatts)	**690**	734	739	700	683
Cost of Fuel per Million BTU	**$ 1.28**	$ 1.26	$ 1.32	$ 1.27	$ 1.26
Generating Capability:					
Coal	**74.6%**	74.6%	74.6%	74.6%	74.6%
Oil	**2.8**	2.8	2.8	2.8	2.8
Nuclear	**22.6**	22.6	22.6	22.6	22.6
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%
SOURCES OF ELECTRIC GENERATION:					
Coal	**76.8%**	68.3%	72.9%	68.4%	76.6%
Nuclear	**23.2**	31.7	27.1	31.6	23.4
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%
NUMBER OF EMPLOYEES AT DECEMBER 31	**1,355**	1,432	1,432	1,658	1,675

For the Years Ended December 31,	1993	1992 (In thousands)	1991
OPERATING REVENUES	$292,084	$315,458	$321,845
OPERATING EXPENSES AND TAXES:			
Fuel and purchased power	67,312	80,303	82,647
Nuclear operating costs	30,162	24,588	32,799
Other operating costs	61,125	67,578	52,054
Total operation and maintenance expenses	158,599	172,469	167,500
Provision for depreciation	29,260	30,856	29,166
Amortization (deferral) of net regulatory assets	(4,339)	2,377	(2,377)
General taxes	22,591	22,162	22,698
Income taxes	23,196	21,069	23,756
Total operating expenses and taxes	229,307	248,933	240,743
OPERATING INCOME	62,777	66,525	81,102
OTHER INCOME AND EXPENSE:			
Perry Unit 2 termination (Note 3)	(24,458)	—	—
Income tax benefit from Perry Unit 2 termination	10,293	—	—
Other	1,542	781	2,461
Total other income (expense)	(12,623)	781	2,461
TOTAL INCOME	50,154	67,306	83,563
NET INTEREST:			
Interest on long-term debt	33,208	35,707	37,867
Interest on nuclear fuel obligations	401	457	1,013
Allowance for borrowed funds used during construction	(772)	(678)	(1,329)
Other interest expense	1,653	864	5,815
Net interest	34,490	36,350	43,366
INCOME BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING	15,664	30,956	40,197
Cumulative effect to January 1, 1993, of a change in accounting for unbilled revenues (net of income taxes of 4,108,000) (Note 2)	5,653	—	—
NET INCOME	21,317	30,956	40,197
PREFERRED STOCK DIVIDEND REQUIREMENTS	5,863	6,499	7,722
EARNINGS ON COMMON STOCK	$ 15,454	$ 24,457	$ 32,475

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

At December 31,	1993	1992
	(In thousands)	
ASSETS		
UTILITY PLANT:		
In service, at original cost	$1,209,961	$1,138,408
Less—Accumulated provision for depreciation	394,530	365,251
	815,431	773,157
Construction work in progress—		
Electric plant (Note 3)	10,996	60,239
Nuclear fuel	8,604	15,805
	19,600	76,044
	835,031	849,201
OTHER PROPERTY AND INVESTMENTS	15,064	15,258
CURRENT ASSETS:		
Cash and cash equivalents	12,819	3,663
Accounts receivable—		
Customers (less accumulated provisions of $559,000 and $429,000, respectively, for uncollectible accounts) (Note 2)	28,122	19,514
Parent company	19,737	15,170
Other	17,427	14,418
Materials and supplies, at average cost—		
Fuel	4,350	8,547
Other	12,088	12,557
Prepayments	4,868	2,528
	99,411	76,397
DEFERRED CHARGES:		
Regulatory assets	222,301	38,984
Other	9,176	6,318
	231,477	45,302
	$1,180,983	$ 986,158
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION (See Statements of Capitalization):		
Common stockholder's equity	$ 254,782	$ 261,518
Preferred stock—		
Not subject to mandatory redemption	50,905	41,905
Subject to mandatory redemption	20,500	30,362
Long-term debt—		
Associated companies	16,401	21,567
Other	424,154	377,063
	766,742	732,415
CURRENT LIABILITIES:		
Currently payable preferred stock and long-term debt—		
Associated companies	10,216	10,633
Other	1,788	30,246
Notes payable to banks (Note 7)	—	15,000
Accounts payable—		
Associated companies	7,755	8,329
Other	32,680	25,480
Accrued taxes	6,658	9,548
Accrued interest	9,924	8,971
Other	14,308	16,195
	83,329	124,402
DEFERRED CREDITS:		
Accumulated deferred income taxes	273,319	74,336
Accumulated deferred investment tax credits	33,560	34,921
Other	24,033	20,084
	330,912	129,341
COMMITMENTS, GUARANTEES AND CONTINGENCIES (Notes 5 & 8)		
	$1,180,983	$ 986,158

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

STATEMENTS OF CAPITALIZATION

At December 31, (Dollars in thousands, except per share amounts)	Number of Shares Outstanding 1993	Number of Shares Outstanding 1992	Optional Redemption Price Per Share	Optional Redemption Price Aggregate	1993	1992
COMMON STOCKHOLDER'S EQUITY:						
Common stock, $30 par value, 6,500,000 shares authorized, 6,290,000 shares outstanding					$188,700	$188,700
Other paid-in capital					(310)	41
Retained earnings (Note 6a)					66,392	72,777
Total common stockholder's equity					254,782	261,518
PREFERRED STOCK (Note 6b):						
Cumulative, $100 par value— Authorized 1,200,000 shares						
Not Subject to Mandatory Redemption:						
4.24%	40,000	40,000	$ 103.13	$ 4,125	4,000	4,000
4.25%	41,049	41,049	105.00	4,310	4,105	4,105
4.64%	60,000	60,000	102.98	6,179	6,000	6,000
7.64%	60,000	60,000	101.42	6,085	6,000	6,000
7.75%	250,000	—	100.00	25,000	25,000	—
8.00%	58,000	58,000	102.07	5,920	5,800	5,800
8.48%	—	80,000	—	—	—	8,000
9.16%	—	80,000	—	—	—	8,000
Total not subject to mandatory redemption	509,049	419,049		$ 51,619	50,905	41,905
Subject to Mandatory Redemption (Note 6c):						
7.625%	150,000	150,000	$ 107.63	$ 16,144	15,000	15,000
8.24%	—	45,000	—	—	—	4,500
11.00%	3,616	11,616	102.75	372	362	1,162
11.50%	—	60,000	—	—	—	6,000
13.00%	60,000	70,000	107.15	6,429	6,000	7,000
Redemption within one year					(862)	(3,300)
Total subject to mandatory redemption	213,616	336,616		$ 22,945	20,500	30,362
LONG-TERM DEBT (Note 6d):						
First mortgage bonds—						
4.375% due 1993					—	9,000
9.000% due 1996					50,000	50,000
8.000% due 1999					—	12,000
9.740% due 1999-2019					20,000	20,000
7.875% due 2001					—	12,000
8.000% due 2001					—	10,000
7.625% due 2002					—	12,000
7.500% due 2003					40,000	40,000
6.375% due 2004					50,000	—
6.625% due 2004					20,000	—
8.750% due 2006					—	15,000
8.500% due 2022					50,000	50,000
7.625% due 2023					40,000	—
Total first mortgage bonds					270,000	230,000
Secured notes and obligation—						
7.900% due 1993-2001					—	950
5.750% due 1993-2003					—	2,850
7.300% due 1993-2003					—	238
11.080% due 1995					—	20,000
12.450% due 1995					—	20,000
4.750% due 1998					850	—
6.750% due 1998-2007					—	10,600
6.080% due 2000					23,000	—
5.400% due 2013					1,000	—
8.980% due 2013					—	4,200
9.000% due 2013					—	1,000
12.000% due 2014					12,700	12,700
8.125% due 2015					14,250	14,250
5.400% due 2017					10,600	—
7.150% due 2017					17,925	17,925
5.900% due 2018					16,800	16,800
8.100% due 2018					10,300	10,300
8.100% due 2020					5,200	5,200
7.150% due 2021					14,482	14,482
6.450% due 2027					14,500	14,500
5.450% due 2028					6,950	—
5.950% due 2029					238	—
Total secured notes and obligation					148,795	165,995
Other obligations—						
Nuclear fuel					25,893	31,158
Capital leases (Note 5)					8,690	9,862
Total other obligations					34,583	41,020
Net unamortized discount on debt					(1,681)	(806)
Long-term debt due within one year					(11,142)	(37,579)
Total long-term debt					440,555	398,630
TOTAL CAPITALIZATION					$766,742	$732,415

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

STATEMENTS OF RETAINED EARNINGS

Pennsylvania Power Company

For the Years Ended December 31,	1993	1992 (In thousands)	1991
Balance at beginning of year	**$ 72,777**	$ 77,317	$ 73,170
Net income	**21,317**	30,956	40,197
	94,094	108,273	113,367
Cash dividends on common stock	**21,386**	27,676	27,676
Cash dividends on preferred stock	**5,639**	6,448	7,698
Premium on redemption of preferred stock	**677**	1,372	676
	27,702	35,496	36,050
Balance at end of year (Note 6a)	**$ 66,392**	$ 72,777	$ 77,317

STATEMENTS OF CAPITAL STOCK AND OTHER PAID-IN CAPITAL

	Common Stock			Preferred Stock: Not Subject to Mandatory Redemption		Preferred Stock: Subject to Mandatory Redemption	
	Number of Shares	Par Value	Other Paid-In Capital	Number of Shares (Dollars in thousands)	Par Value	Number of Shares	Par Value
Balance, January 1, 1991	6,290,000	$188,700	$ 189	419,049	$41,905	573,416	$ 57,342
Redemptions—							
8.24% Series						(5,000)	(500)
11.00% Series						(8,000)	(800)
11.50% Series			(148)			(165,000)	(16,500)
13.00% Series						(10,000)	(1,000)
15.00% Series						(6,400)	(640)
Balance, December 31, 1991	6,290,000	188,700	41	419,049	41,905	379,016	37,902
Sale of 7.625% Preferred Stock						150,000	15,000
Redemptions—							
8.24% Series						(5,000)	(500)
10.50% Series						(100,000)	(10,000)
11.00% Series						(8,000)	(800)
11.50% Series						(15,000)	(1,500)
13.00% Series						(10,000)	(1,000)
15.00% Series						(54,400)	(5,440)
Balance, December 31, 1992	6,290,000	188,700	41	419,049	41,905	336,616	33,662
Sale of 7.75% Preferred Stock			(345)	250,000	25,000		
Redemptions—							
8.24% Series						(45,000)	(4,500)
8.48% Series			(6)	(80,000)	(8,000)		
9.16% Series				(80,000)	(8,000)		
11.00% Series						(8,000)	(800)
11.50% Series						(60,000)	(6,000)
13.00% Series						(10,000)	(1,000)
Balance, December 31, 1993	6,290,000	$188,700	$(310)	509,049	$50,905	213,616	$ 21,362

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

For the Years Ended December 31,	1993	1992	1991
		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 21,317	$ 30,956	$ 40,197
Adjustments to reconcile net income to net cash from operating activities:			
Provision for depreciation	29,260	30,856	29,166
Nuclear fuel and lease amortization	8,812	13,866	11,061
Deferred income taxes, net	10,261	(446)	(8,575)
Investment tax credits, net	(1,361)	(959)	2,784
Deferred revenue	—	19,517	37,757
Allowance for equity funds used during construction	(237)	(114)	—
Deferred fuel costs, net	199	2,745	(930)
Cumulative effect of an accounting change for unbilled revenues	(5,653)	—	—
Perry Unit 2 termination	24,458	—	—
Tax surcharge amortization (deferral) net	—	2,377	(2,377)
Internal cash before dividends	87,056	98,798	109,083
Receivables	(5,974)	19,077	(11,983)
Materials and supplies	4,666	(3,870)	2,048
unts payable	4,196	(8,886)	7,449
	(6,178)	(11,560)	4,539
Net cash provided from operating activities	83,766	93,559	111,136
CASH FLOWS FROM FINANCING ACTIVITIES:			
New Financing—			
Preferred stock	24,654	15,000	—
Long-term debt	149,867	102,914	31,696
Notes payable, net	—	7,000	—
Redemptions and Repayments—			
Preferred stock	28,970	20,612	20,223
Long-term debt	145,809	137,343	74,968
Notes payable, net	15,000	—	29,000
Dividend Payments—			
Common stock	21,386	27,676	27,676
Preferred stock	5,639	6,448	7,698
Net cash used for financing activities	42,283	67,165	127,869
CASH FLOWS FROM INVESTING ACTIVITIES:			
Property additions	31,328	26,465	24,296
Loan payment from parent	—	—	(37,000)
Other	999	344	707
Net cash used for (provided from) investing activities	32,327	26,809	(11,997)
Net increase (decrease) in cash and cash equivalents	9,156	(415)	(4,736)
Cash and cash equivalents at beginning of year	3,663	4,078	8,814
Cash and cash equivalents at end of year	$ 12,819	$ 3,663	$ 4,078
SUPPLEMENTAL CASH FLOWS INFORMATION:			
Cash paid during the year—			
Interest (net of amounts capitalized)	$ 32,391	$ 37,111	$ 39,852
Income taxes	10,403	31,312	23,649

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

For the Years Ended December 31,	1993	1992 (In thousands)	1991
GENERAL TAXES:			
State gross receipts	$10,754	$10,623	$11,422
Real and personal property	6,712	6,762	6,702
State capital stock	2,000	2,252	2,457
Social security and unemployment	2,643	2,067	1,822
Other	482	458	295
Total general taxes	$22,591	$22,162	$22,698
PROVISION FOR INCOME TAXES:			
Currently payable—			
Federal	$3,292	$14,933	$20,454
State	716	7,551	10,142
	4,008	22,484	30,596
Deferred, net—			
Federal	10,035	254	(3,259)
State	4,291	(700)	(5,316)
	14,326	(446)	(8,575)
Investment tax credits, net of amortization	(1,361)	(959)	2,784
Total provision for income taxes	$16,973	$21,079	$24,805
INCOME STATEMENT CLASSIFICATION OF PROVISION FOR INCOME TAXES:			
Operating expenses	$23,196	$21,069	$23,756
Other income	(10,331)	10	1,049
Cumulative effect of a change in accounting	4,108	—	—
Total provision for income taxes	$16,973	$21,079	$24,805
RECONCILIATION OF FEDERAL INCOME TAX EXPENSE AT STATUTORY RATE TO TOTAL PROVISION FOR INCOME TAXES:			
Book income before provision for income taxes	$38,290	$52,035	$65,002
Federal income tax expense at statutory rate	$13,402	$17,692	$22,101
Increases (reductions) in taxes resulting from:			
State income taxes, net of federal income tax benefit	3,255	4,522	3,185
Amortization of investment tax credits	(1,361)	(2,279)	(1,831)
Excess of book over tax depreciation, net	—	2,863	2,067
Amortization of tax regulatory assets	2,376	—	—
Other, net	(699)	(1,719)	(717)
Total provision for income taxes	$16,973	$21,079	$24,805
SOURCES OF DEFERRED INCOME TAXES:			
Excess of tax over book depreciation, net		$ 1,370	$ 6,736
Difference between tax and book revenue, net		(6,835)	(15,363)
Deferred fuel costs		(1,042)	(1,380)
Deferred loss on reacquired debt, net		1,605	359
Amortization of deferred interest on leased nuclear fuel		(1,144)	(1,123)
Alternative minimum tax credits utilized		5,843	2,908
Pension costs		1,329	1,120
Recoverable tax surcharge costs		(978)	978
Other, net		(594)	(2,810)
Net deferred income taxes		$ (446)	$ (8,575)
ACCUMULATED DEFERRED INCOME TAXES AT DECEMBER 31, 1993:			
Property basis differences	$163,828		
Allowance for equity funds used during construction	40,958		
Deferred nuclear expense	8,914		
Customer receivables for future income taxes	56,781		
Unamortized investment tax credits	(14,124)		
Alternative minimum tax credits	(9,646)		
Other	26,608		
Net deferred income tax liability	$273,319		

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

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Company, a wholly owned subsidiary of Ohio Edison Company (Edison), follows the accounting policies and practices prescribed by the Pennsylvania Public Utility Commission (PPUC) and the Federal Energy Regulatory Commission (FERC).

REVENUES—The Company's retail customers are metered on a cycle basis. Revenue was recognized for electric service based on meters read through the end of the year for years prior to 1993. Beginning in 1993, revenue is recognized to include unbilled sales through the end of the year (see Note 2). Accounts receivable from customers include approximately $8,378,000 relating to metered but unbilled revenues through December 31, 1993. Reference is made to Note 4 with respect to the Company's policy of recognizing revenues in connection with a rate phase-in plan completed in 1992.

Receivables from customers include sales to residential, commercial and industrial customers located in the Company's service area and sales to wholesale customers. There was no material concentration of receivables at December 31, 1993 or 1992, with respect to any particular segment of the Company's customers.

On November 30, 1992, Sharon Steel Corporation, the Company's then largest customer, filed a petition under Chapter 11 of the Federal Bankruptcy Code. Revenues from Sharon Steel amounted to approximately $24,518,000 and $29,354,000 in 1992 and 1991, respectively.

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

In December 1991, the Company was ordered by the PPUC to refund replacement power costs recovered from customers through the ECR during an extended outage at Beaver Valley Unit 1 in 1979. As a result, the Company recorded a liability for the estimated refund of $4,282,000, including $1,828,000 of interest, reducing net income by $2,519,000 during the fourth quarter of 1991. The Company expects to begin making these refunds in 1994 or 1995.

On March 17, 1993, the Office of Consumer Advocate (OCA) filed a complaint against the Company with the PPUC regarding the Company's current ECR. The complaint objects to the elimination of certain contractual arrangements for the sale of generating capacity to Edison. In the past, sales under these arrangements were included in the ECR calculation, and the OCA alleges the elimination of the arrangements increases the Company's recoverable energy costs. The Company recognized an after-tax charge of approximately $2,864,000 in the fourth quarter of 1993 relating to the expected resolution of this issue.

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

The Company provides for depreciation on a straight-line basis at various rates over the estimated lives of property included in plant in service. The annual composite rate for electric plant was 2.7% in 1993 and 3.0% in 1992 and 1991. The reduced rate in 1993 resulted from the Company's annual depreciation study filed with the PPUC which took into consideration extended useful lives of certain generation and distribution facilities. This revision reduced the 1993 provision for depreciation by approximately $2,700,000.

The Company recognizes approximately $300,000 annually (as depreciation expense) for future decommissioning costs applicable to its ownership interest in two nuclear generating units. The Company's share of the future obligation to decommission these units in current dollars is estimated to be approximately $69,000,000. The Company has recovered approximately $2,400,000 from customers through December 31, 1993; such amounts are reflected in the reserve for depreciation on the Balance Sheet. If the actual costs of decommissioning the units exceed the accumulated amounts recovered from customers, the Company expects that difference to be recoverable from its customers. The Company has approximately $3,500,000 invested in external decommissioning trust funds as of December 31, 1993. Earnings on these funds are recorded as an addition to the trust investment with a corresponding increase to the depreciation reserve.

The Company has also recognized an estimated liability of $3,192,000 related to decontamination and decommissioning of nuclear enrichment facilities operated by the United States Department of Energy (DOE), as required by the Energy Policy Act of 1992. The Company recovers these costs through its ECR.

COMMON OWNERSHIP OF GENERATING FACILITIES—The Company and other Central Area Power Coordination Group (CAPCO) companies own, as tenants in common, various power generating facilities. Each of the companies is obligated to pay a share of the costs associated with any jointly owned facility in the same proportion as its ownership interest. The Company's portion of operating expenses associated with jointly owned facilities is included in the corresponding operating expenses on the Statements of Income. The amounts reflected on the Balance Sheet under utility plant at December 31, 1993, include the following:

Generating Units	Utility Plant in Service	Accumulated Provision for Depreciation	Construction Work in Progress	Company's Ownership Interest
	(In thousands)			
W. H. Sammis #7	$ 56,600	$ 17,200	$ —	20.80%
Bruce Mansfield #1, #2 and #3	89,000	37,200	1,000	5.76%
Beaver Valley #1	222,900	82,100	1,700	17.50%
Perry #1	336,400	46,600	1,500	5.24%
Total	$704,900	$183,100	$4,200	

NUCLEAR FUEL—OES Fuel, Incorporated (OES Fuel), a wholly owned subsidiary of Edison, is the sole lessor for the Company's nuclear fuel requirements.

Minimum lease payments during the next five years are estimated to be as follows:

1994	$9,845,000
1995	8,001,000
1996	4,292,000
1997	2,414,000
1998	1,114,000

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

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION—AFUDC represents financing costs capitalized to construction work in progress (CWIP) during the construction period. The borrowed funds portion reflects capitalized interest payments, and the equity funds portion represents the noncash capitalization of imputed equity costs. AFUDC varies according to changes in the level of CWIP and in the sources and costs of capital. The AFUDC rates (excluding nuclear fuel interest) were 5.3%, 6.4% and 6.8% in 1993, 1992 and 1991, respectively. Capitalization rates for interest on nuclear fuel were 3.4%, 4.3% and 6.7% in 1993, 1992 and 1991, respectively.

INCOME TAXES—Details of the total provision for income taxes are shown on the Statements of Taxes. The deferred income taxes in 1992 and 1991 resulted from timing differences in the recognition of revenues and expenses for tax and accounting purposes.

All investment tax credits which were deferred when utilized are being amortized over the estimated life of the related property. The Company has $9,646,000 of alternative minimum tax credits available to offset future federal income taxes payable; such credits may be carried forward indefinitely.

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes," on January 1, 1993, which requires the liability method to be used to account for deferred income taxes. Under this standard, deferred income tax liabilities related to tax and accounting basis differences must be recognized at the statutory income tax rates in effect when the liabilities are expected to be paid. The components of accumulated deferred income taxes as of December 31, 1993, are disclosed on the Statements of Taxes.

The Company is included in Edison's consolidated federal income tax return. The consolidated tax liability is allocated on a separate company basis, with any tax losses or credits paid to the Company when earned.

RETIREMENT BENEFITS—The Company's trusteed, noncontributory defined benefit pension plan covers almost all full-time employees. Upon retirement, employees receive a monthly pension based on length of service and compensation. The Company uses the projected unit credit method for funding purposes and was not required to make pension contributions during the three years ended December 31, 1993.

The following sets forth the funded status of the plan and amounts recognized on the Balance Sheets as of December 31:

	1993	1992
	(In thousands)	
Actuarial present value of benefit obligations:		
Vested benefits	$ 78,042	$ 57,812
Nonvested benefits	5,933	4,489
Accumulated benefit obligation	$ 83,975	$ 62,301
Plan assets at fair value	$123,092	$112,764
Actuarial present value of projected benefit obligation	107,702	80,360
Plan assets in excess of projected benefit obligation	15,390	32,404
Unrecognized net gain	(1,611)	(17,062)
Unrecognized prior service cost	2,563	2,779
Unrecognized net transition asset	(9,479)	(10,532)
Net pension asset	$ 6,863	$ 7,589

The assets of the plan consist primarily of common stocks, United States government bonds and corporate bonds. Net pension costs for the three years ended December 31, 1993, were computed as follows:

	1993	1992	1991
	(In thousands)		
Service cost—benefits earned during the period	$ 2,802	$ 2,828	$ 2,852
Interest on projected benefit obligation	7,281	6,612	6,305
Return on plan assets	(15,653)	(9,336)	(19,448)
Net deferral (amortization)	2,366	(3,652)	7,335
Voluntary early retirement program expense	3,930	—	—
Net pension cost	$ 726	$ (3,548)	$ (2,956)

The assumed discount rate used in determining the actuarial present value of the projected benefit obligation was 7.5% in 1993 and 9% in 1992. The assumed rate of increase in future compensation levels used to measure this obligation was 4.5% in each year. Expected long-term rates of return on plan assets were assumed to be 11% in each year.

The Company provides a minimum amount of noncontributory life insurance to retired employees in addition to optional contributory insurance. Health care benefits, which include certain employee deductibles and copayments, are also available to retired employees, their dependents and, under certain circumstances, their survivors. The Company pays insurance premiums to cover a portion of these benefits in excess of set limits; all amounts up to the limits are paid by the Company. Expenses associated with health care and life insurance benefits for retirees were charged to income during the applicable payment periods in 1992 and 1991, and amounted to $1,411,000 and $948,000, respectively.

In 1993 the Company adopted SFAS No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions," which requires companies to recognize the expected cost of providing other postretirement benefits to employees and their beneficiaries and covered dependents from the time employees are hired until they become eligible to receive those benefits. The Company does not currently fund these future benefits.

The following sets forth the accrued postretirement benefit cost on the Balance Sheet as of December 31, 1993:

Accumulated postretirement benefit obligation	$ 42,905,000
Unrecognized transition obligation	(32,287,000)
Unrecognized net loss	(5,357,000)
Accrued postretirement benefit cost	$ 5,261,000

The accumulated postretirement benefit obligation is allocated to: retirees—$20,604,000, fully eligible active plan participants—$6,794,000, and other active plan participants—$15,507,000.

Net periodic postretirement benefit cost for 1993 included the following components:

Service cost	$ 866,000
Interest cost	3,129,000
Amortization of transition obligation	1,699,000
Voluntary early retirement program expense	1,112,000
Net periodic postretirement benefit cost	6,806,000
Benefits paid	1,545,000
Increase in accrued postretirement benefit cost	$5,261,000

The health care trend rate assumption is 8.25% in the first year gradually decreasing to 3.5% for the year 2008 and later. The discount rate used to compute the accumulated postretirement benefit obligation at December 31, 1993, was 7.5%. An increase in the health care trend rate assumption by one percentage point in all years would increase the accumulated postretirement benefit obligation by approximately $4,400,000 and the aggregate annual service and interest costs by approximately $500,000.

The PPUC has authorized the Company to defer the incremental costs resulting from adopting SFAS No. 106 ($4,339,000 through December 31, 1993) for future recovery from its retail customers. Similar authorization relating to another utility is currently under appeal to the Commonwealth Court of Pennsylvania by the Office of Consumer Advocate.

TRANSACTIONS WITH AFFILIATED COMPANIES—Transactions with affiliated companies are included on the Statements of Income as follows:

	1993	1992	1991
		(In thousands)	
Operating revenues:			
Electric sales to Edison	$ 8,781	$22,755	$23,292
Bruce Mansfield Plant administrative and general charges to Edison	5,652	2,529	3,761
Other transactions with Edison	355	371	760
	$14,788	$25,655	$27,813
Fuel and purchased power:			
Power purchased from Edison	$ 8,667	$13,936	$21,339
Nuclear fuel leased from OES Fuel	10,356	15,199	12,910
	$19,023	$29,135	$34,249
Other operating costs:			
Rental of transmission lines from Edison	$ 1,042	$ 1,172	$ 1,182
Data processing services from Edison	3,307	2,624	2,461
Other transactions with Edison	4,345	2,679	2,611
	$ 8,694	$ 6,475	$ 6,254

SUPPLEMENTAL CASH FLOWS INFORMATION—All temporary cash investments purchased with an initial maturity of three months or less are reported as cash equivalents on the Balance Sheets. The Company records temporary cash investments at cost, which approximates their market value. Noncash financing and investing activities included capital lease transactions amounting to $2,357,000, $10,721,000 and $4,343,000 for the years 1993, 1992 and 1991, respectively.

All borrowings with initial maturities of less than one year and $4,639,000 and $4,140,000 of investments other than cash and cash equivalents as of December 31, 1993 and 1992, respectively, which are defined as financial instruments, are reflected at their approximate fair market value. The approximate fair market value of all other long-term debt exceeded the carrying cost of those financial instruments by approximately $19,461,000 and $19,220,000, as of December 31, 1993 and 1992, respectively. The approximate fair market value of preferred stock subject to mandatory redemption was exceeded by the carrying cost by approximately $200,000 as of December 31, 1993, while the carrying cost was exceeded by the approximate fair market value by approximately $900,000 as of December 31, 1992. The fair value of these instruments reflect the present value of the cash outflows relating to those securities based on the current call price, the yield to maturity or the yield to call, as deemed appropriate at the end of each respective year. The yields assumed were based on securities with similar characteristics offered by a corporation with credit ratings similar to the Company's ratings.

REGULATORY ASSETS—The Company recognizes, as regulatory assets, costs which the FERC and PPUC have authorized for recovery from customers in future periods. Without such authorization, the costs would have been charged to income as incurred. Amounts shown below as being recovered currently have a composite remaining recovery period of approximately 32 years.

Regulatory assets on the Balance Sheets were comprised of the following:

	1993	1992
	(In thousands)	
Currently being recovered through rates:		
Customer Receivables for Future Income Taxes	$135,197	$ —
Property Taxes	4,615	4,920
Loss on Reacquired Debt	12,551	5,804
DOE Decommissioning and Decontamination Costs	3,192	3,500
Deferred Mansfield coal costs	3,590	3,428
Other	—	152
	159,145	17,804
Not currently recovered through rates:		
Nuclear Unit Expenses	21,180	21,180
Employee Postretirement Benefit Costs	4,339	—
Perry Unit 2 Termination	37,637	—
	63,156	21,180
Total	$222,301	$38,984

2. CHANGE IN ACCOUNTING FOR UNBILLED REVENUES:

On January 1, 1993, the Company changed its accounting policy to recognize revenue relating to metered sales which remain unbilled at the end of the accounting period. This change was made to more closely match the Company's revenues with the costs of services provided. The effect of this change decreased net income for the year ended

December 31, 1993, (before the cumulative effect from periods prior to 1993) by approximately $900,000. The cumulative effect to January 1, 1993, was $5,653,000 (net of $4,108,000 of income taxes). The reported results of operations for the years ended December 31, 1992 and 1991, would not have been materially different if this new accounting policy had been in effect during those years.

3. PERRY UNIT 2 TERMINATION:

In December 1993, the Company announced that it will not participate in further construction of Perry Unit 2 and has abandoned Perry Unit 2 as a possible electric generating plant. The Company expects its Perry Unit 2 investment to be recoverable from its PPUC jurisdictional customers based on Section 520 of the Pennsylvania Public Utility Code. Due to the anticipated delay in commencement of recovery and taking into account the expected PPUC and FERC rate treatment, the Company recognized an impairment to its Perry Unit 2 investment of $24,458,000 in 1993, reducing net income by $14,165,000.

4. RATE PHASE-IN PLAN AND SURCHARGE:

The PPUC granted the Company a base rate increase, effective May 4, 1988, designed to produce approximately $67,100,000 of additional annual operating revenues. The increase was phased in over several years, with amounts deferred during the phase-in period recovered by the end of the fourth year. The Company recognized revenue under the phase-in plan as if the full revenue level had been placed into effect in 1988.

On August 24, 1991, the Commonwealth of Pennsylvania increased certain state tax rates retroactive to January 1, 1991. In conjunction with this increase, the Company deferred the increase in taxes for collection from customers in the form of a surcharge on electric bills. All amounts deferred in 1991 were recovered in 1992.

5. LEASES:

The Company leases certain transmission facilities, computer equipment, office space and other property and equipment under cancelable and noncancelable leases. Consistent with the regulatory treatment, rental payments for capital and operating leases are charged to operating expenses on the Statements of Income. Such costs for the three years ended December 31, 1993, are summarized as follows:

	1993	1992	1991
	(In thousands)		
Operating Leases			
Interest element	$ 171	$ 212	$ 223
Other	912	1,032	826
Capital Leases			
Interest element	1,070	1,169	1,191
Other	1,273	1,231	1,277
Total rental payments	$3,426	$3,644	$3,517

The future minimum lease payments as of December 31, 1993, are:

	Capital Leases	Operating Leases
	(In thousands)	
1994	$ 2,564	$ 216
1995	2,314	216
1996	1,765	208
1997	1,543	204
1998	1,349	199
Years thereafter	14,850	3,978
Total minimum lease payments	24,385	$5,021
Executory costs	4,690	
Net minimum lease payments	19,695	
Interest portion	11,005	
Present value of net minimum lease payments	8,690	
Less current portion	1,297	
Noncurrent portion	$ 7,393	

6. CAPITALIZATION:

(a) RETAINED EARNINGS—Under the Company's Charter, the Company's retained earnings unrestricted for payment of cash dividends on the Company's common stock were $52,778,000 at December 31, 1993.

(b) PREFERRED STOCK—The Company's 7.625% and 7.75% series of preferred stock have restrictions which prevent early redemption prior to October 1997 and July 2003, respectively. All other preferred stock may be redeemed by the Company in whole, or in part, with 30-60 days' notice. The optional redemption prices shown on the Statements of Capitalization will decline to eventual minimums per share according to the Charter provisions that establish each series.

(c) PREFERRED STOCK SUBJECT TO MANDATORY REDEMPTION—The Company's 13.00% series of preferred stock has an annual sinking fund requirement for 5,000 shares in each year on July 1; its 7.625% series has an annual sinking fund requirement for 7,500 shares beginning on October 1, 2002.

Preferred shares are retired at $100 per share plus accrued dividends. The Company's sinking fund requirements for the next five years are $862,000 in 1994 and $500,000 in each year from 1995 through 1998.

(d) LONG-TERM DEBT—The first mortgage indenture and its supplements, which secure all of the Company's first mortgage bonds, serve as direct first mortgage liens on substantially all property and franchises, other than specifically excepted property, owned by the Company. Maturing long-term debt (excluding capital leases) during the next five years are $50,000,000 in 1996 and $850,000 in 1998.

The Company's obligations to repay certain pollution control revenue bonds are secured by series of first mortgage bonds and, in some cases, by subordinate liens on the related pollution control facilities.

7. SHORT-TERM FINANCING ARRANGEMENTS:

The Company has lines of credit with banks that provide for borrowings of up to $35,000,000 under various interest rate options. Short-term borrowings may be made under these lines of credit on the Company's unsecured notes. To assure the availability of these lines, the Company is required to pay commitment fees of 0.15% to 0.5%. These lines expire at various times during 1994.

The Company also has a credit agreement with Edison whereby either company can borrow funds from the other by issuing unsecured notes at the prevailing prime or similar interest rate. Under the terms of this agreement the maximum borrowing is limited only by the availability of funds; however, the Company's borrowing under this agreement is currently limited by the PPUC to a total of $50,000,000. Either company can terminate the agreement with six months' notice.

8. COMMITMENTS, GUARANTEES AND CONTINGENCIES:

CONSTRUCTION PROGRAM—The Company's current forecast reflects expenditures of approximately $140,000,000 for property additions and improvements from 1994 through 1998, of which approximately $27,000,000 is applicable to 1994. Investments for additional nuclear fuel during the 1994-1998 period are estimated to be approximately $38,000,000, of which approximately $9,000,000 applies to 1994. During the same periods, the Company's nuclear fuel investments are expected to be reduced by approximately $44,000,000 and $10,000,000, respectively, as the nuclear fuel is consumed.

NUCLEAR INSURANCE—The Price-Anderson Act limits the public liability relative to a single incident at a nuclear power plant to $9,396,000,000. The amount is covered by a combination of private insurance and an industry retrospective rating plan. Based on its present ownership interests in Beaver Valley Unit 1 and Perry Unit 1, the Company's maximum potential assessment under the industry retrospective rating plan (assuming the other CAPCO companies were to contribute their proportionate share of any assessments under the retrospective rating plan) would be $18,100,000 per incident but not more than $2,300,000 in any one year for each incident.

The Company is also insured as to its interest in Beaver Valley Unit 1 and the Perry Plant under policies issued to the operating company for each plant. Under these policies, up to $2,750,000,000 is provided for property damage and decontamination and decommissioning costs. The Company has also obtained approximately $53,000,000 of insurance coverage for replacement power costs for its interests in Beaver Valley Unit 1 and Perry Unit 1. Under these policies, the Company can be assessed a maximum of approximately $2,600,000 for accidents at any covered nuclear facility occurring during a policy year which are in excess of accumulated funds available to the insurer for paying losses.

The Company intends to maintain insurance against nuclear risks as described above so long as it is available. To the extent that replacement power, property damage, decontamination, decommissioning, repair and replacement costs and other such costs arising from a nuclear incident at any of the Company's plants exceed the policy limits of the insurance from time to time in effect with respect to that plant, to the extent a nuclear incident is determined not to be covered by the Company's insurance policies, or to the extent such insurance becomes unavailable in the future, the Company would remain at risk for such costs.

GUARANTEES—The Company, together with the other CAPCO companies, has severally guaranteed certain debt and lease obligations in connection with a coal supply contract for the Bruce Mansfield Plant. As of December 31, 1993, the Company's share of the guarantee (which approximates fair market value) was $12,708,000. The price under the coal supply contract, which includes certain minimum payments, has been determined to be sufficient to satisfy the debt and lease obligations. The Company's total payments under the coal supply contract amounted to $13,230,000, $12,082,000 and $12,041,000 during 1993, 1992, and 1991, respectively. Under the coal supply contract, the Company's future minimum payments are approximately $4,000,000 each year from 1994 through 1999.

ENVIRONMENTAL MATTERS--Various federal, state and local authorities regulate the Company with regard to air and water quality and other environmental matters. The Company has estimated additional capital expenditures for environmental compliance of approximately $17,000,000, which is included in the construction forecast under "Construction Program" for 1994 through 1998.

The Clean Air Act Amendments of 1990 require significant reductions of sulfur dioxide and oxides of nitrogen from the Company's coal-fired generating units by 1995 and additional emission reductions by 2000. Compliance options include, but are not limited to, installing additional pollution control equipment, burning less polluting fuel, purchasing emission allowances from others, operating existing facilities in a manner which minimizes pollution and retiring facilities. In a system compliance plan for the Company and Edison submitted to the PPUC and to the Environmental Protection Agency, the Company stated that reductions for the years 1995 through 1999 are likely to be achieved by burning lower sulfur fuel, generating more electricity at their lower emitting plants and/or purchasing emission allowances. The Company continues to evaluate its compliance plan and other compliance options as they arise. Plans for complying with the year 2000 reductions are less certain at this time.

The Pennsylvania Department of Environmental Resources has issued regulations dealing with the storage, treatment, transportation and disposal of residual waste such as coal ash and scrubber sludge. These regulations impose additional requirements relating to permitting, ground water monitoring, leachate collection systems, closure, liability insurance and operating matters. The Company is developing and analyzing various compliance options and is presently unable to determine the ultimate increase in capital and operating costs at existing sites.

Legislative and administrative action and the effect of court decisions can be expected in the future (as they have in the past) to change the way that the Company must operate in order to comply with environmental laws and regulations. With respect to any such changes and to the environmental matters described above, the Company expects that any resulting additional capital costs which may be required, as well as any required increase in operating costs, would ultimately be recovered from its customers.

9. SUMMARY OF QUARTERLY FINANCIAL DATA (UNAUDITED):

The following summarizes certain operating results by quarter for 1993 and 1992.

Three Months Ended	March 31, 1993	June 30, 1993	Sept. 30, 1993	Dec. 31, 1993
		(In thousands)		
Operating Revenues	$74,274	$70,266	$76,226	$71,318
Operating Expenses and Taxes	61,272	53,708	56,710	57,617
Operating Income	13,002	16,558	19,516	13,701
Other Income (Expense)	68	200	437	(13,328)
Net Interest	8,549	8,653	8,819	8,469
Income (Loss) Before Cumulative Effect of a Change in Accounting	4,521	8,105	11,134	(8,096)
Cumulative Effect of a Change in Accounting	5,653	-	-	-
Net Income (Loss)	$10,174	$ 8,105	$11,134	$(8,096)
Earnings (Loss) Applicable to Common Stock	$ 8,639	$ 6,571	$ 9,706	$(9,462)

Three Months Ended	March 31, 1992	June 30, 1992	Sept. 30, 1992	Dec. 31, 1992
		(In thousands)		
Operating Revenues	$82,030	$77,412	$79,370	$76,646
Operating Expenses and Taxes	62,650	58,936	63,395	63,952
Operating Income	19,380	18,476	15,975	12,694
Other Income (Expense)	368	251	174	(12)
Net Interest	8,632	9,370	9,382	8,966
Net Income	$11,116	$ 9,357	$ 6,767	$ 3,716
Earnings on Common Stock	$ 9,295	$ 7,535	$ 5,406	$ 2,221

Results of operations for the first three quarters of 1993 were restated to reflect the change in accounting for unbilled revenues as described in Note 2. Restated net income for the first quarter includes $5,653,000 for the cumulative effect of the change. The effect on income from continuing operations was as follows: $(587,000), $330,000 and $(353,000) in the first, second and third quarters, respectively.

Results of operations for the third and fourth quarters of 1992 include charges of approximately $4,300,000 ($2,500,000 net of income taxes) and $8,500,000 ($5,000,000 net of income taxes), respectively, relating to provisions for uncollectible customer accounts.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of Pennsylvania Power Company:

We have audited the accompanying balance sheets and statements of capitalization of Pennsylvania Power Company (a Pennsylvania corporation and wholly-owned subsidiary of Ohio Edison Company) as of December 31, 1993 and 1992, and the related statements of income, retained earnings, capital stock and other paid-in capital, cash flows and taxes for each of the three years in the period ended December 31, 1993. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pennsylvania Power Company as of December 31, 1993 and 1992, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1993, in conformity with generally accepted accounting principles.

As discussed in Notes 1 and 2 to the financial statements, effective January 1, 1993, the Company changed its method of accounting for unbilled revenues, income taxes and postretirement benefits other than pensions.

Arthur Andersen & Co

Arthur Andersen & Co.

New York, N.Y.
February 1, 1994

BOARD OF DIRECTORS

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

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

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

Willard R. Holland
Chairman of the Board and Chief Executive Officer of the Company, and President and Chief Executive Officer of the Company's parent, Ohio Edison Company, Akron, Ohio.

Robert L. Kensinger
President of the Company, New Castle, Pennsylvania.

Joseph J. Nowak
Retired, formerly Vice President of Armco Inc., a manufacturer of steel products, Pittsburgh, Pennsylvania.

Jack E. Reed
Vice President of the Company, New Castle, Pennsylvania.

Richard L. Werner
Chairman of the Board and President of R. D. Werner Company, Inc., a manufacturer of aluminum extrusions, ladders and scaffolding, Greenville, Pennsylvania.

DIRECTOR EMERITUS

G. Leo Winger

OFFICERS

Willard R. Holland
Chairman of the Board and Chief Executive Officer

Robert L. Kensinger
President

James R. Edgerly
Vice President, Secretary and General Counsel

Jack E. Reed
Vice President

Robert P. Wushinske
Vice President and Treasurer

David W. McKean
Comptroller

Angeline Comparone
Assistant Secretary

Francis A. Fazzone
Assistant Treasurer

Mr. Holland is president and chief executive officer of the Company's parent. The principal employment of all other officers is with the Company.

TRANSFER AGENT and REGISTRAR for Preferred Stock:
Office of the Company's parent
Ohio Edison Company
Investor Services
76 South Main Street
Akron, Ohio 44308-1890

PRINCIPAL OFFICES:
1 E. Washington Street
P. O. Box 891
New Castle, Pennsylvania 16103-0891
(412) 652-5531

Pennsylvania Power Company is an equal opportunity employer.

Pennsylvania Power Company
1 E. Washington Street
P. O. Box 891
New Castle, PA 16103-0891
(412) 652-5531

B' ık Rate
U S. Postage
PAID
'.ew Castle, PA
Permit No. 158

1993 Annual Report