

1991 Annual Report

A Subsidiary of Centerior Energy Corporation

THE TOLEDO EDISON COMPANY

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About Toledo Edison

The Company, a wholly owned subsidiary of Centerior Energy Corporation, provides electric service to about 760,000 people in a 2,500-square mile area of northwestern Ohio, including the City of Toledo. The Company also provides electric energy at wholesale to 13 municipally owned distribution systems and one rural electric cooperative distribution system in its service area. The Company's 2,600 employees serve about 285,000 customers.

Executive Offices

The Toledo Edison Company
300 Madison Avenue
Toledo, OH 43652-0001
(419) 249-5000

Directors

*Robert J. Farling** President and Chief Operating Officer of Centerior Energy Corporation and Centerior Service Company.

*Edgar H. Maugans,*** Vice President and Chief Financial Officer of the Company and The Cleveland Electric Illuminating Company and Executive Vice President of Centerior Energy Corporation and Centerior Service Company.

*Richard A. Miller**** Chairman and Chief Executive Officer of Centerior Energy Corporation and Centerior Service Company.

Lyman C. Phillips, Chairman and Chief Executive Officer of the Company, President and Chief Executive Officer of The Cleveland Electric Illuminating Company and Executive Vice President of Centerior Energy Corporation and Centerior Service Company.

Donald H. Saunders, President of the Company and Vice President of Centerior Service Company.

*Elected Chairman, President and Chief Executive Officer of Centerior Energy Corporation and Centerior Service Company effective March 1, 1992.

**Elected Director of the Company and The Cleveland Electric Illuminating Company effective March 1, 1992.

***Retired from these capacities effective March 1, 1992.

Officers

Chairman and Chief

Executive Officer *Lyman C. Phillips*

President *Donald H. Saunders*

Vice President & Chief

Financial Officer *Edgar H. Maugans*

Vice President *Fred J. Lange, Jr.*

Controller *Paul G. Busby*

Treasurer *Cary M. Hawkinson*

Secretary *E. Lyle Pepin*

Report of Independent Public Accountants

To the Share Owners of
The Toledo Edison Company:

ARTHUR
ANDERSEN
& CO.

We have audited the accompanying balance sheet and statement of cumulative preferred stock of The Toledo Edison Company (a wholly owned subsidiary of Centerior Energy Corporation) as of December 31, 1991 and 1990, and the related statements of income, retained earnings and cash flows for each of the three years in the period ended December 31, 1991. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

Cleveland, Ohio
February 14, 1992

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Toledo Edison Company as of December 31, 1991 and 1990, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1991, in conformity with generally accepted accounting principles.

As discussed further in the Summary of Significant Accounting Policies and Note 12, a change was made in the method of accounting for nuclear plant depreciation in 1991, retroactive to January 1, 1991.

As discussed further in Note 3(c), the future of Perry Unit 2 is undecided. Construction has been suspended since July 1985. Various options are being considered, including resuming construction, converting the unit to a nonnuclear design, sale of all or part of the Company's ownership share, or canceling the unit. Management can give no assurance when, if ever, Perry Unit 2 will go in service or whether the Company's investment in that unit and a return thereon will ultimately be recovered.

Arthur Andersen & Co.

Summary of Significant Accounting Policies

GENERAL

The Toledo Edison Company (Company) is an electric utility and a wholly owned subsidiary of Centerior Energy Corporation (Centerior Energy). The Company follows the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC) and adopted by The Public Utilities Commission of Ohio (PUCO). As a rate-regulated utility, the Company is subject to Statement of Financial Accounting Standards 71 which governs accounting for the effects of certain types of rate regulation.

The Company is a member of the Central Area Power Coordination Group (CAPCO). Other members include The Cleveland Electric Illuminating Company (Cleveland Electric), Duquesne Light Company (Duquesne), Ohio Edison Company (Ohio Edison) and Ohio Edison's wholly owned subsidiary, Pennsylvania Power Company (Pennsylvania Power). The members have constructed and operate generation and transmission facilities for the use of the CAPCO companies. Cleveland Electric is also a wholly owned subsidiary of Centerior Energy.

RELATED PARTY TRANSACTIONS

Operating revenues, operating expenses and interest charges include those amounts for transactions with affiliated companies in the ordinary course of business operations.

The Company's transactions with Cleveland Electric are primarily for firm power, interchange power, transmission line rentals and jointly owned power plant operations and construction. See Notes 1 and 2.

Centerior Service Company (Service Company), the third wholly owned subsidiary of Centerior Energy, provides management, financial, administrative, engineering, legal and other services at cost to the Company and other affiliated companies. The Service Company billed the Company \$61,000,000, \$49,000,000 and \$40,000,000 in 1991, 1990 and 1989, respectively, for such services.

REVENUES

Customers are billed on a monthly cycle basis for their energy consumption based on rate schedules or contracts authorized by the PUCO or on ordinances with individual municipalities. An accrual is made at the end of each month to record the estimated amount of unbilled revenues for kilowatt-hour sales rendered in the current month but not billed by the end of that month.

A fuel factor is added to the base rates for electric service. This factor is designed to recover from customers the costs of fuel and most purchased power. It is reviewed and adjusted semiannually in a PUCO proceeding.

Operating revenues include certain wholesale power sales revenues in accordance with a FERC clarification of reporting requirements. Prior to 1991, these bulk power sales transactions were netted with

purchased power transactions and reported as part of fuel and purchased power expense. The amounts for prior years have also been reclassified to conform with current reporting requirements. See Note 13.

FUEL EXPENSE

The cost of fossil fuel is charged to fuel expense based on inventory usage. The cost of nuclear fuel, including an interest component, is charged to fuel expense based on the rate of consumption. Estimated future nuclear fuel disposal costs are being recovered through the base rates.

The Company defers the differences between actual fuel costs and estimated fuel costs currently being recovered from customers through the fuel factor. This matches fuel expenses with fuel-related revenues.

PRE-PHASE-IN AND PHASE-IN DEFERRALS OF OPERATING EXPENSES AND CARRYING CHARGES

The PUCO authorized the Company to record, as deferred charges, certain operating expenses and carrying charges related to Perry Nuclear Power Plant Unit 1 (Perry Unit 1) and Beaver Valley Power Station Unit 2 (Beaver Valley Unit 2) from their respective in-service dates in 1987 through December 31, 1998.

Amortization and recovery of these deferrals (called pre-phase-in deferrals) began in January 1989 in accordance with the January 1989 PUCO rate order discussed in Note 6. The amortizations will continue over the lives of the related property.

As discussed in Note 6, the January 1989 PUCO rate order for the Company included an approved rate phase-in plan for the Company's investments in Perry Unit 1 and Beaver Valley Unit 2. On January 1, 1989, the Company began recording the deferrals of operating expenses and interest and equity carrying charges on deferred rate-based investment pursuant to the phase-in plan. These deferrals (called phase-in deferrals) will be recovered by December 31, 1998.

DEPRECIATION AND AMORTIZATION

The cost of property, plant and equipment is depreciated over their estimated useful lives on a straight-line basis. Prior to 1991, only nonnuclear property, plant and equipment was depreciated on a straight-line basis, as depreciation expense for the nuclear generating units was based on the units-of-production method.

The annual straight-line depreciation provision for nonnuclear property expressed as a percent of average depreciable utility plant in service was 3.4% in 1991, 3.3% in 1990 and 3.6% in 1989. The rate declined in 1990 because of a PUCO-approved change in depreciation rates effective January 1, 1990, attributable to longer estimated lives for nonnuclear property. See Note 13.

In 1990, the Nuclear Regulatory Commission (NRC) approved a six-year extension of the operating license for the Davis-Besse Nuclear Power Station (Davis-Besse). The PUCO approved a change in the units-of-production depreciation rate for Davis-Besse, effective January 1, 1990, which recognized the life extension. See Note 13.

Effective January 1, 1991, the Company changed its method of accounting for nuclear plant depreciation from the units-of-production method to the straight-line method at about a 3% rate. The PUCO approved this change in accounting method for the Company and subsequently approved a change to lower the 3% rate to 2.5% for the three operating nuclear units retroactive to January 1, 1991. See Notes 12 and 13.

The Company uses external funding of future decommissioning costs for its operating nuclear units pursuant to a PUCO order. Cash contributions are made to the funds on a straight-line basis over the remaining licensing period for each unit. Amounts currently in rates are based on past estimates of decommissioning costs for the Company of \$59,000,000 in 1986 dollars for Davis-Besse and \$28,000,000 in 1987 dollars each for Perry Unit 1 and Beaver Valley Unit 2. Actual decommissioning costs are expected to significantly exceed these estimates. It is expected that increases in the cost estimates will be recoverable in rates resulting from future rate proceedings. The current level of expense being funded and recovered from customers over the remaining licensing periods of the units is approximately \$4,000,000 annually. The present funding requirements for Beaver Valley Unit 2 also satisfy a similar commitment made as part of the sale and leaseback transaction discussed in Note 2.

FEDERAL INCOME TAXES

The financial statements reflect the liability method of accounting for income taxes. The liability method requires that the Company's deferred tax liabilities be adjusted for subsequent tax rate changes and that the Company record deferred taxes for all temporary differences between the book and tax bases of assets and liabilities. A portion of these temporary differences are attributable to property-related timing differences that the PUCO used to reduce prior years' tax expense for ratemaking purposes whereby no deferred taxes were collected or recorded. Since the PUCO practice permits recovery of such taxes from customers when they become payable, the net amount due from customers has been recorded as a regulatory asset in deferred charges. A substantial portion of this amount relates to differences between the book and tax bases of utility plant. Hence, the recovery of these amounts will take place over the lives of the related assets.

Investment tax credits are deferred and amortized over the estimated lives of the applicable property. The amortization is reported as a reduction of depreciation expense under the liability method. See Note 7.

DEFERRED GAIN AND LOSS FROM SALES OF UTILITY PLANT

The Company entered into sale and leaseback transactions in 1987 for the coal-fired Bruce Mansfield Generating Plant (Mansfield Plant) and Beaver Valley Unit 2 as discussed in Note 2. These transactions resulted in a net gain for the sale of Mansfield Plant and a net loss for the sale of Beaver Valley Unit 2, both of which were deferred. The Company is amortizing the applicable deferred gain and loss over the terms of leases under sale and leaseback agreements. The amortizations along with the lease expense amounts are recorded as other operation and maintenance expense.

INTEREST CHARGES

Debt interest reported in the Income Statement does not include interest on nuclear fuel obligations. Interest on nuclear fuel obligations for fuel under construction is capitalized. See Note 5.

Losses and gains realized upon the reacquisition or redemption of long-term debt are deferred, consistent with the regulatory rate treatment. Such losses and gains are either amortized over the remainder of the original life of the debt issue retired or amortized over the life of the new debt issue when the proceeds of a new issue are used for the debt redemption. The amortizations are included in debt interest expense.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at original cost less any amounts ordered by the PUCO to be written off. Included in the cost of construction are items such as related payroll taxes, pensions, fringe benefits, management and general overheads and allowance for funds used during construction (AFUDC). AFUDC represents the estimated composite debt and equity cost of funds used to finance construction. This noncash allowance is credited to income, except for certain AFUDC for Perry Nuclear Power Plant Unit 2 (Perry Unit 2). See Note 3(c). The gross AFUDC rate was 10.96% in 1991, 11.17% in 1990 and 11.45% in 1989.

Maintenance and repairs are charged to expense as incurred. The cost of replacing plant and equipment is charged to the utility plant accounts. The cost of property retired plus removal costs, after deducting any salvage value, is charged to the accumulated provision for depreciation.

RECLASSIFICATIONS

Certain reclassifications have been made to prior years' financial statements to make them comparable with the 1991 financial statements and consistent with current reporting requirements. These include reclassifications related to certain wholesale power sales revenues as discussed previously under "Revenues" and accumulated deferred rents as discussed in Note 2.

Management's Financial Analysis

RESULTS OF OPERATIONS

Overview

The January 1989 PUCO rate order for the Company, as discussed in Note 6, was designed to enable us to begin recovering in rates the cost of, and earn a fair return on, our allowed investment in Perry Unit 1 and Beaver Valley Unit 2. The rate order, which provided for three rate increases, improved revenues and cash flows in 1989, 1990 and 1991 from the 1988 levels. However, as discussed in the first four paragraphs of Note 6, the phase-in plan was not designed to improve earnings because gains in revenues from the higher rates and assumed sales growth are initially offset by a corresponding reduction in the deferral of nuclear plant operating expenses and carrying charges and are subsequently offset by the amortization of such deferrals.

Although the phase-in plan had a positive effect on revenues and cash flows, there are a number of factors that exerted a negative influence on earnings in 1991 and will continue to present significant earnings challenges in 1992 and beyond. One such factor is related to facilities placed in service after February 1988 and not included in rate base. The Company is required to record interest charges and depreciation on these facilities as current expenses even though such items are not yet recovered in rates. We also are facing the challenge of competitive forces, including new initiatives to create municipal electric systems. The need to meet competitive threats, coupled with a desire to encourage economic growth in the service area, is prompting the Company to enter into an increasing number of contracts having reduced rates with certain large customers. Competitive forces also prompted us to implement rate reductions in 1991 for residential and small commercial customers. Factors beyond our control also having a negative influence on earnings are the economic recession, the effect of inflation and increases in taxes, other than federal income taxes.

The Company has taken several steps to counter the adverse effects of the factors discussed above. We have implemented most of the recommendations of the management audit discussed in Note 6 and have taken other actions which reduced other operation and maintenance expense by approximately \$17,600,000 in 1991. As discussed in the Summary of Significant Accounting Policies and Note 12, we sought and received PUCO approval to lower our nuclear plant depreciation expense in 1991 to a level more closely aligned with the amount being recovered in rates. In addition, we have increased our efforts to sell power to other utilities which, in 1991, resulted in approximately \$3,100,000 of revenues in excess of the cost of providing the power.

Despite the positive aspects of the measures discussed above, more must be done to maintain earnings. Continuing cost-reduction efforts will be necessary to lessen the negative pressures on earnings. The Company is aggressively seeking long-term power contracts with wholesale customers to further enhance revenues. To counter the effects of delays in recovering new investment since 1988 and

related costs in rates, we have requested PUCO approval to accrue post-in-service carrying costs and defer depreciation for facilities that are in service but not yet recognized in rates. PUCO action on this request has been postponed under the joint recommendation approved by the PUCO discussed below.

In December 1991, the PUCO approved a joint recommendation of the Company, Cleveland Electric and customer representative groups involved in the 1989 rate case settlement. The joint recommendation sought to secure an interim resolution of then-pending accounting applications in 1991 and to establish a framework for resolving accounting issues and related matters on a longer-term basis (i.e., 1992-1995). As part of this joint recommendation, the Company and Cleveland Electric agreed to limit their combined 1992 other operation and maintenance expenses and capital expenditures to \$1,050,000,000, exclusive of compliance costs related to the Clean Air Act Amendments of 1990 (Clean Air Act). Other operation and maintenance expenses and capital expenditures on a consolidated basis for Centerior Energy totaled \$1,005,000,000 in 1991. The Company, Cleveland Electric and the customer representative groups also agreed to an ongoing review of our business operations, financial condition and accounting practices. This effort, with the participation of the PUCO staff, is directed at the maintenance and ultimate improvement of our financial condition, the improvement of the efficiency of our operations, and the delay and minimization of future rate increases. The Company and Cleveland Electric also agreed not to seek any base rate increase that would become effective before 1993.

The Company continually faces competitive threats from municipal electric systems within its service territory, a challenge intensified by municipal access to low-cost power currently available on the wholesale market. As part of our competitive strategy, we are strengthening programs that demonstrate the added value inherent in our service, beyond what one might receive from a municipal electric system. Such programs include providing services to communities to help them retain and attract businesses providing consulting services to customers to improve their energy efficiency and developing demand-side management programs. To counter new municipalization initiatives, we are also stressing the financial risks and uncertainties of creating a municipal system and our superior reliability and service.

Annual sales growth is expected to average about 2% for the next several years, contingent on future economic events. Recognizing the limitations imposed by these sales projections and current competitive pressures, we will utilize our best efforts to minimize future rate increases through cost-reduction and quality-of-service efforts and exploring other innovative options. Eventually, rate increases will be necessary to recognize the cost of our new capital investment and the effect of inflation.

1991 vs. 1990

Factors contributing to the 2.8% increase in 1991 operating revenues are as follows:

Change in Operating Revenues	Increase (Decrease)
Base Rates and Miscellaneous	\$20,000,000
Sales Volume and Mix	7,000,000
Wholesale Sales	(3,000,000)
	<u>\$24,000,000</u>

A significant factor accounting for the increase in operating revenues resulted from the January 1989 PUCO rate order for the Company. The PUCO approved rate increases of 7% effective in February 1990 and 2.74% effective in February 1991. However, as part of the Company's efforts to improve its competitive position in its service area, the Company waived its 2.74% rate increase for residential and small commercial customers and reduced its residential rates by 3% effective in March 1991 and by an additional 1% effective in September 1991. See Note 6. Total kilowatt-hour sales increased 3.3% in 1991. Residential and commercial sales increased 4.6% and 4.3%, respectively, as a result of higher usage of cooling equipment in response to the unusually warm late spring and summer 1991 temperatures. The commercial sales increase was also influenced by some improvement in the economy for the commercial sector. Industrial sales declined 2% largely because of the recession-driven slump in the auto, glass and metal industries. Other sales increased 8.5% because of increased sales to wholesale customers.

Operating expenses increased 2.3% in 1991. The increase was mitigated by a reduction of \$17,600,000 in other operation and maintenance expense, resulting primarily from cost-cutting measures. Offsetting this decrease were an increase in federal income taxes because of higher pretax operating income; an increase in taxes, other than federal income taxes, resulting from higher property and gross receipt taxes and accruals for Pennsylvania tax increases enacted in August 1991; an increase in fuel and purchased power expense resulting primarily from increased amortization of previously deferred fuel costs over the amount amortized in 1990; and lower operating expense deferrals for Perry Unit 1 and Beaver Valley Unit 2 pursuant to the January 1989 PUCO rate order.

Credits for carrying charges recorded in nonoperating income decreased in 1991 because a greater share of our investments and leasehold interests in Perry Unit 1 and Beaver Valley Unit 2 were recovered in rates. The federal income tax provision related to nonoperating income increased mainly because the 1990 provision was reduced by \$18,810,000 for federal income tax adjustments associated with previously deferred investment tax credits relating to the 1988 write-off of nuclear plant.

1990 vs. 1989

Factors contributing to the 0.3% decrease in 1990 operating revenues are as follows:

Change in Operating Revenues	Increase (Decrease)
Base Rates and Miscellaneous	\$ 37,000,000
Sales Volume and Mix	(29,000,000)
Wholesale Sales	110,000,000
	<u>\$ (2,000,000)</u>

The major factor accounting for the increase in base rates and miscellaneous operating revenues was related to the January 1989 rate order. The PUCO approved rate increases for the Company of 9% effective in February 1989 and 7% effective in February 1990. The associated revenue increase in 1990 was partially offset by reduced revenues resulting from a 9.1% decrease in total kilowatt-hour sales. Industrial sales decreased 3.3% because of the recession beginning in 1990. Residential and commercial sales decreased 3.3% and 0.4%, respectively, as seasonal temperatures were more moderate in comparison to the prior year's temperatures, resulting in reduced customer heating and cooling-related demand. Other sales activity decreased 22.1% as a result of lower wholesale sales.

Operating expenses decreased 1.7% in 1990. Depreciation and amortization expense decreased primarily because of lower depreciation rates used in 1990 for nonnuclear and Davis-Besse property attributable to longer estimated lives and because of longer nuclear generating unit refueling and maintenance outages in 1990 than in 1989. Federal income taxes decreased primarily because of a decrease in pretax operating income. These decreases in operating expenses were partially offset by an increase in taxes, other than federal income taxes, resulting from higher property and gross receipts taxes, and by lower operating expense deferrals for Perry Unit 1 and Beaver Valley Unit 2.

Credits for carrying charges recorded in nonoperating income decreased in 1990 because a greater share of our investments and leasehold interests in Perry Unit 1 and Beaver Valley Unit 2 were recovered in rates. Other income and deductions, net, decreased primarily because of less interest income in 1990. These decreases were partially offset by an increase in federal income tax credits related to nonoperating income resulting from a decrease in pretax nonoperating income and federal income tax adjustments of \$18,810,000 associated with previously deferred investment tax credits relating to the 1988 write-off of nuclear plant. Interest expense decreased in 1990 because of refinancings by the Company and a lower level of debt outstanding.

EFFECT OF INFLATION

Although the rate of inflation has eased in recent years, we are still affected by even modest inflation since the regulatory process introduces a time-lag during which increased costs of our labor, materials and services are not reflected in rates and recovered. Moreover, regulation allows only the recovery of historical costs of plant assets through depreciation even though the costs to replace these assets would substantially exceed their historical costs in an inflationary economy.

Changes in fuel costs do not affect our results of operations since those costs are deferred until reflected in the fuel cost recovery factor included in customers' bills.

Income Statement

THE TOLEDO EDISON COMPANY

	For the years ended December 31,		
	1991	1990	1989
	(thousands of dollars)		
<i>Operating Revenues (1)</i>	<u>\$ 887,258</u>	<u>\$863,173</u>	<u>\$865,623</u>
<i>Operating Expenses</i>			
Fuel and purchased power	177,642	174,309	172,220
Other operation and maintenance	355,728	373,374	372,530
Depreciation and amortization	72,137	72,627	85,057
Taxes, other than federal income taxes	88,656	79,320	72,123
Phase-in deferred operating expenses	(5,796)	(16,980)	(22,535)
Amortization of pre-phase-in deferred costs	6,943	7,196	6,782
Federal income taxes	31,767	21,041	37,285
	<u>727,077</u>	<u>710,887</u>	<u>723,462</u>
<i>Operating Income</i>	<u>160,181</u>	<u>152,286</u>	<u>142,161</u>
<i>Nonoperating Income</i>			
Allowance for equity funds used during construction	1,499	3,352	8,568
Other income and deductions, net	3,628	6,305	20,517
Phase-in carrying charges	21,986	43,487	82,308
Federal income taxes — credit (expense)	(6,228)	8,664	(21,563)
	<u>20,885</u>	<u>61,808</u>	<u>89,830</u>
<i>Income Before Interest Charges</i>	<u>181,066</u>	<u>214,094</u>	<u>231,991</u>
<i>Interest Charges</i>			
Debt interest	132,379	135,344	144,792
Allowance for borrowed funds used during construction	(946)	(2,674)	(5,479)
	<u>131,453</u>	<u>132,670</u>	<u>139,313</u>
<i>Net Income</i>	<u>49,613</u>	<u>81,424</u>	<u>92,678</u>
<i>Preferred Dividend Requirements</i>	<u>24,792</u>	<u>25,159</u>	<u>25,390</u>
<i>Earnings Available for Common Stock</i>	<u>\$ 24,821</u>	<u>\$ 56,265</u>	<u>\$ 67,288</u>

(1) Includes revenues from bulk power sales to Cleveland Electric of \$127,691,000, \$111,761,000 and \$114,123,000 in 1991, 1990 and 1989, respectively.

Retained Earnings

	For the years ended December 31,		
	1991	1990	1989
	(thousands of dollars)		
<i>Balance at Beginning of Year</i>	<u>\$ 82,956</u>	<u>\$ 99,965</u>	<u>\$ 89,614</u>
<i>Additions</i>			
Net income	49,613	81,424	92,678
<i>Deductions</i>			
Dividends declared:			
Common stock	(17,831)	(73,283)	(63,285)
Preferred stock	(24,809)	(25,145)	(19,036)
Other	(5)	(5)	(6)
Net Increase (Decrease)	<u>6,968</u>	<u>(17,009)</u>	<u>10,351</u>
<i>Balance at End of Year</i>	<u>\$ 89,924</u>	<u>\$ 82,956</u>	<u>\$ 99,965</u>

The accompanying notes and summary of significant accounting policies are an integral part of these statements.

Management's Financial Analysis

CAPITAL RESOURCES AND LIQUIDITY

In addition to our need for cash for normal corporate operations, we continue to need cash for an ongoing program of constructing new facilities and modifying existing facilities to meet anticipated demand for electric service, comply with governmental regulations and protect the environment. Cash is also needed for the mandatory retirement of securities. Over the three-year period of 1989-1991, these construction and mandatory retirement needs totaled approximately \$450,000,000. In addition, we exercised various options to redeem and purchase approximately \$165,000,000 of our securities.

As a result of the January 1989 PUCO rate order, internally generated cash increased in 1989, 1990 and 1991 from the 1988 level. In addition, we raised \$381,000,000 through security issues and term bank loans during the 1989-1991 period as shown in the Cash Flows statement. During the three-year period, the Company also utilized its short-term borrowing arrangements (explained in Note 11) to help meet its cash needs. Proceeds from these financings were used to help pay for our construction program, to repay portions of short-term debt incurred to finance the construction program, to retire, redeem and purchase outstanding securities, and for general corporate purposes.

Estimated cash requirements for 1992-1994 for the Company are \$248,000,000 for its construction program and \$241,000,000 for the mandatory redemption of debt and preferred stock. We expect to finance externally about 50% of our total 1992 construction and mandatory redemption requirements of approximately \$180,000,000. About 10-20% of the Company's 1993 and 1994 requirements

are expected to be financed externally. If economical, additional securities may be redeemed under optional redemption provisions. See Notes 10(c) and (d) for information concerning limitations on the issuance of preferred and preference stock and debt.

Our capital requirements after 1994 will depend on the implementation strategy we choose to achieve compliance with the Clean Air Act. Expenditures for our plan are estimated to be approximately \$35,000,000 over the 1992-2001 period. See Note 3(b).

We expect to be able to raise cash as needed. The availability and cost of capital to meet our external financing needs, however, depends upon such factors as financial market conditions and our credit ratings. Current securities ratings for the Company are as follows:

	Standard & Poor's Corporation	Moody's Investors Service
First mortgage bonds	BBB-	Baa3
Unsecured notes	3B+	Ba1
Preferred stock	BB+	ba2

A write-off of the Company's investment in Perry Unit 2, as discussed in Note 3(c), depending upon the magnitude and timing of such a write-off, could reduce retained earnings sufficiently to impair its ability to declare dividends, but would not affect cash flow.

The Tax Reform Act of 1986 (1986 Tax Act) provided for a 34% income tax rate in 1988 and thereafter, a new alternative minimum tax (AMT) and other changes that resulted in increased tax payments and a reduction in cash flow during 1989, 1990 and 1991 because we were subject to the AMT.

Cash Flows

THE TOLEDO EDISON COMPANY

	For the years ended December 31,		
	1991	1990	1989
	(thousands of dollars)		
<i>Cash Flows from Operating Activities (1)</i>			
Net Income	\$ 49,613	\$ 81,424	\$ 92,678
Adjustments to Reconcile Net Income to Cash from Operating Activities:			
Depreciation and amortization	72,137	72,627	85,057
Deferred federal income taxes	31,522	30,642	79,199
Investment tax credits, net	30,206	(17,063)	1,237
Deferred and unbilled revenues	(25,566)	(22,658)	(42,624)
Deferred fuel	4,198	(433)	16,259
Carrying charges capitalized	(21,986)	(43,487)	(82,308)
Leased nuclear fuel amortization	53,904	37,122	46,408
Deferred operating expenses, net	1,147	(9,784)	(15,753)
Allowance for equity funds used during construction	(1,499)	(3,352)	(8,518)
Amortization of reserve for Davis-Besse refund obligations to customers	—	—	(12,655)
Pension settlement gain	—	(6,449)	—
Changes in amounts due from customers and others, net	2,780	(9,433)	(4,406)
Changes in inventories	(7,135)	(6,521)	1,890
Changes in accounts payable	(12,685)	6,658	(2,048)
Changes in working capital affecting operations	(25,975)	1,528	(30,713)
Other noncash items	14,730	16,309	16,840
Total Adjustments	115,778	45,706	47,815
Net Cash from Operating Activities	165,391	127,130	140,493
<i>Cash Flows from Financing Activities (2)</i>			
Bank loans, commercial paper and other short-term debt	(23,200)	23,200	—
Notes payable to affiliates	14,200	16,000	—
Debt issues:			
First mortgage bonds	—	67,300	56,100
Secured medium-term notes	134,500	—	—
Term bank loans and other long-term debt	108,365	15,000	—
Maturities, redemptions and sinking funds	(178,993)	(183,477)	(65,006)
Nuclear fuel lease and trust obligations	(51,728)	(42,947)	(39,015)
Dividends paid	(42,639)	(98,427)	(88,743)
Premiums, discounts and expenses	(1,001)	(1,845)	(925)
Net Cash from Financing Activities	(40,496)	(205,196)	(137,589)
<i>Cash Flows from Investing Activities (2)</i>			
Cash applied to construction	(51,393)	(80,667)	(61,360)
Interest capitalized as allowance for borrowed funds used during construction	(946)	(2,674)	(5,479)
Loans to affiliates	(12,000)	114,000	(114,000)
Other cash applied	(3,374)	(4,178)	(3,261)
Net Cash from Investing Activities	(67,713)	26,481	(184,100)
<i>Net Change in Cash and Temporary Cash Investments</i>	57,182	(51,585)	(181,196)
<i>Cash and Temporary Cash Investments at Beginning of Year</i>	22,107	73,692	254,888
<i>Cash and Temporary Cash Investments at End of Year</i>	\$ 79,289	\$ 22,107	\$ 73,692

(1) Interest paid (net of amounts capitalized) was \$120,000,000, \$114,000,000 and \$104,000,000 in 1991, 1990 and 1989, respectively. Income taxes paid were \$9,465,000 and \$2,272,000 in 1991 and 1990, respectively. No income taxes were paid in 1989.

(2) Increases in nuclear fuel and nuclear fuel lease and trust obligations in the Balance Sheet resulting from the noncash capitalizations under nuclear fuel agreements are excluded from this statement.

The accompanying notes and summary of significant accounting policies are an integral part of this statement.

Balance Sheet

	December 31,	
	1991	1990
	(thousands of dollars)	
ASSETS		
<i>PROPERTY, PLANT AND EQUIPMENT</i>		
Utility plant in service	\$2,692,274	\$2,603,883
Less: accumulated depreciation and amortization	709,505	640,252
	<u>1,982,769</u>	<u>1,963,631</u>
Construction work in progress	53,965	93,154
Perry Unit 2	342,767	343,685
	<u>2,379,501</u>	<u>2,400,470</u>
Nuclear fuel, net of amortization	195,285	221,848
Other property, less accumulated depreciation	2,679	2,024
	<u>2,577,465</u>	<u>2,624,342</u>
<i>CURRENT ASSETS</i>		
Cash and temporary cash investments	79,289	22,107
Amounts due from customers and others, net	60,453	63,233
Accounts receivable from affiliates	21,917	29,996
Notes receivable from affiliates	12,000	—
Unbilled revenues	21,844	20,161
Materials and supplies, at average cost	36,575	32,666
Fossil fuel inventory, at average cost	18,804	15,578
Taxes applicable to succeeding years	66,343	63,375
Other	2,760	2,473
	<u>319,985</u>	<u>249,597</u>
<i>DEFERRED CHARGES</i>		
Amounts due from customers for future federal income taxes	472,199	494,454
Unamortized loss from Beaver Valley Unit 2 sale	114,174	119,623
Unamortized loss on reacquired debt	25,672	27,404
Carrying charges and operating expenses, pre-phase-in	244,404	252,206
Carrying charges and operating expenses, phase-in	193,099	165,310
Other	67,514	68,582
	<u>1,117,062</u>	<u>1,127,579</u>
Total Assets	<u>\$4,014,512</u>	<u>\$4,001,518</u>

The accompanying notes and summary of significant accounting policies are an integral part of this statement.

	December 31,	
	1991	1990
	(thousands of dollars)	
CAPITALIZATION AND LIABILITIES		
<i>CAPITALIZATION</i>		
Common shares, \$5 par value: 60,000,000 authorized; 39,134,000 outstanding in 1991 and 1990	\$ 195,687	\$ 195,687
Premium on capital stock	481,082	481,082
Other paid-in capital	121,059	121,059
Retained earnings	89,924	82,956
Common stock equity	887,752	880,884
Preferred stock		
With mandatory redemption provisions	63,333	66,328
Without mandatory redemption provisions	210,000	210,000
Long-term debt	1,158,510	1,097,326
	<u>2,319,525</u>	<u>2,254,438</u>
<i>OTHER NONCURRENT LIABILITIES</i>		
Nuclear fuel lease obligations	143,145	180,835
Other	49,756	48,009
	<u>192,901</u>	<u>228,844</u>
<i>CURRENT LIABILITIES</i>		
Current portion of long-term debt and preferred stock	123,476	116,150
Current portion of lease obligations	63,692	50,389
Notes payable to banks and others	—	23,200
Accounts payable	55,274	67,959
Accounts and notes payable to affiliates	39,538	31,626
Accrued taxes	67,770	96,973
Accrued interest	31,399	31,665
Other	16,180	35,113
	<u>397,329</u>	<u>453,075</u>
<i>DEFERRED CREDITS</i>		
Unamortized investment tax credits	107,729	83,377
Accumulated deferred federal income taxes	577,479	571,233
Reserve for Perry Unit 2 allowance for funds used during construction	88,295	88,295
Unamortized gain from Bruce Mansfield Plant sale	227,380	236,835
Accumulated deferred rents for Bruce Mansfield Plant and Beaver Valley Unit 2	66,888	57,843
Other	36,546	27,578
	<u>1,104,317</u>	<u>1,065,161</u>
Total Capitalization and Liabilities	<u>\$4,014,512</u>	<u>\$4,001,518</u>

Statement of Cumulative Preferred Stock

THE TOLEDO EDISON COMPANY

	1991 Shares Outstanding	Current Call Price	December 31,	
			1991	1990
(thousands of dollars)				
\$100 par value, 3,000,000 preferred shares authorized and \$25 par value, 12,000,000 preferred shares authorized				
Subject to mandatory redemption:				
\$100 par \$11.00	24,825	\$101.00	\$ 2,483	\$ 3,483
9.375	133,450	103.46	13,345	15,010
25 par 2.81	2,000,000	26.56	50,000	50,000
			<u>65,828</u>	<u>68,493</u>
Less: Current maturities			2,165	2,165
<i>Total Preferred Stock, with Mandatory Redemption Provisions</i>			<u>\$ 63,663</u>	<u>\$ 66,328</u>
Not subject to mandatory redemption:				
\$100 par \$ 4.25	160,000	104.625	\$ 16,000	\$ 16,000
4.56	50,000	101.00	5,000	5,000
4.25	100,000	102.00	10,000	10,000
8.32	100,000	102.46	10,000	10,000
7.76	150,000	102.437	15,000	15,000
7.80	150,000	101.65	15,000	15,000
10.00	190,000	101.00	19,000	19,000
25 par 2.21	1,000,000	25.25	25,000	25,000
2.365	1,400,000	28.45	35,000	35,000
Series A Adjustable	1,200,000	25.75	30,000	30,000
Series B Adjustable	1,200,000	25.75	30,000	30,000
<i>Total Preferred Stock, without Mandatory Redemption Provisions</i>			<u>\$ 210,000</u>	<u>\$ 210,000</u>

The accompanying notes and summary of significant accounting policies are an integral part of this statement.

Notes to the Financial Statements

(1) PROPERTY OWNED WITH OTHER UTILITIES AND INVESTORS

The Company owns, as a tenant in common with other utilities and those investors who are owner-participants in various sale and leaseback transactions (Lessors), certain generating units as listed below. Each owner owns an undivided share in the entire unit. Each owner has the right to a percentage of the generating capability of each unit equal to its ownership share. Each utility owner is obligated to pay for only its respective share of the construction and operating costs. Each Lessor has leased its capacity rights to a utility which is obligated to pay for such Lessor's share of the construction and operating costs. The Company's share of the operating costs of these generating units is included in the Income Statement. Property, plant and equipment at December 31, 1991 includes the following facilities owned by the Company as a tenant in common with other utilities and Lessors:

Generating Unit	In-Service Date	Ownership Share	Ownership Mega-watts	Power Source	Plant in Service	Construction Work in Progress and Suspended (thousands of dollars)	Accumulated Depreciation
In Service:							
Davis-Besse	1977	48.62%	429	Nuclear	\$ 661,573	\$ 13,436	\$138,504
Perry Unit 1 and Common Facilities	1987	19.91	238	Nuclear	923,503	1,486	119,374
Beaver Valley Unit 2 and Common Facilities (Note 2)	1987	1.65	13	Nuclear	188,560	1,698	23,333
Construction Suspended:							
Perry Unit 2 (Note 3(c))	Uncertain	19.91	240	Nuclear	—	342,767	—
					<u>\$1,773,636</u>	<u>\$359,387</u>	<u>\$281,211</u>

(2) UTILITY PLANT SALE AND LEASEBACK TRANSACTIONS

As a result of sale and leaseback transactions completed in 1987, the Company and Cleveland Electric are co-lessees of 18.26% (150 megawatts) of Beaver Valley Unit 2 and 6.5% (51 megawatts), 45.9% (358 megawatts) and 44.38% (355 megawatts) of Units 1, 2 and 3 of the Mansfield Plant, respectively, all for terms of about 29½ years.

As co-lessee with Cleveland Electric, the Company is also obligated for Cleveland Electric's lease payments. If Cleveland Electric is unable to make its payments under the Mansfield Plant leases, the Company would be obligated to make such payments. No payments have been made on behalf of Cleveland Electric to date.

Future minimum lease payments under these operating leases at December 31, 1991 are summarized as follows:

Year	For the Company	For Cleveland Electric
	(thousands of dollars)	
1992	\$ 110,000	\$ 63,000
1993	111,000	63,000
1994	111,000	63,000
1995	111,000	63,000
1996	111,000	63,000
Later Years	2,480,000	1,516,000
Total Future Minimum Lease Payments	<u>\$3,034,000</u>	<u>\$1,831,000</u>

Semiannual lease payments conform with the payment schedule for each lease.

Rental expense is accrued on a straight-line basis over the terms of the leases. The amounts recorded by the Company in 1991, 1990 and 1989 as annual rental expense for the Mansfield Plant leases and the Beaver

Valley Unit 2 lease were \$44,556,000 and \$72,276,000, respectively. Amounts charged to expense in excess of the lease payments are now classified as accumulated deferred rents on the Balance Sheet. Previously, the excess was included in accounts payable.

The Company and Cleveland Electric are responsible under these leases for paying all taxes, insurance premiums, operation and maintenance costs and all other similar costs for their interests in the units sold and leased back. The Company and Cleveland Electric may incur additional costs in connection with capital improvements to the units. The Company and Cleveland Electric have options to buy the interests back at the end of the leases for the fair market value at that time or to renew the leases. Additional lease provisions provide other purchase options along with conditions for mandatory termination of the leases (and possible repurchase of the leasehold interests) for events of default. These events of default include noncompliance with several financial covenants affecting the Company, Cleveland Electric and Centerior Energy contained in an agreement relating to a letter of credit issued in connection with the sale and leaseback of Beaver Valley Unit 2, as amended in 1989. See Note 10(d).

The Company is selling 150 megawatts of its Beaver Valley Unit 2 leased capacity entitlement to Cleveland Electric. This sale commenced in 1988 and we anticipate that it will continue at least until 1998. Revenues recorded for this transaction were \$106,589,000, \$102,773,000 and \$104,127,000 in 1991, 1990 and 1989, respectively. The future minimum lease payments associated with Beaver Valley Unit 2 aggregate \$1,869,000,000.

(3) CONSTRUCTION AND CONTINGENCIES

(a) CONSTRUCTION PROGRAM

The estimated cost of the Company's construction program for the 1992-1994 period is \$260,000,000, including AFUDC of \$12,000,000 and excluding nuclear fuel.

In an agreement approved by the PUCO, the Company and Cleveland Electric have agreed to limit their combined 1992 other operation and maintenance expenses and capital expenditures to \$1,050,000,000, exclusive of compliance costs related to the Clean Air Act. Within this limitation, capital expenditures are budgeted at \$59,000,000 for the Company, exclusive of the Clean Air Act compliance costs.

(b) CLEAN AIR LEGISLATION

The Clean Air Act will require, among other things, significant reductions in the emission of sulfur dioxide and nitrogen oxide, by fossil-fueled electric generating units. The Clean Air Act will require that sulfur dioxide emissions be reduced in two phases over a ten-year period.

Centerior Energy has developed a compliance strategy for the Company and Cleveland Electric which will be submitted to the PUCO for review in April 1992. Centerior Energy will also seek United States Environmental Protection Agency approval of Phase I plans in 1993. Our compliance plan would require capital expenditures for the Company over the 1992-2001 period of approximately \$35,000,000 for nitrogen oxide control equipment, emission monitoring equipment and plant modifications. In addition, higher fuel and other operation and maintenance expenses would be incurred. The rate increase associated with the Company's capital expenditures and higher expenses would be less than 2% over the ten year period.

Our final compliance plan will depend upon future environmental regulations and input from the PUCO, other regulatory bodies and other concerned entities.

We believe that Ohio law permits the recovery of compliance costs from customers in rates.

(c) PERRY UNIT 2

Perry Unit 2, including its share of the common facilities, is approximately 50% complete. Construction of Perry Unit 2 was suspended in 1985 pending future consideration of various options, including resumption of full construction with a revised estimated cost, conversion to a nonnuclear design, sale of all or part of our ownership share, or cancellation. No option may be implemented without the unanimous approval of the owners. In October 1991, Cleveland Electric, the company responsible for the construction of Perry Unit 2, applied for a ten-year extension of the construction permit which was to expire in November 1991. Under NRC regulations, the construction permit will remain in effect while the application is pending. We expect the NRC to grant the extension.

In February 1992, Cleveland Electric purchased Duquesne's 13.74% ownership share of Perry Unit 2

for \$3,324,000. This purchase does not signal any plans to resume construction of Perry Unit 2, but rather an intent to keep the various options open. Duquesne had stated that it would not agree to resumption of construction of the unit.

If Perry Unit 2 were to be canceled, then the Company's net investment in the unit (less any tax saving) would have to be written off. We estimate that such a write-off, based on our investment in this unit as of December 31, 1991, would have been about \$171,000,000, after taxes. See Notes 10(b) and (d) for a discussion of potential consequences of such a write-off.

If a decision is made to convert Perry Unit 2 to a nonnuclear design in the future, we would expect to write-off at that time a portion of our investment for nuclear plant construction costs not transferable to the nonnuclear construction project.

Beginning in July 1985, Perry Unit 2 AFUDC was credited to a deferred income account until January 1, 1988, when the accrual of AFUDC was discontinued.

(d) SUPERFUND SITES

The Comprehensive Environmental Response, Compensation and Liability Act of 1980 as amended (Superfund) established programs addressing the cleanup of hazardous waste disposal sites, emergency preparedness and other issues. The Company is aware of its potential involvement in the cleanup of two hazardous waste sites. The Company has recorded reserves based on estimates of its proportionate responsibility for these sites. We believe that the ultimate outcome of these matters will not have a material adverse effect on our financial condition or results of operations.

(4) NUCLEAR OPERATIONS AND CONTINGENCIES

(a) OPERATING NUCLEAR UNITS

The Company's interests in nuclear units may be impacted by activities or events beyond its control. Operating nuclear generating units have experienced unplanned outages or extensions of scheduled outages because of equipment problems or new regulatory requirements. A major accident at a nuclear facility anywhere in the world could cause the NRC to limit or prohibit the operation, construction or licensing of any nuclear unit. If one of our nuclear units is taken out of service for an extended period of time for any reason, including an accident at such unit or any other nuclear facility, the Company cannot predict whether regulatory authorities would impose unfavorable rate treatment such as taking our affected unit out of rate base or disallowing certain construction or maintenance costs. An extended outage of one of our nuclear units coupled with unfavorable rate treatment could have a material adverse effect on our financial position and results of operations.

(b) NUCLEAR INSURANCE

The Price-Anderson Act limits the liability of the owners of a nuclear power plant to the amount

provided by private insurance and an industry assessment plan. In the event of a nuclear incident at any unit in the United States resulting in losses in excess of the level of private insurance (currently \$200,000,000), the Company's maximum potential assessment under that plan (assuming the other CAPCO companies were to contribute their proportionate share of any assessment) would be \$58,503,000 (plus any inflation adjustment) per incident, but is limited to \$8,844,000 per year for each nuclear incident.

The CAPCO companies have insurance coverage for damage to property at the Davis-Besse, Perry and Beaver Valley sites (including leased fuel and clean-up costs). Coverage amounted to \$2,515,000,000 for each site as of January 1, 1992. Damage to property could exceed the insurance coverage by a substantial amount. If it does, the Company's share of such excess amount could have a material adverse effect on its financial condition and results of operations.

The Company also has extra expense insurance coverage which includes the incremental cost of any replacement power purchased (over the costs which would have been incurred had the units been operating) and other incidental expenses after the occurrence of certain types of accidents at our nuclear units. The amounts of the coverage are 100% of the estimated extra expense per week during the 52-week period starting 21 weeks after an accident, 67% of such estimate per week for the next 52 weeks and 33% of such estimate per week for the next 52 weeks. The amount and duration of extra expense could substantially exceed the insurance coverage.

(5) NUCLEAR FUEL

The Company has inventories for nuclear fuel which should provide an adequate supply into the mid-1990s. Substantial additional nuclear fuel must be obtained to supply fuel for the remaining useful lives of Davis-Besse, Perry Unit 1 and Beaver Valley Unit 2. More nuclear fuel would be required if Perry Unit 2 were completed as a nuclear generating unit.

In 1989, existing nuclear fuel financing arrangements for the Company and Cleveland Electric were refinanced through leases from a special-purpose corporation. The total amount of financing currently available under these lease arrangements is \$509,000,000 (\$309,000,000 from intermediate-term notes and \$200,000,000 from bank credit arrangements), although financing in an amount up to \$900,000,000 is permitted. The intermediate-term notes mature in the period 1993-1997. The bank credit arrangements are cancelable on two years notice by the lenders. As of December 31, 1991, \$209,000,000 of nuclear fuel was financed for the Company. The Company and Cleveland Electric severally lease their respective portions of the nuclear fuel and are obligated to pay for the fuel as it is consumed in a reactor. The lease rates are based on various intermediate-term note rates, bank rates and commercial paper rates.

The amounts financed include nuclear fuel in the Davis-Besse, Perry Unit 1 and Beaver Valley Unit 2 reactors with remaining lease payments of

\$71,000,000, \$33,000,000 and \$15,000,000, respectively, as of December 31, 1991. The nuclear fuel amounts financed and capitalized also included interest charges incurred by the lessors amounting to \$9,000,000 in 1991, \$14,000,000 in 1990 and \$19,000,000 in 1989. The estimated future lease amortization payments based on projected consumption are \$45,000,000 in 1992, \$45,000,000 in 1993, \$40,000,000 in 1994, \$34,000,000 in 1995 and \$35,000,000 in 1996.

(6) REGULATORY MATTERS

On January 31, 1989, the PUCO issued a rate order which provided for three annual rate increases for the Company of approximately 9%, 7% and 6% effective with bills rendered on and after February 1, 1989, 1990 and 1991, respectively. As discussed below, the 6% increase effective February 1, 1991 was reduced to 2.74% for the Company, which later waived its 2.74% increase and reduced its rates on two occasions in 1991 for certain customers. The resulting annualized revenue increases in 1989, 1990 and 1991 associated with the rate order were \$50,700,000, \$44,300,000 and \$1,600,000, respectively. The \$1,600,000 increase in 1991 reflects the net of \$18,600,000 of annualized revenues authorized for the 2.74% increase less \$17,000,000 for the waiver and rate reductions.

Under the January 1989 rate order, a phase-in plan was designed so that the three rate increases, coupled with then-projected sales growth, would provide revenues sufficient to recover all operating expenses and provide a fair rate of return on the Company's allowed investment in Perry Unit 1 and Beaver Valley Unit 2 for ten years beginning January 1, 1989. In the first five years of the plan, the revenues were expected to be less than that required to recover operating expenses and provide a fair return on investment. Therefore, the amounts of operating expenses and return on investment not currently recovered are deferred and capitalized as deferred charges. Since the unrecovered investment will decline over the period of the phase-in plan because of depreciation and deferred federal income taxes that result from the use of accelerated tax depreciation, the amount of revenues required to provide a fair return also declines. Pursuant to such phase-in plan, the Company deferred the following:

	1991	1990	1989
	(thousands of dollars)		
Deferred Operating Expenses.....	\$ 5,796	\$16,980	\$22,535
Carrying Charges:			
Debt.....	\$ 6,986	\$21,361	\$30,617
Equity.....	15,000	22,126	51,691
	<u>\$21,986</u>	<u>\$43,487</u>	<u>\$82,308</u>

The amount of deferred operating expenses and carrying charges scheduled to be recorded in 1992 and 1993 total \$33,000,000 and \$15,000,000, respectively. Beginning in the sixth year (1994) and continuing through the tenth year, the revenue levels authorized pursuant to the phase-in plan were designed to be sufficient to recover that period's operating expenses, a fair return on the unrecovered investment, and the amortization of the deferred operating expenses and

carrying charges recorded during the earlier years of the plan. All phase-in deferrals relating to these two units will be amortized and recovered by December 31, 1998.

The phase-in plan was also designed so that fluctuations in sales should not affect the level of earnings. The phase-in plan permits the Company to request PUCO approval of increases or decreases in the phase-in plan deferrals to compensate for the effects of fluctuations in sales levels, as compared to the levels projected in the rate order, and for 50% of the net after-tax savings in 1989 and 1990 identified by the management audit as discussed below. Pursuant to these provisions of the order, the Company recorded no adjustment to the cost deferrals in 1989 and recorded adjustments to reduce its cost deferrals by approximately \$14,000,000 in 1990 and to increase its cost deferrals by approximately \$3,200,000 net in 1991. The \$3,200,000 net increase in 1991 included a \$4,000,000 increase for an adjustment of 1990 cost deferrals and an \$800,000 reduction for the adjustment of the 1991 cost deferrals.

In connection with the 1989 order and a similar order for Cleveland Electric, the Company, Cleveland Electric and the Service Company have undergone a management audit, which was completed in April 1990. The audit identified potential annual savings in operating expenses in the amount of \$98,160,000 from Centerior Energy's 1989 budget level, 45% (\$44,172,000) for the Company. The Company realized a large part of the savings in 1991.

Fifty percent of the savings identified by the management audit were used to reduce the 6% rate increase scheduled to be effective on February 1, 1991 for the Company. As discussed previously, our rates increased 2.74% under this provision with the PUCO's approval.

In late 1990 in a move to become more competitive in Northwest Ohio, the Company proposed a rate reduction package to all incorporated communities in its service area which are served exclusively by the Company on a retail basis. The package called for the

elimination of the 2.74% rate increase effective February 1, 1991 for all residential and small commercial customers, a reduction in residential rates of 3% on March 1, 1991 and a further residential rate reduction of 1% on September 1, 1991. Communities accepting the package agreed to keep the Company as their sole supplier of electricity for a period of five years. The package also permits the Company to adjust rates in those communities on February 1, 1994 and February 1, 1997 if inflation exceeds specified levels or under emergency conditions. All eligible communities in the Company's service area, except the City of Toledo, accepted the rate reduction package. In March 1991, the Company obtained PUCO approval to reduce rates to the same levels for the same customer categories in the City of Toledo and the rest of its service area. Annualized revenues were reduced by about \$17,000,000 as a result of these rate reduction packages. The revenue reductions do not adversely affect the phase-in plan as the decrease in revenues is mitigated by the cost reductions resulting from the management audit.

The 1989 order also set nuclear performance standards through 1998. We could be required to refund incremental replacement power costs if the standards are not met. No refund was required in 1991 nor is one expected for 1992. The Company banked \$1,300,000 in benefits in 1991 for above-average nuclear performance based on industry standards for operating availability established in the 1989 order. These banked benefits are not recorded in the financial statements as they can only be used in future years, if necessary, to offset disallowances of incremental replacement power costs.

Under the 1989 order, fossil-fueled power plant performance may not be raised as an issue in any rate proceeding before February 1994 as long as the Company and Cleveland Electric achieve a systemwide availability factor of at least 64.9% annually. This standard was exceeded in 1989, 1990 and 1991, with availability at approximately 80% for each year.

(7) FEDERAL INCOME TAX

Federal income tax, computed by multiplying income before taxes by the statutory rates, is reconciled to the amount of federal income tax recorded on the books as follows:

	For the years ended December 31,		
	1991	1990	1989
	(thousands of dollars)		
Book Income Before Federal Income Tax	\$ 87,608	\$ 93,801	\$ 151,526
Tax on Book Income at Statutory Rate	\$ 29,787	\$ 31,892	\$ 51,519
Increase (Decrease) in Tax:			
Accelerated depreciation	2,857	(853)	5,993
Investment tax credits on disallowed nuclear plant	—	(18,810)	—
Taxes, other than federal income taxes	(692)	(2,647)	(107)
Other items	6,043	2,795	1,443
Total Federal Income Tax Expense	\$ 37,995	\$ 12,377	\$ 58,848

Federal income tax expense is recorded in the Income Statement as follows:

	For the years ended December 31,		
	1991	1990	1989
	(thousands of dollars)		
Operating Expenses:			
Current Tax Provision	\$ 13,946	\$ 17,045	\$(11,458)
Changes in Accumulated Deferred Federal Income Tax:			
Accelerated depreciation and amortization	8,515	1,580	8,764
Alternative minimum tax credit	(43,633)	(5,480)	21,291
Sale and leaseback transactions and amortization	12,682	5,121	455
Property tax expense	—	(4,011)	—
Reacquired debt costs	6,674	(532)	(378)
Deferred construction work in progress revenues	8,480	9,393	11,726
Deferred fuel costs	(3,689)	(4,021)	(1,229)
Davis-Besse replacement power	—	—	5,055
Other items	1,338	784	1,337
Investment Tax Credits	27,454	1,162	1,722
Total Charged to Operating Expenses	31,767	21,041	37,285
Nonoperating Income:			
Current Tax Provision	(37,677)	(18,242)	(10,129)
Changes in Accumulated Deferred Federal Income Tax:			
Write-off of nuclear costs	(180)	(10,157)	—
AFUDC and carrying charges	9,000	16,835	32,930
Net operating loss carryforward	35,014	—	—
Other items	71	2,900	(1,238)
Total Expense (Credit) to Nonoperating Income	6,228	(8,664)	21,563
Total Federal Income Tax Expense	\$ 37,995	\$ 12,377	\$ 58,848

The Company joins in the filing of a consolidated federal income tax return with its affiliated companies. The method of tax allocation reflects the benefits and burdens realized by each company's participation in the consolidated tax return, approximating a separate return result for each company.

Federal income tax expense adjustments in 1990, associated with previously deferred investment tax credits relating to the 1988 write-off of nuclear plant investment, decreased the net tax provision related to nonoperating income by \$18,810,000.

The favorable resolution of an issue concerning the appropriate year to recognize a property tax deduction resulted in an adjustment which reduced federal income tax expense in 1990 by \$3,911,000 (\$2,168,000 in the fourth quarter).

For tax purposes, net operating loss (NOL) carryforwards of approximately \$164,049,000 are available to reduce future taxable income and will expire in 2003 through 2005. The 34% tax effect of the NOLs generated is \$55,777,000 and is reflected as a reduction to deferred federal income tax relating to accelerated depreciation and amortization. Future utilization of these tax NOL carryforwards would result in recording the related deferred taxes.

The 1986 Tax Act provides for an AMT credit to be used to reduce the regular tax to the AMT level should the regular tax exceed the AMT. AMT credits of \$27,822,000 are available to offset future regular tax. The credits may be carried forward indefinitely.

(8) RETIREMENT INCOME PLAN AND OTHER POSTRETIREMENT BENEFITS

(a) RETIREMENT INCOME PLAN

The Company sponsors a noncontributing pension plan which covers all employee groups. The amount of retirement benefits generally depends upon the length of service. Under certain circumstances, benefits can begin as early as age 55. The plan also provides certain death, medical and disability benefits. The Company's funding policy is to comply with the Employee Retirement Income Security Act of 1974 guidelines.

In 1990, the Company offered a Voluntary Early Retirement Opportunity Program (VEROP). Operating expenses for 1990 included \$7,000,000 of pension plan accruals to cover enhanced VEROP benefits plus an additional \$8,000,000 of pension costs for VEROP benefits paid to retirees from corporate funds. The \$8,000,000 is not included in the pension data reported below. Operating expenses for 1990 also included a credit of \$5,000,000 resulting from a settlement of pension obligations through lump sum payments to a substantial number of VEROP retirees.

Net pension and VEROP costs for 1989 through 1991 were comprised of the following components:

	1991	1990	1989
	(millions of dollars)		
Pension Costs:			
Service cost for benefits earned during the period	\$ 2	\$ 5	\$ 4
Interest cost on projected benefit obligation	11	11	10
Actual return on plan assets	(30)	2	(17)
Net amortization and deferral	15	(15)	4
Net pension costs	1	3	1
VEROP cost	—	7	—
Settlement gain	—	(5)	—
Net costs	<u>\$ 1</u>	<u>\$ 5</u>	<u>\$ 1</u>

The following table presents a reconciliation of the funded status of the plan at December 31, 1991 and 1990.

	December 31,	
	1991	1990
	(millions of dollars)	
Actuarial present value of benefit obligations:		
Vested benefits	\$ 92	\$101
Nonvested benefits	10	6
Accumulated benefit obligation	102	107
Effect of future compensation levels	34	32
Total projected benefit obligation	136	129
Plan assets at fair market value	172	151
Surplus of plan assets over projected benefit obligation	36	22
Unrecognized net gain due to variance between assumptions and experience	(40)	(24)
Unrecognized prior service cost	5	5
Transition asset at January 1, 1987 being amortized over 19 years	(18)	(19)
Net accrued pension liability included in other deferred credits on the Balance Sheet	<u>\$(17)</u>	<u>\$(16)</u>

The settlement (discount) rate assumption was 8.5% for both December 31, 1991 and December 31, 1990. The long-term rate of annual compensation increase assumption was 5% for both December 31, 1991 and December 31, 1990. The long-term rate of return on plan assets assumption was 8.5% in 1991 and 8% in 1990.

Plan assets consist primarily of investments in common stock, bonds, guaranteed investment contracts, cash equivalent securities and real estate.

(b) OTHER POSTRETIREMENT BENEFITS

The Financial Accounting Standards Board has issued a new accounting standard for postretirement benefits other than pensions. The new standard would require the accrual of the expected cost of such benefits during the employees' years of service. The assumptions and calculations involved in determining the accrual closely parallel pension accounting requirements.

The Company currently provides certain postretirement health care, death and other benefits and expenses such costs as these benefits are paid, which is consistent with current ratemaking practices. Such costs totaled \$3,700,000 in 1991, \$3,000,000 in 1990 and \$2,200,000 in 1989, which include medical benefits of \$3,100,000 in 1991, \$2,400,000 in 1990 and \$2,100,000 in 1989.

The Company expects to adopt the new standard prospectively effective January 1, 1993. We plan to amortize the discounted present value of the accumulated postretirement benefit obligation to expense over a twenty-year period. The Company has engaged actuaries who have made a preliminary review using 1990 data. Based on this preliminary review, the accumulated postretirement benefit obligation as of December 31, 1991, measured in accordance with the new standard, is estimated in the range of \$65,000,000 to \$100,000,000. Had the new standard been adopted in 1991, the preliminary study indicated that the additional postretirement benefit cost in 1991 would have been in the range of \$8,000,000 to \$14,000,000 (pretax). We believe the effect of actual adoption in 1993 may be similar, although it could be significantly different because of changes in health care costs, the assumed health care cost trend rate, work force demographics, interest rates, or plan provisions between now and 1993.

The Company does not know what action the PUCO may take with respect to these incremental costs. However, we believe the PUCO will either allow a means of current recovery of such incremental costs or provide for deferral of such costs until recovered in rates. We do not expect adoption of the new standard to have a material adverse effect on our financial condition or results of operations.

(9) GUARANTEES

Under a long-term coal purchase arrangement, the Company has guaranteed certain loan and lease obligations of a mining company. This arrangement requires payments to the mining company for 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. At December 31, 1991, after giving effect to a refinancing completed on January 2, 1992 by the mining company, the principal amount of the mining company's loan and lease obligations guaranteed by the Company was \$24,000,000.

(10) CAPITALIZATION

(a) CAPITAL STOCK TRANSACTIONS

Preferred stock shares retired during the three years ended December 31, 1991 are listed in the following table.

	1991	1990	1989
	(thousands of shares)		
Cumulative Preferred Stock Subject to Mandatory Redemption:			
\$100 par \$11.00	(10)	(10)	(5)
9.375	(17)	(17)	(17)
Total	<u>(27)</u>	<u>(27)</u>	<u>(22)</u>

(b) EQUITY DISTRIBUTION RESTRICTIONS

At December 31, 1991, retained earnings were \$89,924,000. Substantially all of the retained earnings were available for the declaration of dividends on the Company's preferred and common shares. All of the Company's common shares are held by Centerior Energy. A write-off of the Company's investment in Perry Unit 2, depending upon the magnitude and timing of such a write-off, could reduce retained earnings sufficiently to impair the Company's ability to declare dividends.

Any financing by the Company of any of its nonutility affiliates requires PUCO authorization unless the financing is made in connection with transactions in the ordinary course of the Company's public utilities business operations in which one company acts on behalf of another.

(c) CUMULATIVE PREFERRED AND PREFERENCE STOCK

Amounts to be paid for preferred stock which must be redeemed during the next five years are \$2,000,000 in 1992 and \$12,000,000 in each year 1993 through 1996.

The annual mandatory redemption provisions are as follows:

	Shares To Be Redeemed	Beginning in	Price Per Share
Preferred:			
\$100 par \$11.00	5,000	1979	\$100
9.375	16,650	1985	100
25 par 2.81	400,000	1993	25

The annualized cumulative preferred dividend requirement as of December 31, 1991 is \$25,000,000.

The preferred dividend rates on the Company's Series A and B fluctuate based on prevailing interest rates and market conditions, with the dividend rates for these issues averaging 8.82% and 9.67%, respectively, in 1991.

Under its articles of incorporation, the Company cannot issue preferred stock unless certain earnings coverage requirements are met. Based on earnings for the 12 months ended December 31, 1991, the Company could not issue additional preferred stock. The issuance of additional preferred stock in the future will depend on earnings for any 12 consecutive months of the 15 months preceding the date of issuance, the interest on all long-term debt outstanding and the dividends on all preferred stock issues outstanding.

Preference stock authorized for the Company is 5,000,000 shares with a \$25 par value. No preference shares are currently outstanding. There are no restrictions on the Company's ability to issue preference stock.

With respect to dividend and liquidation rights, the Company's preferred stock is prior to its preference stock and common stock, and its preference stock is prior to its common stock.

(d) LONG-TERM DEBT AND OTHER BORROWING ARRANGEMENTS

Long-term debt, less current maturities, was as follows:

Year of Maturity	Actual or Average Interest Rate	December 31,	
		1991	1990
(thousands of dollars)			
First mortgage bonds:			
1995	11.25 %	\$ —	\$ 60,000
1996	9.25	100,000	100,000
1997-2001	7.00	66,378	66,378
2002-2006	8.62	111,725	111,725
2007-2011	9.62	51,900	51,900
2017-2021	8.00	67,300	67,300
2022-2023	7.58	147,800	147,800
		545,103	605,103
Term bank loans due			
1993-1996	8.82	115,500	13,500
Medium-term notes			
due 1993-2021	9.06	134,500	—
Notes due 1993-1997 ..	11.01	102,142	219,430
Debentures due 1997 ..	11.25	125,000	125,000
Pollution control notes			
due 1993-2015	11.04	136,150	136,600
Other — net	—	155	(2,307)
Total Long-Term Debt		<u>\$1,158,550</u>	<u>\$1,097,326</u>

Long-term debt matures during the next five years as follows: \$121,000,000 in 1992, \$47,000,000 in 1993, \$47,000,000 in 1994, \$72,000,000 in 1995 and \$192,000,000 in 1996.

In 1991, the Company issued \$134,500,000 aggregate principal amount of secured medium-term notes. The notes are secured by first mortgage bonds. At December 31, 1991, the Company has \$15,500,000 aggregate principal amount of secured medium-term notes registered with the SEC and available for issuance.

The Company's mortgage constitutes a direct first lien on substantially all property owned and franchises held by the Company. Excluded from the lien, among other things, are cash, securities,

accounts receivable, fuel, supplies and automotive equipment.

Additional first mortgage bonds may be issued by the Company under its mortgage on the basis of bondable property additions, cash or substitution for refundable first mortgage bonds. The issuance of additional first mortgage bonds on the basis of property additions is limited by two provisions of our mortgage. One relates to the amount of bondable property available and the other to earnings coverage of interest on the bonds. Under the more restrictive of these provisions (currently, the earnings coverage test), we would have been permitted to issue approximately \$164,000,000 of bonds at an assumed interest rate of 11% based upon available bondable property at December 31, 1991. The Company also would have been permitted to issue approximately \$186,000,000 of bonds based upon refundable bonds at December 31, 1991. If Perry Unit 2 had been canceled and written off as of December 31, 1991, the amount of bonds which could have been issued by the Company would not have changed.

Certain unsecured loan agreements of the Company contain covenants relating to capitalization ratios, earnings coverage ratios and limitations on secured financing other than through first mortgage bonds or certain other transactions. An agreement relating to a letter of credit issued in connection with the sale and leaseback of Beaver Valley Unit 2 (as amended in 1989) contains several financial covenants affecting the Company, Cleveland Electric and Centerior Energy. Among these are covenants relating to earnings coverage ratios and capitalization ratios. The Company, Cleveland Electric and Centerior Energy are in compliance with these covenant provisions. We believe these covenants can still be met in the event of a write-off of the Company's and Cleveland Electric's investments in Perry Unit 2, barring unforeseen circumstances.

(11) SHORT-TERM BORROWING ARRANGEMENTS

The Company had \$70,400,000 of bank lines of credit arrangements at December 31, 1991. There were no borrowings under these bank credit arrangements at December 31, 1991.

Short-term borrowing capacity authorized by the PUCO is \$150,000,000 for the Company. The Company and Cleveland Electric have been authorized by the PUCO to borrow from each other on a short-term basis.

Most borrowing arrangements under the short-term bank lines of credit require a fee of 0.25% per year to be paid on any unused portion of the lines of credit. For those banks without fee requirements, the average daily cash balance in the Company's bank accounts satisfied informal compensating balance arrangements.

At December 31, 1991, the Company had no commercial paper outstanding. If commercial paper were outstanding, it would be backed by at least an equal amount of unused bank lines of credit.

(12) CHANGES IN ACCOUNTING FOR NUCLEAR PLANT DEPRECIATION

In June 1991, the Company changed the method used to accrue nuclear plant depreciation from the units-of-production method to the straight-line method retroactive to January 1, 1991. The good performance of the nuclear generating units over the past several years had resulted in units-of-production depreciation expense being significantly higher than the amount implicit in current electric rates. The straight-line method better matches revenue and expense, tends to levelize periodic depreciation expense for nuclear plant and is more consistent with industry practice.

The PUCO approved the change and authorized the Company to accrue depreciation for its three operating nuclear generating units at an accrual rate of about 3% of plant investment based upon the units' forty year operating licenses from the NRC. This change in method decreased 1991 depreciation expense \$13,949,000 and increased 1991 net income \$10,983,000 (net of \$2,954,000 of income taxes) from what they otherwise would have been.

In December 1991, the PUCO approved a reduction in the straight-line depreciation accrual rate from about 3% to 2.5% for each of the three operating nuclear units retroactive to January 1, 1991. The Company believes the lower depreciation accrual rate is appropriate and reduces combined annual depreciation expense to a level more closely aligned with the total amount currently being recovered in customers' rates for these units. This change in rate decreased 1991 depreciation expense \$9,453,000 and increased 1991 net income \$7,413,000 (net of \$2,040,000 of income taxes) from what they otherwise would have been.

Depreciation expense recorded in prior years was not affected. Current electric rates were also unaffected by the PUCO orders.

(13) QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a tabulation of the unaudited quarterly results of operations for the two years ended December 31, 1991.

	Quarters Ended			
	March 31,	June 30,	Sept. 30,	Dec. 31,
	(thousands of dollars)			
1991				
Operating Revenues.....	\$212,930	\$227,576	\$238,271	\$208,481
Operating Income.....	36,807	42,428	42,307	38,639
Net Income.....	12,341	14,210	14,498	8,564
Earnings Available for Common Stock.....	6,096	8,009	8,318	2,398
1990				
Operating Revenues.....	\$210,622	\$210,412	\$237,872	\$204,267
Operating Income.....	38,732	28,259	39,433	45,862
Net Income.....	21,604	26,971	19,420	13,429
Earnings Available for Common Stock.....	15,357	20,660	13,109	7,139

Operating revenues for the first three quarters of 1991 and the four quarters of 1990 were restated to comply with current FERC revenue reporting requirements, as discussed in the Summary of Significant Accounting Policies. This restatement had no effect on earnings results for the applicable quarter. The unaudited quarterly results for the quarter ended March 31, 1991 were also restated to reflect the change in accounting for nuclear plant depreciation to the straight-line method (at about a 3% accrual rate) as discussed in Note 12.

Earnings for the quarter ended December 31, 1991 were increased as a result of year-end adjustments. A \$9,453,000 adjustment to reduce depreciation expense for the year for the change in the nuclear plant straight-line depreciation rate to 2.5% (see Summary of Significant Accounting Policies and Note 12) was partially offset by an \$804,000 reduction in phase-in carrying charges for the adjustment to 1991 cost deferrals (see Note 6). The total of these adjustments increased quarterly earnings by \$6,882,000.

Earnings for the quarter ended June 30, 1990 were increased as a result of federal income tax expense adjustments associated with deferred investment tax credits relating to the 1988 write-off of nuclear plant investment. See Note 7. The adjustments increased quarterly earnings by \$17,907,000.

Earnings for the quarter ended December 31, 1990 were decreased as a result of year-end adjustments. A \$13,933,000 reduction in phase-in carrying charges for the adjustment to 1990 cost deferrals (see Note 6) was partially offset by adjustments of \$7,760,000 to reduce depreciation expense for the year for the change in depreciation rates for nonnuclear and Davis-Besse property (see Summary of Significant Accounting Policies) and \$2,168,000 to reduce federal income tax expense (see Note 7). The total of these adjustments decreased quarterly earnings by \$2,000,000.

Financial and Statistical Review

Operating Revenues (thousands of dollars)

Year	Residential	Commercial	Industrial	Other	Total Retail	Wholesale (a)	Total Electric	Steam Heating & Gas	Total Operating Revenues
1991	\$229 840	183 523	236 049	90 919	740 331	146 927	887 258	—	\$687 258
1990	223 920	174 540	235 578	79 535	713 573	149 600	863 173	—	863 173
1989	215 932	163 991	226 680	99 451	706 054	159 569	865 623	—	865 623
1988	200 916	142 696	199 571	34 961	578 094	71 863	649 957	—	649 957
1987	200 877	142 385	219 098	27 646	590 006	42 476	632 482	—	632 482
1981	138 781	90 863	151 539	32 253	413 436	47 427	460 863	7 431	468 294

Operating Expenses (thousands of dollars)

Year	Fuel & Purchased Power (a)	Other Operation & Maintenance	Depreciation & Amortization	Taxes Other Than FIT	Phase-in & Pre-phase-in Deferred, Net	Federal Income Taxes	Total Operating Expenses
1991	\$177 342	355 728	72 137 (b)	88 656	1 147	31 767	\$727 077
1990	174 309	373 374	72 627	79 320	(9 784)	21 041	710 887
1989	172 220	372 530	85 057	72 123	(15 753)	37 285	723 462
1988	138 121	358 823	75 093	80 138	(83 813)	29 242	597 604
1987	167 621	223 307	65 503	59 658	(39 797)	22 747	499 039
1981	148 452	95 884	43 427	36 699	—	40 842	365 304

Income (Loss) (thousands of dollars)

Year	Operating Income	AFUDC—Equity	Other Income & Deductions, Net	Carrying Charges	Federal Income Taxes—Credit (Expense)	Income Before Interest Charges
1991	\$160 181	1 499	3 628	21 986	(6 228)	\$181 066
1990	152 286	3 352	6 305	43 487	8 664	214 094
1989	142 161	8 568	20 517	82 308	(21 563)	231 991
1988	52 353	5 452	(246 722) (c)	129 632	86 244	26 959
1987	133 443	122 138	(16 904)	14 989	42 726	296 392
1981	102 990	32 498	8 852	—	9 616	153 956

Income (Loss) (thousands of dollars)

Year	Debt Interest	Net Income—Debt	Income (Loss) Before Cumulative Effect of an Accounting Change	Cumulative Effect of an Accounting Change or Extraordinary Gain	Net Income (Loss)	Preferred Stock Dividends	Earnings (Loss) Available for Common Stock
1991	\$132 399	(946)	49 613	—	49 613	24 792	\$ 24 821
1990	135 344	(2 674)	81 426	—	81 424	25 159	56 265
1989	144 792	(5 479)	92 678	—	92 678	25 390	67 288
1988	150 523	(1 833)	(171 731)	6 279 (d)	(115 452)	26 983	(142 435)
1987	185 493	(54 272)	165 171	—	165 171	42 749	122 422
1981	86 310	(15 491)	83 137	10 807 (e)	93 944	23 542	70 402

(a) Wholesale revenues, fuel and purchased power, wholesale electric sales and purchased power amounts are restated for 1990 and prior years to reflect a change in reporting of bulk power sales transactions in accordance with FERC requirements.

(b) In 1991, a change in accounting for nuclear plant depreciation was adopted, changing from the units-of-production method to the straight-line method at a 2.5% rate.

(c) Includes write-off of nuclear costs in the amount of \$276,955,000 in 1988.

(d) In 1988, a change in the method of accounting for unbilled revenues was adopted.

Year	Electric Sales (millions of KWH)					Electric Customers (year end)				Residential Usage			
	Residential	Commercial	Industrial	Wholesale (a)	Other	Total	Residential	Commercial	Industrial & Other	Total	Average KWH Per Customer	Average Price Per KWH	Average Revenue Per Customer
1991	2,041	1,683	3,543	2,587	482	10,336	254,500	26,044	4,444	284,988	7,990	11.26	\$897.41
1990	1,950	1,614	3,617	2,333	496	10,010	253,965	25,822	4,555	284,342	7,692	11.48	882.99
1989	2,017	1,622	3,740	3,138	495	11,012	253,234	25,803	4,434	283,471	7,989	10.71	855.29
1988	2,068	1,579	3,780	2,044	474	9,945	251,590	25,526	4,102	281,218	8,264	9.72	802.87
1987	1,977	1,532	3,589	1,660	464	9,222	249,344	25,170	4,085	278,599	7,969	10.16	809.66
1981	1,919	1,294	3,080	1,585	409	8,287	241,663	23,573	3,844	269,080	7,966	7.23	575.95

Year	Load (MW & %)				Energy (millions of KWH)					Fuel	
	Operable Capacity at Time of Peak	Peak Load	Capacity Margin	Load Factor	Company Generated			Purchased Power (a)	Total	Fuel Cost Per KWH	Efficiency—BTU Per KWH
					Fossil	Nuclear	Total				
1991	1,758	1,510	14.1%	64.5%	4,848	6,003	10,851	95	10,946	1.444	10,327
1990	1,752	1,516	13.5	63.0	5,535	4,219	9,754	902	10,656	1.50	10,220
1989	1,844	1,526	19.4	65.2	5,206	5,552	10,758	788	11,546	1.42	10,293
1988	1,037(f)	1,614	(52.7)	62.8	5,820	3,325	9,145	1,491	10,636	1.59	10,174
1987	1,608	1,484	12.6	64.9	5,916	3,218	9,134	669	9,803	1.45	10,196
1981	1,773	1,315	25.8	65.9	5,348	2,142	7,490	1,293	8,783	1.68	10,274

Investment (thousands of dollars)

Year	Utility Plant In Service	Accumulated Depreciation & Amortization	Net Plant	Construction Work In Progress & Perry Unit 2	Nuclear Fuel and Other	Total Property, Plant and Equipment	Utility Plant Additions	Total Assets
1991	\$2,692,274	709,505	1,982,769	396,732	197,964	\$2,577,465	\$53,838	\$4,014,512
1990	2,603,883	640,252	1,963,631	436,839	223,872	2,624,342	86,693	4,001,518
1989	2,528,355	564,615	1,963,740	430,340	237,318	2,631,398	73,421	4,138,846
1988	2,438,927	487,546	1,951,381	459,104	262,514	2,672,999	132,083	4,134,672
1987	2,600,511	419,149	2,181,362	374,274	267,069	2,822,705	380,974	4,277,587
1981	1,250,190	252,310	997,880	658,641	21,359(g)	1,677,880	201,060	1,869,967

Capitalization (thousands of dollars & %)

Year	Common Stock Equity		Preferred Stock, with Mandatory Redemption Provisions		Preferred Stock, without Mandatory Redemption Provisions		Long-Term Debt		Total
1991	\$ 887,752	38%	63,663	3%	210,000	9%	1,158,550	50%	\$2,319,965
1990	880,784	39	66,328	3	210,000	9	1,097,326	49	2,254,438
1989	897,793	38	68,990	3	210,000	9	1,197,277	50	2,374,060
1988	887,442	36	71,155	3	210,000	9	1,291,444	52	2,460,041
1987	1,096,737	39	73,340	3	240,000	8	1,400,292	50	2,810,369
1981	550,176	35	95,500	6	150,000	10	762,584	49	1,558,260

(e) In 1981, an extraordinary gain was realized from the exchange of common stock for bonds.

(f) Capacity data reflects extended generating unit outage for renovation and improvements.

(g) Restated for effects of capitalization of nuclear fuel lease and financing arrangements pursuant to Statement of Financial Accounting Standards 71.

SHARE OWNER INFORMATION

INQUIRIES

Questions regarding the Company or stock accounts should be directed to Share Owner Services at Centerior Energy Corporation at the address and telephone numbers indicated below for the Stock Transfer Agent.

Please have your account number ready when calling.

STOCK TRANSFER AGENT

Centerior Energy Corporation
Share Owner Services
P.O. Box 94661
Cleveland, OH 44101-4661

In Cleveland area 642-6900 or 447-2400
Outside Cleveland area 1-800-433-7794

Stock transfers may be presented at
PNC Trust Company of New York
40 Broad Street, Fifth Floor
New York, NY 10004

STOCK REGISTRAR

Ameritrust Company National Association
Corporate Trust Division
P.O. Box 6477
Cleveland, OH 44101

EXCHANGE LISTINGS

Preferred—\$25 par value—8.84%, \$2.365 and \$2.81 series, Adjustable Series A and Adjustable Series B—New York Stock Exchange

Preferred—\$100 par value—4¼%, 8.32%, 7.76% and 10% series—American Stock Exchange

BOND AND DEBENTURE INFORMATION

BOND TRUSTEE AND PAYING AGENT

The Chase Manhattan Bank, N.A.
Corporate Trust Administration Division
1 New York Plaza, 14th Floor
New York, NY 10018
(212) 676-5850

DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN AND INDIVIDUAL RETIREMENT ACCOUNT (IRA)

Centerior Energy Corporation has a Dividend Reinvestment and Stock Purchase Plan which provides Toledo Edison share owners of record and other investors a convenient means of purchasing shares of Centerior common stock by investing all or a part of their quarterly dividends as well as making cash investments. In addition, individuals may establish an Individual Retirement Account (IRA) which invests in Centerior common stock through the Plan. Information relating to the Plan and the IRA may be obtained from Centerior Share Owner Services.

INDEPENDENT ACCOUNTANTS

Arthur Andersen & Co.
1717 East Ninth Street
Cleveland, OH 44114

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. Requests should be directed to the Secretary of Centerior Energy Corporation at the address of the Stock Transfer Agent.

DEBENTURE TRUSTEE AND PAYING AGENT

National City Bank
1900 East Ninth Street
Cleveland, OH 44114
(216) 575-2528

The Toledo Edison Company
300 Madison Avenue
Toledo, OH 43652-0001

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