THE CLEVELAND ELECTRIC ILLUMINATING COMPANY

P.O. BOX 5000 - CLEVELAND, OHIO 44101 - TELEPHONE (216) 622-9800 - ILLUMINATING BLDG. — 55 PUBLIC SQUARE

Serving The Best Location in the Nation

MURRAY R. EDELMAN
VICE PRESIDENT
NUCLEAR

DL
AD/L

July 20, 1984
PY-CEI/NRR-0125 L

Harold Denton
Director of Nuclear Reactor Regulation
U.S. Nuclear Regulatory Commission
Washington D.C. 20555

Perry Nuclear Power Plant
Docket Nos. 50-440; 50-441
10 CFR 50.71(b) Submittal

Dear Mr. Denton:

The Cleveland Electric Illuminating Company, on behalf of itself and Duquesne Light Company, Ohio Edison Company, Pennsylvania Power company and The Toledo Edison company, hereby files a copy of the applicants 1983 annual financial reports, including the certified financial statements, in accordance with the requirements of 10 CFR 50.71(b). Future reports will be provided by direct distribution upon each issuance.

Very truly yours,

Murray R. Edelman

Murray R. Edelman
Vice President
Nuclear Group

MRE:njc

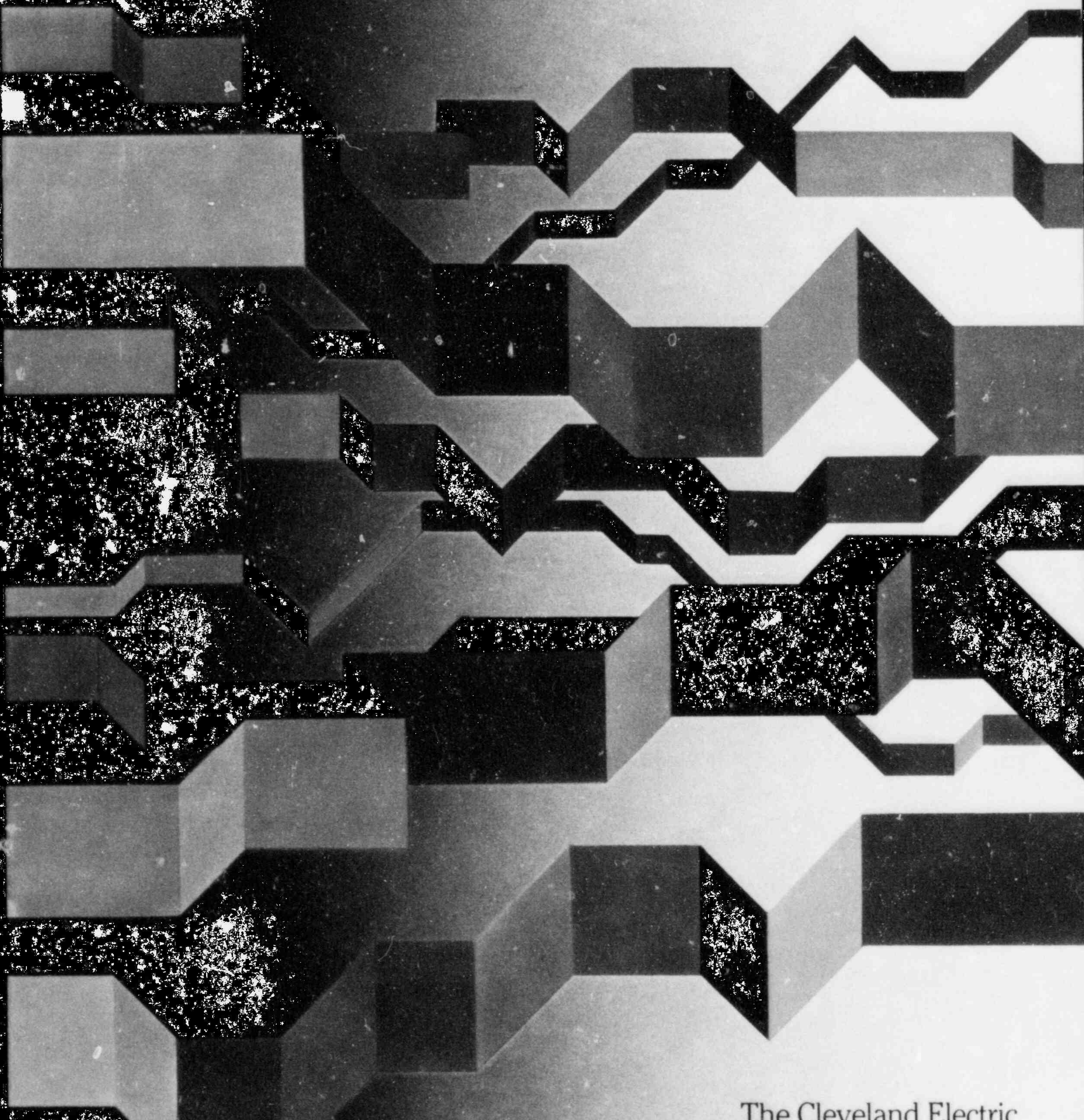
Attachments

cc. Jay Silberg, Esq.
John Stefano
J. Grobe

8408020118 840720
PDR ADOCK 05000440
I PDR

Mool

Energy to a diverse community



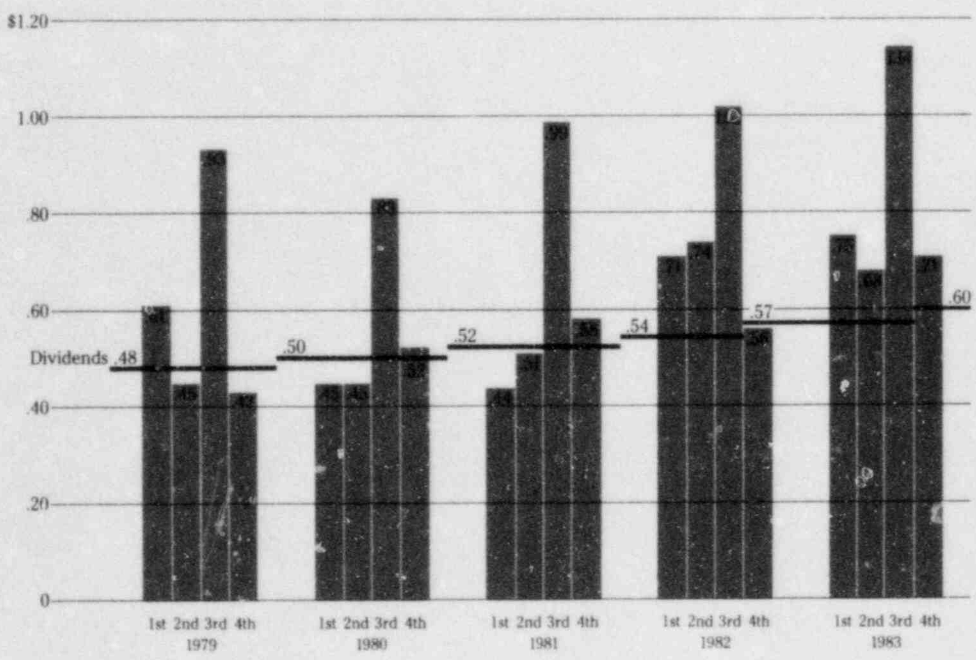
The Cleveland Electric Illuminating Company

1983 Annual Report

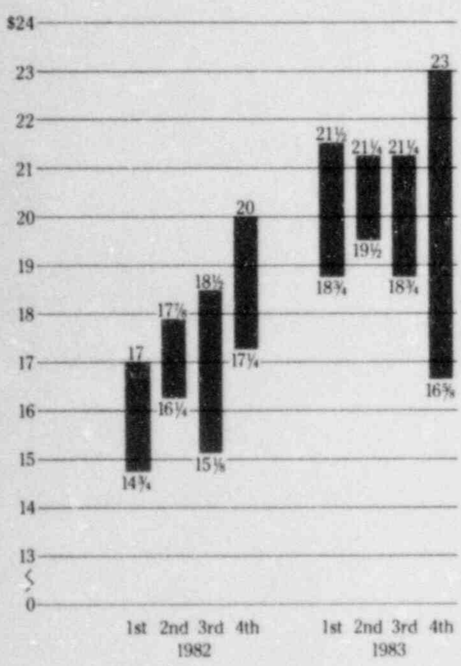
~~DOPO 8405290323~~

Contents

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



Quarterly High and Low Prices of Common Stock
(dollars)

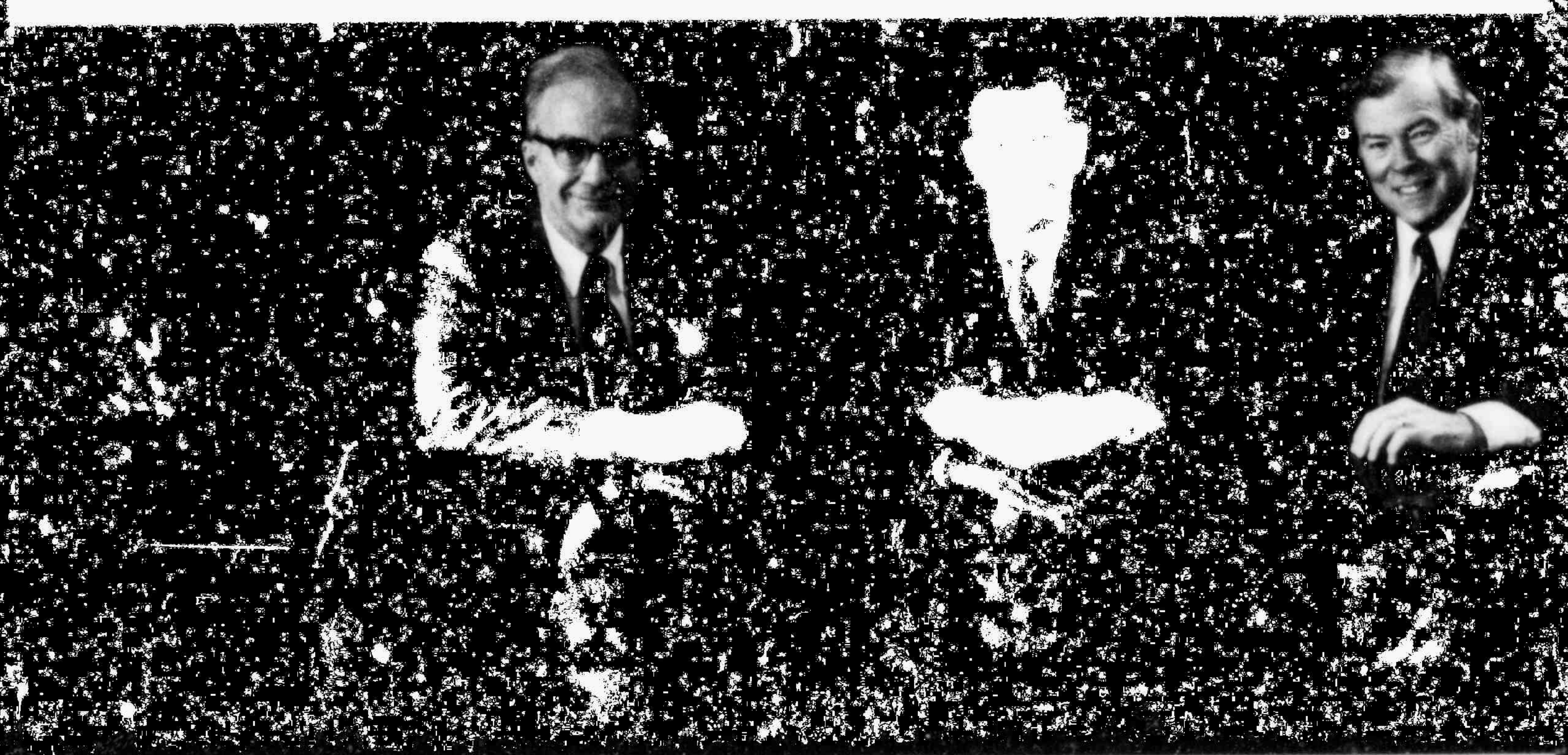


Highlights 1983

- Earnings per share for the year reached a record high of $3.28, up 9% from 1982.
- Common Stock quarterly dividend per share was increased 3¢ effective in November 1983. Total payment of $2.31 represents a 5.5% increase over 1982.
- A record peak load of 3,366 megawatts was established in July.
- An $89.4 million (7.4%) electric rate increase became effective in January 1983; it was later reduced by $13.5 million.
- Nearly $58 million was raised through the Dividend Reinvestment Plan, including $21 million from more than 21,000 participants in the new customer stock purchase program.
- Perry Unit 1 and common facilities construction was more than 90% complete at year end 1983. Our Quality Assurance program received high ratings from the NRC.
- The Davis-Besse Nuclear Power Station set a generation record and provided 15% of the Company's electricity in 1983.

Financial Summary

	1983	1982	Percent Change
Earnings Per Share of Common Stock	$ 3.28	$ 3.01	9.0
Dividends Paid Per Share of Common Stock	$ 2.31	$ 2.19	5.5
Book Value Per Share of Common Stock	$ 20.79	$ 19.86	4.7
Common Stock Share Owners	132,378	111,688	18.5
Operating Revenues (000)	$1,210,316	$1,108,571	9.2
Operating Expenses (000)	$ 951,954	$ 879,644	8.2
Net Income (000)	$ 246,026	$ 208,964	17.7
Earnings Available for Common Stock (000)	$ 207,600	$ 170,669	21.6
Kilowatthour Sales (Millions of Kilowatthours)			
Residential	4,412	4,336	1.8
Commercial	4,265	4,194	1.7
Industrial	7,514	7,082	6.1
Other	426	414	3.0
Sub-total	16,617	16,026	3.7
Sales to Utilities	20	139	(85.7)
Total	16,637	16,165	2.9



Letter to Share Owners

Dear Share Owner:

Appearing on the *New York Times* non-fiction best-seller list virtually every week in 1983 was the unique book *In Search of Excellence: Lessons from America's Best-Run Companies*. The authors noted that a common characteristic of well-managed companies is a conscious striving to keep "close to the customer." That was no great surprise. For years, noted management consultant Peter Drucker has emphasized that the key to a successful business is in providing a product or service that the customer desires. America's free enterprise system has prospered because it is the most efficient and effective system for providing goods and services to customers.

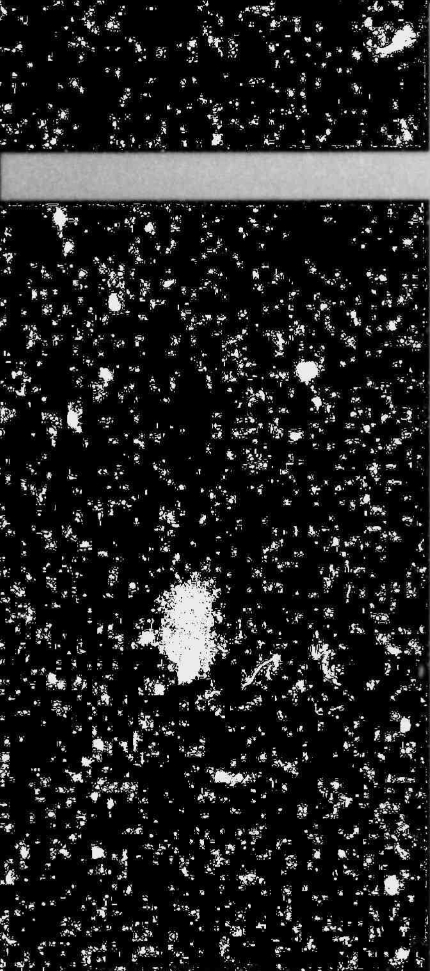
Your management believes that this Company can thrive only if we continue to recognize that without our customers we would have no reason to exist. We also recognize that electric service can be provided to customers only through facilities built with investor funds and operated by a skilled work force under dedicated management. We have such a work force and such a management team. We know that operating our business effectively keeps costs low and allows earnings to increase, thus reducing borrowing costs to the benefit of our customers. When the equation is reversed and borrowing costs go up, it is the customer who pays.

Because we remain continually aware of the guiding principles of effective business management, we scored a number of successes in 1983 which are highlighted here and discussed more fully in the body of this Report:

• We increased our quarterly dividend to 50 cents per share, thus continuing a record of dividend increases matched by only a few other electric utilities. This record makes our stock more attractive to investors and keeps future borrowing costs lower.

• A cost containment effort, supported by management and employees at all levels, achieved significant savings in 1983, enabling us to defer seeking a general rate increase and still maintain a favorable earnings level.

• We initiated several marketing efforts to keep [illegible]



• We started a customer stock purchase plan which achieved spectacular results. More than 51,000 of our customers now are share owners as well.

• Our steady and well-documented progress toward completion of the Perry Nuclear Power Plant enabled us to pass several major regulatory inspections.

Sound management principles also require us to remain aware of external influences that could impair this Company's ability to serve customer and share owner needs. Two political issues now looming on the horizon would have short-term impact on share owners and long-term effects on customers. In both cases, the common public misconception is that the political measures under consideration would somehow transfer costs from the customer to the utility.

One issue is the environmental phenomenon of acid rain. At a time when a clear scientific understanding of its sources, causes and effects does not yet exist, some groups continue to press for immediate control measures on the mere assumption that they may be successful. Legislation now before the U.S. Congress targets Ohio and other Midwestern states for multi-billion-dollar expenditures to control emissions at coal-fired power plants. Such measures would mean higher energy costs for consumers and would hurt the competitive standing of our industries and businesses in national and international markets.

Additional scientific research is needed to assure the effectiveness of acid rain measures. A growing number of voices — representing consumers, labor, business, science and government — are reinforcing this position. The National Academy of Sciences, in a much-publicized report, refused to confirm charges that Midwestern power plants are the cause of the acid rain problems in the Northeast and Canada. That report, too, emphasized the need for continued research to reduce the uncertainties in policy decisions. We support that position.

A second major issue that threatens the welfare of both customers and share owners involves a movement in the Ohio legislature against construction work in progress (CWIP), a ratemaking option that allows utilities to begin recovering financing costs as new construction nears completion.

CWIP now provides long-term cost savings by improving utility bond ratings and lessening risk to investors. As a result, utilities can obtain capital to construct new facilities and to refinance maturing debt at lower interest rates. This reduces overall construction and interest costs which holds down rates to customers. It is vitally important to all parties for the Ohio legislature to recognize that the interests of utility share owners and customers alike are best served in the long run by keeping CWIP in the ratemaking process.

The following pages of this Annual Report will provide you with more perspective on Company activities and the prospects for its future. We are the current stewards of your investment in a company that has earned a solid reputation for dependability, durability and financial strength. You, our share owners, along with our customers are now reaping benefits from the wise management planning of years past. Our decisions today are intended to ensure that those benefits continue in the future.

Undeniably, this Company and its service area still face major challenges. But a climate of challenge and change often provides the most fertile ground for significant achievements. We believe we are up to that test.

Sincerely,

Robert M. Ginn   Harold L. Williams   Richard A. Miller

Robert M. Ginn
Chairman

Harold L. Williams
Executive Vice President

Richard A. Miller
President

February 17, 1984

Our Service Area: A Year of Progress

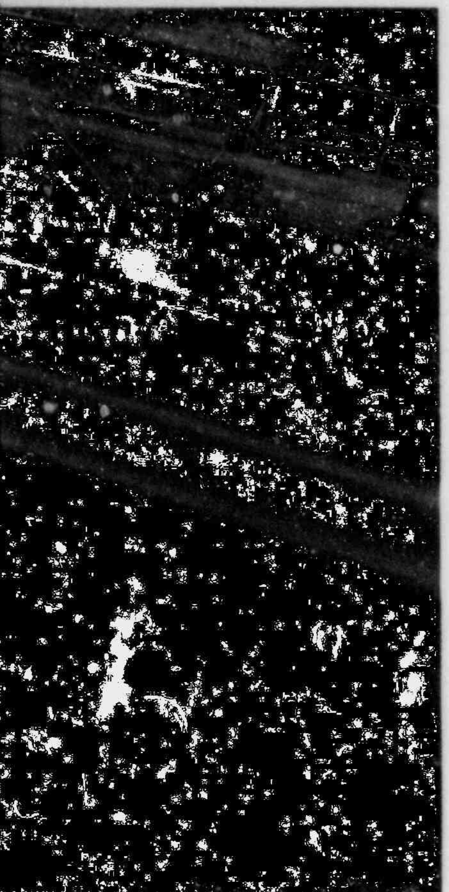
Along with the rest of the nation, we were relieved to see the long-awaited economic recovery begin to take effect in 1983. Signs of that recovery were evident throughout our service area. The Company, in fact, carried out specific measures to help spur local economic growth.

An encouraging 3.7 percent increase in our kilowatthour sales to ultimate customers provided just one indication of the promising vitality apparent throughout Northeast Ohio. Industrial output was up significantly as were retail sales, housing starts, construction activity and commercial expansion. Most dramatic was the improvement seen in the industrial sector.

Our service area is central to the nation's industrial heartland. Industries and businesses consume 70 percent of the electricity we produce. With economic recovery just beginning, in 1983 we saw increases in kilowatthour sales of 6.1 percent to industrial customers, 1.7 percent to commercial customers and 1.8 percent to residential customers. Within the industrial category, sales to our 17 largest industrial customers increased 12.9 percent.

We believe these healthy gains are a sign of what lies ahead. Northeast Ohio has an enviable number of the assets most conducive to area development. Among them are a limitless supply of fresh water, excellent transportation links to the nation's major retail and industrial markets, a skilled work force, a wealth of educational and training institutions and a plentiful supply of the electrical energy needed to fuel economic growth.

The increased use of electric-powered technologies was one factor behind our 6.1 percent increase in industrial sales in 1983. For example, Republic Steel recently installed a $100 million continuous slab caster at its Cleveland plant. This facility, which represents the newest technology in making steel slabs, will improve quality and increase productivity.



The Industrial Sector

Northeast Ohio is an unusually diverse manufacturing center. Our industries produce or fabricate steel, plastics, chemicals, biochemicals, aluminum, brass and a host of other basic materials. From our production lines come automobile components, appliances, electrical equipment, machine tools, computer components, textiles, paper, glassware, heavy machinery and many other essentials which are in continuing demand.

This diversity provides us with an economic cushion in contrast to regions dependent on one or two industries. We find that declines experienced at times in some of our industries will be offset by gains in others, thus keeping the local economy comparatively strong. Diversity means another bonus in today's climate of economic recovery. The significant increase in our 1983 industrial sales came largely through improvements in automotive and steel concerns. We have many industries which, rather than being consumer-oriented, produce machinery and equipment for manufacturing firms throughout the nation. These firms have just started increasing their orders for new production equipment. As the trend continues, our local industries will benefit. Thus, we expect continued momentum in the industrial sector.

Employment in our basic manufacturing sector may never return to the previous peak level. But local manufacturers are reducing costs through production efficiencies and labor agreements to be more competitive in world markets. They also are relying more and more on electric-powered technologies to improve their competitive standings. Some examples:

- Republic Steel last year installed a new $100 million continuous caster that is expected to result in substantial savings and improve quality in steelmaking.

- Jones & Laughlin Steel's Cleveland plant which operates two electric arc furnaces has become one of the lowest-cost and most productive of that company's facilities.

- Electric induction furnaces which heat billets from the inside out by electromagnetic induction are helping reduce costs for forgings at Midwest Forge, Presrite Corporation, Rupp Forge and Hill Acme Company.

- Industrial robots are in use for aluminum die casting at the Halex Company, commercial heat-treating operations at Wodin, Inc. and precision castings for aircraft at TRW's SMP division.

Output for our major steel customers was up 31 percent over the previous year resulting in a 30 percent increase in kilowatthour sales to those customers. The automobile industry likewise demonstrated strength. Sales to our major automotive customers rose 13 percent from the 1982 level. At General Motors' Chevrolet plant, a surge in demand for full-size cars brought production to its highest level since 1979. Bodies for one of Ford's most popular vehicles, its large van, are made exclusively in this area. A local foundry which provides Ford's sole American source of iron has plans to add more electric-powered metal-holding furnaces to make castings. A Ford stamping plant which lost work in past years because of labor problems has improved its labor-management relations, has regained all of its lost jobs and has plans for expansion.

Reserve Margin Capacity Planning

Reserve capacity is our installed generating capacity over and above the peak demand for electricity placed on our system each year. The term sometimes carries the unfortunate connotation of excess baggage. It is anything but that.

When forecasting electrical demand, we must look 20 years ahead since new power plants take 10 to 15 years to build. Our demand expectations are based on studies of foreseeable trends in population growth, the economy, consumer spending patterns, employment, industrial performance and a host of other factors that might influence our customers' use of electricity.

As with any forecast, it's impossible to be exactly on target. And there are other questions. Acid rain legislation could force us to run many generating units at less than full capacity or to shut some down altogether. Older units will have to be retired as they become less efficient.

We expect peak demand for 1984 to require 77 percent of our total generating capacity, which appears to leave us with a reserve of 23 percent. But boilers, turbine generators and auxiliary equipment are complex mechanisms subject to extreme wear and tear. Each requires downtime for maintenance, repairs and the replacement of worn components. On the average, we can expect a 17 percent loss of capacity from generating units that will be out of service for maintenance but this figure can vary significantly from day to day. That leaves us with an average reserve margin of only six percent. That's hardly an excessive reserve to allow for unexpected breakdowns of machinery and for unusually high demand such as that triggered by the heat wave on July 21, 1983. The demand on that day was seven percent above forecast.

The Commercial Sector

Continuing economic recovery will also mean stronger sales growth among our commercial customers. Electricity consumption by the multitude of office buildings, shopping malls, hotels, supermarkets, health care facilities, retail centers and other commercial enterprises in Northeast Ohio has increased despite the past few years of recession.

Few metropolitan areas of the country have as many corporate headquarters as the Cleveland area. Located here are Sohio, TRW, Republic Steel, Eaton Corporation, White-Consolidated, Sherwin-Williams, Lubrizol, Fisher Foods, Revco, Midland-Ross, Ferro, Cook United, Hanna Mining, American Greetings and Acme-Cleveland, among many others. Sohio's construction of a new $200 million, 45-story headquarters on Cleveland's Public Square solidly demonstrates that company's confidence in this area. Northeast Ohio also is a center for major computer operations, research and development laboratories and other growing service companies. It is home to the

Nuclear magnetic resonance (NMR), one of the medical field's newest and most promising diagnostic techniques, is now in use at The Cleveland Clinic Foundation, a world-renowned medical facility with a $200 million expansion program under way. NMR units, which are also in use locally at University Hospitals, are manufactured by two Cleveland area companies, Technicare and Picker International. Already a major medical center, Cleveland is benefiting from the fast growth taking place in the health care field.

seventh and 11th largest law firms in the nation. All of the nation's Big Eight accounting firms have offices here. One of those accounting firms, Ernst & Whinney, is headquartered in Cleveland.

Some of the most dynamic growth can be seen in the health care sector. The Cleveland Clinic Foundation, which is world-renowned, currently is embarked on a $200 million expansion program which will add 2,600 permanent jobs. Mt. Sinai Medical Center and University Hospitals each have $70 million building programs under way. Also thriving here are a number of medical companies, including Technicare and Picker International. These companies have been in the forefront of computer-assisted technologies such as the CAT scanner and nuclear magnetic resonance. Plans are being developed for a Medical Mart in downtown Cleveland that is expected to attract some 60,000 buyers a year to its showcase of equipment for all phases of the medical profession.

The Residential Sector

Nearly two million people live in our service area. They continue to use more electricity for space heating, air conditioning, water heating, cooking, home appliances and all the other conveniences of modern living. More than half of all new residences have electric heating.

During the unusually hot summer of 1983, home air conditioners and fans helped contribute to an all-time peak demand of 3,366 megawatts reached on July 21. This exceeded our previous record of 3,362 megawatts established in 1981 and exceeded the highs we had forecast for the next three years. This dramatic surge in demand proved to us, once again, the importance of adequate reserve capacity. (See story on page 6.)

The Company's Role

In addition to continuing our traditional efforts to promote area development, we moved aggressively in 1983 to stimulate industrial and commercial expansion and to help local enterprises remain competitive.

We have been a pioneer in the field of innovative rate design. For some years we have offered special contract options to encourage large industrial customers to shift load from peak demand time to off-peak hours and to add new load. We also have offered these customers an interruptible rate which allows us to remove load from our system to reduce peak load. In 1983 we made these special contract options and the interruptible rate available to smaller industrial customers. Also, commercial customers were offered the incentive to shift load to off-peak periods. Now these customers, too, can save on energy costs and use those savings to expand output and create new jobs.

Knowing our district steam service is vital to scores of customers in downtown Cleveland, we offered lower rates to customers who agree to remain with our system at least five years. This measure assures that our investment in steam service remains worthwhile, and it assures our customers continued service at a more favorable rate.

We also have looked for new ways to offer our energy expertise to local industries. In one instance, we entered into an arrangement with BFGoodrich to provide one of its facilities with two billion pounds of process steam a year from our Avon Lake Plant beginning in 1986. Our steam service is being considered by other chemical companies. We are pursuing additional ideas to assist customers and, at the same time, realize more revenue from our plant investment.

We applied our energy expertise to create a new, wholly owned subsidiary called Dynamic Energy Ventures, Inc. (Dyneco), which will sell, install and service such sophisticated options as uninterruptible power supplies, energy management systems and metering services. The opportunities presented and the relatively small investment required by Dyneco make this a low-risk venture.

We saw, too, the need for us to remain competitive relative to other energy suppliers. Late in 1983 we asked The Public Utilities Commission of Ohio (PUCO) for a tariff modification to allow us pricing flexibility and the opportunity to provide non-standard service equipment to customers. This modification would eliminate the need to seek PUCO approval for pricing flexibility on a case-by-case basis, thus enabling us to compete with other energy suppliers.

Energy Today

After more than a century, the prime objective of this Company remains unchanged: to provide reliable electric service at the lowest cost possible. Electricity is essential to rebounding industries and businesses.

In 1983 we made $491 million in capital expenditures to construct new facilities and to upgrade existing generation, transmission and distribution systems. We expect these efforts to improve service reliability and to lower generating costs, thus producing substantial savings to pass along to customers. We also saw long-range strategies conceived in years past result in environmental benefits and improved equipment performance at our power plants.

Electricity Production

At our coal-fired plants some $13 million was expended in 1983 to upgrade equipment and improve the operating efficiency of generating units. We expect this investment to pay for itself in the years ahead by increasing the kilowatthour output of existing units while reducing the amount of fuel required.

More savings were achieved as we continued our computerized program of performance evaluation, testing and preventive maintenance on power plant equipment. A major innovation was our establishment of a power plant support center which now performs repair work on power plant components, a job formerly handled by outside contractors. We expect to maintain strict quality controls and achieve substantial cost savings.

We spent some $28 million in 1983 on environmental projects at our coal-fired plants, primarily for waste water treatment and the reduction of fly ash emissions. Environmental protection is a continuing objective on which we have spent nearly half a billion dollars in the past decade.

We were highly pleased by the 73 percent availability rate in 1983 of the Davis-Besse Nuclear Power Station which we co-own with its operator, The Toledo Edison Company. During the 11 months preceding the refueling outage in July 1983, Davis-Besse saved our customers $42 million through the lower cost of nuclear fuel.

Transmission and Distribution

To send high-voltage power throughout our service area we maintain a network of almost 2,300 circuit miles of transmission lines. The high level of network reliability, coupled with our strategic Midwestern location, allows us to increase our revenues by selling power, when available, to utilities in the East and by transmitting power sold by other utilities.

Inside this massive piping, water is evaporated from sodium chloride brine at an RMI Company facility which manufactures metallic sodium and chlorine. RMI is one of many companies with which we have worked directly to help achieve savings on energy costs. Northeast Ohio's chemical industries produced Company revenues of about $54 million in 1983, ranking them third, following steel and automotive companies, among our biggest energy users.

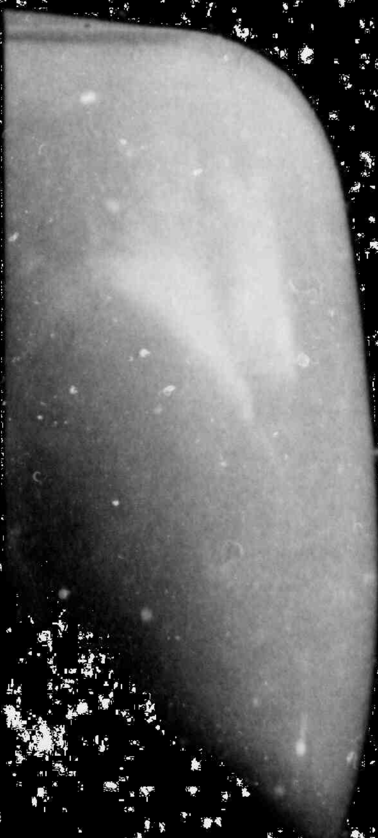
Compressed Air Energy Storage

Among the various technologies being investigated to meet electrical demand in the late 1990s and beyond, our engineers are especially optimistic about a promising process called Compressed Air Energy Storage. Early in 1984 we awarded three engineering contracts to consulting firms for further study of this alternative.

Through this technology, our large coal-fired and nuclear generating units would power a compressor at night, when electrical demand is low, to pump huge quantities of air into an underground cavern the size of a football stadium. In the daytime, when electrical demand is high, this compressed air would be released, heated and mixed with a small amount of oil to run a turbine and produce electricity. This storage process is similar to that of our Seneca Pumped Storage Hydroelectric Plant in Pennsylvania. There, water is pumped to a mountain-top reservoir at night and released during the day to power a turbine.

Compressed Air Energy Storage appears to be a clean, cost-effective method to obtain power during high-demand times. Because of the existence of abandoned underground salt and limestone mines, Northeast Ohio may be ideally suited for this technology.

In the Supersonic Wind Tunnel at the NASA Lewis Research Center a technician tests one component of an advanced propulsion system designed for use on aircraft of the future. One of our top 10 electric energy users, NASA's facility is only one of some 450 research laboratories that make Northeast Ohio a leader in research and development.



In 1983 we continued an in-depth preventive maintenance program on our distribution system to monitor, repair and upgrade lines, poles, transformers and other facilities that deliver electricity to customers. We became the first major electric utility in the nation to remove all PCB capacitors from our utility poles. We were five years ahead of the 1988 deadline established by the U.S. Environmental Protection Agency for eliminating the use of PCB equipment in public areas.

Energy Tomorrow

The increase in electrical energy demand in 1983 supports our projections for a long-term annual growth rate of about two percent. National statistics point to the same trend. While *total* energy use nationwide has declined by five percent over the past decade, the demand for *electrical* energy has increased by 20 percent. Further, electrical consumption is closely linked to the Gross National Product, as it has paralleled or slightly exceeded GNP over that same period of time.

Compounded over the next 20 years, our projected annual electrical energy demand growth of two percent adds up to about a 50 percent increase. The U.S. Department of Energy has predicted that some regions of the nation face electricity shortages by the 1990s. We are determined to maintain a plentiful supply of the electrical energy so vital to continued economic growth in Northeast Ohio. The bulk of our construction budget is going toward building new generating capacity to meet our increased demand and the replacement of older, less efficient capacity.

Early in 1983 we retired some oil-fired units which ranged in age from 40 to 57 years and which were increasingly costly to operate and maintain. This move reduced our total capacity by 333 megawatts. We currently have some 900 megawatts of capacity in units 30 to 42 years of age. These units cannot be expected to remain functional and cost-effective for many more years.

To meet increased demand and to compensate for the retirement of older units, we have under construction 954 megawatts of generating capacity. Some 750 megawatts will come from our share of the twin units at the Perry Nuclear Power Plant. We own 31 percent of the Plant and are responsible for its design, construction and operation. Our partners in the Central Area Power Coordination Group (CAPCO) will share the remaining capacity. The Illuminating Company also will own 204 megawatts of the second unit of the Beaver Valley Power Station in Pennsylvania, another CAPCO project, being built by the Duquesne Light Company. About 72 percent, or $355 million, of our 1983 construction budget went to these nuclear projects.

For the longer term we are continuing to evaluate load forecasts, study long-term strategies and analyze future generating technologies that promise to produce electricity safely, at the most favorable cost and with the least impact on the environment. Two attractive technologies needing further development are fluidized bed combustion, which introduces limestone into the combustion process, and coal gasification, which converts coal into gas for use as fuel. Each would reduce sulfur emissions at coal-fired plants. A third, more immediate technology is compressed air energy storage, which would provide relatively low-cost power for peak demand periods. (See story on page 10.)

Progress at Perry

With about 6,500 workers now on site, Perry is the largest construction project under way in Ohio. Unit 1 and common facilities were more than 96 percent complete at the end of 1983; Unit 2 was about 45 percent complete. Our regular monitoring of progress indicates that some facets of the overall project are currently behind schedule. Work on

Perry Construction Quality Assurance

On any building project, and particularly on one as large as our Perry Plant, occasional construction problems come with the territory. Our quality assurance program is designed to identify problems so that they can be quickly analyzed and corrected. We also report all potentially significant items, as required, to the Nuclear Regulatory Commission (NRC). Our consistently high marks at various levels of Federal inspections testify to the integrity of our quality assurance efforts.

Moreover, the Company has established a simple procedure through which all of some 6,500 workers at the Perry site are urged to report suspected deficiencies in construction work. We investigate all such reports. Further, the NRC has a toll-free telephone number which a worker at Perry or any other nuclear construction site nationwide may use to file an anonymous report. These reports, too, are thoroughly investigated.

It is natural that construction problems at a nuclear project, whether real or alleged, often attract undue attention from the news media upon their initial discovery. The concern in the marketplace regarding utilities that are constructing nuclear power plants is understandable. But we remain confident that, once the full story is known, our competence to successfully manage a nuclear construction program will be demonstrated.

In November a special Construction Appraisal Team from the Nuclear Regulatory Commission (NRC) issued its report following a four-week, 2,000 manhour inspection of Perry. The report found our project organization to be aggressive in finding and resolving construction problems and our QA program to be "adequate." The term adequate, in the world of nuclear regulation, is the highest possible accolade. Considering the very rigid regulatory climate in which we are working, this construction appraisal report is extremely positive, and we believe it demonstrates the NRC's confidence in our ability to build a safe and reliable plant.

In December a report was received from the Atomic Safety and Licensing Board which conducted an extensive hearing on Perry's construction earlier in 1983. That 57-page report officially gave passing marks to our QA program and moved the two Perry Units a step closer to operating licenses. The report said that our QA program "has prevented, and will continue to prevent, unsafe conditions at the plant." Elsewhere, the report said: "Applicant's program is comprehensive and provides appropriate assurance that significant construction deficiencies have been and will be identified and corrected."

We expect, of course, that routine construction problems at Perry will still command undue attention in the news media. We also expect a high level of publicity when public hearings on our emergency planning are conducted, as required by NRC regulations, later in 1984. But we are confident of our ability to resolve construction problems as they arise and successfully come through the regulatory process. (See story at left.)

Investing in the Future

A great deal of capital is required for the new generating units, transmission and distribution facilities and environmental safeguards needed to ensure the energy security of our service area. Fortunately, sound financial management is one of the strengths of this Company. Because of it, we were able last year to raise capital on advantageous terms and, at the same time, provide a favorable return to our investors. We also maintained a balanced capital structure and improved our interest coverage ratio.

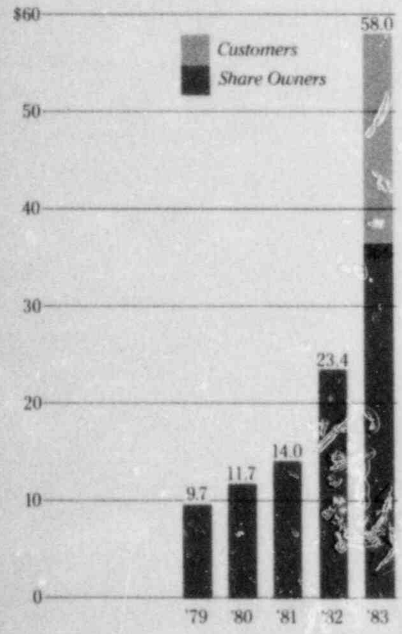
Return to Investors

Earnings per share for the year 1983 were at a record high of $3.28, an increase of nine percent over 1982. Return on average common equity was 16.1 percent.

Several factors contributed to our earnings improvement. One was a rate increase applied for early in 1982 and received in January 1983 that resulted in an $89.4 million, or 7.4 percent, increase in retail electric rates. (See Note M of "Notes to Consolidated Financial Statements.") Another factor, of course, was the increase in our kilowatthour sales. A third was a cost containment and deferral program which saved $10 to $12 million in operating expenses. We put limits on hiring, promotions and overtime, and we took measures to increase productivity while reducing department budgets. Not all of these budget reductions are sustainable, but we are determined to hold costs at the lowest level practical, consistent with the need to maintain our good record of customer service.

Effective with the November 15, 1983 payment, we raised our quarterly common stock dividend to 60 cents per share from 57 cents per share. Last year was the 25th consecutive year in which we increased dividends and the 82nd straight year in which we paid cash dividends on common stock. That record is matched by few other electric utilities.

Dollars Raised Through Dividend Reinvestment and Stock Purchase Plan *(millions of dollars)*



The 1983 Financial Picture

The ability to raise capital at advantageous terms is a direct result of our success in maintaining a favorable credit rating.

In 1983 Moody's Investors Service and Standard & Poor's Corporation maintained their ratings of our long-term securities at investment grade levels. Our first mortgage bonds are rated "A2" by Moody's and "A" by S&P. We are the only electric utility in Ohio rated this high.

We ended 1983 with a well-balanced capital structure of 41 percent common equity, 45 percent debt and 14 percent preferred and preference stock.

Equity and debt financings during the year raised about $275 million. Major issues included the sale of $125 million of first mortgage bonds and an offering of adjustable rate preferred stock which raised $50 million. The dividend on the preferred stock will range from seven to 13 percent. We are the first electric utility in Ohio to sell preferred stock with this new adjustable rate feature. We also arranged to increase our term bank loans from $134 million to $175 million at extended maturities and improved terms.

During the year we continued to sell notes, secured by our first mortgage bonds, to the bond funds of a major financial institution. We also raised capital through our Dividend Reinvestment Plan and our employee stock purchase plans.

Future Rates

Our credit ratings also depend, in part, on our ability to secure timely and adequate rate relief. Our cost containment and deferral program produced significant savings in 1983, enabling us to defer a rate increase request. But service would be adversely affected if such measures were continued indefinitely.

Because our costs of providing service have continued to rise, in February 1984 we found it necessary to give notice of intent to file for a $180 million, or 15 percent, electric rate increase. If granted, the increase would have no material effect until 1985 and must therefore cover cost increases during the two years since our previous rate order.

The Dividend Reinvestment Plan

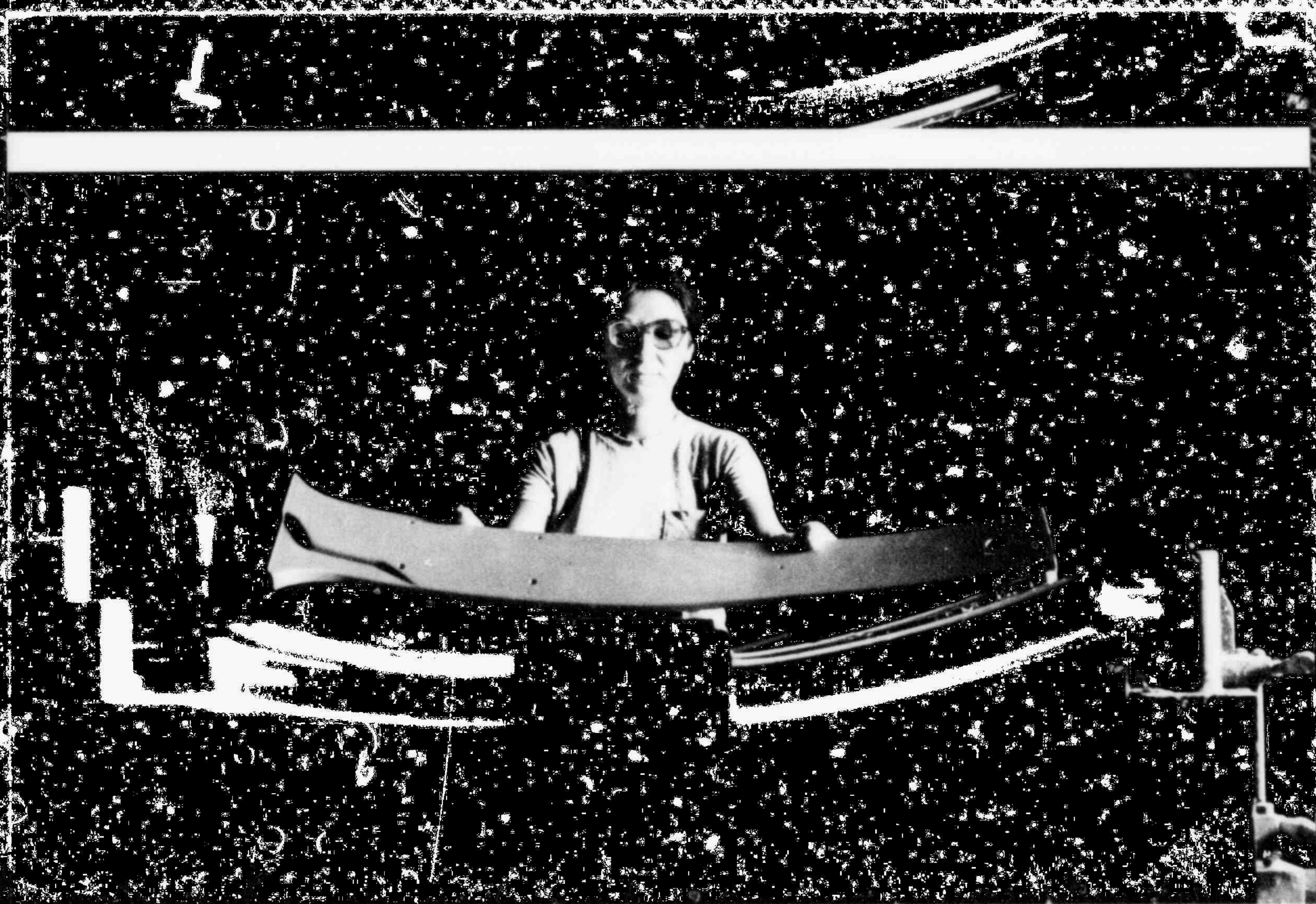
The success of our DRP was one of 1983's highlights. We raised more than $25 million from reinvested dividends, up 50 percent from 1982. An additional $32 million was raised in optional cash contributions, up 400 percent from 1982.

Over 21,000 of our customers enrolled in the customer stock purchase program portion of the DRP. No other electric utility in the nation has equalled that initial success in terms of customer response, enrollment and initial amount invested. We raised a total of $21 million at an average of $1,044 per participant.

The 1984 Outlook

The year 1984 will be an active one for financings. We plan to issue first mortgage bonds and to raise funds through the sale by the Ohio Air Quality Development Authority of tax-exempt bonds to finance environmental projects. From time to time international economic conditions permit lower-cost borrowing in Europe than in the United States. We are poised to take advantage of such opportunities to minimize our borrowing costs and, consequently, the costs eventually borne by customers.

Management headquarters for 13 of the Fortune 500 companies are located in the Cleveland area, a number equalled by few other metropolitan areas in the country. That kind of corporate activity gives rise to a variety of other businesses, which contributes to growth in our commercial and industrial sales. Here, at the world headquarters of the SDS Biotech Corporation, a biologist studies the effects of fungicides in controlling plant disease. SDS Biotech is a relatively new corporation formed to pursue new technologies and products in the field of biotechnology.



[illegible]

[illegible]

The Regulatory Climate

[illegible]

[illegible]

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

Capital Resources and Liquidity

Our capital requirements stem from our ongoing program of constructing facilities needed to meet anticipated demand for electric service, to replace worn-out facilities and to comply with pollution control regulations. Over the years 1981-1983, we spent approximately $1.3 billion on our construction program. This amount included an allowance for funds used during construction (AFUDC) which is explained in Note A of "Notes to Consolidated Financial Statements." At December 31, 1983, our purchase commitments totaled $480,000,000. Of this, $260,000,000 principally relates to the construction program. The balance is applicable to the cost of acquiring nuclear material and processing it into fuel.

After paying our expenses, taxes, interest and dividends, our business currently does not generate all of the funds needed for our construction program. Therefore, we must supplement our internally generated funds with additional money raised from investors. In the past three years, about 52% of the money used for construction was raised from sales of securities, such as notes, first mortgage bonds and preferred and common stocks, and from bank borrowings. We also raised funds from two sales of the Federal income tax benefits relating to equipment placed in service in 1981, pursuant to provisions of The Economic Recovery Tax Act. Construction program expenditures over the next several years are expected to be funded about equally from internal and external sources.

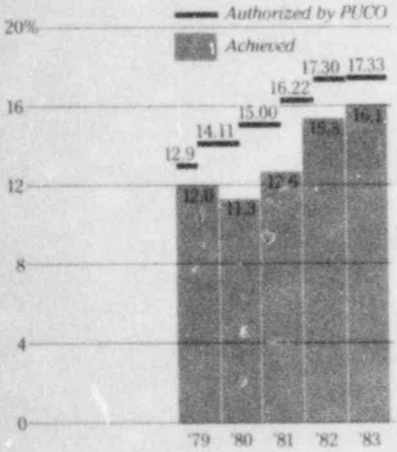
Since mid-1981, our first mortgage bonds have been rated "A" by both Moody's Investors Service and Standard & Poor's Corporation. Our preferred stock is rated "a" by Moody's and "BBB" by Standard & Poor's. Our commercial paper rating was lowered by Standard & Poor's in 1983 from A1 to A2, while Moody's maintained our rating of P1, its highest commercial paper rating.

We will continue to seek fair rate levels in order to maintain as strong a financial position as possible. Without adequate rates it would be impossible to earn a fair return for our common stock share owners. Inadequate returns could also result in a lowering of our securities ratings, thereby increasing the cost of raising money from outside sources. Our future financing plans are designed to maintain a capital structure of 40-42% common equity and a maximum of 48% debt, with the balance made up of preferred and preference stock. At year end 1983, our capitalization structure was 41% common equity, 45% debt and 14% preferred and preference stock. Specific financing plans are discussed elsewhere in this Annual Report.

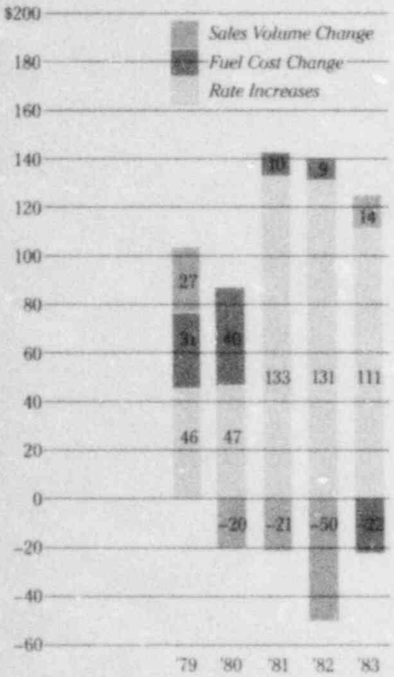
Over the 1984-1988 period, we must refinance $426,976,000 of maturing debt and preferred stock which was outstanding at December 31, 1983. In addition, we are required to offer to purchase $19,400,000 of preferred and preference stock in both 1984 and 1985, $36,067,000 in both 1986 and 1987 and $36,066,000 in 1988. See Notes F, H and I of "Notes to Consolidated Financial Statements" for further details. A portion of the debt which matures in the five-year period has very low interest rates. Refinancing of this debt will probably be done at much higher rates, thereby increasing our average cost of capital.

The amount of first mortgage bonds the Company can issue is limited by our Mortgage and Deed of Trust. The amount fluctuates depending upon the remaining amount of bondable property and upon earnings and interest rates. At December 31, 1983, we would have been permitted to issue approximately $922,000,000 of additional first mortgage bonds. There are no restrictions on issuing additional authorized preferred stock and preference stock. We use short-term financing such as bank lines of credit

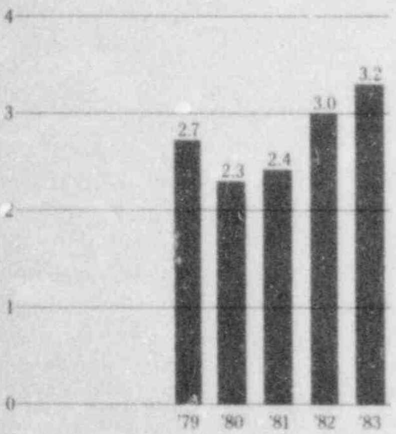
Rate of Return on Common Equity Authorized vs. Achieved
(percent)



Sources of Electric Revenue Increases
(millions of dollars)



Interest Charges Coverage Ratio
(times earned)



and the sale of commercial paper to give us flexibility in timing our long-term financings. Money raised through these short-term arrangements is primarily used to finance temporarily our construction program. We have a total short-term borrowing capability of $220,300,000 in the form of bank lines of credit and revolving loan commitments. In accordance with customary industry practice, some of these lines are held in reserve to ensure that we will be able to pay off commercial paper when it is due. Note K of "Notes to Consolidated Financial Statements" gives the details of our credit arrangements.

Results of Operations

The "Sources of Electric Revenue Increases" chart on the left shows the factors which have affected our electric revenues in each of the last five years.

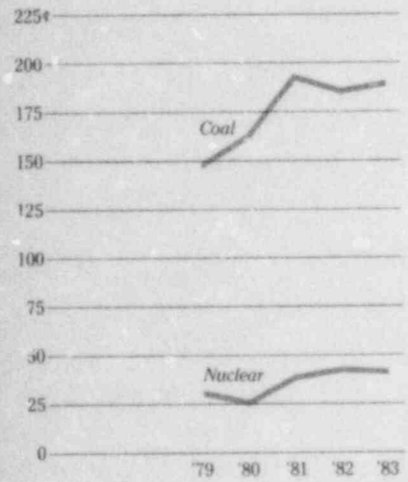
In our service area there are signs of economic recovery as industrial sales were up 6.1% in 1983. The turn-around in industrial sales, which began early in the year, was led by improvements in the automotive and steel industries. More moderate increases in sales occurred in other sectors, including such industries as chemicals, plastics and fabricated metal products. Since recovery in these business sectors traditionally lags the general economic recovery, we expect further sales increases in these industries in 1984. After very mild winter weather early in 1983, an extremely hot summer provided added impetus to residential and commercial sales which were higher by 1.8% and 1.7%, respectively. Total sales to ultimate customers increased 3.7%.

A weak economy as well as milder weather were the major factors affecting sales to customers in 1982. Industrial sales decreased 14.5% in 1982 while residential sales fell 0.9%. During 1982, commercial sales were up 0.4%. Overall, sales declined 7.7%.

Over the last three years we have vigorously sought rate increases in order to enable us to pay investors the return on investment they demand in the form of interest, dividends and increased net worth. As a result The Public Utilities Commission of Ohio (PUCO) granted us the following electric rate increases: 17% (May 1981), 10% (March 1982) and 7.4% (January 1983). On October 1, 1983, electric base rates were reduced 1% and a reduction in the fuel clause factor on September 1, 1983 lowered rates an additional 7%. We also secured various increases in steam, wholesale power and street lighting rates in the three-year period. These rate increases, coupled with effective cost control and higher AFUDC, offset effects of inflation on operating expenses, higher interest expense, stock sales and the delay between the time our costs go up and the time we receive a rate increase to cover those increased costs. Consequently, earnings per share rose in 1981, 1982 and 1983, reaching a record level of $3.28 in 1983. Also, the ratio of earnings to fixed charges (SEC method) rose in each of the three years (2.4, 3.0 and 3.2 in 1981, 1982 and 1983, respectively).

In 1983, we took action to stimulate growth in our commercial and industrial sectors and to help business remain competitive. This was accomplished through the extension of special contract options such as off-peak rates to commercial and smaller industrial customers. In addition, we offered a lower rate to customers who agree to utilize our steam service for a minimum of five years.

Fuel Costs
(¢ per million BTU)



A cost containment and deferral program which was implemented in 1983 placed strict controls on hirings and promotions, sharply reduced overtime and limited expenditures for materials and supplies. The program enabled us to avoid filing for an electric rate increase in 1983. However, increases in the cost of providing service prompted us to announce our intent to file for a $180,000,000, or 15%, increase in electric rates. The rate increase, if granted, would not be effective until early 1985.

Fuel and purchased power expense is the largest part of our operating expenses. The amount of purchased power varies from year to year depending upon the availability of our power plants, the energy demands of our customers and the price of electricity available from other utilities. In 1983, purchased power expense increased slightly because it was used for economy purposes during the two-month refueling outage for the Davis-Besse Nuclear Power Station. In 1982, purchased power expense declined because of lower kilowatthour sales, improved availability of our plants and power sales to other utilities.

Total fuel and purchased power expense rose in 1983 because of the increase in kilowatthour sales which more than offset a slight decrease in the unit cost of fuel. This expense declined in 1982 because of the decrease in kilowatthour sales and a slight decline in the unit cost of fuel. Nuclear generation accounted for 13%, 10% and 15% of our total electric generation in 1981, 1982 and 1983, respectively.

Other significant items affecting earnings per share were increased payments of interest and preferred stock dividends and a greater number of outstanding common shares resulting from additional external financing. The impact of the increases in these items was partially offset by related increases in the amount of AFUDC.

For a discussion of how we are affected by inflation, see "Supplementary Information Concerning the Effects of Inflation."

Management's Statement of Responsibility for Financial Statements

The management of The Cleveland Electric Illuminating Company is responsible for the consolidated financial statements which appear in this Annual Report. The statements were prepared in accordance with generally accepted accounting principles which are appropriate in the circumstances. These principles require that certain amounts must be recorded based on estimates. Such estimates are based on an analysis of the best information available regarding the amounts to be estimated.

We maintain a system of internal accounting controls. The control procedures are designed to assure that the financial records are reasonably complete and accurate. They also are designed to help protect the assets and their related records. We make an effort to ensure that the costs of our control procedures do not exceed the benefits.

We have an internal audit program which monitors the internal accounting controls. This program is designed to examine whether the controls are adequate and effective. Also, an examination of the financial statements is conducted by Price Waterhouse, independent accountants, whose opinion appears below.

The Board of Directors of the Company is responsible for determining whether management and the independent accountants are carrying out their responsibilities. The Board has appointed an Audit Committee, comprised entirely of outside directors. The responsibilities of the Audit Committee are described elsewhere in this Annual Report.

Report of Independent Accountants

Price Waterhouse

1900 CENTRAL NATIONAL BANK BUILDING
CLEVELAND, OH 44114

To the Board of Directors and the Share Owners of The Cleveland Electric Illuminating Company:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, capitalization, retained earnings, and changes in financial position present fairly the financial position of The Cleveland Electric Illuminating Company and its subsidiaries at December 31, 1983 and 1982, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

February 10, 1984 | Price Waterhouse

Income Statement

The Cleveland Electric Illuminating Company and Subsidiaries

	For the Year Ended December 31,		
	1983	1982	1981
	(Thousands of Dollars)		
OPERATING REVENUES			
Electric	$1,194,162	$1,091,054	$1,000,734
Steam	16,154	17,517	12,196
Total Operating Revenues	1,210,316	1,108,571	1,012,930
OPERATING EXPENSES			
Operation			
Fuel	320,792	330,674	322,154
Purchased power	12,185	(1,395)	29,256
Other	182,439	168,802	149,374
	515,416	498,081	500,784
Maintenance	88,029	81,789	74,925
Depreciation and amortization	94,196	86,588	85,294
Taxes, other than Federal income tax	126,883	106,804	91,648
Federal income tax	127,430	106,382	67,575
Total Operating Expenses	951,954	879,644	820,226
NET OPERATING INCOME	258,362	228,927	192,704
NONOPERATING INCOME			
Allowance for equity funds used during construction	87,052	76,896	48,970
Other income and deductions, net	3,805	(2,481)	10,617
Federal income tax — credit	23,291	22,254	16,125
Total Nonoperating Income	114,148	96,669	75,712
INCOME BEFORE INTEREST CHARGES	372,510	325,596	268,416
INTEREST CHARGES			
Long-term debt	151,257	134,250	121,040
Short-term bank loans, commercial paper and other	2,717	9,822	25,672
Allowance for borrowed funds used during construction	(27,490)	(27,440)	(34,030)
Total Interest Charges	126,484	116,632	112,682
NET INCOME	246,026	208,964	155,734
Dividend requirements on preferred and preference stock	38,426	38,295	34,917
EARNINGS AVAILABLE FOR COMMON STOCK	$ 207,600	$ 170,669	$ 120,817
EARNINGS PER COMMON SHARE	$ 3.28	$ 3.01	$ 2.52
DIVIDENDS DECLARED PER COMMON SHARE	$ 2.31	$ 2.19	$ 2.08

Retained Earnings Statement

	For the Year Ended December 31,		
	1983	1982	1981
	(Thousands of Dollars)		
BALANCE AT BEGINNING OF YEAR	$ 325,463	$ 280,285	$ 258,432
ADDITIONS			
Net income	246,026	208,964	155,734
DEDUCTIONS			
Dividends declared			
Preferred stock	33,636	33,900	29,762
Preference stock	4,418	4,418	4,417
Common stock	145,077	124,841	99,134
Costs of issuing equity securities	141	627	568
Total Deductions	183,272	163,786	133,881
BALANCE AT END OF YEAR	$ 388,217	$ 325,463	$ 280,285

The accompanying notes are an integral part of these financial statements.

Balance Sheet at December 31

The Cleveland Electric Illuminating Company and Subsidiaries

ASSETS

	1983	1982
	(Thousands of Dollars)	
PROPERTY AND PLANT		
Utility plant		
Electric in service	$2,794,873	$2,684,629
Steam in service	43,262	40,172
	2,838,135	2,724,801
Less accumulated depreciation and amortization	722,492	679,890
	2,115,643	2,044,911
Construction work in progress	1,616,653	1,285,731
	3,732,296	3,330,642
Nuclear fuel in trust	58,599	52,751
Other property, less accumulated depreciation	11,545	11,465
	3,802,440	3,394,858
POLLUTION CONTROL CONSTRUCTION FUNDS — unexpended	18,618	17,778
CURRENT ASSETS		
Cash and temporary cash investments	42,693	59,317
Amounts due from customers and others, net	111,928	101,858
Materials and supplies, at average cost	29,640	28,123
Fossil fuel inventory, at average cost	58,870	75,403
Taxes applicable to succeeding years	99,884	87,130
Other	3,612	1,837
	346,627	353,668
DEFERRED CHARGES		
Unamortized costs of terminated projects	49,154	52,385
Accumulated deferred Federal income taxes	12,240	12,774
Deferred fuel	18,329	22,602
Other	20,919	18,844
	99,742	106,605
	$4,267,427	$3,872,909

CAPITALIZATION AND LIABILITIES

	1983	1982
CAPITALIZATION (See statement of Capitalization)		
Long-term debt	$1,518,883	$1,441,822
Serial preferred stock		
With mandatory redemption provisions	261,000	265,000
Without mandatory redemption provisions	144,021	95,071
Serial preference stock with mandatory redemption provisions	57,000	57,000
Common stock equity	1,355,488	1,227,095
	3,336,392	3,085,988
CURRENT LIABILITIES		
Current portion of long-term debt and preferred stock	59,410	71,145
Notes payable to banks and others	19,100	19,100
Accounts payable	121,198	91,128
Accrued payroll and vacations	16,119	15,407
Federal income taxes	12,301	10,149
Other taxes	125,016	110,011
Interest	36,322	31,268
Other	7,251	7,328
	396,717	355,536
DEFERRED CREDITS		
Unamortized investment tax credits	218,589	153,582
Accumulated deferred Federal income taxes	192,483	168,606
Nuclear fuel trust obligations	58,599	52,751
Deferred fuel	20,343	16,841
Other	44,304	39,605
	534,318	431,385
COMMITMENTS AND CONTINGENCIES — See Note L		
	$4,267,427	$3,872,909

The accompanying notes are an integral part of these financial statements.

Capitalization at December 31

	1983 (Thousands of Dollars)	1982 (Thousands of Dollars)	1983 (Percent of Capitalization)	1982 (Percent of Capitalization)
LONG-TERM DEBT(a)				
First mortgage bonds — maturing through 2013 at rates of 2¾% to 16⅝% (Less $55,000,000 in 1983 and $50,000,000 in 1982 classified as current)	$1,315,191	$1,245,191		
Collateral pledge notes — maturing in 2012 at semiannual equivalent rates of 11.72% to 13.50%	43,370	6,100		
Term bank loans(b) — maturing 1986-1990 at variable rates (Average rates were 10.10% in 1983 and 14.61% in 1982)	106,000	134,000		
Pollution control notes — maturing through 2012 at rates of 5.6% to 6.7% (Less $410,000 in 1983 and $105,000 in 1982 classified as current)	57,430	57,840		
Other — net	(3,108)	(1,309)		
Total Long-term Debt	1,518,883	1,441,822	45	47

SERIAL PREFERRED AND PREFERENCE STOCK — cumulative, without par value, 4,000,000 and 3,000,000 authorized shares, respectively

Preferred Stock without mandatory redemption provisions

Series	Annual Dividend Rate	1983 Shares Outstanding	1983	1982
A	$ 7.40	500,000	50,000	50,000
B	$ 7.56	450,000	45,071	45,071
L	Adjustable(c)	500,000	48,950	—
			144,021	95,071

Preferred and Preference Stock with mandatory redemption provisions (Less $4,000,000 in 1983 and $3,000,000 in 1982 classified as current)

Series	Annual Dividend Rate	1983 Shares Outstanding	Annual Mandatory Redemption Provisions(d): Beginning on	Price	Shares to be Redeemed	Shares to be Redeemed at Holders' Option	1983	1982	1983 (%)	1982 (%)
Preferred:										
C	$ 7.35	240,000	8-1-84	$ 100	10,000	—	24,000	25,000		
E	$ 88.00	48,000	6-1-81	$1,000	3,000	—	48,000	51,000		
F	$ 75.00	50,000	11-1-85(e)	$1,000	—	16,667	50,000	50,000		
G	$ 80.00	40,000	8-1-84(e)	$1,000	—	8,000	40,000	40,000		
H	$145.00	28,500	6-1-85	$1,000	1,782	—	28,500	28,500		
I	$145.00	31,500	6-1-86	$1,000	1,969	—	31,500	31,500		
J	$113.50	29,000	6-1-87	$1,000	5,800	—	29,000	29,000		
K	$113.50	10,000	6-1-91	$1,000	10,000	—	10,000	10,000		
							261,000	265,000		
Preference:										
I	$ 77.50	57,000	4-1-84(e)	$1,000	—	11,400	57,000	57,000		
Total Preferred and Preference Stock							462,021	417,071	14	13

	1983	1982	1983 (%)	1982 (%)
COMMON STOCK EQUITY				
Common shares, without par value 85,000,000 authorized; 65,198,089 and 61,774,582 outstanding in 1983 and 1982, respectively	967,271	901,632		
Retained earnings(f)	388,217	325,463		
Total Common Stock Equity	1,355,488	1,227,095	41	40
TOTAL CAPITALIZATION	$3,336,392	$3,085,988	100	100

(a) Long-term debt matures during the next five years as follows: $55,410,000 in 1984 (classified as a current liability on the consolidated Balance Sheet); $43,701,000 in 1985; $51,610,000 in 1986 and $21,600,000 in 1987 and 1988.
(b) The Company has amended its term bank loan agreements to allow up to $175,000,000 of borrowing. The amendments also changed the maturity dates of the outstanding debt from 1984-1988 to 1986-1990. Overall interest rates under these loans also were reduced.
(c) The applicable rate shall be the highest of the Treasury Bill Rate, the Ten Year Constant Maturity Rate or the Twenty Year Constant Maturity Rate, as defined, but not more than 13% or less than 7%.
(d) Amounts to be paid for preferred stock which must be redeemed during the next five years are: $4,000,000 in 1984; $5,782,000 in 1985; $7,751,000 in 1986; and $13,551,000 in 1987 and 1988. For those series where the share owners can elect to have their shares redeemed, the maximum redemption payments could be $19,400,000 in 1984 and 1985, $36,067,000 in 1986 and 1987, and $36,066,000 in 1988.
(e) This is an offer date. Redeemed shares would be purchased four months after this date.
(f) As of December 31, 1983 there was no restriction on the right of the Company to pay dividends in any amount up to all the earnings retained in the business.

The accompanying notes are an integral part of these financial statements.

Changes in Financial Position

	For the Year Ended December 31,		
	1983	1982	1981
	(Thousands of Dollars)		
FINANCIAL RESOURCES PROVIDED			
Net Income	$246,026	$208,964	$155,734
Items not affecting working capital			
Depreciation and amortization	94,336	86,622	85,325
Deferred Federal income tax	89,125	72,103	43,931
Allowance for equity funds used during construction	(87,052)	(76,896)	(48,970)
Other	620	918	1,910
Total financial resources provided from operations	343,055	291,711	237,930
Sales of securities			
First mortgage bonds	125,000	277,600	82,200
Preferred stock	48,950	—	70,500
Common stock	65,638	179,711	67,622
Total sales of securities	239,588	457,311	220,322
Term bank loans and collateral pledge notes	37,270	6,100	54,800
Nuclear fuel trust obligations	5,848	52,751	—
Sale of tax benefits to others	—	—	25,199
Pollution control funds expended	—	18,559	57,805
Working capital decrease(a)	59,957	—	14,591
Other	7,591	6,007	1,451
Total Financial Resources Provided	$693,309	$832,439	$612,098
FINANCIAL RESOURCES USED			
Additions to utility plant	$490,705	$422,170	$409,277
Allowance for equity funds used during construction	(87,052)	(76,896)	(48,970)
	403,653	345,274	360,307
Retirement of debt and preferred stock	99,105	121,600	13,000
Dividends	183,130	163,786	133,312
Pollution control construction funds deposited	840	—	22,200
Deferred fuel costs	—	—	11,642
Nuclear fuel in trust	5,848	52,751	—
Decrease in short-term debt and other borrowings	40	76,200	71,637
Working capital increase(a)	—	72,828	—
Other	693	—	—
Total Financial Resources Used	$693,309	$832,439	$612,098
SUMMARY OF CHANGES IN WORKING CAPITAL(a)			
Cash and temporary cash investments	$(16,624)	$ 34,621	$ 15,571
Amounts due from customers and others, net	10,070	7,451	(10,477)
Fossil fuel inventory	(16,533)	6,630	1,306
Taxes applicable to succeeding years	12,754	23,520	5,499
Accounts payable and accrued payroll and vacations	(30,782)	12,120	(16,108)
Federal income and other taxes payable	(17,157)	(8,229)	(5,446)
Other	(1,685)	(3,285)	(4,936)
Change in Working Capital(a)	$(59,957)	$ 72,828	$(14,591)

(a) Other than short-term borrowings and current portion of long-term debt.

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

Note A — Summary of Significant Accounting Policies

We are required to follow the accounting principles or rules set by The Public Utilities Commission of Ohio (PUCO) and the Federal Energy Regulatory Commission (FERC). The principles we follow are also substantially consistent with the requirements of the Financial Accounting Standards Board, as expressed in their Standard No. 71, "Accounting For the Effects of Certain Types of Regulation". A description of our significant accounting principles follows.

Consolidation

Our financial statements include the accounts of three minor subsidiaries. We own all of the stock in each. One subsidiary is The CEICO Company which owns nonutility land and performs certain nonutility services. Another is the CCO Company which coordinates the operation of a five-company power pool (including the Company) called the Central Area Power Coordination Group (CAPCO). The costs of CCO are shared by all the CAPCO companies. The third subsidiary is Dynamic Energy Ventures, Inc., which is in the electrical reliability and energy management business.

Property and Plant

Electric and Steam Utility Plant is carried on the books at original cost as defined by the FERC. The costs of maintenance and repairs are charged to Operating Expense as incurred. The cost of replacing or improving property is charged to Property and Plant. The cost of property retired, plus removal cost, less salvage realized, is charged to Accumulated Depreciation and Amortization.

Depreciation

We report depreciation expense on our income statement as a current cost of doing business to account for the normal using up of our property. Depreciation is deducted in equal amounts over the estimated useful life of the property. For example, if we estimate that an item will be useful for 10 years, we charge one-tenth of its value to depreciation expense each year. However, in the case of the Davis-Besse Nuclear Power Station (Davis-Besse), we utilize the units-of-production depreciation method described in Note C.

Terminated Projects

Costs associated with terminated nuclear generating units are being amortized over a period approximating 15 years, beginning in 1983.

Allowance for Funds Used During Construction

We pay interest and dividends to our investors for the use of their money. This is called the cost of money. The PUCO and the FERC allow us to include as part of the total cost of constructing new assets a portion of the cost of money paid on funds which are tied up in construction projects. That cost of money is called Allowance for Funds Used During Construction (AFUDC).

When a construction project is completed or, if the PUCO allows, at least 75% completed, the funds invested in it are no longer considered tied up in construction and we stop recording AFUDC. The cost of the project at that time, including its AFUDC, is treated as a new asset and is used in a subsequent rate case to determine the rates we charge our customers for service. Because the resulting rates include a factor for all these costs, we are being allowed to recover in cash all costs of the property, including AFUDC, over the useful life of the property.

The amount of AFUDC for an accounting period is determined by applying a rate of AFUDC to the funds tied up in construction. The annual AFUDC percentage rate is determined by a formula set by the FERC. The rate represents an average of the cost of money paid on funds tied up in construction. The rate is compounded semiannually. The part of the rate which represents interest is reduced to recognize that interest is tax deductible.

The amount of AFUDC appears on our income statement in two parts: under Nonoperating Income as the Allowance for Equity Funds Used During Construction and under Interest Charges as Allowance for Borrowed Funds Used During Construction. On the balance sheet, the AFUDC becomes part of Construction Work in Progress.

The amount of AFUDC recorded in each accounting period varies. The variation occurs because of (1) the number of dollars spent on construction, (2) the length of the construction period and (3) the rate used in computing AFUDC. The rates were 10.35% in 1983, 10.00% in 1982 and 10.17% in 1981.

Federal Income Tax

The depreciation expense we report on our income statement is different from the depreciation expense we use to calculate Federal income tax. There are several reasons for this difference. First, AFUDC and certain overheads are excluded from the cost of assets which we depreciate for tax purposes. However, these costs are included in the basis for the depreciation shown on our income statement. Second, the period of time over which the Internal Revenue Service (IRS)

Notes to Consolidated Financial Statements

allows the cost of assets to be depreciated is shorter than the period of time (useful life) we use. Finally, the IRS allows some of the depreciation we are entitled to in future years to be used early. (This practice is called liberalized depreciation.) Beginning with October 1976 property additions, the tax reductions resulting from the use of liberalized depreciation are not recognized in the income statement as reductions of tax expense in the periods we obtain them. They are deferred to the periods in which we normally would have obtained them. The deferred amounts are allocated to income over the useful life of property through a procedure called normalization.

When we place new property in service during the year, the IRS allows us a credit against the tax due for up to 10% of the investment we have made in the new asset. This is called an investment tax credit. We record Federal income tax on our income statement as though it were not reduced by this credit. We recognize the tax savings from this credit over the life of the property involved through the procedure of normalization.

Our Federal income taxes are lowered because we can deduct our interest charges from income. This reduction of taxes is split between Operating Income and Nonoperating Income. The tax reductions resulting from interest actually paid on funds invested in property currently being constructed are charged to Nonoperating Income. The tax reductions of interest paid on all other funds are charged to Operating Income.

Revenues

Customer meters are read or estimated and billed on a monthly cycle basis. Operating revenues are recorded in the accounting period during which the meters are read.

Under a 1981 Ohio law, a fuel factor is included in our base rates. This fuel factor is designed to track what we actually pay for fuel. It is changed every six months after a hearing before the PUCO. Our steam fuel rate is based on what we paid for fuel in the preceding month.

Fuel

When we make a payment for coal or oil, it is recorded on the balance sheet as Fossil Fuel Inventory. When we make a lease payment for nuclear fuel, we record it on the balance sheet as Deferred Charges–Other. As the fossil and nuclear fuel is used, we transfer the cost to the income statement as fuel expense. Nuclear fuel amortization also includes a recovery through rates for the ultimate disposal of spent nuclear fuel.

Accounts Receivable

Amounts due from customers and others was reduced by the allowance for uncollectable accounts of $2,247,000 and $1,741,000 in 1983 and 1982, respectively.

Note B -- Deferred Fuel

As described in Note A–Revenues, our rates are adjusted every six months to reflect changes in fuel costs. The differences between the cost of fuel actually used and the costs included in the bills to customers are deferred. The deferred amount is taken into account to adjust the fuel cost factor for a subsequent six-month period.

On September 1, 1983, the PUCO issued an order halting further recovery through our electric fuel cost factor under a specified formula of deferred costs of Quarto Mining Company coal used at the Mansfield Plant. Since September 1, 1983, we have been deferring all Quarto coal costs to the extent they exceed the market delivered price of comparable coal. As of December 31, 1983, our share of these deferred coal costs which remain unrecovered was $18,329,000. A recent PUCO order to a CAPCO company, which is expected to be applied to us as well, authorizes resumption of recovery of current Quarto coal costs to the extent they do not exceed 125% of the market delivered price of comparable coal. Costs above that level may be recovered only if they are incurred due to conditions beyond the control of Quarto and the CAPCO companies. Accumulated deferred Quarto coal costs as of December 31, 1983 are recoverable to the extent that Mansfield Plant fuel costs are less than 110% of the market delivered price of comparable coal. From 1984 through 1989, to the extent recovery of accumulated deferrals in a single year under the 110% formula is less than one-sixth of the balance, the shortfall in that year is not permitted to be recovered in the future unless it is due to conditions beyond the control of Quarto and the CAPCO companies. Although one cannot predict the ultimate level of recovery, we believe that the order of the PUCO should permit substantially full recovery of Quarto coal costs based on the projected operation of the Quarto mines and projected market prices.

Note C — Depreciation

We compute depreciation on all of our utility plant with the exception of Davis-Besse using the straight-line method which depreciates the cost of property in equal amounts over its estimated useful life. The rates include a factor for the money expected to be received when we dispose of the property (salvage) and the cost of dismantling and removing it (removal cost). Davis-Besse depreciation is based on the ratio of the amount of electrical energy it produces in the accounting period to its total estimated energy production over its useful life.

When a nuclear unit is retired from service, we will have additional costs to shut it down. These costs are called decommissioning costs. The depreciation recorded for Davis-Besse includes a factor for decommissioning costs. The factor used in 1981 through 1983 was based on an estimate of $27,000,000 in current dollars. Annual depreciation provisions as a percentage of the depreciable cost of plant are as follows:

	1983	1982	1981
Electric Plant	3.4%	3.2%	3.3%
Steam Plant	2.6%	2.6%	2.7%

Note D — Federal Income T-x

Federal income tax, compute- -y multiplying the income before taxes by the statutory rate of 46%, is reconciled to the amount recorded on our bo-.s as follows:

	1983 (Thousands of Dollars)	% of Pre-Tax Income	1982 (Thousands of Dollars)	% of Pre-Tax Income	1981 (Thousands of Dollars)	% of Pre-Tax Income
Book income before Federal income tax	$350,165		$293,093		$207,184	
Tax on book income at statutory rate	$161,056	46.0	$134,803	46.0	$ 95,285	46.0
Decreases in tax due to:						
Excess of tax depreciation over book depreciation	(5,940)	(1.6)	(3,608)	(1.2)	(2,508)	(1.1)
Allowance for funds used during construction	52,689	15.0	47,994	16.4	38,180	18.4
Other items	10,168	2.9	6,289	2.1	8,163	3.9
	56,917	16.3	50,675	17.3	43,835	21.2
Total Federal income tax expense	$104,139	29.7	$ 84,128	28.7	$ 51,450	24.8

Federal income tax expense is shown on the income statement as follows:

	1983 (Thousands of Dollars)	1982 (Thousands of Dollars)	1981 (Thousands of Dollars)
Operating Expenses			
Current tax provision	$ 38,309	$ 34,279	$ 23,668
Changes in accumulated deferred Federal income tax:			
Liberalized depreciation and accelerated amortization	20,727	19,498	19,747
Other items	3,387	1,461	6,520
Investment tax credit deferred, less amounts amortized	65,007	51,144	17,640
Total charged to operating expenses	127,430	106,382	67,575
Nonoperating Income			
Current tax provision	(22,763)	(22,254)	(16,125)
Deferred tax provision	(528)	—	—
Total Federal income tax expense	$104,139	$ 84,128	$ 51,450

The income tax we paid in 1982 and 1983 was reduced by investment tax credits of $56,582,000 and $71,201,000, respectively. Investment tax credits which are available to the Company and have not been used amount to $11,117,000. These unused credits may be used to reduce tax liability through 1998.

Notes to Consolidated Financial Statements

Note E — Terminated Projects

In January 1980, the CAPCO companies terminated their plans to construct four nuclear generating units which were in various stages of construction start-up. Our rate case orders provide specific revenue to recover these costs through the method used to calculate the allowed rate of return on rate base and authorize us to amortize the unamortized terminated unit costs. Ohio law does not permit recovery of these costs through rates as an operating expense. The unamortized costs of the terminated units are not included in our rate base.

Note F — First Mortgage Bonds

Outstanding first mortgage bonds are as follows:

Series Due	Year Issued	Interest Rate	At December 31, 1983	At December 31, 1982
			(Thousands of Dollars)	
1983	1975	8.85%	$ —	$ 50,000
1984	1977	7.55%	25,000	25,000
1984-A	1980	12¼%	30,000	30,000
1985	1950	2¾%	25,000	25,000
1985-A	1980	11½%	18,291	18,291
1986	1951	3⅜%	25,000	25,000
1986-A and B	1976	5¼%	5,000	5,000
1989	1954	3%	20,000	20,000
1989-A	1981	15¼%	40,000	40,000
1990	1969	7⅛%	60,000	60,000
1991	1969	8⅜%	35,000	35,000
1992	1981	15⅛%	20,000	20,000
1993	1958	3⅞%	30,000	30,000
1994	1959	4⅜%	25,000	25,000
2005	1970	8¾%	75,000	75,000
2006-A	1976	7%	14,000	14,000
2009	1974	9¼%	50,000	50,000
2009-A to C	1979	7%	52,000	52,000
2010	1975	9.85%	100,000	100,000
2010-B to N	1982	12.10%-15.75%	23,900	23,900
2011	1976	8⅛%	125,000	125,000
2011-A	1980	(a)	48,600	48,600
2011-B	1981	(b)	22,200	22,200
2012	1977	8⅝%	75,000	75,000
2012-A	1982	16⅝%	75,000	75,000
2012-B	1982	13⅛%	78,700	78,700
2012-D	1982	12¾%	100,000	100,000
2013	1978	6.20%	47,500	47,500
2013-A	1983	12¼%	125,000	—
			$1,370,191	$1,295,191
Less amounts classified as current			55,000	50,000
			$1,315,191	$1,245,191

(a) The interest paid on these bonds is at a variable rate. That rate can be no lower than 6% and no higher than 12%. The average rates in 1983 and 1982 were 8.14% and 9.37%, respectively.

(b) The interest paid on these bonds is at a variable rate. That rate can be no lower than 6% and no higher than 14%. The average rates in 1983 and 1982 were 8.21% and 10.26%, respectively.

The first mortgage bonds are issued under our Mortgage. The Mortgage puts a first lien on almost all the property we own and franchises we hold.

The issuance of additional first mortgage bonds is limited by two provisions of our Mortgage. Under the more restrictive of these provisions, we would have been permitted at December 31, 1983 to issue approximately $922,000,000 of additional first mortgage bonds. This amount fluctuates depending upon the remaining amount of bondable property and upon earnings and interest rates.

The collateral pledge notes included in the statement of Capitalization were issued under an agreement signed in 1982. This agreement permits us to borrow additional amounts from time to time up to $60,000,000 over a two-year period. The interest rate on each borrowing will be fixed when it is made, but cannot be higher than 16¾%. We have delivered $60,000,000 of our first mortgage bonds as security for our obligation to pay the collateral pledge notes issued under this agreement. Although these bonds are not shown as outstanding in the statement of Capitalization, they are outstanding under our Mortgage.

Note G — Leases

As part of our operations, we have entered into the following leases:

Type	Remaining Terms
Nuclear fuel in the reactor	(a)
Unit trains	3-7 years (b)
Office space	10 years (c)
Data processing and office equipment Construction and maintenance equipment	Mostly short-term leases having a fixed noncancelable term of less than one year

(a) The leases for the reload fuel currently in the reactor at Davis-Besse will last as long as it takes to burn the fuel. For fuel reload leases, we pay full rent as the fuel is burned and we pay a reduced rent equivalent to an interest charge when the fuel is not being burned.

(b) Unit train leases include renewal options through 2011.

(c) The lease for office space can be renewed for an additional five-year period.

When the PUCO determines what rates are to be charged to our customers it includes the rents on all the above leases as an operating expense. Accordingly we record those rents as an operating expense on the income statement. Statements of Financial Accounting Standards No. 13 and No. 71 require that not later than 1987 we account for certain leased assets as though we owned them.

All the rental payments we make for nuclear fuel and unit trains are recorded in balance sheet fuel accounts. The costs in these accounts are transferred to fuel expense on the income statement as the fuel is used. See Note A — Fuel. We paid rent of $12,388,000 in 1983, $8,180,000 in 1982 and $7,925,000 in 1981 for nuclear fuel and unit train leases. Lease payments under all other leases were not material.

Some of our leases have noncancelable terms of more than one year. We have to make the following payments for these leases after December 31, 1983:

Year	Amount (Thousands of Dollars)
1984	$ 4,385
1985	3,971
1986	2,959
1987	2,367
1988	1,340
Later Years	5,020
Total	$20,042

We did not include in the above table the payments we must make on our Davis-Besse nuclear fuel reload leases. Since the payments are made when fuel is used, we do not know the timing or total amount of the rental payments. However, we do know that the lessor has invested $24,263,000 in those leases.

Note H — Serial Preferred and Preference Stock with Mandatory Redemption Provisions

During the three years ended December 31, 1983, we sold Serial Preferred Stock with mandatory redemption provisions only in 1981. We sold 31,500 shares of Series I, 29,000 shares of Series J and 10,000 shares of Series K.

We have assured the owners of our Series F Preferred Stock a minimum return on their investment of 6.96% after deducting Federal income tax on the dividends received on the stock. If certain income tax laws are changed such that their after-tax return is lower, we would have the option to do one of two things: we could buy back the Series F at $1,000 per share plus accrued dividends or we could exchange Series F for a new preferred stock. The new stock would have a dividend rate high enough to provide a 6.96% after-tax return.

We have the right to buy back and retire shares of Serial Preferred and Preference Stock which have mandatory redemption provisions. The redemption prices (plus dividends accrued to the redemption dates) are as follows:

Series	Price at December 31, 1983	Through	Eventual Minimum
Preferred:			
C	$ 103.00	7-31-88	$ 100.00
E	$1,088.00	5-31-86	$1,000.00
F	$1,035.00	2-29-84	$1,000.00
G	$1,035.56	11-30-84	$1,000.00
H	—	(a)	$1,000.00
I	—	(b)	$1,000.00
J	—	(c)	$1,000.00
Preference:			
I	$1,025.83	7-31-84	$1,000.00

(a) Beginning June 1, 1990 and through May 31, 1991 at $1,068.68.

(b) Beginning June 1, 1991 and through May 31, 1992 at $1,068.68.

(c) Beginning June 1, 1986 and through May 31, 1987 at $1,050.44.

We can buy back Series E Preferred Stock before June 1, 1986 only under certain conditions. Any borrowed money we use to buy back the shares cannot be borrowed at an effective interest cost of less than 8.8%. Also, we may not use money from the sale of other preferred stock or stock ranking higher than Serial Preferred Stock if its effective dividend cost is less than 8.8%. Finally, we may not use money raised through the sale of stock which is junior to the Series E. A total of 3,000 shares of Series E Preferred Stock was bought back and retired in 1981, 1982 and 1983 pursuant to its mandatory redemption provision.

There are no restrictions on our right to issue and sell authorized shares of Serial Preferred or Preference Stock.

Note I — Serial Preferred Stock Without Mandatory Redemption Provisions

In December 1983, we sold 500,000 shares of Series L Preferred Stock which did not have mandatory redemption provisions. Series L Preferred Stock can not be redeemed prior to January 1, 1989 as part of a refunding involving debt or preferred stock whose effective annual cost is less than the annual dividend of the Series L Preferred Stock.

During the last three years, we did not buy back any shares of our Serial Preferred Stock which did not have mandatory redemption provisions. All this Serial Preferred Stock is subject to optional redemption. These provisions give us the right to buy back and retire the stock. The redemption prices (plus dividends accrued to the redemption dates) are as follows:

Series	Price at December 31, 1983	Through	Eventual Minimum
A	$102.50	11-30-86	$101.00
B	$103.78	7-31-87	$102.26
L	$111.36	12-31-84	$100.00

Note J — Common Shares Issued and Reserved for Issue

Shares of Common Stock sold during the three years ended December 31, 1983 were as follows:

	1983	1982	1981
Public Sale	—	9,000,000	3,500,000
Dividend Reinvestment and Stock Purchase Plan	3,021,125	1,362,141	926,542
Employee Savings Plan	298,584	282,162	264,605
Employee Thrift Plan	71,767	75,775	74,727
Key Employee Incentive Stock Plan	20,471	—	—
1978 Key Employee Stock Option Plan	11,560	—	—
Total Shares	3,423,507	10,720,078	4,765,874

At December 31, 1983, we had five stock purchase plans available for our employees, share owners and customers. The common shares which are set aside to be used for these plans (including unexercised stock options) are as follows:

Plan	Shares
Dividend Reinvestment and Stock Purchase Plan	9,258,256
Employee Savings Plan	2,535,235
Employee Thrift Plan	456,560
Key Employee Incentive Stock Plan	529,779 (a)
1978 Key Employee Stock Option Plan	588,440
	13,368,270

Stock options held by employees to purchase unissued shares of Common Stock under the Key Employee Incentive Stock Plan and the 1978 Key Employee Stock Option Plan are granted at 100% of the fair market value on the date of the grant. The shares which were actually bought during the three years ended December 31, 1983 were sold at option prices ranging from $15.69 to $18.50. Shares under outstanding options held by employees were as follows:

	Key Employee Incentive Stock Plan (a)		
	1983	1982	1981
Options Outstanding at December 31			
Shares	122,601	148,642	150,095
Option Price	$17.63 to $22.43	$17.63 to $22.43	$17.63 to $22.43

	1978 Key Employee Stock Option Plan		
	1983	1982	1981
Options Outstanding at December 31			
Shares	389,007	374,705	244,425
Option Price	$15.69 to $20.25	$15.69 to $20.25	$16.94 to $20.25

(a) Under the terms of the Key Employee Incentive Stock Plan, no further options may be granted. Accordingly, only those shares relating to options outstanding at December 31, 1983 may be issued.

The number of outstanding shares of Common Stock changes during the year. We calculate earnings per share based on the average number of shares outstanding throughout the year. The weighted average shares outstanding in each of the last three years are as follows:

1981	48,004,081
1982	56,739,806
1983	63,213,562

Note K — Short-Term Borrowing Arrangements

Notes payable to banks totaled $19,100,000 at both December 31, 1983 and 1982. Available bank credit arrangements are as follows:

Type	At December 31, 1983	1982
	(Thousands of Dollars)	
Bank lines of credit (borrowings at or near prime rate)	$170,300	$170,300
Eurodollar revolving credit agreement	$ 30,000	$ 30,000
Variable interest note agreements	$ 20,000	$ 20,000

All borrowings under the Eurodollar agreement are made and paid back in U.S. dollars. There are no requirements that minimum cash balances (compensating balances) be maintained at the banks involved. However, a fee of 3/16% to 3/8% per year is paid on any unused part of this borrowing agreement. The interest rate on borrowings is 1/4% to 3/8%, depending on usage, above the rate which specified banks pay for Eurodollar deposits in the London inter-bank market.

Borrowings under the variable interest rate agreement must be paid back whenever the bank requests such repayment. Interest is based on the rate for high quality commercial paper in the 30-180 day maturity range. Variable interest notes outstanding are backed by at least an equal amount of unused bank lines of credit to ensure the Company's ability to repay them.

The unused portion of the above credit arrangements, after deducting bank lines held to cover outstanding variable interest notes, amounted to $181,200,000 at December 31, 1983.

The average daily cash balance in bank accounts was $2,700,000 in 1983 and $6,500,000 in 1982. These balances satisfied informal compensating balance arrangements under which we maintain balances at banks of $3,000,000 to $6,000,000, depending on the amount we borrow.

Note L — Commitments and Contingencies

Material and services needed to build new plant and equipment must be ordered in advance so that it will be available when needed. At December 31, 1983, such commitments amounted to:

Construction program	$260,000,000
Nuclear material acquisition and processing into fuel	$220,000,000

Usually we can cancel advance orders but often we must pay the manufacturers for what they have already spent for labor and materials and sometimes a penalty.

We have lease and other arrangements to finance up to $370,000,000 of the cost of acquiring nuclear material, processing it into fuel and leasing it while it is being burned in a reactor. At December 31, 1983, under these arrangements, a trust established in 1982 invested $58,599,000, which is shown on the balance sheet, and lessors have invested $154,621,000 in nuclear material and costs of processing it into fuel. Also under those arrangements, nuclear fuel costing the lessor $24,263,000 is in the Davis-Besse reactor under operating leases. Statement of Financial Accounting Standards No. 71 will require balance sheet treatment as described in Note G of all our existing nuclear fuel lease and other arrangements not later than 1987.

Under two long-term coal purchase arrangements, we have agreed to guarantee the mining companies' loan and lease obligations. At December 31, 1983, the principal amount of the mining companies' loan and lease obligations was $83,545,000. Under one of these arrangements, we are required to pay the mining company any actual out-of-pocket idle-mine expenses, as advance payments for coal, when the mines are idle for reasons beyond the control of the mining company.

Several lawsuits and government actions are pending. Included is an appeal by the City of Cleveland of a decision in an antitrust suit in which a jury returned a unanimous verdict for the Company. We believe, based on the opinion of our counsel, that the ultimate disposition of these matters, including the antitrust suit, should not have a material adverse effect on our financial condition, although an adverse final decision in certain instances could have a material adverse effect on income for the period in which the decision becomes final.

Also pending is a petition filed with the PUCO and the Ohio Power Siting Board claiming that Perry Unit 2 will result in excess capacity. The petition requests an order to cease construction of Perry Unit 2, to cease accruing AFUDC on that Unit and to prohibit the use of proceeds of security issues to finance Perry Unit 2. We believe the petition is without merit and will oppose it vigorously. Under some circumstances, the request of the petitioners, were it to be granted, could possibly lead to cancellation of the Unit. In such event, the rate making process should provide for recovery of our terminated investment and cancellation costs. However, if such recovery were to be disallowed, then the investment and cancellation costs, after adjustment for taxes, would have to be written off. Such a write-off would have a material adverse effect on our financial condition and our income in the period in which it were to occur. Our 31.11% investment in Perry Unit 2 at December 31, 1983 was $284,728,000. Cancellation costs could be substantial. AFUDC is accrued monthly on Perry Unit 2 and was $2,310,000 in December 1983. Cessation of such accruals could have a material adverse effect on earnings depending upon how long it were to continue.

The owners of Davis-Besse maintain a nuclear insurance program to the maximum extent currently available. With respect to a nuclear incident at Davis-Besse, the maximum coverages at February 15, 1984 will include $580,000,000 nuclear liability coverage for injury to persons and their property and $1,020,000,000 for damage to the owners' property, including leased fuel, and clean-up costs. The Atomic Energy Act limits the owners' liability to the amount of the nuclear liability coverage. Damage to the Company's property, leased fuel and clean-up costs combined could exceed the property insurance by a substantial amount. The owners also are obligated to pay retrospective premiums up to $10,000,000 per year to cover any liability insurance claims arising out of a nuclear incident at any nuclear units in the United States and up to $8,000,000 per nuclear incident per year to cover any property damage insurance claims. The Company has insurance coverage of $973,000 per week for the cost of replacement power purchased during the 52 week period starting 26 weeks after any incident at Davis-Besse and $487,000 per week for the next 52 weeks. The cost and duration of replacement power could substantially exceed the insurance coverage. Also, the Company is obligated to pay retrospective premiums up to $3,000,000 per nuclear incident per year to cover any replacement power insurance claims arising out of a nuclear incident at any nuclear units in the United States. Similar insurance coverages will be obtained for Perry Units 1 and 2 and Beaver Valley Unit 2 when they go into service and retrospective premium obligations will increase.

Note M — Rate Matters

The PUCO allowed us to raise electric rates by 17% on May 6, 1981, by 10% on March 19, 1982 and by 7.4% on January 7, 1983. In the last rate case, a portion of the construction costs related to Perry Unit 1 was included in the rate base. As a result of an investigation into the reasonableness of our rates in the light of a one-year delay in the estimated in-service date and the increase in Perry construction costs announced in March 1983, the PUCO ordered a 1%, or $13,500,000, reduction in rates starting October 1, 1983. The order reduced the amount of Perry Unit 1 and common facilities included in rate base as construction work in progress from $278,000,000 to $152,000,000, which is 25% of construction costs as of the June 30, 1983 valuation date. These changes in electric rates increased 1983 revenue by $111,100,000, 1982 revenue by $131,400,000 and 1981 revenue by $133,300,000. The Company has filed a notice of intent to apply in 1984 for an increase in electric rates of approximately $180,000,000, or 15%.

The PUCO granted a steam service rate increase of $7,000,000, or 47%, in January 1982 and another increase of $2,400,000, or 12%, in October 1982. In January 1984, the PUCO allowed us to decrease rates to customers who agree to continue to receive steam service until June 30, 1988.

In November 1982, the Company filed an application with the FERC to increase the rates for sales for resale to the Cleveland Municipal Electric Light Plant by $716,000. The Company implemented the proposed rates and began collecting the requested amount in June 1983, subject to refund, dependent on the outcome of formal hearings.

Note N — Property Owned with Other Utilities

Some of the generating units which we own or are building are owned with other utilities. Each company owns an undivided share in the entire unit. All the owners are tenants in common. Each company has the right to a percentage of the generating capability of each unit equal to its ownership share. We are obligated to pay for our share of the construction and operating costs of each unit. We are not responsible for the other owners' shares.

Utility Plant at December 31, 1983 includes the following facilities owned as tenants in common with other utilities:

	Company Ownership		
Facility	Percent	Electric in Service	Construction Work in Progress
		(Thousands of Dollars)	
Davis-Besse	51.38	$444,259	$ 19,814
Bruce Mansfield 1	6.50	25,784	148
Bruce Mansfield 2	28.60	116,409	588
Bruce Mansfield 3	24.47	156,232	446
Beaver Valley 2	24.47	—	492,702
Perry 1 and Common Facilities	31.11	—	710,737
Perry 2	31.11	—	284,728
Eastlake 5	68.80	113,322	1,031
Seneca Pumped Storage Hydroelectric Plant	80.00	54,736	224
		$910,742	$1,510,418

Separate depreciation records are kept for Davis-Besse property and Seneca property. The accumulated depreciation for Davis-Besse at December 31, 1983 was $53,237,000. The accumulated depreciation for Seneca at December 31, 1983 was $12,391,000. Depreciation on all other in-service property owned with other utilities has been accumulated on an account basis along with all other depreciable property rather than by specific units of depreciable property. Our share of the operating expense of properties owned with others is included in our income statement.

Note O — Pensions

We pay the full cost of a pension plan for our employees. Under the plan, an employee who has worked at the Company at least 5, 10 or 20 years (depending on the person's age when leaving the Company) can begin receiving a pension benefit at or after age 55. The amount of the person's benefit depends on length of service and earnings. The benefit is reduced by a portion of social security benefits. The benefit of an employee who retires after age 65 is determined as if the individual were age 65. If the person retires before age 62, the employee's benefit is reduced. The plan also pays benefits when an employee dies or is disabled.

We annually deposit money into the plan to fund the cost of benefits arising from employee service and earnings in the current year. We also deposit money to fund each year a portion of the cost of benefits arising from past service and earnings because of amendments to the plan. In 1983, our total payment to the fund was $15,300,000. We deposited $12,100,000 in 1982 and $10,200,000 in 1981. Of these amounts, we recorded on the income statement $10,211,000 in 1983, $8,014,000 in 1982 and $6,659,000 in 1981. The remainder was recorded on the balance sheet, mostly as construction costs.

The amount we deposit into the pension plan is determined by a method known as the entry age normal method. It is used by many private pension plans. This method takes into account estimated increases in employees' future earnings in an effort to levelize the funding of pension benefits over their working lives. The liability of the plan as of January 1, 1983 determined under this method was slightly more than the value of the assets in the plan on that date.

Statement of Financial Accounting Standards No. 36 (FAS-36) requires us to disclose accumulated pension plan liability without consideration of future increases in employees' earnings. Therefore, the disclosures below, required by FAS-36, compare liability of the plan determined on one basis with assets accumulated on a different basis. We and our pension consultants believe that FAS-36 disclosures are very misleading because they understate the amount which the entry age normal method tells us should be in the fund now to provide pension benefits as they become payable under a plan intended to continue indefinitely. We are making the following disclosures only because we are required to do so.

	At January 1,	
	1983	1982
	(Millions of Dollars)	
Actuarial present value of accumulated plan benefits:		
Benefits which are vested	$143	$132
Benefits which are not vested	14	13
	$157	$145
Value of assets held in the plan	$244	$194

Under both methods of determining the plan's liability, the one which we use and the FAS-36 method, we estimated in 1981, 1982 and 1983 that the earnings of the plan would average about 6½% per year over the life of the plan.

Note P — Quarterly Results of Operations (Unaudited)

The following is a tabulation of the unaudited quarterly results of operations for the two years ended December 31, 1983.

	Quarters Ended			
	March 31	June 30	Sept. 30	Dec. 31
	(Thousands, except per share amounts)			
1982				
Total operating revenues	$273,038	$268,985	$299,224	$267,325
Net operating income	$ 52,774	$ 56,953	$ 70,253	$ 48,948
Net income	$ 48,019	$ 50,641	$ 66,849	$ 43,456
Earnings available for common stock	$ 38,407	$ 41,051	$ 57,302	$ 33,909
Average common shares	54,257	55,679	56,088	60,304
Earnings per common share	$ .71	$ .74	$ 1.02	$ .56
1983				
Total operating revenues	$299,600	$290,480	$351,041	$269,195
Net operating income	$ 58,935	$ 58,965	$ 87,717	$ 52,745
Net income	$ 56,236	$ 52,192	$ 81,601	$ 55,996
Earnings available for common stock	$ 46,690	$ 42,668	$ 72,121	$ 46,121
Average common shares	62,026	62,568	63,488	64,689
Earnings per common share	$ .75	$ .68	$ 1.14	$ .71

Financial and Statistical Review 1973-1983

	1983	1982	1981
Income Statement (Thousands of Dollars)			
TOTAL OPERATING REVENUES	1,210,316	1,108,571	1,012,930
Residential	385,076	348,757	310,409
Commercial	334,660	304,801	263,608
Industrial	430,209	393,794	386,805
Other Electric (Includes Sales for Resale)	44,217	43,702	39,912
Steam Heating	16,154	17,517	12,196
TOTAL OPERATING EXPENSES	951,954	879,644	820,226
Fuel and Purchased Power	332,977	329,279	351,410
Other Operating Expenses	270,468	250,591	224,299
Depreciation and Amortization	94,196	86,588	85,294
Taxes Other Than Federal Income Tax	126,883	106,804	91,648
Federal Income Tax	127,430	106,382	67,575
NET OPERATING INCOME	258,362	228,927	192,704
NONOPERATING INCOME	114,148	96,669	75,712
Allowance for Equity Funds Used During Construction	87,052	76,896	48,970
Other Income and Deductions	27,096	19,773	26,742
INCOME BEFORE INTEREST CHARGES	372,510	325,596	268,416
INTEREST	126,484	116,632	112,682
Long and Short-term Interest	153,974	144,072	146,712
Allowance for Borrowed Funds Used During Construction	27,490	(27,440)	(34,030)
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	246,026	208,964	155,734
Cumulative Effect of Change in Depreciation Method on Periods Prior to January 1, 1979	—	—	—
NET INCOME (a)	246,026	208,964	155,734
PREFERRED AND PREFERENCE DIVIDEND REQUIREMENTS	38,426	38,295	34,917
EARNINGS AVAILABLE FOR COMMON STOCK	207,600	170,669	120,817
EARNINGS PER SHARE BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	$ 3.28	$ 3.01	$ 2.52
CUMULATIVE EFFECT PRIOR TO JANUARY 1, 1979	—	—	—
TOTAL EARNINGS PER SHARE (a) (b)	$ 3.28	$ 3.01	$ 2.52
DIVIDENDS PER SHARE (b)	$ 2.31	$ 2.19	$ 2.08
Balance Sheet Year end (Thousands of Dollars)			
TOTAL ASSETS	4,267,427	3,872,909	3,406,075
Utility Plant—Total	4,454,788	4,010,532	3,610,895
Accumulated Utility Plant Depreciation and Amortization	(722,492)	(679,890)	(621,353)
Other Property	70,144	64,216	23,870
Current and Other Assets	464,987	478,051	392,663
TOTAL CAPITALIZATION AND LIABILITIES	4,267,427	3,872,909	3,406,075
Long-term Debt	1,518,883	1,441,822	1,328,404
Preferred and Preference Stock:			
With Mandatory Redemption Provisions	318,000	322,000	325,000
Without Mandatory Redemption Provisions	144,021	95,071	95,071
Common Stock Equity	1,355,488	1,227,095	1,002,206
Deferred Federal Income Taxes	411,072	322,188	236,481
Current Liabilities and Other Credits	519,963	464,733	418,913
UTILITY PLANT ADDITIONS (c)	490,705	422,170	409,277
UTILITY PLANT RETIREMENTS	46,449	22,533	13,721
NUMBER OF COMMON SHARES (b)	65,198,089	61,774,582	51,054,503
Operating Statistics			
KWHR SALES (Thousands)	16,637,472	16,165,157	17,507,864
Residential	4,412,154	4,335,605	4,375,732
Commercial	4,265,023	4,194,177	4,178,459
Industrial	7,513,673	7,082,261	8,279,700
Other (Includes Sales for Resale)	446,622	553,114	673,973
ELECTRIC CUSTOMERS—YEAR END	712,833	711,222	711,325
Residential	643,065	641,705	642,925
Commercial	62,075	61,861	60,714
Industrial	7,274	7,235	7,261
Other	419	421	425
RESIDENTIAL SALES DATA			
Average Kwhr per Customer	6,608	6,490	6,548
Average Revenue per Customer	$ 579.39	$ 524.63	$ 466.55
Average Revenue per Kwhr	8.77¢	8.08¢	7.12¢
ELECTRIC PRODUCTION			
Net Available for Service Area (Thousands)	18,461,867	17,677,831	18,936,567
Net Generation	17,152,981	17,032,759	17,297,523
Net Received from Others	1,308,886	645,072	1,639,044
BTU per Kwhr of Net Output	10,452	10,475	10,582
Fuel Cost per Million BTU	169.08¢	174.72¢	175.14¢
Coal Cost per Ton	$ 46.66	$ 45.51	$ 46.70
Annual Net 60-Min. Max. Load-KW-Excl. Interruptibles	3,366,000	3,078,000	3,362,000
Net System Capability—KW—Year End	4,398,000	4,656,000	4,624,000
STEAM HEATING			
Sales—Pounds (Thousands)	1,281,499	1,501,077	1,612,151
Customers—Year End	274	312	337
EMPLOYEES—YEAR END	5,339	5,411	5,189

(a) The 1978 net income and earnings per share calculated on a pro forma basis to reflect the units-of-production method of depreciation are $102,942,503 and $2.31, respectively. The pro forma effect of the adoption of this depreciation method on 1977 was not material.

1980	1979	1978	1977	1976	1975	1974	1973
893,566	824,267	717,092	659,290	543,148	523,165	463,937	328,768
268,787	237,612	213,520	200,765	160,015	154,020	140,030	104,379
220,677	194,899	172,251	165,049	129,286	121,653	109,185	80,756
323,764	322,909	278,405	251,181	197,189	180,890	177,246	119,964
65,273	55,799	42,831	31,611	45,730	55,679	29,946	17,832
15,065	13,048	10,085	10,684	10,928	10,923	7,530	5,837
743,051	688,788	599,289	542,871	441,401	433,614	375,159	255,276
360,347	349,027	307,429	265,771	234,107	246,984	199,362	100,450
194,881	162,636	140,996	127,330	102,794	94,539	85,122	72,795
64,619	59,443	56,774	43,307	35,874	33,046	31,632	30,965
81,630	79,455	68,756	58,807	51,925	48,735	43,653	40,906
41,574	38,227	25,334	47,656	16,701	10,310	15,390	10,160
150,515	135,479	117,803	116,419	101,747	89,551	88,778	73,492
62,440	47,621	42,226	49,484	26,346	17,681	8,472	7,642
40,873	33,432	29,890	35,265	24,706	16,983	7,854	6,363
21,567	14,189	12,336	14,219	1,640	698	618	1,279
212,955	183,100	160,029	165,903	128,093	107,232	97,250	81,134
87,572	69,566	61,016	54,175	46,413	42,464	36,509	31,720
112,623	85,299	72,071	67,889	56,750	50,511	44,717	35,161
(25,051)	(15,733)	(11,055)	(13,714)	(10,337)	(8,047)	(8,208)	(3,441)
125,383	113,534	99,013	111,728	81,680	64,768	60,741	49,414
—	4,125	—	—	—	—	—	—
125,383	117,659	99,013	111,728	81,680	64,768	60,741	49,414
27,711	25,587	23,575	22,907	18,005	14,696	10,067	7,658
97,672	92,072	75,438	88,821	63,675	50,072	50,674	41,756
$ 2.26	$ 2.31	$ 2.20	$ 2.91	$ 2.38	$ 2.11	$ 2.45	$ 2.03
—	.11	—	—	—	—	—	—
$ 2.26	$ 2.42	$ 2.20	$ 2.91	$ 2.38	$ 2.11	$ 2.45	$ 2.03
$ 2.00	$ 1.92	$ 1.84	$ 1.76	$ 1.71	$ 1.65	$ 1.60	$ 1.55
3,094,462	2,678,786	2,331,541	2,117,135	1,842,999	1,513,247	1,354,065	1,152,335
3,215,339	2,842,253	2,523,996	2,232,111	1,955,701	1,693,614	1,526,659	1,364,122
(557,859)	(521,175)	(476,983)	(429,150)	(396,338)	(373,851)	(355,841)	(334,071)
21,137	19,503	15,034	13,753	12,849	9,942	7[illegible]	5,331
415,845	338,205	269,494	300,421	270,787	183,542	175,814	116,953
3,094,462	2,678,786	2,331,541	2,117,135	1,842,999	1,513,247	1,354,065	1,152,335
1,211,52[illegible]	973,991	920,973	885,899	747,392	673,003	553,144	502,800
260,500	232,000	232,000	185,000	135,000	75,000	63,000	25,000
95,071	95,071	95,071	95,071	95,071	95,071	95,071	95,071
912,731	820,411	708,883	633,744	511,333	419,990	346,736	326,947
192,452	162,122	140,677	119,299	72,318	63,267	43,348	34,312
422,180	395,191	233,937	198,122	281,885	186,916	252,765	168,205
398,088	329,869	300,765	286,739	275,524	181,673	173,899	145,470
25,002	11,612	8,880	10,329	13,437	14,718	11,362	10,188
46,288,629	41,271,574	35,995,365	32,388,055	28,347,544	24,351,499	20,748,110	20,611,034
18,159,754	19,030,453	18,364,437	18,066,428	18,070,291	18,133,826	17,601,686	17,747,663
4,463,147	4,352,983	4,288,865	4,200,116	4,045,158	3,984,004	3,830,305	3,910,018
4,148,990	4,041,134	3,933,586	4,007,123	3,808,897	3,685,878	3,527,382	3,569,689
8,062,172	9,268,600	8,992,919	8,874,796	8,475,983	7,822,419	8,819,205	9,103,173
1,485,445	1,367,736	1,149,067	984,393	1,740,253	2,641,525	1,424,794	1,164,783
710,557	708,219	702,538	696,547	693,425	689,133	684,728	678,426
642,845	641,856	637,609	632,740	630,581	627,719	623,988	618,266
60,070	58,690	57,310	56,241	55,178	53,765	53,070	52,291
7,210	7,232	7,167	7,112	7,206	7,190	7,212	7,415
432	441	452	454	460	459	458	454
6,686	6,557	6,517	6,412	6,187	6,116	5,914	6,098
$ 405.09	$ 357.86	$ 324.91	$ 307.11	$ 245.16	$ 237.02	$ 216.69	$ 162.69
6.05¢	5.48¢	5.00¢	4.80¢	3.97¢	3.88¢	3.67¢	2.67¢
18,722,616	19,645,001	19,254,857	19,098,231	18,331,384	17,271,169	17,817,763	18,257,155
15,325,948	17,069,914	16,882,669	18,123,528	16,747,626	16,213,012	18,040,100	17,326,640
3,396,668	2,575,087	2,372,188	974,703	1,583,758	1,058,157	(222,337)	930,515
10,635	10,634	10,536	10,401	10,322	10,454	10,569	10,382
156.92¢	142.51¢	131.80¢	117.50¢	105.55¢	111.14¢	102.26¢	48.40¢
$ 39.31	$ 35.20	$ 30.73	$ 25.72	$ 23.98	$ 24.93	$ 21.53	$ 11.05
3,304,000	3,097,000	3,249,000	3,350,000	3,065,000	2,937,000	2,934,000	3,119,000
4,598,000	4,562,000	4,566,000	4,386,000	3,906,000	3,015,000	3,764,000	3,769,000
1,979,397	2,004,680	2,210,886	2,374,510	2,359,677	2,263,645	2,274,925	2,154,390
348	365	369	372	385	399	406	416
4,991	4,963	4,831	4,790	4,840	4,947	4,982	4,853

(b) Adjusted for the 3-for-2 stock split, effective December 16, 1977.
(c) Excludes $56,022,606 of terminated projects reclassified to Deferred Charges in 1979.

Statement of Income from Continuing Operations Adjusted for Changing Prices for the Year Ended December 31, 1983 (Unaudited)

The Cleveland Electric Illuminating Company and Subsidiaries

	Conventional Historical Cost	Constant Dollar Average 1983 Dollars	Current Cost Average 1983 Dollars
		(Thousands of Dollars)	
Revenue	$1,210,316	$1,210,316	$1,210,316
Operation expense	515,415	515,415	515,415
Maintenance expense	88,030	88,030	88,030
Depreciation and amortization	94,196	202,295	229,146
Taxes other than Federal income tax	126,883	126,883	126,883
Federal income tax	127,430	127,430	127,430
Nonoperating income	(114,148)	(114,148)	(114,145)
Interest expense	126,484	126,484	126,484
	964,290	1,072,389	1,099,243
Net income — continuing operations	$ 246,026	$ 137,927 (a)	$ 111,073 (a)
Increase in specific prices of property and plant (b)			$ 120,482
Adjustment to net recoverable cost		$ (22,963)	96,980
Increase in general prices			(213,571)
Increase in specific prices in excess of increase in general prices after the adjustment to net recoverable cost			3,891
Gain from decline in purchasing power of net amounts owed		83,105	83,105
Net price level adjustment		$ 60,142	$ 86,996

(a) Including the adjustment to net recoverable cost, net income for 1983 would have been $114,964,000 in constant dollars and $208,053,000 in current cost dollars.

(b) At December 31, 1983, the current cost of property, plant and equipment net of accumulated depreciation was $5,934,961,000 while original (net recoverable) cost was $3,732,296,000.

Supplementary Information Concerning the Effects of Inflation

As prescribed by Statement of Financial Accounting Standards No. 33, we have prepared information on the effect of inflation on operations. The methods used to compute this data are experimental and subject to change by the Financial Accounting Standards Board. These data do not reflect the "current value" of our assets. They do not measure all the effects of inflation on our operations or predict our future cash requirements. The effects described herein are not recognized for income tax or ratemaking purposes.

General

Historical costs adjusted for general inflation are referred to as "constant dollars." The original cost of utility plant and certain other items was converted to constant dollars by applying the Consumer Price Index for All Urban Consumers to the cost of these assets.

Current cost data reflects the cost of current replacement of existing assets. The current cost of assets was estimated by applying the Handy-Whitman Index of Public Utility Construction Costs to the original cost of structures and equipment. Original cost of land was trended using the Consumer Price Index for All Urban Consumers. Certain other property was trended to current cost using other industry indices.

Current cost data differ from constant dollar data mainly because the prices of assets have increased at rates different from the rate of general inflation.

Revenues and Expenses

Revenues and expenses (except for depreciation) were assumed to accumulate evenly throughout the year. No adjustments were made to the figures reported in the primary financial statements. No adjustments were made to Federal income tax expense.

Depreciation

The constant dollar and current cost estimates of property and plant were determined by applying the indices noted to original cost. Restated depreciation reserves were used to compute property and plant net of depreciation. They were obtained by applying current depreciation rates by account to restated property and plant figures by vintage year. The depreciation provisions were obtained by applying current depreciation rates to the average of beginning and end-of-year restated depreciable property.

Materials and Supplies

Balance sheet items such as fuel in stock, materials and supplies were treated as cash type items. Fuel inventory is subject to rapid turnover. As such, we believe the original cost of this item fairly represents its current cost.

Five-Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices (Unaudited)

The Cleveland Electric Illuminating Company and Subsidiaries

(Average 1983 Dollars)

	Year Ended December 31,				
	1983	1982	1981	1980	1979
	(Thousands, except per share amounts)				
Revenue					
as reported	$1,210,316	$1,108,571	$1,012,930	$ 893,566	$ 824,267
in 1983 constant dollars	$1,210,316	$1,144,233	$1,109,612	$1,080,389	$1,131,377
Net Income					
as reported — continuing operations	$ 246,026	$ 208,964	$ 155,734	$ 125,383	$ 113,534
in 1983 constant dollars	$ 137,927	$ 114,188	$ 75,946	$ 62,826	$ 79,072
in 1983 current cost dollars	$ 111,073	$ 83,827	$ 47,129	$ 29,367	$ 41,795
Income (Loss) per Common Share					
as reported — continuing operations	$ 3.28	$ 3.01	$ 2.52	$ 2.26	$ 2.31
in 1983 constant dollars	$ 1.57	$ 1.31	$ 0.79	$ 0.68	$ 1.15
in 1983 current cost dollars	$ 1.15	$ 0.78	$ 0.19	$ (0.10)	$ 0.18
Net Assets at Year End					
as reported	$1,355,488	$1,227,095	$1,002,206	$ 912,731	$ 820,411
at net recoverable cost	$1,332,710	$1,252,275	$1,062,374	$1,054,020	$1,064,857
Increase in specific prices in excess of increase in general prices after adjustment to net recoverable cost	$ 3,891	$ 12,609	$ (134,723)	$ (228,301)	$ (260,377)
Gain from decline in purchasing power of net amounts owed	$ 83,105	$ 79,885	$ 173,930	$ 228,079	$ 243,251
Cash Dividends Declared per Common Share					
as reported	$ 2.31	$ 2.19	$ 2.08	$ 2.00	$ 1.92
in 1983 constant dollars	$ 2.31	$ 2.26	$ 2.28	$ 2.42	$ 2.64
Market Price per Common Share at Year End					
as reported	$ 18.63	$ 19.75	$ 16.00	$ 14.63	$ 16.25
in 1983 constant dollars	$ 18.31	$ 20.16	$ 16.96	$ 16.89	$ 21.09
Average Consumer Price Index	298.4	289.1	272.4	246.8	217.4

Adjustment to Net Recoverable Cost

Under Ohio law, we can recover only what we paid for plant and equipment, so the values of these items under both constant dollar and current cost methods were adjusted to reflect the original cost amount.

Increase in Specific Prices in Excess of Increase in General Prices after Adjustment to Net Recoverable Cost

The increase in general prices as measured by the Consumer Price Index for All Urban Consumers during 1983 exceeded the overall increase in prices of our property and plant. However, when the current cost of plant was adjusted to reflect net recoverable cost, the difference between these price measures was significantly reduced.

Gain from Decline in Purchasing Power of Net Amounts Owed

With inflation, holding cash type assets such as money and receivables results in a loss in purchasing power. Holding cash type liabilities such as long-term debt results in a gain in purchasing power. Preferred stock and deferred tax balances were treated as cash type liabilities for this computation.

Effects of Inflation on the Company

Our 1983 revenue increase exceeded the increase in unit sales of electricity. Revenues in constant dollars also increased but less dramatically. This shows that inflation reflected in rates by the increasing cost of service was lower than in prior years, but remains a major factor in revenue growth.

Net income from operations increased in 1983 on both constant dollar and current cost bases. The differences between these measures and income as reported occurs because we are not permitted to recover current cost measures of depreciation through rates. Ohio law restricts recovery of investment through depreciation charges to the original cost of plant. The part of current cost we couldn't recover was only partly offset by the gain from holding cash type liabilities.

We have to raise new capital to meet growth needs at inflated costs of construction and to replace worn-out items at higher replacement costs. If rate adjustments fail to compensate for the cost of new capital, especially during times of inflation, a regular erosion of the return on equity will occur. As a result, there will be a regular need for rate relief.

We continue to seek proper and timely rate increases and a regulatory environment which is responsive to the effects of inflation on our investment.

General Information

Dividend Reinvestment and Stock Purchase Plan
The Company has a Dividend Reinvestment and Stock Purchase Plan which provides share owners of record and customers a convenient means of purchasing shares of Company common stock at no additional cost by investing a part or all of their quarterly dividends and cash payments. Dividends reinvested in Company common stock under the Plan qualify for the tax deferral provisions of The Economic Recovery Tax Act of 1981. Information and a prospectus relating to the Plan may be obtained from Share Owner Services at the Company.

Form 10-K The Company will furnish to share owners, without charge, a copy of its most recent annual report to the Securities and Exchange Commission (Form 10-K) and, upon payment of a reasonable fee, a copy of each exhibit to Form 10-K. Requests should be directed to the Secretary of the Company.

Independent Accountants
Price Waterhouse, 1900 Central National Bank Building, Cleveland, Ohio 44114

Bond Trustee and Registrar
Morgan Guaranty Trust Company of New York for all series.

Communications regarding bond registration requirements and lost certificates should be directed to Morgan Guaranty Trust Company of New York, 30 West Broadway, New York, N.Y. 10015. Telephone Number (212) 587-6469.

Bond Paying Agent
Manufacturers Hanover Trust Company, 40 Wall Street, New York, N.Y. 10015 and AmeriTrust Company National Association, 900 Euclid Avenue, Cleveland, Ohio 44114 — Co-paying agents for the

2¾% Series, Due 1985	3⅛% Series, Due 1993
3⅜% Series, Due 1986	4⅜% Series, Due 1994
3% Series, Due 1989	

Morgan Guaranty Trust Company of New York, 30 West Broadway, New York, N.Y. 10015 — Paying agent for the

7.55% Series, Due 1984	9¼% Series, Due 2009
12¼% Series, Due 1984-A	9.85% Series, Due 2010
11½% Series, Due 1985-A	8⅜% Series, Due 2011
15¾% Series, Due 1989-A	8¾% Series, Due 2012
7⅛% Series, Due 1990	16⅜% Series, Due 2012-A
8⅜% Series, Due 1991	12¾% Series, Due 2012-D
15¼% Series, Due 1992	12¼% Series, Due 2013-A
8¾% Series, Due 2005	

Inquiries regarding interest payments should be directed to either Manufacturers Hanover Trust Company or Morgan Guaranty Trust Company of New York for the series of bonds for which each acts as paying agent as noted above.

Common Stock
Listed on the New York, Midwest and Pacific Stock Exchanges; unlisted trading on the Boston, Philadelphia-Baltimore-Washington and Cincinnati Stock Exchanges. New York Stock Exchange symbol — CVX.

Preferred Stock
Listed on the New York Stock Exchange.

Registrars
For Common Stock, Preference Stock and Preferred Stock
AmeriTrust Company National Association
900 Euclid Avenue
Cleveland, Ohio 44114

Transfer Agents
For Common Stock, Preference Stock and Preferred Stock
The Cleveland Electric Illuminating Company
Share Owner Services
P.O. Box 5000, Cleveland, Ohio 44101

Stock transfers may be presented at Wells Fargo Securities Clearance Corporation, 45 Broad Street, New York, N.Y. 10004.

Share Owner Inquiries
Communications regarding stock transfer requirements, lost certificates, dividends and changes of address should be directed to Share Owner Services at the Company. To reach Share Owner Services by phone, call the following numbers:

Local calls in
Cleveland area 622-9800, ext. 2325

Elsewhere
in Ohio 1-800-362-1237

Outside Ohio 1-800-321-3206

Please have your account number ready when calling.

Executive Offices
Illuminating Building
55 Public Square
Cleveland, Ohio
Telephone Number (216) 622-9800

Mail Address
Post Office Box 5000
Cleveland, Ohio 44101

The annual meeting of the share owners of the Company will be held on April 24, 1984. Owners of common stock as of February 24, 1984, the record date for the meeting, will be entitled to vote on the issues. The official notice, proxy statement and proxy will be mailed to share owners on or about March 12, 1984.

Notice: The annual report and the financial statements herein are for the general information of the share owners of the Company and are not intended to be used in connection with any sale or purchase of securities.

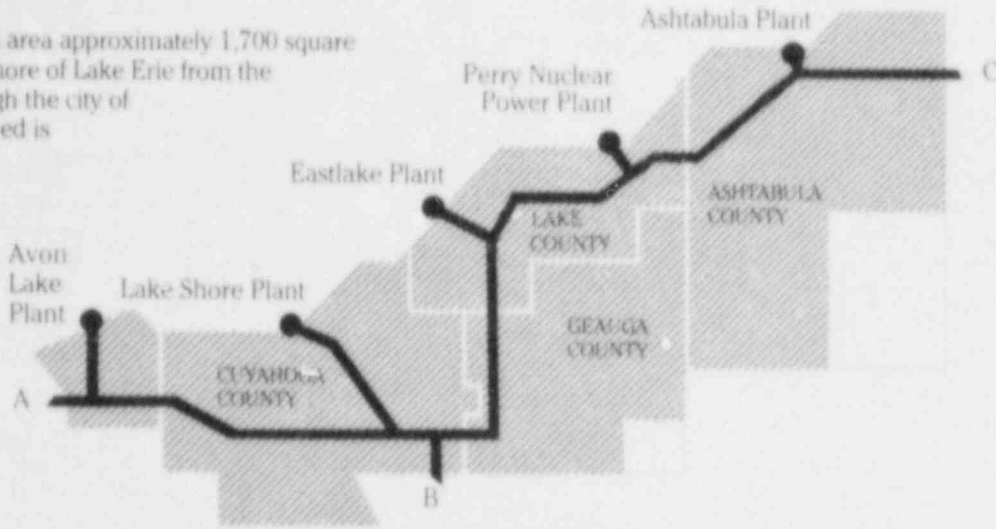
Service Area

The Company furnishes electric service to an area approximately 1,700 square miles, extending 100 miles along the south shore of Lake Erie from the Ohio-Pennsylvania border on the east through the city of Avon Lake on the west. Total population served is approximately 1,850,000.

A Interconnections with Ohio Edison (From Davis-Besse Nuclear Power Station)

B Interconnections with Ohio Edison (From Mansfield and Beaver Valley Plants) and Ohio Power

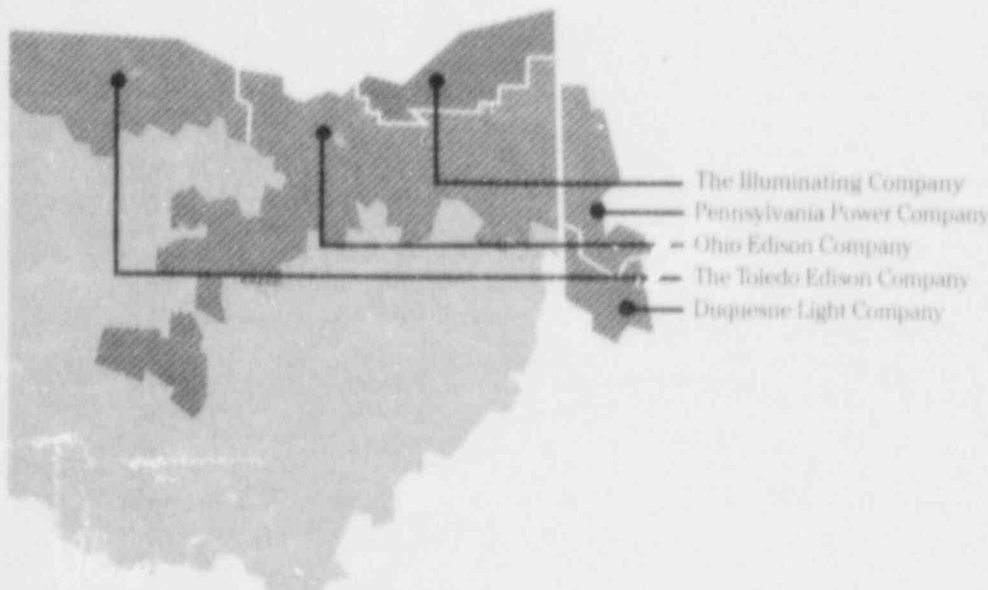
C Interconnection with Pennsylvania Electric (From Seneca Pumped Storage Hydroelectric Power Plant—80% owned by Company)



Capco

The Company is a member of the Central Area Power Coordination Group (CAPCO), formed by regional utility companies to assure greater reliability of interconnections, back-up in case of emergencies and better economies of operation. Other members include Duquesne Light Company, Ohio Edison Company, Pennsylvania Power Company and The Toledo Edison Company. The members are constructing power generation and transmission facilities.

Through interconnections shown above with CAPCO members, Pennsylvania Electric Company and Ohio Power Company, the Company's service area is part of an interconnected system linking continental U.S.A. and major portions of Canada. This interconnection network further enhances the reliability and economy of our customers' electric service.



CAPCO Generating Units

	Project	Expected Net Demonstrated Capability (Kilowatts) Total	Company Share	Year of Scheduled Completion	Construction and Operation Responsibility
Eastlake	■ Unit #5	635,000	437,000	In Service	The Illuminating Company
Sammis	■ Unit #7	600,000	—0—	In Service	Ohio Edison Company
Mansfield	■ Unit #1	780,000	51,000	In Service	Pennsylvania Power Company
	Unit #2	780,000	223,000	In Service	
	Unit #3	800,000	196,000	In Service	
Davis-Besse ●		880,000	452,000	In Service	The Toledo Edison Company
Perry	● Unit #1	1,205,000	375,000	1985	The Illuminating Company
	Unit #2	1,205,000	375,000	1988	
Beaver Valley	● Unit #1	810,000	—0—	In Service	Duquesne Light Company
	Unit #2	833,000	204,000	1986	

■ Coal Fired ● Nuclear

Committees of the Board of Directors

Audit Committee The Audit Committee recommends to the Board the firm of independent accountants to be retained for the ensuing year and reviews the results of their examination of the Company's financial statements and the audit practices employed by them and the Company. The Committee oversees the establishment and administration by management of effective internal accounting controls and an accounting system designed to produce financial statements which present fairly the financial position of the Company.

C. E. Spahr (Chairman), L. Carter, R. H. Holdt, W. J. Williams

Compensation Committee The Compensation Committee reviews and approves the Company's overall Compensation Plan, including the pension and employee stock purchase plans and, in particular, recommends the remuneration of the Chairman, President and all Vice Presidents.

L. Carter (Chairman), R. H. Holdt, H. E. Strawbridge, W. J. Williams

Executive Committee The Executive Committee acts on behalf of the Board at times other than regular Board meetings when it is impracticable to call together the entire Board. The Committee has the same authority as the Board except that it may not elect officers (other than assistant secretaries and assistant treasurers), fill vacancies on the Board or on the Executive Committee or authorize the issuance of first mortgage bonds.

K. H. Rudolph (Chairman), R. M. Ginn, C. R. Smith, H. E. Strawbridge

Finance Committee The Finance Committee reviews and recommends long-range financial policies and objectives and specific actions to achieve these objectives. The Committee, acting for the Company as administrator of the Company's Pension Plan and Investment Program of the Employee Savings Plan also reviews the investment performance of the pension fund trustee, other pension fund investment managers and the Employee Savings Plan trustee and establishes objectives for the investment of Pension Plan and Employee Savings Plan assets.

R. A. Miller (Chairman), R. M. Ginn, K. H. Rudolph, C. R. Smith, C. E. Spahr, R. B. Tullis

Nominating Committee The Nominating Committee recommends to the Board candidates to be nominated for election as directors at the annual meeting and to fill any vacancies on the Board. When reviewing potential candidates, the Committee considers suggestions made by share owners.

H. E. Strawbridge (Chairman), L. Carter, R. M. Ginn, R. H. Holdt, J. Lansdale, Jr., K. H. Rudolph, C. R. Smith, C. E. Spahr, R. B. Tullis, W. J. Williams

Planning Committee The Planning Committee advises and consults with management and the Board on long-range strategic planning. Responsibilities of the Committee include recommending long-range objectives and the strategies, manpower and overall corporate organization appropriate to meet those objectives.

R. M. Ginn (Chairman), L. Carter, R. A. Miller, H. L. Williams, W. J. Williams

Board of Directors

Leigh Carter
Chairman of Tremco, Inc., manufacturer of specialty chemical products and a wholly-owned subsidiary of The BFGoodrich Company. Also, President—Engineered Products Group and Executive Vice President of The BFGoodrich Company

Robert M. Ginn
Chairman and Chief Executive Officer of the Company

Roy H. Holdt
Chairman and Chief Executive Officer of White Consolidated Industries, Inc., manufacturer of products for the home, principally major appliances, and machinery and equipment for industry

John Lansdale, Jr.
Partner in the law firm of Squire, Sanders & Dempsey

Richard A. Miller
President of the Company

Sister Mary Marthe Reinhard, SND*
President of Notre Dame College of Ohio

Karl H. Rudolph
Chairman of the Executive Committee and retired Chairman and Chief Executive Officer of the Company

Craig R. Smith
Chairman of Bendix Automation of Bendix Corporation, a wholly-owned subsidiary of Allied Corporation. Bendix Automation is a producer of machines and accessories for the metalworking industry

Charles E. Spahr
Director of several companies and retired Chairman and Chief Executive Officer of The Standard Oil Company (Ohio), manufacturer of petroleum products, chemicals, plastics and metals and supplier of coal

Herbert E. Strawbridge
Chairman of the Finance Committee and retired Chairman and Chief Executive Officer of The Higbee Company, a department store

Allan J. Tomlinson, Jr.*
Chairman, President and Chief Executive Officer of SDS Biotech Corporation, a developer of new technologies and products in the field of biotechnology

Richard B. Tullis
Chairman of the Executive Committee and retired Chairman and Chief Executive Officer of Harris Corporation, manufacturer of communication and information processing equipment

Harold L. Williams
Executive Vice President of the Company

William J. Williams
Director, President and Chief Operating Officer of Republic Steel Corporation, manufacturer of steel and steel products

**Elected effective February 1, 1984*

Ralph M. Besse
Chairman Emeritus of the Board of Directors

Elmer L. Lindseth
Chairman Emeritus of the Board of Directors

Board of Directors


Leigh Carter


Robert M Ginn


Roy H Holdt


John Lansdale, Jr


Richard A Miller


Sr Mary Marthe Reinhard, SND*

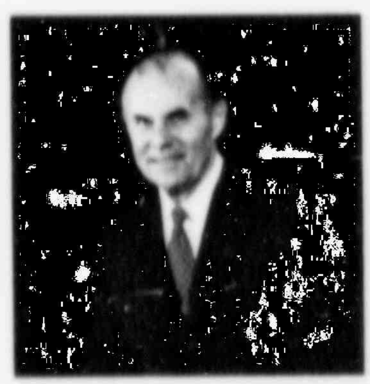

Karl H Rudolph


Craig R Smith


Charles E Spahr


Herbert E Strawbridge


Allan J Tomlinson, Jr*


Richard R Tullis


Harold L Williams


William J Williams

Principal Officers and Executives

Robert M Ginn Chairman
Richard A Miller President
Harold L Williams Executive Vice President
Murray R Edelman Vice President-Nuclear
Robert J Farling Vice President-Administrative Services
John W Fenker Vice President-Power Supply
Frank A Kender Vice President-Marketing
Edgar H Maugans Vice President-Finance
John J Misic Vice President-Distribution & Services
Alan D Wright Vice President-Public Affairs & Legal
Alvin Kaplan Vice President-Nuclear Operations Division*
Newton D Flack Division Manager-Steam Power Division
Charles C Chopp Controller
Andrew R Felmer Treasurer
E Lyle Pepin Secretary

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY
P.O. Box 5000 • Cleveland, Ohio 44101

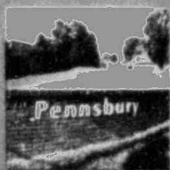
BULK RATE
U.S. POSTAGE
PAID
CLEVELAND, OHIO
PERMIT NO. 409

Duquesne Light Company

Annual Report 1983

RECEIVED
MAR 22 1984
RECORD CENTER

Serving About 150 Villages, Boroughs, Townships And Cities. All Different.



RECEIVED
APR 11 1984
RECORD CENTER

Financial and Operating Highlights—1983

Duquesne Light Company Financial	1983	1982	Percent Change
Electric Operating Revenues (000)	$ [illegible]	$ 746,462	+ 7.2
Income From Continuing Electric Operations (000)	$ [illegible]	$ 117,197	+ 23.9
Net Income (000)	$ [illegible]	$ 116,882	+ 24.3
Earnings Per Share of Common Stock From Continuing Electric Operations	$2.20	$1.96	+ 12.2
Dividends Paid Per Share of Common Stock	$1.975	$[illegible]	+ 8.9
Shares of Common Stock Outstanding at Year End	58,419,450	53,276,525	+ 9.7

Operating			
Electric Plant (000)	$ [illegible]	$ 3,024,554	+ 6.9
MWH Sales	[illegible]	11,037,681	— 0.4
Peak Load Megawatts	2,184	2,158	+ 1.2
Cost of Fuel Per Million BTU	167.1¢	167.9¢	— 0.5
Average BTU Per KWH Output	10,635	10,853	— 2.0
Annual System Output MWH	[illegible]	11,662,379	+ 0.6

About the Cover

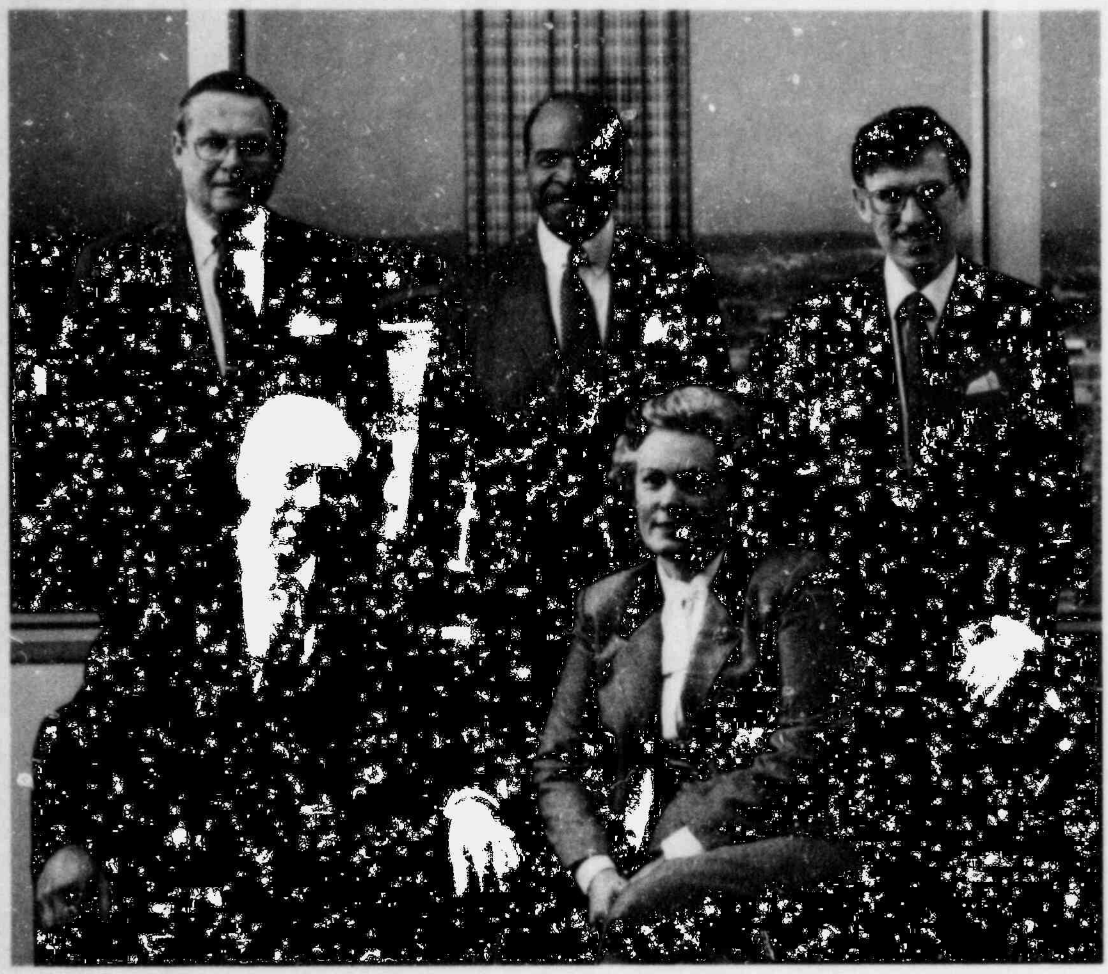
Duquesne Light serves about 800 square miles in Allegheny and Beaver Counties. Criss-crossed by rivers and steep-sided valleys, the area never developed as a unit, the way flatland regions have. Politically and socially, it grew up, and remains, diverse.

The area is like one community when the Steelers or Pirates are on a roll, or when people come 30 to 40 miles to stand in the snow to make their donations to Children's Hospital. Then it settles back again to being a large group of independent communities.

In this annual report, we show you five of the communities we serve. They illustrate a salient fact of life for Duquesne Light—many of our towns are interesting, but none, absolutely none, is typical.

Contents

Board of Directors



Board of Directors: (left to right front row) John M. Arthur, Doreen E. Boyce, (back row) John H. Demmler, Eric W. Springer, Daniel Berg.

Board of Directors: (left to right front row) Henry G. Allyn, Jr., Charles M. Atkinson, (back row) William H. Knoell, Sigo Falk, G. Christian Lantzsch.

For a listing of Board Members with their titles and committees, see inside back cover.

To Our Stockholders

Duquesne Light's revenues and net income were both higher in 1983 than in the previous year. While heavy industry remained depressed, other areas of business advanced.

Our changing market

Traditionally a mainstay of Duquesne Light's business, the steel industry in this area operated at an even lower level than in 1982, with continuing high unemployment among local steelworkers. We expect this area's steel industry, and its consumption of electricity, to recover slowly over the next three years, but not to the level of 1981. Almost certainly, a part of the decrease in steelmaking demand for electricity will be permanent; some of the older steelmaking facilities, no longer cost-competitive, probably will never reopen.

Fortunately for our community and for Duquesne Light, the trend of economic development in this area over the past two decades has been one of diversification. This trend has helped to reduce the effects of the decline of the area's heavy industrial base and the loss of steel-related jobs.

This transition is still in progress. The Pittsburgh area ranks fifth in the U.S. as a center of research and development and continues to develop as a corporate and financial center. Additionally, advanced technology is a growing segment of this new makeup of local business and industry. Employment also is increasing in service-oriented industries such as banking, transportation, health care and retail sales. These economic strengths account for the fact that our commercial and residential sales were strong last year, considering the recession.

We can reasonably expect that recovery and new growth will create as many as 30,000 new jobs in our area next year. However, this growth will not make up for our load losses quickly. The expected sources of the growth, such as office buildings and advanced technology industries, do not use electricity in the same quantities as steel mills. It may well be three or four years before we see a summer peak load equal to that of 1981.

Long-term investment considerations

Recognizing these limitations on our growth prospects, Duquesne Light is currently engaged in a strategic planning process to help establish operating goals. The aim is to determine the lowest level of revenue that will provide a reasonable level of earnings for stockholders, and to determine the lowest level of investment that will maintain and improve service to the 559,000 customers who depend on us for electricity.

Since generating units under construction are scheduled to give Duquesne Light an additional 445 megawatts of capacity during this decade, we do not presently foresee a need for further generating capacity until about the year 2000. This should reduce our dependence on capital financing and thus improve our ability to hold the line on costs.

Cost reduction measures

Cost reduction, always a major management goal, is urgent at this time; not only for the sake of earnings, but also to remain competitive. Serving a major northeastern metropolitan area, as Duquesne Light does, is costlier than serving less densely populated areas. Loss of business to neighboring utilities or the movement of corporations to the "Sunbelt" could cost us some larger customers and have the eventual effect of raising costs for our other customers. We have no higher priorities than controlling costs with the aim of keeping our rates competitive.

One means is our continuing Company-wide cost reduction program, which again produced large savings. During the year, negotiation of a new two-year union contract resulted in productivity improvements and fringe benefit modifications. In addition, a new reorganization plan, which will be implemented in 1984, will reduce costs by making our operation leaner and more cost-effective.

Management reorganization

The reorganization plan consolidates all operating divisions and departments under the direction of five Group Vice Presidents. It should reduce total staffing by about 100 positions. The reduction in number of employees will be brought about largely through a new voluntary early retirement program.

Community involvement

In 1983, we recognized a growing problem of people facing a hardship because of inability to pay the increasing cost of heat and light. To help alleviate this problem, we provided strong planning and financial and fund-raising support to a new independent agency, the Dollar Energy Fund, which provides assistance when government help is inadequate.

Duquesne Light employees pledged a total of $333,600 to the United Way of Southwestern Pennsylvania. Additionally, our employees donated $58,100 in 1983 to a Salvation Army food bank for unemployed workers. Approximately 65% of our 4,900 employees signed payroll deduction cards to contribute $1 each pay to the food bank.

Our service area

The recession was harder on our service area than on most parts of the country. Local unemployment persists at a level well above the national average, with only gradual relief in sight. In this situation, our long-term area development program is of particular interest. In the past 12 months, more than 3,000 jobs have been added or retained as a result of this Duquesne Light effort.

This area faces a difficult comeback. But people here are a hardy breed. They have weathered worse storms.

Our towns

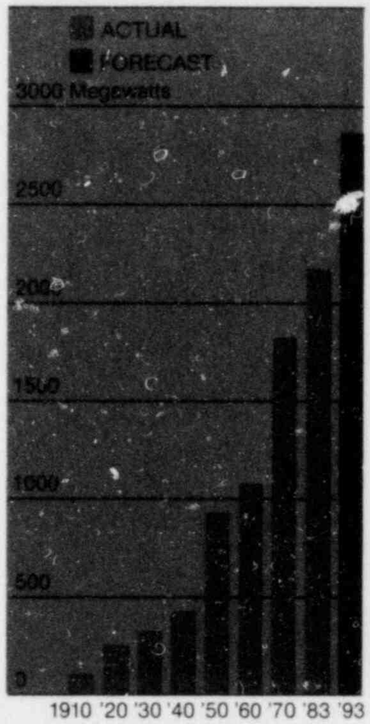
An underlying strength of our larger community is the great diversity among the many smaller communities within it. To illustrate this, we feature in this report photos of five of the towns we serve. I cannot call them typical, because they are all so different. Perhaps this very variety is a clue as to why, hard times or not, this region displays such vitality.

Although many challenges lie ahead, I am optimistic about the future of our service area. Duquesne Light's Management and Board of Directors acknowledge and appreciate the support of the many stockholders, employees and customers who contributed to the Company's progress in the past and will help to meet the challenges of the future.

John M Arthur

John M. Arthur
Chairman of the Board and
President

February 15, 1984



Annual System Peak Load

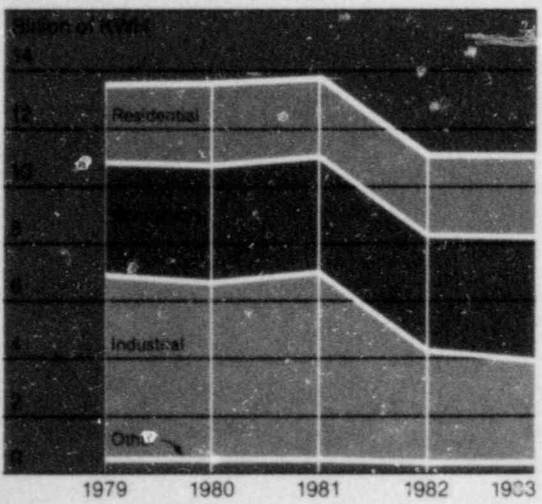
Perspective of 1983

I. FINANCIAL MATTERS

Revenue-earnings improvement
Duquesne Light's revenues rose from $746 million in 1982 to $800 million in 1983. Rate increases were primarily responsible for the higher revenues. Earnings per share from continuing electric operations were $2.20 in 1983 compared to $1.96 in 1982.

Sales: A year of ups and downs
Total kilowatt-hour sales for 1983 were slightly lower than last year's level, and the summer peak load increased about 8%. Improved commercial and residential sales played a part in improving our financial performance for the year.

Total industrial sales dropped [illegible]% compared to 1982. Sales to steelmakers, our largest single market, fell even lower than last year. However, there was growth in other segments of the market, especially office park projects west of Pittsburgh, fast-food restaurants, hospital expansions and office buildings in downtown Pittsburgh, where large-scale development continues.



KWH Sales—5 Years

Cost reduction
Last year Duquesne Light expanded its cost-reduction program to cover the efforts of every employee in the Company. One purpose was to encourage employees to find new ways to save the Company money. This program appears to be working. Identified savings rose from $8.3 million in 1982 to $14.4 million in 1983.

Looking ahead for savings, Duquesne Light has been using sophisticated computer programs for strategic load planning. The task is complex and technical. The goal is to determine how to fulfill the Company's load requirements at the lowest cost to our customers while maintaining an adequate level of earnings for our stockholders.

Other major cost reduction measures are described on the following pages under "Management reorganization" and "New early retirement plan."

Saving on dividend reinvestment
During the last quarter of the year, the Company began to administer the Dividend Reinvestment Plan in-house. This will reduce processing costs by approximately $150,000 a year.

The new system will also enable us to supply more complete answers to stockholders' inquiries. The plan is open to all holders of Common, Preference and Preferred Stock. The number of stockholders taking advantage of the plan now stands at 44,000. For information on benefits and how to participate, write Duquesne Light, c/o Dividend Reinvestment, Box 68, Pittsburgh, Pa. 15230-0068.

OUR TOWNS

SEWICKLEY

Only 15 miles from the hustle and bustle of downtown Pittsburgh is the peace, serenity and charm of Sewickley.

Here, on streets shaded by century-old oaks and maples, stand stately homes built first by captains of riverboats and later by captains of industry.

There are newer homes here, and apartments, and a shopping district. Sewickley is a living, breathing town—not a museum. But as you walk the residential streets you have the feeling that you have stepped back in time.

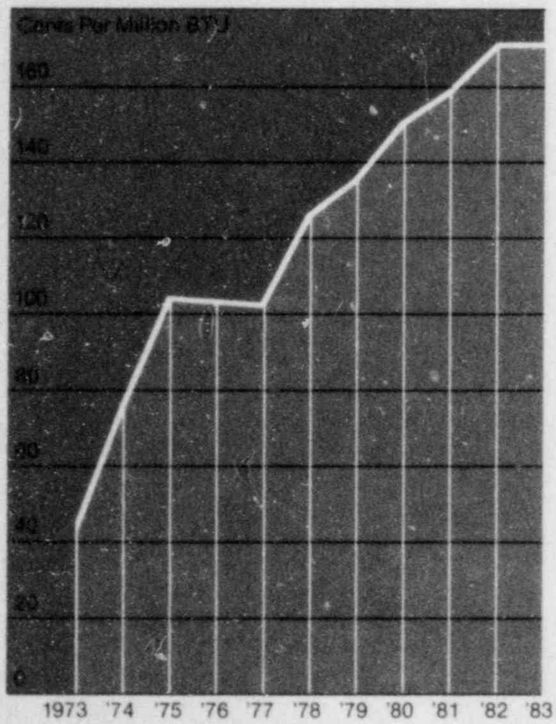
Admittedly, Sewickley is somewhat unique. But, the sense of charm and graciousness it represents is also alive and well in many of our other towns.

Construction and financing

Work continued at the nuclear Beaver Valley Power Station Unit No. 2 and at the nuclear Perry Plant Units Nos. 1 and 2. Duquesne Light has a 13.74% ownership interest in each of these units. Other major construction projects included a new Western District Headquarters building and a simulator/training building at Beaver Valley Power Station.

Our total capital expenditures for the year came to $224 million. About 26% of this was generated internally. The balance was raised by outside financing. This included:

1. On April 14, 1983 the Company issued $60 million principal amount of 12⅛% First Mortgage Bonds, Series due April 1, 2013. Net proceeds to the Company were approximately $59.3 million.
2. On August 2, 1983 the Company issued 2,475,000 shares of Common Stock. Net proceeds to the Company were approximately $39.4 million.
3. On November 1, 1983 the Ohio Air Quality Development Authority issued $20.5 million of tax exempt pollution control revenue bonds to finance the Company's share of the costs for certain pollution control facilities at the coal-fired Sammis plant. Net proceeds to the Company were approximately $19.8 million.
4. On December 6, 1983 the Company issued $50 million of 13% First Mortgage Bonds, Series due December 1, 2013. Net proceeds to the Company were approximately $49.3 million.
5. The Company issued 2,524,407 shares of Common Stock in 1983 pursuant to its Dividend Reinvestment Plan. Issuances of Common Stock through this plan aggregated approximately $39 million. In addition, 143,727 shares of Common Stock were issued pursuant to the Company's Employee Stock Ownership Plan.



Cost of Fossil and Nuclear Fuel

Farewell, steam heat

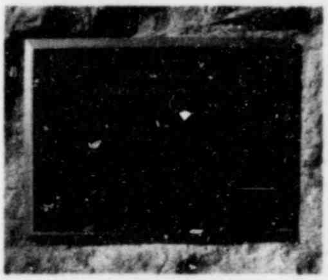
On May 31, 1983, following the plan announced in 1982, Duquesne Light's long-unprofitable subsidiary, Allegheny County Steam Heating Company (ACSH) terminated steam service to the public. The estimated loss from discontinued steam heating operations was recognized in 1982. The major portion of the steam distribution system which ACSH had operated was transferred to, and is being operated by, a newly-formed cooperative of steam users.

Rates

On January 28, 1983 the Pennsylvania Public Utility Commission (PUC) entered a final order covering the Company's request for a $165 million (subsequently reduced to $155 million) increase in annual rates which was filed on April 30, 1982. The order

OUR VILLAGES

PENNSBURY VILLAGE



The Borough of Pennsbury Village came into existence fully grown. It was built in the Sixties as a rental development—500 townhouses, mostly two-bedroom. When the townhouses were converted to condominiums, the new owners (average age 31) decided they were not satisfied being part of a larger municipality. They issued a Declaration of Secession, performed the necessary legal gymnastics, and launched their own unique local government.

Now the Borough takes care of roads, enforces laws and provides fire protection; the Condominium Council takes care of everything else. That includes water, sewage, and heating—all units of equal size pay the same service fee which also includes use of the pool and community center, exterior work on the homes, trimming shrubs and mowing lawns. The 870 people who live in Pennsbury Village know it is never going to expand. They also know that living there is never going to be much trouble.

Pennsbury Village is tiny . . . not much more than a few acres. But, as we said earlier, our service area is indeed diverse.


534

allowed $105.8 million or 64% of the rate increase originally requested.

On April 29, 1983 the Company filed a new rate schedule with the PUC estimated to increase annual revenues by approximately 5.6% or $49.9 million per year. This was the lowest general rate increase request by the Company since 1971. On September 16, 1983, the PUC approved a settlement of the rate proceeding which provided for an increase of $21 million, or 42% of the amount requested. The early settlement of this request allowed the Company to begin collecting the increase about 4½ months earlier than the normal decision date.

On July 22, 1983 the PUC approved the Company's request to lower its Energy Cost Rate for service rendered on and after August 1, decreasing electric bills for the average residential customer by about 5%.

II. NUCLEAR

Beaver Valley Unit No. 1 is a reliable performer

Beaver Valley Unit No. 1 was shut down for refueling and modifications on June 11, 1983 and was returned to service as scheduled on September 24, 1983. During the outage, 33 design modifications were made to the plant, 21 of which were required by the Nuclear Regulatory Commission.

From the beginning of the year until June 11, this nuclear unit operated at an availability factor of 96%. On an annual basis, taking into account the shutdown period, its availability factor was 68%.

In February 1983, the Emergency Preparedness Plan for Unit No. 1 was tested in a full-scale, all-day drill. Federal agencies determined that public health and safety can be adequately protected in the event of a nuclear emergency.

Beaver Valley Unit No. 2 is on schedule

Construction of Beaver Valley Unit No. 2 proceeded on schedule; at year end, this nuclear plant was 78% completed. The Nuclear Regulatory Commission and the Institute of Nuclear Power Operations audited the engineering and construction work, and both reported acceptable performance. Barring unforeseeable delays, the operating license should be granted by the time the unit is ready for its initial core loading near the end of 1985.

III. ENVIRONMENT

For the second year running, various members of Congress proposed legislation to "do something" about the acid rain problem. If some of the most stringent proposals are adopted, Duquesne Light could be required to spend as much as $335 million for flue gas scrubbers and an additional $100 million a year for operation and maintenance of these devices. Customers' bills could increase as much as 6% to 12%, and this area's already depressed steel and coal industries would be badly hurt. Duquesne Light has proposed an alternative. It calls for accelerated research (the causes of acid rain are *not* scientifically established); an emission ceiling for sulfur dioxide; innovative alternative methods of neutralizing acidity in lakes and streams; and a trade-off policy between types of chemical compounds that may lead to airborne acids. The plan would reduce the emissions that are blamed for causing acid rain, yet cushion the human and cost impacts.

OUR BOROUGHS

HOMESTEAD

Our other community profiles show you the diversity of our 800-square-mile service area. Homestead offers a more traditional and oftentimes stereotyped view of Pittsburgh—the mill town.

The names of similar steel mill towns may ring a bell. Aliquippa. Braddock. Duquesne. Munhall. Monessen. For many years, through the Fifties and Sixties, mills in these towns roared 'round the clock. The mill towns, like Homestead, thrived. For a variety of reasons, the boom ended in the Seventies and early Eighties. One by one the mill furnaces have been going cold.

Nobody expects the mills to come back all the way, but in Homestead, Aliquippa, Braddock and the rest, there's a dogged hope that the worst has passed. Homestead has endured hard times before. What will happen to its mills? Until the answer is in, people here are doing what they can, getting by, toughing it out.

IV. INTERNAL OPERATIONS AND PERSONNEL

Management reorganization

Duquesne Light's overall organizational structure has not significantly changed for about 17 years. Early in 1983, the Board of Directors retained the consulting firm of Booz, Allen & Hamilton, Inc. to examine the organizational structure of the Company and make recommendations for improvement. In November, the Board of Directors adopted a new plan of organization.

Under the new organization, operations are directed by five Group Vice Presidents. They are Charles M. Atkinson, Finance and Accounting; Roger D. Beck, Administrative Services; Clifford N. Dunn, Power Supply; John J. Carey, Nuclear; and William F. Gilfillan, Jr., Customer Services. In addition, Walter T. Wardzinski is Vice President of Legal and Corporate Communications. All report to John M. Arthur, Chairman of the Board and President. For a complete list of Company officers, see the inside back cover of this report.

The purpose of the new reorganization is to provide more efficient management and to reduce costs. It will make our organization leaner by reducing the number of departments and increasing the responsibilities of existing managers. A total of about 100 positions will be eliminated, including some 20 managerial positions.

New early retirement plan

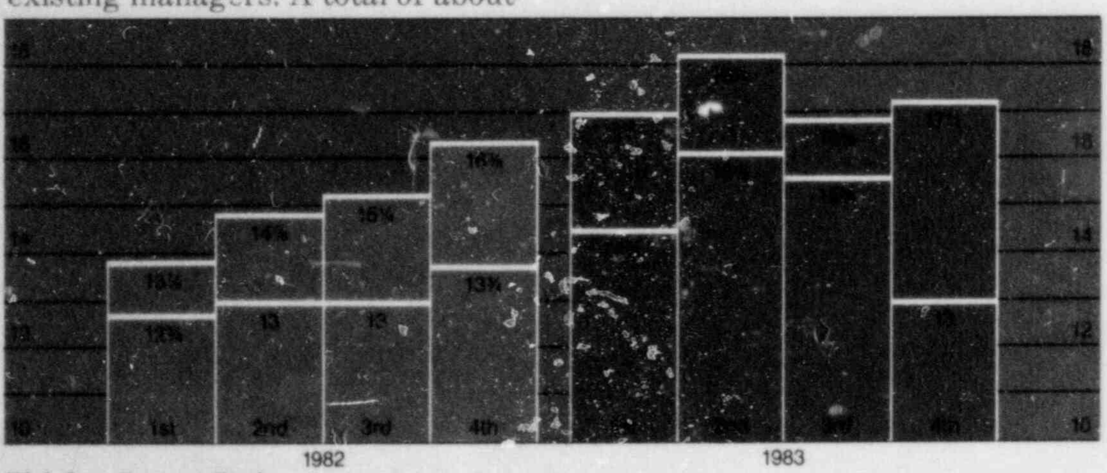
The reduction in personnel called for by the reorganization will be accomplished largely by attrition and by a new limited early retirement program which was entirely voluntary. When the option was offered in late 1983, 450 employees were eligible; 323 chose early retirement. The option was terminated in January 1984.

New two-year union contract

Duquesne Light and the International Brotherhood of Electrical Workers signed a new contract effective October 1, 1983. It provides for a 6% increase in wages and a small improvement in fringe benefits each year of the two-year pact. Most important in these times is a provision that will help reduce costs by increasing the work week of certain clerical workers from 37½ to 40 hours at no additional increase in wages. This change results in a standard 40-hour work week for all Company employees.

'82 management audit produces '83 results

While the PUC-mandated management audit of 1982 by Temple, Barker and Sloane, Inc. found



High/Low Common Stock

The principal trading market for the Company's Common Stock is the New York Stock Exchange. The stock is also listed on the Philadelphia Stock Exchange.

OUR CITIES

MONROEVILLE

Monroeville's expansion was typical of the Fifties and Sixties: the developers dug up farms and planted homes. But for some reason Monroeville never settled into the quiet routine of a typical bedroom community.

When Monroeville was just in the making, a shopping center much larger than the residents needed was built. It was a catalyst: now Monroeville has about one store for every 60 residents, and shoppers drive miles to get here. Four large corporations set up major research centers. That tilted the population mix: there's a high percentage of PhD's, and you hear accents from Sweden, England, France, Hungary, India, Japan. More recently, a railroad moved its headquarters here, and an entrepreneur put up an exhibit hall that drew over half a million buyers and conventioneers last year.

Monroeville is only 14 miles from downtown Pittsburgh and even closer to three major universities. It, and other communities, are starting to sprout buildings with company names that don't have any vowels. Advanced-tech is taking root around here.

Duquesne Light's operations to be generally acceptable, it also made some specific recommendations to further improve our operations. We have been implementing certain of these recommendations. One visible result in 1983 was a wider use of computerized information systems. Benefits included increased clerical productivity, improved customer service and enhanced management control.

T&D moves

Early in the year, the Transmission and Distribution Department moved its Western District headquarters to a new building in Center Township. This completed a multi-year consolidation of Western District operations. There are seven sections and approximately 200 employees at this location. The consolidation of three facilities has reduced costs and has made it more convenient for several departments to work together.

Most important awards of 1983

We take pride in a good safety record, and special pride in awards like these received in 1983:

From the Pennsylvania Electric Association, an award for the best accident-prevention record in the Commonwealth's electric utility industry.

From the Pennsylvania Electric Association, an award for meritorious results in the prevention of disabling shocks and burns.

From the Edison Electric Institute, the Injury Frequency Reduction Award certificate, for having reduced injury rates 25% in a single year.

V. COMMUNITY CONCERNS

Inability to pay

With heavy industry in our area still in deep recession, the number of our customers unable to pay for electric service has grown noticeably. Duquesne Light has worked with various community groups for over two years to establish an energy assistance fund. In 1983, we helped found the Dollar Energy Fund, an independent, non-profit agency which was formed to meet the specific problem of inability to pay. Duquesne Light supported the Dollar Energy Fund with start-up, promotion and administration funds. We mailed more than a million of the Fund's appeals along with our regular monthly bills. In addition, we will provide up to $50,000 in matching credits for the accounts of eligible Duquesne Light customers receiving assistance from the Dollar Energy Fund. While only in existence for a little over three months, the Fund had received $55,970 in cash contributions from customers by year end.

Conservation

Besides conducting energy audits at below cost for residential customers, Duquesne Light conducted a series of free lunchtime energy conservation presentations for the public at our new headquarters in downtown Pittsburgh. We also sponsored a load management seminar for commercial, industrial and governmental customers.

More jobs

For the 25th year, Duquesne Light operated a full-time Area Development Department that works to expand the local economy and expand employment opportunities in our service area. The department staff worked with 180 prospective employers during the year. Their efforts included finding land or buildings, locating financing, expediting permits and providing studies on markets and labor skills. Our staff secured 52 commitments to expand or relocate in our service area. The result was 2,960 jobs added or retained.

OUR TOWNSHIPS

CENTER TOWNSHIP

Drive along the main north-south road, first cut when this was Indian country, and you see one side of Center Township—a bedroom community. People commute to Pittsburgh, 40 minutes on the expressway. It's a chore, but Beaver County taxes are low. When asked why they live here, people mention the colleges—a community campus and a Penn State branch—easy shopping at a very large mall, and their friendly neighbors.

Drive the side roads and you see the other side of Center Township—the countryside. Better than half of the township's 15 square miles is farm and fallow, water and woods, hills—places quite wild—and, of course, quiet. Hardly a place in the township is more than a 10-minute walk from where you can follow a deer trail.

Wide open spaces—we have them in Center Township and in other parts of our area.

Company Report on Financial Statements

The Company is responsible for the financial information and representations contained in the financial statements and other sections of this Annual Report. The Company believes that the financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances to reflect, in all material respects, the substance of events and transactions that should be included and that the other information in the Annual Report is consistent with those statements. In preparing the financial statements, the Company makes informed judgments and estimates based on currently available information of the effects of certain events and transactions.

The Company maintains a system of internal accounting controls designed to provide reasonable assurance that the Company's assets are safeguarded and that transactions are executed and recorded in accordance with established procedures. There are limits inherent in any system of internal control based on the recognition that the cost of such a system should not exceed the benefits to be derived. The system of internal accounting control is supported by written policies and guidelines and is supplemented by a staff of internal auditors. The Company believes that the internal accounting control system provides reasonable assurance that its assets are safeguarded and the financial information is reliable.

The accompanying consolidated financial statements have been audited by Deloitte Haskins & Sells, independent certified public accountants, whose appointment was approved at the 1983 Annual Meeting of Stockholders. Their examination was made in accordance with generally accepted auditing standards and included a review of the system of internal accounting controls and tests of transactions to the extent they considered necessary to provide reasonable assurance that the financial statements are not misleading and do not contain material errors.

The Board of Directors has an Audit Committee composed of four non-officer directors which met four times in 1983. The Audit Committee has the following duties and responsibilities: (1) recommend the independent public accountants; (2) review the planned scope and results of their audit and other services to be performed; (3) review the financial statements and the related report of the independent public accountants; (4) review with the officers, internal auditors and the independent public accountants the adequacy of the Company's system of internal accounting control, including their recommendations with respect thereto; and (5) review the planned scope and results of the internal audit function. The independent certified public accountants and internal auditors have full and free access to the Audit Committee and meet with it, with and without management being present, to discuss internal accounting controls, auditing and financial reporting matters.

C. M. Atkinson   John M Arthur

C. M. Atkinson
Vice President-
Finance and
Accounting Group

John M. Arthur
Chairman of the Board
and President

Opinion of Independent Certified Public Accountants

DELOITTE HASKINS & SELLS
Certified Public Accountants
Two Gateway Center
Pittsburgh, Pennsylvania 15222

TO THE DIRECTORS AND STOCKHOLDERS
OF DUQUESNE LIGHT COMPANY:

We have examined the consolidated balance sheets of Duquesne Light Company as of December 31, 1983 and 1982 and the related statements of consolidated income, retained earnings, capital surplus and changes in financial position for each of the three years in the period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such consolidated financial statements present fairly the consolidated financial position of Duquesne Light Company at December 31, 1983 and 1982 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

February 15, 1984

Duquesne Light Company

Statement of Consolidated Income

For the Three Years Ended December 31, 1983
(Thousands of Dollars, Except Per Share Amounts)

	1983	1982	1981
ELECTRIC OPERATING REVENUES	**$800,345**	$746,462	$786,229
OPERATING EXPENSES:			
Fuel	**192,512**	229,693	242,871
Purchased power (sales)—net	**(7,330)**	(23,172)	16,189
Other operation	**136,188**	126,151	113,423
Maintenance (Note N)	**65,016**	66,855	63,106
Depreciation	**73,682**	62,939	60,854
Taxes other than income taxes (Note N)	**60,651**	57,476	57,694
Income taxes (Note H)	**92,954**	71,213	72,263
Total Operating Expenses	**613,673**	591,155	626,400
OPERATING INCOME	**186,672**	155,307	159,829
OTHER INCOME:			
Allowance for equity funds used during construction	**50,709**	35,415	24,619
Income taxes—credit (Note H)	**16,760**	17,906	14,462
Other income and deductions—net	**246**	8,913	3,467
Total Other Income	**67,715**	62,234	42,548
INCOME BEFORE INTEREST CHARGES	**254,387**	217,541	202,377
INTEREST CHARGES:			
Interest on long-term debt	**118,813**	111,726	97,404
Other interest	**5,736**	3,471	6,957
Allowance for borrowed funds used during construction, net of income taxes	**(15,388)**	(14,853)	(11,393)
Total Interest Charges	**109,161**	100,344	92,968
INCOME FROM CONTINUING ELECTRIC OPERATIONS BEFORE EXTRAORDINARY GAIN	**145,226**	117,197	109,409
DISCONTINUED STEAM HEATING OPERATIONS (Note C):			
Loss from operations of discontinued steam heating subsidiary	**—**	(924)	(538)
Loss on disposition of discontinued steam heating subsidiary	**—**	(9,000)	—
INCOME BEFORE EXTRAORDINARY GAIN	**145,226**	107,273	108,871
EXTRAORDINARY GAIN ON EARLY EXTINGUISHMENT OF BONDS (Note D)	**—**	9,609	—
NET INCOME	**145,226**	116,882	108,871
DIVIDENDS ON PREFERRED AND PREFERENCE STOCK	**22,411**	22,701	22,976
EARNINGS FOR COMMON STOCK	**$122,815**	$ 94,181	$ 85,895
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (000)	**55,883**	48,236	41,764
EARNINGS PER SHARE OF COMMON STOCK:			
Income from continuing electric operations	**$2.20**	$1.96	$2.07
Loss from discontinued steam heating operations (Note C)	**—**	(.21)	(.01)
Extraordinary gain (Note D)	**—**	.20	—
Net income	**$2.20**	$1.95	$2.06
DIVIDENDS DECLARED PER SHARE OF COMMON STOCK	**$2.00**	$1.90	$1.85

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

Duquesne Light Company

Consolidated Balance Sheet

December 31, 1983 and 1982
(Thousands of Dollars)

	1983	1982
ASSETS		
PROPERTY, PLANT AND EQUIPMENT:		
Electric plant in service	$2,434,916	$2,347,640
Construction work in progress	856,766	675,621
Held for future use	1,799	1,293
Total	3,293,481	3,024,554
Less accumulated depreciation	555,641	504,680
Property, Plant and Equipment--Net	2,737,840	2,519,874
OTHER PROPERTY AND INVESTMENTS:		
Nonutility property	2,050	2,008
Miscellaneous investments	12,424	8,489
Total Other Property and Investments	14,474	10,497
CURRENT ASSETS:		
Cash and temporary cash investments (at cost which approximates market)	73,751	33,663
Accounts receivable:		
Customers (less reserve for uncollectible accounts of $2,652 and $2,270, respectively)	69,822	60,177
Tax refund	—	5,507
Other	19,797	21,284
Materials and supplies (generally at average cost):		
Coal	59,205	69,194
Other operating and construction	34,983	33,964
Deferred income taxes	3,121	7,265
Other current assets	13,028	13,851
Total Current Assets	273,707	244,905
DEFERRED DEBITS:		
Extraordinary property losses (Note B)	36,565	40,334
Deferred coal costs (Notes G and M)	22,343	18,338
Other deferred debits	60,882	49,476
Total Deferred Debits	119,790	108,148
Total	$3,145,811	$2,883,424

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

	1983	1982
LIABILITIES		
CAPITALIZATION (Note E):		
Common Stock (authorized—75,000,000 shares; outstanding—58,419,659 and 53,276,525 shares, respectively)	**$ 58,420**	$ 53,277
Capital surplus	**724,147**	649,376
Retained earnings	**175,938**	165,340
Total Common Stockholders' Equity	**958,505**	867,993
Non-redeemable Preferred and Preference Stock	**156,137**	156,137
Redeemable Preferred and Preference Stock	**134,979**	140,829
First mortgage bonds	**1,100,147**	1,006,637
Other long-term debt	**234,019**	199,934
Unamortized debt discount and premium—net	**(10,967)**	(9,488)
Total Capitalization	**2,572,820**	2,362,042
CURRENT LIABILITIES:		
Long-term debt maturing within one year (Note E)	**16,700**	12,500
Accounts payable	**95,030**	98,399
Accrued income taxes (Note H)	**5,778**	6,403
Other accrued and deferred income taxes	**19,430**	13,658
Energy cost rate refunds	**—**	9,974
Accrued interest	**40,390**	29,482
Dividends declared	**34,771**	30,302
Sinking fund and purchase requirements (Note E)	**13,391**	10,987
Reserve for loss on discontinued steam heating operations (Note C)	**3,181**	2,698
Total Current Liabilities	**228,671**	214,403
DEFERRED CREDITS:		
Investment tax credits	**143,764**	126,447
Accumulated deferred income taxes	**193,649**	172,600
Other deferred credits	**6,907**	7,932
Total Deferred Credits	**344,320**	306,979
COMMITMENTS AND CONTINGENT LIABILITIES (Notes G, I, L and M)		
Total	**$3,145,811**	$2,883,424

Duquesne Light Company

Statement of Changes in Consolidated Financial Position

For the Three Years Ended December 31, 1983 (Thousands of Dollars)	1983	1982	1981
SOURCE OF FUNDS:			
Continuing electric operations:			
Income from continuing electric operations before extraordinary gain	**$145,226**	$117,197	$109,409
Items not affecting working capital:			
Depreciation	**79,800**	66,303	63,560
Investment tax credit deferred—net	**17,317**	17,335	11,524
Income taxes deferred—net (noncurrent portion)	**21,049**	18,466	38,040
Allowance for equity and borrowed funds used during construction	**(66,097)**	(50,268)	(36,012)
Total	**197,295**	169,033	186,521
Discontinued steam heating operations	**—**	(9,924)	(538)
Items not affecting working capital (including depreciation: 1982, $595; 1981, $610)	**—**	(349)	690
Total From Operations (excluding extraordinary gain)	**197,295**	158,760	186,673
Extraordinary gain on early extinguishment of bonds	**—**	9,609	—
Sale of bonds	**110,000**	65,000	80,000
Issuance of Common Stock	**80,485**	107,369	61,332
Nuclear fuel obligations	**6,125**	24,221	—
Construction costs reimbursed by trustees from proceeds of pollution control financings	**19,680**	—	50,000
Decrease in working capital (exclusive of current maturities of long-term debt) (a)	**—**	30,312	—
Total Source of Funds	**$413,585**	$3[illegible]5,271	$378,005
APPLICATION OF FUNDS:			
Construction expenditures (net of allowance for equity and borrowed funds used during construction)	**$224,280**	$231,022	$178,942
Dividends on capital stock	**134,628**	115,247	100,268
Reduction of bonds	**12,500**	43,852	—
Sinking fund and purchase requirements	**4,696**	2,691	4,461
Deferred coal costs	**4,005**	2,669	15,355
Decrease in notes payable	**—**	—	35,000
Other—net	**14,742**	(210)	15,679
Increase in working capital (exclusive of current maturities of long-term debt and notes payable) (a)	**18,734**	—	28,300
Total Application of Funds	**$413,585**	$395,271	$378,005
(a) The components of working capital (exclusive of current maturities of long-term debt and notes payable) were as follows:			
Current assets:			
Cash and temporary cash investments	**$ 73,751**	$ 33,663	$ 50,655
Accounts receivable	**89,619**	86,968	94,363
Materials and supplies and other current assets	**107,216**	117,009	95,878
Deferred income taxes	**3,121**	7,265	—
Total	**273,707**	244,905	240,896
Current liabilities:			
Accounts payable and accrued interest	**135,420**	127,881	106,337
Accrued taxes	**25,[illegible]8**	20,061	24,280
Energy cost rate refunds	**—**	9,974	—
Dividends declared	**34,771**	30,302	27,232
Sinking fund and purchase requirements	**13,391**	10,987	9,733
Reserve for loss on discontinued steam heating operations	**3,181**	2,698	—
Total	**211,971**	201,903	167,582
Working capital at close of year	**61,736**	43,002	73,314
Working capital at beginning of year	**43,002**	73,314	45,014
Increase (decrease) in working capital (exclusive of current maturities of long-term debt and notes payable)	**$ 18,734**	$(30,312)	$ 28,300

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

Duquesne Light Company

Statement of Consolidated Retained Earnings

For the Three Years Ended December 31, 1983
(Thousands of Dollars)

	1983	1982	1981
BALANCE AT BEGINNING OF YEAR:			
As previously reported		$167,149	$158,546
Less settlement of prior years' income taxes (Note I)		3,444	3,444
As restated	**$165,340**	163,705	155,102
NET INCOME FOR THE YEAR	**145,226**	116,882	108,871
Total	**310,566**	280,587	263,973
DEDUCT:			
Cash dividends declared:			
Preferred Stock:			
4% Series	**1,100**	1,100	1,100
3.75% Series	**281**	281	281
4.15% Series	**291**	291	291
4.20% Series	**210**	210	210
4.10% Series	**246**	246	246
$2.10 Series	**336**	336	336
$8.64 Series	**2,219**	2,271	2,323
$7.20 Series	**2,520**	2,520	2,520
$8.375 Series	**2,512**	2,512	2,512
Preference Stock:			
$7.50 Series	**1,944**	2,038	2,119
$2.75 Series	**891**	1,035	1,177
$2.315 Series	**2,778**	2,778	2,778
$2.10 Series	**2,520**	2,520	2,520
$9.125 Series	**4,563**	4,563	4,563
Common Stock (Per Share: 1983—$2.00; 1982—$1.90; 1981—$1.85)	**112,217**	92,546	77,292
Total Cash Dividends	**134,628**	115,247	100,268
BALANCE AT CLOSE OF YEAR	**$175,938**	$165,340	$163,705

Statement of Consolidated Capital Surplus

For the Three Years Ended December 31, 1983
(Thousands of Dollars)

	1983	1982	1981
BALANCE AT BEGINNING OF YEAR	**$649,376**	$550,244	$494,228
Premium on Common Stock issued	**75,342**	99,395	56,196
Expense of issuing capital stock	**(571)**	(263)	(180)
BALANCE AT CLOSE OF YEAR	**$724,147**	$649,376	$550,244

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

Notes to Financial Statements

A. SUMMARY OF ACCOUNTING POLICIES:

Consolidation

The consolidated financial statements include the Company and its wholly-owned subsidiary. See Note C concerning disposition of the subsidiary.

Property, Plant and Equipment

The properties of the Company are carried at original cost and, with minor exceptions, are subject to a first mortgage lien. All maintenance and repairs and replacements of minor units of property are charged to income. Replacements of retirement units of property and betterments are capitalized. In connection with retirements, reserves are charged with the carrying value, plus dismantling charges, less salvage, of property retired.

Revenues

Customer meters are read monthly or bimonthly and bills are rendered on a monthly basis. Revenues are recorded when billed.

Allowance for Funds Used During Construction

In accordance with the uniform system of accounts prescribed by regulatory authorities, an allowance for funds used during construction (AFC) is included in construction work in progress and credited to other income for AFC attributable to equity funds and to interest charges for AFC attributable to borrowed funds, net of income taxes. AFC is a non-cash item and is computed using a composite rate, which is applied to the balance of construction work in progress and assumes that funds used for construction are provided by borrowings and by preferred, preference and common stock equity. The rate, compounded semi-annually, was 9.6%, 8.5% and 7.6% in 1983, 1982 and 1981, respectively. This accounting procedure results in the inclusion in property, plant and equipment of amounts considered by regulatory authorities as appropriate costs for the purpose of establishing rates for utility charges to customers.

Depreciation

The Company provides for depreciation of electric plant, exclusive of coal properties, on a straight-line basis determined in a manner consistent with applicable Pennsylvania law and with methods applied by the Pennsylvania Public Utility Commission (Commission) in the determination of depreciation in rate proceedings. Provisions for depreciation and depletion of other Company property are made on various bases such as tons of coal mined for coal properties.

The Company provides for decontamination and dismantling costs for the Beaver Valley No. 1 nuclear generating unit in accordance with the provisions of the orders of the Commission. The Company is allowed to recover from its customers annual decommissioning annuity payments to provide for the decommissioning of the nuclear related components. Such costs are currently estimated to be approximately $30,000,000. The Company deposits certain revenues in a trust fund which has been established to pay for such costs. At December 31, 1983, $1,573,000 was included in the Decommissioning Trust Fund, which represents the aggregate value of revenue deposits and interest earned on investments made by the trustee.

Income Taxes

Deferred income taxes are provided principally for differences between depreciation for income tax purposes and depreciation for accounting purposes to the extent permitted by the Commission for rate-making purposes, and for fuel and extraordinary property losses deferred for accounting purposes but deducted currently for income tax purposes. In compliance with regulatory accounting, income taxes are allocated between operating expenses and other income, principally with respect to interest charges related to construction work in progress. Investment tax credits are deferred and amortized over the lives of the related facilities.

Deferred Fuel Costs

The Company defers the difference between actual fuel costs and base fuel costs until the period in which such costs are billed to its customers through its energy cost rate. The energy cost rate is based on projected costs, with provisions for subsequent adjustments to actual cost. Any overcollections of revenues are refunded to customers.

Nuclear Fuel Costs

The Company's share of nuclear fuel costs under non-capitalized lease agreements is charged to fuel expense based on the quantity of electric energy generated and reflects a zero net salvage value for the leased nuclear fuel. In 1982 the Company began capitalizing acquisitions of nuclear material through a trust arrangement that is intended to finance a portion of the Company's requirements for nuclear fuel. An accounting pronouncement issued by the Financial Accounting Standards Board in 1982 will result in capitalization of the Company's nuclear fuel leases beginning in 1984.

Under the Nuclear Waste Policy Act of 1982 (the Act), the United States Department of Energy (DOE) is responsible for the ultimate storage and disposal of spent nuclear fuel removed from reactors. Under the Act the Company is required to pay a quarterly fee to DOE of one mill per kilowatt-hour on nuclear generation after April 6, 1983 and a one-time fee for nuclear generation through April 6, 1983. Although the method of payment of the one-time fee, currently estimated to be approximately $8,921,000, has not been determined, this amount has been recorded as long-term debt with a contra charge to deferred debits. The Company began recovering the one-time fee in rates in February 1983 and has established a trust fund for the deposit of the amounts recovered. The Company is also recovering the fees for generation after April 6, 1983 and making payments to DOE on a quarterly basis.

Debt Discount, Premium and Expense

Debt discount or premium and related expenses are amortized over the lives of the issues to which they pertain.

B. EXTRAORDINARY PROPERTY LOSSES:

In January 1980, the Company and the other CAPCO companies cancelled the construction of four nuclear generating units. The Company received approval from the Federal Energy Regulatory Commission (FERC) and the Pennsylvania Public Utility Commission (Commission) to amortize and recover from its customers its share of the accumulated costs applicable to these units over a ten-year period which began January 29, 1983. The unrecovered costs which were unamortized as of December 31, 1983 were $31,291,000.

On October 1, 1982 the Shippingport Atomic Power Station was removed from commercial operation after notice from the United States Department of Energy that it was planning to terminate operation of the light water breeder reactor core at the station as of that date. The Company requested approval from FERC to record the undepreciated cost of the station as an extraordinary property loss and to amortize such loss over a ten-year period beginning on the date that rates providing for the recovery of such cost first become effective. Consistent with this request, the Company reclassified the net amount to extraordinary property losses. The Company has received approval from the Commission to amortize and recover a portion of this amount, net of income taxes, from its customers over a ten-year period which began January 29, 1983.

The Company is not earning any return on the unamortized costs of either of the property losses.

C. DISCONTINUED STEAM HEATING OPERATIONS: On September 30, 1982 the Pennsylvania Public Utility Commission approved the application by the Company's steam heating subsidiary, Allegheny County Steam Heating Company, to discontinue steam service to the public effective May 31, 1983 and to transfer to Pittsburgh Allegheny County Thermal, Ltd. (PACT) a major portion of the subsidiary's assets for nominal consideration. The transfer of the assets became effective June 1, 1983. In addition, a lease to PACT of a steam generating plant for nominal consideration became effective on January 3, 1983 after completion by the subsidiary of certain demolition work at the plant.

The provision for loss on the disposition of the subsidiary's assets was $9,000,000 (net of income tax benefit of approximately $8,712,000) and the loss from operations was $924,000 (net of income tax benefit of approximately $1,028,000) for the nine months ended September 30, 1982. The provision for loss on disposition included estimated operating losses for the subsidiary of $1,100,000 (net of income tax benefit of approximately $970,000) for the period October 1, 1982 through May 31, 1983. These losses were charged against 1982 income, and no additional loss is expected to be incurred due to the disposition. Prior years' operating results have been reclassified to present separately the results of discontinued steam heating operations from continuing electric operations.

At December 31, 1983 and 1982 assets and liabilities included in the consolidated balance sheet applicable to the subsidiary were not material. Revenues from discontinued steam heating operations for the five months ended May 31, 1983 and for 1982 and 1981 were approximately $6,884,000, $8,845,000 and $10,996,000, respectively.

D. EARLY EXTINGUISHMENT OF BONDS: In December 1982, the Company exchanged 1,406,898 shares of Common Stock for approximately $29,852,000 principal amount of outstanding First Mortgage Bonds which were owned by an investment banking firm. The exchange resulted in a nontaxable extraordinary gain of $9,609,000, or $.20 per share, which was the difference between the exchange value of the Common Stock and the net carrying amount of the bonds.

E. CAPITALIZATION:

	December 31, 1983		December 31, 1982	
	Shares Outstanding	**Amount**	Shares Outstanding	Amount
Common Stock—$1 par value (1)	58,419,659	$ 58,419,659	53,276,525	$ 53,276,525
Capital Surplus:				
Premium on Common Stock		$731,335,853		$655,993,654
Capital stock expense (debit)		(7,622,344)		(7,065,026)
Other		433,442		447,147
Capital surplus		$724,146,951		$649,375,775
Non-redeemable Preferred and Preference Stock:				
Preferred Stock—$50 par value (cumulative) (1)				
4% Series (2)	549,969	$ 27,498,450	549,969	$ 27,498,450
3.75% Series (2)	150,000	7,500,000	150,000	7,500,000
4.15% Series (2)	140,000	7,000,000	140,000	7,000,000
4.20% Series (2)	100,000	5,000,000	100,000	5,000,000
4.10% Series (2)	120,000	6,000,000	120,000	6,000,000
$2.10 Series (2)	160,000	8,000,000	160,000	8,000,000
$7.20 Series (3)	350,000	17,500,000	350,000	17,500,000
Preference Stock—$1 par value (cumulative) (1)				
$2.315 Series (4)	1,200,000	1,200,000	1,200,000	1,200,000
$2.10 Series (4)	1,200,000	1,200,000	1,200,000	1,200,000
		80,898,450		80,898,450
Premium on Non-redeemable Preferred and Preference Stock		75,238,760		75,238,760
Non-redeemable Preferred and Preference Stock		$156,137,210		$156,137,210
Involuntary liquidation value		$155,998,450		$155,998,450
Redeemable Preferred and Preference Stock:				
Preferred Stock—$50 par value (cumulative) (1)				
$8.64 Series (3)	256,872	$ 12,843,600	262,872	$ 13,143,600
$8.375 Series (3)	300,000	15,000,000	300,000	15,000,000
Preference Stock—$1 par value (cumulative) (1)				
$7.50 Series (3)	255,920	255,920	268,920	268,920
$2.75 Series (4)	270,570	270,570	365,020	365,020
$9.125 Series (3)	500,000	500,000	500,000	500,000
		28,870,090		29,277,540
Premium on Redeemable Preferred and Preference Stock		109,173,360		113,027,160
Purchase and Sinking Fund Requirements		(3,064,250)		(1,475,500)
Redeemable Preferred and Preference Stock		$134,979,200		$140,829,200
Involuntary liquidation value		$134,979,200		$140,829,200

(1) Authorized shares: Common Stock—75,000,000 (increased in 1983 from 60,000,000); Preferred Stock—4,000,000; and Preference Stock—8,000,000.
(2) $50 per share involuntary liquidation value.
(3) $100 per share involuntary liquidation value.
(4) $25 per share involuntary liquidation value.

The following summary indicates the changes in the number of shares of Common Stock outstanding during 1983, 1982 and 1981:

	Year Ended December 31,		
	1983	1982	1981
Common Stock:			
Shares outstanding at beginning of year	**53,276,525**	45,302,520	40,166,083
Issuances:			
Common Stock sales	**2,475,000**	4,500,000	4,100,000
Dividend Reinvestment Plan	**2,524,407**	1,962,320	902,977
Employee Stock Ownership Plan	**143,727**	104,787	133,460
Exchanged for outstanding First Mortgage Bonds	**—**	1,406,898	—
Shares outstanding at end of year	**58,419,659**	53,276,525	45,302,520

The number of shares reserved at December 31, 1983 for issuance under the Dividend Reinvestment Plan and the Employee Stock Ownership Plan are 6,364,124 and 448,115, respectively.

The Preference Stock is entitled to quarterly cumulative dividends except that no dividends may be paid if dividends on any series of the Preferred Stock are accumulated and unpaid. In the event that six quarterly dividends on any series of Preference Stock are in default, the holders of the Preference Stock are entitled to elect two directors until all dividends in arrears have been paid.

The outstanding Preference Stock of the Company is callable on not less than thirty days' notice at the following redemption prices plus accrued dividends: $7.50—redeemable at $105 through April 1, 1986; $103 through April 1, 1989; and $101 thereafter; $2.75—not redeemable prior to August 1, 1984 through certain refunding operations, otherwise redeemable at $27.75 through July 31, 1984; $26.50 through July 31, 1989; and $25.25 thereafter; $2.315—redeemable at $26.60 through March 31, 1986; $25.90 through March 31, 1991; and $25.25 thereafter; $2.10—redeemable at $26.40 through March 31, 1987; $25.70 through March 31, 1992; and $25.00 thereafter; $9.125—not redeemable prior to January 1, 1989 through certain refunding operations, otherwise redeemable at $100 plus the applicable redemption premium decreasing from $6.72 in 1984 to $.48 in 1998.

The Preferred Stock is entitled to quarterly cumulative dividends. In the event that four quarterly dividends on any series of Preferred Stock are in default, the holders of the Preferred Stock are entitled to elect a majority of the Board of Directors until all dividends in arrears and current dividends have been paid.

The outstanding Preferred Stock of the Company is callable on not less than thirty days' notice at the following redemption prices plus accrued dividends: 4%—$51.50; 3.75%—$51.00; 4.15%—$51.73; 4.20%—$51.71; 4.10%—$51.75; $2.10—$51.84; $8.64—redeemable at $107 through September 30, 1984; $104 through September 30, 1989; and $101 thereafter; $7.20—redeemable at $102.50 through March 31, 1987; and $101 thereafter; $8.375—redeemable at $112 through March 31, 1988, and thereafter at $100 plus the applicable redemption premium decreasing from $5.03 in 1988 to $.34 in 2003.

Redeemable Preferred and Preference Stock:
The shares of $7.50 Preference Stock are entitled to a non-cumulative purchase fund under which the Company offers to purchase annually at $100 per share up to 4% of the number of shares originally issued. The shares of $2.75 Preference Stock are subject to a cumulative sinking fund which will retire 55,000 shares by August 1 in each year at $25 per share. The Company may on a non-cumulative basis retire an additional 55,000 shares in each such year. The shares of $9.125 Preference Stock are subject to a cumulative sinking fund beginning with the year 1985 and continuing through 1997 inclusive which will retire 33,300 shares on January 1 in each year at $100 per share. The Company may, on a non-cumulative basis, retire an additional 33,300 shares in each such year, provided that the Company may not redeem through the exercise of this option more than an aggregate of 150,000 shares.

The shares of $8.64 Preferred Stock are entitled to a non-cumulative purchase fund under which the Company offers to purchase annually up to 6,000 shares at not more than $100 per share. The shares of $8.375 Preferred Stock are subject to a cumulative sinking fund beginning with the year 1984 which will retire 12,000 shares on April 1 in each year at $100 per share. The Company may on a non-cumulative basis retire an additional 12,000 shares in each such year.

The combined aggregate sinking fund and mandatory purchase requirements for the next five years as of December 31, 1983 are as follows:

Year Ending December 31,	Sinking Fund and Mandatory Purchase Requirements
1984	$4,364,250
1985	7,805,000
1986	7,805,000
1987	7,805,000
1988	7,805,000

The following summary indicates the changes in the number of shares of Redeemable and Non-redeemable Preferred and Preference Stock outstanding during 1983, 1982 and 1981:

	Year Ended December 31,		
	1983	1982	1981
Preference Stock:			
Shares outstanding at beginning of year	3,533,940	3,565,220	3,678,650
Purchases and redemptions —$2.75 Series	(94,450)	(20,080)	(103,750)
—$7.50 Series	(13,000)	(11,200)	(9,680)
Shares outstanding at end of year	3,426,490	3,533,940	3,565,220
Preferred Stock:			
Shares outstanding at beginning of year	2,132,841	2,138,841	2,144,841
Purchases—$8.64 Series	(6,000)	(6,000)	(6,000)
Shares outstanding at end of year	2,126,841	2,132,841	2,138,841

First Mortgage Bonds (amount authorized is unlimited by indenture):

	December 31,	
	1983	1982
Series due September 1, 1983 (3⅝%)	$ —	$ 12,000,000
Series due July 1, 1984 (3⅛%)	16,000,000	16,000,000
Series due April 1, 1986 (3½%)	20,000,000	20,000,000
Series due April 1, 1988 (3¾%)	15,000,000	15,000,000
Series due March 1, 1989 (4¼%)	10,000,000	10,000,000
Series due February 1, 1996 (5⅛%)	22,800,000	22,800,000
Series due February 1, 1997 (5¼%)	24,600,000	24,600,000
Series due February 1, 1998 (6⅜%)	34,700,000	34,700,000
Series due January 1, 1999 (7%)	30,000,000	30,000,000
Series due July 1, 1999 (7¾%)	28,947,000	28,947,000
Series due March 1, 2000 (8¾%)	30,000,000	30,000,000
Series due March 1, 2001 (7⅞%)	35,000,000	35,000,000
Series due December 1, 2001 (7½%)	26,461,000	26,461,000
Series due June 1, 2002 (7½%)	28,470,000	28,470,000
Series due January 1, 2003 (7¼%)	32,670,000	32,670,000
Series due July 1, 2003 (7¾%)	35,000,000	35,000,000
Series due April 1, 2004 (8⅝%)	44,100,000	44,100,000
Series due March 1, 2005 (9½%)	50,000,000	50,000,000
Series due June 1, 2006 (9%)	80,000,000	80,000,000
Series due April 1, 2007 (8⅜%)	97,400,000	97,400,000
Series due February 1, 2009 (10⅛%)	100,000,000	100,000,000
Series due January 1, 2010 (12¼%)	60,000,000	60,000,000
Series due September 1, 2010 (14¼%)	50,000,000	50,000,000
Series due June 1, 2011 (16%)	80,000,000	80,000,000
Series due May 1, 2012 (16¼%)	65,000,000	65,000,000
Series due April 1, 2013 (12⅛%)	60,000,000	—
Series due December 1, 2013 (13%)	50,000,000	—
Total	1,126,148,000	1,028,148,000
Less:		
Current maturities—Series due September 1, 1983 (3⅝%)	—	12,000,000
Current maturities—Series due July 1, 1984 (3⅛%)	16,000,000	—
Current sinking fund requirements	10,001,480	9,511,480
First Mortgage Bonds	$1,100,146,520	$1,006,636,520

Notes (continued)

Other Long-Term Debt:

Pollution Control Obligations: Date of Issuance	Average Interest Rate	Serial Maturity or Mandatory Redemption Beginning	Final Maturity	December 31, 1983	December 31, 1982
September 21, 1972	5.49%	1983	2002	**$ 23,500,000**	$ 24,000,000
June 21, 1973	5.685%	1984	2003	**12,000,000**	12,000,000
October 25, 1973	5.755%	1984	2003	**16,000,000**	16,000,000
August 13, 1974	7.97%	1989	2004	**14,000,000**	14,000,000
April 2, 1975	7.50%	1993	2005	**17,000,000**	17,000,000
October 29, 1975	8.40%	1991	2005	**18,000,000**	18,000,000
September 29, 1976	6.90%	1994	2011	**15,000,000**	15,000,000
March 24, 1981	12.00%	2002	2011	**50,000,000**	50,000,000
November 1, 1983	10.50%	—	2013	**20,500,000**	—
Total				**186,000,000**	166,000,000
Less: Current maturities				**700,000**	500,000
Current sinking fund requirements				**325,000**	—
Pollution Control Obligations				**184,975,000**	165,500,000
Nuclear Fuel Obligations				**30,345,499**	24,221,187
Spent Nuclear Fuel Liability				**8,920,790**	—
5% Sinking Fund Debentures (authorized $20,000,000) due March 1, 2010				**9,778,000**	10,213,000
Total Other Long-Term Debt				**$234,019,289**	$199,934,187

The pollution control obligations arise from arrangements between the Company and development authorities whereby the construction of certain pollution control facilities has been financed through the sale of bonds by those authorities, and the Company is obligated to pay to the authorities amounts equal to the principal of and interest on the authorities' bonds.

The nuclear fuel obligations result from a trust arrangement for the procurement of a portion of the Company's requirements for nuclear fuel. Interest amounts applicable to the trust are capitalized and included in construction work in progress, at rates ranging from 1⅛% to 1½% over the trustee's commercial paper rate. Trust obligations will be paid by the Company as the related nuclear fuel is withdrawn from the trust.

The spent nuclear fuel liability results from a requirement to provide for payment of a one-time fee to the United States Department of Energy for ultimate storage and disposal of spent nuclear fuel used in the generation of electricity through April 6, 1983. See Note A to the financial statements.

Sinking fund requirements and maturities for the next five years for long-term debt outstanding, exclusive of nuclear and spent fuel obligations, as of December 31, 1983 are as follows:

Year Ending Dec. 31,	Sinking Fund Requirements	Maturities
1984	$11,426,480	$16,700,000
1985	11,426,480	700,000
1986	11,429,480	20,700,000
1987	11,676,480	800,000
1988	11,526,480	15,800,000

The sinking fund requirements in each year relate primarily to the First Mortgage Bonds, which requirements may be satisfied by the certification of property additions at 166⅔% of the Bonds required to be redeemed, and the pollution control obligations. The remaining sinking fund requirement relates to the 5% Sinking Fund Debentures. At December 31, 1983, sinking fund requirements for the 5% Debentures had been satisfied for 1984 and 1985, and the 1986 sinking fund requirement had been partially satisfied in the amount of $222,000.

Total interest costs incurred during 1983, 1982 and 1981 were $131,248,000, $125,004,000 and $111,331,000, respectively, of which $73,310,000, $60,075,000 and $42,982,000, respectively, were capitalized or deferred, including allowance for funds used during construction.

F. SHORT-TERM BORROWING ARRANGEMENTS:
At December 31, 1983 the Company had lines of credit with two banks totaling $15,000,000, all of which was unused. Effective February 1, 1984 these lines of credit increased to an aggregate of $35,000,000. The range of interest rates under these lines of credit are from prime rate less one half of one percent to the prime rate or at a special rate as may be offered from time to time by the banks. As part of the arrangement for one of the lines of credit, the Company is required to pay a commitment fee of ⅜% per annum on the unused portion of the line. There are no compensating balances associated with these lines of credit. In addition, the Company has a $60,000,000 revolving credit arrangement available to December 15, 1986, all of which was unused at December 31, 1983. Borrowings outstanding at December 15, 1986 may be converted to term notes payable in six equal semi-annual installments commencing June 17, 1987 and concluding December 15, 1989. Interest rates fluctuate during the revolving and term periods, depending on the period of borrowings, at percentages in excess of prime, Euro-Rate or certificate of deposit rates. Until December 15, 1986 there is a commitment fee of ½% per annum on the average unborrowed commitment. There is no commitment fee during the term period.

During the years ended December 31, 1983, 1982 and 1981 the maximum amount of short-term borrowings outstanding was $48,020,000, $37,000,000 and $80,140,000, the average daily short-term borrowings outstanding were $12,251,000, $1,559,000 and $28,341,000 and the weighted average daily interest rate applicable to such short-term borrowings was 9.40%, 15.39% and 17.50%, respectively.

G. DEFERRED COAL COSTS:
The Company and the other CAPCO companies have made long-term coal supply arrangements with Quarto Mining Company (Quarto), an unaffiliated company, to supply coal for the

Bruce Mansfield Units. In December 1980 the Pennsylvania Public Utility Commission (Commission) instituted an investigation into the reasonableness of the cost of coal supplied by Quarto. By Interim Order entered January 12, 1981 the Commission directed that, pending conclusion of the investigation or further order of the Commission, the Company limit its recovery of the cost of Quarto coal through its energy cost rate to approximately the prevailing market price of similar coal rather than the actual cost of Quarto coal. As required by the Interim Order, the Company is deferring the excess of the actual cost of Quarto coal over the cost being recovered through its energy cost rate until recovery of the actual cost is permitted by the Commission. At December 31, 1983 the unrecovered cost of Quarto coal paid by the Company was approximately $21,541,000, including $876,000 applicable to Quarto coal in inventory. If recovery of such excess is disallowed, the amount deferred would be charged to income in the year of disallowance. Thereafter, any excess of actual cost over the amount permitted to be recovered would be charged to income on a current basis. The deferrals and methods of ultimately recovering such deferrals were the subject of discussions between representatives of the Company and the Commission staff. Such discussions resulted in the filing with the Commission of a Stipulation Agreement, which sets forth a method intended to permit the eventual recovery of the accumulated deferrals of the excess of Quarto coal costs over market price. The administrative law judge assigned to the investigation entered an order, subject to review by the Commission, approving the Stipulation Agreement. On November 19, 1982 the Commission remanded the Stipulation Agreement to the administrative law judge for hearings. Hearings were held in January and February 1983, and on April 29, 1983 the Commission issued an order allowing the Consumer Advocate to place into the record testimony regarding the prudence of the Quarto project. Further hearings were held in July and August 1983. On February 3, 1984 the administrative law judge issued a recommended decision, subject to the Commission's approval, concluding that the Company was prudent by initiating and continuing the Quarto project and that the Stipulation Agreement is in the public interest and is a fair and reasonable resolution of the investigation into the reasonableness of the cost of Quarto coal. The administrative law judge recommended that the Stipulation Agreement and its methodology for recovering the cost of the Quarto coal be approved and the Commission's investigation terminated. The matter is presently pending before the Commission. Management of the Company believes that the deferred costs were prudently incurred and that the eventual outcome of the Commission's investigation will not have a material effect on the Company's financial position or results of operations. The CAPCO companies are continuing to evaluate the economics of the Quarto arrangements and are considering and implementing various means for reducing production costs. See Note M to the financial statements.

H. INCOME TAXES:

Total income taxes in 1983, 1982 and 1981 were comprised of the following components:

	1983	1982	1981
		(Thousands of Dollars)	
Included in operating expenses:			
Currently payable:			
Federal	$ 33,931	$25,257	$20,519
State	14,295	12,694	13,680
Income taxes deferred—net:			
Federal	22,955	13,997	26,080
State	5,555	(228)	(1,057)
Investment tax credit deferred—net	16,218	19,493	13,041
Total	92,954	71,213	72,263
Included in other income (income taxes—credit):			
Currently payable:			
Federal	(13,354)	(14,267)	(11,523)
State	(3,406)	(3,639)	(2,939)
Total income tax expense	$ 76,194	$53,307	$57,801
Taxes currently payable—federal and state	$ 31,466	$20,045	$19,737
Taxes deferred—net	28,510	13,769	25,023
Investment tax credit deferred—net	16,218	19,493	13,041
Total income tax expense	$ 76,194	$53,307	$57,801

Total income tax expense is exclusive of income taxes applicable to discontinued steam heating operations. See Note C to the financial statements.

Sources of income taxes deferred and the tax effects were:

	1983	1982	1981
Excess of tax over book depreciation	$ 20,920	$14,490	$12,672
Fuel costs expensed on tax return and deferred on books	9,786	(3,552)	(3,062)
Investment tax credit carryforward recognized against income taxes deferred—net	—	—	16,932
Extraordinary property losses expensed on tax return and deferred on books	(1,562)	3,019	81
Other	(634)	(188)	(1,600)
Total income taxes deferred—net	$ 28,510	$13,769	$25,023

Total income taxes from continuing electric operations were less than the amount computed by applying the statutory federal income tax rate of 46% to income from continuing electric operations before income taxes. The reasons for this difference in each year were as follows:

Computed federal income tax on continuing electric operations at statutory rate	**$101,853**	$78,432	$76,917
Increase (decrease) in taxes resulting from:			
Allowance for funds used during construction	**(30,405)**	(23,123)	(16,565)
Excess of tax over book depreciation	**3,246**	1,131	(577)
State income taxes, net of federal income tax benefit	**8,880**	4,766	5,229
Amortization of deferred investment tax credits	**(5,266)**	(4,251)	(3,663)
Other-net	**(2,114)**	(3,648)	(3,540)
Total income tax expense	**$ 76,194**	$53,307	$57,801

I. PRIOR YEARS' INCOME TAXES:
The Company's income tax returns are settled through 1970. Income tax returns for 1971 through 1979 have been examined, the 1980 and 1981 returns are being examined, and the 1982 return is subject to review. The Internal Revenue Service assessed deficiencies regarding the Company's computation of percentage depletion on coal mined for 1956 through 1979, as well as certain other issues of relatively minor importance for 1971 through 1979. A settlement of the depletion issue for the years 1962 through 1970 occurred in June 1983 based on an earlier court decision which was generally in favor of the Company concerning percentage depletion for the years 1956 through 1961. The settlement resulted in a charge to retained earnings of approximately $3,444,000. The Company has received approval from the Federal Energy Regulatory Commission for this accounting treatment. The Company expects that this court decision will serve as the basis for settlement of the depletion issue for the years 1971 through 1979. Management of the Company believes that the settlement of federal and state taxes will not have a material effect on the Company's financial position or results of operations.

J. EMPLOYEE BENEFITS:
The Company has trusteed retirement plans to provide pensions for all employees, except coal mine employees who are covered under a plan administered by the United Mine Workers of America. Information concerning the plan covering coal mine employees is not determinable and is not included in the data below. Pension costs are funded as accrued and include amortization of prior service costs over 30 years. Pension costs charged to expense or construction for the years ended December 31, 1983, 1982 and 1981 were $10,803,000, $12,313,000 and $10,083,000, respectively. The decrease in pension costs in 1983 resulted principally from an increase in the interest assumption. The increase in pension costs in 1982 was due principally to a plan amendment effective May 1, 1981, increasing pension payments to employees retired prior to October 1, 1979.

The accumulated plan benefits and net assets available for benefits for the trusteed plans are presented as of the December 31 benefit information dates. In 1983 the Company adopted an early retirement program in which certain benefits will be paid from the assets of the retirement plans. Additionally during 1983, the Company refunded from such assets all employee contributions. The impact of the early retirement program and the refund of contributions is not reflected in the amounts below. The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 5½% for 1982 and 5% for 1981 and 1980.

	December 31, 1982	1981	1980
	(Thousands of Dollars)		
Actuarial present value of accumulated plan benefits:			
Vested	**$159,956**	$151,756	$135,345
Nonvested	**11,494**	11,566	10,750
Total	**$171,450**	$163,322	$146,095
Net assets available for benefits (at fair value)	**$135,571**	$111,013	$107,798

The Company is liable under federal and state laws for the payment of benefits to coal mine employees disabled by black lung and to their survivors and dependents. The estimated costs of providing such benefits, including amortization of prior service costs over the remaining estimated life of the Warwick mine, are actuarially determined and accrued on the basis of mine payroll costs and are deposited with a trustee. Such costs were $1,574,000, $1,417,000 and $1,524,000 for the years ended December 31, 1983, 1982 and 1981, respectively. At July 31, 1983 (the date of the latest actuarial valuation), the unfunded prior service cost for these disability benefits was approximately $23,513,000.

K. JOINTLY-OWNED GENERATING UNITS:

The Company, together with other electric utilities, primarily the CAPCO companies, has an ownership interest in certain jointly-owned units. Information regarding the Company's share of such jointly-owned units as of December 31, 1983 is as follows (thousands of dollars):

	Company's Interest				
Unit	Utility Plant in Service	Accumulated Depreciation	Construction Work in Progress	Percentage Ownership	Megawatts
Fort Martin No. 1	$ 46,131	$ 14,583	$ 966	50.0	276
CAPCO Units:					
Eastlake No. 5	50,216	11,282	1,606	31.2	202
Sammis No. 7	67,484	12,150	3,825	31.2	187
Bruce Mansfield No. 1	72,346	15,112	262	29.3	228
Bruce Mansfield No. 2	20,221	3,530	106	8.0	62
Bruce Mansfield No. 3	70,073	7,194	564	13.74	110
Bruce Mansfield Common and Shared Facilities	61,297	12,467	2,250		
Beaver Valley No. 1	333,582	52,279	13,660	47.5	385
Beaver Valley No. 2	18	—	287,236	13.74	114
Beaver Valley Common Facilities	47,920	5,361	19,614		
Perry No. 1	—	—	265,147	13.74	165
Perry No. 2	—	—	188,165	13.74	165
Total	$769,288	$133,958	$783,401		

Under terms of the arrangements with the other owners of such jointly-owned units, the Company is required to provide its share of financing the cost of such units. The Company's share of the direct expenses (fuel, maintenance and other operation expenses) of the jointly-owned units is included in the corresponding operating expenses in the Statement of Consolidated Income.

L. LEASES:

Rental payments in 1983, 1982 and 1981 amounted to $30,028,000, $17,679,000 and $16,389,000, respectively, of which $31,994,000, $15,393,000 and $14,169,000 were charged to operating expenses. The Company has an undivided interest in nuclear fuel lease agreements. Rental payments are made monthly during the terms of the leases based on the amount of nuclear fuel leased and the amount of nuclear fuel burned. The increase in 1983 rental payments and amounts charged to operating expenses resulted from higher building rentals and an increased amount of nuclear fuel being burned.

The nuclear fuel leases may be terminated by the lessees or lessors with notice as defined in the agreements or by casualty or certain other contingencies, including default by the lessees. In certain situations involving a termination, the lessees may be required to purchase the leased nuclear fuel at the higher of fair market value or unamortized cost. At December 31, 1983, the Company's share of the lessors' unamortized cost of the leased nuclear fuel was $124,891,000 and the Company expects to lease an additional $81,262,000 of nuclear fuel under current leasing arrangements. The Company finalized a nuclear fuel trust arrangement in 1983 which provides an alternative method of financing nuclear fuel.

The Company has certain buildings under lease, including its new corporate headquarters, subject to renewal options and in certain cases purchase options.

At December 31, 1983 minimum rental payments, based principally on estimated usage of nuclear fuel under lease and building rentals, were as follows:

	(Thousands of Dollars)
1984	$37,591
1985	32,699
1986	32,474
1987	29,269
1988	23,246
1989-1993	80,204
After 1993	83,314

The Company accounts for all of its leases (exclusive of the nuclear fuel trust arrangement described above) as operating leases in accordance with the manner in which the Company's rates have been established by the Pennsylvania Public Utility Commission. If the noncapitalized financing leases were capitalized as of December 31, 1983 and 1982, property, plant and equipment-net would have been increased by $143,547,000 and $117,538,000, respectively, with related increases in current liabilities and long-term debt of $24,271,000 and $119,761,000, respectively, in 1983 and $12,154,000 and $105,820,000, respectively, in 1982. The impact on net income of capitalizing such leases in each year would not be material.

Notes (continued)

M. COMMITMENTS AND CONTINGENT LIABILITIES:

Construction

The Company's current estimate of construction expenditures, exclusive of allowance for funds used during construction and nuclear fuel, during the period 1984 through 1988 amounts to approximately $860 million, principally related to CAPCO generating units.

Quarto Mining Company (Quarto)

The Company and the other CAPCO companies have made long-term coal supply arrangements with Quarto, an unaffiliated company, to supply coal for the Bruce Mansfield Units. As part of these arrangements the individual CAPCO companies are severally, and not jointly, guaranteeing their proportionate shares of Quarto's debt and lease obligations incurred in connection with the development, equipping and operation of two mines from which the coal is supplied. At December 31, 1983 the Company had guaranteed the obligations of Quarto with respect to approximately $54,142,000 of indebtedness and lease obligations relating to approximately $28,239,000 of capital equipment for the mines. The Company expects that it will make further guarantees with respect to additional indebtedness and leased capital equipment, the amount of which will depend on the actual costs of further development of the two mines. In general, it is contemplated that the purchase prices to be paid for the coal to be received under the foregoing arrangements will include amounts sufficient to service the guaranteed obligations.

Under the terms of the coal supply contracts, which continue until December 31, 1999 with options to extend for ten additional years, the CAPCO companies must reimburse Quarto for their share of the costs of operating the Quarto mines, including those costs associated with mine construction, whether or not they receive coal from Quarto. The Company's total payments under these contracts amounted to $28,512,000 and $24,292,000 for the years ended December 31, 1983 and 1982, respectively.

The Company's estimated future minimum payments under the coal supply contracts related to mine construction and equipment costs are:

Year Ending December 31,	
1984	$ 8,773,000
1985	8,567,000
1986	8,360,000
1987	8,153,000
1988	7,947,000
After 1988	78,426,000

The current price of Quarto coal to the CAPCO companies is based principally on the actual current production costs plus amortization of certain production expenses which were not included in the price of coal to the CAPCO companies during the development period, which ended on May 31, 1980. See Note G to the financial statements.

Beaver Valley Replacement Power

In connection with a February 20, 1981 rate order, the Commission found that the Company had not proven that the costs of replacement power during a 1979 outage of Beaver Valley Unit No. 1 were prudently incurred.

On November 19, 1982 the Commission adopted an order nisi which ordered refunds of $12.5 million plus interest over a two-year period less a $1 million offset from another proceeding. The order nisi became final on June 10, 1983. The Company filed an appeal with the Pennsylvania Commonwealth Court and filed with the Commission a petition for an extension of time in which to file a refund plan together with an application for a stay of the final order. On August 24, 1983 the Commission denied the application for a stay but granted the petition for an extension of time in which to file a refund plan. Subsequently, the Company filed an application with the Commonwealth Court for a stay of the final order, and on September 28, 1983 the Commonwealth Court granted the application. The Company and outside counsel do not agree with the Commission's order, and no provision has been recorded by the Company for any such refunds. While the Company is unable to predict what action the appellate courts may ultimately take and although the amount of such refunds could be substantial, management of the Company believes that the replacement power costs were prudently incurred and that the eventual outcome of this matter will not have a material effect on the Company's financial position or results of operations.

Perry Unit No. 2

In September 1983, the Ohio Office of the Consumers' Counsel, the City of Cleveland, the Board of County Commissioners of Geauga County, Ohio and three citizen groups filed a petition with the Public Utilities Commission of Ohio (Commission) and the Power Siting Board of Ohio (Board) against The Cleveland Electric Illuminating Company, Ohio Edison Company and The Toledo Edison Company (respondents) requesting that the Commission and the Board jointly and/or individually investigate the public need for the Perry Nuclear Power Plant Unit No. 2 (Unit) presently under construction by the CAPCO companies. The petitions also request that the Commission and the Board order the cessation of construction of the Unit and of the accrual by the respondents of allowance for funds used during construction with respect to the Unit and a declaration by the Commission that the issuance of securities by the respondents, the proceeds of which will be used to finance construction of the Unit, will not be approved. The respondents have filed a motion to dismiss the petition filed with the Board and an answer to the petition filed with the Commission requesting that the petition be dismissed. While the Company is not a party to the proceedings, it has a 13.74% ownership interest in the Unit. The Unit, which is presently scheduled to be placed in service in 1988, is about 43% complete. The Company's investment in the Unit, including allowance for funds used during construction, was approximately $188 million at December 31, 1983. An order requiring the respondents to cease or terminate construction of the Unit could have the effect of cancelling the Unit. In such event, the Company would seek regulatory approval for the recovery from its customers of its then investment in the Unit, together with any related cancellation costs, net of applicable taxes. Based on its present knowledge of the proceedings, management of the Company has no reason to believe that the proceedings will result in a decision adverse to the respondents and believes that the ultimate resolution thereof will not have a material adverse effect on the Company's financial position.

Nuclear Insurance

The CAPCO companies have coverage with American Nuclear Insurers (ANI) and Mutual Atomic Energy Liability Underwriters (MAELU) to provide primary property insurance coverage for Beaver Valley Power Station Units Nos. 1 and 2 in the amount of $500 million.

The CAPCO companies are members of Nuclear Electric Insurance Limited (NEIL), a mutual insurer established by the utility industry to provide Decontamination Liability and Excess Property Insurance in excess of $500 million for members' nuclear generating facilities. NEIL presently provides such excess coverage in the amount of $375 million plus 12%

of the amount of the loss in excess of $500 million up to $1 billion. Under this policy the CAPCO companies are subject to a retrospective premium assessment of approximately $9.5 million per year for a period of seven years in the event of accidents at nuclear plants of member companies if losses exceed premiums, reserves and other NEIL resources. The Company's share of any such retrospective premium assessment would be approximately $2.9 million.

Damages in excess of the primary $500 million coverage are also covered by an excess property insurance policy issued to the CAPCO companies by ANI and MAELU which provides $68 million of coverage. The ANI/MAELU and NEIL policies provide quota sharing coverage for losses in excess of $500 million up to $1 billion.

The property insurance policies described above provide the CAPCO companies with approximately $1 billion of coverage on an investment in the two Beaver Valley Units at December 31, 1983 of about $2.9 billion.

In addition, NEIL also provides insurance coverage for the extra expense of replacement power during prolonged accidental outages of nuclear plants. Coverage is provided for the Company's interest in Beaver Valley Power Station Unit No. 1 and, after a deductible period of 26 weeks, weekly payments of up to $588,000 are provided for one year and up to $294,000 for an additional year. If losses exceed accumulated funds available to NEIL, the Company could be assessed approximately $1.7 million for payment of NEIL's obligations.

The Price-Anderson Amendments to the Atomic Energy Act limit liability to third parties to $580 million for each nuclear incident. Coverage of the first $160 million of such liability is provided through ANI and MAELU. The next $420 million is provided by retroactive assessments of up to a limit of $5 million per operating nuclear reactor per incident, but not more than $10 million per operating reactor in any calendar year. Based on its present ownership interest in one operating nuclear reactor, the Company's maximum potential assessment under these provisions would be $2.4 million per incident but not more than $4.8 million per calendar year.

Rate Matters

Effective July 15, 1981 the Company increased its rates by about $64.2 million annually in accordance with an option order of the Pennsylvania Public Utility Commission (Commission). On April 15, 1982 the Commission adopted its final order in the rate proceeding which determined that the option rate increase of $64.2 million annually was just and reasonable. The final order was appealed to the Pennsylvania Commonwealth Court by a commercial customer. On November 29, 1983 the Court affirmed the Commission's final order. The Court's order is the subject of a petition for allowance of appeal by the commercial customer to the Pennsylvania Supreme Court.

On April 30, 1982 the Company filed with the Commission a new rate schedule estimated to increase annual revenues by approximately $165 million (subsequently reduced to approximately $155 million). On January 28, 1983 the Commission entered a final order allowing an increase of $105.8 million beginning on January 29, 1983. The Commission's order was appealed to the Pennsylvania Commonwealth Court by both the Pennsylvania Consumer Advocate and the Company. Except for the Consumer Advocate's appeal with respect to the Commission's allowance of the recovery of the cancellation costs of four nuclear generating units (see Note B to the financial statements), both appeals have been discontinued.

On April 29, 1983 the Company filed with the Commission a new rate schedule affecting all classes of customers and estimated to increase annual revenues based on projected levels of business at December 31, 1983 by approximately $49.9 million. On September 7, 1983 the administrative law judge assigned to the rate proceeding issued a recommended decision adopting a joint petition for settlement filed by the Company, the Commission's staff, the Pennsylvania Consumer Advocate and certain of the other parties to the proceeding which provided for an increase in annual revenues of approximately $21 million. On September 16, 1983 the Commission approved the settlement. The Company began to collect the increased rates effective September 17, 1983. Two complaints concerning rate structure issues remain pending, and further hearings with respect thereto will be scheduled.

Management believes that the ultimate resolution of these rate matters will not have a material adverse effect on the Company's financial position or results of operations.

Other

In connection with coal supply arrangements for its wholly-owned generating units the Company has contracted with an unaffiliated coal supplier to purchase a minimum of 750,000 tons of coal per year through December 31, 1986. In 1983 the contract was amended to provide that if the Company requests deliveries in 1983 and 1984 below the minimum annual tonnage, the Company shall make up the shortfall (plus a 63,000 ton shortfall in 1982) by purchasing additional tons during the remaining term of the contract or by extending the term of the contract. The contract also provides that any shortfall can be sold to purchasers other than the Company. The total shortfall under the contract at December 31, 1983 was approximately 317,000 tons.

The Company is involved in various other legal proceedings. In the opinion of management of the Company such legal proceedings will not have a material effect on the financial position or results of operations of the Company.

N. SUPPLEMENTARY INCOME STATEMENT INFORMATION:

	Year Ended December 31,		
	1983	1982	1981
	(Thousands of Dollars)		
Maintenance	**$75,947**	$78,431	$73,029
Amortization of extraordinary property losses	**6,099**	—	—
Taxes other than payroll and income taxes:			
Gross receipts	**35,576**	33,186	34,980
Property	**14,374**	14,139	12,583
State capital stock	**5,501**	6,601	6,301

Under the system of accounting followed by the Company, a portion of maintenance expenses and of taxes other than income taxes represents amounts charged to coal inventories. The inventory accounts are relieved and operations expense charged as the coal is used.

Notes (continued)

O. QUARTERLY FINANCIAL INFORMATION (Unaudited):

The following is a summary of selected quarterly financial data (in thousands of dollars, except per share amounts):

	1983 Quarter Ended				1982 Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31	March 31	June 30	Sept. 30	Dec. 31
Electric Operating Revenues (a)	$185,848	$198,666	$215,141	$200,690	$207,398	$186,628	$181,720	$170,716
Operating Income (a)	43,918	45,287	49,491	47,976	41,662	38,480	40,223	34,942
Income from Continuing Electric Operations Before Extraordinary Gain	32,975	34,883	39,392	37,977	32,296	28,990	30,845	25,066
Discontinued Steam Heating Operations (b)	—	—	—	—	371	(484)	(9,811)	—
Extraordinary Gain (c)	—	—	—	—	—	—	—	9,609
Net Income	32,975	34,883	39,392	37,977	32,667	28,506	21,034	34,675
Earnings Per Share:								
Income from Continuing Electric Operations Before Extraordinary Gain	.51	.54	.60	.56	.58	.51	.51	.37
Discontinued Steam Heating Operations (b)	—	—	—	—	.01	(.01)	(.20)	—
Extraordinary Gain (c)	—	—	—	—	—	—	—	.19
Net Income	.51	.54	.60	.56	.59	.50	.31	.56

(a) Certain amounts previously reported as Operating Revenues and Operating Income for the first two quarters of 1982 have been reclassified to set forth separately the results of the steam heating subsidiary as discontinued steam heating operations.

(b) See Note C to the financial statements for a discussion of discontinued steam heating operations.

(c) See Note D to the financial statements for a discussion of the extraordinary gain from early extinguishment of bonds.

P. SUPPLEMENTARY INFORMATION TO DISCLOSE THE EFFECTS OF CHANGING PRICES (Unaudited):

The following supplementary information is supplied in accordance with the requirements of the Statement of Financial Accounting Standards No. 33, Financial Reporting and Changing Prices. This Statement requires adjustments to historical costs to estimate the effects that general inflation (constant dollar) and changes in specific prices (current cost) have had on the Company's results of operations. The data provided are not intended as a substitute for earnings reported on a historical basis, but offer some perspective of the approximate effects of inflation rather than a precise measurement of these effects.

STATEMENT OF INCOME ADJUSTED FOR CHANGING PRICES
For The Year Ended December 31, 1983
(Thousands of Dollars)

	Conventional Historical Cost	Constant Dollar Average 1983 Dollars	Current Cost Average 1983 Dollars
Electric operating revenues	$800,345	$800,345	$800,345
Fuel	192,512	192,512	192,512
Purchased power (sales)—net	(7,330)	(7,330)	(7,330)
Other operation and maintenance expenses	201,204	201,204	201,204
Depreciation expense	73,682	157,841	174,112
Taxes other than income taxes	60,651	60,651	60,651
Income taxes	92,954	92,954	92,954
Other income and deductions—net	(67,715)	(67,715)	(67,715)
Interest charges	109,161	109,161	109,161
	655,119	739,278	755,549
Income from continuing electric operations (excluding reduction of property, plant and equipment to net recoverable cost)	$145,226	$ 61,067*	$ 44,796
Increase in specific prices (current cost) of property, plant and equipment held during the year**			$251,349
Reduction of property, plant and equipment to net recoverable cost		$(18,925)	(40,924)
Effect of increase in general price level			(213,079)
Excess of increase in general price level over increase in specific prices after reduction of property, plant equipment to net recoverable cost			(2,654)
Gain from decline in purchasing power of net amounts owed		67,732	67,732
Net		$ 48,807	$ 65,078

*Including the reduction of property, plant and equipment to net recoverable cost, the net income on a constant dollar basis would have been $42,142.

**At December 31, 1983, current cost of property, plant and equipment, net of accumulated depreciation, was $5,369,693, while historical cost or net cost recoverable through depreciation was $2,739,890.

FIVE-YEAR COMPARISON OF SELECTED SUPPLEMENTARY FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES

(In Thousands Except Per Share Amounts)	Year Ended December 31,				
	1983	1982	1981	1980	1979
Average 1983 dollars:					
Electric operating revenues	**$800,345**	$770,733	$861,562	$816,090	$839,296
Historical cost information adjusted for general inflation:					
Income from continuing electric operations (excluding reduction of property, plant and equipment to net recoverable cost) (1)	**61,067**	38,247	39,552	42,042	44,888
Income per share from continuing electric operations (after dividend requirements on preferred and preference stock) (1)	**.69**	.31	.34	.36	.38
Net assets at year-end at net recoverable cost	**940,854**	896,216	832,000	833,932	857,570
Current cost information:					
Income from continuing electric operations (excluding reduction of property, plant and equipment to net recoverable cost) (1)	**44,796**	23,564	23,433	23,228	21,453
Income (loss) per share from continuing electric operations (after dividend requirements on preferred and preference stock) (1)	**.40**	—	(.04)	(.13)	(.34)
Excess of increase in general price level over increase in specific prices after reduction of property, plant and equipment to net recoverable cost	**2,654**	(237)	120,532	235,444	237,872
Net assets at year-end at net recoverable cost	**940,854**	896,216	832,000	833,932	857,570
General information:					
Gain from decline in purchasing power of net amounts owed	**67,732**	64,128	148,054	206,745	237,532
Cash dividends declared per share of common stock	**2.00**	1.96	2.02	2.18	2.43
Market price per share of common stock at year-end	**13.50**	15.23	14.52	15.27	18.70
Average consumer price index	**298.5**	289.1	272.4	246.8	217.5
Historical basis:					
Electric operating revenues	**$800,345**	$746,462	$786,229	$674,744	$611,547
Cash dividends declared per share of common stock	**$ 2.00**	$ 1.90	$ 1.85	$ 1.80	$ 1.76
Market price per share at year-end	**$13.50**	$14.75	$13.25	$12.63	$13.63
Proven and probable coal reserves at beginning of year (tons)	**25,100**	26,300	28,100	29,900	30,650
Tons of coal mined	**785**	942	680	875	928
Average cost per ton of mined coal	**$36.59**	$31.62	$35.10	$31.14	$28.71

(1) Amounts for 1982 are before extraordinary gain. Amounts for 1979 are before cumulative effect of accounting change.

Constant dollar amounts represent historical costs stated in terms of equal purchasing power, as measured by the Consumer Price Index for all Urban Consumers. Current cost amounts reflect the changes in specific prices of plant from the date the plant was acquired to the present and differ from constant dollar amounts to the extent that specific prices have increased more or less rapidly than prices in general.

The current cost of property, plant and equipment, which includes land, land rights, intangible plant, property held for future use, construction work in progress and nuclear fuel in process, represents the estimated cost of replacing existing plant assets and was primarily determined by indexing surviving plant by the Handy-Whitman Index of Public Utility Construction Costs. The current cost of coal properties was determined by indexing coal reserves and machinery and equipment by the Marshall-Stevens Mining and Milling Index. The current year's provision for depreciation and depletion on the constant dollar and current cost amounts of property, plant and equipment was determined by applying the Company's depreciation and depletion rates to the indexed plant amounts.

Fuel inventories, the cost of fuel used in generation and purchased power have not been restated from their historical cost in nominal dollars. Rate regulation limits the recovery of fuel and purchased power costs through the operation of adjustment clauses or adjustments in basic rate schedules to actual costs. For this reason fuel inventories are effectively monetary assets.

As prescribed in Statement 33, income taxes were not adjusted.

The regulatory process limits the Company to the recovery of the cost of service in its rates. Therefore, any excess of the value of plant in constant dollars or current cost must be reduced to the net recoverable cost, which is historical cost. The amount of this excess that accumulated as a result of inflation in the current year must be reduced to net recoverable cost.

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

The regulatory process limits the amount of depreciation expense included in the Company's revenue allowance and limits its utility plant in rate base to original cost. Such amounts produce cash flows which are inadequate to replace such property in the future or preserve the purchasing power of common equity capital previously invested. While this effect is partially mitigated by the benefit derived from holding long-term debt, the Company has a net purchasing power loss which is experienced by the common shareholder and can only be overcome by adequate rate relief. However, the Company expects that it will be able to establish rates which will recover the increased costs of new plant.

Duquesne Light Company

Selected Financial Data and Statistical Summary

(Thousands of Dollars, Except Per Share Amounts)

	1983	1982	1981	1980	1979	1973
SUMMARY RESULTS OF OPERATIONS						
Residential revenues	**267,110**	238,496	223,146	196,400	176,744	79,113
Commercial revenues	**290,370**	263,374	243,501	209,871	185,880	75,113
Industrial revenues	**221,107**	225,292	300,066	250,295	232,389	80,274
Street lighting and other revenues	**14,357**	13,240	12,383	11,052	10,370	4,762
Miscellaneous revenues	**7,401**	6,060	7,133	7,126	6,164	2,580
Total electric revenues	**800,345**	746,462	786,229	674,744	611,547	241,842
Operation and maintenance expenses	**386,386**	399,527	435,589	380,973	351,731	111,383
Depreciation	**73,682**	62,939	60,854	53,316	47,885	23,211
Taxes other than income taxes	**60,651**	57,476	57,694	47,637	46,956	20,462
Income taxes	**76,194**	53,307	57,801	50,643	41,592	15,864
Interest charges, net of allowance for borrowed funds used during construction	**109,161**	100,344	92,968	75,629	65,414	32,460
Other income, principally allowance for equity funds used during construction	**50,955**	44,328	28,086	26,749	21,587	13,496
Income from continuing electric operations before extraordinary gain	**145,226**	117,197	109,409	93,295	79,556	51,958
Loss from discontinued steam heating operations	**—**	9,924	538	333	1,194	133
Income before extraordinary gain	**145,226**	107,273	108,871	92,962	78,362	51,825
Extraordinary gain	**—**	9,609	—	—	—	—
Net income	**145,226**	116,882	108,871	92,962	82,207†	51,825
Dividends on Preferred and Preference Stock	**22,411**	22,701	22,976	23,353	23,721	9,233
Earnings for Common Stock	**122,815**	94,181	85,895	69,609	58,486	42,592
Average number of common shares outstanding	**55,883**	48,236	41,764	38,267	32,239	18,181
Earnings per share of Common Stock: Income from continuing electric operations	**2.20**	1.96	2.07	1.83	1.73	2.35
Net income	**2.20**	1.95	2.06	1.82	1.81†	2.34
Dividends declared on Common Stock	**2.00**	1.90	1.85	1.80	1.76	1.72

†Includes cumulative effect to January 1, 1979 of the change in billing practice, net of income taxes, of $3,845 or $.12 per share.

	1983	1982	1981	1980	1979	1973
PLANT						
Property, plant and equipment	**3,293,481**	3,024,554	2,809,753	2,604,333	2,380,805	1,423,135
Accumulated depreciation	**555,641**	504,680	477,009	424,653	386,479	265,459
Property, plant and equipment—net	**2,737,840**	2,519,874	2,332,744	2,179,680	1,994,326	1,157,676
TOTAL ASSETS	**3,145,811**	2,883,424	2,668,577	2,447,163	2,222,537	1,256,291

	1983	1982	1981	1980	1979	1973
CAPITALIZATION						
Common Stock	**58,420**	53,277	45,303	40,166	35,550	20,400
Capital surplus	**724,147**	649,376	550,244	494,228	433,984	214,157
Retained earnings	**175,938**	165,340	163,705	155,102	155,328	125,261
Non-redeemable Preferred and Preference Stock	**156,137**	156,137	156,137	156,137	156,137	96,137
Redeemable Preferred and Preference Stock	**134,979**	140,829	143,924	146,867	149,998	62,482
First mortgage bonds	**1,100,147**	1,006,637	983,870	918,230	808,830	578,160
Other long-term debt	**234,019**	199,934	176,682	126,981	127,436	66,140
Unamortized debt discount and premium—net	**(10,967)**	(9,488)	(9,453)	(7,161)	(5,770)	—
Total capitalization	**2,572,820**	2,362,042	2,210,412	2,030,550	1,861,493	1,162,737
RESIDENTIAL SERVICES						
Average use per customer (kilowatt-hours)	**5,752**	5,668	5,698	5,770	5,629	5,552
Average revenue per kilowatt-hour	**9.195¢**	8.361¢	7.806¢	6.828¢	6.363¢	3.031¢
SALES OF ELECTRICITY (millions of kilowatt-hours)						
Residential	**2,905**	2,853	2,858	2,876	2,778	2,610
Commercial	**4,257**	4,163	4,069	4,024	3,870	3,638
Industrial	**3,717**	3,902	6,582	6,272	6,546	6,181
Street lighting and other	**111**	120	125	129	131	118
Total	**10,990**	11,038	13,634	13,301	13,325	12,547
ENERGY SUPPLY AND PRODUCTION DATA						
Energy supply (millions of kilowatt-hours)						
Generated in system plants	**11,900**	12,352	13,914	13,485	13,884	12,979
Purchased and net interchange	**(164)**	(689)	410	541	125	336
Losses and company use	**(746)**	(625)	(690)	(725)	(684)	(768)
Total	**10,990**	11,038	13,634	13,301	13,325	12,547
Generating capability (thousands of kilowatts)	**3,148**	3,144	3,177	3,179	3,294	2,620
Peak load (thousands of kilowatts)	**2,184**	2,158	2,522	2,474	2,296	2,296
Cost of fuel per million BTU	**167.140¢**	167.865¢	159.660¢	149.768¢	131.779¢	42.454¢
BTU per kilowatt-hour generated	**10,635**	10,853	10,931	10,811	10,924	10,333
Average production cost per kilowatt-hour	**2.541¢**	2.575¢	2.354¢	2.202¢	1.913¢	0.540¢
NUMBER OF ELECTRIC CUSTOMERS— At End of Year						
Residential	**505,781**	503,987	503,044	500,466	496,005	471,641
Commercial	**49,493**	49,320	48,859	48,308	47,978	45,975
Industrial	**1,984**	1,999	2,016	2,005	1,975	1,765
Street lighting and other	**1,633**	1,647	1,713	1,725	1,746	1,852
Total	**558,891**	556,953	555,632	552,504	547,704	521,233

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

Capital Resources and Liquidity

Construction

Construction expenditures during 1983, exclusive of allowance for funds used during construction and nuclear fuel, were approximately $224 million. These expenditures were primarily for the construction of three CAPCO generating units in addition to improving and expanding production, transmission and distribution systems and pollution control equipment.

The Company currently estimates that it will spend, exclusive of allowance for funds used during construction and nuclear fuel, approximately $235, $203, $158, $137 and $127 million for each of the years 1984 through 1988, respectively. These estimates include an aggregate of approximately $294 million for the three jointly-owned nuclear generating units being constructed under the CAPCO arrangements, including related transmission facilities. See Note K to the financial statements.

The amount which the Company must spend for its construction program is regularly under review and is subject to changes influenced by business and economic conditions and other factors, such as escalation of labor, material and equipment costs, rate of construction progress, the development of environmental and nuclear safety regulations, service reliability and system efficiencies. In addition, this review also must take into account difficulties in obtaining rate increases sufficient to generate adequate earnings, possible changes in load growth trends and, in the case of the CAPCO construction program, the ability of each of the CAPCO companies to finance its capital requirements.

The Company finances its nuclear fuel requirements primarily by leasing and through a trust arrangement. See Note L to the financial statements. In the third quarter of 1983 the Company entered into arrangements permitting the lease of an additional $60 million of nuclear fuel.

Financing

The Company anticipates that funds required for planned construction expenditures in the next several years will be provided principally from the issuance of additional equity and debt securities and in part from cash becoming available from operations. The Company issued $60 million of 12⅛% First Mortgage Bonds on April 14, 1983 and $50 million of 13% First Mortgage Bonds on December 6, 1983. On August 2, 1983 the Company issued and sold 2,475,000 shares of Common Stock. Net proceeds from the sale of the Common Stock were approximately $39.4 million. Funds provided to the Company under its Dividend Reinvestment Plan in 1983 amounted to approximately $39 million, and an additional $10.2 million was reinvested on January 1, 1984. On November 1, 1983 the Ohio Air Quality Development Authority issued $20.5 million of pollution control revenue bonds to reimburse the Company for its share of the cost of certain pollution control facilities at Unit No. 7 of the Sammis Power Station. The bonds have an interest rate of 10½%, and principal and interest on the bonds will be funded by the Company. Portions of the net proceeds from these issues were used to pay short-term indebtedness incurred principally for construction purposes, and the balance was applied to construction expenditures. The Company currently estimates that approximately 76% of the funds required for its 1984 construction program will come from outside financing. The Company plans to sell additional First Mortgage Bonds in March 1984. The exact timing and amount of this sale will depend on market conditions.

In addition to the funds required for the construction program $16.8 million was required in 1983 for maturities of long-term debt and sinking fund and purchase requirements, and $21.4 million will be required in 1984 for such purposes.

Interim financing will be through bank borrowings and sales of commercial paper. In addition, the Company has available a revolving credit arrangement with two banks which allows the Company to borrow up to an aggregate of $60 million through 1986 and to convert the revolving loans to term loans for an additional three years. See Note F to the financial statements. Variable market and general economic conditions may affect the Company's selection of financing alternatives and adversely affect its ability to raise capital. In order to maintain earnings adequate to finance construction expenditures and refunding requirements, the Company requires rate increases sufficient to offset increased costs and provide a fair rate of return.

The Restated Articles of the Company require that for the issuance of Preferred Stock, earnings (after income taxes) available for interest charges be at least 1.5 times the sum of interest charges on all indebtedness and Preferred Stock dividend requirements. This restriction currently precludes the Company from issuing Preferred Stock. There is no similar restriction upon the issuance of the Company's Preference or Common Stock.

Rate Matters

On January 28, 1983 the Public Utility Commission entered a final order allowing an annual rate increase of $105.8 million beginning on January 29, 1983. See Note M to the financial statements.

On April 29, 1983 the Company filed a request for a $49.9 million annual rate increase with the Commission. On September 16, 1983 the Commission approved a settlement allowing an increase of approximately $21 million beginning on September 17, 1983. See Note M to the financial statements.

Extraordinary Property Losses

In 1980 the CAPCO companies cancelled the construction of four nuclear generating units. In January 1983 the Commission approved the recovery of the accumulated costs from the Company's customers but did not allow any return on these costs. See Note B to the financial statements.

Deferred Coal Costs

By Interim Order entered January 12, 1981 the Commission directed that the Company limit its recovery of the cost of Quarto coal through its energy cost rate to approximately the prevailing market price of similar coal rather than the actual cost of Quarto coal. The Company is deferring the excess of the actual cost of Quarto coal over the cost being recovered through its energy cost rate until recovery of the actual cost is permitted by the Commission. If recovery of such excess is disallowed, the amount deferred would be charged to income in the year of disallowance. See Note G to the financial statements.

Beaver Valley Replacement Power

In connection with a February 20, 1981 rate order, the Commission found that the Company had not proven that the costs of replacement power during a 1979 outage of Beaver Valley Unit No. 1 were prudently incurred. Further hearings in the Beaver Valley refund proceedings were held, and on November 19, 1982 the Commission adopted an order nisi which ordered refunds of $12.5 million plus interest over a two-year period. The order nisi became final on June 10, 1983, and the Company has filed an appeal with the Commonwealth Court. See Note M to the financial statements.

Allegheny County Steam Heating Company

On September 30, 1982 a final order of the Commission approved the discontinuance of steam service by the Company's steam heating subsidiary effective May 31, 1983 and the transfer of a major portion of the assets of the subsidiary to Pittsburgh Allegheny County Thermal, Ltd. for nominal consideration. The transfer of assets became effective June 1, 1983. See Note C to the financial statements. Since the subsidiary had been losing money over the past several years, the disposition should improve the Company's financial condition and results of operations.

Other

Under provisions of the Economic Recovery Tax Act of 1981 eligible individuals who are participants in the Company's Dividend Reinvestment Plan may elect to exclude from current federal taxable income each tax year from 1982 through 1985 the fair market value of Common Stock received from the reinvestment of dividends to the extent the aggregate fair market value of such shares does not exceed $750 ($1,500 for spouses who file a joint return.) This provision has provided incentive for stockholders to reinvest dividends and thereby ease the cash requirements of the Company.

The Company has generated in each year funds from operations sufficient to meet its operating expenses, pay dividends and finance a portion of its capital needs. The demands and commitments detailed in Note M to the financial statements and those noted above are not expected to materially affect the Company's ability to finance its operations or its construction program.

Results of Operations

Operating revenues from continuing electric operations increased (decreased) in the years 1981 through 1983 over the respective preceding years, for the following reasons:

	1983	1982	1981
	(Millions of Dollars)		
General rate increases	**$88.4**	$43.0	$ 65.6
Electrical consumption	**(10.0)**	(62.3)	10.5
Energy clause revenues	**(31.0)**	(19.0)	33.9
State tax adjustment and other	**6.5**	(1.5)	1.5
	$53.9	$(39.8)	$111.5

The operating revenues of the Company are based on rates authorized by the Pennsylvania Public Utility Commission. These rates are designed to recover the Company's operating expenses, plus a rate of return on the investment in utility rate base. The Company also has an energy cost rate which allows it to recover the difference between actual fuel costs and fuel costs included in base rates. Any overcollections of revenues are refunded, with interest, to customers.

The Company was permitted two rate increases in 1983 effective January 29 and September 17. See Note M to the financial statements. The decreases in electrical consumption in 1982 and 1983 were due primarily to the severe impact of the economic recession in the Company's service area, particularly on steel and other industrial customers.

The decrease in operation (fuel, purchased power and other operation) and maintenance expenses in 1983 compared to 1982 was due primarily to a substantial reduction in fuel expenses resulting from higher generation from the Beaver Valley No. 1 nuclear unit, decreased deferred fuel expenses and lower kilowatt-hour sales. Net sales of power to other utilities decreased as the market for such sales was not as favorable in 1983. The decrease in operation expenses in 1982 compared to 1981 was due to substantial reductions in purchased power and fuel expenses. The significant reduction in kilowatt-hour sales to industrial customers resulted in a surplus capacity situation. This available capacity and the requirements of neighboring utilities resulted in substantial net sales of power in 1982. Other operation and maintenance expenses increased in 1982 compared to 1981 due to a scheduled outage for refueling and modification work at Beaver Valley Unit No. 1 and increased customer, general and administrative expenses.

Depreciation expense increased in 1983 compared to 1982 as a result of increases in utility plant and changes in depreciation rates to conform with the depreciation rates allowed by the Pennsylvania Public Utility Commission in its rate orders. Additionally, depreciation expense includes the amortization of the cancelled nuclear generating units and Shippingport. See Note B to the financial statements.

Income taxes increased in 1983 compared to 1982 principally as a result of increased taxable income. The effective income tax rate for the three years ended December 31, 1983, 1982 and 1981 was 34%, 31% and 35%, respectively.

The increases in allowance for equity and for borrowed funds used during construction (AFC) were primarily due to the increased cost of construction and increases in the AFC rate from 7.6% in 1981 to 8.5% in 1982 and to 9.6% in 1983. Fluctuations in interest income resulted from changes in cash available for temporary investments. Interest expense for each of the years 1983, 1982 and 1981 was higher due to increased total borrowings to finance the Company's capital expenditures.

In 1982 the Company's subsidiary discontinued its steam heating operations resulting in a charge to earnings of $9.9 million, or $.21 per share. See Note C to the financial statements.

A non-taxable extraordinary gain of approximately $9.6 million, or $.20 per share, in December 1982 resulted from the exchange with an investment banking firm of newly issued common shares for certain First Mortgage Bonds having an exchange value substantially lower than their face value. See Note D to the financial statements.

Earnings per share of Common Stock for 1983, 1982 and 1981 were adversely affected by increases in the average number of shares outstanding, which reduced earnings per share by $.35, $.31 and $.18, respectively.

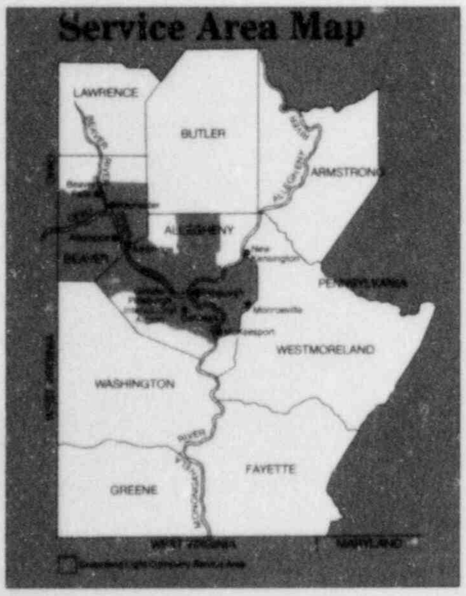
The Company has prepared information on the effects of inflation and changing prices in accordance with the Financial Accounting Standards Board's Statement No. 33. Such information is in Note P to the financial statements.

Business of the Company

Duquesne Light Company is engaged principally in the production, transmission, distribution and sale of electric energy. The Company serves an area of approximately 800 square miles in Allegheny and Beaver Counties. This area, which includes the City of Pittsburgh, is located in Southwestern Pennsylvania and has a population of about 1,430,000.

The executive offices of Duquesne Light are located at:
One Oxford Centre
301 Grant Street
Pittsburgh, Pennsylvania 15279.

Duquesne Light Company is an Equal Opportunity Employer.



1973-1983 Dimensions Magazine

In mid-year 1984, the Company plans to publish Duquesne Light *Dimensions*, containing in-depth information concerning the Company. *Dimensions* will include an 11-year statistical review and a discussion of some of the important issues affecting Duquesne Light Company. For a copy of *Dimensions* write:

Duquesne Light Company
Public Information (30-5)
One Oxford Centre
301 Grant Street
Pittsburgh, Pennsylvania 15279

Common Stock Dividends

The Company has paid cash dividends on its Common Stock in each year since 1913 and on a regular quarterly basis (January 1, April 1, July 1 and October 1) in each year beginning in 1953 after becoming publicly owned. Quarterly dividends related to the four quarters of 1982 were paid at the rate of 47½¢ per share. Commencing April 1,1983 the quarterly dividend rate was increased to 50¢ per share. Future dividends will depend upon future earnings, the cash position of the Company, construction requirements, rate regulation and other relevant factors. The Company expects that dividends will continue to be paid in the future.

Dividends may be paid on the Common Stock to the extent permitted by law and as declared by the Board of Directors, subject to the provisions of the Company's Restated Articles which restrict the payment of cash dividends or other distributions on, or the purchase of, its capital stock ranking junior to the Preferred Stock (collectively referred to as "junior stock payments").

No dividends or distributions may be made on the Common Stock if dividends or sinking or purchase fund obligations on the Preferred Stock or Preference Stock are accumulated and unpaid. Furthermore, the aggregate amount of junior stock payments which may be made in any 12-month period are in general limited to (1) 50% of consolidated net income for any period of 12 consecutive calendar months within the 15 preceding months if the effect of such payments would be to reduce the ratio of common stock equity to total capitalization to less than 20% or (2) 75% of such consolidated net income if the effect would be to reduce such ratio to 20% or more but less than 25%. No portion of retained earnings at December 31, 1983 was restricted by virtue of this provision. The approximate number of holders of Common Stock as of the March 2, 1984 record date for the 1984 Annual Meeting was 145,000.

Federal Income Tax Status of Common Stock Dividends

The Company estimates that portions of the Common Stock dividends paid in 1983 represent a return of capital and are not taxable as dividend income as follows:

Payment Dates	Taxable As Dividend Income	Not Taxable As Dividend Income
Jan. 1	100.00%	0.00%
Apr. 1	87.63%	12.37%
July 1	70.30%	29.70%
Oct. 1	70.30%	29.70%

These estimates are subject to audit by the Internal Revenue Service.

Form 10-K Offer

If you are a holder or beneficial owner of any class of the Company's stock as of March 2, 1984, the record date for the 1984 Annual Meeting, the Company will send you, upon request and at no charge, a copy of the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year 1983 (including a list of exhibits). All requests must be made in writing to the Secretary, Duquesne Light Company, One Oxford Centre, 301 Grant Street, Pittsburgh, Pennsylvania 15279.

CAPCO

In 1967, Duquesne Light joined with four other electric utilities to form the Central Area Power Coordination (CAPCO) group.

Prior to 1980, ten generating units were committed under the CAPCO arrangements, which provided for joint ownership interests based on individual requirements. Duquesne Light shares in nine of these units. To date, seven are in service; three will be placed in service, one each in 1985, 1986 and 1988.

Since 1980 each CAPCO company has been responsible for establishing its own level of reserve and its own generating capacity needs beyond the jointly-owned units still under construction. Duquesne Light is now developing a program to meet its future capacity requirements.

***Duquesne Light Company**

Beaver Valley #1
Nuclear—1976
Capacity: 810,000 KW
D.L. Ownership: 47.5%
D.L. Share: 385,000 KW

Beaver Valley #2
Nuclear—1986
Capacity: 833,000 KW
D.L. Ownership: 13.74%
D.L. Share: 114,000 KW

***Pennsylvania Power Company**

Mansfield #1
Coal—1976
Capacity: 780,000 KW
D.L. Ownership: 29.3%
D.L. Share: 228,000 KW

Mansfield #2
Coal—1977
Capacity: 780,000 KW
D.L. Ownership: 8.0%
D.L. Share: 62,000 KW

Mansfield #3
Coal—1980
Capacity: 800,000 KW
D.L. Ownership: 13.74%
D.L. Share: 110,000 KW

***Ohio Edison Company**

Sammis #7
Coal—1971
Capacity: 600,000 KW
D.L. Ownership: 31.2%
D.L. Share: 187,000 KW

***The Cleveland Electric Illuminating Company**

Perry #1
Nuclear—1985
Capacity: 1,205,000 KW
D.L. Ownership: 13.74%
D.L. Share: 165,000 KW

Perry #2
Nuclear—1988
Capacity: 1,205,000 KW
D.L. Ownership: 13.74%
D.L. Share: 165,000 KW

Eastlake #5
Coal—1972
Capacity: 648,000 KW
D.L. Ownership: 31.2%
D.L. Share: 202,000 KW

***The Toledo Edison Company**

Davis-Besse #1
Nuclear—1977
Capacity: 880,000 KW
D.L. Ownership: 0
D.L. Share: 0

*Constructing and operating company

Board of Directors

John M. Arthur †‡
Chairman of the Board and President

Charles M. Atkinson
Vice President—Finance and Accounting Group

Henry G. Allyn, Jr.*†
Retired President and Chief Executive Officer of The Pittsburgh and Lake Erie Railroad Company

Daniel Berg †‡
Provost and Vice President for Academic Affairs, Rensselaer Polytechnic Institute

Doreen E. Boyce*†‡
Director, The Buhl Foundation

John H. Demmler ‡
Partner, Reed Smith Shaw & McClay Attorneys-at-Law

Sigo Falk*
Associate Director, Health Systems Agency of Southwestern Pennsylvania

William H. Knoell †
President and Chief Executive Officer, Cyclops Corporation

G. Christian Lantzsch*‡
Vice Chairman of Mellon Bank, N.A. and Vice Chairman and Treasurer of Mellon National Corporation

Eric W. Springer †‡
Partner, Horty, Springer and Mattern Attorneys-at-Law

* Member of Audit Committee
† Member of Compensation Committee
‡ Member of Employment and Community Relations Committee
‡ Member of Nominating Committee

Transfer Agents and Registrars

Common, Preference and Preferred Stock
Pittsburgh National Bank, Pittsburgh
Chemical Bank, New York

Annual Meeting of Stockholders

The annual meeting of stockholders will be held at 10 a.m., Pittsburgh time, on Tuesday, April 17, 1984 in the David L. Lawrence Convention Center, Pittsburgh, Pennsylvania.

Company Officers

John M. Arthur
Chairman of the Board and President

Charles M. Atkinson
Vice President—Finance and Accounting Group

Roger D. Beck
Vice President—Administrative Services Group

John J. Carey
Vice President—Nuclear Group

Clifford N. Dunn
Vice President—Power Supply Group

William F. Gilfillan, Jr.
Vice President—Customer Services Group

George I. Rifendifer
Vice President—General Services

Walter T. Wardzinski*
Vice President—Legal and Corporate Communications

Earl J. Woolever
Vice President—Nuclear Engineering and Construction

James O. Ellenberger
Controller

Ronald G. Males
Treasurer

Thomas Welfer, Jr.
Secretary

Richard J. Ciora
Assistant Treasurer

Lawrence P. Galie
Assistant Treasurer

Joan S. Senchyshyn
Assistant Secretary

*Effective December 1, 1983, the Board of Directors appointed Walter T. Wardzinski Vice President of Legal and Corporate Communications. Mr. Wardzinski's responsibilities will include legal services, public information, public affairs and the Secretary's office. Prior to his appointment as Vice President, Mr. Wardzinski was General Attorney of the Company.

Duquesne Light

One Oxford Centre
Pittsburgh, PA 15279

OHIO EDISON
The Energy Makers

ANNUAL REPORT 1983

DORE 8405290310

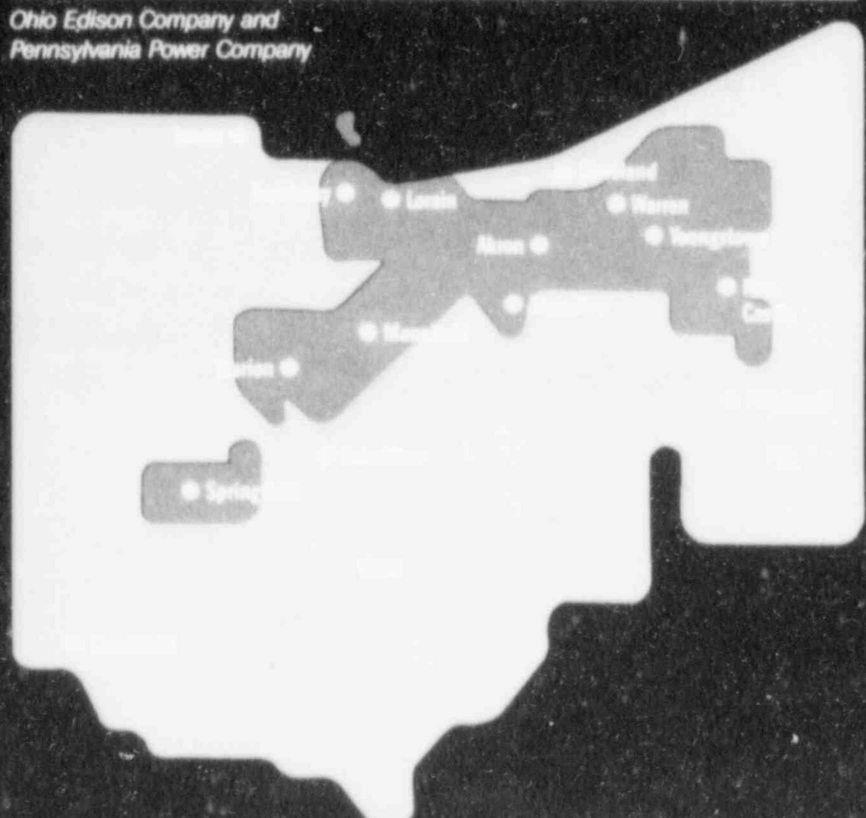
Contents

Ohio Edison System

The Ohio Edison System is the 18th largest investor-owned electric system in the United States, based on total kilowatt-hour sales, and consists of Ohio Edison Company and its wholly owned subsidiary, Pennsylvania Power Company. Ohio Edison, headquartered in Akron, Ohio, provides electric service to more than 844,000 customers. Penn Power, in New Castle, Pennsylvania, serves more than 126,000 customers. The System's service area covers approximately 9,000 square miles and includes several of the most highly industrialized cities and agriculturally productive regions in Ohio and Pennsylvania. Ohio Edison has a second wholly owned subsidiary, Ohio Edison Finance N.V., a Netherlands Antilles (West Indies) corporation established to expand the Company's access to foreign investors.

Service Area

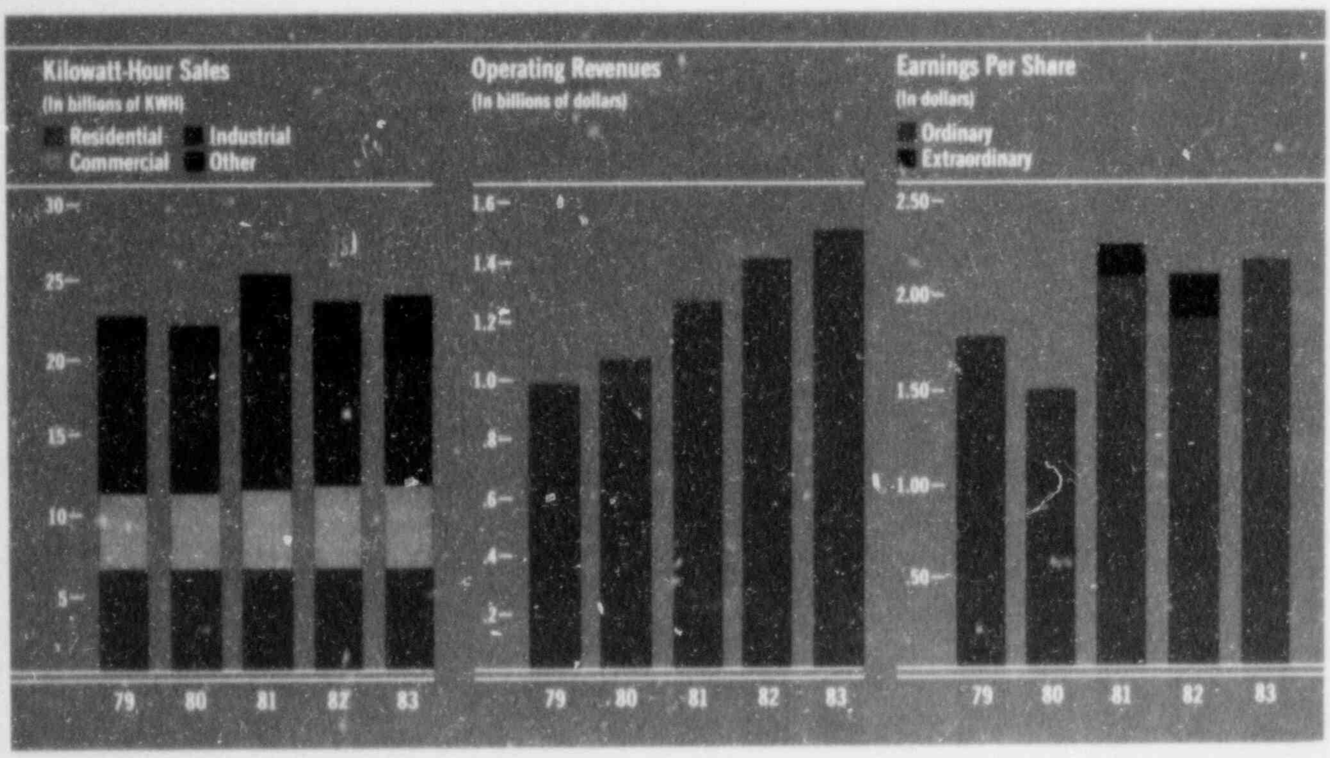
Ohio Edison Company and Pennsylvania Power Company



Financial Highlights

For the Years Ended December 31	1983	1982	Change
	(In millions, except per share amounts)		
Kilowatt-Hour Sales	**24,345.4**	24,025.5	+1.3%
Operating Revenues	**$1,515.9**	$1,429.6	+6.0%
Fuel Expense	**420.3**	432.7	−2.9%
Operating Income	**302.8**	269.6	+12.3%
Allowance for Funds Used During Construction, Net	**203.7**	160.3	+27.1%
Interest and Other Charges	**319.8**	310.4	+3.0%
Income Before Extraordinary Item	**272.4**	195.6	+39.3%
Net Income	**272.4**	215.7	+26.3%
Earnings on Common Stock	**227.8**	181.5	+25.5%
Earnings Per Common Share:			
Before Extraordinary Item	**$2.22**	$1.89	+17.5%
Earnings on Common Stock	**2.22**	2.13	+4.2%
Dividends Per Common Share*	**$1.80**	$1.76	+2.3%
Dividends on Capital Stock	**$230.8**	$185.8	+24.2%
Construction Expenditures:			
Construction of Facilities	**$690.8**	$649.9	
Nuclear Fuel	**55.0**	124.3	
	$745.8	$774.2	−3.7%
Internally Generated Funds	**204.4**	136.4	+49.9%
Net Financing Activities	**483.4**	683.5	−29.3%
Return on Average Common Equity	**14.2%**	13.5%	

*The quarterly dividend was increased to 46 cents per share ($1.84 on an annual basis) beginning with the dividend payable on March 30, 1984.



President's Message

Many things came together to make 1983 a successful year for the Company. But one of the most important doesn't appear in our financial statements: I'm referring to the stockholders' continuing support of our efforts to move the Company forward.

With that in mind, I hope you will share with employees the satisfaction of being an important part of one of our better years.

Earnings were up 4.2 percent over 1982 to $2.22 per share of common stock, despite a larger number of shares outstanding and an extraordinary gain of 24 cents per share in 1982.

An improved economy, sales to other utilities and rate adjustments combined to push annual revenues up 6.0 percent to $1.5 billion. Kilowatt-hour sales to retail and wholesale customers were up 3.7 percent, led by significant increases in sales to industrial customers, particularly in the automotive and steel industries.

The Board of Directors, recognizing that there has been measurable progress in performance which should have long-range benefits, increased the quarterly dividend to 46 cents per share, effective with the first quarter of 1984.

1983's Accomplishments

For the third consecutive year, we were highly successful in selling bulk power to other utilities—representing $76.2 million of revenues in 1983. A portion of those revenues resulted from two major long-term sales contracts that should add a total of over $553 million of predictable revenue into the 1990s.

Aggressive cost-cutting measures helped to reduce operation and maintenance expenses by $19.7 million from the previous year...and, importantly, it was done without sacrificing the overall performance of generating plants or the reliability of service to customers.

Several system improvement programs were completed during the year, which will further enhance operating performance. For example, modern computer applications in the new System Dispatching Office and in customer accounting offices are making the generation and transmission of power and service to customers more efficient, reducing annual operating costs by more than $1 million.

And, we are encouraged by progress made in the strengthening of our financial position, including improved cash flow and growing retained earnings, which should translate into an improved outlook for our stockholders' investment.

Concentrated Efforts

What is being accomplished can be attributed to concentrated efforts in four major areas:

- *Reducing the need for increased rates to the extent possible by controlling costs.* Achievements in this area are illustrated by lower costs for coal, maintenance and plant operations for 1983.
- *Ensuring steady progress in our construction program and seeing to its timely and most economical completion.* Begun in 1980, our $600 million air quality control program is on schedule for completion in 1984.

  While we ourselves are not building a nuclear plant, our partnership in three generating units under construction requires active participation in these projects. Intensive, hands-on project management by the companies building these units, especially in the area of quality control, has avoided the kinds of regulatory and licensing difficulties that have drawn attention to other utilities in the past year.

All companies participating in these projects share a total commitment to maintaining the highest standards of quality and safety. The Duquesne Light Company, which already has considerable nuclear plant operating experience, is making steady progress towards completion of the Beaver Valley unit 2 in 1986. Although unit 1 at the Perry Nuclear Plant has been rescheduled for completion in late 1985, The Cleveland Electric Illuminating Company's management of construction at the Plant has consistently earned high marks for quality control in major reviews by the Nuclear Regulatory Commission.

- *Exploring new and different ways for customers to use electricity as a cost-effective alternative to other energy sources.* In 1983, a number of proposals were made to the regulatory commissions for their approval to help customers reduce energy costs, either by shifting the use of electricity to off-peak periods or through incentives to expand operations or increase local employment.
- *Persuading regulators and legislators to deal with long-term problems with long-term solutions, instead of short-term "quick fixes" of questionable benefit.* This attitude is particularly important in the "acid rain" debate, where some are urging that billions of dollars in facilities be added to power plants.

Although there is increasing recognition in Washington that the "acid rain" question must be addressed, there is also growing understanding that further scientific study should precede costly legislation. Absent this, the Company and customers could be faced with enormous new costs and little or no tangible benefit.

Our Outlook

A number of favorable economic conditions should provide the opportunity to further improve financial performance: a modest inflation rate, stable fuel prices, lower borrowing costs and, as the economy gains momentum, an increase in the demand for electricity.

Although past accomplishments and the prospects of a better business climate fuel our optimism for the future, we will never lose sight of the challenges that yet face the electric utility industry. They require that we act in the best interest of customers and stockholders. And we will.

The Ohio Edison System is an organization with well-seasoned management and hardworking employees whose pride and talent have us moving toward a more rewarding future that will benefit us all.

Justin T. Rogers Jr.

Justin T. Rogers, Jr.
President

March 1, 1984

Constant monitoring of materials has reduced inventory costs while maintaining adequate supplies for dependable service.

Year in Review

Earnings and Revenues Improve in 1983
Earnings on common stock in 1983 increased 25.5 percent from 1982 to $227.8 million. As a result, earnings per share grew from $2.13 in 1982 to $2.22 in 1983, despite an extraordinary gain of 24 cents per share in 1982 and a 17.2 million increase in the average number of shares outstanding. Total revenues increased 6.0 percent over 1982 to $1.5 billion.

Revenues benefited from the partial effects of new retail rates approved by The Public Utilities Commission of Ohio (PUCO) late in the year, which should add $94.5 million to annual revenues.

But because the overall cost of providing electricity continued to increase, and rates granted in the past have not kept pace with cost increases, the Companies have requested new retail rates. If granted in full, the new rates would increase annual revenues by $127 million for Ohio Edison and $19.9 million for Penn Power.

Sales and Local Economy Stronger
Total kilowatt-hour sales reflected improvements in the local economy. Sales increased 8.8 percent to industrial customers and 2.0 percent to commercial customers from last year, with automotive and steel industries showing a strong turnaround. However, residential sales remained relatively flat and sales to wholesale municipal customers decreased.

For the past several years, the Companies have been aggressively pursuing sales of bulk power to other utilities. Our success in this highly competitive area continued in 1983 when we negotiated two long-term sales arrangements that should increase revenues by more than $553 million over the terms of the arrangements. The Companies in May began providing up to 150 megawatts to Potomac Electric Power Company for a minimum term of five years. And in July, the Companies began supplying up

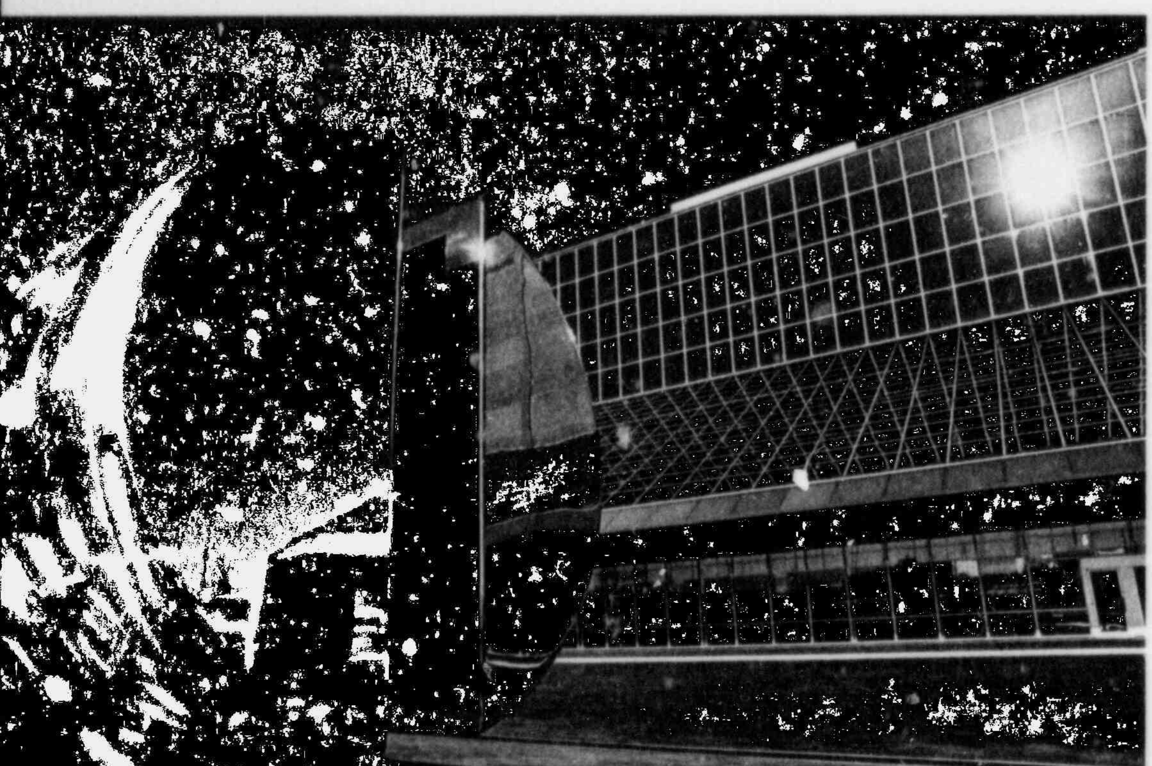
Employees continue to provide customers with electric service that is 99.98 percent reliable.

to 200 megawatts for a ten-year period to General Public Utilities Corporation.

Ohio Edison capped off the year by winning two contracts, each to sell 200 megawatts for 12-week periods, for an estimated combined total of $12 million. Although relatively short-term, these and all sales of bulk power not only boost the Companies' revenues, but make more efficient use of our power plants and help hold down the cost of serving our own customers.

Ohio Edison entered into an agreement with its wholesale municipal customers, pending approval by the Federal Energy Regulatory Commission (FERC), to provide power over a five-year period beginning October 1, 1983. With this settlement, the Company will continue to supply these customers, who had been expected to purchase more electricity from other bulk power suppliers. Upon approval, the agreement would also finalize three rate cases before the FERC.

Research and development facilities, such as those at the Goodyear Technical Center, have become a source of renewed growth in the local economy.



In addition, estimated sales of 943 million kilowatt-hours annually could result from new or expanding commercial and industrial projects that were in progress throughout the System in 1983.

Near-record peak demand loads were set during the summer months when high temperatures and humidity increased the use of air conditioning. On July 21, the hourly System peak load reached 4,148 megawatt-hours—equalling the second highest peak load in our history.

Marketing Programs Accelerated

The Ohio Edison System serves a region of the country where the economy, and electric sales, have traditionally been dependent on the steel and automotive industries. These industries, of course, will remain important, but future growth in the economy will come more from nontraditional sources, including small manufacturing, research-and-development and service-oriented businesses.

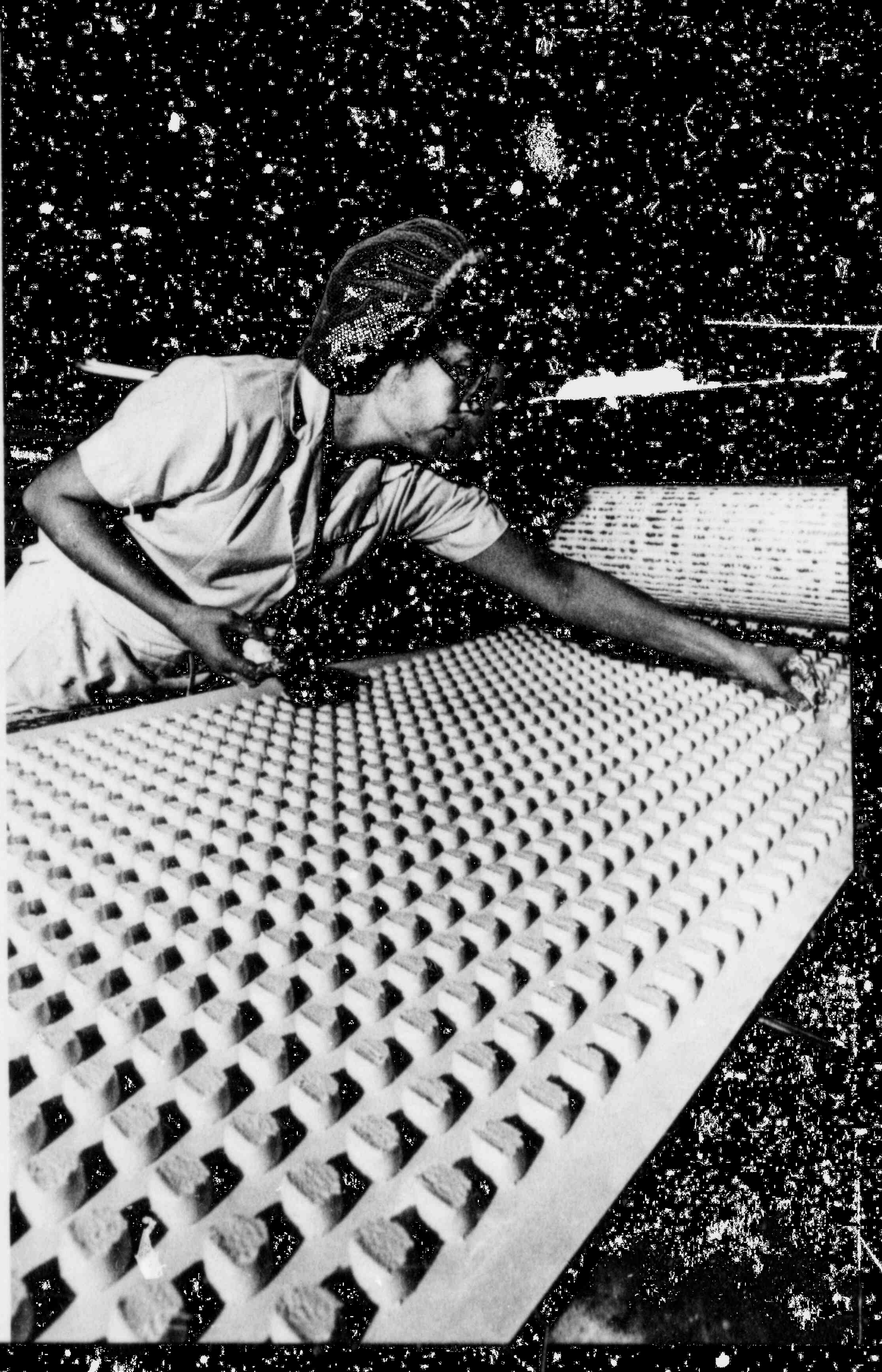
Recognizing the economic pressures on customers and the spirit of cooperation needed to nurture growth, Ohio Edison and Penn Power are seeking regulatory approval of incentives for business expansion through innovative rates. For example, one of our economic development plans proposed to the regulatory commissions would provide special pricing for a five-year period to new or existing industrial customers that build new facilities or expand existing facilities and increase employment.

Other marketing efforts are aimed at helping local companies improve their efficiency and lower their overall energy costs. Through Energy Teamwork Conferences, our employees contacted more than 550 large businesses during the year to develop plans for energy management and operating efficiency. In addition, greater emphasis is being placed on how electricity can economically replace fossil fuels and reduce the customer's total energy use and costs.

One method of lowering energy costs is through load management. Ohio Edison and Penn Power are finding new ways for customers to shift much of their electric load to economical off-peak hours, which

Electrically powered robots are playing a larger role in revitalizing local industries, as in this large automobile assembly plant which we serve.

Fanny Farmer Candy Shops consolidated all production into our service area because the location is central to major population centers.



also enables us to make better use of our power plants. Since the load management program began in 1977, 213 megawatts have been moved to off-peak hours.

The Companies also help residential customers to better manage their electric use and energy costs. A new plan to encourage more use of electricity, yet lower overall customer costs, was approved by the PUCO in January 1984. It will provide lower rates for qualifying customers with electric water heating or electric add-on home heating systems. In return, their service could be interrupted to stabilize peak loads, but with minimal or no effect on the customer's lifestyle.

Customers Favorable on Service and Cost

The Companies continued their long history of providing dependable service, with the average residential customer experiencing an average reliability of 99.98 percent since 1980. In a December random survey of 500 Ohio Edison customers, 96 percent rated their service favorably, and 91 percent rated the cost of their electric service as an average to above average value.

Ongoing surveys are useful in determining and meeting customer needs. For example, a quarterly survey of customers who contacted the Companies for service or information helps pinpoint where and how service can be improved. Some feedback is more direct, as through our nine Consumer Advisory Panels where representatives of consumer groups meet regularly with our employees to discuss topics of interest to both the Companies and customers.

For customers requiring special assistance, especially in times of medical or financial difficulties, the Companies offer numerous helpful programs, such as budget payments and third-party notification. In addition, customers are informed of governmental or social service agencies that provide financial assistance for home weatherization and for paying winter heating expenses. This information, along with topics on electric use and energy issues, is also available through a wide range of literature, films, group presentations and student education programs.

Earnings Continue to Benefit from Plant Reliability

Our ability to increase earnings depends not only on efforts to maintain sales growth, but on the performance of our employees and the most effective utilization of our generating facilities. To sustain the high reliability of these facilities, the Companies have intensive employee training and preventive maintenance programs, which significantly reduce the likelihood of equipment malfunctions and costly generating unit breakdowns.

Availability has been excellent at the Beaver Valley Power Station unit 1, the only operating nuclear plant currently supplying the System. Except during a scheduled shutdown for maintenance, testing and refueling, the 810-megawatt unit achieved a 94.5 percent operating availability for 1983; and it reduced our dependence on more expensive coal-fueled generation by 10.2 percent for the year. The Companies own 52.5 percent of the unit, which is operated by the Duquesne Light Company, the other owner.

Additional work done during the scheduled shutdown will enable the unit to operate for longer periods between refuelings. The modifications, which included use of more highly enriched uranium fuel, were partially completed during the shutdown, and will be completed at the next scheduled refueling in 1984.

Operations Keep Pace with Computer Technology

Modernization and the use of high technology plays an ever increasing

A new Customer Information System has improved our ability to quickly respond to customer inquiries with more detailed information.

Contracts secured in 1983 helped reduce average coal costs to the lowest levels in several years.

role in our efforts to improve performance. Our new System Dispatching Office has greatly improved efficiency in economically balancing plant generation to meet customer load, coordinating scheduled outages of generating and transmission facilities and arranging for the interchange of power with other utilities. A sophisticated system of four advanced computers provides improved security, faster response to load changes and greater overall efficiency.

Customer service was improved during the year with completion of a new computerized Customer Information System. It enables employees to respond to inquiries quickly with more complete and accurate information. Customers can request a review of their monthly bill and obtain other helpful information about their service or accounts.

Computer processing is also used in purchasing and receiving coal supplies. New computer systems are monitoring deliveries, inventories, consumption and quality of coal received at our power plants. The information helps us obtain the most economical supplies of coal.

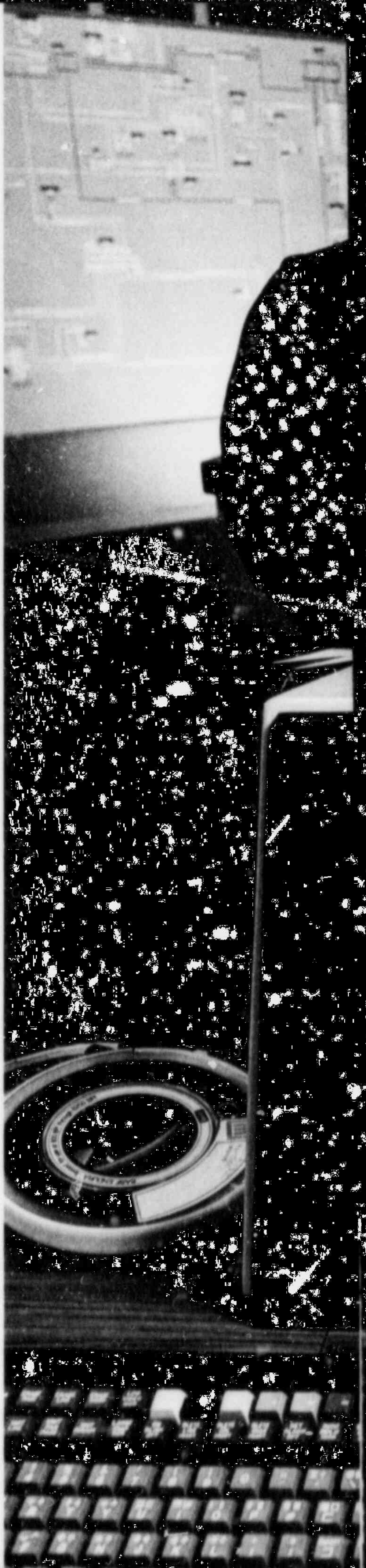
New Projects Build for the Future

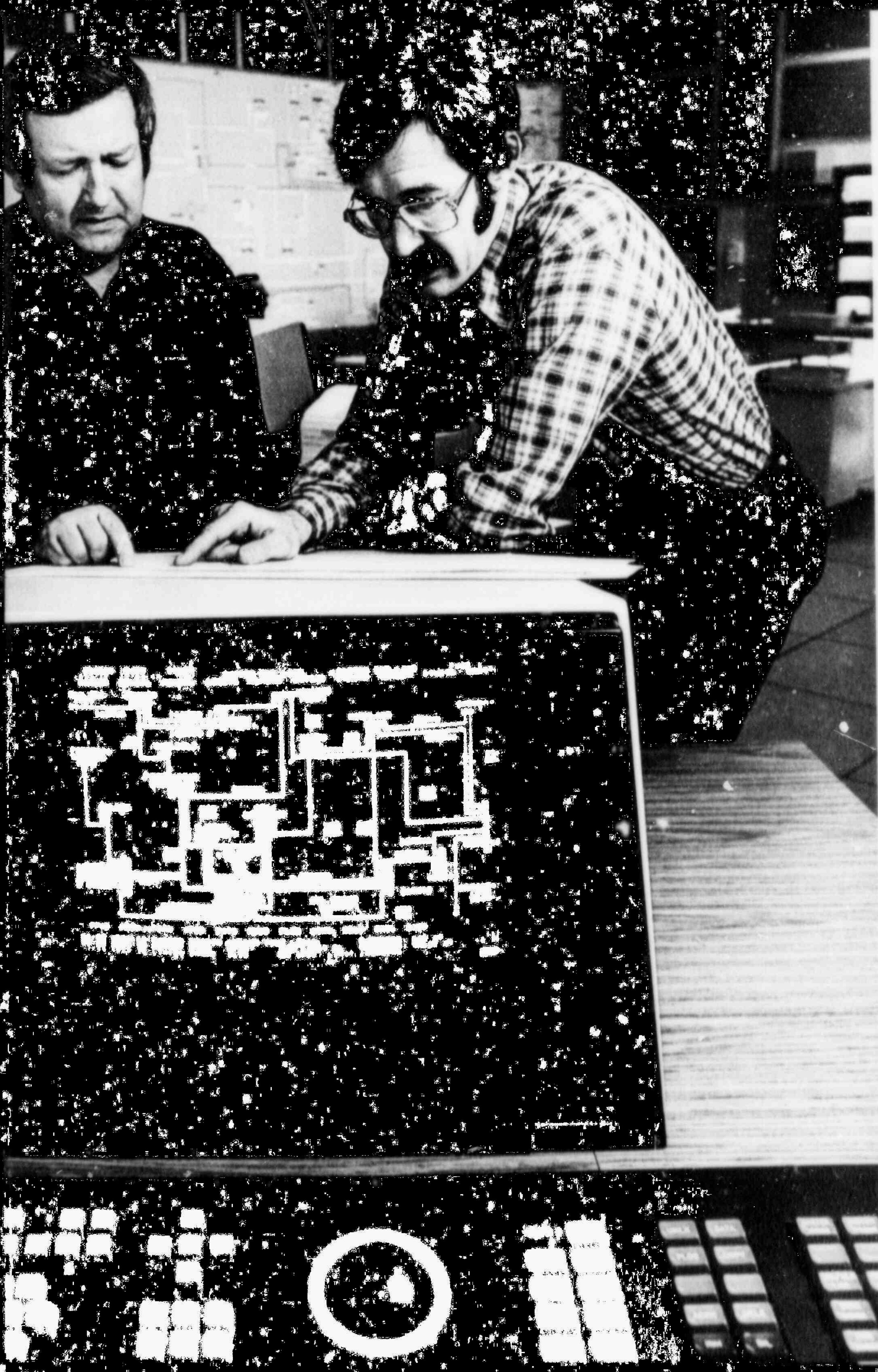
Ohio Edison and Penn Power are in the final stages of a plant construction program initiated in the 1970s. Three generating units, in which we have partial ownership, remain to be completed.

Two of those units are at the 2,410-megawatt Perry Nuclear Plant. The Companies will own 35.24 percent, or 850 megawatts, of total generation from both units being built by The Cleveland Electric Illuminating Company (CEI).

Because of the increased complexity of meeting requirements by the Nuclear Regulatory Commission (NRC) for all nuclear generating plants under construction, CEI announced that unit 1 is now scheduled for completion in late 1985. The completion date for unit 2 will be reviewed at the time unit 1 is completed. With the rescheduling and the additional work, our portion of the Plant's costs rose from \$1.3 billion to \$1.8 billion. All of the companies that share in the ownership of the Plant are committed to making it one of the most efficient and safest in the country.

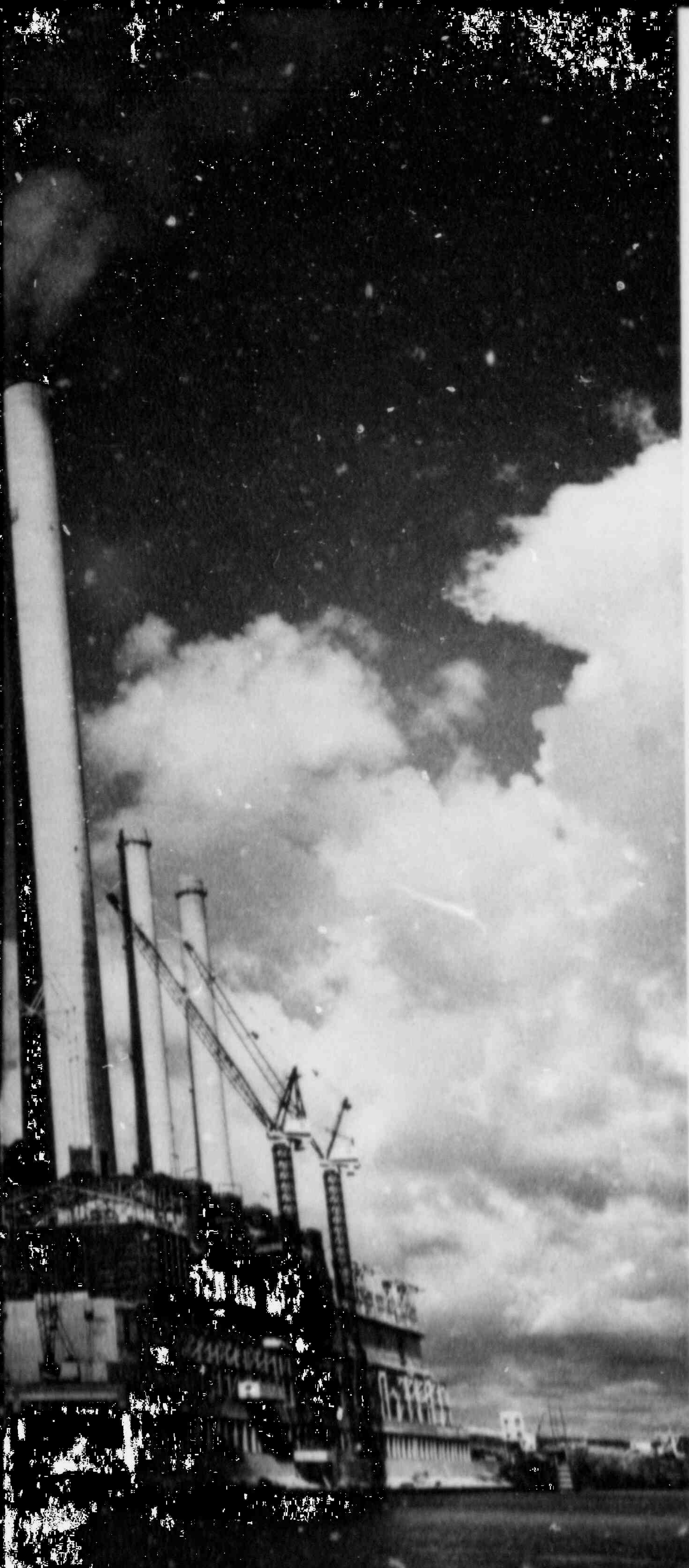
Despite the delay, the quality of construction and quick resolution of problems at the Perry Plant were officially recognized during the year. In November, NRC inspectors found that project management was aggressive in finding and resolving construction problems. Also, during public hearings, the NRC's Atomic Safety and Licensing Board supported the integrity of quality assurance and other construction procedures at the Plant. Unit 1 is 91.3 percent complete, while unit 2 is 43.2 percent complete.





The new System Dispatching Office improves the generation and delivery of electricity and reduces annual operating costs by about $1 million.

The $460 million W.H. Sammis Plant air quality control project, to be completed in late 1984, represents one of the largest environmental improvement projects undertaken in the country.



The third unit is under construction by the Duquesne Light Company at the Beaver Valley Power Station. Unit 2, scheduled for commercial operation in 1986, was 78.1 percent complete on December 31. During the year, major portions of construction were completed, and the Atomic Safety and Licensing Board held public hearings as part of the licensing process. Ohio Edison will own 41.88 percent of the 833-megawatt unit.

With the completion of these projects in the 1980s, the System should not require additional capacity until well into the 1990s. But the growth in load over the next 20 years is estimated to be equivalent to a 1.5 percent annual increase, and the Companies will plan accordingly and continually assess the economical options in both conventional and alternative energy technologies.

In support of one of the emerging technologies, we are participating in a $155 million cooperative coal-gasification project at Illinois Power's Wood River Station. It is the country's largest operating demonstration facility of its type and will determine if high-sulfur coal, such as that mined in Ohio, can be economically converted to a clean-burning gaseous fuel. Through the end of 1983, the facility has successfully met its test objectives.

Other System construction includes our $600 million program to meet existing federal requirements for air quality. Through 1983, the Companies have installed facilities to better remove dust from the emissions of ten generating units. As the program successfully approaches its December 1984 completion, the only remaining construction is at two units of the W. H. Sammis Plant.

For 1983, approximately $691 million was spent on construction of new plants, environmental facilities and other System improvements. During the year, $421 million in capital financing was used to fund these System improvements.

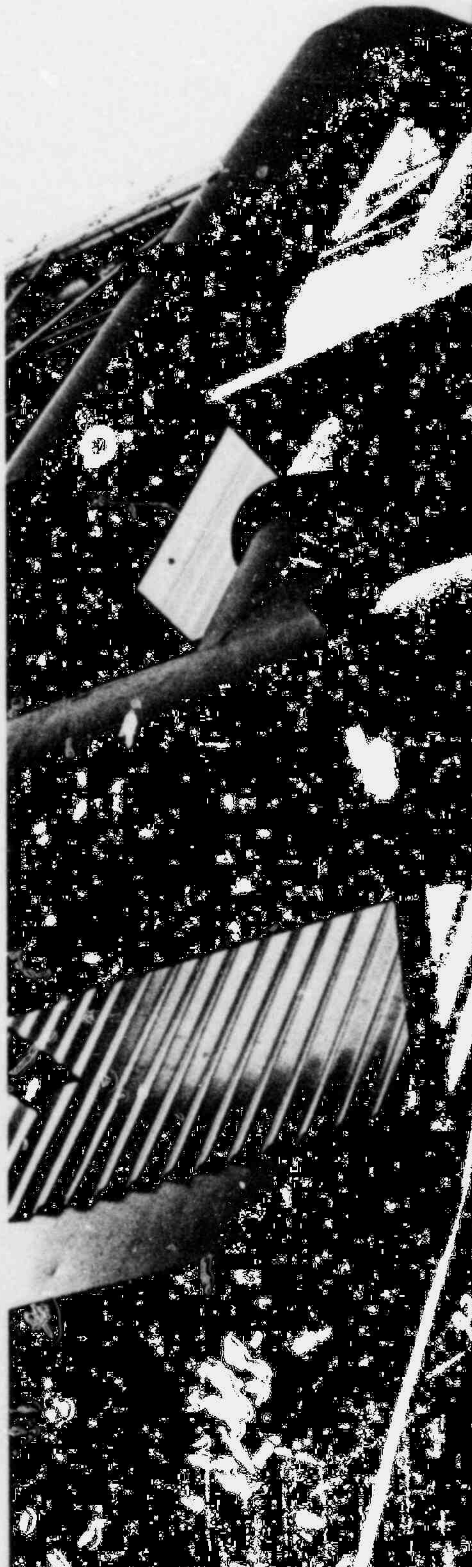
Regulatory and Legislative Issues Address Major Concerns

On January 11, 1983, a new law that took effect in Ohio changed the structure and organization of the PUCO. Among other provisions, it increased the number of commissioners from 3 to 5 and created a 12-member nominating council to select individuals for appointment to the Commission by the state's governor.

One of the most significant rulings by the new Commission concerns our recovery of certain costs of coal delivered to the Bruce Mansfield Plant from the Quarto Mining Company. Prior to August 1982, Ohio Edison was required to defer a portion of its fuel costs related to Quarto coal with no approved method to recover those costs. Beginning in August 1982, a PUCO-approved recovery method allowed Ohio Edison to begin reducing the deferred costs that had accumulated. In August 1983, however, the new commissioners ordered the Company to cease using that recovery method, which was later approved by the Ohio Supreme Court, while they reexamined it.

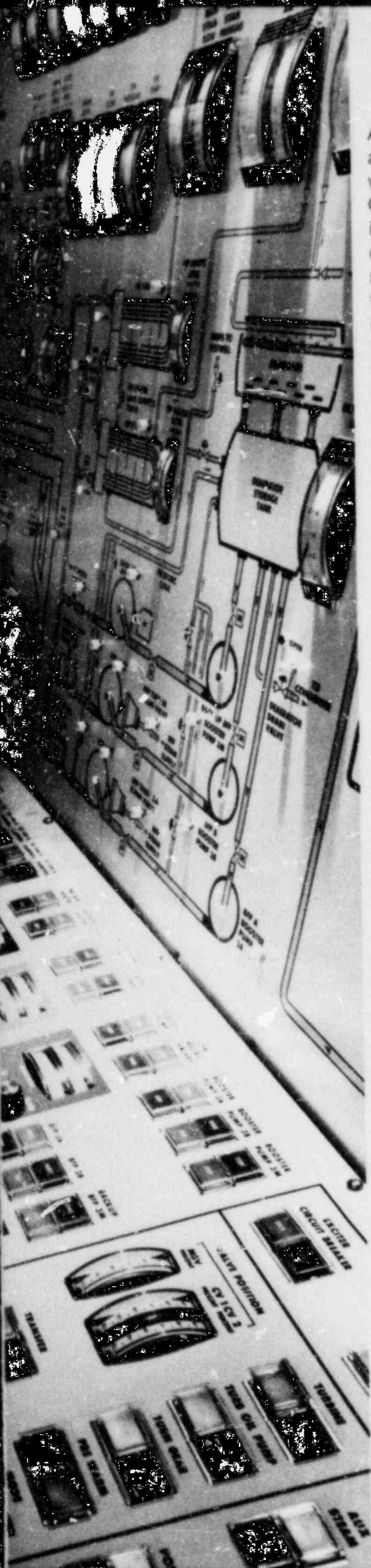
To address the concerns of the Commission and to resume recovery of previously deferred costs, the Company reached an agreement with the PUCO staff that recommended to the Commission a similar, but somewhat more restrictive recovery method. Approved by the PUCO in January 1984, the new method provides the Company a reasonable opportunity to again recover past and present costs for coal delivered from the Quarto mines. A similar settlement was proposed to the Pennsylvania Public Utility Commission, and is currently under review by the Commission. An administrative law judge for the Commission recommended that the settlement be approved.

Ohio Edison employees are directly involved in construction progress at the Beaver Valley Power Station unit 2.



Research facilities at our power plants are being used to find new cost-effective ways of complying with environmental requirements.

Using sophisticated control room simulators, employees fine-tune their operating skills and practice emergency procedures, resulting in greater efficiency at our generating plants.



Another major utility issue is the allowance of CWIP, or construction work in progress, in electric rates. Current Ohio law allows utilities to include a portion of construction costs in the rate base. Although state legislation to severely restrict this allowance has been introduced, none has become law; and the PUCO in September allowed the Company to collect $24.5 million in financing costs for the Perry Nuclear Plant unit 1. Also, the Federal Energy Regulatory Commission in July ruled that electric utilities could include an allowance to cover some financing costs in rate cases involving wholesale customers, but federal legislative proposals call for a return to more restrictive measures. The Companies have opposed such efforts to eliminate or restrict allowances for CWIP because the result would be higher overall construction costs to the Companies and their customers.

"Acid rain" is a national issue with great potential impact on the Companies and the area economy. Currently, some legislative proposals before Congress could force us to spend more than $1 billion over the next several years to reduce sulfur dioxide emissions by installing scrubbers, even though there are no assurances of substantial environmental improvement. Instead, the Companies urge that the scientific community be given the necessary time to better identify and understand the problem, and then determine the most effective and economically sensible solutions.

The Companies have already made substantial contributions to the reduction and understanding of sulfur dioxide emissions, which are thought by some to be a major cause of acid deposition. By installing expensive air cleaning facilities, buying more costly low-sulfur coal and other measures, we have reduced sulfur dioxide emissions by 30 percent since 1975. We have also spent about $1 million in supporting or conducting both local and regional studies and are carrying on research with experimental equipment to find ways of reducing the cost of sulfur dioxide control.

Employee Programs Emphasize Productivity and Involvement

To the benefit of customers and investors, the improved operating results, including cost reductions and higher productivity, resulted from the efforts of 7,702 employees in the Ohio Edison System.

A wide range of skills and management training programs have been a strong foundation for the System's improved productivity. The Companies continue to expand this classroom and "hands-on" training. In 1983, we took major steps to study and improve the effectiveness of training, and to help employees to better apply these tools to everyday situations.

Individual efforts are recognized by rewarding employees who suggest specific ways of improving productivity, either through efficiency or safety. With cash incentives, the Employee Suggestion System has saved the Companies more than $106,000 since the program began in 1981.

The Companies and individual employees also make responsible contributions to the community. For example, Company and employee contributions to United Way in 1983 totaled more than $375,000. And employees spend countless hours in a broad range of community services, which include providing food or other goods to the poor and handicapped, teaching life-saving techniques and volunteering in local fire departments.

Results of Operations

Results of operations for 1983 reflect improving economic conditions taking place in the Companies' service area. Increased kilowatt-hour sales to the Companies' commercial and industrial customers of 2.0% and 8.8%, respectively, were significant to the Company achieving increases of 39.3%, 26.3% and 25.5% in income before extraordinary items, net income and earnings on common stock, respectively. This strong performance increased 1983 earnings per share of common stock by 4.2%, despite a significant increase in the number of shares of common stock outstanding in 1983 and the inclusion in 1982 earnings of an extraordinary non-cash gain. The rate of return on average common equity was 14.2% in 1983 compared to 13.5% in 1982 and 14.6% in 1981. Excluding the effect of extraordinary income in 1982 and 1981, and the settlement of a claimed Pennsylvania tax liability in 1981, the rate of return on average common equity was 12.3% in 1982 and 12.9% in 1981.

Increased operating revenues, which served as the basis for the 1983 earnings improvement, resulted from the effect of base rate increases and increased kilowatt-hour sales to customers, partially offset by reduced sales to other utilities and reduced fuel component rates in 1983 compared to 1982. The reduced fuel rates charged to customers were made possible primarily due to lower prices paid for coal in 1983, evidenced by the reported decrease in fuel expense. Operating revenues in 1982 increased from 1981 due to increased base rates, and increased fuel component rates. There is a direct correlation between the fuel rates charged to the Companies' customers and the increase in fuel expense reported in 1982.

Results of operations were further improved in 1983 by operating efficiencies achieved and substantially reduced maintenance costs. The Companies' generating units were available for operation a greater percentage of the time in 1983 compared to 1982. This increased availability results in less unscheduled maintenance and naturally leads to reduced maintenance expense. This was most noteworthy at Mansfield Unit No. 1 and several units at the Sammis Plant in 1983 compared to 1982. Maintenance on those units in 1982, plus maintenance performed during a refueling outage of Beaver Valley Unit No. 1 during that year, were primarily responsible for the increase in 1982 maintenance costs compared to 1981.

In addition to reduced maintenance costs in 1983, the improved generating unit availability allowed the Companies to reduce their requirements for power purchased and interchanged with other utilities by 10.6% from 1982, despite an overall increase in kilowatt-hour sales from the Companies' system. The significant increase in purchased and interchanged power during 1982 compared to 1981 resulted primarily from power purchases which were made in 1982 in order to sell short-term power to other utilities.

Additional financing associated with the Companies' continuing construction programs in 1983 and 1982 necessarily resulted in higher interest costs and preferred and preference stock dividends. However, it is important to note that the Companies' external financing requirements in 1983 were below 1982's level and the costs of financing were also at a lower level. As the Companies' construction projects proceed and until the projects are placed in service and included in rate base, the total allowance for funds used during construction (AFUDC) will continue to increase in order to capitalize the appropriate financing costs which are not currently recovered through rates. A significant factor, however, is that AFUDC represented 89.4% of 1983 earnings on common stock, a decline from 99.4% in 1982 before giving effect to the extraordinary income recorded in that year.

Information with respect to the estimated effects of inflation upon the Companies is given in Note 10.

Capital Resources and Liquidity

The Companies' 1983 construction program (excluding nuclear fuel) required approximately $691,000,000 which, in addition to approximately $204,000,000 of funds generated internally, was funded through external financings. Over the last five years, the cost of the Companies' construction program was approximately $2,900,000,000, of which approximately $570,000,000 was available from internally generated funds; approximately $2,700,000,000 is currently forecast to be spent from 1984 through 1988. The issuance of additional common stock and other securities will be necessary to fund a significant portion of this new construction. Also during this five-year period, the Companies will have additional cash requirements of approximately $638,000,000 to meet debt maturities and sinking fund requirements for debt and preferred and preference stock.

At December 31, 1983, the Companies had available approximately $113,000,000 of temporary cash investments and approximately $98,500,000 of funds held in escrow from previous pollution control financings. The Companies also have $235,000,000 of short-term bank lines of credit available to them for interim financing purposes, none of which had been drawn down at December 31, 1983. The Companies' current financing plans for 1984 include an estimated 8,000,000 shares of common stock to be issued through the Dividend Reinvestment and Stock Purchase Plan, and issuances of up to: 10,000,000 additional shares of common stock through public offerings; $85,000,000 of preferred and preference stock; $65,000,000 of pollution control notes; and $170,000,000 of other long-term debt. The Companies also expect to invest approximately $88,000,000 for additional nuclear fuel in 1984 through the incurrence of additional long-term obligations.

Based upon earnings as of December 31, 1983, the Company would be permitted, under its First Mortgage Indenture, to issue on the basis of property additions, at least $545,000,000 principal amount of first mortgage bonds assuming an interest rate of 13%; or, under its Articles of Incorporation, to issue approximately $339,000,000 of preferred stock at an assumed dividend rate of 13%; or to issue some lesser combination of both. The Company is able to issue $335,000,000 principal amount of first mortgage bonds against previously retired bonds without the need to meet earnings coverage requirements.

In September 1983, the Company was granted a base rate increase by the PUCO which recognized in rate base approximately $126,000,000 of the Company's investment in Perry Unit No. 1, a nuclear unit currently under construction. A January 1984 PUCO order concerning the Company's electric fuel component rate will allow the opportunity for recovery of current and deferred Quarto coal costs, as discussed in Note 7. These are favorable developments which should have a positive effect upon the Company's ability to generate cash internally.

The Companies currently have rate cases pending before the PUCO and the PPUC which, if granted in full, are designed to increase annual revenues by approximately $127,200,000 and $19,900,000, respectively. Orders are anticipated from the PPUC by the second quarter of 1984 and by the third quarter of 1984 from the PUCO.

Management Report

The consolidated financial statements were prepared by the management of Ohio Edison Company, who takes responsibility for their integrity and objectivity. The statements were prepared in conformity with generally accepted accounting principles and are consistent with other financial information appearing elsewhere in this report. Arthur Andersen & Co., independent public accountants, have expressed an opinion on the Company's financial statements, as shown on page 37.

The Company's internal auditors, who are responsible to the Audit Committee of the Board of Directors, review the results and performance of operating units within the Company for adequacy, effectiveness and reliability of accounting and reporting systems, as well as managerial and operating controls.

The Audit Committee consists of four non-employee directors whose duties include: consideration of the adequacy of the internal controls of the Company and the objectivity of financial reporting; inquiry into the number, extent, adequacy and validity of regular and special audits conducted by independent public accountants and the internal auditors; the recommendation of independent accountants to conduct the normal annual audit and special purpose audits as may be required; and reporting to the Board of Directors the Committee's findings and any recommendation for changes in scope, methods, or procedures of the auditing functions. The Audit Committee held three meetings during 1983.

V. A. Owoc
Executive Vice President
Chief Financial Officer

W. A. Daniels
Comptroller

Selected Financial Data

	1983	1982	1981	1980	1979
	(In thousands, except per share amounts)				
Operating Revenues	**$1,515,852**	$1,429,626	$1,279,649	$1,080,869	$ 994,585
Operating Income	**302,751**	269,640	252,381	169,383	163,744
Income Before Extraordinary Items	**272,400**	195,571	183,020	135,150	134,807
Net Income	**272,400**	215,729	197,062	135,150	134,807
Earnings on Common Stock	**227,843**	181,496	163,892	101,403	105,120
Earnings per Share of Common Stock (based on weighted average number of shares outstanding during the year)					
Before Extraordinary Items	**2.22**	1.89	2.10	1.52	1.80
Earnings on Common Stock	**2.22**	2.13	2.30	1.52	1.80
Dividends Declared per Share of Common Stock	**1.80**	1.76	1.76	1.76	1.76
Total Assets at December 31	**5,905,142**	5,247,138	4,460,274	3,979,965	3,446,454
Preferred and Preference Stock Subject to Mandatory Redemption	**158,112**	152,560	151,141	156,450	150,850
Long-Term Debt	**2,131,404**	2,005,436	1,759,771	1,594,384	1,410,782
Construction Energy Trust and Nuclear Fuel Obligations	**719,364**	656,655	447,484	265,000	—

Common Stock Data

The Company's Common Stock is listed on the New York and Midwest Stock Exchanges and is traded on other registered exchanges.

Price Range of Common Stock	**1983**		1982	
First Quarter High-Low	**15-7/8**	**13-7/8**	13-1/8	11-3/8
Second Quarter High-Low	**16-1/8**	**14-3/8**	14-1/8	12-3/8
Third Quarter High-Low	**15-1/4**	**14**	14-3/8	12-1/4
Fourth Quarter High-Low	**16**	**11-7/8**	15-1/8	13-1/4
Yearly High-Low	**16-1/8**	**11-7/8**	15-1/8	11-3/8

Prices are as quoted on the New York Stock Exchange Composite Transactions.

Classification of Holders of Common Stock as of December 31, 1983

	Holders of Record		Shares Held	
	Number	%	Number	%
Individuals	181,290	88.8	53,987,585	49.8
Fiduciaries	19,012	9.3	4,462,051	4.1
Brokers	61	—	1,032,383	1.0
Nominees	556	0.3	46,397,417	42.8
Banks and Financial Institutions	31	—	53,345	—
Insurance Companies & Other Corporations	1,562	0.8	1,556,028	1.4
Charitable, Religious & Educational Institutions	495	0.3	349,174	0.3
Pensions, Profit Sharing & Other Investment Trusts	1,094	0.5	622,071	0.6
Total	204,101	100.0	108,460,054	100.0

As of January 31, 1984, there were 203,789 holders of 108,758,161 shares of the Company's Common Stock.

Quarterly dividends of 45¢ and 44¢ per share were paid on the Company's Common Stock during 1983 and 1982, respectively. Information regarding retained earnings available for payment of cash dividends is given in Note 4b.

Consolidated Statements of Income

For the Years Ended December 31	1983	1982	1981
	(In thousands, except per share amounts)		
Operating Revenues	**$1,515,852**	$1,429,626	$1,279,649
Operating Expenses and Taxes:			
Operation—			
Fuel	**420,336**	432,749	413,698
Purchased and interchanged power, net	**50,026**	52,607	29,321
Other operation expenses	**234,526**	221,129	195,075
Total operation	**704,888**	706,485	638,094
Maintenance	**121,544**	139,615	124,213
Provision for depreciation	**115,514**	103,206	95,830
Amortization of terminated construction project costs (Note 2)	**9,058**	1,866	3,995
General taxes	**126,818**	114,569	84,316
Income taxes	**135,279**	94,245	80,820
Total operating expenses and taxes	**1,213,101**	1,159,986	1,027,268
Operating Income	**302,751**	269,640	252,381
Other Income and Deductions:			
Allowance for equity funds used during construction	**121,814**	84,210	60,421
Miscellaneous, net	**20,812**	16,871	17,021
Income taxes—credit	**64,923**	59,166	53,360
Total other income and deductions	**207,549**	160,247	130,802
Total Income	**510,300**	429,887	383,183
Net Interest and Other Charges:			
Interest on long-term debt	**233,626**	211,765	166,378
Interest on long-term obligations	**73,177**	80,092	69,183
Allowance for borrowed funds used during construction, net of deferred income taxes	**(81,901)**	(76,088)	(67,381)
Other interest expense	**5,702**	12,449	26,378
Subsidiary's preferred stock dividend requirements	**7,296**	6,098	5,605
Net interest and other charges	**237,900**	234,316	200,163
Income Before Extraordinary Items	**272,400**	195,571	183,020
Extraordinary Items (Note 8):			
Gain on reacquisition of first mortgage bonds, net of related income taxes	—	—	14,042
Gain on exchange of common stock for first mortgage bonds	—	20,158	—
Net Income	**272,400**	215,729	197,062
Preferred and Preference Stock Dividend Requirements	**44,557**	34,233	33,170
Earnings on Common Stock	**$ 227,843**	$ 181,496	$ 163,892
Weighted Average Number of Shares of Common Stock Outstanding	**102,414**	85,241	71,180
Earnings Per Share of Common Stock (based on weighted average number of shares outstanding during the year):			
Before extraordinary items (after preferred and preference stock dividend requirements)	**$2.22**	$1.89	$2.10
Extraordinary items	—	.24	.20
Earnings on common stock	**$2.22**	$2.13	$2.30
Dividends Declared Per Share of Common Stock	**$1.80**	$1.76	$1.76

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

Consolidated Balance Sheets

At December 31	1983	1982
Assets	(In thousands)	
Utility Plant:		
In service, at original cost	**$3,632,165**	$3,417,669
Less—Accumulated provision for depreciation	**1,043,679**	953,541
	2,588,486	2,464,128
Construction work in progress	**2,351,089**	1,902,310
Nuclear fuel in process	**211,327**	156,295
	5,150,902	4,522,733
Other Property and Investments	**63,614**	69,626
Current Assets:		
Cash	**2,781**	2,812
Temporary cash investments, at cost, which approximates market value	**112,993**	61,500
Receivables—		
Customers (less accumulated provisions of $1,541,000 and $1,844,000, respectively, for uncollectible accounts)	**132,968**	116,054
Other	**19,416**	24,855
Materials and supplies, at average cost—		
Fuel	**69,047**	92,684
Other	**45,657**	44,466
Prepayments and other	**41,184**	35,966
	424,046	378,337
Deferred Charges:		
Deferred Quarto coal costs (Note 7)	**67,254**	71,346
Property taxes	**52,575**	50,527
Unamortized costs of terminated construction projects (Note 2)	**94,747**	103,835
Other	**52,004**	50,734
	266,580	276,442
	$5,905,142	$5,247,138
Capitalization and Liabilities		
Capitalization (See Consolidated Statements of Capitalization):		
Common stockholders' equity	**$1,711,974**	$1,488,371
Preferred stock—		
Not subject to mandatory redemption	**312,335**	262,335
Subject to mandatory redemption	**60,000**	64,000
Preference stock—		
Not subject to mandatory redemption	**50,000**	50,000
Subject to mandatory redemption	**50,641**	55,165
Preferred stock of consolidated subsidiary—		
Not subject to mandatory redemption	**41,905**	41,905
Subject to mandatory redemption	**47,471**	33,395
Long-term debt	**2,131,404**	2,005,436
	4,405,730	4,000,607
Long-Term Obligations (Note 5):		
Construction energy trust	**500,000**	500,000
Nuclear fuel	**219,364**	156,655
	719,364	656,655
Current Liabilities:		
Current maturities of long-term debt, preferred and preference stock	**79,594**	22,383
Notes payable to banks (Note 6)	**—**	—
Accounts payable	**154,727**	133,776
Accrued taxes	**52,564**	51,115
Accrued interest	**67,891**	57,736
Other	**44,102**	26,390
	398,878	291,400
Deferred Credits:		
Accumulated deferred income taxes	**158,437**	152,890
Accumulated deferred investment tax credits	**107,390**	53,727
Property taxes	**52,575**	50,527
Energy costs recovered in advance	**33,335**	14,418
Other	**29,433**	26,914
	381,170	298,476
Commitments, Guarantees and Contingencies (Notes 2, 3 and 7)		
	$5,905,142	$5,247,138

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

Consolidated Statements of Capitalization

At December 31	Number of Shares Outstanding 1983	Number of Shares Outstanding 1982	Optional Redemption Price Per Share	Optional Redemption Price Aggregate (In Thousands)	1983	1982
					(In thousands)	
Common Stockholders' Equity:						
Common stock, $9 par value, authorized 125,000,000 shares—108,460,054 and 96,081,844 shares outstanding, respectively (Note 4a)					**$ 976,140**	$ 864,737
Other paid-in capital					**494,520**	423,195
Retained earnings (Note 4b)					**241,314**	200,439
Total common stockholders' equity					**1,711,974**	1,488,371
Preferred Stock (Note 4c):						
Cumulative, $100 par value—Authorized 6,000,000 shares						
Not Subject to Mandatory Redemption:						
3.90%-7.24%	973,350	973,350	$103.38-108.00	$102,034	**97,335**	97,335
7.36%-8.20%	800,000	800,000	$104.68-107.40	84,968	**80,000**	80,000
8.64%-9.12%	850,000	850,000	$106.48-106.84	90,670	**85,000**	85,000
Total not subject to mandatory redemption	2,623,350	2,623,350		$277,672	**262,335**	262,335
Subject to Mandatory Redemption (Note 4d): 10.48%-10.76%	615,000	659,630	$107.86-111.87	$ 67,537	**61,500**	65,963
Redemption within one year					**(1,500)**	(1,963)
Total subject to mandatory redemption					**60,000**	64,000
Cumulative, $25 par value—Authorized 4,000,000 shares						
Not Subject to Mandatory Redemption: $3.50 Series	2,000,000	—	$28.75	$ 57,500	**50,000**	—
Preference Stock (Note 4c):						
Cumulative, no par value—Authorized 8,000,000 shares						
Not Subject to Mandatory Redemption: $3.92 Series	2,000,000	2,000,000	$31.42	$ 62,840	**50,000**	50,000
Subject to Mandatory Redemption (Note 4e):						
$95.00-$102.50 Series	27,000	27,000	$1,095.00-1,102.50	$ 29,700	**27,000**	27,000
$1.80 Series	1,622,546	1,862,181	$16.03	26,001	**24,541**	28,165
Redemption within one year					**(900)**	—
Total subject to mandatory redemption	1,649,546	1,889,181		$ 55,701	**50,641**	55,165
Preferred Stock of Consolidated Subsidiary (Note 4c):						
Cumulative, $100 par value—Authorized 950,000 shares						
Not Subject to Mandatory Redemption: 4.24%-9.16%	419,049	419,049	$102.98-107.32	$ 44,123	**41,905**	41,905
Subject to Mandatory Redemption (Note 4d): 8.24%-15.00%	479,708	338,951	$103.29-114.81	$ 52,056	**47,971**	33,895
Redemption within one year					**(500)**	(500)
Total subject to mandatory redemption					**47,471**	33,395
Long-Term Debt (Note 4f):						
First mortgage bonds:						
Ohio Edison Company—						
8.60% weighted average interest rate, due 1984-1988					**153,693**	153,693
14.59% weighted average interest rate, due 1989-1993					**240,864**	223,364
10.88% weighted average interest rate, due 1994-1998					**95,215**	77,715
8.57% weighted average interest rate, due 1999-2003					**242,156**	242,156
10.50% weighted average interest rate, due 2004-2010					**424,310**	424,310
					1,156,238	1,121,238
Pennsylvania Power Company—10.27% weighted average interest rate, due 1984-2008					**259,000**	239,000
Total first mortgage bonds					**1,415,238**	1,360,238
Secured notes and obligations:						
Ohio Edison Company—8.29% weighted average interest rate, due 1984-2014					**281,439**	230,914
Amount held by Trustee					**(985)**	—
					280,454	230,914
Ohio Edison Finance N.V.—17.38% weighted average interest rate, due 1987-1988					**150,000**	150,000
Pennsylvania Power Company—9.00% weighted average interest rate, due 1984-2007					**67,661**	68,106
Amount held by Trustee					**(2,572)**	(5,327)
					65,089	62,779
Total secured notes and obligations					**495,543**	443,693
Unsecured notes of Ohio Edison Company, 11.06% weighted average interest rate, due 1984-2014					**402,000**	302,000
Amount held by Trustee					**(93,555)**	(69,026)
Total unsecured notes of Ohio Edison Company					**308,445**	232,974
Net unamortized discount on debt					**(11,128)**	(11,549)
Long-term debt due within one year					**(76,694)**	(19,920)
Total long-term debt					**2,131,404**	2,005,436
Total Capitalization					**$4,405,730**	$4,000,607

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

Consolidated Statements of Retained Earnings

For the Years Ended December 31	1983	1982	1981
		(In thousands)	
Balance at beginning of period	**$200,439**	$171,191	$133,592
Net income	**272,400**	215,729	197,062
	472,839	386,920	330,654
Deduct:			
Preferred and preference stock dividends	**45,468**	34,488	33,160
Common stock dividends	**185,309**	151,289	126,030
Capital stock issuance expense	**748**	704	273
	231,525	186,481	159,463
Balance at end of period (Note 4b)	**$241,314**	$200,439	$171,191

Consolidated Statements of Capital Stock and Other Paid-In Capital

	Common Stock			Preferred and Preference Stock — Not Subject to Mandatory Redemption		Preferred and Preference Stock — Subject to Mandatory Redemption	
	Number of Shares	Par Value	Other Paid-In Capital	Number of Shares	Par or Stated Value	Number of Shares	Par or Stated Value
			(Dollars in thousands)				
Balance, January 1, 1981	68,526,172	$616,736	$317,196	3,069,049	$306,905	3,039,000	$158,450
Sale of Common Stock	7,000,000	63,000	21,875	—	—	—	—
Dividend Reinvestment Plan	3,122,631	28,103	7,751	—	—	—	—
Conversion of $1.80 Preference Stock	26,900	242	147	—	—	(26,900)	(407)
Preferred Stock Sinking Fund Redemptions—							
10.48% Series	—	—	585	—	—	(27,240)	(2,724)
10.76% Series	—	—	361	—	—	(20,000)	(2,000)
11.00% Series	—	—	53	—	—	(4,016)	(402)
Other Preferred Stock Redemptions—							
3.90% Series	—	—	271	(3,790)	(379)	—	—
4.40% Series	—	—	251	(3,720)	(372)	—	—
4.44% Series	—	—	896	(13,440)	(1,344)	—	—
4.56% Series	—	—	386	(5,700)	(570)	—	—
Balance, December 31, 1981	78,675,703	708,081	349,772	3,042,399	304,240	2,960,844	152,917
Sale of Common Stock	10,000,000	90,000	42,000	—	—	—	—
Dividend Reinvestment Plan	4,644,622	41,802	17,647	—	—	—	—
Exchange of Common Stock for First Mortgage Bonds	2,650,600	23,855	9,463	—	—	—	—
Conversion of $1.80 Preference Stock	110,919	999	610	—	—	(110,919)	(1,678)
Sale of $3.92 Series of Preference Stock	—	—	2,940	2,000,000	50,000	—	—
Sale of 15% Series of Preferred Stock	—	—	—	—	—	80,000	8,000
Preferred Stock Sinking Fund Redemptions—							
8.24% Series	—	—	—	—	—	(5,000)	(500)
10.48% Series	—	—	284	—	—	(13,130)	(1,313)
10.76% Series	—	—	435	—	—	(20,000)	(2,000)
11.00% Series	—	—	44	—	—	(4,033)	(403)
Balance, December 31, 1982	96,081,844	864,737	423,195	5,042,399	354,240	2,887,762	155,023
Sale of Common Stock	5,000,000	45,000	33,350	—	—	—	—
Dividend Reinvestment Plan	7,138,575	64,247	33,056	—	—	—	—
Conversion of $1.80 Preference Stock	239,635	2,156	1,332	—	—	(239,635)	(3,624)
Sale of $3.50 Series of Class A Preferred Stock	—	—	3,140	2,000,000	50,000	—	—
Sale of 11.5% Preferred Stock	—	—	—	—	—	150,000	15,000
Preferred Stock Sinking Fund Redemptions—							
8.24% Series	—	—	—	—	—	(5,000)	(500)
10.48% Series	—	—	270	—	—	(24,630)	(2,463)
10.76% Series	—	—	160	—	—	(20,000)	(2,000)
11.00% Series	—	—	17	—	—	(4,243)	(424)
Balance, December 31, 1983	108,460,054	$976,140	$494,520	7,042,399	$404,240	2,744,254	$161,012

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

Consolidated Statements of Sources of Funds for Property Additions

For the Years Ended December 31	1983	1982	1981
		(In thousands)	
Internally generated funds—			
Income before extraordinary items	**$272,400**	$195,571	$183,020
Principal non-cash items—			
Depreciation and amortization—			
Charged to provision for depreciation	**115,514**	103,206	95,830
Charged to other accounts	**2,564**	1,953	1,318
Amortization of terminated construction project costs	**9,058**	1,866	3,995
Deferred income taxes, net	**80,814**	91,832	99,179
Investment tax credits, net	**53,670**	7,312	(772)
Allowance for equity funds used during construction	**(121,814)**	(84,210)	(60,421)
Deferred fuel and energy costs, net	**23,009**	4,609	(49,393)
	435,215	322,139	272,756
Less—Dividends on common stock	**185,309**	151,289	126,030
Dividends on preferred and preference stock	**45,468**	34,488	33,160
Net funds from operations	**204,438**	136,362	113,566
Income from extraordinary items	—	20,158	14,042
Non-cash items—			
Gain on reacquisition of first mortgage bonds	—	—	(26,276)
Gain on exchange of common stock for first mortgage bonds	—	(20,158)	—
	204,438	136,362	101,332
Financing activities—			
Common stock	**175,653**	224,767	120,729
Preferred stock	**68,140**	8,000	—
Preference stock	—	52,940	—
First mortgage bonds	**55,000**	105,000	95,000
Secured notes, net	**71,770**	84,173	94,920
Unsecured long-term notes, net	**125,471**	106,660	24,314
Construction energy trust and nuclear fuel obligations	**62,709**	209,171	182,484
Redemption of long-term debt and preferred stock	**(75,307)**	(43,295)	(202,336)
Notes payable to banks	—	(74,400)	32,918
Sale of tax benefits	—	10,480	37,531
	483,436	683,496	385,560
Net change in current assets and current liabilities excluding notes payable to banks and current maturities of long-term debt, preferred and preference stock—			
Temporary cash investments	**(51,493)**	(57,200)	(4,300)
Receivables	**(11,475)**	(9,063)	2,715
Materials and supplies	**22,446**	(12,045)	3,149
Accounts payable	**20,951**	(8,942)	39,193
Accrued taxes	**1,449**	4,041	(12,085)
Accrued interest	**10,155**	17,754	285
Miscellaneous, net	**12,525**	(7,148)	112
	4,558	(72,603)	29,069
Other, net—			
Construction funds held in escrow, including accrued interest	**6,454**	711	39,847
Allowance for equity funds used during construction	**121,814**	84,210	60,421
Sale of utility property	—	13,568	—
Deferred income taxes on allowance for borrowed funds used during construction	**(76,982)**	(67,127)	(59,530)
Miscellaneous, net	**2,080**	(4,384)	11,345
	53,366	26,978	52,083
Total Sources of Funds for Property Additions	**$745,798**	$774,233	$568,044
Property Additions—			
Electric plant	**$689,646**	$648,633	$546,996
Nuclear fuel	**55,032**	124,292	18,945
Nonutility property	**1,120**	1,308	2,103
	$745,798	$774,233	$568,044

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

Consolidated Statements of Taxes

For the Years Ended December 31	1983	1982	1981
		(In thousands)	
General Taxes:			
State gross receipts (i)	**$ 65,495**	$ 56,808	$ 34,144
Real and personal property	**47,099**	45,028	39,193
Social security and unemployment	**10,097**	8,990	8,010
Miscellaneous	**4,127**	3,743	2,969
Total general taxes	**$126,818**	$114,569	$ 84,316
Provision for Income Taxes:			
Currently payable—			
Federal	**$ 10,119**	$ 324	$ 80
State	**2,507**	2,532	678
Foreign	**228**	206	59
	12,854	3,062	817
Deferred, net (see below)—			
Federal	**75,947**	88,666	96,218
State	**4,867**	3,166	2,961
	80,814	91,832	99,179
Investment tax credits, net of amortization	**53,670**	7,312	(772)
Total provision for income taxes	**$147,338**	$102,206	$ 99,224
Income Statement Classification of Provision for Income Taxes:			
Operating expenses	**$135,279**	$ 94,245	$ 80,820
Other income	**(64,923)**	(59,166)	(53,360)
Allowance for borrowed funds used during construction	**76,982**	67,127	59,530
Extraordinary items	**—**	—	12,234
Total provision for income taxes	**$147,338**	$102,206	$ 99,224
Sources of Deferred Tax Expense:			
Allowance for borrowed funds used during construction, which is credited to plant	**$ 76,982**	$ 67,127	$ 59,530
Excess of tax over book depreciation, net	**23,081**	17,387	13,669
Deferred fuel and energy costs, net	**(10,202)**	7,000	12,308
Pensions and taxes charged to utility plant, net	**4,153**	2,675	—
Cost of terminated construction projects, net	**(3,258)**	384	5,197
Deferred interest on leased nuclear fuel, net	**(3,165)**	(2,840)	9,567
Other, net	**(6,777)**	99	(1,092)
Total deferred tax expense, net	**$ 80,814**	$ 91,832	$ 99,179
Reconciliation of Federal Income Tax Expense at Statutory Rate to Total Provision for Income Taxes:			
Book income before provision for income taxes	**$419,738**	$317,935	$296,286
Federal income tax expense at statutory rate	**$193,079**	$146,250	$136,292
Increases (reductions) in taxes resulting from:			
Allowance for equity funds used during construction, which does not constitute taxable income	**(56,034)**	(38,737)	(27,794)
Difference between tax and book depreciation	**9,115**	4,026	(2,422)
Gain on exchange of common stock for first mortgage bonds, which does not constitute taxable income	**—**	(9,273)	—
Other, net	**1,178**	(60)	(6,852)
Total provision for income taxes	**$147,338**	$102,206	$ 99,224

(i) Amount for 1981 includes a credit of $14,352,000 resulting from a December 1981 settlement applicable to Pennsylvania Excise Tax on Gross Receipts accrued in prior years.

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

1 Summary of Significant Accounting Policies:

The consolidated financial statements include Ohio Edison Company (Company) and its wholly owned subsidiaries, Pennsylvania Power Company (Penn Power) and Ohio Edison Finance N.V. All significant intercompany transactions have been eliminated. The Company and Penn Power (Companies) follow the accounting policies and practices prescribed by The Public Utilities Commission of Ohio (PUCO), the Pennsylvania Public Utility Commission (PPUC) and the Federal Energy Regulatory Commission (FERC).

Revenues—
The Companies' residential and commercial customers are metered on a cycle basis. Revenue is recognized for electric service based on meters read through the end of the month.

Deferred Fuel and Energy Costs—
The Company recovers fuel-related costs from its retail customers through an electric fuel component (EFC). The EFC is an estimated fixed rate per kilowatt-hour included on customer bills for a six-month period and is based upon fuel-related costs for the preceding six-month period. Any over or under collection resulting from the operation of the EFC is included as an adjustment to the EFC rate in a subsequent six-month period. Accordingly, the Company defers the difference between actual fuel-related costs incurred and the amounts currently recovered from its customers.

Penn Power recovers fuel and energy costs from its retail 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, Penn Power defers the difference between actual energy costs and the amounts currently recovered from its customers.

Reference is made to Note 7 with respect to accounting for the cost of coal received from Quarto Mining Company (Quarto).

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 (see AFUDC).

The Companies provide for depreciation on a straight-line basis at various rates over the estimated lives of property included in plant in service. The annual composite rates for electric plant were 3.4% in 1983 and 3.3% in 1982 and 1981. The Company's depreciation rates include provisions for the estimated decommissioning costs for its only nuclear generating unit in service. Penn Power provides for the cost of decommissioning radioactive components only, in accordance with a PPUC rate order.

Common Ownership of Generating Facilities—
The Companies and other Central Area Power Coordination Group (CAPCO) companies own, as tenants in common, various power generating facilities. Each of the companies is obligated to pay a share of the construction costs of any jointly owned facility in the same proportion as its ownership interest. The Companies' portions of operating expenses associated with these jointly owned facilities are included in the corresponding operating expenses on the Consolidated Statements of Income. The amounts reflected on the Consolidated Balance Sheet under utility plant at December 31, 1983, include the following:

Generating Units	Utility Plant in Service	Accumulated Provision for Depreciation	Construction Work in Progress	Companies' Ownership Interest
		(In Thousands)		
W. H. Sammis #7	$ 191,105	$ 25,791	$ 20,948	68.80%
Bruce Mansfield #1, #2 and #3	699,917	114,670	2,907	50.68%
Beaver Valley #1 (i)	447,991	82,612	85,554	52.50%
Beaver Valley #2 (Note 5)	—	—	765,359	41.88%
Perry #1 and #2	—	—	1,231,403	35.24%
Total	$1,339,013	$223,073	$2,106,171	

(i) Includes common facilities applicable to Beaver Valley #2.

All nuclear fuel in process relates to the CAPCO units but is not segregated among them.

Nuclear Fuel—
The Companies amortize the cost of nuclear fuel based on the rate of consumption. The Companies also make provision for future nuclear fuel disposal costs associated with the fuel.

Allowance for Funds Used During Construction (AFUDC)—
AFUDC, a non-cash item charged to utility plant under construction during the construction period, unless otherwise included in rate base, represents the net cost of borrowed funds and equity funds used for construction purposes. The Company also charges AFUDC to certain projects which are completed but not yet included in rate base, in accordance with a PUCO order. AFUDC varies according to changes in the level of utility plant under construction and in the cost of capital. The Companies compute AFUDC utilizing a net of tax rate, which is consistent with the rate treatment. The AFUDC rate related to assets financed only through the incurrence of long-term obligations (see Note 5) is based on actual interest accrued on the obligations during the period. The annual rates used by the Company for all other construction projects were 10.90%, 10.32% and 9.84% during 1983, 1982 and 1981, respectively. Penn Power's rates applicable to such projects were 9.25% in 1983 and 1982, and 8.50% in 1981.

Income Taxes—
Details of the total provision for income taxes are shown on the Consolidated Statements of Taxes. The deferred income taxes result from timing differences in the recognition of revenues and expenses for tax and accounting purposes.

The Companies allocate the income tax benefit, resulting from interest expense related to utility plant under construction, to income taxes–credit included under other income and deductions on the Consolidated Statements of Income.

For income tax purposes, the Companies claim liberalized depreciation and, consistent with the rate treatment, generally follow "normalization" accounting. The Companies expect that deferred taxes which have not been provided will be collected from their customers when the taxes become payable, based upon the established rate making practices of the PUCO, the PPUC and the FERC.

The Company received $10,480,000 in 1982 and $37,531,000 in 1981 resulting from the sales of tax benefits applicable to property placed in service during those years in accordance with provisions of the Economic Recovery Tax Act of 1981. Of the total, $5,823,000 and $12,675,000, respectively, were recorded as additional deferred investment tax credits on the Company's Consolidated Balance Sheets and are being amortized over the life of the related property. The remaining $4,657,000 and $24,856,000, respectively, were recorded as reductions to utility plant in service and serve to reduce the total provision for depreciation over the life of the property.

The Companies defer investment tax credits utilized and amortize these credits to income over the estimated life of the related property. At December 31, 1983, approximately $63,000,000 of unused investment tax credits were available to offset future Federal income taxes payable. These credits expire at the end of the following years:

1995	$18,000,000	80 ITC
1996	5,000,000	81 "
1997	19,000,000	82 "
1998	21,000,000	83 "
	$63,000,000	

Pensions—
The Companies' trusteed, noncontributory pension plans cover almost all full-time employees. Upon retirement, employees receive a monthly pension based on length of service and compensation. Pension costs for 1983, 1982 and 1981, were $16,904,000, $15,448,000 and $15,311,000, respectively. Of those amounts, $11,913,000, $10,350,000, and $9,237,000, respectively, were charged to operating expenses; the balances were charged primarily to construction. Such costs include the amortization of unfunded past service costs on an actuarial basis over approximately 40 years in 1983 and 30 years in 1982 and 1981. The Companies fund pension costs accrued. A comparison of accumulated plan benefits and plan net assets from the two latest actuarial reports is as follows:

At June 30,	1983	1982
Actuarial present value of accumulated plan benefits:		
Vested	$176,732,000	$157,014,000
Nonvested	16,939,000	12,862,000
	$193,671,000	$169,876,000
Net assets available for benefits	$314,323,000	$224,641,000
Assumed rate of return for actuarial present value of accumulated plan benefits	8%	8%

The above total actuarial present value of accumulated plan benefits reflects pension benefits applicable to eligible employees based upon present salary levels and past years of service accumulated through the valuation date. This is the generally accepted reporting procedure currently set forth by the Financial Accounting Standards Board. The Companies' annual contributions to the plans, however, consider estimated ultimate salary increases due to inflation and other factors and the estimated total service expected to be accumulated by employees. This is a widely recognized funding technique and is consistent with the recommendation of the Companies' actuary. In addition, the actuary recommended, and the Companies utilized, a discount rate of 7% for funding purposes. Differences between funding bases and reporting requirements can have a significant effect on the comparisons above.

2 Terminated Construction Projects:

In January 1980, the Companies and all other CAPCO companies terminated plans to construct four nuclear generating units. Costs, including settlement of all asserted claims resulting from termination, unrecovered by the Company and Penn Power as of December 31, 1983, applicable to these units amounted to approximately \$78,747,000 and \$16,000,000, respectively.

The PUCO had authorized recovery of the applicable portion of the Company's then known share of the construction costs from its PUCO jurisdictional customers over a ten-year period beginning in February 1981. However, due to a July 1981 Ohio Supreme Court decision which overturned a PUCO order including a similar allowance to another Ohio utility, the PUCO subsequently disallowed the Company's recovery of those costs, as service-related costs, effective August 1, 1981.

On November 3, 1982, the PUCO decided in the Company's then pending rate case to allow a rate of return above that which it otherwise would have allowed were it not for the July 1981 Ohio Supreme Court decision. Based on that order, the Company resumed amortization of the costs of the terminated units applicable to PUCO jurisdictional customers over a ten-year period. A similar adjustment was included in the Company's September 1983 PUCO rate order.

The Companies are currently seeking approval from the FERC to recover these costs from FERC jurisdictional customers to the extent they are allocable to those customers. The Companies are currently collecting interim rates from FERC jurisdictional customers which are intended to provide for recovery over a ten-year period and, accordingly, those costs applicable to FERC jurisdictional customers are being amortized over that period. The Companies believe that the construction costs were prudently incurred and have no reason to believe that the FERC will not act favorably upon their requests. The PPUC has indicated that it will allow Penn Power to begin recovering its share of the costs allocable to PPUC jurisdictional customers over a ten-year period beginning with the effective date of new rates resulting from its pending rate increase request.

3 Leases:

The Companies lease nuclear fuel, certain transmission facilities, computer equipment, office space and other property and equipment under cancelable and noncancelable leases. Total rent expenses included on the Consolidated Statements of Income were \$34,778,000, \$20,766,000 and \$20,731,000 in 1983, 1982 and 1981, respectively. The future minimum rental commitments as of December 31, 1983, for all noncancelable leases recorded as operating leases are:

1984	\$ 26,696,000
1985	24,038,000
1986	21,902,000
1987	19,325,000
1988	16,177,000
Years thereafter	398,522,000

If all noncapitalized financing leases had been capitalized, the effect on total assets and liabilities would not have been material.

4 Capitalization:

(a) Common Stock—

Through the Dividend Reinvestment and Stock Purchase Plan, holders of common, preferred and preference stock can acquire additional new shares of the Company's common stock by automatically reinvesting all or a portion of their dividends and by making optional cash payments. Purchases made with reinvested cash dividends on common stock are made at a price equal to 95% of the average of the high and low market prices on the investment dates, and purchases made with optional cash payments are made at a price equal to 97% of such average. Purchases of common stock made with reinvested cash dividends on preferred and preference stock are made at a price equal to 100% of the average market price. At December 31, 1983, the Company had 5,893,219 shares reserved for issuance under this plan and 1,622,546 shares of common stock reserved for possible conversion of the $1.80 Preference Stock.

(b) Retained Earnings—
Under the Company's indenture, the Company's consolidated retained earnings unrestricted for payment of cash dividends on the Company's common stock were $169,267,000 at December 31, 1983. Under Penn Power's Charter, $33,773,000 of retained earnings at December 31, 1983, were unrestricted for payment of cash dividends to the Company.

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

(d) Preferred Stock Subject to Mandatory Redemption—
The Company's 10.48% Series and 10.76% Series each include provisions for a mandatory sinking fund to retire a minimum of 20,000 shares every year on December 1, and January 1, respectively, at $100 per share plus accrued dividends. Penn Power's 8.24% Series and 11% Series each include provisions for a mandatory sinking fund to retire a minimum of 5,000 shares and 4,000 shares, respectively, every year on December 1, and January 1, respectively, at $100 per share plus accrued dividends. Penn Power's 15% Series and 11.50% Series each include provisions for a mandatory sinking fund to retire a minimum of 3,200 shares and 15,000 shares, respectively, on July 15, of each year beginning in 1988 and 1989, respectively, at $100 per share plus accrued dividends. Penn Power's 10.50% Series includes a provision for mandatory redemption of the entire series on April 1, 2040, at $100 per share plus accrued dividends.

The sinking fund requirements for the next five years are:

1984	$2,000,000
1985	4,871,000
1986	4,900,000
1987	4,900,000
1988	5,220,000

(e) Preference Stock Subject to Mandatory Redemption—
The $102.50 Series and $95.00 Series each include provisions for a mandatory sinking fund to retire a minimum of 900 and 1,800 shares, respectively, on July 1, in each year beginning in 1984 and 1985, respectively, at $1,000 per share plus accrued dividends. The $1.80 Series includes a provision for a mandatory sinking fund to retire a minimum of 100,000 shares on October 1, in each year beginning in 1985, at $15.125 per share plus accrued dividends.

The annual sinking fund requirements are $900,000 for 1984, and $4,213,000 for 1985 through 1988.

The $1.80 Series is convertible at any time into common stock at a price of $15.125 per share. Holders receive one share of common stock for each share of $1.80 Preference Stock converted, subject to adjustment under certain conditions.

(f) Long-Term Debt—
The mortgages and their supplements, which secure all of the Companies' first mortgage bonds, serve as direct first mortgage liens on substantially all property and franchises, other than specifically excepted property, owned by the respective Companies.

Based on the amount of bonds authenticated by the Trustees through December 31, 1983, the Companies' annual sinking and improvement fund requirements amount to $23,182,000. The Company expects to deposit funds in 1984 which will be withdrawn upon the surrender for cancellation of a like principal amount of bonds, which are specifically authenticated for such purposes against unfunded property additions or against previously retired bonds. This method can result in minor increases in the amount of the annual sinking fund requirements. Penn Power expects to satisfy its requirements in 1984 by certifying unfunded property additions of 166-2/3% of the required amount.

As of December 31, 1983, the Companies' sinking and improvement fund requirements and maturing long-term debt for the next five years are:

1984	$ 99,876,000
1985	76,325,000
1986	59,260,000
1987	184,260,000
1988	194,862,000

The weighted average interest rates shown on the Consolidated Statements of Capitalization relate to long-term debt outstanding at December 31, 1983.

Total secured and unsecured notes outstanding at December 31, 1983, and December 31, 1982, exclude $97,112,000 and $74,353,000, respectively, of pollution control notes, the proceeds of which were then in escrow pending their disbursement for construction of certain pollution control facilities. Penn Power's obligation to repay certain pollution control revenue bonds is secured by a series of Penn Power first mortgage bonds. The pollution control revenue bonds to which the unsecured notes relate are entitled to the benefit of irrevocable bank letters of credit of $214,156,000. To the extent that drawings are made under those letters of credit to pay principal of, or interest on, the pollution control revenue bonds, the Company is entitled to a credit on the notes. The Company pays an annual fee of 1/2%–7/8% of the amounts of the letters of credit to the issuing banks and is obligated to reimburse the banks for any drawings thereunder.

5 Long-Term Obligations:

Ohio Edison Energy Trust (OEET)—
OEET, which finances part of the Company's investment in Beaver Valley Unit No. 2, has two lines of revolving credit available to it for $400,000,000 and $100,000,000. The latter credit also serves as a standby facility in connection with OEET commercial paper sales; total borrowings under that credit and commercial paper outstanding may not exceed $100,000,000 at any time.

The Company has transferred its interest in Beaver Valley Unit No. 2 (exclusive of common facilities and transmission facilities) to OEET, where the assets are used to secure OEET borrowings. All OEET obligations will be assumed by the Company when they become due, but not later than December 31, 1986. At the Company's option, all obligations outstanding under the $400,000,000 revolving credit arrangement may be converted into a four-year term loan to the Company.

The Company accrues interest applicable to OEET which is subsequently capitalized, net of income tax effect. Interest on borrowings under the $400,000,000 line of credit includes a commitment fee of 1/2% on the unused portion of this line. No direct borrowings have been or are expected to be made against the $100,000,000 line of credit, but OEET has issued and has outstanding commercial paper supported by this facility. To the extent that borrowings are less than the $100,000,000 available under this line of credit, the Company must pay a commitment fee of 1/2%. Under the standby support, an irrevocable bank letter of credit has been issued upon which OEET pays a fee of 1/8% of the amount of commercial paper notes outstanding. The effective average annual interest rates on OEET borrowings were 10.7%, 14.8% and 18.7% during 1983, 1982 and 1981, respectively.

Nuclear Fuel Financing—
In December 1981, Ohio Edison Fuel Corporation and Pennsylvania Power Fuel Corporation (corporations in which the Companies have no ownership interest) were created to provide funds for the procurement of nuclear fuel. The fuel corporations will lease the fuel to the Companies under separate fuel leases which require lease payments sufficient to permit the fuel corporations to repay the obligations. Under ordinary circumstances, the lease payments will be made at such time and in such amounts as will coincide with the burnup of the nuclear fuel. Financing on behalf of the Companies of up to $303,000,000 is currently available through the fuel corporations, either through revolving credit arrangements or the issuance of commercial paper, which is supported by bank letters of credit, or a combination of both.

In November 1982, the Companies also began participating in arrangements wherein the Central Area Energy Trust (CAET) finances the acquisition of nuclear material that will ultimately be used to fuel various CAPCO generating units. As part of these arrangements, the Companies have entered into purchase agreements whereby the Companies are unconditionally obligated to purchase their share of the nuclear material that has been financed through CAET in not less than two nor more than three years from the date of the agreement, unless the nuclear material reaches the point of fabrication, at which time the purchase commitment will then be due. Financing of up to $137,000,000 is available to CAET on behalf of the Companies, subject to certain limitations.

The Companies accrue interest applicable to the nuclear fuel obligations which is subsequently capitalized, net of income tax effect. No direct borrowings have been or are expected to be made against the lines of credit available to the fuel corporations; the fuel corporations have issued and have outstanding commercial paper supported by the lines of credit. To the extent that borrowings are less than the $303,000,000 available under these credit lines, the fuel corporations must pay commitment fees of 1/8% to 1/2% on the available portions of the lines of credit. They also pay fees of 5/8% to 7/8% for the letters of credit on the aggregate amount of outstanding commercial paper. Interest rates on CAET purchase commitments vary from 1-1/8% to 1-1/2% over the interest rate applicable to certain dealer placed commercial paper. The effective average annual interest rates applicable to nuclear fuel obligations were 10.6%, 12.6% and 13.9% during 1983, 1982 and 1981, respectively.

6 Notes Payable to Banks and Lines of Credit:

The Companies have lines of credit with domestic banks that provide for borrowings of up to $235,000,000 at rates that vary from prime up to 105% of the prevailing prime interest rates. Short-term borrowings may be made under these lines of credit on the Companies' unsecured notes. All of the current lines expire December 31, 1984; however, all unused lines may be cancelled by the banks.

The Companies maintain cash balances on deposit with banks to provide operating funds, to assure availability of $124,000,000 of the lines of credit and for other banking arrangements. Such compensating balances, net of "float," are expected to be maintained at an average of approximately $5,800,000 and are not subject to any contractual restriction against withdrawal. The Companies are required to pay commitment fees that vary from a flat rate of 3/8% to a variable rate of 5% of the applicable prime interest rate to assure the availability of $80,000,000 of the lines of credit.

7 Commitments, Guarantees and Contingencies:

Construction Program—

The Companies' current budget forecasts reflect expenditures of approximately $2,700,000,000 for property additions and improvements from 1984-1988, of which approximately $766,000,000 is applicable to 1984. In addition, the Companies expect to invest approximately $352,000,000 for nuclear fuel during the 1984-1988 period, of which approximately $88,000,000 is applicable to 1984. The major portion of the Companies' construction activities during this five-year period relates to the CAPCO companies' program for the joint development of power generation and transmission facilities.

Quarto Project—

The Companies, together with the other CAPCO companies, have entered into a long-term coal supply contract with Quarto. The CAPCO companies have also agreed to severally, and not jointly, guarantee their proportionate shares of Quarto's debt and lease obligations incurred while developing and equipping the mines. As of December 31, 1983, the Companies' share of the guarantee was $225,598,000.

Under the terms of the coal supply contract, which expires December 31, 1999, the Companies must reimburse Quarto for their shares of the costs of operating the Quarto mines, including those costs associated with mine construction, whether or not they receive coal from Quarto. These payments will permit Quarto, over the life of the contract, to meet the debt and lease obligations it incurred while developing and equipping the mines. The Companies' total payments under this contract, including amounts related to mine construction costs, amounted to $92,644,000, $80,709,000 and $94,379,000 during 1983, 1982 and 1981, respectively. Under the coal supply contract, the Companies' future minimum payments related solely to mine construction costs are:

1984	$ 26,082,000
1985	25,463,000
1986	24,846,000
1987	24,228,000
1988	23,610,000
Years thereafter	232,688,000

Based on studies concerning the economics of the Quarto project and the various alternatives available to provide the long-term fuel requirements of the Bruce Mansfield Plant, changes were made in 1981 in the mode of operation of the Quarto mines which have the effect of reducing the annual tonnage production of these mines. Additional coal requirements for the Bruce Mansfield Plant are currently being procured in the open market and the Companies are presently continuing to evaluate the alternatives for making additional arrangements to fulfill, together with the use of coal from the Quarto project, the long-term fuel requirements of the Bruce Mansfield Plant. These changes are part of a fuel procurement strategy designed to reduce the weighted average price of coal used at the Bruce Mansfield Plant. The Companies will continue to monitor the Quarto project and conduct such additional studies of the economics of the project as are deemed warranted by the circumstances.

Under the terms of the coal supply contract, the price of Quarto coal is based on, among other things, the actual production costs plus amortization of certain production expenses which were not included in the price of that coal prior to May 31, 1980, when the development period ended.

Following the end of the development period, the Company was ordered by the PUCO, and Penn Power was ordered by the PPUC, to defer recovery of the cost of Quarto coal in excess of generally prevailing market prices, pending further proceedings. As a result of those orders, the Companies began deferring a portion of the cost of Quarto coal, rather than including such costs in their respective EFC and ECR.

Thereafter, the PUCO allowed the Company to implement a recovery formula with respect to Quarto coal costs that resulted in the recovery of current Quarto coal costs plus a portion of its previously deferred costs. However, that recovery mechanism was suspended by the PUCO on August 1, 1983, pending further review. On January 31, 1984, following the Company's semiannual fuel hearing, the PUCO approved a method, effective January 1, 1984, which provides an opportunity for recovery of the current cost of Quarto coal plus costs which were deferred in prior years. The PUCO order allows the Company to recover in its EFC the current cost of Quarto coal up to 125% of the prevailing comparable delivered market price. Previously deferred costs may also be recovered to the extent that the actual cost of all coal burned at the Bruce Mansfield Plant, including the recoverable cost of Quarto coal, is less than 110% of such prevailing market price. The PUCO order states that the Company must recover previously deferred costs (amounting to approximately $57,375,000 at December 31, 1983) under this method at the rate of at least one-sixth per year. Any previously deferred costs not so recovered during each year would not be recoverable under ordinary circumstances. In addition, any current costs of Quarto coal not recoverable under the 125% limitation can no longer be deferred under ordinary circumstances. Although unable to predict the ultimate level of recovery, based upon current and projected operation of the Quarto mines, and market prices, the Company believes that this method provides a sufficient basis to recover the deferred costs and future costs of Quarto coal under the jurisdiction of the PUCO.

On February 10, 1984, an Administrative Law Judge for the PPUC issued his Initial Decision in the proceedings relating to the recovery of the cost of Quarto coal. The Initial Decision would allow Penn Power to recover in its ECR the current cost of Quarto coal and the costs which were deferred in prior years (amounting to approximately $9,879,000 at December 31, 1983) to the extent that the actual cost of all coal burned at the Bruce Mansfield Plant is less than the generally prevailing delivered market price for comparable coal. Penn Power may continue to defer costs which are in excess of the amount allowed to be recovered on a current basis. The Initial Decision will become final, unless it is appealed to the PPUC or the PPUC elects to review the Decision. Although unable to predict the final resolution of this matter, management believes that its ultimate disposition will not have a material adverse effect upon the Company's consolidated results of operations.

An issue has been raised in the Companies' most recent rate cases before the FERC concerning the amount of the cost of Quarto coal that may be included in the Companies' charges for electric service to their wholesale customers. In the case involving the Company, an agreement between the Company and its wholesale customers has been filed with the FERC which provides for recovery of the cost of Quarto coal pursuant to the method used by the PUCO. The FERC has not yet acted upon the agreement.

Environmental Matters—
Various Federal, state and local authorities regulate the Companies with regard to air and water quality and other environmental matters. The Companies estimate that compliance requires capital expenditures of approximately \$508,000,000 for projects remaining to be completed. Of this amount, approximately \$322,000,000 was spent prior to 1984, and \$186,000,000 is included in the construction estimate given above under "Construction Program" for 1984 through 1988. If Penn Power is required to install off-stream cooling in connection with the operation of the New Castle Plant, costs (based on a 1980 study) estimated between \$13,800,000 and \$31,500,000, depending on the required thermal limitations, would be incurred. In addition, annual operating costs would increase substantially. Penn Power expects that the impact of any such capital and operating expenditures would eventually be reflected in its rate schedules.

On December 19, 1980, the Commonwealth of Pennsylvania petitioned the Federal Environmental Protection Agency (EPA) to make findings under Section 126 of the Clean Air Act. Section 126 provides a remedy for a downwind state that can show adverse impact because air pollution in an upwind state causes nonattainment of air quality standards in the downwind state. Pennsylvania's petition complains of excessive particulate and sulfur dioxide (SO_2) emissions from a number of sources in Ohio and other states, including potentially all of the Companies' Ohio plants. The states of New York and Maine have filed similar petitions which have subsequently been consolidated with the Pennsylvania petition. In January 1984, a number of states, together with various environmental organizations, sent the EPA a notice of their intent to sue the EPA for failing to render a timely decision on the pending Section 126 petitions. The notice also asserts that the EPA has a mandatory duty to order cutbacks in SO_2 emissions in Ohio and other states under Section 115 of the Clean Air Act, which deals with international air pollution. These proceedings could ultimately result in the revision of the particulate and SO_2 emission limitations for these plants, to make them more stringent. The Company is unable to predict the outcome of these proceedings.

As a part of the reauthorization of the Clean Air Act, legislation has been introduced in Congress to address the so-called "acid rain problem." Various bills introduced thus far would require reductions in SO_2 emissions from utility power plants and other sources located in several states, including Ohio and Pennsylvania. The Company is unable to predict whether the proposed bills will be enacted and, if so, to what extent, if any, the SO_2 emission limits at the Companies' plants would be affected. Substantial changes in the SO_2 emission limits could result in the need for changes in coal supply, significant capital investments in flue gas desulfurization equipment or the closing of some coal-fired generating capacity to assure compliance. If flue gas desulfurization equipment were to be installed on all of their generating units to achieve compliance, a circumstance that may be physically impossible because of space limitations at certain of their plants, the Companies estimate that the capital costs associated with such installation could exceed \$1,000,000,000. The Companies expect that any such capital costs, as well as any increased operating costs associated with such equipment, would ultimately be recovered from their customers.

On October 11, 1983, the U.S. Court of Appeals for the District of Columbia reversed several significant portions of the EPA's regulations on the methods used by the EPA to determine the amount of stack height credit for establishing individual source emission limitations. The EPA is currently considering changes to its stack height regulations to conform them to the court's decision. Such changes could result in more stringent emission limitations for existing plants and increased capital costs and operating expenses. The utility industry is seeking review of the decision before the U.S. Supreme Court. The Company is unable to predict the ultimate outcome of this proceeding.

The Pennsylvania Department of Environmental Resources has informed Penn Power that it intends to enter into a Consent Agreement with Penn Power in an effort to substantially reduce alleged opacity violations at the New Castle Plant. Such Consent Agreement may ultimately include capital expenditures and changes in operations at the plant as well as an undeterminable penalty payment. Management is unable to predict the terms of the Consent Agreement but anticipates that any capital costs and increased operating expenses would ultimately be recovered from Penn Power's customers and that any penalty payment would not be material to the Company's consolidated results of operations.

Other Legal Actions and Complaints—
In 1977, the Boroughs of Ellwood City and Grove City, Pennsylvania, filed a complaint against Penn Power, alleging that Penn Power, individually and in conspiracy with the Company and other CAPCO companies, has

violated Sections 1 and 2 of the Sherman Act and Sections 4 and 16 of the Clayton Act by restraining and monopolizing trade and commerce in alleged markets for electric power. Damages of $7,000,000 (to be trebled) and injunctions against the alleged unlawful acts were originally sought. In February 1984, the Boroughs revised their claimed damages up to $9,743,000. In 1979, the Court granted summary judgment in favor of Penn Power as to certain allegations of the complaint. In February 1983, Penn Power filed a Motion for Summary Judgment on the claims not dismissed by the Court's 1979 Order. Also in February 1983, the Boroughs asked the Court to allow them to amend their complaint. In August 1983, the Court granted Penn Power summary judgment on the Boroughs' conspiracy claims, denied summary judgment on "price squeeze" and Robinson-Patman Act claims, and denied the Boroughs' request to amend their complaint. Trial is anticipated to begin in the second quarter of 1984. Management is unable to predict the ultimate outcome of this action.

The PPUC is investigating an outage of Beaver Valley Unit No. 1 which occurred during the period March-August 1979. The outage had been ordered by the Nuclear Regulatory Commission to analyze possible seismic deficiencies of safety-related piping and pipe supports in the Unit. The PPUC has ordered that the operating company of the Unit make refunds to that company's customers based upon that company's expenditures for purchased replacement power during the outage. The PPUC is currently investigating Penn Power's liability, if any, for the outage and whether refunds are due to Penn Power's customers for purchased replacement power expenses incurred during the outage which were included in its energy clause. If Penn Power is required at some future time to make such a refund, it is not expected that the amount would be material to the Company's consolidated results of operations.

8 Extraordinary Income:

During 1982, the Company exchanged 2,650,600 shares of its common stock for $53,432,000 principal amount of its outstanding first mortgage bonds which were subsequently retired. The exchange resulted in a non-taxable gain of $20,158,000, which is included as an extraordinary item on the 1982 Consolidated Statement of Income. During 1981, the Company purchased and subsequently retired $65,821,000 principal amount of its outstanding first mortgage bonds for cash. This resulted in a gain of $26,276,000, which is included as an extraordinary item, net of related income taxes of $12,234,000, on the 1981 Consolidated Statement of Income.

9 Summary of Quarterly Financial Data:

The following summarizes certain consolidated operating results for the four quarters of 1983 and 1982.

Three Months Ended	March 31, 1983	June 30, 1983	September 30, 1983	December 31, 1983
	(In thousands, except per share amounts)			
Operating Revenues	$378,157	$364,478	$386,400	$386,817
Operating Expenses and Taxes	302,104	296,956	308,288	305,753
Operating Income	76,053	67,522	78,112	81,064
Other Income and Deductions	47,530	50,060	54,668	55,291
Net Interest and Other Charges	59,472	57,578	60,017	60,833
Net Income	$ 64,111	$ 60,004	$ 72,763	$ 75,522
Earnings on Common Stock	$ 54,091	$ 48,708	$ 61,117	$ 63,927
Weighted Average Number of Shares of Common Stock Outstanding	96,841	100,244	105,312	107,261
Earnings per Share of Common Stock	$.56	$.49	$.58	$.60

Three Months Ended	March 31, 1982	June 30, 1982	September 30, 1982	December 31, 1982
	(In thousands, except per share amounts)			
Operating Revenues	$361,190	$328,834	$374,328	$365,274
Operating Expenses and Taxes	286,837	258,311	315,272	299,566
Operating Income	74,353	70,523	59,056	65,708
Other Income and Deductions	35,819	30,505	50,212	43,711
Net Interest and Other Charges	56,335	58,937	59,820	59,224
Income Before Extraordinary Item	53,837	42,091	49,448	50,195
Extraordinary Item	—	20,158	—	—
Net Income	$ 53,837	$ 62,249	$ 49,448	$ 50,195
Earnings on Common Stock	$ 45,644	$ 54,095	$ 41,326	$ 40,431
Weighted Average Number of Shares of Common Stock Outstanding	79,131	81,122	88,021	92,688
Earnings per Share of Common Stock:				
Before Extraordinary Item (after preferred and preference stock dividend requirements)	$.58	$.42	$.47	$.44
Extraordinary Item	—	.25	—	—
Earnings on Common Stock	$.58	$.67	$.47	$.44

10 Supplementary Financial Data—Financial Reporting and Changing Prices (Unaudited):

Statement of Financial Accounting Standards No. 33, "Financial Reporting and Changing Prices" (SFAS No. 33), provides for the preparation of supplementary financial information to disclose the estimated effects of inflation and changes in prices on property, plant and equipment. This data is presented in accordance with SFAS No. 33; however, it is not intended as a substitute for earnings reported on a historical cost basis.

Results of Operations Adjusted for the Effects of Changing Prices for the Year Ended December 31, 1983	Adjusted for General Inflation	Adjusted for Change in Specific Prices (Current Cost)
	(Thousands of average 1983 dollars)	
Income from continuing operations	$227,843	$227,843
Inflationary Effects on Common Equity:		
Capital Investments Effects--		
Increase in specific prices (current cost) of property held during the year (i)	—	443,524
Change in general price level on property held during the year	—	(336,848)
Reduction to net recoverable cost	(52,921)	(123,622)
Additional provision for depreciation	(127,538)	(163,513)
	(180,459)	(180,459)
Advantage from the decrease in purchasing power of net monetary liabilities	120,422	120,422
Net erosion of common stockholders' equity	(60,037)	(60,037)
Income from continuing operations adjusted for changing prices (ii)	$167,806	$167,806

(i) At December 31, 1983, net property, plant and equipment, adjusted for changes in specific prices (current cost) was $9,524,525,000, while historical cost (net recoverable cost) was $5,157,196,000.

(ii) Income from continuing operations, adjusted for general inflation and adjusted for change in specific prices (current cost) would be $100,305,000 and $64,330,000, respectively, if only the amount reportable as additional provision for depreciation was included in the adjustment.

Comparison of Supplementary Financial Data For the Years Ended December 31	1983	1982	1981	1980	1979
Operating Revenues—					
Historical	$1,515,852	$1,429,626	$1,279,649	$1,080,869	$ 994,585
Adjusted to average 1983 dollars	$1,515,852	$1,475,615	$1,401,789	$1,306,853	$1,365,153
Income (Loss) from Continuing Operations—					
Historical	$ 227,843	$ 161,338	$ 149,850	$ 101,403	$ 105,120
Adjusted for changing prices (average 1983 dollars)	$ 167,806	$ 115,172	$ 58,785	$ (27,098)	$ (8,294)
Income (Loss) from Continuing Operations per Common Share—					
Historical	$2.22	$1.89	$2.10	$1.52	$1.80
Adjusted for changing prices (average 1983 dollars)	$1.64	$1.35	$ .83	$ (.40)	$ (.14)
Return from Continuing Operations on Average Common Equity—					
Historical	14.2%	12.3%	13.5%	9.7%	11.2%
Adjusted for changing prices	10.5%	8.3%	4.8%	(2.1)%	(0.6)%
Effective Income Tax Rate—					
Historical	35.1%	32.1%	33.5%	28.3%	21.9%
Adjusted for changing prices	41.0%	38.1%	49.6%	82.5%	61.5%
Excess of Increase in the Specific Level of Prices on Property, Plant and Equipment Over General Price Changes (average 1983 dollars)	$ 106,676	$ 344,737	$ (40,337)	$ (202,722)	$ (115,228)
Advantage Resulting from the Decrease in Purchasing Power of Net Monetary Liabilities (average 1983 dollars)	$ 120,422	$ 110,243	$ 235,821	$ 306,178	$ 339,387
Year End Common Stockholders' Equity—					
Historical	$1,711,974	$1,488,371	$1,229,044	$1,067,524	$ 970,110
Adjusted for changing prices (average 1983 dollars)	$1,682,449	$1,519,188	$1,303,752	$1,226,489	$1,261,648
Cash Dividends Declared per Common Share—					
Historical	$1.80	$1.76	$1.76	$1.76	$1.76
Adjusted to average 1983 dollars	$1.79	$1.82	$1.92	$2.11	$2.41
Year End Market Price per Common Share—					
Historical	$12.25	$14.00	$11.625	$11.875	$13.375
Adjusted to average 1983 dollars	$12.04	$14.29	$12.32	$13.72	$17.36
Average Consumer Price Index	298.4	289.1	272.4	246.8	217.4

The increase in specific prices of property held during the year attempts to measure increasing asset values which approximate dollars that would have to be spent today to acquire property, plant and equipment identical to assets currently owned. The Companies use the Handy-Whitman Index of Public Utility Construction Costs and the Bureau of Labor and Statistics engineering indices to calculate the current cost of those assets. The indices are applied to actual dollars spent on large construction projects according to the year of expenditure. For all other plant facilities, the current cost is determined based upon the year the facilities were placed in service.

Changes in the valuation of assets adjusted for general inflation are computed by using the average Consumer Price Index for All Urban Consumers for the calendar year, according to the guidelines set forth in SFAS No. 33.

As shown on the results of operations adjusted for the effects of changing prices, the erosion of common stockholders' equity is identical either adjusted for general inflation or adjusted for specific price changes. This results from the effect of regulation in setting the Companies' electric rates. Since those rates are based upon historical costs of utility plant, the inflation-adjusted results of operations must recognize this limitation; this is accomplished by the reduction to net recoverable cost shown on the summary.

Additional depreciation expense adjusted for general inflation and for the change in specific prices was determined using the same rates and methods used for computing the historical cost provision for depreciation. No inflation adjustment has been reflected for income taxes, in conformity with the reporting requirements of SFAS No. 33.

During periods of inflation, the Companies' net monetary liabilities (principally long-term debt and preferred stock) will be repaid with dollars having less purchasing power than dollars had when the original liability was incurred. This economic benefit is portrayed on the summary as the advantage from the decrease in purchasing power of net monetary liabilities, which serves as an offset to the inflationary effects of replacing the Companies' property, plant and equipment.

Auditors' Report

To the Stockholders and Board of Directors of Ohio Edison Company:

We have examined the consolidated balance sheets and consolidated statements of capitalization of Ohio Edison Company (an Ohio corporation) and its subsidiary companies as of December 31, 1983, and 1982, and the consolidated statements of income, retained earnings, capital stock and other paid-in capital, sources of funds for property additions and taxes for each of the three years in the period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Ohio Edison Company and its subsidiary companies as of December 31, 1983, and 1982, and the results of its operations and the sources of funds for property additions for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

ARTHUR ANDERSEN & CO.

New York, N.Y.
February 14, 1984

Consolidated Financial Statistics

	1983	1982	1981	1980	1979	1978	1973
General Financial Information	(Dollars in thousands, except per share amounts)						
Total Operating Revenues	**$1,515,852**	$1,429,626	$1,279,649	$1,080,869	$ 994,585	$ 862,956	$ 385,806
Operating Income	**$ 302,751**	$ 269,640	$ 252,381	$ 169,383	$ 163,744	$ 123,945	$ 89,664
Earnings on Common Stock	**$ 227,843**	$ 181,496	$ 163,892	$ 101,403	$ 105,120	$ 61,259	$ 58,697
Ratio of Earnings on Common Stock to Operating Revenues	**15.0%**	12.7%	12.8%	9.4%	10.6%	7.1%	15.2%
Times Interest Earned Before Income Tax	**2.31×**	2.02×	2.11×	2.05×	2.31×	1.67×	3.02×
Net Utility Plant at December 31	**$5,150,902**	$4,522,733	$3,867,757	$3,435,267	$3,012,197	$2,717,820	$1,357,017
Property Additions	**$ 745,798**	$ 774,233	$ 568,044	$ 515,020	$ 476,746	$ 395,162	$ 227,700
Capitalization at December 31:							
Common Stockholders' Equity	**$1,711,974**	$1,488,371	$1,229,044	$1,067,524	$ 970,110	$ 851,686	$ 438,182
Preferred and Preference Stock Not Subject to Mandatory Redemption	**404,240**	354,240	304,240	306,905	306,905	306,905	160,905
Preferred and Preference Stock Subject to Mandatory Redemption	**158,112**	152,560	151,141	156,450	150,850	98,000	—
Long-Term Debt	**2,131,404**	2,005,436	1,759,771	1,594,384	1,410,782	1,343,195	711,678
Total Capitalization	**$4,405,730**	$4,000,607	$3,444,196	$3,125,263	$2,838,647	$2,599,786	$1,310,765
Capitalization Ratios at December 31:							
Common Stockholders' Equity	**38.9%**	37.2%	35.7%	34.2%	34.2%	32.7%	33.4%
Preferred and Preference Stock Not Subject to Mandatory Redemption	**9.1**	8.9	8.8	9.8	10.8	11.8	12.3
Preferred and Preference Stock Subject to Mandatory Redemption	**3.6**	3.8	4.4	5.0	5.3	3.8	—
Long-Term Debt	**48.4**	50.1	51.1	51.0	49.7	51.7	54.3
Total Capitalization	**100.0%**	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Long-Term Obligations at December 31	**$ 719,364**	$ 656,655	$ 447,484	$ 265,000	—	—	—
Cost of Preferred & Preference Stock Outstanding at December 31	**9.63%**	9.17%	8.37%	8.38%	8.36%	7.99%	5.91%
Cost of Long-Term Debt Outstanding at December 31	**10.82%**	10.69%	9.99%	9.16%	8.13%	7.71%	6.26%
Common Stock Data							
Earnings per Average Common Share	**$2.22**	$2.13	$2.30	$1.52	$1.80	$1.19	$2.14
Return on Average Common Equity	**14.2%**	13.5%	14.6%	9.7%	11.2%	7.1%	14.7%
Dividends Paid Per Share	**$1.80**	$1.76	$1.76	$1.76	$1.76	$1.76	$1.58½
Common Stock Dividend Payout Ratio	**81%**	83%	77%	116%	98%	148%	74%
Common Stock Dividend Yield at December 31	**14.7%**	12.6%	15.1%	14.8%	13.2%	11.8%	7.8%
Price/Earnings Ratio at December 31	**5.5**	6.6	5.1	7.8	7.4	12.5	9.5
Shares of Common Stock Outstanding at December 31 (000)	**108,460**	96,082	78,676	68,526	59,622	52,120	28,695
Book Value per Common Share at December 31	**$15.78**	$15.49	$15.62	$15.58	$16.27	$16.34	$15.27
Market Price per Common Share at December 31	**$12.25**	$14.00	$11.625	$11.875	$13.375	$14.875	$20.25
Ratio of Market Price to Book Value per Share at December 31	**78%**	90%	74%	76%	82%	91%	133%

Consolidated Operating Statistics

	1983	1982	1981	1980	1979	1978	1973
Revenue From Electric Sales (thousands):							
Residential	**$ 540,167**	$ 497,941	$ 442,267	$ 398,832	$360,273	$314,867	$141,473
Commercial	**385,277**	356,325	308,599	268,788	240,458	205,901	99,428
Industrial	**421,736**	383,535	381,162	330,717	315,185	258,767	115,320
Other	**69,278**	67,826	53,993	50,420	42,607	46,471	17,064
Subtotal	**1,416,458**	1,305,629	1,186,021	1,048,757	958,523	826,006	373,285
Sales to Utilities	**76,220**	101,688	73,966	12,381	10,185	9,346	3,300
Total	**$1,492,678**	$1,407,317	$1,259,987	$1,061,138	$968,708	$835,352	$376,585
Revenue From Electric Sales—%:							
Residential	**36.2%**	35.4%	35.1%	37.6%	37.2%	37.7%	37.6%
Commercial	**25.8**	25.3	24.5	25.3	24.8	24.6	26.4
Industrial	**28.3**	27.3	30.2	31.2	32.5	31.0	30.6
Other	**4.6**	4.8	4.3	4.7	4.4	5.6	4.5
Subtotal	**94.9**	92.8	94.1	98.8	98.9	98.9	99.1
Sales to Utilities	**5.1**	7.2	5.9	1.2	1.1	1.1	0.9
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Kilowatt-Hour Sales (millions):							
Residential	**6,735**	6,733	6,747	6,801	6,650	6,501	5,390
Commercial	**5,096**	4,996	4,917	4,812	4,693	4,470	4,036
Industrial	**8,386**	7,708	9,352	8,909	9,830	9,600	9,863
Other	**1,211**	1,227	1,181	1,370	1,346	1,309	1,073
Subtotal	**21,428**	20,664	22,197	21,892	22,519	21,880	20,362
Sales to Utilities	**2,917**	3,361	2,465	502	441	429	311
Total	**24,345**	24,025	24,662	22,394	22,960	22,309	20,673
Customers Served at December 31:							
Residential	**878,949**	873,877	872,303	867,447	861,196	848,268	786,744
Commercial	**90,072**	89,706	89,231	88,505	87,425	86,410	81,777
Industrial	**1,003**	1,048	1,068	1,059	1,161	1,160	1,128
Other	**736**	724	711	704	693	689	579
Total	**970,760**	965,355	963,313	957,715	950,475	936,527	870,228
Average Annual Residential KWH Usage	**7,695**	7,723	7,760	7,870	7,780	7,724	6,935
Average Residential Price Per KWH	**8.02¢**	7.40¢	6.56¢	5.86¢	5.42¢	4.84¢	2.62¢
Cost of Coal Per Million BTU	**$1.62**	$1.75	$1.81	$1.50	$1.26	$1.16	$.40
Generating Capability at December 31 (megawatts):							
Coal	**4,858**	4,858	4,907	4,899	4,861	4,861	3,939
Oil	**164**	354	354	364	423	423	327
Nuclear	**425**	425	425	425	425	420	—
Total	**5,447**	5,637	5,686	5,688	5,709	5,704	4,266
Sources of Electric Generation:							
Coal	**89.8%**	93.8%	89.9%	98.7%	93.9%	90.4%	99.2%
Oil	—	0.1	0.2	0.6	2.0	3.5	0.8
Nuclear	**10.2**	6.1	9.9	0.7	4.1	6.1	—
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Peak Load—Megawatts	**4,148**	4,073	4,148	4,210	4,105	4,038	3,810
Number of Employees at December 31	**7,702**	7,885	7,669	7,503	7,157	6,765	6,073

Stockholder Profile

At the end of 1983, 204,000 stockholders owned 108.5 million shares of Ohio Edison common stock. Approximately 31 percent of those stockholders are women, 25 percent are men and 33 percent are joint holders. The remaining 11 percent are trusts, corporations, institutions, brokers and other investment groups.

Nearly 75 percent of common stockholders own 300 shares or less. They live in all 50 states and many foreign countries.

Common Stock Dividends and Taxability

In the first quarter of 1983, the Company's Board of Directors increased the quarterly dividend on common stock. Dividends of 45 cents per share were declared by the Board for each quarter of 1983.

For the year, 46 percent of common stock dividends were designated as a return of capital, and therefore nontaxable for federal income tax purposes, unless the stock was sold. Preferred and preference stock dividends paid during 1983 were 100 percent taxable. These figures are subject to final determination by the Internal Revenue Service (IRS) and stockholders will be notified of any significant change.

Dividend Withholding

During the summer, Congress repealed a law that would have required the Companies to withhold 10 percent of most dividend payments for tax purposes. But we are required to comply with backup withholding measures.

According to federal income tax law, each common, preferred and preference stockholder must provide the Company with a taxpayer identification number, which is either a social security number or employer identification number. Beginning December 30, 1983, forms were mailed enabling stockholders to certify their taxpayer identification number, or supply a number if missing. For new accounts opened after January 1, 1984, stockholders must provide their taxpayer identification number, plus certification that the number is correct and the IRS has not identified them as taxpayers whose dividends should be subject to withholding.

Stockholders who fail to provide the necessary information will be subject to certain IRS penalties and a 20 percent withholding tax on dividends. For additional information on these new requirements, contact the IRS or your tax advisor.

Dividend Reinvestment

In 1983, 14,000 stockholders enrolled in the Company's Dividend Reinvestment and Stock Purchase Plan, raising the total number of participants to 66,753, or 30 percent of all stockholders. By reinvesting $57 million in dividends and making optional cash payments of $40 million, they acquired more than 7 million shares of common stock during the year.

The Economic Recovery Tax Act of 1981 provides that through 1985, most participants in qualified dividend reinvestment plans such as Ohio Edison's may exclude from their yearly income up to $750 per year ($1,500 on a joint return) of taxable dividends reinvested. We anticipate that a portion of common stock dividends paid during the next few years will be designated as a return of capital. Participants should consult their own tax advisors to determine the proper treatment of common stock dividends on their federal tax return.

Additional information about the Plan, and a Prospectus, can be obtained by contacting Ohio Edison's Stockholder Services.

Annual Meeting of Stockholders

Stockholders are cordially invited to attend the 1984 Annual Meeting on Thursday, April 26, at 10 a.m., local time, in the Company's General Office auditorium in Akron, Ohio. Those unable to or choosing not to attend can vote on the items of business presented at the meeting by filling out and returning the proxy card that is mailed to each stockholder approximately 30 days prior to the meeting.

Additional Information

Information and assistance on individual holdings, dividend payments, dividend reinvestment or the transfer or registration of stock can be obtained by writing to Ohio Edison Company, Stockholder Services, 76 South Main Street, Akron, Ohio 44308, or by calling (216) 384-5509.

Ohio Edison Company common stock is listed on the New York and Midwest stock exchanges and traded on other registered exchanges under the "OEC" ticker symbol. Newspapers generally use the symbol "OhioEd" in stock listings.

A copy of our 1983 Annual Report to the Securities and Exchange Commission, Form 10-K, will be provided without charge to stockholders upon request. To receive a copy, please write to Gregory F. LaFlame, Secretary, Ohio Edison Company, 76 South Main Street, Akron, Ohio 44308.

For information and assistance on the transfer or registration of all classes of Company stock, contact:

Transfer Agent:
Transfer Agent
Ohio Edison Company
76 South Main Street
Akron, Ohio 44308

Registrar:
BancOhio National Bank
One Cascade Plaza
Akron, Ohio 44308

Ohio Edison Company

Board of Directors

Donald C. Blasius
Chairman of the Board and Chief Executive Officer of The Tappan Company, Mansfield, Ohio (appliances and furnishings). Member, Nominating Committee, Finance Committee.

William A. Derrick
Independent Electrical and Mechanical Engineering Consultant, also President of Leisure Industries, Inc., Sandusky, Ohio (developer of real estate and residential buildings). Chairman, Compensation Committee.

Dr. Lucille G. Ford
Vice President and Dean of Business Administration and Economics, and Director, Gill Center for Business & Economic Education, Ashland College, Ashland, Ohio. Chairman, Nominating Committee; Member, Finance Committee.

Robert L. Loughhead
Chairman of the Board, President and Chief Executive Officer of Weirton Steel Corporation, Weirton, West Virginia (steel products). Member, Compensation Committee, Audit Committee.

Glenn H. Meadows
President of McNeil Corporation, Akron, Ohio (various manufactured products). Member, Compensation Committee, Audit Committee.

John Nelson
President and Chairman of the Board of Commercial Shearing, Inc., Youngstown, Ohio (engineered metal components). Member, Compensation Committee.

Victor A. Owoc
Executive Vice President of Ohio Edison. Member, Finance Committee.

Justin T. Rogers, Jr.
President of Ohio Edison and Chairman of the Board of its subsidiary, Pennsylvania Power Company. Chairman, Finance Committee; Member, Nominating Committee.

Douglas W. Tschappat
Executive Vice President of Ohio Edison.

Frank C. Watson
President of The Youngstown Welding and Engineering Company, Youngstown, Ohio (nonferrous alloys). Chairman, Audit Committee; Member, Nominating Committee.

William C. Zekan
President and Chairman of the Board of A. Schulman, Inc., Akron, Ohio (custom plastic compounds). Member, Audit Committee.

Directors Emeritus

D. Bruce Mansfield
Walter H. Sammis
Fred H. Zuck

Officers

Justin T. Rogers, Jr.
President

Victor A. Owoc
Executive Vice President

Douglas W. Tschappat
Executive Vice President

Lynn Firestone
Senior Vice President

David R. Gundry
Senior Vice President

Robert J. McWhorter
Senior Vice President

Russell J. Spetrino
Vice President and General Counsel

Ronald D. Best
Vice President

Frank E. Derry
Vice President

Clyde W. Frederickson
Vice President

Donald J. List
Vice President

James D. Wilson
Vice President

H. Peter Burg
Treasurer

William A. Daniels
Comptroller

Gregory F. LaFlame
Secretary

Mark T. Clark
Assistant Treasurer

Warren G. Fouch
Assistant Comptroller

Harvey L. Wagner
Assistant Comptroller

Charles N. Glasgow
Assistant Secretary

Joanne Martin
Assistant Secretary

Division Managers

John A. Gill
Akron Division

Anthony N. Gorant
Bay Division

James E. Markle
Lake Erie Division

Malcolm E. Cash
Mansfield Division

Robert L. Kensinger
Marion Division

N. Rod Monahan
Springfield Division

Robert E. Dawson
Stark Division

David C. Bixler, Jr.
Warren Division

Peter A. Fetterolf
Youngstown Division

1983 Changes

Harvey L. Wagner, former chief accountant, special reports, was elected assistant comptroller of the Company by the Board of Directors at its April meeting.

Effective June 21, 1983, Joseph S. Davis, former president of The M. O'Neil Company in Akron, Ohio, resigned from the Board, having accepted a new position in Denver, Colorado.

At its December meeting, the Board adopted a resolution reducing the number of directors to 11, effective December 31, 1983.

OHIOEDISON
The Energy Makers

76 South Main Street
Akron, Ohio 44308

Bulk Rate
U.S. Postage
Paid
Akron, Ohio
Permit No. 561

ANNUAL REPORT **1983**