

Low W. Myers
Vice President

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October 27, 1998
PY-CEI/NRR-2333L

United States Nuclear Regulatory Commission
Document Control Desk
Washington, DC 20555-0001

Perry Nuclear Power Plant
Docket No. 50-440
Supplemental Submittal to License No. NFP-58 Application Pursuant to 10CFR50.80 and 10CFR50.90 for Order and Conforming License Amendment to Transfer Operating Authority to FirstEnergy Nuclear Operating Company (TAC No. MA2218)

Ladies and Gentlemen:

The Cleveland Electric Illuminating Company ("CEI") and Centerior Service Company ("CSC") submitted a request for a 10CFR50.80 Consent Order and a Conforming License Amendment for the Perry Nuclear Power Plant ("PNPP") Unit Number 1 on June 30, 1998. The Application requested approval for the transfer of operating authority under the PNPP Unit Number 1 Operating License, Number NPF-58, to a new company, FirstEnergy Nuclear Operating Company ("FENOC"), and issuance of a conforming amendment.

At the time of the original submittal a Board of Directors and the Principal Officers for FENOC had not been named, nor had a company address been established. In addition, an amendment to the Operating Agreement between the Unit Owners (The Cleveland Electric Illuminating Company, Toledo Edison Company, Ohio Edison Company, Pennsylvania Power Company, Duquesne Light Company) and FENOC had not been formulated.

CEI and CSC are hereby submitting the enclosed supplemental information for NRC staff review. Attachment 1 identifies the Board of Directors and Principal Officers of FENOC as well as the company address. Attachment 2 is a copy of Amendment 2 to the Perry Unit 1 Operating Agreement, which will be made effective upon the date of actual transfer of control of the operating authority for Perry Unit 1. Attachment 3 is a copy of the March 10, 1987 Perry Unit 1 Operating Agreement for reference. Attachment 4 is a copy of a letter from a designated Vice President in Duquesne Light Company dated October 20, 1998 in support of the subject transfer of operating authority for PNPP to FENOC.

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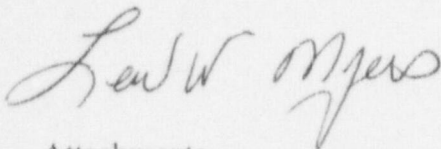
October 27, 1998

Page 2 of 2

CEI and CSC request that the NRC staff process the application on a schedule which will permit issuance of an immediately effective order to the transfer as promptly as possible, and in any event before December 15, 1998. CEI and CSC also request that the NRC staff be prepared to issue the conforming license amendment in December 1998. When final preparations are in place, CEI will notify the NRC staff of the exact date requested for issuance of the conforming license amendment.

If you have any questions or require additional information please contact Mr. Henry L. Hegrat, Manager-Regulatory Affairs, at (440) 280-5606.

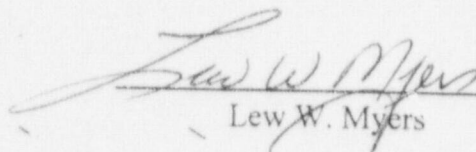
Very truly yours,

A handwritten signature in cursive script, appearing to read "Lew W. Myers".

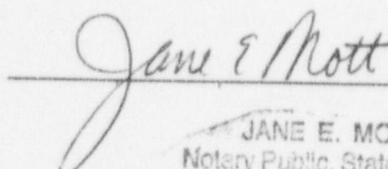
Attachments

cc: NRC Project Manager
NRC Resident Inspector
NRC Region III
State of Ohio

I, Lew W. Myers, being duly sworn state that (1) I am Vice President - Nuclear, of the Centerior Service Company, (2) I am duly authorized to execute and file this certification on behalf of The Cleveland Electric Illuminating Company and Toledo Edison Company, and as the duly authorized agent for Duquesne Light Company, Ohio Edison Company, and Pennsylvania Power Company, and (3) the statements set forth herein are true and correct to the best of my knowledge, information and belief.


Lew W. Myers

Sworn to and subscribed before me, the 27th day of October, 1998


JANE E. MOTT
Notary Public, State of Ohio
My Commission Expires Feb. 20, 2000
(Recorded in Lake County)

The following is supplemental information regarding the application made pursuant to 10CFR50.80 for order and conforming license amendment to transfer operating authority to FirstEnergy Nuclear Operating Company:

Address of FENOC

FirstEnergy Nuclear Operating Company
Perry Nuclear Power Plant
Post Office Box 97
10 Center Road
Perry, Ohio 44081

Names and Addresses of Directors of FENOC:

Willard R. Holland
Chairman of the Board and Chief Executive Officer
of FirstEnergy Corp.
76 South Main Street
Akron, Ohio 44308-1890

Anthony J. Alexander
Executive Vice-President and
General Counsel of the
FirstEnergy Corp.,
The Cleveland Electric
Illuminating Company,
Toledo Edison Company, and
Ohio Edison Company
76 South Main Street
Akron, Ohio 44308-1890

H. Peter Burg, President and Chief Operating
Officer of FirstEnergy Corp. and President of
The Cleveland Electric Illuminating Company,
Toledo Edison Company and Ohio Edison Company
76 South Main Street
Akron, Ohio 44308-1890

John P. Stetz
President and Chief Nuclear
Officer of FirstEnergy
Nuclear Operating Company
Post Office Box 97
10 Center Road
Perry, Ohio 44081

William F. Conway
President of William F. Conway & Associates, Inc.
Scottsdale, Arizona 85262

Principal Officers of FENOC:

John P. Stetz
President and Chief Nuclear Officer

John K. Wood
Vice President, Davis-Besse Nuclear Power Station

Lew W. Myers
Vice President, Perry Nuclear Power Plant

AMENDMENT NO. 2
TO THE
PERRY UNIT NO. 1 OPERATING AGREEMENT
TO CHANGE UNIT OPERATOR FROM CEI TO
FIRSTENERGY NUCLEAR OPERATING COMPANY

THIS AGREEMENT effective as of the _____,

by and among The Cleveland Electric Illuminating Company, an Ohio corporation ("CEI"); Toledo Edison Company, an Ohio corporation ("TE"); Ohio Edison Company, an Ohio corporation ("OE"); Pennsylvania Power Company, a Pennsylvania corporation ("PP"); all of which are wholly-owned subsidiaries of FirstEnergy Corp., an Ohio corporation ("FE") and Duquesne Light Company, a Pennsylvania corporation ("DL"), each of which is referred to hereinafter as a Participant, or the Participants and FirstEnergy Nuclear Operating Company ("FENOC"), an Ohio Corporation and wholly-owned subsidiary of FirstEnergy Corp.

WITNESSETH:

WHEREAS, the Participants have entered into an Operating Agreement dated March 10, 1987, hereinafter referred to as the "Agreement", which provides among other things for the operation and maintenance of the Perry Nuclear Power Plant Unit No. 1 (the "Unit);

WHEREAS, the Participants have amended the Agreement pursuant to a Memorandum of Agreement dated January 1, 1992, (hereinafter referred to as "Amendment 1") to provide, among other things, for revisions to Sections 13 and 14 of the Agreement to accommodate the ownership change from DL to CEI in Perry Unit No. 2, as such change affects the accounting for costs, expenses, and taxes associated with Perry Unit No. 1; and

WHEREAS, the Participants desire to further amend the Agreement to transfer operating responsibilities for the Unit and Unit No. 1 Site from CEI to FENOC, as hereinafter set forth;

NOW, THEREFORE, in consideration of the premises and of the mutual covenants herein set forth, the Participants and FENOC agree as follows:

1. Section 2 is amended and shall read as follows:

At 12:00 noon, Cleveland Time, on the first day of the calendar month immediately following the calendar month during which the Nuclear Regulatory Commission ("NRC") authorizes the transfer of the Unit operating license to FENOC, CEI shall cease to be the operator of the Unit and FENOC shall in its place become operator of the Unit pursuant to this Agreement and NRC authorization. Therefore and thereafter, subject to matters requiring joint action as specifically provided herein or as required by law, FENOC, on behalf of DL, OE, PP, CEI, and TE, shall operate and maintain the Unit and Unit No. 1 Site, provide necessary materials and supplies including fuel as provided in Section 11, and make any additions, replacements and retirements with respect to the Unit, taking all steps which it deems necessary or appropriate to carry out the provisions of this Agreement, all in accordance with sound engineering and operating principles and practices and applicable laws, codes and regulations; provided that, with respect to the Unit, additions, replacements and retirements

involving material changes in capability, useful life, basic methods of operation of the Unit and similar matters, and not included in the budget with respect to the Unit approved in accordance with Section 12 hereof and not of any emergency nature, shall be made only upon mutual agreement of the Participants. Retirements with respect to the Unit shall be effected only in manner consistent with any applicable provisions of the respective mortgage indentures of the Participants (or any financing lease relating to the Unit and the interests therein to which a Participant is a party, copies of which will be provided to all Participants).

2. Section 3 is amended and shall read as follows:

Each participant shall be entitled to its generation entitlement share of the hour-to-hour net operating capacity of the Unit as determined by FENOC, and the energy associated therewith. The initial generation entitlement share of the original Participants shall be as follows: CEI 31.11%, DL 13.74%, OE 30.00%, PP 5.24% and TE 19.91%. Generation entitlement shares may be assigned and modified in accordance with Section 25 hereof.

3. Section 4 is amended and shall read as follows:

FENOC will keep the Participants informed as to the expected maximum hour-to-hour net operating capacity of the Unit permissible for proper operation of the Unit, as determined by FENOC, as it may vary in accordance with conditions existing from time to time. Each Participant shall reserve its desired share of capacity in the Unit and schedule its desired share of energy associated therewith, on an hour-to-hour basis, up to the limits of its generation entitlement share, all in accordance with procedures to be agreed upon by the Participants. Subject to necessary outages or reductions in capability, the Unit shall be operated by FENOC so as to produce capacity and energy equal to the sums of the capacity reserved and energy scheduled by the Participants. FENOC shall exercise its best efforts to achieve a balance between the scheduled output of the Unit and its actual output, and any imbalances shall be recorded and appropriate adjustments made periodically to reduce such imbalances.

4. Section 5 is amended and shall read as follows:

FENOC will keep the Participants informed as to the expected minimum net generation for proper operation of the Unit, as determined by FENOC, as it may vary in accordance with conditions existing from time to time. At any time

when the Unit is operated at the level of such minimum net generation, each Participant shall schedule an amount of energy from the Unit equal to its percentage generation entitlement share specified in Section 3 of such minimum net generation, provided that if any Participant shall schedule more than its generation entitlement share of such minimum net generation, the other Participants shall schedule not less than the balance of such minimum net generation in proportion to their generation entitlement shares.

5. Section 6 is amended and shall read as follows:

The Participants authorize FENOC to provide and FENOC shall provide a staff of competent engineering, supervisory, operating and maintenance, and other appropriate personnel to operate and maintaining the Unit and the Unit No. 1 Site. To ensure that technical qualifications of FENOC will be at least equivalent to those provided by CEI, the CEI employees on site at the Unit at the time FENOC becomes operator hereunder, will be transferred to and become employees of FENOC. Such staff and all other employees of FENOC performing work in connection with the operation and maintenance of the Unit and Unit No. 1 Site shall be, and for all purposes shall be considered to be, employees only of FENOC. Such staff and employees shall receive their instructions and orders only from appropriate officials of FENOC.

6. Section 7 is amended and shall read as follows:

Subject to any applicable restrictions contained in Sections 2 and 11, the Participants hereby appoint FENOC as their agent in respect of the Unit and Unit No. 1 Site, and FENOC agrees as the agent of such Participants and as principal on its own behalf, to negotiate, execute and enforce contracts (including purchase order contracts), either in FENOC's name only or in the name of FENOC and as agent for the Participants, providing for the purchase of materials, equipment and services for the operation and maintenance of the Unit and the Unit No. 1 Site, including the provision of nuclear material and nuclear fuel assemblies in connection with the operation of the Unit and of the obtaining of necessary governmental authorizations therefor. The Participants hereby ratify and confirm all contracts entered into by CEI prior to the execution of this Agreement relating to the operation or maintenance of the Unit or Unit No. 1 Site.

7. Section 8 is amended and shall read as follows:

Scheduled maintenance of the Unit shall be performed by FENOC in accordance with the CAPCO Basic Operating Agreement as amended January 1, 1993, among CEI, DL, OE, PP and TE, and as subsequently amended, or any extension thereof or successor agreement thereto.

8. Section 9 is amended and shall read as follows:

FENOC shall keep the Participants informed concerning the operation and maintenance of the Unit and Unit No. 1 Site and FENOC plans with respect thereto, but no failure of FENOC to provide information pursuant to the provisions of this Section shall relieve any Participants of any of their obligations under this Agreement.

FENOC shall accord each of the Participants access to the Unit and Unit No. 1 Site at all reasonable times and in accordance with established safety and security procedures in order that their representatives may examine the Unit and Unit No. 1 Site and observe the operation of the Unit. On request therefor, FENOC shall supply each Participant with copies of any regular and special reports on the operation, maintenance and condition of the Unit and Unit No. 1 Site, whether made by employees of FENOC or by other engineers, consultants or advisors. The Participants shall consult from time to time as to the operation and maintenance of the Unit and FENOC shall consider any proposal or suggestion of the other Participants with respect thereto.

Each Participant may at its own expense provide and maintain communication, telemetering and control equipment connected to FE's System Dispatch Office necessary (1) to monitor the Unit, (2) to integrate its generation entitlement share from the Unit with its control of its other sources of generation, or (3) if and when the Unit is automatically regulated by FENOC, to participate in the regulation of the Unit. Such equipment and its operation shall be subject to, and shall not interfere with, FENOC's control of the Unit and shall not unduly affect the operation of the Unit or the system of any Participant.

9. Section 10 is amended and shall read as follows:

The Participants will cooperate with FENOC in all activities in connection with the Unit and Unit No. 1 Site, including, without limitation, the filing of applications for authorizations, permits and licenses, and the execution of such other documents as may be reasonably necessary to confirm FENOC's authority to act for them and the assumption by them of their proportionate shares of the obligations to be incurred pursuant to this Agreement, but, except at FENOC's

written request or as expressly permitted by this Agreement, no Participant shall incur any obligation in connection with the Unit or Unit No. 1 Site which would or might obligate FENOC or any other Participant to any third party.

10. Section 11 is amended and shall read as follows:

The Participants understand and recognize that nuclear material and nuclear fuel assemblies for Unit No.1 may be the subject of agreements between the parties hereto relating to or resulting from joint or individual planning, scheduling and purchasing by the Participants hereto as a part of nuclear fuel arrangements for the Unit and other units owned by some or all of the Participants hereto. Subject to and in accordance with such agreements (such as the Memorandum of Understanding, dated March 31, 1985, relating to Company by Company Management of Uranium inventory and deliveries) as may exist from time to time and be applicable, each Participant shall be responsible for a percentage of the nuclear fuel requirements for the Unit equal to its generation entitlement share, and FENOC shall manage, schedule deliveries for and handle fuel to the Unit, including handling of spent fuel from shipment off-site through final reprocessing and disposal of radioactive wastes, whether under contracts entered into by FENOC with third parties or under contracts entered into prior to FENOC becoming the operator of the Unit by the Participants with third parties. Accounting for nuclear materials, nuclear fuel assemblies and fuel handling expenses shall be handled in accordance with Exhibit A attached hereto and made a part hereof.

11. Section 12 is amended to read as follows:

FENOC will prepare, revise from time to time as appropriate and furnish to each of the other Participants an annual budget showing by months to the extent possible, the expected operating and maintenance expenses, capital expenditures and retirements with respect to the Unit and Unit No. 1 Site. Any Participant may raise objections to items contained in such budget and if all Participants agree such items shall be deleted from the budget. FENOC will also prepare, revise from time to time as appropriate and furnish to the Participants projections of such budgets for such reasonably longer periods of time as may be requested by the Participants.

FENOC will make such records and keep such accounts, consistent with sound accounting practices, and will permit each of the Participants to record on its books any transactions provided for herein, in conformity with the Uniform System of Accounts prescribed for Public Utilities Commission and Licensees by

the Federal Energy Regulatory Commission ("FERC") and any state commission having jurisdiction, as such systems of accounts are now in effect or are hereafter modified or amended. The Participants and their respective independent auditors shall have access at all reasonable time to such records and accounts and FENOC will furnish copies of all or any part thereof as requested. FENOC shall preserve and maintain the originals of each of such records and accounts for at least such periods of time as any Participant may request, having in mind the requirements of regulatory authorities having jurisdiction and the policies and practices of the Participants with respect to retention of records.

FENOC shall prepare and furnish each Participant copies of continuing property records with respect to the Unit and Unit No. 1 Site in such form as is agreed to be reasonably necessary to conform to the accounting requirements of each Participant.

The cost of making, preserving and making copies of such budgets, records and accounts with respect to the Unit shall be borne by the Participants, in proportion to their respective generation entitlement shares, except that any cost incurred for the special purpose of a Participant shall be borne by such Participant.

FENOC shall have special audits conducted, as to the Unit, with respect to the matters provided for in this Agreement, either internally or by independent auditors, according to such programs and procedures as agreed to be necessary to conform to the auditing requirements of each Participant, and shall furnish copies of the reports of such audits to the Participants. The cost of making such audits, including any participation by any Participant's auditors agreed to be desirable and necessary, shall be shared by the Participants in proportion to their respective generation entitlement shares. Any Participant may, at its own expense, make such further audits, using its internal or independent auditors or both, as it may deem desirable.

12. Section 15 is amended to read as follows:

As soon as possible after the close of each calendar month, FENOC shall advise the Participants as to their respective shares of estimated operation and maintenance expenses with respect to the Unit or Unit No. 1 Site, and costs of adjustments in shares of fuel inventories and/or materials and supplies inventories for the Unit for such preceding month by FERC account numbers. Fuel expense data shall preferably be supplied on or before the fourth working day of the following month, and the other data preferably on or before the eighth working day of such month.

As soon as possible after the close of each calendar month, preferably on or before the 25th of the following month, FENOC shall prepare and deliver invoices to the Participants for their respective shares of actual fixed and variable operation and maintenance expenses and costs of adjustments in shares of fuel inventories and/or materials and supplies inventories for the Unit for such preceding month, by FERC account numbers, in accordance with Exhibit A. The amount billed shall be payable upon receipt. If such bill is not paid within fifteen days after the mailing of any such invoice, interest on any unpaid amount shall accrue from the due date of such unpaid amount and shall be paid for each month or part thereof at the higher of (a) 1%, or (b) the monthly equivalent of the current Chase Manhattan Bank Prime Rate, as published quarterly in the CAPCO Accounting and Procedure manual in effect during the period in which such account remains unpaid.

The Participants shall from time to time jointly determine and furnish on an equitable basis the amount of working capital needed for the operation and maintenance of the unit, and the shares thereof to be provided by each. If the Participants so agree, any Participant or Participants may provide all or part of the working capital share of another Participant or Participants and shall be compensated therefor, by the payment of appropriate fixed charges (as prescribed in the CAPCO Accounting and Procedures Manual.)

13. Section 18 is amended to read as follows:

FENOC shall use its best efforts to arrange for and maintain appropriate insurance to cover (a) risk of damage to or loss of the Unit or the Unit No. 1 Site and materials and supplies held for use in connection therewith, including risk of damage or loss due to a nuclear incident, (b) liability for bodily injury to, or death of, or damage to property of third persons, including liability due to a nuclear incident, arising out of the ownership, operation, use or maintenance of the Unit, and (c) such other risks as the Participants may agree shall be so covered. FENOC shall give good faith consideration to requests by a Participant for an increase in or addition to insurance maintained with respect to the Unit or the Unit No. 1 Site, provided that such increase or additional insurance is consistent with prudent utility practice. The cost of such insurance as well as any losses not covered by insurance shall be shared by the Participants in proportion to their respective generation entitlement shares in the Unit, and the Participants shall be named insured in all policies purchased thereunder.

Each Participant shall have the right to have any lessor and any assignee thereof under a sale and leaseback transaction named on all or any of the insurance policies as losses payee or additional insured as its interest may appear.

by notice in writing to FENOC given in writing not less than fifteen (15) days prior to the date proposed for such naming, which notice shall specify the name or names of such lessor and such additional information as may be necessary or required to permit it to be included on the policy(ies) or insurance.

FENOC shall assist the insurers in the investigation, adjustment and settlement or defense of all claims covered by such insurance, and shall investigate, adjust and settle or defend all claims or losses arising out of the ownership, operation, use or maintenance of the Unit or Unit No. 1 Site and not covered by insurance carried by any of the Participants, subject to approval of all Participants involved or their related Participants of any such non-insured claims, or combination of such claims arising out of the same occurrence, in excess of \$200,000.

Any Participant and FENOC may separately procure at its own cost such other insurance as it may deem appropriate. Each Participant and FENOC shall make arrangements for appropriate workers' compensation coverage for its own employees.

14. Section 16. Exhibit A is amended to change all references therein from CEI to FENOC, except the following:

Page 13 – Section II B. "Allocation of costs among CEI, DL, OE, PP and TE," and in the first paragraph thereunder.

IN WITNESS WHEREOF, the Parties hereto have caused this Amendment 2 to the Perry Unit No. 1 Operating Agreement to be executed by their duly authorized officers this _____ day of _____, 1998.

The Cleveland Electric
Illuminating Company

Ohio Edison Company

By: _____

By: _____

The Toledo Edison Company

Pennsylvania Power Company

By: _____

By: _____

Duquesne Light Company

FirstEnergy Nuclear Operating Company

By: _____

By: _____

OPERATING AGREEMENT

Perry Plant Unit No. 1

Exhibit A

Section I. Accounting Concepts

The Cleveland Electric Illuminating Company (CEI) shall record all operation and maintenance costs in accordance with the Federal Energy Regulatory Commission Uniform System of Accounts as outlined in the following schedule. All charges to accounts must be prefixed with the plant identification number. These numbers will be used to identify the particular installation that should bear the associated expenses. Plant Symbols will be used to accumulate those costs which can be associated directly with Perry Plant Unit No. 1 (PY 1). Those costs applicable to common facilities or common functions which cannot be charged directly to PY No. 1, on the basis of actual or estimated labor or other expenses, will be charged to another Plant Symbol.

The costs associated with these common facilities or functions shall then be allocated to PY No. 1, on the basis of the allocation codes listed under the Common Plant Symbol. These code definitions appear in Section II B.

The Participants in PY No. 1 shall share those costs charged directly to Plant Symbol, plus the portion of common costs which are allocated to Plant Symbol. These code definitions appear in Section II B.

Section II A. Allocation of Operation and Maintenance Costs

A more detailed description of the following accounts is in the CEI and FERC Uniform System of Accounts.

<u>FERC Acct.</u>	<u>PY Sub- Acct.</u>	<u>Description</u>	<u>Direct Charge Plus Allocation of Common Costs PY No. 1 Codes</u>	<u>Common Costs Allocated to PY No. 1 Codes</u>
<u>Operation</u>				
517-2		<u>Operation, Supervision and Engineering (See Note 1)</u> The cost of labor and expenses incurred in the general supervision and direction of the operation of nuclear power generating stations.	01	C
518		<u>Nuclear Fuel Expense</u> Owned nuclear fuel consumed - burnup expense		
518-2		Fixed consumption Cost of nuclear fuel consumed at the zero net output point of the turbine-generator heat consumption curve during all periods of zero or positive net generation.	01	-

Section II A. Allocation of Operation and Maintenance Costs

<u>FERC Acct.</u>	<u>PY Sub- Acct.</u>	<u>Description</u>	<u>Direct Charge Plus Allocation of Common Costs PY No. 1 Codes</u>	<u>Common Costs Allocated to PY No. 1 Codes</u>
<u>Operation (Cont'd)</u>				
518		<u>Nuclear Fuel Expense (Cont'd)</u>		
518-3		Variable consumption Incremental cost of nuclear fuel consumed in the production of net kWh of output above the zero net output point of the turbine-generator heat consumption curve.	HV or HQ	-
		Leased nuclear fuel consumed - burnup expense		
518-4		Fixed consumption Cost of nuclear fuel consumed at the zero net output point of the turbine-generator heat consumption curve during all periods of zero or positive net generation.	01	-
518-5		Variable consumption Incremental cost of nuclear fuel consumed in the production of net kWh of output above the zero net output point of the turbine-generator heat consumption curve.	HV or HQ	-

Section II A. Allocation of Operation and Maintenance Costs

<u>FERC Acct.</u>	<u>PY Sub- Acct.</u>	<u>Description</u>	<u>Direct Charge Plus Allocation of Common Costs PY No. 1 Codes</u>	<u>Common Costs Allocated to PY No. 1 Codes</u>
<u>Operation (Cont'd)</u>				
518		<u>Nuclear Fuel Expense (Cont'd)</u>		
		Leased nuclear fuel consumed - finance charge expense		
518-6		<u>Fixed consumption</u>	01	-
		Cost of nuclear fuel consumed at the zero net output point of the turbine- generator heat consumption curve dur- ing all periods of zero or positive net generation.		
518-7		<u>Variable consumption</u>	HW or HO	-
		Incremental cost of nuclear fuel con- sumed in the production of net kWh of output above the zero net output point of the turbine-generator heat consump- tion curve.		

Section II A. Allocation of Operation and Maintenance Costs

FERC Acct.	PY Sub- Acct.	Description	Direct Charge Plus Allocation of Common Costs PY No. 1 Codes	Common Costs Allocated to PY No. 1 Codes
<u>Operation (Cont'd)</u>				
<u>Nuclear Fuel Expense (Cont'd)</u>				
Leased nuclear fuel consumed - deferred expense amortization				
518-8		Fixed consumption	01	-
Cost of nuclear fuel consumed at the zero net output point of the turbine- generator heat consumption curve during all period of zero or positive net generation.				
518-9		Variable consumption	HV or HO	-
Incremental cost of nuclear fuel con- sumed in the production of net kWh of output above the zero net output point of the turbine-generator heat consump- tion curve.				
518-10		<u>Emergency Diesel Fuel - Oil Consumed</u>	01	-
Emergency diesel fuel oil consumed in the operation of the plant.				
519		<u>Coolants and Water (See Notes 1 and 3)</u>		
Cost of labor, materials used and expenses incurred for heat transfer materials and water used for steam and cooling purposes.				
			HY	-

Section II A. Allocation of Operation and Maintenance Costs

FERC Acct.	PY Sub- Acct.	Description	Direct Charge Plus Allocation of Common Costs PY No. 1 Codes	Common Costs Allocated to PY No. 1 Codes
<u>Operation (Cont'd)</u>				
<u>Coolants and Water (See Notes 1 and 3) (Cont'd)</u>				
519-2		Direct charges and an allocation of common costs.	01	C
519-3		Charges based on the HY factor.	HY	-
520		<u>Steam Expenses (See Notes 1 and 3)</u>		
		The cost of labor, materials used and expenses incurred in the operation of the following systems and their associated instruments, controls and switchgear, as defined in the Final Safety Analysis Report.		
520-2		Direct charges and an allocation of common costs.	01	C
520-3		Charges based on the HY factor.	HY	-
523-2		<u>Electric Expenses (See Notes 1 and 3)</u>		
		The cost of labor, materials used and expenses incurred in the operation of the main turbo-generator and auxiliary apparatus, switchgear and other electric equipment to the point where electricity leaves for conversion for transmission or distribution.	01	C

Section II A. Allocation of Operation and Maintenance Costs

FERC Acct.	PY Sub- Acct.	Description	Direct Charge Plus Allocation of Common Costs PY No. 1 Codes	Common Costs Allocated to PY No. 1 Codes
<u>Operation (Cont'd)</u>				
524-2		<u>Miscellaneous Nuclear Power Expenses (See Notes 1 and 3)</u>		
		Cost of labor, materials used and expenses incurred which are not specifically provided for or are not readily assignable to other nuclear generation operating accounts.	01	C
524-8		<u>Auxiliary Boiler - Oil Consumed</u>	01	-
		Auxiliary boiler oil consumed in the operation of the plant.		
525-2		<u>Rents</u>		
		Cost of all rents of property of others used, occupied or operated in connection with nuclear generation.	01	C
<u>Maintenance Accounts</u>				
528-2		<u>Maintenance, Supervision and Engineering (See Note 1)</u>		
		This account shall include the cost of labor and expenses incurred in the general supervision and direction of maintenance of nuclear generation facilities.	01	C

Section II A. Allocation of Operation and Maintenance Costs

PERC Acct.	PY Sub- Acct.	Description	Direct Charge Plus Allocation of Common Costs PY No. 1 Codes	Common Costs Allocated to PY No. 1 Codes
<u>Maintenance Accounts (Cont'd)</u>				
529-2		<u>Maintenance of Structures (See Notes 1 and 3)</u>		
		The cost of labor, materials used and expenses incurred in the maintenance of structures, the book costs of which are includable in Plant Account 321, Structures and Improvements.	01	C
530		<u>Maintenance of Reactor Plant and Equipment (See Notes 1 and 3)</u>		
		Cost of labor, materials used and expenses incurred in the maintenance of reactor plant, the book cost of which is includable in Plant Account 322, Reactor Plant Equipment.		
530-2		Direct charges and an allocation of common costs.	01	C
530-3		Charges based on the HY factor.	HY	-
531-2		<u>Maintenance of Electric Plant (See Note 1)</u>		
		Cost of labor, materials used and expenses incurred in the maintenance of electric plant, the book cost of which is includable in Plant Account 323, Turbo-Generator Units, and Plant Account 324, Accessory Electric Equipment.	01	C

Section II A. Allocation of Operation and Maintenance Costs

PERC Acct.	PY Sub- Acct.	Description	Direct Charge Plus Allocation of Common Costs PY No. 1 Codes	Common Costs Allocated to PY No. 1 Codes
<u>Maintenance Accounts (Cont'd)</u>				
532-2		<u>Maintenance of Miscellaneous Nuclear Plant (See Note 1)</u>		
		Cost of labor, materials used and expenses incurred in maintenance of miscellaneous nuclear generating plant, the book cost of which is includable in Plant Account 325, Miscellaneous Power Plant Equipment.	01	C
<u>Transmission Operation</u>				
562		<u>Station Expenses</u>		
	.100	Perry Station - Common		
	.110	Perry Station - Unit No. 1		
		Cost of labor, materials used and expenses incurred in the operation of the following equipment:	01	C
		The main unit step-up transformer and the high voltage connection including conductors, towers and associated facilities up to the connection between the conductors and the switch-yard structure.		

Section II A. Allocation of Operation and Maintenance Costs

<u>FERC Acct.</u>	<u>PY Sub- Acct.</u>	<u>Description</u>	<u>Direct Charge Plus Allocation of Common Costs PY No. 1 Codes</u>	<u>Common Costs Allocated to PY No. 1 Codes</u>
		<u>Transmission Maintenance (Cont'd)</u>		
		<p>Include in this account also the 138 kV towers, conductors and associated equipment which serve the station service transformers. Exclude from this allocation all equipment located within the transmission switchyard. The allocation of operating costs for equipment within the switchyard is provided for in the CAPCO Accounting and Procedure Manual, Section 05-04.</p>		
570		<u>Maintenance of Station Equipment</u>		
	.100	Perry Station - Common		
	.110	Perry Station - Unit No. 1		
		<p>Cost of labor, materials used and expenses incurred in the maintenance of the following equipment:</p> <p>The main unit step-up transformer and high voltage connection including conductors, towers and associated facilities up to the connection of the conductors with the switchyard structure.</p>	01	

Section II A. Allocation of Operation and Maintenance Costs

FERC Acct.	PY Sub- Acct.	Description	Direct Charge Plus Allocation of Common Costs PY No. 1 Codes	Common Costs Allocated to PY No. 1 Codes
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Transmission Maintenance (Cont'd)

Include in this account also the 138 kV towers, conductors and associated equipment which serve the station service transformers. Exclude from this allocation all equipment located within the transmission switchyard. The allocation of maintenance costs for equipment within the switchyard is provided for in the CAPCO Accounting and Procedure Manual, Section 05-04.

Clearing Accounts

184

Cost of labor, materials used and expenses incurred in surveillance testing and other activities which are directly related to Perry Plant Power Station and which are charged to CEI clearing accounts will be distributed monthly to appropriate Perry Plant Power Station operation and maintenance expense accounts in accordance with allocation percentages as determined by CEI. CEI will periodically review these allocation percentages for reasonableness.

Section II A. Allocation of Operation and Maintenance Costs

FERC Acct.	PY Sub- Acct.	Description	Direct Charge Plus Allocation of Common Costs PY No. 1 Codes	Common Costs Allocated to PY No. 1 Codes
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Clearing Accounts (Cont'd)

163-100 Perry Warehouse Operation and Maintenance

Costs relating to purchasing, material control - handling - inspection - quality and safety control for such activities and storeroom maintenance exclusively for Perry Plant will be charged to this account.

Note 1: Charges made to the primary accounts will include distributions from clearing accounts for such costs as direct supervision, clerical and secretarial activities, paid time not worked and plant stores handling costs for all Perry employees not on the Treasurer's Payroll.

Note 2: Accounts used follow those prescribed by the PERC Uniform System of Accounts. If the PERC changes their System in the future, Perry Plant accounting will follow the changed system.

Note 3: See PERC and the CEI Uniform Systems of Accounts for the appropriate charges to these accounts.

Section II B. Allocation Codes and Explanations

Allocation of Common Costs to Perry Plant
Unit No. 1

The basis for allocating common costs to Perry Plant Unit No. 1 is as follows:

CODE

- C The portion of the cost to be allocated to Perry Plant Unit No. 1 shall be the quotient of (a) the prevailing Net Demonstrated Capability of Perry Plant Unit No. 1 divided by (b) the sum of the Net Demonstrated Capability of Perry Plant Unit No. 1. All common costs are therefore allocated to Unit No. 1.

Allocation of Costs Among CEI, DL, OE, PP and TE

The bases for allocating among the Participants the sum of those costs which are charged to Perry Plant Unit No. 1 and the portion of the common costs which are allocated to Perry Plant Unit No. 1 are as follows:

- 01 The costs shall be allocated among the Participants in proportion to their present respective generation entitlement share in Unit No. 1 are as follows: 31.11% to CEI, 13.74% to DL, 30.00% to OE, 5.24% to PP and 19.91% to TE.

- HV The costs during the current month shall be allocated to a Participant in proportion to a fraction, the numerator of which is the variable portion of the Btu input to the main unit turbine used to produce the kilowatthours of energy taken by that Participant during the current month, and the denominator of which is the variable portion of the Btu input used in producing all of the kilowatthours of energy taken by all of the Participants during that same month; these Btu inputs being calculated hourly and accumulated monthly in accordance with the principles of allocation of heat consumption set forth in Section III.
- HY The costs during the current month shall be allocated to a Participant in proportion to a fraction, the numerator of which is the total Btu of energy consumed by that Participant during the preceding twelve-month period and the denominator of which is the total Btu of energy consumed by all Participants during that same preceding twelve-month period.
- HO The costs during the current month shall be computed by using Participant's costs. These costs will be accumulated by the operating company to arrive at the total unit cost.

Section III. Fuel

Nuclear Fuel

The quantities of nuclear fuel materials required for efficient operation of the Unit shall be owned or leased by the Participants of Perry Plant Unit No. 1 in percentage shares equaling the respective generation entitlement share in the Unit in which the fuel materials are intended to be used. As the quantity of fuel is consumed, any imbalance in nuclear fuel materials shall be adjusted monthly to the generation entitlement share in the Unit. Monthly calculation of the cost of the fuel consumed may be done by the operating Participant or by each Participant. Since the cost of fuel may be different for each Participant, total fuel cost shall be determined by adding each Participant's cost. At the beginning of each month, each Participant's unamortized value in nuclear fuel materials must be in proportion to that Participant's share of the original cost of fuel. Each Participant's share of the original cost need not be equal to that Participant's generation entitlement share in the Unit. Adjustments to maintain such proportional unamortized value will be made monthly in accordance with Section VI of this Exhibit.

The accounting for owned or leased nuclear fuel will be in accordance with the PERC Uniform System of Accounts.

The following basic principles shall govern the calculation of depletion (amortization) of fuel assemblies installed in the reactor for heat production.

1. Nuclear fuel assemblies shall be considered to be producing heat only during periods of zero or positive net generation.
2. During periods of negative net generation, it will be considered that installed nuclear fuel assemblies are not producing heat and are not thus consumed. During periods of negative net generation, records of station service electric energy supplied by the system shall be maintained and the Participants in the Unit shall be invoiced for such electric energy in proportion to their generation entitlement share in the Unit at the operating Participant's system average production cost (including net purchased power costs) during the current calendar month¹ adjusted to exclude the output and cost during the current calendar month of the Unit to which such station service energy was supplied.
3. During periods of zero or positive net generation, the components of consumption of heat from nuclear fuel assemblies shall be considered to consist of a fixed heat consumption component and a variable heat consumption component. The components of heat consumption are illustrated by the current turbine-generator heat consumption curve for the Unit as agreed to by the Participants. The fixed portion of heat consumption consists of the heat produced by the reactor required to supply station service electric energy plus heat losses in the plant.

¹ Note: Estimated costs will be used for the current month's calculation and an adjustment, based upon the deviation of estimated vs. actual costs, will be made in the next succeeding month's billing.

4. During periods of zero or positive net generation, the fixed and variable portions of the total unit heat consumption shall be calculated on an hour-by-hour basis. The fixed portion of the Unit heat consumption shall be the product of service hours accumulated during periods of zero or positive net generation times the fixed unit heat consumption as indicated on the current turbine-generator heat consumption curve for the Unit as agreed to by the Participants. The variable portion of the unit heat consumption shall be the total net main unit generation in Mw_g hr/hr converted to Btu/hr, excluding the fixed unit heat consumption, utilizing the relationship between Mw_g hr/hr versus Btu/hr as represented on the current turbine-generator heat consumption curve for the Unit as agreed to by the Participants. The total unit heat consumption shall be the sum of fixed and variable portions of the unit heat consumption. The portion of the cost of nuclear fuel consumed to be considered to be attributable to fixed unit heat consumption for each Participant shall be the total cost for each Participant of nuclear fuel consumed times a fraction, the numerator of which is the monthly fixed unit heat consumption and the denominator of which is the total monthly unit heat consumption. The portion of the cost of nuclear fuel consumed to be attributable to variable heat consumption for each Participant shall be the total cost of nuclear fuel consumed for each Participant minus the portion of the cost of nuclear fuel consumed attributable to fixed unit heat consumption for each Participant.

5. In determining the cost of nuclear fuel consumed, costs shall be calculated using amortization in proportion to main unit heat consumption, such cost taking into account the original acquisition cost for each Participant of the materials and services required to provide the fuel as originally installed, the predicted total heat output of the assemblies and the estimated net value of salvage materials. Each Participant may calculate its share of the cost of nuclear fuel consumed or, if requested, CEI shall calculate such cost of nuclear fuel consumed using methods and/or computer codes considered acceptable by the Participants for this purpose.
6. For owned nuclear fuel, the monthly nuclear fuel expense shall be determined by the formula:

$$FC_c = \frac{E_c}{E_f} (A_c - S_f)$$

where:

- FC_c = Nuclear fuel expense during the current accounting month.
- E_c = The energy, in Btu, produced during the current accounting month.
- E_f = The energy, in Btu, expected to be produced from the beginning of the current accounting month until the estimated end of life of the fuel.
- A_c = The unamortized value of the fuel as reflected by the difference between the balances in Accounts 120.3 (Nuclear fuel assemblies in reactor) and 120.5 (Accumulated provision for amortization of nuclear fuel assemblies) at the beginning of the current accounting month.
- S_f = Anticipated salvage value of the fuel with related deductions including, but not limited to, shipping, reprocessing and waste disposal costs.

7. The monthly charge to expense for leased nuclear fuel consumed is composed of (a) a burnup expense related to energy resource consumption, (b) a finance charge expense on either a current or levelized basis, and, if appropriate, (c) amortization of accumulated deferred expenses.

a. Monthly Burnup Expense

The monthly burnup expense shall be calculated as follows:

$$B_c = \frac{E_c}{E_f} (C_c - S_f)$$

where:

- B_c = Burnup expense for the current accounting month.
- E_c = The energy, in Btu, produced during the current accounting month.
- E_f = The energy, in Btu, expected to be produced from the beginning of the current accounting month to the end of life of the fuel.
- C_c = The lessor's net investment (acquisition cost as defined in the lease agreement less burnup expenses prior to the current accounting month) at the beginning of the current accounting month.
- S_f = Anticipated lessors net investment at the end of the lease-term, representing the salvage value of the fuel with related deductions including, but not limited to, shipping, reprocessing and waste disposal costs.

b. Monthly Finance Charge Expense

At the election of each Participant, which election may be made separately for each batch of nuclear fuel, the monthly finance charge expense may be calculated in either of the following two ways:

1. Current finance charge expense. The amount paid or payable to the lessor in the current month for finance charges.

$$F_c = R_c C_c$$

- ii. Levelized finance charge expense. The current month's share, apportioned on energy resource consumption, of all finance charges to be paid or payable to the lessor for finance charges over the remaining life of the fuel including such charges for the current month.

$$F_c = \frac{E_c}{E_f} [(R_c C_c) + (R_{c+1} C_{c+1}) + \dots + (R_f C_f)]$$

where:

- F_c = The finance charge expense in the current accounting month.
- E_c = The energy in Btu produced in the current accounting month.
- E_f = The energy in Btu expected to be produced from the beginning of the current accounting month to the end of the lease term.
- R_i = The actual or estimated lease rate in month i, expressed as the decimal equivalent of percent per month, as defined in the lease agreement or as calculated to produce total monthly costs of financing including any financing related fees. R_c is the rate for the current month and R_f is the rate for the final month of the lease term.
- C_i = The lessor's actual or estimated net investment at the beginning of month i (acquisition cost as defined in the lease agreement less burnup payments made to the lessor prior to month i). C_c is the value at the beginning of the current month and C_f is the value at the beginning of the final month of the lease term.

c. Monthly Amortization of Deferred Expense

The monthly amortization of deferred expense shall be calculated as follows:

$$DA_c = \frac{E_c}{E_f} (D_p + D_a)$$

where:

- DA_c = The amortization of deferred expense during the current accounting month.
- E_c = The energy, in Btu, produced during the current accounting month.
- E_f = The energy, in Btu, expected to be produced from the beginning of the current accounting month to the end of the life of the fuel.

- D_p - The unamortized portion at the beginning of the current accounting month of the deferred expense related to the period prior to the beginning of commercial operation of the leased nuclear fuel.
- D_a - The unamortized portion at the beginning of the current accounting month of the deferred expense related to the period after the beginning of commercial operation of the leased nuclear fuel.

Oil

Oil required for operating the Unit shall be procured by CEI. Oil which is purchased prior to beginning of commercial operation of Unit No. 1 is charged to the project work order. Prior to commercial operation of Unit No. 1, a physical inventory of oil at the site will be conducted by CEI. Subsequently, such oil will be transferred from the project work order to Account 151 (Fuel Stock - Oil). Oil which is purchased after the commercial operation date of Unit No. 1 will be charged directly to Account 151.

Monthly oil usage shall be credited to Account 151 and charged to the following operation expense accounts:

A/C 518-10 - Emergency Diesels - Fuel Consumed

A/C 524-8 - Auxiliary Boiler - Oil Consumed

Each Participant's share of the oil inventories at the beginning of each month must be equal to that Participant's generation entitlement share. Adjustments to maintain such proportional ownership will be made monthly in accordance with Section VI of this Exhibit.

Section IV. Materials and Supplies

Materials and supplies required for the operation and maintenance and subsequent construction of the Unit shall be procured by CEI. Materials and supplies which are purchased prior to the beginning of commercial operation of Perry Plant Unit No. 1 are charged to the project work order. Prior to commercial operation of Unit No. 1, a physical inventory of materials and supplies at the site will be conducted by CEI. Subsequently, such materials and supplies will be transferred from the project work order to Account 154 (Plant Materials and Operating Supplies). Materials and supplies which are purchased after the commercial operation date of Unit No. 1 will be charged directly to Account 154.

Monthly materials and supplies usage shall be credited to Account 154 and charged to the appropriate operation and maintenance expense accounts, as described in Section II 8 and subsequent construction as defined in the Subsequent Construction Agreement.

Each Participant's share of the materials and supplies inventory at the beginning of each month must be equal to that Participant's generation entitlement share in the unit. Billing adjustments to maintain such proportional generation entitlement share will be made monthly in accordance with Section VI of this Exhibit.

Section V. Other Expenses

For intercompany billing purposes, labor and material additive costs at current rates prevailing at CEI as adjusted from time to time shall be added to the labor and material components of operation and maintenance costs of Perry Plant Unit No. 1 to which such rates are applicable and shall be shared by the Participants on the same basis on which the primary labor and material costs are shared.

In addition, an allocation will be made of Account 556, System Control and Load Dispatching Costs Related to Production, and Account 557, Other Production Expenses. These costs would be allocated to Perry Plant Unit No. 1 on a direct basis where a direct relationship exists, or on a net generating capability ratio when a direct relationship does not exist. Account 556 will include only those load dispatching costs incurred by CEI that are attributable to the Perry Plant Unit No. 1. Included in Account 557, Other Production Expenses, are other production expenses not directly assignable to the other production accounts. These costs included in Account 557 may be charged directly where a direct relationship exists or, if not, they may be allocated on a net generating capability basis. The invoice will identify amounts billed that were included in Account 557.

For intercompany billing purposes, administrative and general (A&G) expenses shall be allocated to Perry Plant Unit No. 1 on the basis of the composite three-year moving average ratio for CEI calculated at the end of each calendar year in accordance with the following formula to become effective on July 1 of the following year.

$$\frac{L_{a1} (1 + p/P) + O_{a1}}{(L_{e-a2} - L_{a2}) (1 + p/P) + (O_{e-a2} - O_{a2})}$$

In which:

L_{a1} and O_{a1} = The three-year sums of direct labor expense and direct other-than-labor expense, respectively, charged to the following accounts:

1. Account 920, Administrative and General Salaries.
2. Account 921, Office Supplies and Expenses.
3. Account 922, Administrative Expenses Transferred - Credit, excluding (1) any reduction for A&G costs billed to other Participants, and (2) any increases for A&G costs paid to other Participants.

$(1 + p/P)$ = A cost ratio by means of which those expenses directly associated with payroll (labor additives) may be added to direct labor charges.

p = The three-year sum of the following labor additives:

1. Payroll Taxes
 - Federal Old-Age Benefits
 - Federal Unemployment Insurance
 - State Unemployment Insurance
2. Workers' Compensation and/or Injuries and Damage (Payroll related costs only)
3. Employee Pensions and Benefits (Account 926)
4. Pay for Time Not Worked

Exclude any labor additives which are included with the basic direct labor charges, examples of which might be "Pay for Time Not Worked" or "Payroll Taxes."

- P = The three-year sum of the total payroll with which the above labor additives are associated.
- L_e and O_e = The three-year sums of direct labor expense and direct other-than-labor expense, respectively, charged to all operation and maintenance expense accounts except accounts for fuel and purchased/interchange power for the entire Company, excluding (1) any reduction for direct labor expense and other-than-labor expense billed to other Participants, and (2) any increases for direct labor expenses and other-than-labor expenses paid to other Participants.
- L_{a2} and O_{a2} = The three-year sums of direct labor expenses and direct other-than-labor expense, respectively, charged to all Administrative and General Expense Accounts 920 through 935, inclusive.

The amount of administrative and general expenses to be allocated to each Participant during a given period shall be the product of the above ratio multiplied by the total operation and maintenance expenses and labor additives, excluding Account 518, allocated to the Participant for that period.

Payroll Additives on Direct Labor Cost

Payroll additives on direct labor costs will be computed using the same components as used in the $l + p/P$ basis, except it will be a monthly rate on a one-month lag basis.

Section VI. Billing

The monthly bill for operation and maintenance expenses will include costs for materials and supplies, oil and nuclear fuel and other operation and maintenance expenses.

1. Materials and Supplies (M&S) and Oil Supplies

CEI shall procure M&S and Oil and pay vendors all payments as they become due and shall promptly bill the Participants in the unit for their respective shares of such procurements.

Since the Participants in the Unit will own M&S and Oil inventory in proportion to their generation entitlement share in the unit, the Participants will be given credit on the monthly bill for their share of the M&S and Oil which were consumed and charged to expense during the billing period. Included in the monthly bill will be charges or credits for M&S and Oil necessary to maintain, at the beginning of each month, the Participant's remaining generation entitlement share in M&S and Oil in proportion to their original generation entitlement share in M&S and Oil.

2. Nuclear Fuel

Nuclear fuel may be owned or leased. With respect to the procurement of owned nuclear fuel for the Unit, CEI will pay vendors payments as they become due having received from the Participants on the business day

on or before the payment date the Participants' respective shares of such payments; or each Participant may pay and accumulate the costs of fuel they purchase for the Unit. With respect to the procurement of leased nuclear fuel, CEI as agent for the Participants, may instruct the lessor for the Unit to make payments to vendors as they become due; or each Participant may instruct its individual lessor to make payments as they become due.

If the fuel is leased and CEI is the agent of the lease, CEI will pay to the lessors all payments as they become due, having received from the Participants their respective shares of such payments on or before the payment date. If the Participants utilize their own lease agreements they will pay their respective shares of the lease costs directly to the lessors.

CEI shall make payments for the disposal of spent nuclear fuel from the Unit in accordance with the U.S. Department of Energy Contract No. DE-CR01-85 RW00046, having received from the Participants in the Unit their respective shares of such payments on the business day prior to the payment date.

Included in the monthly bill will be adjustments between Participants of nuclear fuel expenses necessary to maintain, at the beginning of each month, the Participants' remaining owned shares or lease shares in the in-core value of nuclear fuel in proportion to their original cost of owned shares or lease shares of the in-core value of nuclear fuel.

If any Participant chooses to compute its share of amortization and expense, CEI will furnish such Participant with heat consumption and megawatt-hour data as appropriate and the Participant will perform such computation and furnish CEI with the results to accumulate the total cost of fuel consumed. If a Participant elects to have CEI compute its share of amortization and expense and the Participant is supplying its own individual lease financing, such Participant will furnish CEI with financing charge data and CEI will furnish such Participant with the results of the computation.

3. Monthly Operation and Maintenance Expense

CEI will bill the Participants in Perry Plant Unit No. 1 monthly for their respective shares of operation and maintenance expenses for the Unit.

NOTE: Costs of subsequent construction will be billed separately in accordance with the Subsequent Construction Agreement and will not be part of the Operation and Maintenance bill.

OPERATING AGREEMENT

Perry Unit No. 1

This Agreement, dated March 10, 1987, entered into by and between The Cleveland Electric Illuminating Company, an Ohio corporation ("CEI"); Duquesne Light Company, a Pennsylvania corporation ("DL"); Ohio Edison Company, an Ohio corporation ("OE"); Pennsylvania Power Company, a Pennsylvania corporation ("PP"); and The Toledo Edison Company, an Ohio corporation ("TE") (sometimes collectively referred to herein as the "Participants" and individually as a "Participant").

WITNESSETH:

1. CEI, DL, OE, PP and TE have provided for the construction on a tract of land, known as the Perry site and consisting of approximately 1,100 acres located near Lake Erie in North Perry Village and Perry Township, Lake County, Ohio, of a nuclear electric generating unit, having a net rated capacity in the 1,200,000 kilowatt class, known as "Unit No. 1" or the "Unit".

The Unit was constructed pursuant to a Construction Agreement among the Participants dated July 22, 1974 (hereinafter sometimes referred to as the "Construction Agreement"), as amended by the Memorandum Agreement dated January 29, 1975 relating to capacity deferrals, the Memorandum Agreement dated November 15, 1978 relating to schedule changes in construction, the Memorandum Agreement dated July 1, 1981 relating to schedule changes in construction and ownership changes, and the Memorandum of Agreement dated September 20, 1982 relating to amendments to construction and operating agreements. As of the date of execution and delivery hereof, the Unit is owned by CEI, DL, OE, PP and TE as tenants in common with undivided interests of 31.11%, 13.74%, 30.00%, 5.24% and 19.91%, respectively.

The term "Unit No. 1" and the word "Unit" as used in this Agreement, shall mean and include such Unit and the common facilities allocable thereto. The interests in land associated with the Unit referenced above are referred to as the "Unit No. 1 Site".

This Agreement provides for the operation and maintenance of all or any portion of Unit No. 1 from its date of commercial operation and thereafter.

2. Subject to matters requiring joint action as specifically provided herein or as required by law, CEI, on its own behalf and on behalf of DL, OE, PP and TE, shall operate and maintain the Unit and Unit No. 1 Site, provide necessary materials and

supplies including fuel as provided in Section 11, and make any additions, replacements and retirements with respect to the Unit, taking all steps which it deems necessary or appropriate to carry out the provisions of this Agreement, all in accordance with sound engineering and operating principles and practices and applicable laws, codes and regulations; provided that, with respect to the Unit, additions, replacements and retirements involving material changes in capability, useful life, basic methods of operation of the Unit and similar matters, and not included in the budget with respect to the Unit approved in accordance with Section 12 hereof and not of any emergency nature, shall be made only upon mutual agreement of the Participants. Retirements with respect to the Unit shall be effected only in a manner consistent with any applicable provisions of the respective mortgage indentures of the Participants or any financing lease relating to the Unit and the interests therein to which a Participant is a party, copies of which will be provided to all Participants).

3. Each Participant shall be entitled to its generation entitlement share of the hour-to-hour net operating capacity of the Unit as determined by CEI, and the energy associated therewith. The initial generation entitlement share of the original Participants shall be as follows: CEI 31.11%, DL 13.74%, OE 30.00%, PP 5.24% and TE 19.91%. Generation entitlement shares may be assigned and modified in accordance with Section 25 hereof.

4. CEI will keep the Participants informed as to the expected maximum hour-to-hour net operating capacity of the Unit

permissible for proper operation of the Unit, as determined by CEI, as it may vary in accordance with conditions existing from time to time. Each Participant shall reserve its desired share of capacity in the Unit and schedule its desired share of energy associated therewith, on an hour-to-hour basis, up to the limits of its generation entitlement share, all in accordance with procedures to be agreed upon by the Participants. Subject to necessary outages or reductions in capability, the Unit shall be operated by CEI so as to produce capacity and energy equal to the sums of the capacity reserved and energy scheduled by the Participants. CEI shall exercise its best efforts to achieve a balance between the scheduled output of the Unit and its actual output, and any imbalances shall be recorded and appropriate adjustments made periodically to reduce such imbalances.

5. CEI will keep the Participants informed as to the expected minimum net generation for proper operation of the Unit, as determined by CEI, as it may vary in accordance with conditions existing from time to time. At any time when the Unit is operated at the level of such minimum net generation, each Participant shall schedule an amount of energy from the Unit equal to its percentage generation entitlement share specified in Section 3 of such minimum net generation, provided that if any Participant shall schedule more than its generation entitlement share of such minimum net generation, the other Participants shall schedule not less than the balance of such minimum net generation in proportion to their generation entitlement shares.

6. The Participants authorize CEI to provide and CEI shall provide a staff of competent engineering, supervisory, operating and maintenance, and other appropriate personnel to operate and maintain the Unit and the Unit No. 1 Site. Such staff and all other employees of CEI performing work in connection with the operation and maintenance of the Unit and Unit No. 1 Site shall be, and for all purposes shall be considered to be, employees only of CEI. Such staff and employees shall receive their instructions and orders only from appropriate officials of CEI.

7. Subject to any applicable restrictions contained in Sections 2 and 11, the Participants hereby appoint CEI as their agent in respect of the Unit and Unit No. 1 Site, and CEI agrees as the agent of such Participants and as principal on its own behalf, to negotiate, execute and enforce contracts (including purchase order contracts), either in CEI's name only or in the name of CEI on its own behalf and as agent for the Participants, providing for the purchase of materials, equipment and services for the operation and maintenance of the Unit and the Unit No. 1 Site, including the provision of nuclear material and nuclear fuel assemblies in connection with the operation of the Unit and the obtaining of necessary governmental authorizations therefor. The Participants hereby ratify and confirm all contracts entered into by CEI prior to the execution of this Agreement relating to the operation or maintenance of the Unit or Unit No. 1 Site.

8. Scheduled maintenance of the Unit shall be performed by CEI in accordance with the CAPCO Basic Operating Agreement as amended September 1, 1980 among CEI, DL, OE, PP and TE, and as subsequently amended, or any extension thereof or successor agreement thereto.

9. CEI shall keep the Participants informed concerning the operation and maintenance of the Unit and Unit No. 1 Site and CEI's plans with respect thereto, but no failure of CEI to provide information pursuant to the provisions of this Section shall relieve any Participant of any of their obligations under this Agreement.

CEI shall accord each of the Participants access to the Unit and Unit No. 1 Site at all reasonable times and in accordance with established safety and security procedures in order that their representatives may examine the Unit and Unit No. 1 Site and observe the operation of the Unit. On request therefor, CEI shall supply each Participant with copies of any regular and special reports on the operation, maintenance and condition of the Unit and Unit No. 1 Site, whether made by employees of CEI or by other engineers, consultants or advisers. The Participants shall consult from time to time as to the operation and maintenance of the Unit and Unit No. 1 Site and CEI shall consider any proposal or suggestion of the other Participants with respect thereto.

Each Participant may at its own expense provide and maintain communication, telemetering and control equipment connected to CEI's System Dispatch Office necessary (1) to monitor the Unit,

(2) to integrate its generation entitlement share from the Unit with its control of its other sources of generation, or (3) if and when the Unit is automatically regulated by CEI, to participate in the regulation of the Unit. Such equipment and its operation shall be subject to, and shall not interfere with, CEI's control of the Unit and shall not unduly affect the operation of the Unit or the system of any Participant.

10. The Participants will cooperate with CEI in all activities in connection with the Unit and Unit No. 1 Site, including, without limitation, the filing of applications for authorizations, permits and licenses, and the execution of such other documents as may be reasonably necessary to confirm CEI's authority to act for them and the assumption by them of their proportionate shares of the obligations to be incurred pursuant to this Agreement, but, except at CEI's written request or as expressly permitted by this Agreement, no such other Participant shall incur any obligation in connection with the Unit or Unit No. 1 Site which would or might obligate CEI or any other Participant to any third party.

11. The Participants understand and recognize that nuclear material and nuclear fuel assemblies for Unit No. 1 may be the subject of agreements between the parties hereto relating to or resulting from joint or individual planning, scheduling and purchasing by the Participants hereto as a part of nuclear fuel arrangements for the Unit and other units owned by some or all of the Participants hereto. Subject to and in accordance with such

agreements (such as the Memorandum of Understanding, dated March 31, 1985, relating to Company by Company Management of Uranium inventory and deliveries) as may exist from time to time and be applicable, each Participant shall be responsible for a percentage of the nuclear fuel requirements for the Unit equal to its generation entitlement share, and CEI shall manage, schedule deliveries of and handle fuel supplies to the Unit, including handling of spent fuel from shipment off-site through final reprocessing and disposal of radioactive wastes, whether under contracts entered into by CEI with third parties or under contracts entered into prior to the execution of this Agreement by the Participants with third parties. Accounting for nuclear materials, nuclear fuel assemblies and fuel handling expenses shall be handled in accordance with Exhibit A attached hereto and made a part hereof.

12. CEI will prepare, revise from time to time as appropriate and furnish to each of the other Participants an annual budget showing by months to the extent possible, the expected operating and maintenance expenses, capital expenditures and retirements with respect to the Unit and Unit No. 1 Site. Any Participant may raise objections to items contained in such budget and if all Participants agree such items shall be deleted from the budget. CEI will also prepare, revise from time to time as appropriate and furnish to the Participants projections of such budgets for such reasonably longer periods of time as may be requested by the Participants.

CEI will make such records and keep such accounts, consistent with sound accounting practices, as will permit each of the Participants to record on its books any transactions provided for herein, in conformity with the Uniform System of Accounts prescribed for Public Utilities Commission and Licensees by the Federal Energy Regulatory Commission ("FERC") and any state commission having jurisdiction, as such systems of accounts are now in effect or are hereafter modified or amended. The Participants and their respective independent auditors shall have access at all reasonable times to such records and accounts and CEI will furnish copies of all or any part thereof as requested. CEI shall preserve and maintain the originals of each of such records and accounts for at least such periods of time as any Participant may request, having in mind the requirements of regulatory authorities having jurisdiction and the policies and practices of the Participants with respect to retention of records.

CEI shall prepare and furnish each Participant copies of continuing property records with respect to the Unit and Unit No. 1 Site in such form as is agreed to be reasonably necessary to conform to the accounting requirements of each Participant.

The cost of making, preserving and making copies of such budgets, records and accounts with respect to the Unit shall be borne by the Participants in proportion to their respective generation entitlement shares, except that any costs incurred for the special purpose of a Participant shall be borne by such Participant.

CEI shall have special audits conducted, as to the Unit, with respect to the matters provided for in this Agreement, either internally or by independent auditors, according to such programs and procedures as agreed to be necessary to conform to the auditing requirements of each Participant, and shall furnish copies of the reports of such audits to the Participants. The cost of making such audits, including any participation by any Participant's auditors agreed to be desirable and necessary, shall be shared by the Participants in proportion to their respective generation entitlement shares. Any Participant may, at its own expense, make such further audits, using its internal or independent auditors or both, as it may deem desirable.

13. All costs and expenses contemplated by this Agreement, including overheads, directly or indirectly associated with the operation and maintenance of the Unit or Unit No. 1 Site, whether incurred by any or all of the Participants shall be shared by the Participants in accordance with Exhibit A.

The type of administrative and general costs set forth in the CAPCO Accounting and Procedure Manual in use at the time such costs are incurred by CEI shall be allocated by it among the total of all of generating stations operated by it, including the Unit, utilizing the bases of allocation set forth in the CAPCO Accounting and Procedure Manual. If requested, any Participant will make such examinations, analyses or studies as would go to support the

reasonableness of the specific costs so allocated to the Unit or provide a basis for modification to achieve such reasonableness with respect to either the specific costs or the total administrative and general expense allocation. Shareable costs which are incurred by the Participants with respect to the Unit shall be accumulated and billed by CEI on a direct charge basis drawn from specific records or reasonable estimates with applicable additives as agreed upon by the Participants.

Except as otherwise provided above, the accounting methods and practices normally in use at the time by each of the Participants in determining and assigning operating and maintenance costs and expenses, generally, are to be used by such Participant for the purposes of this Agreement, unless otherwise agreed, provided such methods and practices are consistent with sound accounting practices.

14. It is the intent of the Participants that so far as possible each shall separately report, file, be responsible for and pay all property, franchise, business or other taxes applicable to its interest (whether owned or leased) in the Unit or Unit No. 1 Site. To the extent that such taxes may be levied on or assessed against the Unit or Unit No. 1 Site or its operation, or the owners or their related Participants in such manner as, in the opinion of the Participants, makes impracticable or inequitable the carrying out of said intent, then such taxes shall be deemed a part of the cost or expense of the Unit or Unit No. 1 Site or the operation of the Unit.

15. As soon as possible after the close of each calendar month, CEI shall advise the Participants as to their respective shares of estimated operation and maintenance expenses with respect to the Unit or Unit No. 1 Site, and costs of adjustments in shares of fuel inventories and/or materials and supplies inventories for the Unit for such preceding month by FERC account numbers. Fuel expense data shall preferably be supplied on or before the fourth working day of the following month, and the other data preferably on or before the eighth working day of such month.

As soon as possible after the close of each calendar month, preferably on or before the 25th of the following month, CEI shall prepare and deliver invoices to the Participants for their respective shares of actual fixed and variable operation and maintenance expenses and costs of adjustments in shares of fuel inventories and/or materials and supplies inventories for the Unit for such preceding month, by FERC account numbers, in accordance with Exhibit A. The amount billed shall be payable upon receipt. If such bill is not paid within fifteen days after the mailing of any such invoice, interest on any unpaid amount shall accrue from the due date of such unpaid amount and shall be paid for each month or part thereof at the higher of (a) 1%, or (b) the monthly equivalent of the current Chase Manhattan Bank Prime Rate, as published quarterly in the CAPCO Accounting and Procedure Manual in effect during the period in which such amount remains unpaid.

The Participants shall from time to time jointly determine and furnish on an equitable basis the amount of working capital needed for the operation and maintenance of the Unit, and the shares thereof to be provided by each. If the Participants so agree, any Participant or Participants may provide all or part of the working capital share of another Participant or Participants and shall be compensated therefor by the payment of appropriate fixed charges (as prescribed in the CAPCO Accounting and Procedures Manual.)

16. No Participant shall be liable to any other Participant for any loss, cost, damage or expense incurred by any Participant as a result of any action or failure to act by any other Participant in connection with the ownership, operation, use or maintenance of Unit No. 1, except for any action not taken in good faith and prejudicing any Participant for the benefit of another Participant.

17. If by reason of any liability to third persons arising out of the ownership, operation, use or maintenance of any property which is the subject of this Agreement (including personal injury to and death of third persons and damage to property, but other than liability under the Workers' Compensation Laws of Ohio), any Participant shall be called upon to make any payment or incur any obligation in greater percentage of the total liability than its proportionate generation entitlement share in the Unit, the other Participants shall indemnify and reimburse such Participant in such amount as will cause each Participant to share such liability in

proportion to its generation entitlement share, irrespective of the negligence of any Participant.

18. CEI shall use its best efforts to arrange for and maintain appropriate insurance to cover (a) risk of damage to or loss of the Unit or the Unit No. 1 Site and materials and supplies held for use in connection therewith, including risk of damage or loss due to a nuclear incident, (b) liability for bodily injury to, or death of, or damage to property of third persons, including liability due to a nuclear incident, arising out of the ownership, operation, use or maintenance of the Unit, and (c) such other risks as the Participants may agree shall be so covered. CEI shall give good faith consideration to requests by a Participant for an increase in or addition to insurance maintained with respect to the Unit or the Unit No. 1 Site, provided that such increase or additional insurance is consistent with prudent utility practice. The cost of such insurance as well as any losses not covered by insurance shall be shared by the Participants in proportion to their respective generation entitlement shares in the Unit, and the Participants shall be named insureds in all policies purchased hereunder.

Each Participant shall have the right to have any lessor and any assignee thereof under a sale and leaseback transaction named on all or any of the insurance policies as loss payee or additional insured as its interest may appear, by notice in writing to CEI given in writing not less than fifteen (15) days prior to the date proposed for such naming, which notice shall specify the name or names of such

lessor and such additional information as may be necessary or required to permit it to be included on the policy(ies) of insurance.

CEI shall assist the insurers in the investigation, adjustment and settlement or defense of all claims covered by such insurance, and shall investigate, adjust and settle or defend all claims or losses arising out of the ownership, operation, use or maintenance of the Unit or Unit No. 1 Site and not covered by insurance carried by any of the Participants, subject to approval of all Participants involved or their related Participants of any such non-insured claim, or combination of such claims arising out of the same occurrence, in excess of \$200,000.

Any Participant may separately procure at its own cost such other insurance as it may deem appropriate. Each Participant shall make arrangements for appropriate workers' compensation coverage for its own employees.

19. No Participant shall be considered to be in default in the performance of any of its obligations hereunder (other than obligations to pay money) if failure of performance shall be due to uncontrollable forces. The term "uncontrollable forces" shall mean any cause beyond the control of the Participant affected, including but not limited to failure of facilities, flood, earthquake, storm, fire, lightning, epidemic, war, riot, civil disturbance, labor dispute, sabotage, restraint by Court order or public authority, or inability to obtain necessary licenses, permits or other governmental authorizations. Nothing contained herein shall be construed so as to require a Participant to settle any strike or labor dispute in which

it may be involved. Any Participant which is unable to fulfill any obligation by reason of uncontrollable forces shall exercise due diligence to remove such inability with all reasonable dispatch.

20. The duties, obligations and liabilities of the Participants are intended to be several and not joint or collective, and nothing in this Agreement shall ever be construed to create an association, joint venture, trust or partnership, or to impose a trust or partnership duty, obligation or liability on or with regard to any of the Participants. Each Participant shall be individually responsible for its own obligations as herein provided; provided however, that as between PP and OE on the one hand, and each of the other Participants, the liability and responsibility for the performance of any obligation of PP hereunder shall be the joint and several responsibility of PP and OE. No Participant shall be under the control of or shall be deemed to control any other Participant, nor shall the Participants be deemed an entity by virtue of this Agreement. No Participant shall have a right or power to bind any other Participant without its express written consent, except as expressly provided in this Agreement.

21. The Participants will elect to be excluded from the application of Subchapter "K" of Chapter 1 of Subtitle "A" of the Internal Revenue Code of 1986, as amended, or such portion or portions thereof as may be permitted or authorized by the Secretary of the Treasury or his delegate insofar as such subchapter or any

portion or portions thereof may be applicable to the Participants under this Agreement.

22. No Participant shall permit any unsatisfied liens to remain in effect against the Unit or Unit No. 1 Site, or fuel or materials and supplies acquired in connection with operation and maintenance thereof (other than the lien of its mortgage, liens permitted by its mortgage, liens for taxes and assessments not yet delinquent, liens associated with the financings of fuel and liens created by or in connection with any sale or leaseback transaction permitted by Section 25); provided that a Participant shall not be required to pay or discharge any such lien so long as it in good faith shall be contesting the same in a proceeding during which the collection or enforcement of such contested lien is stayed or otherwise not permitted.

23. Failure of any Participant to insist upon strict performance of any of the provisions of this Agreement, or to take advantage of any of its rights hereunder shall not be construed as a waiver of any such provisions, or a relinquishment of any such rights, but the same shall continue to remain in full force and effect.

24. This Agreement is made under and shall be governed by the laws of the State of Ohio.

25. (a) This Agreement shall inure to the benefit of and be binding upon the Participants and their respective successors and assigns; provided no Participant will, without the prior written consent of the others, assign this Agreement, except as the same may be assigned (i) voluntarily or otherwise under its first mortgage, (ii) to a successor to all or substantially all of the assets of such Participant by way of merger, consolidation, sale or otherwise, where the successor assumes and becomes liable for all the obligations of such Participant hereunder, or (iii) to a lessor in a sale and leaseback transaction involving an interest in the Unit, and to any direct or indirect successor or assign of such lessor, as permitted hereby. Each lessor under a sale and leaseback transaction shall have the right at any time and from time to time to mortgage, create or provide for a security interest in or convey in trust all or any part of its ownership interest in this Agreement to a trustee or trustees under a deed of trust, mortgage or indenture or to a secured party or parties under a security agreement, as security for its present or future bonds or other obligations or securities, and to any successor or assign thereof. No such lessor, mortgagee, trustee or secured party or any direct or indirect beneficiary, partner, stockholder, director or any affiliate of any thereof shall be a Participant hereunder by reason of the assignment referred to above, or shall assume or be in any respect obligated with respect to any of the obligations or liabilities of any Participant hereunder.

Notwithstanding any such assignment in connection with a sale and leaseback transaction, during the term of the lease which is

25. (a) This Agreement shall inure to the benefit of and be binding upon the Participants and their respective successors and assigns; provided no Participant will, without the prior written consent of the others, assign this Agreement, except as the same may be assigned (i) voluntarily or otherwise under its first mortgage, (ii) to a successor to all or substantially all of the assets of such Participant by way of merger, consolidation, sale or otherwise, where the successor assumes and becomes liable for all the obligations of such Participant hereunder, or (iii) to a lessor in a sale and leaseback transaction involving an interest in the Unit, and to any direct or indirect successor or assign of such lessor, as permitted hereby. Each lessor under a sale and leaseback transaction shall have the right at any time and from time to time to mortgage, create or provide for a security interest in or convey in trust all or any part of its ownership interest in this Agreement to a trustee or trustees under a deed of trust, mortgage or indenture or to a secured party or parties under a security agreement, as security for its present or future bonds or other obligations or securities, and to any successor or assign thereof. No such lessor, mortgagee, trustee or secured party or any direct or indirect beneficiary, partner, stockholder, director or any affiliate of any thereof shall be a Participant hereunder by reason of the assignment referred to above, or shall assume or be in any respect obligated with respect to any of the obligations or liabilities of any Participant hereunder.

Notwithstanding any such assignment in connection with a sale and leaseback transaction, during the term of the lease which is

a part of such transaction and continuing until such time as the conditions of paragraph (b) of this Section have been met, the assigning Participant shall be and remain the sole "Participant" for all purposes of this Agreement and the sole representative (with power to bind each lessor which is a party to such transaction and such successor or assign thereof, including each mortgagee, trustee, and secured party of such lessor) in all dealings with the other Participants in relation to the property, rights, title, and interests of such Participant transferred pursuant to such transaction; provided that the authority of such Participant shall not extend to the approval of any amendment hereto the effect of which would be to reduce the generation entitlement share related to the ownership interest acquired by any such lessor. A Participant shall not be released from any liability or obligation under this Agreement as the result of entering into a sale and leaseback transaction hereunder.

(b) At the expiration or termination of any lease referred to in clause (iii) of paragraph (a) of this Section, to the extent the lessor which is a party thereto leases or sells, or has theretofore leased or sold, its ownership interest in the Unit to a person, partnership, corporation or governmental authority or agency engaged in the generation, transmission or distribution of energy and which meets the Nuclear Regulatory Commission's Creditor Regulations (a "Transferee") and such lessor has complied with the provisions of paragraph (c) of this Section 25 in connection with such lease or sale, such Transferee shall be and become a Participant for all

purposes of this Agreement, to the extent of its interest in the Unit (whether owned or leased), and, except as provided in paragraph (d) below, shall be the sole Participant (with power to bind) in all dealings with the other Participants in relation to such interest; provided that such Transferee (other than the Participant which assigned such interest) has assumed and agreed to fully perform and discharge all obligations of a Participant hereunder to the extent of such interest to the extent arising subsequent to such sale or lease, (except obligations in respect of decommissioning and the permanent removal of the Unit from service which, unless otherwise assumed by such Transferee, shall remain the obligation of the Participant which assigned such interest), and each other Participant shall have been furnished with evidence of such sale or lease and such assumption and agreement. At such time, the generation entitlement shares determined as provided in Section 3 hereof shall be modified by the Participants to reflect their respective interests in the Unit (whether owned or leased).

(c) Prior to any sale or lease by a lessor of its interest in the Unit to a Transferee, the lessor first shall have offered to the Participants (other than the Participant which is or was the lessee under the related lease) (the "Eligible Participants") an opportunity either to purchase such lessor's ownership interest for an amount specified by such lessor (the "Offered Sale Price") or to lease such interest on terms specified by such lessor (the "Offered Lease Terms"). Each Eligible Participant shall be entitled to receive and accept such offer in respect of the percentage of the

total interest offered, obtained by multiplying 100 by the quotient obtained by dividing such Participant's generation entitlement share by the total generation entitlement shares of all Eligible Participants (the "Allotted Share"). Each Eligible Participant shall be given at least 20 days within which to evaluate the Offered Sale Price or the Offered Lease Terms, as the case may be. If an Eligible Participant shall elect to purchase its Allotted Share of a lessor's ownership interest in the Unit, payment by the Participant of the Offered Sale Price shall be made in immediately available funds on the date designated by such lessor, but in no event earlier than the Lease Termination Date with respect to such lease, whereupon such lessor shall transfer such interest to such Eligible Participant on an "as is, where is" basis free and clear of all liens created by such lessor or persons claiming by or through such lessor, but otherwise without recourse, representation or warranty. If an Eligible Participant shall elect to lease its Allotted Share of a lessor's interest in the Unit, such Participant and lessor shall enter into a lease in conformity with the Offered Lease Terms.

If any Eligible Participant shall fail to accept any offer to purchase or lease its Allotted Share of a lessor's interest in the Unit, such Allotted Share shall be offered to the other Eligible Participants which have accepted such offer in respect of their Allotted Shares proportionately as determined above, and such Eligible Participants shall be given an additional period of at least 20 days to accept such offer in the manner provided above.

If all Eligible Participants have failed to accept the offers made in accordance with the above provisions, the lessor which

has made such offers shall be free (i) to sell all, but not less than all, of its interest in the Unit so offered to a Transferee or Transferees at an aggregate price no less than the Offered Sale Price or (ii) to lease all, but not less than all, of its interest in the Unit so offered to a Transferee or Transferees on terms no more favorable than the Offered Lease Terms. (The determination as to what constitutes more favorable terms shall be based upon a comparison of the present values of the respective rental streams discounted at a rate equal to that published by the Federal Reserve Bank as of the end of the month preceding the determination date for the U.S. Treasury Bond closest in maturity to that of the rental stream).

(d) To the extent paragraph (b) of this Section is applicable, all Participants which have derived their rights under this Agreement from an assignment hereof in connection with a sale and leaseback transaction (the "Represented Participant") shall be represented in all actions hereunder by the Participant from which such rights hereunder were derived (except to the extent such Represented Participant shall be entitled to express its own views on matters hereunder pursuant to the next succeeding sentence), unless such rights were acquired in connection with the exercise of remedies under a sale and leaseback transaction or such assigning Participant does not then have an interest in the Unit (whether owned or leased), in which case each such Represented Participant shall be entitled to represent itself to the extent of its interest. To the extent an assigning Participant (a "Representative") is representing one or

more other Participants as contemplated by this paragraph (d), such Representative shall be entitled to speak on behalf of all interests which it represents, including its own interest, in connection with all matters hereunder, and to express the views of each of such Represented Participants, provided however, that if a Represented Participant states that it desires to express its own views on matters hereunder, and all of the other Participants consent (which consent shall not be unreasonably withheld), such Represented Participant shall be entitled to do so. The other Participants shall be entitled to rely on the Representative in all dealings under this Agreement with respect to matters relating to the interests of a Represented Participant until such time as such other Participants have been notified in writing either (i) by the Representative and one or more Represented Participants that the Representative does not have an ownership or leasehold interest in the Unit or (ii) by a Represented Participant that such Represented Participant has acquired rights under this Agreement in conjunction with the exercise of remedies under the sale and leaseback documentation with the Representative.

(e) Notwithstanding anything herein contained to the contrary, from and after, but in no event prior to, the date of a rejection or deemed rejection of a lease or other executory contract constituting part of a sale and leaseback transaction relating to the Unit by any receiver, referee or trustee in bankruptcy or reorganization of any Participant which is a party to such lease or other executory contract, the lessor in such sale and leaseback

transaction (or any mortgagee, trustee or secured party under present and future deeds of trust, mortgages, indentures or security agreements of such lessor and any successor or assignee thereof, and any receiver, referee or trustee in bankruptcy or reorganization of such lessor and any successor by action of law or otherwise, and any purchaser, transferee or assignee of any thereof) may (subject, however, to the rights of the other Participants under this Agreement) without need for the prior written consent of any other Participant but subject to compliance with the Nuclear Regulatory Commission's Creditor Regulations, (i) succeed to and acquire all the rights, titles and interests of such Participant in the Unit and this Agreement, to the extent, but only to the extent of its interest in the Unit acquired by such lessor in such transaction, and (ii) take over possession of or foreclose upon said property, rights, titles and interests of such Participant, and in such event such lessor or other party shall assume and be obligated fully to perform and discharge all obligations arising thereafter hereunder of such Participant to the extent of its interest in the Unit.

26. Prior to the termination of this Agreement, the Participants shall agree upon the time when the Unit is no longer used and useful for their respective purposes and shall be retired and shall enter into a written agreement providing for (a) the disposal of the Unit, (b) the method to be adopted for such disposal, and (c) the date of commencement of such disposal. The disposal plan adopted for the Unit shall be such as not to interfere unreasonably with the operation of any other generating unit located at the Unit

No. 1 Site and not being retired. Each owner having rights in respect to the capacity of such other unit not being retired and the energy generated therefrom and which is a Participant shall have the option to purchase that portion of the Common Facilities which are part of the unit being retired and which are usable by such other unit equal to such owner's proportional interest in the capacity and energy of such other unit, such option price to be at the then depreciated book cost of such Common Facilities. The costs and expenses relating to the disposal of the Unit and any then remaining salvage value shall be shared by the Participants of the Unit in proportion to their generation entitlement share, unless otherwise agreed by the Participants of such Unit.

27. Any controversy or claim arising out of this Agreement, including the refusal by any Participant to perform the whole or any part hereof, shall, upon demand of any Participant aggrieved, be settled by an Arbitration Board, which shall consist of three nonrepresentative members and such additional representative members as hereinafter provided in this Section. No person shall be eligible for appointment as a nonrepresentative member of the Arbitration Board who is an officer, employee, shareholder of, or otherwise interested in, any Participant or any affiliate thereof or in the matter sought to be arbitrated.

Unless otherwise agreed, no demand for arbitration shall be made more than one year after the Participants have reached an impasse as to the controversy or claim involved. The Participant or

Participants demanding arbitration shall serve written notice upon the other Participant or Participants to the controversy, setting forth in detail the matter or matters with respect to which arbitration is demanded, and shall serve copies of such notice upon the other Participants. Within a period of ten days from the date of receipt of the aforesaid written notice, each Participant to the controversy shall appoint one representative member to serve as a member of the Arbitration Board; and, within a period of thirty days from such date of receipt of such written notice, such representative members shall unanimously agree upon the persons who shall serve as the three nonrepresentative members of the Arbitration Board. In the selection of nonrepresentative members of the Arbitration Board, representatives of OE and PP shall have only one vote.

If the representative members shall fail to unanimously agree upon the appointment of any or all the three nonrepresentative members of the Arbitration Board within the specified thirty-day period, any Participant to the controversy may, upon written notice of the other Participants to the controversy, request the American Arbitration Association to submit to the Participants to the controversy a list from its panels of arbitrators of the names of at least seven persons from which the nonrepresentative member or members who have not been so appointed shall be selected in accordance with the Commercial Arbitration Rules of such Association.

If any Participant to the controversy shall fail to appoint its representative member within the specified ten-day period, such

Participant shall be deemed to have waived its right to appoint such representative member and the Arbitration Board shall consist of the three nonrepresentative members and such representative members, if any, as shall have been appointed in accordance with the provisions of this Section.

The arbitration proceedings shall be conducted at a place, to be designated by the Arbitration Board, within the operating area of one of the Participants to the controversy. The Arbitration Board shall afford adequate opportunity to each Participant to the controversy to present information with respect to the controversy or claim submitted to arbitration and may request further information from any such Participant. Except as provided in the preceding sentence, the Participants to the controversy may, by mutual agreement, specify the rules which are to govern any proceeding before the Arbitration Board and limit the matters to be considered by the Arbitration Board, in which event the Arbitration Board shall be governed by the terms and conditions of such agreement. To the extent of the absence of any such agreement specifying the rules which are to govern any proceeding, the then current rules of the American Arbitration Association for the conduct of commercial arbitration shall govern the proceedings.

The arbitration shall be limited to the matter or matters specified in the initial notice demanding arbitration and the award of the Board shall not affect or change any other provision of this Agreement or any other transaction between the Participants.

Procedural matters pertaining to the conduct of the arbitration and the award of the Arbitration Board shall be determined by a majority of the nonrepresentative members thereof, provided, however, that the representative members shall have the full right and authority to participate in all meetings and deliberations of the Arbitration Board leading to the award. The findings and award of the Arbitration Board, so made upon a determination of a majority of the nonrepresentative members thereof, shall be final and conclusive with respect to the controversy or claim submitted for arbitration and shall be binding upon the Participants to the controversy except as otherwise provided by law. Such award of the Arbitration Board shall specify the manner and extent of the division of the costs of the arbitration proceedings among the Participants to the controversy. Judgment upon the award may be entered in any court, State or Federal, having jurisdiction.

28. This Agreement shall be fully effective as of the date of commercial operation of all or a portion of Unit No. 1 and shall be effective as of such earlier date or dates as relate to operating matters in connection with the Unit not covered by the Construction Agreement for the Unit. This Agreement shall remain in full force and effect with respect to the Unit until the date of retirement of the Unit determined pursuant to Section 26 hereof.

IN WITNESS WHEREOF, the Participants have caused this Agreement to be duly executed as of the date above written.

THE CLEVELAND ELECTRIC
ILLUMINATING COMPANY

By *Alfred A. Clough*
Title *Sen. Vice President*

PENNSYLVANIA POWER COMPANY

By *W. K. Keeler*
Title VICE PRESIDENT

DUQUESNE LIGHT COMPANY

By *B. A. Brandonberg*
Title *Vice President Power Sales & Gen'l*

THE TOLEDO EDISON COMPANY

By *W. C. Brown*
Title *SENIOR VICE PRESIDENT*

OHIO EDISON COMPANY

By *Robert J. McCullough*
Title SENIOR VICE PRESIDENT

OPERATING AGREEMENT

Perry Plant Unit No. 1

Exhibit A

Section I. Accounting Concepts

The Cleveland Electric Illuminating Company (CEI) shall record all operation and maintenance costs in accordance with the Federal Energy Regulatory Commission Uniform System of Accounts as outlined in the following schedule. All charges to accounts must be prefixed with the plant identification number. These numbers will be used to identify the particular installation that should bear the associated expenses. Plant Symbols will be used to accumulate those costs which can be associated directly with Perry Plant Unit No. 1 (PY 1). Those costs applicable to common facilities or common functions which cannot be charged directly to PY No. 1, on the basis of actual or estimated labor or other expenses, will be charged to another Plant Symbol.

The costs associated with these common facilities or functions shall then be allocated to PY No. 1, on the basis of the allocation codes listed under the Common Plant Symbol. These code definitions appear in Section II B.

The Participants in PY No. 1 shall share those costs charged directly to Plant Symbol, plus the portion of common costs which are allocated to Plant Symbol. These code definitions appear in Section II B.

Section II A. Allocation of Operation and Maintenance Costs

A more detailed description of the following accounts is in the CEI and FERC Uniform System of Accounts.

<u>FERC Acct.</u>	<u>PY Sub- Acct.</u>	<u>Description</u>	<u>Direct Charge Plus Allocation of Common Costs PY No. 1 Codes</u>	<u>Common Costs Allocated to PY No. 1 Codes</u>
<u>Operation</u>				
517-2		<u>Operation, Supervision and Engineering</u> (See Note 1)		
		The cost of labor and expenses incurred in the general supervision and direction of the operation of nuclear power generating stations.	01	C
518		<u>Nuclear Fuel Expense</u>		
		Owned nuclear fuel consumed - burnup expense		
518-2		Fixed consumption	01	-
		Cost of nuclear fuel consumed at the zero net output point of the turbine-generator heat consumption curve during all periods of zero or positive net generation.		

Section II A. Allocation of Operation and Maintenance Costs

<u>FERC Acct.</u>	<u>PY Sub- Acct.</u>	<u>Description</u>	<u>Direct Charge Plus Allocation of Common Costs PY No. 1 Codes</u>	<u>Common Costs Allocated to PY No. 1 Codes</u>
<u>Operation (Cont'd)</u>				
518		<u>Nuclear Fuel Expense (Cont'd)</u>		
518-3		Variable consumption Incremental cost of nuclear fuel consumed in the production of net kWh of output above the zero net output point of the turbine-generator heat consumption curve.	HV or HQ	-
		Leased nuclear fuel consumed - burnup expense		
518-4		Fixed consumption Cost of nuclear fuel consumed at the zero net output point of the turbine-generator heat consumption curve during all periods of zero or positive net generation.	01	-
518-5		Variable consumption Incremental cost of nuclear fuel consumed in the production of net kWh of output above the zero net output point of the turbine-generator heat consumption curve.	HV or HQ	-

Section II A. Allocation of Operation and Maintenance Costs

<u>FERC Acct.</u>	<u>PY Sub- Acct.</u>	<u>Description</u>	<u>Direct Charge Plus Allocation of Common Costs PY No. 1 Codes</u>	<u>Common Costs Allocated to PY No. 1 Codes</u>
<u>Operation (Cont'd)</u>				
518		<u>Nuclear Fuel Expense (Cont'd)</u>		
		Leased nuclear fuel consumed - finance charge expense		
518-6		Fixed consumption	01	-
		Cost of nuclear fuel consumed at the zero net output point of the turbine-generator heat consumption curve during all periods of zero or positive net generation.		
518-7		Variable consumption	HV or HQ	-
		Incremental cost of nuclear fuel consumed in the production of net kWh of output above the zero net output point of the turbine-generator heat consumption curve.		

Section II A. Allocation of Operation and Maintenance Costs

<u>FERC Acct.</u>	<u>PY Sub- Acct.</u>	<u>Description</u>	<u>Direct Charge Plus Allocation of Common Costs PY No. 1 Codes</u>	<u>Common Costs Allocated to PY No. 1 Codes</u>
<u>Operation (Cont'd)</u>				
<u>Nuclear Fuel Expense (Cont'd)</u>				
		Leased nuclear fuel consumed - deferred expense amortization		
518-8		Fixed consumption	01	-
		Cost of nuclear fuel consumed at the zero net output point of the turbine- generator heat consumption curve during all period of zero or positive net generation.		
518-9		Variable consumption	HV or HO	-
		Incremental cost of nuclear fuel con- sumed in the production of net kWh of output above the zero net output point of the turbine-generator heat consump- tion curve.		
518-10		<u>Emergency Diesel Fuel - Oil Consumed</u>	01	-
		Emergency diesel fuel oil consumed in the operation of the plant.		
519		<u>Coolants and Water (See Notes 1 and 3)</u>		
		Cost of labor, materials used and expenses incurred for heat transfer materials and water used for steam and cooling purposes.	HY	-

Section II A. Allocation of Operation and Maintenance Costs

<u>FERC Acct.</u>	<u>PY Sub- Acct.</u>	<u>Description</u>	<u>Direct Charge Plus Allocation of Common Costs PY No. 1 Codes</u>	<u>Common Costs Allocated to PY No. 1 Codes</u>
<u>Operation (Cont'd)</u>				
<u>Coolants and Water (See Notes 1 and 3) (Cont'd)</u>				
519-2		Direct charges and an allocation of common costs.	01	C
519-3		Charges based on the HY factor.	HY	-
520		<u>Steam Expenses (See Notes 1 and 3)</u> The cost of labor, materials used and expenses incurred in the operation of the following systems and their associated instruments, controls and switchgear, as defined in the Final Safety Analysis Report.		
520-2		Direct charges and an allocation of common costs.	01	C
520-3		Charges based on the HY factor.	HY	-
523-2		<u>Electric Expenses (See Notes 1 and 3)</u> The cost of labor, materials used and expenses incurred in the operation of the main turbo-generator and auxiliary apparatus, switchgear and other electric equipment to the point where electricity leaves for conversion for transmission or distribution.	01	C

Section II A. Allocation of Operation and Maintenance Costs

FERC Acct.	PY Sub- Acct.	Description	Direct Charge Plus Allocation of Common Costs PY No. 1 Codes	Common Costs Allocated to PY No. 1 Codes
<u>Operation (Cont'd)</u>				
524-2		<u>Miscellaneous Nuclear Power Expenses (See Notes 1 and 3)</u>		
		Cost of labor, materials used and expenses incurred which are not specifically provided for or are not readily assignable to other nuclear generation operating accounts.	01	C
524-8		<u>Auxiliary Boiler - Oil Consumed</u>	01	-
		Auxiliary boiler oil consumed in the operation of the plant.		
525-2		<u>Rents</u>		
		Cost of all rents of property of others used, occupied or operated in connection with nuclear generation.	01	C
<u>Maintenance Accounts</u>				
528-2		<u>Maintenance, Supervision and Engineering (See Note 1)</u>		
		This account shall include the cost of labor and expenses incurred in the general supervision and direction of maintenance of nuclear generation facilities.	01	C

Section II A. Allocation of Operation and Maintenance Costs

<u>PERC Acct.</u>	<u>PY Sub- Acct.</u>	<u>Description</u>	<u>Direct Charge Plus Allocation of Common Costs PY No. 1 Codes</u>	<u>Common Costs Allocated to PY No. 1 Codes</u>
<u>Maintenance Accounts (Cont'd)</u>				
529-2		<u>Maintenance of Structures (See Notes 1 and 3)</u> The cost of labor, materials used and expenses incurred in the maintenance of structures, the book costs of which are includable in Plant Account 321, Structures and Improvements.	01	C
530		<u>Maintenance of Reactor Plant and Equipment (See Notes 1 and 3)</u> Cost of labor, materials used and expenses incurred in the maintenance of reactor plant, the book cost of which is includable in Plant Account 322, Reactor Plant Equipment.		
530-2		Direct charges and an allocation of common costs.	01	C
530-3		Charges based on the HY factor.	HY	-
531-2		<u>Maintenance of Electric Plant (See Note 1)</u> Cost of labor, materials used and expenses incurred in the maintenance of electric plant, the book cost of which is includable in Plant Account 323, Turbo-Generator Units, and Plant Account 324, Accessory Electric Equipment.	01	C

Section II A. Allocation of Operation and Maintenance Costs

PERC Acct.	PY Sub- Acct.	Description	Direct Charge Plus Allocation of Common Costs PY No. 1 Codes	Common Costs Allocated to PY No. 1 Codes
<u>Maintenance Accounts (Cont'd)</u>				
532-2		<u>Maintenance of Miscellaneous Nuclear Plant (See Note 1)</u>		
		Cost of labor, materials used and expenses incurred in maintenance of miscellaneous nuclear generating plant, the book cost of which is includable in Plant Account 325, Miscellaneous Power Plant Equipment.	01	C
<u>Transmission Operation</u>				
562		<u>Station Expenses</u>		
	.100	Perry Station - Common		
	.110	Perry Station - Unit No. 1		
		Cost of labor, materials used and expenses incurred in the operation of the following equipment:	01	C
		The main unit step-up transformer and the high voltage connection including conductors, towers and associated facilities up to the connection between the conductors and the switchyard structure.		

Section II A. Allocation of Operation and Maintenance Costs

FERC Acct.	PY Sub- Acct.	Description	Direct Charge Plus Allocation of Common Costs PY No. 1 Codes	Common Costs Allocated to PY No. 1 Codes
<u>Transmission Maintenance (Cont'd)</u>				
		<p>Include in this account also the 138 kV towers, conductors and associated equipment which serve the station service transformers. Exclude from this allocation all equipment located within the transmission switchyard. The allocation of operating costs for equipment within the switchyard is provided for in the CAPCO Accounting and Procedure Manual, Section 05-04.</p>		
570		<u>Maintenance of Station Equipment</u>		
	.100	Perry Station - Common		
	.110	Perry Station - Unit No. 1		
		<p>Cost of labor, materials used and expenses incurred in the maintenance of the following equipment:</p> <p>The main unit step-up transformer and high voltage connection including conductors, towers and associated facilities up to the connection of the conductors with the switchyard structure.</p>	01	

Section II A. Allocation of Operation and Maintenance Costs

FERC Acct.	PY Sub- Acct.	Description	Direct Charge Plus Allocation of Common Costs FY No. 1 Codes	Common Costs Allocated to PY No. 1 Codes
<u>Transmission Maintenance (Cont'd):</u>				

Include in this account also the 138 kV towers, conductors and associated equipment which serve the station service transformers. Exclude from this allocation all equipment located within the transmission switchyard. The allocation of maintenance costs for equipment within the switchyard is provided for in the CAPCO Accounting and Procedure Manual, Section 05-04.

Clearing Accounts

184

Cost of labor, materials used and expenses incurred in surveillance testing and other activities which are directly related to Perry Plant Power Station and which are charged to CEI clearing accounts will be distributed monthly to appropriate Perry Plant Power Station operation and maintenance expense accounts in accordance with allocation percentages as determined by CEI. CEI will periodically review these allocation percentages for reasonableness.

Section II A. Allocation of Operation and Maintenance Costs

FERC Acct.	PY Sub- Acct.	Description	Direct Charge Plus Allocation of Common Costs PY No. 1 Codes	Common Costs Allocated to PY No. 1 Codes
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Clearing Accounts (Cont'd)

163-100 Perry Warehouse Operation and Maintenance

Costs relating to purchasing, material control - handling - inspection - quality and safety control for such activities and storeroom maintenance exclusively for Perry Plant will be charged to this account.

Note 1: Charges made to the primary accounts will include distributions from clearing accounts for such costs as direct supervision, clerical and secretarial activities, paid time not worked and plant stores handling costs for all Perry employees not on the Treasurer's Payroll.

Note 2: Accounts used follow those prescribed by the FERC Uniform System of Accounts. If the FERC changes their System in the future, Perry Plant accounting will follow the changed system.

Note 3: See FERC and the CEI Uniform Systems of Accounts for the appropriate charges to these accounts.

Section IX B. Allocation Codes and Explanations

Allocation of Common Costs to Perry Plant
Unit No. 1

The basis for allocating common costs to Perry Plant Unit No. 1 is as follows:

CODE

- C The portion of the cost to be allocated to Perry Plant Unit No. 1 shall be the quotient of (a) the prevailing Net Demonstrated Capability of Perry Plant Unit No. 1 divided by (b) the sum of the Net Demonstrated Capability of Perry Plant Unit No. 1. All common costs are therefore allocated to Unit No. 1.

Allocation of Costs Among CEI, DL, OE, PP and TE

The bases for allocating among the Participants the sum of those costs which are charged to Perry Plant Unit No. 1 and the portion of the common costs which are allocated to Perry Plant Unit No. 1 are as follows:

- O1 The costs shall be allocated among the Participants in proportion to their present respective generation entitlement share in Unit No. 1 are as follows: 31.11% to CEI, 13.74% to DL, 30.00% to OE, 5.24% to PP and 19.91% to TE.

HV The costs during the current month shall be allocated to a Participant in proportion to a fraction, the numerator of which is the variable portion of the Btu input to the main unit turbine used to produce the kilowatthours of energy taken by that Participant during the current month, and the denominator of which is the variable portion of the Btu input used in producing all of the kilowatthours of energy taken by all of the Participants during that same month; these Btu inputs being calculated hourly and accumulated monthly in accordance with the principles of allocation of heat consumption set forth in Section III.

HY The costs during the current month shall be allocated to a Participant in proportion to a fraction, the numerator of which is the total Btu of energy consumed by that Participant during the preceding twelve-month period and the denominator of which is the total Btu of energy consumed by all Participants during that same preceding twelve-month period.

HO The costs during the current month shall be computed by using Participant's costs. These costs will be accumulated by the operating company to arrive at the total unit cost.

Section III. Fuel

Nuclear Fuel

The quantities of nuclear fuel materials required for efficient operation of the Unit shall be owned or leased by the Participants of Perry Plant Unit No. 1 in percentage shares equaling the respective generation entitlement share in the Unit in which the fuel materials are intended to be used. As the quantity of fuel is consumed, any imbalance in nuclear fuel materials shall be adjusted monthly to the generation entitlement share in the Unit. Monthly calculation of the cost of the fuel consumed may be done by the operating Participant or by each Participant. Since the cost of fuel may be different for each Participant, total fuel cost shall be determined by adding each Participant's cost. At the beginning of each month, each Participant's unamortized value in nuclear fuel materials must be in proportion to that Participant's share of the original cost of fuel. Each Participant's share of the original cost need not be equal to that Participant's generation entitlement share in the Unit. Adjustments to maintain such proportional unamortized value will be made monthly in accordance with Section VI of this Exhibit.

The accounting for owned or leased nuclear fuel will be in accordance with the PERC Uniform System of Accounts.

The following basic principles shall govern the calculation of depletion (amortization) of fuel assemblies installed in the reactor for heat production.

1. Nuclear fuel assemblies shall be considered to be producing heat only during periods of zero or positive net generation.

2. During periods of negative net generation, it will be considered that installed nuclear fuel assemblies are not producing heat and are not thus consumed. During periods of negative net generation, records of station service electric energy supplied by the system shall be maintained and the Participants in the Unit shall be invoiced for such electric energy in proportion to their generation entitlement share in the Unit at the operating Participant's system average production cost (including net purchased power costs) during the current calendar month¹ adjusted to exclude the output and cost during the current calendar month of the Unit to which such station service energy was supplied.

3. During periods of zero or positive net generation, the components of consumption of heat from nuclear fuel assemblies shall be considered to consist of a fixed heat consumption component and a variable heat consumption component. The components of heat consumption are illustrated by the current turbine-generator heat consumption curve for the Unit as agreed to by the Participants. The fixed portion of heat consumption consists of the heat produced by the reactor required to supply station service electric energy plus heat losses in the plant.

¹ Note: Estimated costs will be used for the current month's calculation and an adjustment, based upon the deviation of estimated vs. actual costs, will be made in the next succeeding month's billing.

4. During periods of zero or positive net generation, the fixed and variable portions of the total unit heat consumption shall be calculated on an hour-by-hour basis. The fixed portion of the Unit heat consumption shall be the product of service hours accumulated during periods of zero or positive net generation times the fixed unit heat consumption as indicated on the current turbine-generator heat consumption curve for the Unit as agreed to by the Participants. The variable portion of the unit heat consumption shall be the total net main unit generation in Mw_e hr/hr converted to Btu/hr, excluding the fixed unit heat consumption, utilizing the relationship between Mw_e hr/hr versus Btu/hr as represented on the current turbine-generator heat consumption curve for the Unit as agreed to by the Participants. The total unit heat consumption shall be the sum of fixed and variable portions of the unit heat consumption. The portion of the cost of nuclear fuel consumed to be considered to be attributable to fixed unit heat consumption for each Participant shall be the total cost for each Participant of nuclear fuel consumed times a fraction, the numerator of which is the monthly fixed unit heat consumption and the denominator of which is the total monthly unit heat consumption. The portion of the cost of nuclear fuel consumed to be attributable to variable heat consumption for each Participant shall be the total cost of nuclear fuel consumed for each Participant minus the portion of the cost of nuclear fuel consumed attributable to fixed unit heat consumption for each Participant.

5. In determining the cost of nuclear fuel consumed, costs shall be calculated using amortization in proportion to main unit heat consumption, such cost taking into account the original acquisition cost for each Participant of the materials and services required to provide the fuel as originally installed, the predicted total heat output of the assemblies and the estimated net value of salvage materials. Each Participant may calculate its share of the cost of nuclear fuel consumed or, if requested, CEI shall calculate such cost of nuclear fuel consumed using methods and/or computer codes considered acceptable by the Participants for this purpose.
6. For owned nuclear fuel, the monthly nuclear fuel expense shall be determined by the formula:

$$FC_c = \frac{E_c}{E_f} (A_c - S_f)$$

where:

- FC_c = Nuclear fuel expense during the current accounting month.
- E_c = The energy, in Btu, produced during the current accounting month.
- E_f = The energy, in Btu, expected to be produced from the beginning of the current accounting month until the estimated end of life of the fuel.
- A_c = The unamortized value of the fuel as reflected by the difference between the balances in Accounts 120.3 (Nuclear fuel assemblies in reactor) and 120.5 (Accumulated provision for amortization of nuclear fuel assemblies) at the beginning of the current accounting month.
- S_f = Anticipated salvage value of the fuel with related deductions including, but not limited to, shipping, reprocessing and waste disposal costs.

7. The monthly charge to expense for leased nuclear fuel consumed is composed of (a) a burnup expense related to energy resource consumption, (b) a finance charge expense on either a current or levelized basis, and, if appropriate, (c) amortization of accumulated deferred expenses.

a. Monthly Burnup Expense

The monthly burnup expense shall be calculated as follows:

$$B_c = \frac{E_c}{E_f} (C_c - S_f)$$

where:

B_c = Burnup expense for the current accounting month.

E_c = The energy, in Btu, produced during the current accounting month.

E_f = The energy, in Btu, expected to be produced from the beginning of the current accounting month to the end of life of the fuel.

C_c = The lessor's net investment (acquisition cost as defined in the lease agreement less burnup expenses prior to the current accounting month) at the beginning of the current accounting month.

S_f = Anticipated lessors net investment at the end of the lease term, representing the salvage value of the fuel with related deductions including, but not limited to, shipping, reprocessing and waste disposal costs.

B. Monthly Finance Charge Expense

At the election of each Participant, which election may be made separately for each batch of nuclear fuel, the monthly finance charge expense may be calculated in either of the following two ways:

1. Current finance charge expense. The amount paid or payable to the lessor in the current month for finance charges.

$$F_c = R_c C_c$$

11. Levelized finance charge expense. The current month's share, apportioned on energy resource consumption, of all finance charges to be paid or payable to the lessor for finance charges over the remaining life of the fuel including such charges for the current month.

$$F_c = \frac{E_c}{E_f} [(R_c C_c) + (R_{c+1} C_{c+1}) + \dots + (R_f C_f)]$$

where:

- F_c = The finance charge expense in the current accounting month.
 E_c = The energy in Btu produced in the current accounting month.
 E_f = The energy in Btu expected to be produced from the beginning of the current accounting month to the end of the lease term.
 R_i = The actual or estimated lease rate in month i, expressed as the decimal equivalent of percent per month, as defined in the lease agreement or as calculated to produce total monthly costs of financing including any financing related fees. R_c is the rate for the current month and R_f is the rate for the final month of the lease term.
 C_i = The lessor's actual or estimated net investment at the beginning of month i (acquisition cost as defined in the lease agreement less burnup payments made to the lessor prior to month i). C_c is the value at the beginning of the current month and C_f is the value at the beginning of the final month of the lease term.

c. Monthly Amortization of Deferred Expense

The monthly amortization of deferred expense shall be calculated as follows:

$$DA_c = \frac{E_c}{E_f} (D_p + D_a)$$

where:

- DA_c = The amortization of deferred expense during the current accounting month.
 E_c = The energy, in Btu, produced during the current accounting month.
 E_f = The energy, in Btu, expected to be produced from the beginning of the current accounting month to the end of the life of the fuel.

- D_p = The unamortized portion at the beginning of the current accounting month of the deferred expense related to the period prior to the beginning of commercial operation of the leased nuclear fuel.
- D_a = The unamortized portion at the beginning of the current accounting month of the deferred expense related to the period after the beginning of commercial operation of the leased nuclear fuel.

Oil

Oil required for operating the Unit shall be procured by CEI. Oil which is purchased prior to beginning of commercial operation of Unit No. 1 is charged to the project work order. Prior to commercial operation of Unit No. 1, a physical inventory of oil at the site will be conducted by CEI. Subsequently, such oil will be transferred from the project work order to Account 151 (Fuel Stock - Oil). Oil which is purchased after the commercial operation date of Unit No. 1 will be charged directly to Account 151.

Monthly oil usage shall be credited to Account 151 and charged to the following operation expense accounts:

A/C 518-10 - Emergency Diesels - Fuel Consumed

A/C 524-8 - Auxiliary Boiler - Oil Consumed

Each Participant's share of the oil inventories at the beginning of each month must be equal to that Participant's generation entitlement share. Adjustments to maintain such proportional ownership will be made monthly in accordance with Section VI of this Exhibit.

Section IV. Materials and Supplies

Materials and supplies required for the operation and maintenance and subsequent construction of the Unit shall be procured by CEI. Materials and supplies which are purchased prior to the beginning of commercial operation of Perry Plant Unit No. 1 are charged to the project work order. Prior to commercial operation of Unit No. 1, a physical inventory of materials and supplies at the site will be conducted by CEI. Subsequently, such materials and supplies will be transferred from the project work order to Account 154 (Plant Materials and Operating Supplies). Materials and supplies which are purchased after the commercial operation date of Unit No. 1 will be charged directly to Account 154.

Monthly materials and supplies usage shall be credited to Account 154 and charged to the appropriate operation and maintenance expense accounts, as described in Section II B and subsequent construction as defined in the Subsequent Construction Agreement.

Each Participant's share of the materials and supplies inventory at the beginning of each month must be equal to that Participant's generation entitlement share in the unit. Billing adjustments to maintain such proportional generation entitlement share will be made monthly in accordance with Section VI of this Exhibit.

Section V. Other Expenses

For intercompany billing purposes, labor and material additive costs at current rates prevailing at CEI as adjusted from time to time shall be added to the labor and material components of operation and maintenance costs of Perry Plant Unit No. 1 to which such rates are applicable and shall be shared by the Participants on the same basis on which the primary labor and material costs are shared.

In addition, an allocation will be made of Account 556, System Control and Load Dispatching Costs Related to Production, and Account 557, Other Production Expenses. These costs would be allocated to Perry Plant Unit No. 1 on a direct basis where a direct relationship exists, or on a net generating capability ratio when a direct relationship does not exist. Account 556 will include only those load dispatching costs incurred by CEI that are attributable to the Perry Plant Unit No. 1. Included in Account 557, Other Production Expenses, are other production expenses not directly assignable to the other production accounts. These costs included in Account 557 may be charged directly where a direct relationship exists or, if not, they may be allocated on a net generating capability basis. The invoice will identify amounts billed that were included in Account 557.

For intercompany billing purposes, administrative and general (A&G) expenses shall be allocated to Perry Plant Unit No. 1 on the basis of the composite three-year moving average ratio for CEI calculated at the end of each calendar year in accordance with the following formula to become effective on July 1 of the following year.

$$\frac{L_{a1} (1 + p/P) + O_{a1}}{(L_{e-a2}) (1 + p/P) + (O_{e-a2})}$$

In which:

L_{a1} and O_{a1} = The three-year sums of direct labor expense and direct other-than-labor expense, respectively, charged to the following accounts:

1. Account 920, Administrative and General Salaries.
2. Account 921, Office Supplies and Expenses.
3. Account 922, Administrative Expenses Transferred - Credit, excluding (1) any reduction for A&G costs billed to other Participants, and (2) any increases for A&G costs paid to other Participants.

$(1 + p/P)$ = A cost ratio by means of which those expenses directly associated with payroll (labor additives) may be added to direct labor charges.

P = The three-year sum of the following labor additives:

1. Payroll Taxes
 - Federal Old-Age Benefits
 - Federal Unemployment Insurance
 - State Unemployment Insurance
2. Workers' Compensation and/or Injuries and Damage (Payroll related costs only)
3. Employee Pensions and Benefits (Account 926)
4. Pay for Time Not Worked

Exclude any labor additives which are included with the basic direct labor charges, examples of which might be "Pay for Time Not Worked" or "Payroll Taxes."

- P = The three-year sum of the total payroll with which the above labor additives are associated.
- L_e and O_e = The three-year sums of direct labor expense and direct other-than-labor expense, respectively, charged to all operation and maintenance expense accounts except accounts for fuel and purchased/interchange power for the entire Company, excluding (1) any reduction for direct labor expense and other-than-labor expense billed to other Participants, and (2) any increases for direct labor expenses and other-than-labor expenses paid to other Participants.
- L_{a2} and O_{a2} = The three-year sums of direct labor expenses and direct other-than-labor expense, respectively, charged to all Administrative and General Expense Accounts 920 through 935, inclusive.

The amount of administrative and general expenses to be allocated to each Participant during a given period shall be the product of the above ratio multiplied by the total operation and maintenance expenses and labor additives, excluding Account 518, allocated to the Participant for that period.

Payroll Additives on Direct Labor Cost

Payroll additives on direct labor costs will be computed using the same components as used in the $1 + p/P$ basis, except it will be a monthly rate on a one-month lag basis.

Section VI. Billing

The monthly bill for operation and maintenance expenses will include costs for materials and supplies, oil and nuclear fuel and other operation and maintenance expenses.

1. Materials and Supplies (M&S) and Oil Supplies

CEI shall procure M&S and Oil and pay vendors all payments as they become due and shall promptly bill the Participants in the unit for their respective shares of such procurements.

Since the Participants in the Unit will own M&S and Oil inventory in proportion to their generation entitlement share in the unit, the Participants will be given credit on the monthly bill for their share of the M&S and Oil which were consumed and charged to expense during the billing period. Included in the monthly bill will be charges or credits for M&S and Oil necessary to maintain, at the beginning of each month, the Participant's remaining generation entitlement share in M&S and Oil in proportion to their original generation entitlement share in M&S and Oil.

2. Nuclear Fuel

Nuclear fuel may be owned or leased. With respect to the procurement of owned nuclear fuel for the Unit, CEI will pay vendors payments as they become due having received from the Participants on the business day

on or before the payment date the Participants' respective shares of such payments; or each Participant may pay and accumulate the costs of fuel they purchase for the Unit. With respect to the procurement of leased nuclear fuel, CEI as agent for the Participants, may instruct the lessor for the Unit to make payments to vendors as they become due; or each Participant may instruct its individual lessor to make payments as they become due.

If the fuel is leased and CEI is the agent of the lease, CEI will pay to the lessors all payments as they become due, having received from the Participants their respective shares of such payments on or before the payment date. If the Participants utilize their own lease agreements they will pay their respective shares of the lease costs directly to the lessors.

CEI shall make payments for the disposal of spent nuclear fuel from the Unit in accordance with the U.S. Department of Energy Contract No. DE-CR01-85 RW00046, having received from the Participants in the Unit their respective shares of such payments on the business day prior to the payment date.

Included in the monthly bill will be adjustments between Participants of nuclear fuel expenses necessary to maintain, at the beginning of each month, the Participants' remaining owned shares or lease shares in the in-core value of nuclear fuel in proportion to their original cost of owned shares or lease shares of the in-core value of nuclear fuel.

If any Participant chooses to compute its share of amortization and expense, CEI will furnish such Participant with heat consumption and megawatt-hour data as appropriate and the Participant will perform such computation and furnish CEI with the results to accumulate the total cost of fuel consumed. If a Participant elects to have CEI compute its share of amortization and expense and the Participant is supplying its own individual lease financing, such Participant will furnish CEI with financing charge data and CEI will furnish such Participant with the results of the computation.

3. Monthly Operation and Maintenance Expense

CEI will bill the Participants in Perry Plant Unit No. 1 monthly for their respective shares of operation and maintenance expenses for the Unit.

NOTE: Costs of subsequent construction will be billed separately in accordance with the Subsequent Construction Agreement and will not be part of the Operation and Maintenance bill.

MEMORANDUM OF AGREEMENT

(RE: AMENDMENT OF PERRY UNIT NOS. 1
AND 2 CONSTRUCTION AGREEMENT AND
PERRY UNIT NO. 1 OPERATING AGREEMENT
TO ACCOMMODATE OWNERSHIP CHANGE
IN PERRY UNIT NO. 2)

THIS AGREEMENT effective as of the 1st day of January 1992, by and among The Cleveland Electric Illuminating Company, an Ohio corporation ("CEI"); Duquesne Light Company, a Pennsylvania corporation ("DL"); Ohio Edison Company, an Ohio corporation; Pennsylvania Power Company, a Pennsylvania corporation ("PP") and a wholly-owned subsidiary of Ohio Edison Company which company and its said subsidiary, except as otherwise provided herein, are considered as a single Party for the purposes of this Agreement and referred to as ("OE"); and The Toledo Edison Company, an Ohio corporation ("TE"), each of which is sometimes referred to hereinafter as a Party or as a Participant, and collectively as the Parties or or as the Participants.

W I T N E S S E T H:

WHEREAS, the Parties have entered into certain CAPCO Unit construction and operating agreements (all of which agreements, being herein referred to collectively as the "Agreements", are described with more particularity hereinafter): and

WHEREAS, the Construction Agreement--Perry Units Nos. 1 and 2, dated July 22, 1974, as amended, provides that DL shall own as tenant in common an undivided 13.74% interest (its "ownership interest") in Perry Unit 2 and further provides that DL shall own as tenant in common an undivided 13.74% interest in the Perry Plant Site (or, alternatively, by separate deeds, undivided interests in the land on which each of Unit No. 1 and Unit No. 2 is to be principally located, and undivided interests in the balance of the Perry Plant Site); and

WHEREAS, the Operating Agreement--Perry Unit No. 1, dated March 10, 1987, provides that all costs and expenses contemplated by the Agreement shall be shared by the Participants in accordance with Exhibit A to the Agreement; and

WHEREAS, CEI and DL have entered into a Memorandum of Understanding, dated August 28, 1991, and have agreed that DL shall sell and CEI shall purchase DL's entire ownership interest in Perry Unit No. 2 for \$3,118,000 and have further agreed that CEI shall charge DL for any subsequent assignments of equipment to Perry Unit No. 1 from Perry Unit No. 2 in an amount for such assigned equipment to be calculated in accordance with the formula hereinafter expressed; and

WHEREAS, the Operating Agreement--Perry Unit No. 1, dated March 10, 1987, provides that each of the Participants shall separately report, file, be responsible for and pay all property, franchise, business or other taxes applicable to its interest (whether owned or leased) in the Unit or Unit No. 1 Site; and

WHEREAS, CEI and DL have agreed that DL shall sell and CEI shall purchase DL's entire undivided tenant-in-common ownership interest in the real estate in the Perry Plant Site, excepting and reserving to DL, its successors, and assigns a permanent easement in the Perry Plant Site for the sole purpose of exercising its undivided tenant-in-common interest in Perry Unit No. 1 and its associated common facilities for \$206,015.80 and have further agreed that CEI shall charge DL for real estate taxes related solely to DL's proportionate interest in Perry Unit No. 1 and its associated common facilities and Perry Plant Site land;

WHEREAS, the Parties desire to further amend the Agreements as hereinafter set forth;

NOW, THEREFORE, in consideration of the premises and of the mutual covenants herein set forth, the Parties agree as follows:

1. One of the Agreements entered into by the Parties is the Construction Agreement - Perry Units Nos. 1 and 2, dated July 22, 1974, as amended (said Agreement being herein referred to as the

"Perry Units Nos. 1 and 2 Construction Agreement"). The first paragraph of Section 3 of the Perry Units Nos. 1 and 2 Construction Agreement is amended to read as follows:

3. Unit No. 1 shall be owned by CEI, DL, OE, PP and TE as tenants in common in the following proportions: CEI shall own an undivided 31.11% interest; DL shall own an undivided 13.74% interest; OE shall own an undivided 30.00% interest; PP shall own an undivided 5.24% interest; and TE shall own an undivided 19.91% interest. Unit 2 shall be owned by CEI, DL, OE, PP, and TE as tenants in common in the same proportions through December 31, 1991 and thereafter shall be owned by CEI, OE, PP and TE as tenants in common in the following proportions: CEI shall own an undivided 44.85% interest; OE shall own an undivided 30.00% interest, PP shall own an undivided 5.24% interest; and TE shall own an undivided 19.91% interest. Such undivided interest of each of the Companies in Unit No. 1 and Unit No. 2 shall be referred to hereinafter as its "ownership interest" in said Unit.

Section 4 of the Perry Units Nos. 1 and 2 Construction Agreement is amended to read as follows:

4. As soon as practicable, the Parties will convey or cause to be conveyed to CEI, OE, PP and TE undivided interests in the Perry Plant Site, (or, alternatively, by separate deeds, undivided interests in the land on which each of Unit No. 1 and Unit No. 2 is to be principally located, and undivided interests in the balance of the Perry Plant Site), to the end that CEI, OE, PP and TE will own undivided interests as tenants in common in such land in the following proportions: CEI - 44.85%; OE - 30.00%; PP - 5.24%; and TE - 19.91% and to the end that DL will own a permanent easement in the Perry Plant Site for the sole purpose of exercising its undivided tenant-in-common interest in Perry Unit No. 1 and its associated common facilities. Said conveyances shall also provide for mutual easements relating to the respective ownership interests of the Companies and shall be in forms satisfactory to the Companies. Except as may be otherwise agreed to by the Companies, the consideration to be paid for the interests in lands to be conveyed hereunder shall reflect the cost of such lands, plus carrying charges of CEI thereon from July 30, 1971, as said carrying charges are defined in the CAPCO Accounting and Procedure Manual. CEI shall take such action as may be necessary and appropriate to obtain the release from the lien of its Indenture of Mortgage with Morgan Guaranty Trust Company of New York, dated July 1, 1940, as amended and supplemented, in order to convey or cause to be conveyed interests in lands as above set forth.

The first paragraph of Section 11 of the Perry Units Nos. 1 and 2 Construction Agreement is amended to read as follows:

11. All costs contemplated by this Agreement, whether incurred by any or all of the Companies, and associated with the construction of the Units, including direct, additive or loading, and allocable costs as set forth in the CAPCO Accounting and Procedure Manual and carrying charges as defined in the CAPCO Accounting and Procedure Manual on amounts advanced by CEI prior to establishment of the interim bank accounts pursuant to the Memorandum Agreement among the Companies, dated October 16, 1972, shall be shared by the Companies in proportion to their respective ownership interests (CEI - 31.11%, DL - 13.74%, OE - 30.00%, PP - 5.24%, and TE - 19.91% as to Unit No. 1 and Unit No. 2 through December 31, 1991, and thereafter in the same percentages as to Unit No. 1 and CEI - 44.85%; OE - 30.00%; PP - 5.24%; and TE - 19.91% as to Unit No. 2); provided that cost of capital of each Company (except to the extent included in the carrying charges of CEI referred to in the preceding clause of this sentence), interest charged to construction and property taxes and sales and use taxes applicable to the ownership interest of a Company, shall be borne by such Company.

The second paragraph of Section 12 of the Perry Units Nos. 1 and 2 Construction Agreement is amended to read as follows:

CEI, DL, OE, PP and TE have established a bank account in Manufacturers Hanover Trust Company, New York, New York. As of January 1, 1992 the account is to be redesignated the "PERRY PLANT UNIT NO. 2 CONSTRUCTION - The Cleveland Electric Illuminating Company (44.85%) - Ohio Edison Company (30.00%) - Pennsylvania Power Company (5.24%) - The Toledo Edison Company (19.91%)" account, and all checks or other instruments drawn on the account shall bear this designation. The imprest amount in the account shall be \$100,000. Such imprest amount may be changed from time to time at the request of CEI to correspond to the expected activity.

The last sentence of the third paragraph of Section 12 of the Perry Units Nos. 1 and 2 Construction Agreement is amended to read as follows:

DL, OE, PP and TE hereby authorize CEI to act as agent of each for the purpose of disbursing funds from their respective accounts.

2. Another of the Agreements entered into by the Parties is the Operating Agreement - Perry Unit No. 1, dated March 10, 1987 (said Agreement being herein referred to as the "Perry Unit No. 1 Operating Agreement"). The first paragraph of Section 13 of the Perry Unit No. 1 Operating Agreement is amended to read as follows:

All costs and expenses contemplated by this Agreement, including overheads, directly or indirectly associated with the operation and maintenance of the Unit or Unit No. 1 Site, whether incurred by any or all of the Participants shall be shared by the Participants in accordance with Exhibit A; provided, however, that as to any equipment in existence at Perry Unit No. 2 and transferred to CEI on January 1, 1992 per Bill of Sale executed Feb 10, 1992 and any equipment subsequently assigned or transferred to Perry Unit No. 1, CEI shall charge DL an amount for such assigned equipment equal to the product of the price CEI paid DL for the purchase of DL's entire ownership interest in Perry Unit No. 2, divided by DL's book cost on January 1, 1992 of all Perry Unit No. 2 equipment sold to CEI, and multiplied by DL's book cost on January 1, 1992 of the specific equipment to be assigned to Perry Unit No. 1, plus an amount equal to CEI's cost of capital (as authorized in the then most recent rate order of the Public Utilities Commission of Ohio) per year of such amount compounded annually from January 1, 1992 to the date of assignment; provided further, however, that the amount to be charged to DL shall never exceed the lower of DL's book cost on January 1, 1992 or the fair market value of the equipment at the time of its assignment to Perry Unit No. 1.

Section 14 of the Perry Unit No. 1 Operating Agreement is amended to read as follows:

It is the intent of the Participants that so far as possible each shall separately report, file, be responsible for and pay all property, franchise, business or other taxes applicable to its interest (whether owned or leased) in the Unit or Unit No. 1 Site. To the extent that such taxes may be levied on or assessed against a Participant in excess of its interest in the Unit or the Unit No. 1 Site, then such excess shall be billed and recovered from any Participant whose taxes were levied on or assessed in an amount less than its owned, leased or easement interest in the Unit or Unit No. 1 Site. To the extent that such taxes may be levied on or assessed against the Unit or Unit No. 1 Site or its operation, or the owners or their related Participants, in such manner as, in the opinion of the Participants, makes impracticable or inequitable the carrying out of said intent, then such taxes shall be deemed a part of the cost or expense of the Unit or Unit No. 1 Site or the operation of the Unit.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed by their duly authorized officers this 10th day of February, 1992.

THE CLEVELAND ELECTRIC
ILLUMINATING COMPANY

BY *[Signature]*

OHIO EDISON COMPANY

BY *D. W. Sackopp*

DUQUESNE LIGHT COMPANY

BY *[Signature]*

PENNSYLVANIA POWER COMPANY

BY *[Signature]*
Vice President

THE TOLEDO EDISON COMPANY

BY *[Signature]*

Duquesne Light Company

411 Seventh Avenue
Pittsburgh, PA 15219
(412) 393-8270

Attachment 4
PY-CEI/NRR-2333L
Page 1 of 1

GARY R. BRANDENBERGER
Vice President - Customer Operations

October 20, 1998

Mr. Anthony J. Alexander
Executive Vice President and General Counsel
FirstEnergy Corporation
76 South Main Street
Akron, OH 44308

Dear Tony,

Pursuant to Section 7(b) of the agreement in principle between Duquesne Light Company and FirstEnergy Corp., dated as of October 14, 1998, Duquesne hereby provides notice to FirstEnergy that it supports the pending application by FirstEnergy Nuclear Operating Company to the Nuclear Regulatory Commission for approval to assume operating responsibility for Perry Unit No. 1.

Sincerely,

GR Brandenberger

