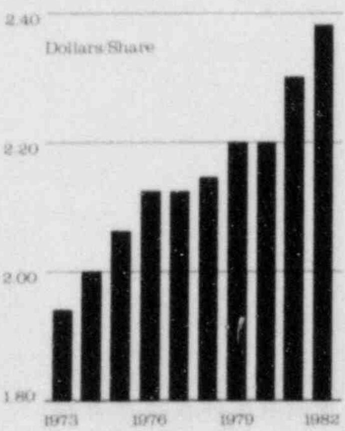
The Toledo Edison Company

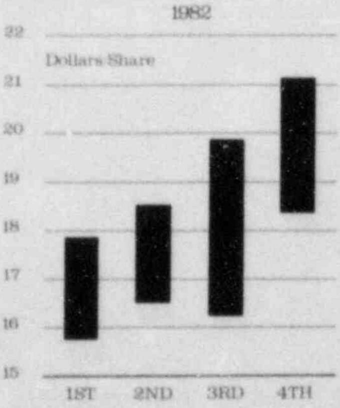
Dividends Declared per Common Share



Highlights

	1982	1981	Change
Earnings Per Common Share			
Before Extraordinary Gain in 1981	$3.18	$2.77	+ 41¢
After Extraordinary Gain in 1981	3.18	3.27	− 9¢
Dividends Declared Per Common Share	2.38	2.30	+ 8¢
(current quarterly rate is 61¢ – equivalent to $2.44 per year)			
Operating Results (millions)			
Operating Revenues	$482	$442	+ 9%
Operating Expenses	373	339	+ 10%
Operating Income	109	103	+ 6%
Financial Position (millions)			
Assets	$2 122	$1 868	+ 14%
Capitalization	1 768	1 561	+ 13%

Price Range on Common Stock per Quarter



Price Range and Dividends Paid Per Share of Common Stock

	1982				1981			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Price Range								
High	17⅞	18½	19⅞	21⅛	17¾	18⅜	16⅞	17⅜
Low	15¾	16½	16¼	18⅜	15¼	15½	15⅝	15
Dividends Paid*	.59	.59	.59	.59	.55	.57	.57	.57

*The dividend paid in January, 1983 was increased to $.61 per share.

The Common Stock is listed on the New York Stock Exchange. These price quotations are from The Wall Street Journal. The number of common stock shareholders as of December 31, 1982 and 1981 were 86,710 and 85,683 respectively.

John P. Williamson
Chairman and
Chief Executive Officer

Wendell A. Johnson
President and
Chief Operating Officer

To Our Shareowners

1982 was a year of interesting and significant developments for both the electric utility industry and Toledo Edison. It is our pleasure, once again, to report them to you, our shareowners.

Our 1982 earnings per common share increased to $3.18. This compares with earnings in 1981, before an extraordinary gain, of $2.77. Earnings per share in 1981, with the extraordinary gain, had been $3.27.

Dividends were increased again in 1982 and it was our 61st consecutive year of dividend payments. Quarterly dividends were increased in December, 1982 by two cents per share to 61 cents per share. The new rate is equivalent to $2.44 per share on an annualized basis. It also continues our record of regular dividend increases to recognize our shareowners' ongoing reinvestment in their company.

A price increase was approved by the Public Utilities Commission of Ohio (PUCO) in June, 1982. It is expected to add $34 million annually in revenues. This, along with the operation of fuel adjustment clauses and strong efforts to hold down costs, were the major reasons why we were able to achieve our earnings increase.

Residential electricity sales, while relatively flat from their 1981 level, were affected by very moderate temperatures this past summer and this winter. Commercial sales showed a slight increase of two percent over the year before.

Kilowatt-hour sales to motor vehicle suppliers increased even though sales to other industrial classifications were down overall. Oil refining, primary metals and glassmaking activities still lagged. Kilowatt-hour sales to those in the automotive group increased by four percent in 1982 over 1981. That rate of increase is even more accelerated if one looks at the fourth quarter of 1982, when sales to motor vehicle suppliers were six percent above those of the fourth quarter in 1981. Recent sales figures from the major U.S. car manufacturers seem to indicate that national demand is, once again, on the rise. A continuation of this trend would certainly have a positive effect on electricity sales.

Although there was a three percent decrease in 1982 total kilowatt-hour sales, the annual rate of percentage change in sales has slowed its descent and leveled off, indicating that we may have reached a turning point in the midst of the current two-year old recession. We see this as a sign that the recession is bottoming out and that our regional economy is ready for recovery.

Our entire country's level of electricity consumption declined somewhat in 1982 from the previous year's level – the first time this has happened since World War II. It is no coincidence that many economists have termed this one of the worst national recessionary periods of the past 40 years. But as economic activity increases during the recovery, so too will the demand for electricity. We are now well prepared to provide the electric power northwest Ohio's economy will need in the pending recovery period.

A greatly expanded nuclear insurance program, which reduces financial risk from nuclear operations is now in place. The Federal Price-Anderson Act has limited the amount of public liability for a nuclear reactor accident to $560 million. Utility companies have been providing $160 million of that coverage through private insurance companies. Additional private coverage of $5 million for each licensed nuclear reactor is being provided by each reactor operator licensee. Government insurance, for which the companies paid premiums, made up any difference necessary, although it was never called upon to do so. With the licensing of the country's 80th nuclear reactor, the industry now provides all of the insurance coverage and the government's role as an insurer for the nuclear industry has been phased out. Also, through private insurance and an industry-cooperative arrangement, property damage insurance covering nuclear plants has been increased to $983 million for each nuclear site. This represents a major improvement from four short years ago, when only $300 million of such coverage was available.

Also, through a similar industry-cooperative arrangement, companies operating nuclear plants are now insured against the possible increased costs for buying replacement power during periods of extensive plant shutdowns. After an initial six-month waiting period, insurance will cover up to $2.5 million per week for the first year of an outage. The following year there is coverage up to $1.25 million per week.

An $80 million price increase request was filed in November, 1982, with the Commission. This would be used to offset higher operation, maintenance and financing costs, as well as the carrying costs of additional facilities being added to our system. Any approved increase would probably take effect during the third quarter of 1983, allowing for the usual nine-month waiting period after the time of filing.

Sound financial planning is essential to placing us in a position to meet the challenges of the future. Your company's financial officers will continue exploring, in 1983, new approaches for strengthening our financial base.

During 1982, we sold 800,000 shares of preferred stock ($25 par value) and 2.2 million shares of common stock, in addition to sales from our Dividend Reinvestment and Stock Purchase Plan. And there were sales of 10-year and 30-year first mortgage bonds, $60 million worth of each. The proceeds from these sales were used to finance our construction program, initially financed by short-term debt.

We continue to maintain a desirable mix of coal and nuclear generating sources. This has enabled us to meet our customers' needs this year in an efficient, economic manner. Coal-fueled generation provided about 77 percent of our 1982 customer requirements. Our highly-efficient Bay Shore Station remains the leader in this department, providing about four billion kilowatt-hours – over half of the company's total generation. And, while being extremely productive, the station, in the most recent survey of the Edison Electric Institute, was the seventh most efficient coal-fired station of the hundreds in the country.

Our Davis-Besse Nuclear Power Station operated well in 1982. Except for the scheduled refueling, inspection and repair period the unit produced power every day of the year. In the last quarter, Davis-Besse operated at a very high capacity factor of 91 percent. Our customers and shareowners will continue to benefit from this low fuel-cost generating capacity throughout 1983.

Coal and nuclear fuel together will do much in the coming decades to relieve the nation's dependence on unreliable foreign oil. We believe that with the advantages of our balanced energy mix – currently 72 percent coal and 24 percent nuclear, we are in a sound position to sustain our service area requirements at present levels and help it grow in the future.

Our major investments in environmental modifications are now completed. Within the last few years we have invested $326 million in new and upgraded environmental improvements. Protection of the environment continues to be an important part of our commitment to northwest Ohio. In 1982 we invested $4 million for treating and handling fly-ash resulting from coal combustion. We are developing additional sales of this fly-ash to contractors for road-building, building construction and other uses. Our strategy is to turn this item into an income-producing product instead of a costly waste disposal problem.

Reduced inflation has been good news for the utility industry. A tempering of inflation rates means interest rates and financial costs are lower. Also, construction programs get some relief from mounting costs. And that, in turn, reduces the risk element on utility stocks.

The administration and the Federal Reserve Board have succeeded in reducing the inflation rate. Interest rates have dropped accordingly. It has taken an impressive amount of determination and discipline to get the U.S. economy down off the inflationary spiral of recent years. For the Federal Reserve, it has not been easy keeping a tight rein on the money supply while critics call for an artificial stimulus for the economy. For the White House, it has taken courage to resist political pressure for a quick economic fix.

The market price of our common stock increased to $21 per share at year end from $16.50 at the beginning of the year. This is not only good news for our shareowners, but will also help us in the financing of our ongoing construction programs.

It is our opinion that these positive notes can be carried over into other segments of the economy. While we await the predicted modest recovery later in 1983, the people at Toledo Edison will continue to work diligently to keep your company positioned to serve our customers well. Our employees will continue their belt-tightening and efficient service. And all of us at Toledo Edison will continue to search for ways to better serve our shareowners, customers and employees.

Cordially,

John P. Williamson

John P. Williamson
Chairman and Chief Executive Officer

Wendell A. Johnson

Wendell A. Johnson
President and Chief Operating Officer

Financial Analysis

Results of Operations

Earnings per common share for 1982 were $3.18, an increase of 41¢ over comparable 1981 earnings before that year's extraordinary gain. Comparative 1981 earnings, after the extraordinary gain, were $3.27 per share. The extraordinary gain in 1981 resulted from an exchange of common stock for first mortgage bonds (see Note 3).

Our total operating revenues have increased in each of the last three years, as shown on the Results of Operations statement. The 1982 increase was primarily due to higher rate and fuel recovery revenues.

We received our August 1981 price increase request from The Public Utilities Commission of Ohio (PUCO) in June, 1982. The increase, for retail electric customers, was about 70 percent of the amount requested and yielded $34 million in additional annual revenues.

The Federal Energy Regulatory Commission (FERC) in May, 1982, authorized us to increase rates charged to wholesale municipal customers. The increase produced additional revenues of $3 million on an annual basis.

We filed a price increase request, in November, 1982, with the PUCO for $80 million in electric retail rates. This additional revenue is needed to help meet higher operation and maintenance costs, as well as increased financing costs associated with our construction program. The PUCO will probably rule on this matter in the summer of this year.

Total kilowatt-hour sales declined during the past three years, mainly because of lower sales to industrial customers. This, in turn, has been the direct result of reduced industrial activity throughout the service area. In 1982, sales to certain municipalities, which resell electricity to their own customers, also declined. Several of our municipalities are now purchasing some of their seasonal power needs from other sources.

Fuel expense decreased by 2 percent in 1982. The overall sales drop resulted in lower generation requirements. There were also three major power plant outages during the year. We continued to defer coal costs, in excess of market prices, from Quarto Mining Company (Quarto). However, in July, 1982, the PUCO authorized us to begin recovering part of these deferred costs (see Note 6).

The cost of operating and maintaining our plants and equipment increased in 1982 due to the effect of inflation on labor and material costs and the outage of a major unit for refueling and repairs. In March, the Davis-Besse Nuclear Power Station was taken off-line for its second scheduled refueling and maintenance outage. The outage schedule included inspection and testing of various components, routine major maintenance and government required changes. The outage was extended longer than planned in order to repair some cracked turbine blades and replace two auxiliary feedwater supply rings. The unit returned to service in September. A significant amount of the auxiliary equipment replacement costs were capitalized as additional plant investment. The remaining maintenance, inspection and testing costs were major factors of the operation and maintenance expense increase in 1982.

Depreciation and amortization expense showed very little change from 1981. Lower unit-of-production depreciation for Davis-Besse offset, for the most part, the increases in depreciable plant assets and the amortization of the four cancelled generating project costs. As part of the June, 1982 rate case decision, the PUCO allowed us to continue amortizing our share of the costs of the four nuclear generating units cancelled by the Central Area Power Coordination Group (CAPCO) (see Note 7).

State and local taxes increased due to higher state excise taxes on increased revenues, and higher property taxes resulting from increases in plant assets. An increase in federal income taxes resulted from higher taxable earnings.

Other income and deductions (net) for 1982 decreased from 1981. In 1981, other income and deductions (net) included a non-recurring insurance settlement of $3.6 million, and a non-recurring reversal of $3.6 million of Pennsylvania gross receipts tax.

Other significant items affecting earnings per share were increased payments for interest and preferred stock dividends, and more common shares outstanding. Through the allowance for funds used during construction (AFUDC), we capitalized a substantial amount of these financing costs, including a return on equity funds used. AFUDC has increased during each of the last three years due to higher construction-work-in-progress amounts and increases in the AFUDC rate.

Note 10 explains the effects of inflation on our operations.

Liquidity and Capital Resources

Total assets and total liabilities rose in 1982 from the previous year. This was mainly due to expenditures for our continuing construction program, along with related external financing.

We will continue to modify, as we have done in the past, our construction program for changing economic conditions. 1982 construction expenditures were $247 million. Most of this was due to the continuing construction of three CAPCO generating units, of which we own a 20 percent share. They are Perry No. 1, Beaver Valley No. 2 and Perry No. 2 units. External financing for construction in 1982 was $169 million. We used this, along with $42 million of funds raised internally, to fund the 1982 construction program and retire $40 million of first mortgage bonds that matured during the year. In addition, we also used short-term borrowings to meet interim cash needs for capital projects. Unused bank lines of credit at December 31, 1982 were $95 million.

We estimate spending approximately $277 million for construction in 1983, mainly on the three units discussed above. Net proceeds from long-term debt, preferred and common stock issues and our Shareowner Dividend Reinvestment and Stock Purchase Plan will provide about $160 million in external financing. In addition, we will need $7 million to pay for long-term note maturities and preferred stock sinking fund requirements in 1983.

For federal income tax purposes, we estimate that 66.7 percent of the 1982 common stock dividends will be considered a return of capital.

To the Shareowners and Board of Directors of The Toledo Edison Company

We have examined the balance sheets and statements of capitalization of The Toledo Edison Company (an Ohio corporation) as of December 31, 1982 and 1981, and the related statements of results of operations, earnings reinvested and source of funds invested in plant and facilities for each of the three years in the period ended December 31, 1982. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed further in Note 7, the Company has incurred costs related to four cancelled generating units. In its latest case before the PUCO the Company is being permitted rate recovery of these costs as a component of the rate of return on common equity. This case has been appealed by both the Company and the Ohio Consumers' Counsel. How the appeal or changes in future PUCO cases will affect the Company's recovery of these costs from its customers is uncertain at this time.

As discussed further in Note 3, the PUCO has ordered that the extraordinary gain on an exchange of common stock for bonds recognized in 1981 be reversed and amortized over twenty years. The Company has appealed this decision and cannot predict the outcome of this matter.

In our opinion, subject to the effects on the financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainties discussed in the preceding two paragraphs been known, the financial statements referred to above present fairly the financial position of The Toledo Edison Company as of December 31, 1982 and 1981, and the results of its operations and the source of funds invested in plant and facilities for each of the three years in the period ended December 31, 1982, all in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

Toledo, Ohio,
January 28, 1983.

Results of Operations

Thousands of Dollars	For The Years Ended December 31, 1982	1981	1980
Operating Revenues			
Electric	473 195	434 853	394 886
Gas and steam heating	8 530	7 431	6 982
Total operating revenues	481 725	442 284	401 868
Operating Expenses			
Fuel	120 484	123 074	110 423
Purchased and net interchanged power	7 174	(632)	45 348
Operation	75 834	63 976	55 842
Maintenance	38 839	31 908	29 319
Depreciation and amortization	43 838	43 427	26 002
State and local taxes	41 260	36 699	31 202
Federal income taxes	45 214	40 842	23 376
Total operating expenses	372 643	339 294	321 512
Operating Income From Sales to Customers	109 082	102 990	80 356
Other Income			
Allowance for equity funds used during construction	48 706	32 498	28 443
Income tax reductions applicable to borrowed funds used during construction and other	18 937	9 616	13 218
Other income and deductions – net	1 017	8 852	879
Total other income	68 660	50 966	42 540
Income Before Interest Charges	177 742	153 956	122 896
Interest Charges			
Long-term debt and other borrowings	94 713	86 310	70 866
Allowance for borrowed funds used during construction	(22 505)	(15 491)	(15 148)
Interest charges – net	72 208	70 819	55 718
Income Before Extraordinary Item	105 534	83 137	67 178
Extraordinary gain from exchange of common stock for bonds	—	10 807	—
Net Income	105 534	93 944	67 178
Preferred stock dividends accrued	26 221	23 542	18 021
EARNINGS ON COMMON STOCK	79 313	70 402	49 157
EARNINGS PER COMMON SHARE (average shares (in thousands) outstanding – 24,917 in 1982, 21,507 in 1981 and 19,226 in 1980)			
Before extraordinary gain	$3.18	$2.77	$2.56
Extraordinary gain in 1981	—	.50	—
After extraordinary gain	$3.18	$3.27	$2.56

The notes on pages 9 through 14 are an integral part of this statement.

Balance Sheet

Thousands of Dollars	December 31, 1982	1981
ASSETS		
Property, Plant And Equipment		
Plant in service, at original cost	1 306 677	1 261 174
Less accumulated provision for depreciation	285 453	252 310
	1 021 224	1 008 864
Construction work in progress	878 535	656 999
Nuclear fuel in service, at amortized cost	18 390	10 951
	1 918 149	1 676 814
Current Assets		
Cash	1 631	2 590
Temporary cash investments, at cost	8	2 541
Accounts receivable – net	44 550	49 737
Fuel for use in power plants, at average cost	36 818	31 077
Materials and supplies, at average cost	10 680	10 178
Prepaid taxes	14 330	6 948
Special deposits and other	9 126	7 997
	117 143	111 068
Other Assets		
Property taxes – subsequent years	20 947	19 521
Deferred charges – cancelled generating projects	42 902	43 048
Quarto coal costs	11 618	9 412
Miscellaneous	11 109	8 507
	86 576	80 488
TOTAL ASSETS	2 121 868	1 868 370
LIABILITIES		
Capitalization		
Common stock equity	617 127	550 176
Cumulative preferred stock	170 000	150 000
Cumulative preferred stock with mandatory redemption	95 027	95 500
Long-term debt	886 168	764 831
	1 768 322	1 560 507
Nuclear Fuel Trust	34 780	—
Current Liabilities		
Short-term notes payable	43 000	22 500
Long-term debt and preferred stock due within one year	13 184	44 588
Accounts payable	31 354	35 406
Accrued taxes	46 231	45 518
Accrued interest	20 556	17 031
Dividends declared	22 798	19 794
Advanced fuel cost recovery	2 225	4 118
Accrued expenses and other	5 754	15 338
	185 102	204 293
Accumulated Provisions And Other		
Deferred federal income taxes		
Accelerated depreciation and amortization	66 488	54 823
Cancelled generating projects	16 714	16 247
Property taxes and other	11 800	10 552
Investment tax credits	30 963	17 570
Deferred credits and other	7 699	4 378
	133 664	103 570
TOTAL LIABILITIES	2 121 868	1 868 370

The notes on pages 9 through 14 are an integral part of this statement.

Capitalization

Thousands of Dollars				December 31, 1982	1981
Common Stock Equity					
Common Stock, $5 par value, authorized 30,000,000 shares, (Issued and outstanding shares (in thousands) - 26,223 in 1982 and 23,449 in 1981)				131 116	117 243
Premium on capital stock				325 540	290 713
Earnings reinvested				160 471	142 220
Total Common Stock Equity				617 127	550 176
Cumulative Preferred Stock					
Series	Shares Outstanding (Thousands) 1982	1981	Current Redemption Price		
Not subject to mandatory redemption					
$100 par					
4¼ - 4.56%	310	310	$101 - $105	31 000	31 000
8.32 - 10%	590	590	105 - 107	59 000	59 000
$25 par					
$4.28	800	—	$ 32	20 000	—
8.84%	1 000	1 000	27	25 000	25 000
$2.365	1 400	1 400	29	35 000	35 000
				170 000	150 000
Subject to mandatory redemption					
$100 par					
11%	70	75	$111	7 027	7 500
9⅜%	250	250	107	25 000	25 000
13¼%	130	130	112	13 000	13 000
12.65%	200	200	113	20 000	20 000
14.80%	300	300	115	30 000	30 000
				95 027	95 500
Total Cumulative Preferred Stock				265 027	245 500
Long-Term Debt					
First Mortgage Bonds, excluding current maturities					
Maturity	Interest Rate				
1984	3⅜%			14 000	14 000
1985	9.35%			50 000	50 000
1986	3⅜%			15 000	15 000
1988	4%			15 000	15 000
1990 - 1992	14 - 16¼%			195 000	135 000
1997 - 2000	6⅛ - 10%			66 378	66 378
2002 - 2006	7½ - 9.65%			111 725	111 725
2008 - 2012	9⅝ - 15%			186 900	126 900
Discount in process of amortization				(544)	(419)
				653 459	533 584
Other Long-Term Debt, excluding current maturities					
Notes, 8.75%, due 1984 - 1997				103 400	110 000
Term bank loan, average interest rate 15.16%, due 1987 - 1989				50 000	50 000
Pollution control notes, 5.71 - 7⅞%, due 1984 - 2009				37 500	37 500
Pollution control loan agreement, 10 - 10.055%, due 1990 - 2010				31 500	31 500
Nuclear Fuel Lease				10 309	2 247
Total Long-Term Debt				886 168	764 831
TOTAL CAPITALIZATION				1 768 322	1 560 507

The notes on pages 9 through 14 are an integral part of the this statement.

Earnings Reinvested

Thousands of Dollars	For The Years Ended December 31, 1982	1981	1980
Balance, Beginning Of Year	142 220	122 743	117 306
Add – Net Income	105 534	93 944	67 178
Deduct – Preferred stock dividends declared	26 766	24 222	18 720
Common stock dividends declared	60 517	50 245	43 021
Earnings Reinvested During The Year	18 251	19 477	5 437
BALANCE, END OF YEAR	160 471	142 220	122 743

Source of Funds Invested in Plant and Facilities

Thousands of Dollars	For The Years Ended December 31, 1982	1981	1980
Provided From Internal Operations			
Earnings reinvested during the year	18 251	19 477	5 437
Principal non-cash items:			
Depreciation and amortization	43 838	43 427	26 002
Amortization of nuclear fuel	5 932	6 694	2 578
Deferred fuel cost recovery	(1 893)	4 118	—
Deferred Quarto coal costs	(2 206)	(9 412)	—
Deferred federal income taxes – net	13 330	13 295	29 056
Investment tax credits – net	13 394	9 466	(12 697)
Allowance for equity funds used during construction	(48 706)	(32 498)	(28 443)
Gain from exchange of common stock for bonds in 1981	—	(10 807)	—
Total provided from internal operations	41 990	43 760	21 933
Provided From Financing Activities			
Sale of Securities:			
Common stock	48 700	51 706	41 001
Preferred stock	20 000	30 000	33 000
First mortgage bonds (principal amount)	120 000	70 000	65 650
Pollution control notes – net	—	1 399	33 417
Conversion of short-term debt to a term bank loan	—	50 000	—
Net change in short-term borrowings	20 500	(66 500)	65 500
Net change in temporary cash investments	2 533	4 482	(7 023)
Redemption of long-term debt and preferred stock	(43 032)	(18 637)	(41 179)
Total provided from financing activities	168 701	122 450	190 366
Other			
Allowance for equity funds used during construction	48 706	32 498	28 443
Net change in current assets and liabilities, and other accounts	(12 528)	141	(5 915)
Total other	36 178	32 639	22 528
Total Sources Of Construction Funds	246 869	198 849	234 827
Capitalized Nuclear Fuel Lease	12 616	—	8 398
Capitalized Nuclear Fuel Trust	34 780	—	—
INVESTED IN PLANT AND FACILITIES	294 265	198 849	243 225

The notes on pages 9 through 14 are an integral part of these statements.

Summary of Significant Accounting Policies

General
The company maintains its accounting records in accordance with the Uniform System of Accounts as prescribed by The Federal Energy Regulatory Commission (FERC). This system has also been adopted by The Public Utilities Commission of Ohio (PUCO).

Property, Plant and Equipment
The company states property, plant and equipment at original cost. This includes such items as payroll taxes, pensions, assorted fringe benefits, management and general expenses and allowance for funds used during construction (AFUDC). AFUDC represents the estimated composite interest and equity costs of capital funds used to finance construction to the extent that such costs have been transferred to property, plant and equipment from the statement of Results of Operations. The company's AFUDC rates, net-of-tax, were 9¼ percent for January - May, 1982, 10¼ percent for June - December, 1982, 8½ percent for January-March, 1981, 8¾ percent for April-December, 1981 and 8½ percent for 1980. The AFUDC calculation is based on the FERC formula. Beginning in 1981, the FERC granted the company authorization to compute the AFUDC rate on a monthly basis.

Depreciation and Maintenance
The company provides for the depreciation of the original cost of properties, except for the Davis-Besse Nuclear Station, over their estimated useful lives on a straight-line basis. The provisions for depreciation averaged 3.5 percent in 1982, 3.4 percent in 1981 and 3.3 percent in 1980. Depreciation expense on the Davis-Besse Nuclear Station is based on the unit-of-production method. This includes a provision for our share of the total estimated decommissioning costs of $53 million.

Maintenance expense includes repairs of property, including renewal of minor items. Costs of replacements and those renewal items which are units of property are charged to the utility plant accounts. For retired property, we take its cost plus removal cost, net of salvage, and charge it to accumulated provision for depreciation.

Taxes
The company provides deferred federal income taxes as required on the differences between straight-line depreciation and accelerated tax depreciation amounts for property additions since December 31, 1973. Other depreciation timing differences are considered in rates in the year that they affect taxes payable. We believe that such taxes are recoverable in future revenues based on PUCO and Ohio Supreme Court decisions.

We deduct for tax purposes all interest costs as they occur. We classify the tax benefit of the interest cost added to plant (borrowed funds used during construction) in Other Income.

For certain property we received investment tax credits which are deferred and are added to income over the life of that property. Unrealized investment tax credits from 1977 to 1982 total $40 million. We will record them as we use them in future years.

Revenues
Customers are billed on a monthly cycle basis, based on rates authorized by the PUCO which are applied to their electricity consumption. The larger industrial and wholesale customers are billed on a month-end meter-reading basis.

Fuel
Estimated fuel costs are authorized to be collected over a subsequent six-month time period through a fuel recovery rate. The fuel recovery rate is based on actual and partially projected costs and generation. The PUCO reviews and approves the projected rate and historical performance. We are deferring the difference between actual and estimated fuel charges until they are applied to the customer's bill. This enables the company to better match fuel expenses with fuel adjusted revenues.

The company charges the cost of nuclear fuel to fuel expense based on the rate of consumption. In addition, the company includes in fuel expense the estimated nuclear fuel disposal costs which are recovered from its customers.

Retirement Income Plan
The company's retirement income plan covers all employee groups. Employees are not required to contribute. We fund each year's cost and amortize unfunded past service costs over a 30-year period. Pension cost is based on estimated salary levels and service years of employees at their retirement. Total pension costs were: $4.5 million in 1982; $3.7 million in 1981; and $4.5 million in 1980. We amortize experience gains and losses over 15 years.

The actuarial present value of total vested and nonvested plan benefits is based on salary levels and years of employees' service as of January 1 for each year. These were: $39.1 million and $5.6 million in 1982; and $34.5 million and $1.1 million in 1981. The weighted average assumed rate of return used in determining these values was 8 percent for both 1982 and 1981. Market value of net assets available for benefits amounted to $57.6 million as of January 1, 1982 and $54.5 million as of January 1, 1981.

Notes to Financial Statements

December 31, 1982

(1) Federal Income Taxes

Supplementary information regarding federal income taxes is set forth in the following tables:

For The Years Ended December 31,	1982	1981	1980
	(thousands of dollars)		
FEDERAL INCOME TAX EXPENSE WAS COMPUTED AS FOLLOWS:			
Tax at statutory rates on pre-tax income	60 633	57 578	35 574
Increases (reductions) in taxes due to —			
Allowance for funds used during construction	(32 521)	(22 075)	(20 052)
Extraordinary gain from exchange of common stock for bonds	—	(4 971)	—
Accelerated depreciation methods and other depreciation differences	428	2 375	(3 875)
Miscellaneous	(2 263)	(1 681)	(1 489)
Total federal income tax expense	26 277	31 226	10 158
Tax included as credit in Other Income	18 937	9 616	13 218
Federal Income Taxes Included in Operating Expenses	45 214	40 842	23 376

For The Years Ended December 31,	1982	1981	1980
	(thousands of dollars)		
FEDERAL INCOME TAX EXPENSE DETAILS ARE AS FOLLOWS:			
Currently Payable (Refundable)	1 930	7 477	(6 049)
Investment tax credits –			
Deferred	14 334	10 119	(12 901)
Amortized	(940)	(653)	204
Prior year adjustment	(2 857)	233	(205)
Deferred taxes –			
Accelerated depreciation (net)	11 806	12 377	11 269
Cancelled generating projects	468	(1 118)	17 365
Quarto coal costs	1 015	4 329	—
Other provisions	521	(1 538)	475
Total Federal Income Tax Expense	26 277	31 226	10 158

(2) Capitalization

a. Capital Stock Transactions

For The Years Ended December 31,	1982	1981	1980
CAPITAL STOCK SHARES SOLD/(RETIRED):			
Common Stock			
Public Sales	2 200 000	2 053 707	2 000 000
Exchange of common stock for bonds	—	946 293	—
Shareowner Dividend Reinvestment and Stock Purchase Plan	574 680	300 201	236 361
Cumulative Preferred Stock			
Public Sales			
\$4.28 Series, \$25 par	800 000	—	—
Cumulative Preferred Stock with Mandatory Redemption			
Public Sales			
14.80% Series, \$100 par	—	300 000	—
12.65% Series, \$100 par	—	—	200 000
Private Placement			
13¼% Series, \$100 par	—	—	130 000
Retirement			
11% Series, \$100 par	(5 000)	(5 000)	(5 000)
	(thousands of dollars)		
PREMIUM ON CAPITAL STOCK:			
Balance, Beginning of Year	290 713	255 508	225 688
Premium, Net of Expense –			
Common Stock	33 783	35 569	30 218
Preferred Stock	1 044	(364)	(398)
Balance, End of Year	325 540	290 713	255 508

b. Cumulative Preferred Stock

We are authorized to issue 2,000,000 shares of \$100 par and 6,000,000 shares of \$25 par Cumulative Preferred Stock under our amended articles of incorporation. The annual dividend requirement on Cumulative Preferred Stock outstanding at December 31, 1982 is \$27.2 million for an average dividend rate of 10.26%.

c. Cumulative Preferred Stock With Mandatory Redemption

We held 4,730 shares at December 31, 1982 and 5,000 shares at December 31, 1981 of the 11% series as treasury stock.

The sinking fund requirements for the various series of Cumulative Preferred Stock are:

Series	Minimum Yearly Shares	Effective Date
11%	5 000	1979
9⅜%	16 650	1985
13¼%	8 660	1986
12.65%	8 000	1986
14.80%	12 000	1987

The shares of the above series may be purchased at the sinking fund redemption price of \$100 per share plus accrued and unpaid dividends. Future sinking fund redemption requirements are: \$500,000 in 1983 and in 1984; \$2,165,000 in 1985; \$3,831,000 in 1986 and \$5,031,000 in 1987.

d. Long-Term Debt

The annual interest requirement on long-term debt outstanding at December 31, 1982 is \$94.1 million for an average interest rate of 10.66%. This includes amortization of debt discount and expense but excludes interest on the nuclear fuel lease (as well as the Nuclear Fuel Trust).

Sinking fund redemption requirements and scheduled maturities for long-term debt excluding nuclear fuel leases through 1987 are as follows:

	Sinking Fund Redemption Requirements	Scheduled Maturities
	(thousands of dollars)	
1983	2 990	6 600
1984	3 600	20 700
1985	3 600	56 700
1986	3 450	21 700
1987	3 450	23 367

The first mortgage bond indenture provides for a required annual payment after certain credits, as defined, to the Trustees as a Maintenance and Replacement Fund. We have been satisfying these requirements by pledging more property additions which might otherwise be made the basis for the issuance of additional bonds.

The mortgage securing first mortgage bonds issued by us constitute a direct first mortgage lien on substantially all property and franchises owned by us. This does not include expressly excepted property, such as cash and securities, accounts receivable, fuel, supplies and automotive equipment.

(3) Exchange of Common Stock for Bonds

In November, 1981, we exchanged 946,293 shares of common stock for $25.6 million of outstanding first mortgage bonds owned by a brokerage firm. The stock's exchange value was $16.025 per share. From this exchange, we realized a non-taxable extraordinary gain of $10.8 million. This is the difference between the stock's value and the principal amount of the bonds plus accrued interest.

As part of the June, 1982 rate case decision, the PUCO ordered us to reverse the extraordinary gain and amortize it over 20 years. We opposed this unfair decision when we appeared before the PUCO for a rehearing in September, 1982. In addition, the company filed a Notice of Appeal to the Ohio Supreme Court on this decision. If these appeals are unsuccessful, we will be required to reverse the extraordinary gain. We cannot predict the outcome of these appeals.

(4) Power Pooling

We own 4 percent of the common stock of Ohio Valley Electric Corporation (OVEC). Through a long-term contract, OVEC supplies power to the Department of Energy (DOE). The proceeds from the sales of power should be sufficient for OVEC to earn a return on its common stock after meeting all of its costs. We are entitled to receive, but must pay for, 4 percent of any power not contracted for by DOE.

We have entered into a power-pooling arrangement, in the interest of reliability and economy, with four other utilities (known as CAPCO). This involves substantial commitments for generation and transmission facilities.

CAPCO is currently building three generating units. The first of these should begin operating in 1984. Our ownership share will total an investment currently estimated at $1.7 billion.

We provide our own financing for this investment. "Operating Expenses" in Results of Operations includes our share of direct expenses for operation of three CAPCO units presently in service.

The following represents our ownership in each of the CAPCO units at December 31, 1982:

Generating Unit	Actual or Scheduled Completion	Ownership Share	Ownership Megawatts	Fuel	Plant In-Service	Accumulated Depreciation	Construction Work in Progress
					(thousands of dollars)		
Davis-Besse No. 1	1977	48.62%	428	Nuclear	412 400	38 700	28 800
Mansfield No. 2	1977	17.30%	135	Coal	68 300	9 700	1 700
Mansfield No. 3	1980	19.91%	159	Coal	127 600	10 500	900
Perry No. 1	1984	19.91%	240	Nuclear	—	—	267 500
Beaver Valley No. 2	1986	19.91%	166	Nuclear	12 200*	—	283 400
Perry No. 2	1988	19.91%	240	Nuclear	—	—	240 000

*Common facilities with Unit No. 1

(5) Short-Term Borrowing Arrangements

We have $95.1 million in unused credit lines at December 31, 1982 with various banks. This includes a $20 million Eurodollar revolving line of credit. This should help our future entry into the European long-term capital market and give us access to short-term credit. We pay commitment fees for about two-thirds of the credit lines. The rest are based on informal compensating balance arrangements whereby banks will expect us to maintain average deposits equal to 5 to 20 percent of the line of credit, depending on the borrowed amount. The deposits provide operating balances for us and are not legally restricted.

(6) Quarto Coal Arrangement

a. Coal Supply Contracts

The CAPCO companies have made long-term arrangements with Quarto Mining Company (Quarto) to supply coal to the Mansfield units. The CAPCO companies each have agreed to guarantee their respective shares of Quarto's debt and lease commitments incurred to develop and equip the mines. As of December 31, 1982, our 6.89 percent share of the guarantees was $28 million. Our share of these commitments, incurred after 1982, will increase in steps to 12.4 percent in 1986.

Our coal supply contract with Quarto expires December 31, 1999. Under its terms, the pricing provisions reflect Quarto's costs to operate the mines, including the costs of mine construction. Our total purchases under these contracts amounted to $12.4 million in 1982, $15.5 million in 1981, and $15.1 million in 1980.

Under these arrangements, we expect our minimum yearly payments to decline from $6.7 million in 1982 to $5.9 million in 1987.

b. Coal Cost Deferral

At present, Quarto coal is more expensive than the other coal currently available. Prior to July 30, 1982, the PUCO had ordered us not to charge our customers more than market prices. We deferred the difference between market price and actual cost. On July 30, 1982, the PUCO authorized us to recover further Quarto coal costs, plus part of the prior cost deferrals under a revised market price formula. As of December 31, 1982, we have deferred $11.6 million which has not been recovered through our fuel clause.

The Consumers' Counsel of Ohio has appealed this July, 1982 decision as being unfair to consumers. If the appeal is denied and the current decision continues, we should be able to recover the costs of Quarto coal, including the deferred costs. We cannot predict the outcome of this matter.

(7) Cancelled Generating Projects

In January, 1980 the company, along with the other CAPCO companies, cancelled the construction of four nuclear generating units. All cancellation costs related to these units have now been paid.

In April, 1981, the PUCO approved rate recovery of these costs as an operating expense. Since April, 1981, the company has been amortizing these costs to operating expenses over a ten year period. In the company's latest rate case decided in June, 1982, the PUCO disallowed recovery of these costs as an operating expense, based upon a 1981 Ohio Supreme Court decision, but allowed continued amortization along with an additional risk factor as a specific component in the rate of return. The June, 1982 PUCO decision has been appealed to the Ohio Supreme Court by both the company and the Ohio Consumers' Counsel.

In a January, 1983 PUCO order for another CAPCO company, such a cost recovery component in the rate of return was not specifically identified. If the company, in future rate cases, cannot recover these costs through a specified component in rate of return or through other means, it would be necessary to immediately reduce net income for the remaining unrecovered costs. The unrecovered cancellation costs at December 31, 1982 is $26.2 million after federal income taxes.

The company is unable to predict the outcome of this matter.

(8) Nuclear Fuel Financings

CAPCO has lease arrangements for nuclear fuel to be loaded in its five nuclear units. We capitalized our share of the Davis-Besse Unit No. 1 fuel lease relating to the portion loaded into the reactor in June, 1982. This is in accordance with provisions of a June, 1982 PUCO rate order.

In November, 1982 CAPCO created the Central Area Energy Trust (the Trust). The Trust will oversee the financing of the procurement, conversion and enrichment stages of nuclear fuel for the CAPCO units. Each company's role in the Trust is independent of its ownership share of any CAPCO unit. Also, each company's rights and requirements in connection with the Trust are separate and distinct from the other companies. As of December 31, 1982, we have an obligation of $34.8 million to the Trust. This includes $.5 million in capitalized interest expense incurred during 1982. The 1982 interest expense was calculated at an average rate of 10.7 percent.

Our share of these leases, including the Trust agreement, is $178 million. We expect our nuclear fuel leasing arrangements to be adequate through 1983. Additional nuclear fuel financing arrangements are currently being negotiated. Estimated payments based on burn-up, including interest are: $9.3 million in 1983; $26.1 million in 1984; $29.4 million in 1985; $41.2 million in 1986; and $48 million in 1987.

(9) Interim Financial Reporting (Unaudited)

We feel the following quarterly results reflect all adjustments (which are of a normal recurring nature) to ensure a fair statement of results for such periods:

	(thousands of dollars)				Earnings Per Common Share	
Three Months Ended	Operating Revenues	Operating Income	Income Before Extraordinary Gain	Earnings On Common Stock	Before Extraordinary Gain	After Extraordinary Gain
1982						
March 31	124 420	28 241	25 650	19 683	$ .84	$ .84
June 30	111 673	26 307	24 078	17 387	.72	.72
September 30	126 786	31 379	32 108	25 359	.98	.98
December 31	118 847	23 155	23 698	16 883	.65	.65
1981						
March 31	108 232	25 110	18 082	12 435	$ .62	$ .62
June 30	105 407	27 169	20 887	14 898	.70	.70
September 30	118 651	28 799	24 660	18 726	.86	.86
December 31	109 994	21 913	19 507	24 343	.60	1.08

(10) The Effects of Changing Prices (Unaudited)

The following supplementary information is based on a 1979 pronouncement by the Financial Accounting Standards Board. It presents financial information showing the effects of general inflation (Constant Dollar Accounting) and changes in prices of specific assets, namely property, plant and equipment (Current Cost Accounting).

Constant dollar amounts represent historical dollars stated in terms of dollars of equal purchasing power, as measured by the Consumer Price Index for All Urban Consumers. Current cost amounts reflect the changes in specific prices of plant from the date the plant was acquired to the present. They also differ from constant dollar amounts to the extent that specific prices have increased more or less than the general rate of inflation. The current cost of plant estimates the probable cost of replacing existing plant assets and was determined by indexing the surviving plant by the Handy-Whitman Index of Public Utility Construction Costs.

Because our rates are regulated, we cannot recover through revenues any more than the original cost of plant assets. This is in spite of the fact that in times of high inflation, the cost to replace such assets upon their retirement will substantially exceed the original cost. Thus, in 1982, the added cost, due to inflation, of replacing the company's plant assets is not reflected in the cost upon which the company's rates are based. This amount, therefore, is an economic loss to the company. This loss is shown in the Results of Operations Adjusted for Changing Prices statement, under the caption "Inflation effect during 1982 on capital investment".

During a period of inflation, holders of monetary assets suffer a loss of general purchasing power. Holders of monetary liabilities experience a gain. The latter's gain is especially important for the company due to the substantial amounts of debt used to finance property, plant and equipment. This gain is shown in the table presented on page 14 under the caption "Gain from the decline in purchasing power of net amounts owed".

The comparative Constant Dollar and Current Cost values of all items on the income statement, except depreciation, represent the amounts recorded in the historical cost income statement. These amounts generally occurred ratably throughout the year. We have not restated fossil fuel inventories and the cost of fuel used in generation from their historical cost basis. Regulations limit how we recover fuel and purchased power and gas costs. The only options are through the operation of adjustment clauses or adjustments in basic rate schedules to actual costs. For this reason, fuel supplies are in effect monetary assets. No federal income tax benefits for any inflation adjustment are reflected. Current tax law does not allow for the erosion of capital that exists during periods of inflation. We have calculated provisions, for the current year, for the depreciation on the Constant Dollar and Current Cost amounts of property, plant and equipment. We figured this by applying the ratio of the provision for depreciation over the average property, plant and equipment on the Historical Cost basis, to the indexed plant values.

The Financial Data Adjusted for Changing Prices table presents selected operating and financial data for the past five years based on historical cost. This data is also adjusted for inflation as measured by the Consumer Price Index for all Urban Consumers. Earnings on common stock and earnings per share on a constant dollar basis and on a current cost basis are shown as if only the amount reportable as an additional provision for depreciation were deducted from the reported amount of such income. We revised the 1981 data to reflect actual indices.

RESULTS OF OPERATIONS ADJUSTED FOR CHANGING PRICES

Millions of Average 1982 Dollars

For the Year Ended December 31, 1982	Constant Dollar Accounting	Current Cost Accounting
Earnings on Common Stock From Continuing Operations	79	79
Effects of Inflation on Common Stock Equity:		
Inflation effect during 1982 on capital investment:		
Increase in specific prices to current costs	—	258
Effect of change in general price level	—	(151)
Reduction to net recoverable cost	(54)	(156)
Additional provision for depreciation	(26)	(31)
	(80)	(80)
Gain from decline in purchasing power of net amounts owed (primarily debt)	54	54
	(26)	(26)
Earnings on Common Stock From Continuing Operations Adjusted for Changing Prices	53	53

FINANCIAL DATA ADJUSTED FOR CHANGING PRICES

For The Years Ended December 31,	1982	1981	1980	1979	1978
Consumer Price Index (annual average)	289.3	272.4	246.8	217.4	195.4
Operating Revenues (millions)					
Historical cost basis	$482	$442	$402	$365	$340
Restated to average 1982 dollars	482	470	471	486	503
Dividends Declared per Common Share					
Historical cost basis	$2.38	$2.30	$2.20	$2.20	$2.14
Restated to average 1982 dollars	2.38	2.44	2.58	2.93	3.17
Consumer Price Index (year end)	294.4	281.5	258.4	229.6	202.9
Market Price per Common Share (year end)					
Historical cost basis	$21.00	$16.50	$15.88	$17.50	$21.63
Restated to year end 1982 dollars	21.00	17.26	18.09	22.44	31.38
Earnings on Common Stock (millions)					
Historical cost basis	$79	$60*	$49	$45	
Constant dollar accounting	53	34	36	29	
Current cost accounting	48	28	32	23	
Earnings per Common Share					
Historical cost basis	$3.18	$2.77*	$2.56	$2.65	
Constant dollar accounting	2.14	1.59	1.89	1.70	
Current cost accounting	1.93	1.30	1.66	1.39	
Common Stock Equity (millions)					
Historical cost basis	$617	$550	$479	$433	
Current/Constant accounting	591	506	426	381	
Increase in General Price Level Over (Under) Increase in Specific Prices (millions)	($107)	$5	$84	$77	
Gain From Decline in Purchasing Power of Net Amounts Owed (millions)	$54	$93	$111	$102	
Property, Plant and Equipment, Net of Accumulated Depreciation (Includes Non-Utility Plant) (millions)					
Historical cost basis	$1,919	$1,678	$1,525	$1,310	
Current cost accounting	3,645	3,177	2,804	2,390	
Net Recoverable Cost of Net Assets (Current/Constant accounting) (millions)	$606	$534	$457	$408	

*Before Extraordinary Gain

Financial Review

Thousands of Dollars	1982	1981	1980	1979	1978	1972
Operating Revenues						
Residential	153 662	138 781	126 085	113 464	106 512	37 055
Commercial	101 789	90 863	80 836	72 354	67 563	24 698
Industrial	158 930	151 539	137 860	128 931	120 570	38 013
Other	58 814	53 670	50 105	43 958	39 438	16 001
Electric–total	473 195	434 853	394 886	358 707	334 083	115 767
Gas and steam heating	8 530	7 431	6 982	6 414	5 973	2 815
Total	481 725	442 284	401 868	365 121	340 056	118 582
% Increase from prior year	9%	10%	10%	7%	23%	14%
Operating Expenses						
Fuel	120 484	123 074	110 423	93 295	82 039	23 721
Purchased and net interchanged power	7 174	(632)	45 348	53 574	55 850	13 959
Operation	75 834	63 976	55 842	44 691	38 883	20 097
Maintenance	38 839	31 908	29 319	21 137	19 604	6 799
Depreciation and amortization	43 838	43 427	26 002	29 117	26 532	11 778
State and local taxes	41 260	36 699	31 202	29 760	24 320	10 513
Federal income taxes	45 214	40 842	23 376	25 139	27 397	8 209
Total	372 643	339 294	321 512	296 713	274 625	95 076
% of Total Revenues	77%	77%	80%	81%	81%	80%
Income						
Operating Income	109 082	102 990	80 356	68 408	65 431	23 506
Allowance for equity funds used during construction*	48 706	32 498	28 443	23 512	17 470	4 458
Income tax reductions–construction borrowed funds and other	18 937	9 616	13 218	8 251	6 484	1 004
Other income and deductions–net	1 017	8 852	879	1 017	720	90
Income before interest charges	177 742	153 956	122 896	101 188	90 105	29 058
Interest charges	(94 713)	(86 310)	(70 866)	(52 584)	(42 746)	(9 972)
Allowance for borrowed funds used during construction*	22 505	15 491	15 148	9 991	7 090	—
Income before extraordinary gain	105 534	83 137	67 178	58 595	54 449	19 086
Extraordinary gain	—	10 807	—	—	—	—
Net income	105 534	93 944	67 178	58 595	54 449	19 086
Preferred stock dividends	26 221	23 542	18 021	13 894	13 020	2 650
Earnings on common stock	79 313	70 402	49 157	44 701	41 429	16 436
Common Stock						
Dividends Declared per Share	2.38	2.30	2.20	2.20	2.14	1.86
Earnings per Share						
Before extraordinary gain	3.18	2.77	2.56	2.65	2.78	2.91
Extraordinary gain	—	.50	—	—	—	—
After extraordinary gain	3.18	3.27	2.56	2.65	2.78	2.91
Return on Average Equity						
Before extraordinary gain	13.3%	11.6%	10.5%	10.7%	11.3%	14.5%
After extraordinary gain	13.3%	13.5%	10.5%	10.7%	11.3%	14.5%
Market Price Range per Share						
High	21.13	18.38	20.75	23.38	25.50	31.75
Low	15.75	15.00	15.00	17.38	20.63	26.25
Year End	21.00	16.50	15.88	17.50	21.63	30.25
Book Value per Share	23.53	23.46	23.77	24.15	24.29	20.44
Average Shares Outstanding (thousands)	24 917	21 507	19 226	16 848	14 900	5 649

*In 1972, allowance for funds used during construction was reported in total in other income.

Statistical Review

	1982	1981	1980	1979	1978	1972
Sales (millions of kilowatt-hours)						
Residential	1 911	1 919	1 971	1 934	1 914	1 460
Commercial	1 325	1 294	1 282	1 256	1 231	997
Industrial	2 873	3 080	3 165	3 559	3 617	3 079
Municipals and other	809	858	970	960	923	885
Total	6 918	7 151	7 388	7 709	7 685	6 421
% Increase (Decrease) from prior year	(3)%	(3)%	(4)%	—%	3%	9%
Electric Customers (year end)						
Residential	241 492	241 663	240 142	238 353	234 450	213 546
Commercial	23 495	23 573	23 532	23 636	23 334	21 269
Industrial and other	3 815	3 844	3 818	3 695	3 551	4 217
Total	268 802	269 080	267 492	265 684	261 335	239 032
Residential Usage						
Annual kilowatt-hours per customer	7 906	7 966	8 232	8 166	8 244	6 916
Average price per kilowatt-hour (cents)	8.04	7.23	6.40	5.87	5.57	2.54
Annual revenue per customer (dollars)	636	576	527	479	459	176
Load (megawatts)						
Net capability–at time of peak	1 790	1 773	1 760	1 825	1 813	1 273
Peak load	1 355	1 315	1 310	1 395	1 386	1 096
Reserve factor at peak	32%	35%	34%	31%	31%	16%
Load factor	62%	66%	68%	67%	67%	68%
Energy (millions of kilowatt-hours)						
Generated–net	6 875	7 491	6 560	6 884	6 674	5 036
Purchased and net interchanged power	510	157	1 352	1 348	1 566	1 837
Total	7 385	7 648	7 912	8 232	8 240	6 873
Fuel						
Fuel cost per kilowatt-hour (cents)	1.80	1.68	1.65	1.33	1.20	.47
Efficiency–BTU per kilowatt-hour	10 220	10 274	10 246	10 262	10 283	10 030
Total Assets (thousands of dollars)	2 121 868	1 868 370	1 701 443	1 467 512	1 255 947	422 511
Property, Plant and Equipment (thousands of dollars)						
Plant in service	1 306 677	1 261 174	1 208 001	979 809	950 873	387 874
Accumulated provisions for depreciation	285 453	252 310	220 629	201 895	176 450	100 305
Annual Construction Expenditures (thousands of dollars)	246 869	198 849	234 827	239 010	169 888	75 278
Capitalization (thousands of dollars)						
Common stock equity	617 127	550 176	478 993	432 554	382 084	117 745
Cumulative preferred stock	265 027	245 500	216 500	184 000	159 500	56 000
Long-term debt	886 168	764 831	714 406	611 137	560 644	183 969
Total	1 768 322	1 560 507	1 409 899	1 227 691	1 102 228	357 714
Number of Employees (year end)	2 458	2 335	2 331	2 260	2 188	1 912

Board of Directors

Richard P. Anderson (O)
Partner and General Manager, The Andersons

Samuel G. Carson (E)(N)*
Chairman
Toledo Trust Co. and Toledo Trustcorp, Inc.

Richard P. Crouse
Vice President, Nuclear

Robert H. Davies (C)*(O)
Senior Vice President, Owens-Illinois, Inc.

Elwood L. Elberson (C)
Chairman, President and Chief Executive
Dinner Bell Foods, Inc.

Stanley W. Gustafson (C)
President, Dana Corporation

Wendell A. Johnson (E)
President and Chief Operating Officer

Marvin S. Kobacker (E)(N)
Vice Chairman, Kobacker Stores, Inc. and Private Investor

Isabel F. Martin (A)
Consultant, Toledo Area United Way

Donald G. Nicholson
Vice President, Finance

Henry A. Page, Jr. (A)
Director of Development, The Medical College of Ohio at Toledo

Lyman C. Phillips
Vice President, Corporate Planning and Development

Willard I. Webb, III (A)*(E)
Chairman and Chief Executive Officer, Ohio Citizens Bank

John P. Williamson (E)*
Chairman and Chief Executive Officer

Robert G. Wingerter (N)(O)*
Chairman, Executive Committee, Libbey-Owens-Ford Company

Key to Directors' Committees

(A) Audit Committee
(C) Compensation Committee
(E) Executive Committee
(N) Nominating Committee
(O) Operations Committee
(*) Committee Chairman

Directors Emeriti

Floyd M. Canter
William S. Carlson
Virgil A. Gladieux

Executive Officers

John P. Williamson
Chairman and Chief Executive Officer

Wendell A. Johnson
President and Chief Operating Officer

Richard P. Crouse
Vice President, Nuclear

John R. Dyer
Vice President, Public Relations

Frank W. Keith
Vice President, Administration

David A. Nelson
Vice President, Administrative Services

Donald G. Nicholson
Vice President, Finance

Lyman C. Phillips
Vice President, Corporate Planning and Development

Lowell E. Roe
Vice President, Energy Supply

David K. Zaski
Vice President, Customer Services

Stratman Cooke
Secretary

Donald H. Saunders
Treasurer

Paul G. Busby
Controller

The Annual Meeting

The Annual Meeting of The Toledo Edison Company will be held at 10 a.m. (E.D.T.) on April 26, 1983 in the Company's headquarters, Edison Plaza, 300 Madison Avenue, Toledo, Ohio. Formal notice of the meeting will be sent to shareowners with the proxy statement.

This report, including the financial statements, is submitted for the general information of Toledo Edison Company's shareowners. It is not intended to be used in connection with any sale or purchase of any securities.

A copy of Form 10-K as filed with the Securities and Exchange Commission will be available to shareowners upon written request to the Company's Vice President, Finance.

Executive Offices
300 Madison Avenue
Toledo, Ohio 43652
Phone (419) 259-5000

Dividend Disbursing and Reinvestment Agent
The Toledo Trust Company
Toledo, Ohio 43603

Stock Transfer Agents
The Toledo Trust Company
Toledo, Ohio 43603
Morgan Guaranty Trust Company of New York
New York, N.Y. 10015

Stock Registrars
Ohio Citizens Bank
Toledo, Ohio 43603
Morgan Guaranty Trust Company of New York
New York, N.Y. 10015

Mortgage Trustee
The Chase Manhattan Bank, N.A.
New York, N.Y. 10081

Auditors
Arthur Andersen & Co.
300 Madison Avenue
Toledo, Ohio 43604

General Counsel
Paul M. Smart
Fuller & Henry
300 Madison Avenue
Toledo, Ohio 43604

Exchange Listings
Common
New York Stock Exchange
Midwest Stock Exchange

Unlisted Trading Privileges
Boston Stock Exchange
Cincinnati Stock Exchange
Philadelphia, Baltimore and Washington Stock Exchange

Preferred–$25 par value–8.84%, $2.365, $4.28 series
New York Stock Exchange

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

Bonds
7½% –Due 2002, 9⅝% –Due 2008
8% –Due 2003, 9.65%–Due 2006
9% –Due 2000, 11% –Due 2009
9.35%–Due 1985,
New York Stock Exchange

About Toledo Edison

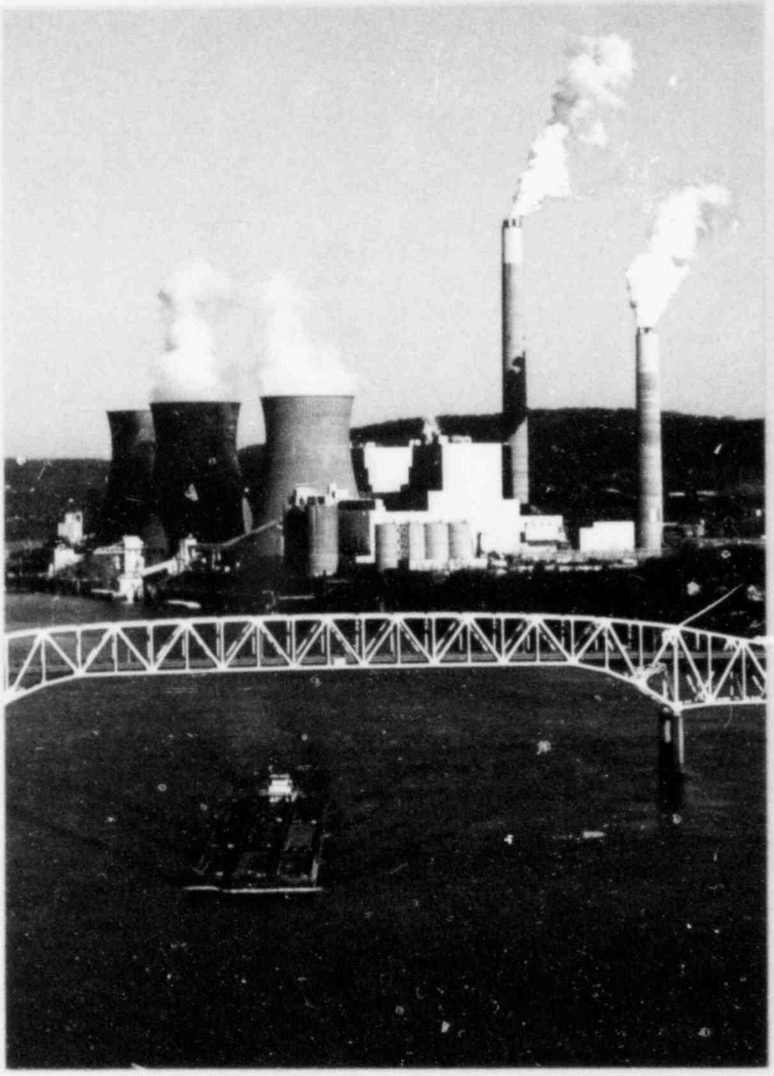
The Toledo Edison Company is a public utility whose primary activities are the generation, transmission, distribution and sale of electric energy in Toledo and northwestern Ohio. Servicing approximately 2,500 square miles with an estimated population of 750,000, the Company also provides relatively small amounts of natural gas and steam heating services. Toledo Edison is owned by over 100,000 shareholders in all 50 states and in many countries throughout the world.

TOLEDO
EDISON

EDISON PLAZA
300 MADISON AVENUE
TOLEDO, OHIO 43652

BULK RATE
U.S. POSTAGE
PAID
TOLEDO, OHIO
Permit No. 2300

OHIOEDISON Annual Report



D.N.
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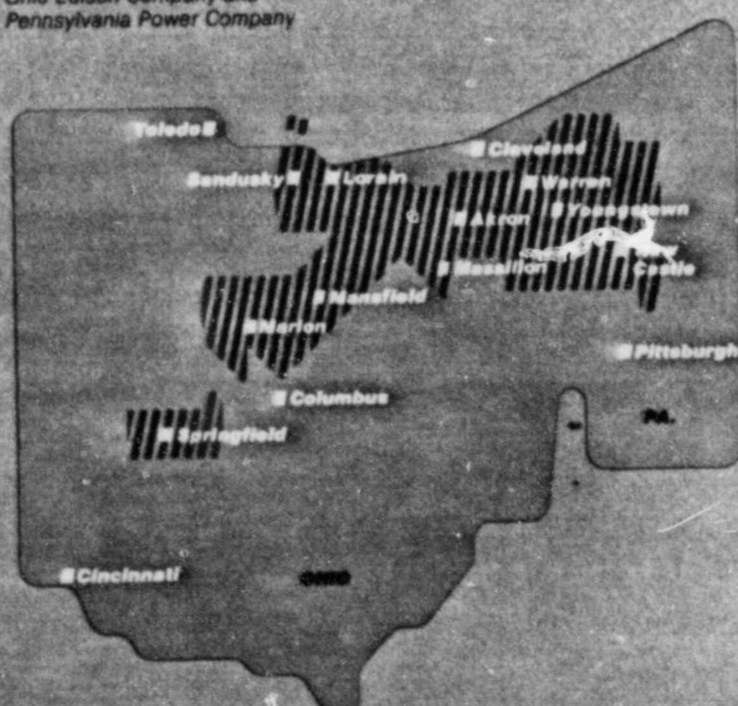
Ohio Edison System

The Ohio Edison System is the 17th largest investor-owned electric system in the United States, based on total kilowatt-hour sales, and consists of Ohio Edison Company and its wholly owned subsidiary, Pennsylvania Power Company. Ohio Edison, headquartered in Akron, Ohio, provides electric service to about 840,000 customers. Penn Power, in New Castle, Pennsylvania, serves about 125,000 customers. The System's service area covers approximately 9,000 square miles and includes several of the most highly industrialized cities and agriculturally productive regions in Ohio and Pennsylvania. Ohio Edison has a second wholly owned subsidiary, Ohio Edison Finance N.V., a Netherlands Antilles (West Indies) corporation which was established in 1981 to expand the Company's capital market access to foreign investors.

Service Area
Ohio Edison Company and
Pennsylvania Power Company

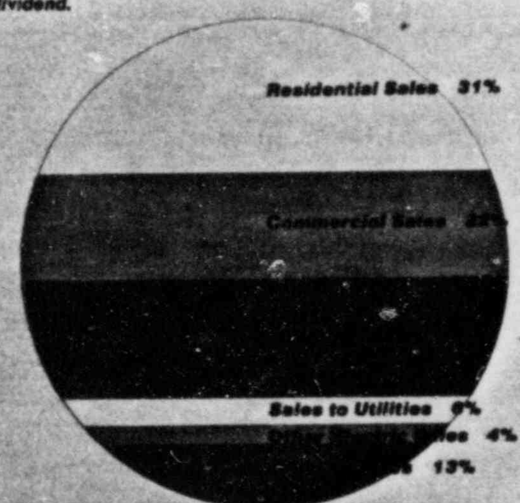


Financial Highlights

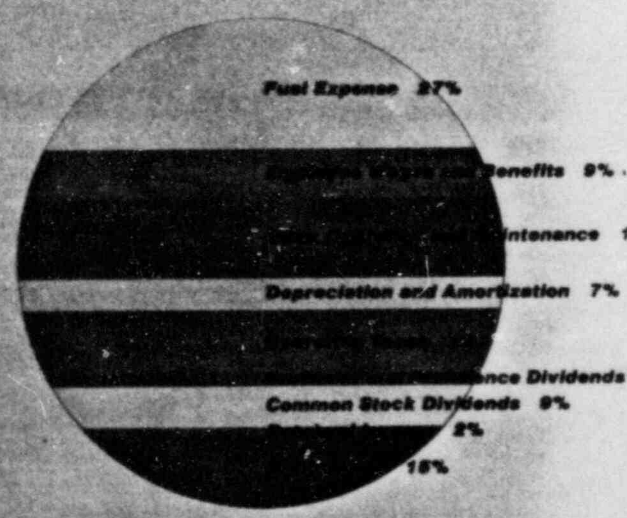
For the Years Ended December 31	1982	1981	Change
	(In millions, except per share amounts)		
Kilowatt-Hour Sales	**24,025.5**	24,662.2	−2.6%
Operating Revenues	**$1,429.6**	$1,279.6	+11.7%
Fuel Expense	**432.7**	413.7	+4.6%
Operating Income	**269.6**	252.4	+6.8%
Allowance for Funds Used During Construction, Net	**160.3**	127.8	+25.4%
Interest and Other Charges	**310.4**	267.5	+16.0%
Income Before Extraordinary Items	**195.6**	183.0	+6.9%
Net Income	**215.7**	197.1	+9.5%
Earnings on Common Stock	**181.5**	163.9	+10.7%
Earnings Per Common Share:			
Before Extraordinary Items	**$1.89**	$2.10	−10.0%
Earnings on Common Stock	**2.13**	2.30	−7.4%
Dividends Per Common Share*	**$1.76**	$1.76	—
Dividends on Capital Stock	**$185.8**	$159.2	+16.7%
Construction Expenditures:			
Construction of Facilities	**649.9**	549.1	
Nuclear Fuel	**124.3**	18.9	
Total	**$774.2**	$568.0	+36.3%
Net Financing Activities	**683.5**	385.6	+77.3%
Return on Average Common Equity	**13.5%**	14.6%	

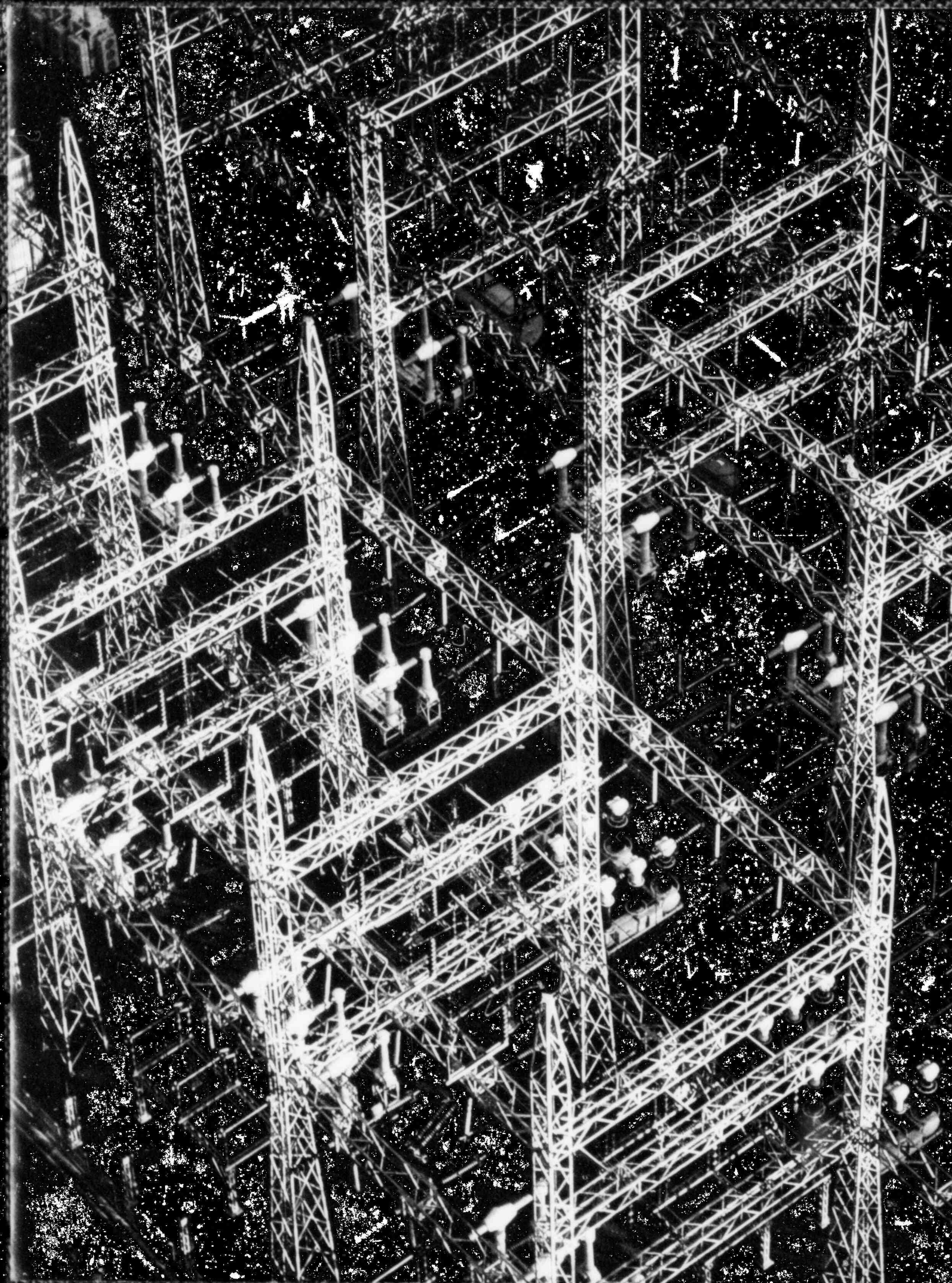
***The quarterly dividend was increased to 45 cents per share ($1.80 on an annual basis) effective with the March 31, 1983, dividend.**

Source of 1982 Income

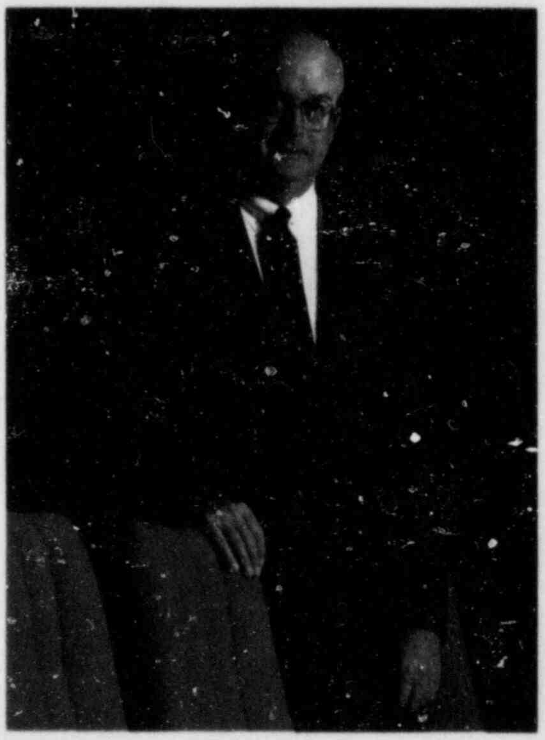


Distribution of 1982 Income





President's Message



Justin T. Rogers, Jr.
President

The year 1982 will be remembered as a difficult one for Ohio Edison, its stockholders and customers.

For the Company, it meant taking advantage of every opportunity that would help offset the effects of a continuing business slump that gripped the entire nation. With the economy shrinking our customers' demand for electricity, for example, we increased our efforts to sell available generating capacity to other utilities. Despite intense competition from many companies faced with the same need to sell power, our efforts met with considerable success. Kilowatt-hour sales to other utilities were up 36.3 percent over 1981.

While these record sales of bulk power added $101.7 million to total revenues, they didn't make up for a 6.9 percent decrease in kilowatt-hour sales to our own customers. This drop in sales, combined with an increase in the number of shares of common stock during the year, were the principal reasons common stock earnings were down 17 cents from 1981, to $2.13 per share.

We did, however, receive favorable treatment on several rate issues, which carried with them an improvement in our financial outlook. The Public Utilities Commission of Ohio (PUCO) in July provided us with a means to begin recovering $71 million in fuel expenses which had previously been deferred. In our most recent rate case, the 13.02 percent rate of return granted by the Commission was designed to permit amortization of $54 million in after-tax costs for four nuclear units canceled in 1980. In a related development, the Pennsylvania Public Utility Commission ruled that our subsidiary, Pennsylvania Power, will be able to recover its $10 million after-tax share of the costs of those units through rates over a ten-year period.

The Ohio Commission also approved our accounting treatment of an equity-for-debt exchange that took place in May when we acquired several series of our discounted first mortgage bonds in exchange for 2.7 million shares of common stock. This exchange is particularly significant because it added an extraordinary gain of 24 cents per share, or $20.2 million, to 1982 earnings; and it eliminated $53.4 million in long-term debt, thereby reducing future interest charges and strengthening our capital structure.

The Companies also were granted new rates during the year that should add about $135 million to annual revenues. However, this amount is 27.3 percent less than the $185.8 million we needed to meet our increasing costs and provide a fair return on stockholder investment.

As you may recall, the PUCO late in 1981 ordered an independent management study of Ohio Edison. On January 11, 1982, the Commission-appointed consultants undertook a five-month review of the Company's management and operations. In their final report to the PUCO, the consultants found the Company to be a "well-managed utility enterprise." They noted that while the Company "confronts an unusually complex array of strategic challenges… management has recognized the dimensions of these challenges and has developed appropriate strategic approaches to them." The consultants also offered some recommendations they felt could further strengthen operations. These have either already been implemented or are undergoing further study to determine whether they are practical and cost-effective.

We are proud of our achievements and confident in our proven ability to continue moving the Company forward. As we look ahead, we see four areas that could have important effects on our Company's future and will require our concentrated attention: changes in utility regulation; financing to complete construction projects; new and more costly environmental regulations; and the general economy of our service area.

- We witnessed some major changes in utility regulation in 1982. The most significant was a new Ohio law that changes the process of selecting PUCO commissioners and establishes specific qualifications for commissioners. Also, a new law in Pennsylvania prevents utilities such as Penn Power from including plant construction costs in rates until a project is complete. The result will be higher and sharper customer rate increases when a plant is placed into service. We cannot yet fully assess how these and other changes will affect our future earnings, but we will adjust our strategies to deal with these changes.

  Fortunately, we won't have to deal with the politics of elected PUCO commissioners because Ohio voters overwhelmingly defeated such a proposal on the ballot last fall. We are deeply indebted to our many Ohio stockholders and employees who helped defeat this proposal, which would have eventually resulted in higher costs to consumers.

- Completing our plant and environmental construction program will require us to raise about $1.4 billion over the next six years. Acquiring these funds will be a very demanding task, especially in the current economic and regulatory climate—but it is achievable. We will continue to develop the necessary methods to finance these projects as economically as possible.

- Even though our current environmental program will be completed in 1984, at a total cost of more than $511 million, new federal legislation already being considered could cost coal-burning utilities billions of dollars more to comply with so-called "acid rain" standards. We must in good conscience oppose any "quick-fix" legislation directed at correcting an environmental phenomenon about which too little is known. Sufficient research must be conducted to identify the true causes of acidic precipitation and the most cost-effective remedies. Again, we gratefully acknowledge the support we've received from our stockholders and employees in bringing our concerns about this matter to the attention of lawmakers in Washington.

- The national economy will continue to impede our financial performance in 1983, but we do see some early signs that the economy is headed toward improvement. Two of the most important signs, especially for us, are the sharp drop in inflation and the steady decline in interest rates to more reasonable levels. For a capital intensive industry like ours, these current trends will help us hold down operating and financing costs and will ultimately benefit our stockholders and customers.

  With respect to long-term economic growth, we are encouraged by the 65 new or expanding commercial and industrial projects underway in our service area that will eventually result in more jobs and sales of electricity. Industry continues to benefit from the area's many important assets, including skilled labor, geographic location, transportation and others—not least of which is a reliable supply of reasonably priced electricity.

Like our service area, we, too, have the assets that can help assure our success and growth. We have a solid management team, an efficient operation and much-appreciated stockholder support. These strengths, combined with the continuing dedication of employees, will not only enable us to continue providing customers with high-quality electric service, but also to protect and improve your investment in the Company.

Justin T. Rogers, Jr.

Justin T. Rogers, Jr.
President
March 1, 1983

Plant Reliability Remains High

Power plant reliability is important to us because our customers and stockholders benefit from the most efficient use of our facilities. For the third consecutive year, an average of more than 70 percent of our fossil-fired generating capacity was available to produce electricity. This relatively high equivalent availability was possible because of a major availability improvement program begun in 1978, plus thorough and timely maintenance.

With high plant availability and low customer demand, we took extra measures to improve the cost-effectiveness of operations. For example, by extending some of our normal maintenance outages, we were able to reduce costly overtime work. And even though our maintenance activities were intensified to further assure the reliability of equipment for years to come, maintenance costs were held to below the authorized operating budgets. In addition, five generating units at the Mad River and West Lorain power plants were taken out of service in December 1982 and January 1983 because of reduced electric sales. However, the units will be maintained and available in the future when they are needed.

▲ ***With the help of microcomputers, meter readers are improving the way meter information is collected and processed, saving both time and money. Use of these electronic Porta-Processors will become System-wide in 1983.***

Record Year in Bulk Power Sales

The combination of high plant performance and aggressive sales efforts resulted in more bulk sales of power in 1982 than ever before. In a highly competitive market for electric power, System sales to other utilities were 3.4 million megawatt-hours, 36.3 percent more than in 1981. The highest monthlong record was 575,832 megawatt-hours in August, when sales more than doubled from the same month in 1981. Representing 14 percent of our total kilowatt-hour sales, these bulk sales contributed $101.7 million to our revenue and helped offset reduced sales to our own customers.

Beaver Valley Unit Performs Well

From July through December, the Beaver Valley Power Station's 810-megawatt nuclear unit 1 achieved 86.8 percent operating availability. As a result, it reduced our need for more expensive coal-fired generation during that period by approximately 12 percent. Prior to those six months, the unit underwent a scheduled refueling during which various systems were modified to further improve its performance. Additional safety requirements were also fulfilled as specified by the Nuclear Regulatory Commission (NRC) for all nuclear plants. The Companies own 52.5 percent of this unit, operated by the Duquesne Light Company of Pittsburgh, Pennsylvania.

Quarto Fuel Cost Recovery

In July, The Public Utilities Commission of Ohio (PUCO) resolved a major issue concerning Ohio Edison's recovery of the cost of contract coal delivered to the Bruce Mansfield Plant from the Quarto Mining Company. Previously, we were permitted to recover through the fuel component of our rates only a portion of the coal's cost. The unrecovered costs were deferred and, as of July 31, 1982, had accumulated to approximately $71 million. After comprehensive studies, we concluded that the best method of reducing the average cost of coal to the Mansfield Plant was to work with the coal company to improve production efficiency and to purchase more lower-cost coal from other sources. The PUCO agreed with our approach and provided us with a method that should help recover the Quarto coal costs and the

▲ *Inside a baghouse at the W. H. Sammis Plant, fabric bags 34 feet long are designed to filter over 99 percent of the dust from boiler flue gas. It is one of four at the Plant that were recently completed and made operational.*

▶ *Leaving a pattern of mounds, an average of 250 truck loads of coal per day are delivered to the W. H. Sammis Plant. We have capitalized on current market conditions to hold down the average cost of coal, which is our largest single expense item.*

deferred coal costs, depending on future market prices of coal. As a result of the PUCO decision, the Company reduced the deferred coal costs to $63 million by December 31, 1982.

Cost-Effective Environmental Control

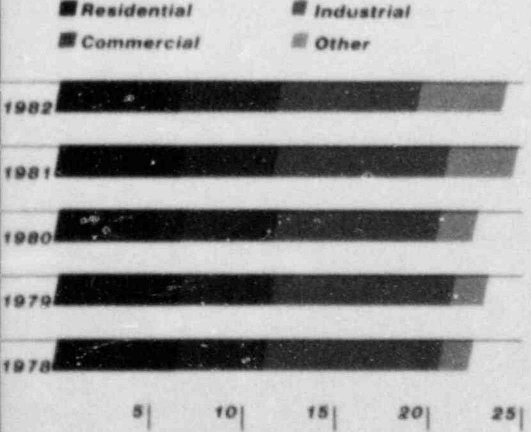
We have the responsibility of producing reasonably priced electricity in an environmentally acceptable manner, and we seek the most cost-effective ways of doing so. For example, while we added large dust collection facilities at a number of generating units, we were also able to comply with current air quality regulations at some units without adding major new equipment. By improving the combustion efficiency of these units, modernizing system controls and using cleaner burning coal, we were able to avoid the need to install nearly $150 million in air quality control equipment.

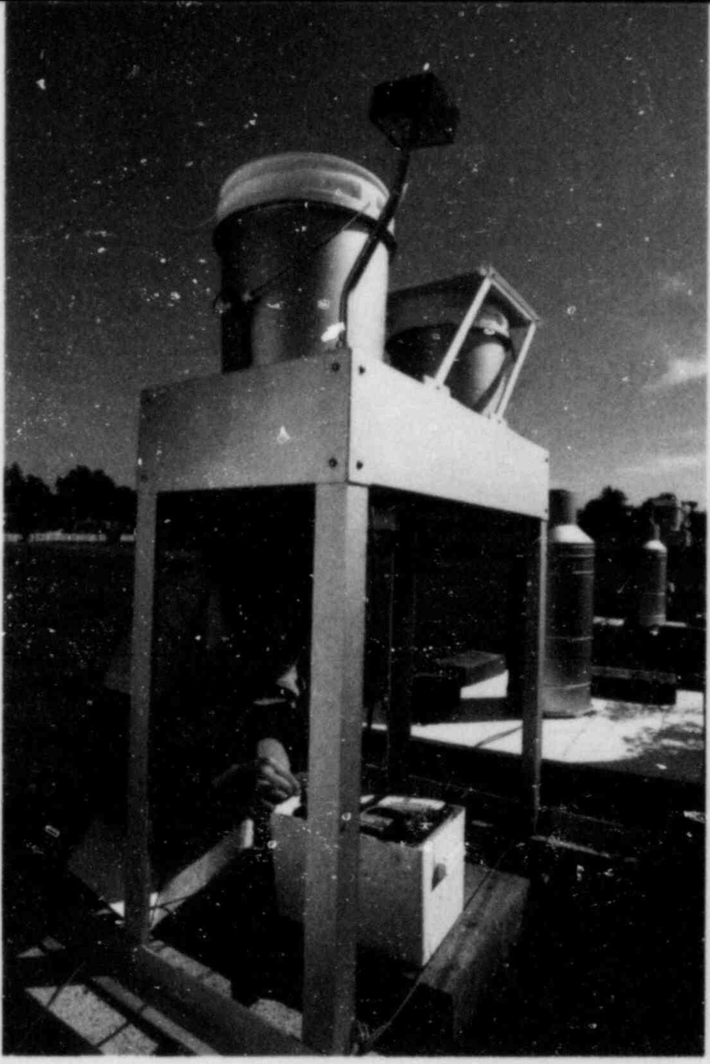
Environmental Research

In anticipation of ever-changing regulations, the Companies spent $2.9 million in 1982 for air and water quality research. For example, to promote deeper investigation of the so-called "acid rain" theory, several major research projects are being conducted or supported by the Companies. These studies include monitoring of rainfall and attempts to track the sources of acidic rainfall. Studies on the local impact of emissions are underway, such as a project begun in 1982 at the Sammis Plant that incorporates data from sound waves, weather balloons, a network of monitoring stations and aircraft to follow the flow of emissions from the Plant's chimneys. These and other efforts are directed at finding a way to comply with emission regulations and yet fuel power plants with less-expensive, high-sulfur coal from local markets.

Kilowatt-Hour Sales

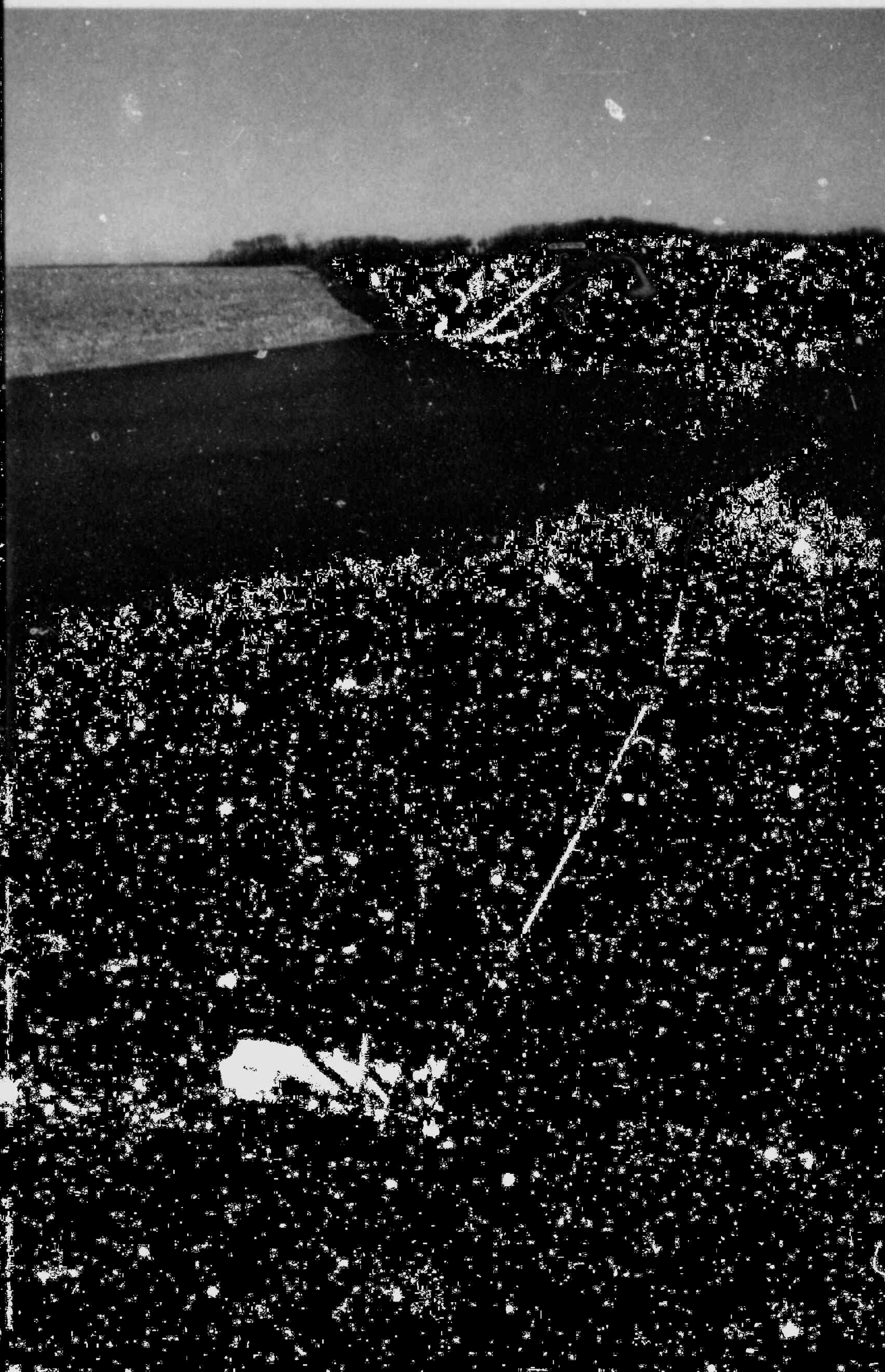
In Billions





▲ *An employee checks equipment at an "acid rain" monitoring station that separately collects rain and dry deposits from the air. Samples are analyzed regularly to determine changes in acidity levels of rainfall.*

▶ *To create a reservoir where sludge from the Bruce Mansfield Plant's air quality control system could be safely deposited, the largest earth- and rock-fill embankment dam in the eastern U.S. was built about seven miles from the Plant.*



▲ Laboratory workers test samples of coal from our generating plants to accurately determine coal quality. Moving this work from the plants to a centralized laboratory has cut costs and improved the consistency of analysis and results.

Regulatory and Financial Activities

New Rates Granted

Unlike most industries, the prices we charge are subject to regulatory approval. We must, therefore, continually assess our needs and request new rates as necessary to meet the increasing costs we face in producing the electricity customers need. During the year, the Companies were granted $135 million in rate increases, either on a permanent basis or an interim basis, by federal and state regulatory commissions. Ohio Edison has also filed for an increase which should become effective in the early fall of 1983 and, if granted in the full amount requested, would add $171.3 million to annual revenues.

In our most recent rate case, the PUCO granted a 13.02 percent rate of return, which included an allowance intended to provide Ohio Edison with a basis for amortizing the expenses associated with four nuclear units that were terminated in January 1980. (See Note 2 to the Consolidated Financial Statements.) The Company's after-tax share of those expenses was approximately $54 million. Also, in January 1983, the Pennsylvania Public Utility Commission said that Penn Power will be permitted to recover its $10 million after-tax share of costs of the units through electric rates. The recovery will take place over a ten-year period beginning with the effective date of Penn Power's next rate increase.

PUCO Structure Revised

A new Ohio law which affects several aspects of state utility regulation was enacted during the summer and became effective January 11, 1983. The PUCO commissioners will now be appointed by the Governor from a list of candidates nominated by a 12-member council representing consumers, regulated utilities, senior citizens, business, labor and other groups. The law also expands the Commission from three to five members; prohibits the use of a fully projected test year for rate-making purposes; and imposes time limits, in certain circumstances, on filing rate increase requests.

Diverse Sources of Capital

While raising the necessary funds for construction, we have been very successful in diversifying sources of funding and thus lowering overall financing costs. The July sale of Eurobonds to foreign investors through our Ohio Edison Finance N.V. subsidiary tapped an alternative capital market when domestic market conditions were less favorable. Also, when two issues of pollution control revenue bonds were sold in April and September, arrangements were made to secure each issue with a bank letter of credit. In doing so, Standard and Poor's Corporation gave those issues its highest rating (AAA), enabling us to save millions of dollars in interest charges over the life of those securities. And at the end of 1981 and in 1982, arrangements were made to reduce the financing costs of nuclear fuel through the formation of two special corporations, unrelated to the Companies. These corporations will finance a portion of the Companies' nuclear fuel requirements and lease the fuel to us.

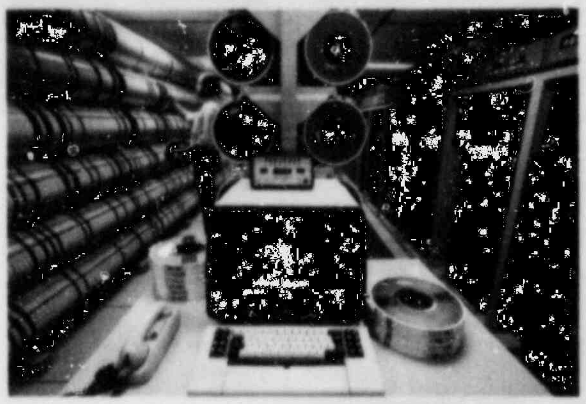
In addition to the public sale of 10 million shares of common stock, 2.7 million shares were exchanged for $53.4 million principal amount of outstanding Ohio Edison first mortgage bonds. The exchange resulted in an extraordinary gain of $20.2 million in 1982 earnings, and more importantly, improved our capital structure ratios

1982 Security Sales

Closing Date	Ohio Edison	Year of Maturity	Net* Proceeds
Feb. 25	First mortgage bonds at 17% interest	1992	$74.4 million
April 14	Pollution control revenue bonds (Ohio Air Quality Development Authority) at 11.75% interest	1992	$48.9 million
June 10	Reacquisition of first mortgage bonds in exchange for approximately 2.7 million shares of common stock	—	$20.2 million**
July 8	Guaranteed notes through Ohio Edison Finance N.V. at 17.25% interest	1987	$73.7 million
Aug. 5	6 million shares of common stock	—	$73.8 million
Sept. 22	Pollution control revenue bonds (Ohio Air Quality Development Authority) at 8.125% interest	2012	$49.2 million
Oct. 13	2 million shares of $3.92 preference stock	—	$52.9 million
Dec. 7	4 million shares of common stock	—	$58.2 million
Jan. 1–Dec. 31	4.6 million shares of common stock issued through the Dividend Reinvestment and Stock Purchase Plan	—	$59.4 million
	Penn Power		
Jan. 14	First mortgage bonds at 15.75% interest	1989	$15.0 million
July 23	80,000 shares of 15% preferred stock (with sinking fund provisions to retire the issue by 2012)	—	$ 8.0 million
Aug. 3	Pollution control revenue bonds (Ohio Air Quality Development Authority) at 13.75% interest	2002	$14.3 million
Dec. 15	First mortgage bonds at 13.50% interest	1992	$15.0 million

*Except for the equity-for-debt exchange, these are proceeds realized before issuance expenses.

**Represents the excess of the principal amount of acquired first mortgage bonds over the value of the stock exchanged, rather than a cash receipt, and recorded as a nontaxable extraordinary gain for the second quarter.



◀ A library with more than 20 million feet of computer tape retains customer and stockholder information, planning and statistical data and daily records on various aspects of operations.

▼ The new Customer Information System will further automate billing and shorten the billing process. Also, Customers Accounting employees will have easier, quicker access to information needed in answering inquiries.

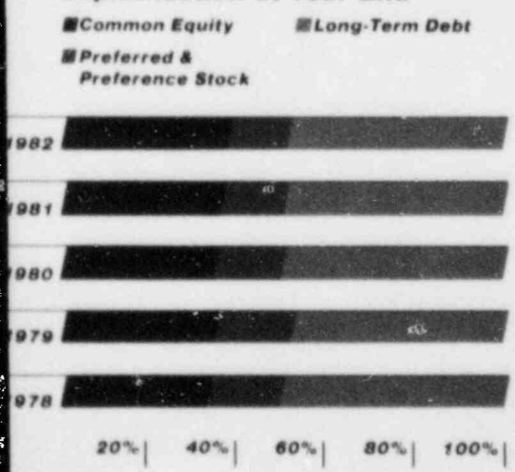
and the book value of common stock, reduced debt and eliminated future interest payments on that debt.

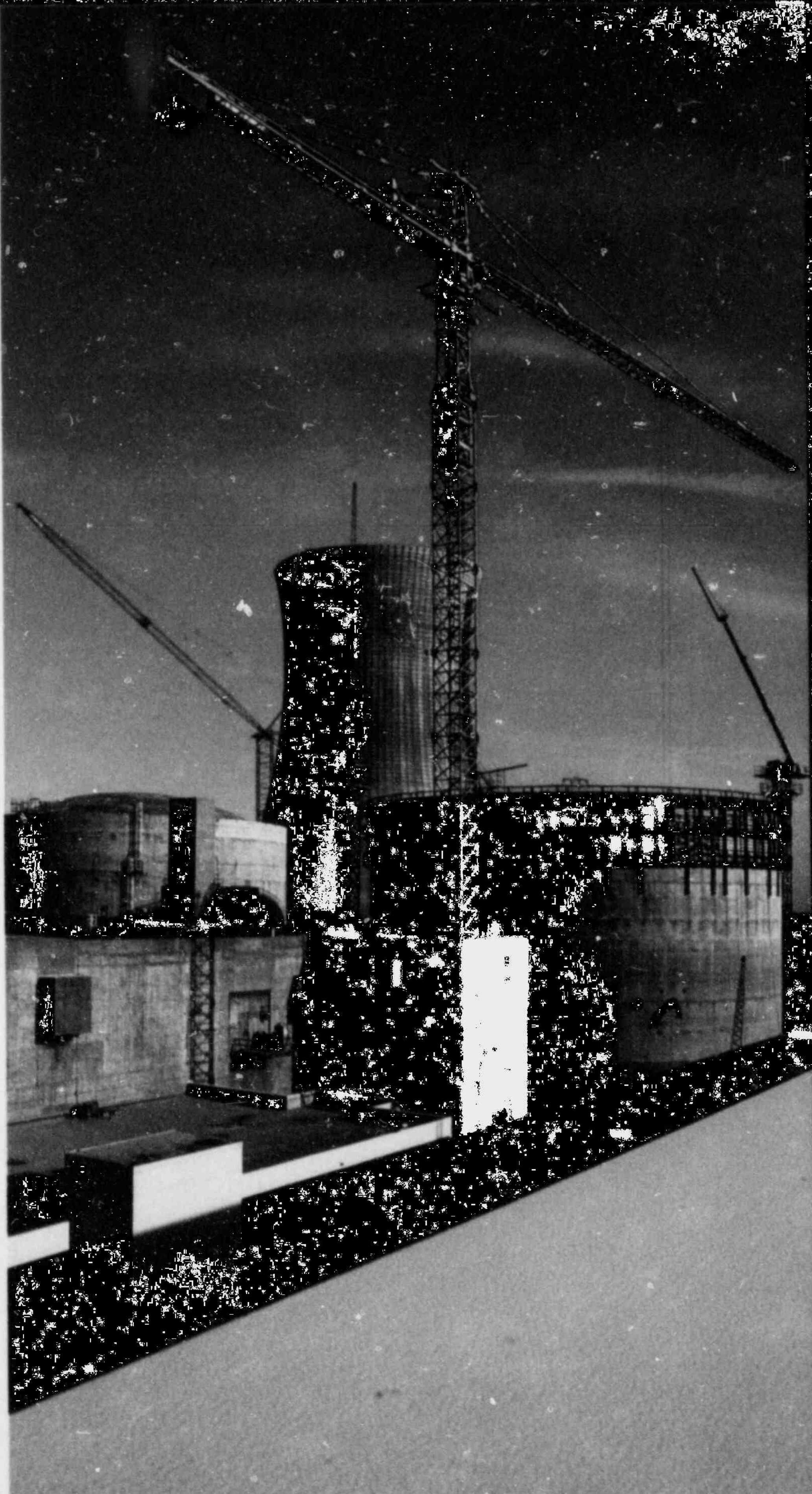
Billing Process Improves Cash Flow

Numerous refinements have been made to Ohio Edison's billing process to increase the availability of cash and reduce operating expenses. One recent program reduced the period between reading a meter and mailing the bill from six days in 1980 to four days by the end of 1982. The resulting improved cash flow will save an estimated $400,000. In December, the Company began to centralize the receiving and processing of payments by 4,500 large industrial and commercial customers, with potential savings of $275,000. We will realize additional savings in the second half of 1983 when we centralize the processing of payments from all other customers.

Two new programs will reduce the billing process by two more days and accelerate cash receipts by approximately $500,000. A hand-held electronic meter reading device, which underwent testing late in the year, will improve billing accuracy and shorten the time it takes to render bills. Our new Customer Information System will utilize a network of computer terminals to simplify reporting, improve response time to customer inquiries and allow bulk processing of meter readings.

Capitalization at Year End





▶ *With the process of obtaining an operating license well underway, unit 1 of the Perry Nuclear Plant is scheduled for start up in 1984. Unit 2 is scheduled for operation in 1988.*

Plant Construction Progresses

Three nuclear generating units are being built and financed by the companies in the Central Area Power Coordination Group (CAPCO): Ohio Edison, Penn Power, The Cleveland Electric Illuminating Company (CEI), Duquesne Light Company and The Toledo Edison Company.

For unit 1 of the Perry Nuclear Plant, under construction for the CAPCO Group by CEI, 1982 was a particularly good year in licensing progress. Early in the year, an NRC licensing study found that the unit poses no adverse effects on the environment. In July, the NRC's Advisory Committee on Reactor Safeguards recommended that the 1,205-megawatt unit be licensed to operate at full capacity. At the end of the year, the unit was 89.1 percent complete and on schedule for operation in 1984. The reactor of the 1,205-megawatt unit 2 was fully enclosed during the summer when its dome was placed. Scheduled for operation in 1988, the unit was 47.5 percent complete by December 31. Ohio Edison and Penn Power will own 35.24 percent, or 850 megawatts, of total generation from both units.

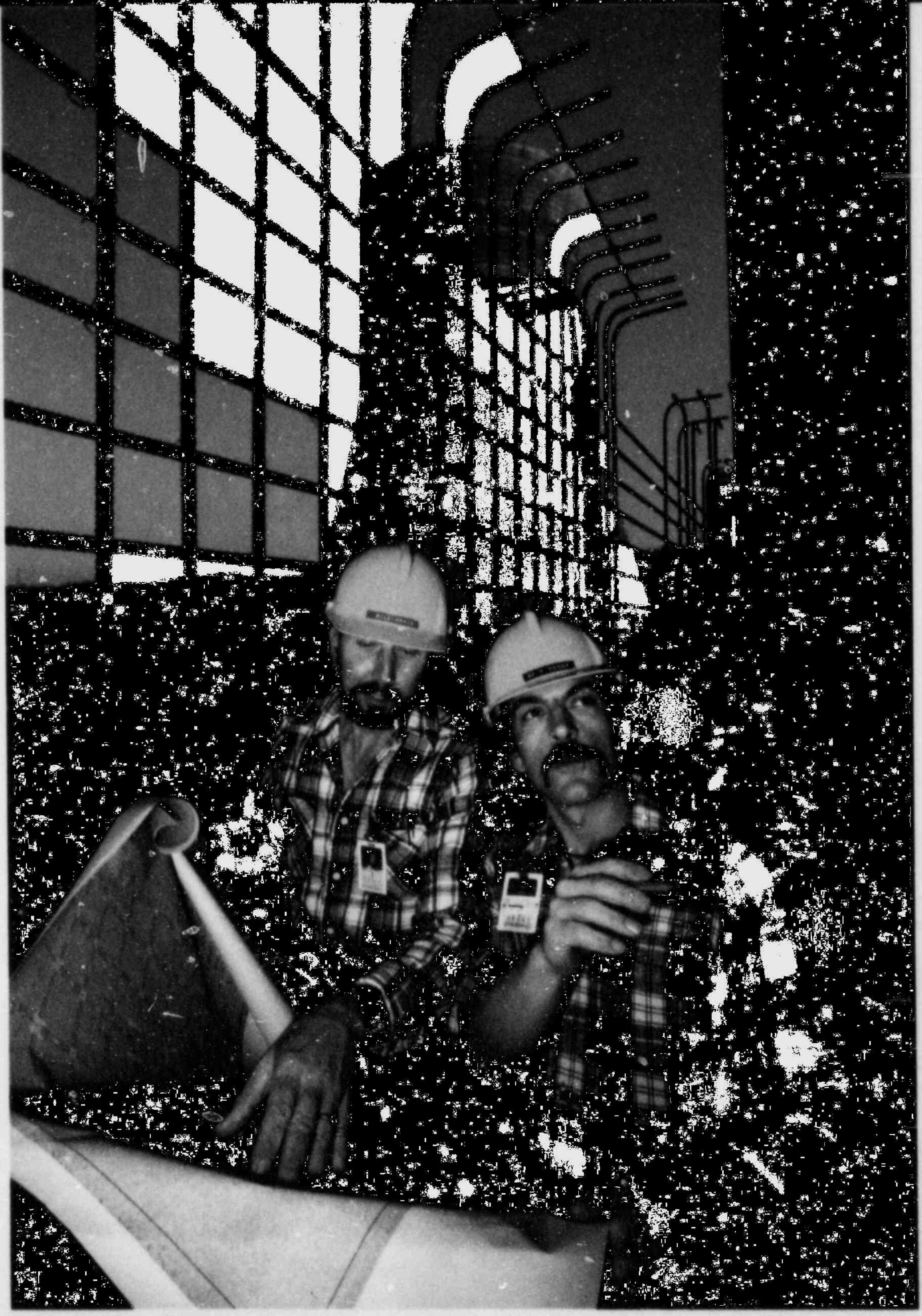
Unit 2 of the Beaver Valley Power Station was 58.1 percent complete at the end of the year. The 833-megawatt unit's rate of construction progress doubled in 1982 from the previous year. Although Duquesne Light Company is building the unit for CAPCO, Ohio Edison is helping to keep costs and construction schedules on target by providing personnel to assist in project management, engineering, construction and licensing. The Company will own 41.88 percent (349 megawatts) of the unit, which is scheduled for commercial operation in 1986.

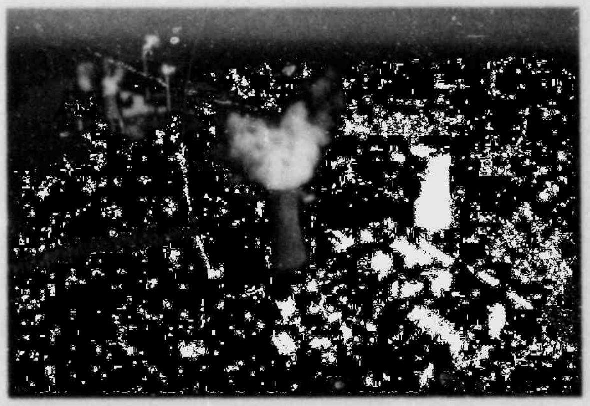
Alternative Generation Studied

The three generating units under construction should provide needed capacity with adequate reserve margins through the 1990s. But because of long lead times to build new power plants, the Companies continue to investigate, in addition to conventional technologies, alternative technologies for potential generation beyond the 1990s.

Regarding alternative technologies, Ohio Edison studied the potential for three small hydroelectric plants at existing locks and dams along the Ohio River through permits granted in 1980 by the Federal Energy Regulatory Commission (FERC). Our study showed that the plants would not be economically attractive to us and the Company relinquished those permits in 1982.

▲*The unique $440 million W. H. Sammis Plant Air Quality Control Project, most of which spans a four-lane highway, is our last remaining environmental facility under construction to comply with existing regulations. This project is scheduled for completion in 1984.*





◀ At the Beaver Valley Power Station (foreground), where the unit 1 nuclear generator has been operating since 1976, unit 2 is 58.1 percent complete and scheduled for operation in 1986. The coal-fired Bruce Mansfield Plant is in the background.

▲ Several Ohio Edison employees are working closely with Beaver Valley's builder and operator, Duquesne Light Company, to help ensure timely completion of unit 2 construction. We will own 41.88 percent of the unit's 833-megawatt capacity.

We are participating in a $155 million cooperative project at Illinois Power's Wood River Station to determine the feasibility of converting high-sulfur coal, such as that found in Ohio, to a clean-burning gaseous fuel. Construction is well underway, with testing and demonstration to be completed by mid-1984.

In addition, we are monitoring and evaluating new technologies resulting from the research and development efforts of others, including the Electric Power Research Institute.

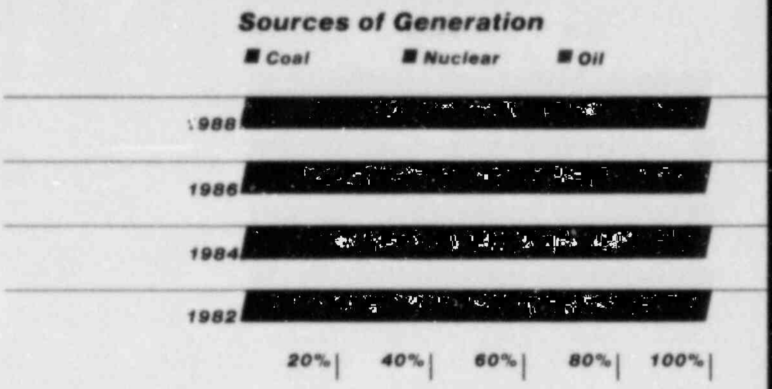
Air Quality Control Program Nears Completion

Our current $511 million environmental construction program to replace existing dust collectors with more efficient systems for meeting clean air standards is steadily moving toward completion. Five new electrostatic precipitators that remove particulates (fly ash) from power plant emissions and one new chimney were completed between July 1981 and March 1982 at the R. E. Burger, Edgewater, and Niles plants. Through effective project management, we built them at $4 million under budget; by completing them on or ahead of schedules imposed by the U.S. Environmental Protection Agency (EPA), we also avoided costly penalties.

Our only remaining environmental construction is the $440 million W. H. Sammis Plant Project where, to date, all EPA milestones have been met. Fabric filters, also known as baghouses, were completed in 1982 for Units 2, 3 and 4, and underwent testing for compliance with environmental standards. Unit 1 will also have a fabric filter, while Units 5 through 7 will utilize electrostatic precipitators. Overall, construction was 65 percent complete by December 31, 1982, and project completion is scheduled for December 1984.

Continuing System Improvements

Numerous other projects are underway to maintain the reliability of our service to customers. The Company's $9.9 million System Dispatching Center, scheduled for operation in April 1983, will expedite the response of generating plants to customer demand for electricity and improve the overall operating efficiency of our transmission network. In addition, a number of transmission projects were completed or in progress in 1982 to serve the growing electric loads of several industrial customers in Ohio and Pennsylvania and to strengthen our transmission system.



▼Along a new transmission line, installed to further strengthen our transmission and distribution network, guy wires are carefully secured to support a large pole. Nearly 29,000 miles of lines now cover our System.

Developing Future Sales

Ohio Edison and Penn Power provide extensive training and support to help communities be more competitive in attracting industrial growth. Through our "Minutemen" program, workshops are used for teaching communities how to persuade new industries to locate in the area and to encourage existing industries to remain and expand their operations. While boosting the vitality of a community, this growth is also a source of additional electric sales.

With existing commercial and industrial customers, we promote energy efficiency through more cost-effective uses of electricity. We reached more than 2,800 large customers during the year through Energy Teamwork Conferences to discuss, among other things, how they can substitute electricity for gas and oil to reduce their overall energy costs. In addition, our load management program offers customers the option to shift a portion of their consumption to more economical off-peak hours, which also allows us to better utilize power plants. Since the program began in 1977, our peak demand has been reduced by 166 megawatts—55 percent of our goal to date.

Customer Assistance and Information Programs

In November, we sent all residential customers a brochure outlining various Company and government assistance programs that are designed especially to help customers facing financial or medical difficulties. These programs include a budget payment plan, third party notification and the public Home Energy Assistance Program (HEAP). The Companies also continued their Residential Conservation Service programs, which are available to all residential heating customers. At the customer's request, an energy auditor inspects the home, recommends conservation measures and estimates energy savings.

We have many communications programs to meet the information needs of our customers. From special messages included in monthly bills to advisory panels made up of consumer representatives, these programs contribute to better customer management of their electric use and to their understanding of utility and energy issues.

During the year, Speakers Bureau members and Customer Services employees gave presentations to 122,356 people. Audiences included service clubs, senior citizens, schools and builders, with topics covering load and energy management, home insulation and weatherization, applications of energy-efficient equipment, electric rates, environmental protection and other energy-related issues.

Favorable Customer Attitudes Maintained

Favorable attitudes among customers about their electric service results in a better operating environment for the Companies. In a December survey of 500 Ohio Edison customers, 89 percent of the respondents considered electricity average to above average in value and 94 percent indicated that service was satisfactory.

A variety of information programs help reinforce those attitudes, but the least expensive is through advertising in local media. The Companies' present cam-

◀ *For the past 12 years, Ohio Edison has cosponsored a locally televised quiz program that promotes academic achievement among high school students in the Company's service area. It is representative of our many youth educational and energy awareness activities.*

◀ *Participants in a Company-sponsored Consumer Advisory Panel discuss how "hardship customers" can be helped with bill-payment problems. There are currently seven regional panels throughout the System, each meeting about ten times a year.*

▼ *Valley Mould in our Youngstown Division opened its new metal melting shop with three electric furnaces which are energy efficient and environmentally clean. At full operation, the furnaces should add about $4.5 million to our annual electric sales.*

paign centers on the award-winning "Energy Makers" series which gives credit to individual employee effort in helping to provide customers dependable electricity around the clock.

Employee Training and Safety Programs

Enhancing learning opportunities and improving our training facilities are important parts of the Company's expanding employee development program. In 1982, more than 450 employees received classroom instruction that prepared them to more effectively respond to customer inquiries. In addition, 213 management group employees participated in business, management and supervisory seminars and conferences designed to improve their skills in these areas.

At our employee training center, the first phase of the $700,000 skills training building has been completed. It includes a large indoor area where pole climbing skills can be taught. Another area is specially suited for maintenance training on large electrical equipment. Additional classroom facilities are included in the second phase of the project, which is scheduled for completion by mid-1983.

The Company worked closely with union representatives from the R. E. Burger, Edgewater, W. H. Sammis and Toronto plants to produce an Accident Prevention Handbook. It established guidelines for safe work procedures for approximately 1,700 power plant employees. This handbook, along with our other safety awareness programs, including defensive driving courses, fire safety training, rescue training and first aid, helped us to achieve a 6 percent reduction in System-wide accidents.

▶ ***International Harvester Company recently consolidated its U.S. truck-manufacturing operations at a more modern and efficient plant in Springfield, Ohio. This assembly plant is our largest industrial customer in the Springfield Division.***

Financial Review

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

Results of Operations

Results of operations in 1982 continued to improve from the prior year with the Company experiencing increases of 6.9%, 9.5% and 10.7% in income before extraordinary items, net income and earnings on common stock, respectively. However, due to the increased number of shares of common stock outstanding during the year, earnings per share fell by 10.0% and 7.4% before and after extraordinary items, respectively. The Company achieved a rate of return on average common equity in 1982 of 13.5% compared to 1981's 14.6%. Excluding the effect of extraordinary gains in both years and the settlement of a claimed Pennsylvania tax liability in 1981, the rate of return on average common equity would have been 12.3% and 12.9% in 1982 and 1981, respectively, compared to 9.7% for 1980.

Rate increases received by the Companies in 1982, amounting to $135,000,000 on an annual basis, accounted for approximately 90% of the increase in operating revenues for the year. Increased fuel-related revenues and short-term power sales to other utilities contributed the remainder of the increase. Adversely affecting 1982 revenues was a decline of approximately 18% in kilowatt-hour sales to industrial customers, reflecting the depressed economic conditions in the Companies' service territories. In 1981, as in 1982, increased rates were the major factor in the increase in operating revenues, accounting for approximately two-thirds of the total increase. The remainder was due primarily to increased sales of short-term power to other utilities.

The effect of deferral accounting, which matches fuel expense with the amount recovered in revenues, was the prime factor in the reported fuel expense increase for 1982. Substantially offsetting this increase were decreased quantities of fuel consumed and decreased coal prices. The increase in fuel expense for 1981 was primarily due to greater quantities of fuel consumed, but also was affected by fuel price increases. In that year, the effect of the Companies' deferral accounting served to reduce total fuel costs.

Power purchases which were made in order to sell short-term power to other utilities accounted for a substantial portion of the increases in purchased and interchanged power, net, in 1982 and 1981. Increased purchases of low-cost power resulting from the Companies' contractual obligations to Ohio Valley Electric Corporation were also responsible for the 1982 increase. Combining short-term sales to other utilities (which are reported in operating revenues as described above) with net purchased and interchanged power, resulted in net power deliveries of approximately $49,100,000 and $44,600,000 in 1982 and 1981, respectively.

The scheduled outage of Beaver Valley Unit No. 1 during the first half of 1982 for refueling and certain modifications was responsible for approximately two-fifths of the increase in 1982 maintenance expenses. However, in 1981, substantially all of the decrease in maintenance expense was attributable to that unit.

Interest costs continued to rise in 1982, although at a much slower pace than in recent years. The Companies issued $320,500,000 principal amount of new long-term debt in 1982, which have interest rates ranging from 8⅛% to 17¼%, while $59,237,000 principal amount of first mortgage bonds with rates of 3¼% to 9½% were retired. In addition, long-term obligations rose by approximately $209,200,000 at an average cost of 14.3% in 1982, compared with 18.5% in 1981 (see below and Note 5 of Notes to Consolidated Financial Statements). In contrast to the rising long-term borrowings, average short-term debt outstanding during the year decreased from approximately $133,100,000 in 1981 to $45,400,000 in 1982; the average cost of that debt showed a significant decline from 18.0% to 14.9%.

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

Capital Resources and Liquidity

Over the last five years, the cost of the Companies' construction programs was approximately $2,700,000,000, of which $1,600,000,000 was raised through permanent financing (net of debt and preferred stock redemptions), in addition to $656,700,000 financed through the incurrence of long-term obligations. Approximately $2,700,000,000 is currently budgeted to be spent from 1983 through 1987; the issuance of additional securities will be necessary to fund a significant portion of this new construction, including additional amounts of common stock. During this five-year period, the Companies will have additional cash outflows of approximately $457,600,000 for debt maturities and preferred and preference stock sinking fund requirements.

The Company continued to strengthen its common equity base in 1982. During the second quarter of 1982, the Company exchanged 2,650,600 shares of its common stock for $53,432,000 principal amount of its outstanding first mortgage bonds which were subsequently retired. This exchange played a significant role toward increasing the common equity ratio to 37.2% at the end of 1982 from 35.7% at the end of 1981.

The Companies had $61,500,000 of temporary cash investments at the end of 1982, primarily due to the sale of 4,000,000 shares of common stock in December 1982. This financing was planned for early 1983, but was accelerated due to existing favorable market conditions. Proceeds from that common stock sale will be used to fund a portion of the Company's 1983 construction program.

The Companies continued to pursue non-traditional forms of financing during 1982. The Company tapped alternative capital markets by issuing debt through its foreign subsidiary, Ohio Edison Finance N.V. In addition, the Companies began participating in arrangements with the other CAPCO companies to finance the acquisition of nuclear fuel through the Central Area Energy Trust. (See Note 5 of Notes to Consolidated Financial Statements for a more complete description of this arrangement.) The Company also received $10,480,000 from the sale of tax benefits associated with property placed in service during 1982, in accordance with a provision of the Economic Recovery Tax Act of 1981. The Tax Equity and Fiscal Responsibility Act of 1982 now denies utilities from taking advantage of this mechanism for accelerated capital recovery.

In July 1982, The Public Utilities Commission of Ohio modified the method for recovering the costs of Quarto coal, as discussed in Note 1 of Notes to Consolidated Financial Statements. During the last five months of 1982, the Company's balance of deferred Quarto coal costs was reduced by approximately $7,300,000, indicating recovery of a greater portion of these costs from its customers.

The Company has a rate case pending with The Public Utilities Commission of Ohio which, if granted in full, would produce additional annual revenues of approximately $171,300,000. A decision is expected in this case during the second half of 1983.

Management Report

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

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

The Audit Committee consists of four non-employee directors whose duties include: consideration of the adequacy of the internal controls of the Company and the objectivity of financial reporting; inquiry into the number, extent, adequacy and validity of regular and special audits conducted by independent public accountants and the internal auditors; the recommendation of independent accountants to conduct the normal annual audit and special purpose audits as may be required; and reporting to the Board of Directors the Committee's findings and any recommendation for changes in scope, methods, or procedures of the auditing functions. The Audit Committee held three meetings during 1982.

V. A. Owoc W. A. Daniels

V. A. Owoc
Executive Vice President
Chief Financial Officer

W. A. Daniels
Comptroller

Selected Financial Data

	1982	1981	1980	1979	1978
		(In thousands, except per share amounts)			
Operating Revenues	**$1,429,626**	$1,279,649	$1,080,869	$ 994,585	$ 862,956
Operating Income	**269,640**	252,381	169,383	163,744	123,945
Income Before Extraordinary Items	**195,571**	183,020	135,150	134,807	86,030
Net Income	**215,729**	197,062	135,150	134,807	86,030
Earnings on Common Stock	**181,496**	163,892	101,403	105,120	61,259
Earnings per Share of Common Stock (based on weighted average number of shares outstanding during the year):					
Before Extraordinary Items	**1.89**	2.10	1.52	1.80	1.19
Earnings on Common Stock	**2.13**	2.30	1.52	1.80	1.19
Dividends Declared per Share of Common Stock	**1.76**	1.76	1.76	1.76	1.76
Total Assets at December 31	**5,247,138**	4,460,274	3,979,965	3,446,454	3,010,914
Preferred and Preference Stock Subject to Mandatory Redemption	**152,560**	151,141	156,450	150,850	98,000
Long-Term Debt	**2,005,436**	1,759,771	1,594,384	1,410,782	1,343,195
Construction Energy Trust and Nuclear Fuel Obligations	**656,655**	447,484	265,000	—	—

Common Stock Data

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

Price Range of Common Stock	**1982**		1981	
First Quarter High-Low	**13-1/8**	**11-3/8**	13	11-3/4
Second Quarter High-Low	**14-1/8**	**12-3/8**	13-1/2	11-7/8
Third Quarter High-Low	**14-3/8**	**12-1/4**	12-7/8	11
Fourth Quarter High-Low	**15-1/8**	**13-1/4**	13	11
Yearly High-Low	**15-1/8**	**11-3/8**	13	11

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

Classification of Holders of Common Stock as of December 31, 1982

	Holders of Record		Shares Held	
	Number	%	Number	%
Individuals	172,878	88.7	48,279,403	50.2
Fiduciaries	17,924	9.2	3,987,788	4.2
Brokers	70	—	727,927	0.8
Nominees	765	0.4	40,387,291	42.0
Banks & Financial Institutions	39	—	69,252	0.1
Insurance Companies & Other Corporations	1,558	0.8	1,648,846	1.7
Charitable, Religious & Educational Institutions	547	0.3	375,138	0.4
Pensions, Profit Sharing & Other Investment Trusts	1,096	0.6	606,199	0.6
Total	194,877	100.0	96,081,844	100.0

As of January 31, 1983, there were 195,443 holders of 96,259,665 shares of the Company's Common Stock.

Quarterly dividends of 44¢ per share were paid on the Company's Common Stock during 1982 and 1981. Information regarding retained earnings available for payment of cash dividends is given in Note 4b.

Statements of Consolidated Income

For the Years Ended December 31	1982	1981	1980
	(In thousands, except per share amounts)		
Operating Revenues	**$1,429,626**	$1,279,649	$1,080,869
Operating Expenses and Taxes:			
Operation—			
Cost of fuel	**432,749**	413,698	364,894
Purchased and interchanged power, net	**52,607**	29,321	26,089
Other operation expenses	**221,129**	195,075	170,351
Total operation	**706,485**	638,094	561,334
Maintenance	**139,615**	124,213	127,935
Provision for depreciation	**103,206**	95,830	85,455
Amortization of terminated construction project costs (Note 2)	**1,866**	3,995	—
General taxes	**114,569**	84,316	85,143
Income taxes	**94,245**	80,820	51,619
Total operating expenses and taxes	**1,159,986**	1,027,268	911,486
Operating Income	**269,640**	252,381	169,383
Other Income and Deductions:			
Allowance for equity funds used during construction	**84,210**	60,421	57,715
Miscellaneous, net	**16,871**	17,021	2,104
Income taxes—credit	**59,166**	53,360	37,017
Total other income and deductions	**160,247**	130,802	96,836
Total Income	**429,887**	383,183	266,219
Net Interest and Other Charges:			
Interest on long-term debt	**211,765**	166,378	147,290
Interest on long-term obligations	**80,092**	69,183	5,057
Allowance for borrowed funds used during construction, net of deferred income taxes	**(76,088)**	(67,381)	(48,814)
Other interest expense	**12,449**	26,378	22,304
Subsidiary's preferred stock dividend requirements	**6,098**	5,605	5,232
Net interest and other charges	**234,316**	200,163	131,069
Income Before Extraordinary Items	**195,571**	183,020	135,150
Extraordinary Items (Note 8):			
Gain on reacquisition of first mortgage bonds, net of related income taxes	**—**	14,042	—
Gain on exchange of common stock for first mortgage bonds	**20,158**	—	—
Net Income	**215,729**	197,062	135,150
Preferred and Preference Stock Dividend Requirements	**34,233**	33,170	33,747
Earnings on Common Stock	**$ 181,496**	$ 163,892	$ 101,403
Weighted Average Number of Shares of Common Stock Outstanding	**85,241**	71,180	66,683
Earnings Per Share of Common Stock (based on weighted average number of shares outstanding during the year):			
Before extraordinary items (after preferred and preference stock dividend requirements)	**$1.89**	$2.10	$1.52
Extraordinary items	**.24**	.20	—
Earnings on common stock	**$2.13**	$2.30	$1.52
Dividends Declared Per Share of Common Stock	**$1.76**	$1.76	$1.76

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

Consolidated Balance Sheets

At December 31	1982	1981
Assets	*(In Thousands)*	
Utility Plant:		
In service, at original cost	**$3,417,669**	$3,160,271
Less—Accumulated provision for depreciation	**953,541**	871,740
	2,464,128	2,288,531
Construction work in progress	**1,344,161**	1,112,810
Construction work in progress—energy trust (Note 5)	**558,149**	434,412
Nuclear fuel in process (Note 5)	**156,295**	32,004
	4,522,733	3,867,757
Other Property and Investments	**69,626**	43,338
Current Assets:		
Cash	**2,812**	11,746
Temporary cash investments, at cost, which approximates market value	**61,500**	4,300
Receivables—		
Customers (less accumulated provision of $1,844,000 and $1,863,000, respectively, for uncollectible accounts)	**116,054**	105,037
Other	**24,855**	26,809
Materials and supplies, at average cost—		
Fuel	**92,684**	84,[illegible]03
Other	**44,466**	40,602
Prepayments and other	**35,966**	18,962
	378,337	291,959
Deferred Charges:		
Deferred Quarto coal costs (Note 7)	**71,346**	63,363
Deferred energy costs	**—**	2,318
Property taxes	**50,527**	41,450
Unamortized costs of terminated construction projects (Note 2)	**103,835**	96,489
Other	**50,734**	53,600
	276,442	257,220
	$5,247,138	$4,460,274
Capitalization and Liabilities		
Capitalization (See Statements of Consolidated Capitalization):		
Common stockholders' equity	**$1,488,371**	$1,229,044
Preferred stock—		
Not subject to mandatory redemption	**262,335**	262,335
Subject to mandatory redemption	**64,000**	68,000
Preference stock—		
Not subject to mandatory redemption	**50,000**	—
Subject to mandatory redemption	**55,165**	56,843
Preferred stock of consolidated subsidiary—		
Not subject to mandatory redemption	**41,905**	41,905
Subject to mandatory redemption	**33,395**	26,298
Long-term debt	**2,005,436**	1,759,771
	4,000,607	3,444,196
Long-Term Obligations (Note 5):		
Construction energy trust	**500,000**	432,500
Nuclear fuel	**156,655**	14,984
	656,655	447,484
Current Liabilities:		
Current maturities of long-term debt and preferred stock	**22,383**	7,581
Notes payable to banks (Note 6)	**—**	74,400
Accounts payable	**133,776**	142,718
Accrued taxes	**51,115**	47,074
Accrued interest	**57,736**	39,982
Other	**26,390**	25,468
	291,400	337,223
Deferred Credits:		
Accumulated deferred income taxes	**152,890**	124,279
Accumulated deferred investment tax credits	**53,727**	40,646
Property taxes	**50,527**	41,450
Energy costs recovered in advance	**14,418**	4,144
Other	**26,914**	20,852
	298,476	231,371
Commitments, Guarantees and Contingencies (Notes 2, 3 and 7)		
	$5,247,138	$4,460,274

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

Statements of Consolidated Capitalization

At December 31	Number of Shares Outstanding 1982	Number of Shares Outstanding 1981	Optional Redemption Price Per Share	Optional Redemption Price Aggregate (In Thousands)	1982	1981
					(In Thousands)	
Common Stockholders' Equity:						
Common stock, $9 par value, authorized 125,000,000 shares—96,081,844 and 78,675,703 shares outstanding, respectively (Note 4a)					**$ 864,737**	$ 708,081
Other paid-in capital					**423,195**	349,772
Retained earnings (Note 4b)					**200,439**	171,191
Total common stockholders' equity					**1,488,371**	1,229,044
Preferred Stock (Note 4c):						
Cumulative, $100 par value—Authorized 6,000,000 shares						
Not Subject to Mandatory Redemption						
3.90%—7.24%	973,350	973,350	$103.38-108.00	$102,034	**97,335**	97,335
7.36%—8.20%	800,000	800,000	$106.52-107.40	85,612	**80,000**	80,000
8.64%—9.12%	850,000	850,000	$106.48-109.12	91,696	**85,000**	85,000
Total not subject to mandatory redemption	2,623,350	2,623,350		$279,342	**262,335**	262,335
Subject to Mandatory Redemption (Note 4d)						
10.48%—10.76%	659,630	692,760	$107.86-111.87	$ 72,430	**65,963**	69,276
Redemption within one year					**(1,963)**	(1,276)
Total subject to mandatory redemption					**64,000**	68,000
Preference Stock (Note 4c):						
Cumulative, no par value—Authorized 4,000,000 shares						
Not Subject to Mandatory Redemption						
$3.92 Series	2,000,000	—	$31.42	$ 62,840	**50,000**	—
Subject to Mandatory Redemption (Note 4e)						
$95.00—$102.50 Series	27,000	27,000	$1,095.00-1,102.50	$ 29,700	**27,000**	27,000
$1.80 Series	1,862,181	1,973,100	$16.03	29,841	**28,165**	29,843
Total subject to mandatory redemption	1,889,181	2,000,100		$ 59,541	**55,165**	56,843
Preferred Stock of Consolidated Subsidiary (Note 4c):						
Cumulative, $100 par value—Authorized 950,000 shares						
Not Subject to Mandatory Redemption						
4.24%—9.16%	419,049	419,049	$102.98-107.32	$ 44,238	**41,905**	41,905
Subject to Mandatory Redemption (Note 4d)						
8.24%—15.00%	338,951	267,984	$108.24-115.00	$ 37,630	**33,895**	26,798
Redemption within one year					**(500)**	(500)
Total subject to mandatory redemption					**33,395**	26,298
Long-Term Debt (Note 4f):						
First mortgage bonds						
Ohio Edison Company—						
9.63% weighted average interest rate, due 1983-1987					**113,791**	113,791
13.37% weighted average interest rate, due 1988-1992					**256,616**	208,250
10.46% weighted average interest rate, due 1993-1997					**77,715**	78,250
8.87% weighted average interest rate, due 1998-2002					**187,198**	191,701
10.20% weighted average interest rate, due 2003-2010					**485,918**	507,678
					1,121,238	1,099,670
Pennsylvania Power Company—10.08% weighted average interest rate, due 1983-2008					**239,000**	214,805
Total first mortgage bonds					**1,360,238**	1,314,475
Secured notes and obligations						
Ohio Edison Company—8.03% weighted average interest rate, due 1983-2010					**230,914**	230,914
Ohio Edison Finance N.V.—17.38% weighted average interest rate, due 1987-1988					**150,000**	75,000
Pennsylvania Power Company—8.83% weighted average interest rate, due 1983-2007					**68,106**	53,606
Amount held by Trustee					**(5,327)**	—
					62,779	53,606
Total secured notes and obligations					**443,693**	359,520
Unsecured notes of Ohio Edison Company, 10.42% weighted average interest rate, due 1984-2012					**302,000**	176,000
Amount held by Trustee					**(69,026)**	(75,686)
Total unsecured notes of Ohio Edison Company					**232,974**	100,314
Net unamortized discount on debt					**(11,549)**	(8,733)
Long-term debt due within one year					**(19,920)**	(5,805)
Total long-term debt					**2,005,436**	1,759,771
Total Capitalization (Note 7)					**$4,000,607**	$3,444,196

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

Statements of Consolidated Retained Earnings

For the Years Ended December 31	1982	1981	1980
		(In Thousands)	
Balance at beginning of period	**$171,191**	$133,592	$150,552
Net income	**215,729**	197,062	135,150
	386,920	330,654	285,702
Deduct			
Preferred and preference stock dividends	**34,488**	33,160	33,724
Common stock dividends	**151,289**	126,030	118,137
Capital stock issuance expense	**704**	273	249
	186,481	159,463	152,110
Balance at end of period (Note 4b)	**$200,439**	$171,191	$133,592

Statements of Consolidated Capital Stock and Other Paid-In Capital

	Common Stock			Preferred and Preference Stock — Not Subject to Mandatory Redemption		Preferred and Preference Stock — Subject to Mandatory Redemption	
	Number of Shares	Par Value	Other Paid-In Capital	Number of Shares	Par or Stated Value	Number of Shares	Par or Stated Value
			(Dollars in Thousands)				
Balance, January 1, 1980	59,622,369	$536,602	$282,956	3,069,049	$306,905	2,987,000	$153,250
Sale of Common Stock	6,500,000	58,500	25,805	—	—	—	—
Dividend Reinvestment Plan	2,403,803	21,634	7,979	—	—	—	—
Sale of 10.50% Series of Preferred Stock	—	—	-	—	—	100,000	10,000
Preferred Stock Sinking Fund Redemptions—							
10.48% Series	—	—	260	—	—	(20,000)	(2,000)
10.76% Series	—	—	175	—	—	(20,000)	(2,000)
11.00% Series	—	—	21	—	—	(8,000)	(800)
Balance, December 31, 1980	68,526,172	616,736	317,196	3,069,049	306,905	3,039,000	158,450
Sale of Common Stock	7,000,000	63,000	21,875	—	—	—	—
Dividend Reinvestment Plan	3,122,631	28,103	7,751	—	—	—	—
Conversion of $1.80 Preference Stock	26,900	242	147	—	—	(26,900)	(407)
Preferred Stock Sinking Fund Redemptions—							
10.48% Series	—	—	585	—	—	(27,240)	(2,724)
10.76% Series	—	—	361	—	—	(20,000)	(2,000)
11.00% Series	—	—	53	—	—	(4,016)	(402)
Other Preferred Stock Redemptions—							
3.90% Series	—	—	271	(3,790)	(379)	—	—
4.40% Series	—	—	251	(3,720)	(372)	—	—
4.44% Series	—	—	[illegible]	(13,440)	(1,344)	—	—
4.56% Series	—	—	386	(5,700)	(570)	—	—
Balance, December 31, 1981	78,675,703	708,081	349,772	3,042,399	304,240	2,960,844	152,917
Sale of Common Stock	10,000,000	90,000	42,000	—	—	—	—
Dividend Reinvestment Plan	4,644,622	41,802	17,647	—	—	—	—
Exchange of Common Stock for First Mortgage Bonds	2,650,600	23,855	9,463	—	—	—	—
Conversion of $1.80 Preference Stock	110,919	999	610	—	—	(110,919)	(1,678)
Sale of $3.92 Series of Preference Stock	—	—	2,940	2,000,000	50,000	—	—
Sale of 15% Series of Preferred Stock	—	—	—	—	—	80,000	8,000
Preferred Stock Sinking Fund Redemptions—							
8.24% Series	—	—	—	—	—	(5,000)	(500)
10.48% Series	—	—	284	—	—	(13,130)	(1,313)
10.76% Series	—	—	435	—	—	(20,000)	(2,000)
11.00% Series	—	—	44	—	—	(4,033)	(403)
Balance, December 31, 1982	96,081,844	$864,737	$423,195	5,042,399	$354,240	2,887,762	$155,023

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

Statements of Consolidated Sources of Funds for Property Additions

For the Years Ended December 31	1982	1981	1980
		(In Thousands)	
Internally generated funds—			
Income before extraordinary items	**$195,571**	$183,020	$135,150
Principal non-cash items—			
Depreciation and amortization—			
Charged to provision for depreciation	**103,206**	95,830	85,455
Charged to other accounts	**1,953**	1,318	1,282
Amortization of terminated construction project costs	**1,866**	3,995	—
Deferred income taxes, net	**91,832**	99,179	83,536
Investment tax credits, net	**7,312**	(772)	(27,201)
Allowance for equity funds used during construction	**(84,210)**	(60,421)	(57,715)
Deferred fuel and energy costs, net	**4,609**	(49,393)	(9,114)
	322,139	272,756	211,393
Less—Dividends on common stock	**151,289**	126,030	118,137
Dividends on preferred and preference stock	**34,488**	33,160	33,724
Net funds from operations	**136,362**	113,566	59,532
Income from extraordinary items	**20,158**	14,042	—
Non-cash items—			
Gain on reacquisition of first mortgage bonds	**—**	(26,276)	—
Gain on exchange of common stock for first mortgage bonds	**(20,158)**	—	—
	136,362	101,332	59,532
Financing activities—			
Common stock	**224,767**	120,729	113,918
Preferred stock	**8,000**	—	10,000
Preference stock	**52,940**	—	—
First mortgage bonds	**105,000**	95,000	322,000
Secured notes, net	**84,173**	94,920	50,000
Unsecured long-term notes, net	**106,660**	24,314	—
Construction energy trust and nuclear fuel obligations	**209,171**	182,484	265,000
Retirement of long-term debt and preferred stock	**(43,295)**	(202,336)	(95,800)
Increase (decrease) in notes payable to banks	**(74,400)**	32,918	(150,517)
Sale of tax benefits	**10,480**	37,531	—
	683,496	385,560	514,601
Net change in current assets and current liabilities excluding notes payable to banks and current maturities of long-term debt and preferred stock—			
Temporary cash investments	**(57,200)**	(4,300)	—
Receivables	**(9,063)**	2,715	(29,171)
Materials and supplies	**(12,045)**	3,149	(33,843)
Accounts payable	**(8,942)**	39,193	1,474
Accrued taxes	**4,041**	(12,085)	(1,186)
Accrued interest	**17,754**	285	10,722
Miscellaneous, net	**(7,148)**	112	1,601
	(72,603)	29,069	(50,403)
Other, net—			
Construction funds held in escrow, including accrued interest	**711**	39,847	(20,938)
Allowance for equity funds used during construction	**84,210**	60,421	57,715
Sale of utility property	**13,568**	—	—
Deferred income taxes on allowance for borrowed funds used during construction	**(67,127)**	(59,530)	(38,690)
Miscellaneous, net	**(4,384)**	11,345	(6,797)
	26,978	52,083	(8,710)
Property Additions	**$774,233**	$568,044	$515,020

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

Statements of Consolidated Taxes

For the Years Ended December 31	**1982**	1981	1980
		(In Thousands)	
General Taxes:			
State gross receipts (i)	**$ 56,808**	$ 34,144	$ 38,753
Real and personal property	**45,028**	39,193	37,183
Social security and unemployment	**8,990**	8,010	6,408
Miscellaneous	**3,743**	2,969	2,799
Total general taxes	**$114,569**	$ 84,316	$ 85,143
Provision for Income Taxes:			
Currently payable—			
Federal	**$ 324**	$ 80	$ (3,043)
State	**2,532**	678	—
Foreign	**206**	59	—
	3,062	817	(3,043)
Deferred, net (see below)—			
Federal	**88,666**	96,218	81,105
State	**3,166**	2,961	2,431
	91,832	99,179	83,536
Investment tax credits, net of amortization (ii)	**7,312**	(772)	(27,201)
Total provision for income taxes	**$102,206**	$ 99,224	$ 53,292
Income Statement Classification of Provision for Income Taxes:			
Operating expenses	**$ 94,245**	$ 80,820	$ 51,619
Other income	**(59,166)**	(53,360)	(37,017)
Allowance for borrowed funds used during construction	**67,127**	59,530	38,690
Extraordinary items	**—**	12,234	—
Total provision for income taxes	**$102,206**	$ 99,224	$ 53,292
Sources of Deferred Tax Expense:			
Allowance for borrowed funds used during construction, which is credited to plant	**$ 67,127**	$ 59,530	$ 38,690
Deferred fuel and energy costs, net	**7,000**	12,308	4,210
Excess of tax over book depreciation, net	**17,387**	13,669	9,334
Cost of terminated construction projects, net	**384**	5,197	33,181
Property taxes applicable to subsequent periods, net	**4,177**	1,233	475
Deferred interest on leased nuclear fuel, net	**(2,840)**	9,567	—
Other, net	**(1,403)**	(2,325)	(2,354)
Total deferred tax expense, net	**$ 91,832**	$ 99,179	$ 83,536
Reconciliation of Federal Income Tax Expense at Statutory Rate to Total Provision for Income Taxes:			
Book income before provision for income taxes	**$317,935**	$296,286	$188,442
Federal income tax expense at statutory rate	**$146,250**	$136,292	$ 86,683
Increases (reductions) in taxes resulting from:			
Allowance for equity funds used during construction, which does not constitute taxable income	**(38,737)**	(27,794)	(26,549)
Difference between tax and book depreciation	**4,026**	(2,422)	(5,874)
Gain on exchange of common stock for first mortgage bonds, which does not constitute taxable income	**(9,273)**	—	—
Other, net	**(60)**	(6,852)	(968)
Total provision for income taxes	**$102,206**	$ 99,224	$ 53,292

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

(ii) Amount for 1980 reflects the reversal of previously recorded investment tax credits and related amortization due to the carryback of tax net operating losses.

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

Notes To Consolidated Financial Statements

1 Summary of Significant Accounting Policies

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

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

The Companies collected $11,987,000 and $8,905,000 during 1982 and 1981, respectively, in revenues attributable to wholesale rate increases which are subject to possible refund. The effect on retained earnings has been an increase of $11,082,000, of which $6,327,000 ($.07 per share of common stock) is applicable to 1982 and $4,755,000 ($.07 per share of common stock) is applicable to 1981. Management believes that any refunds which may be required in these cases would not have a material effect on the Company's consolidated results of operations.

Deferred Fuel And Energy Costs
The Companies record the cost of fuel when it is consumed, except as discussed below.

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

On July 30, 1982, the PUCO, following the Company's regular semiannual fuel hearing, modified its prior order with respect to recovery of the costs of coal purchased from Quarto Mining Company (Quarto). Taking account of the fact that Quarto coal is burned exclusively at the Bruce Mansfield Plant, but does not constitute the sole source of coal for that plant, the PUCO's order permits the Company to reduce the deferred cost of Quarto coal by recovering such costs over time as an additional cost of fuel for purposes of its EFC to the extent that the overall cost of coal at the Bruce Mansfield Plant is less than 115% of the generally prevailing market price of comparable coal. In calculating the cost of coal at the Bruce Mansfield Plant, the PUCO ordered the Company not to include but to defer (unless the costs proposed to be deferred are found to be unreasonable) the cost of Quarto coal to the extent it exceeds 125% of the generally prevailing market price of comparable coal. The July 30, 1982 PUCO order has been appealed by the Ohio Office of Consumers' Counsel. Although management cannot predict the outcome of this appeal, it believes the PUCO order is both lawful and reasonable and therefore believes the order should be allowed to stand.

Penn Power recovers fuel and energy costs from its customers through an annual "levelized" energy cost rate (ECR). The ECR, which includes adjustment for any over or under collection from customers, is recalculated each year. Accordingly, Penn Power defers the difference between actual energy costs and the amounts currently recovered from its customers.

In January 1981, the PPUC ordered that Penn Power not include the cost of Quarto coal in its ECR at more than generally prevailing market prices pending completion of a PPUC investigation to determine the reasonableness of the costs of Quarto coal. Accordingly, Penn Power defers the Quarto coal costs in excess of generally prevailing market prices.

Reference is made to Note 7 for a further discussion of the Quarto project.

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

The Companies provide for depreciation on a straight-line basis at various rates over the estimated lives of property included in plant in service. The effective composite rate for electric plant was 3.3% in 1982, 1981 and 1980. The Company's depreciation rates include provisions for the estimated decommissioning costs for its only nuclear generating unit in service. Penn Power provides for the cost of decommissioning radioactive components only, in accordance with a PPUC rate order.

Notes (Continued)

Common Ownership of Generating Facilities
The Companies and other Central Area Power Coordination Group (CAPCO) companies own, as tenants in common, various power generating facilities. Each of the companies is obligated to pay a share of the construction costs of any jointly owned facility in the same proportion as its ownership interest. The Companies' portions of operating expenses associated with these jointly owned facilities are included in the corresponding operating expenses on the Statements of Consolidated Income. The amounts reflected on the Consolidated Balance Sheet under utility plant at December 31, 1982 include the following:

Generating Units	Utility Plant in Service	Accumulated Provision for Depreciation	Utility Plant Under Construction	Companies Ownership Interest
		(In Thousands)		
W. H. Sammis #7	$ 128,084	$ 26,430	$ 62,355	68.80%
Bruce Mansfield #1, #2 and #3	685,659	92,938	12,215	50.68%
Beaver Valley #1	427,016(i)	67,219	60,068(i)	52.50%
Beaver Valley #2 (Note 5)	—	—	583,417	41.88%
Perry #1 and #2	—	—	968,384	35.24%
Total	$1,240,759	$186,587	$1,686,439	

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

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

Nuclear Fuel
The Companies charge the cost of nuclear fuel to fuel expense based on the rate of consumption. The Companies also include in fuel expense the estimated spent nuclear fuel disposal costs which are being recovered from customers. The storage of spent nuclear fuel is necessary until the manner of its disposal is determined, which is currently under study by the Department of Energy.

Allowance for Funds Used During Construction (AFUDC)
AFUDC, a non-cash item charged to utility plant under construction during the construction period, represents the net cost of borrowed funds and equity funds used for construction purposes. AFUDC varies according to changes in the level of utility plant under construction and in the cost of capital. The Companies compute AFUDC utilizing a net of tax rate, which is consistent with the rate treatment. AFUDC related to assets financed only through the incurrence of long-term obligations (see Note 5) is based on actual interest accrued on the obligations during the period. The rates used by the Company for all other construction projects were 10.32%, 9.84% and 10.14% during 1982, 1981 and 1980, respectively. Penn Power used rates of 9.25%, 8.50% and 8.00% during 1982, 1981 and 1980, respectively, applicable to such projects.

Income Taxes
Details of the total provision for income taxes are shown on the Statements of Consolidated Taxes. Deferred tax expense results from timing differences in the recognition of revenues and expenses for tax and accounting purposes.

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

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

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

The Companies defer investment tax credits utilized and amortize these credits to income over the estimated life of the related property. At December 31, 1982, approximately $98,000,000 of unused investment tax credits were available to offset future Federal income taxes payable. These credits expire at the end of the following years:

1991	$11,000,000
1992	16,000,000
1993	9,000,000
1994	7,000,000
1995	33,000,000
1996	5,000,000
1997	17,000,000
	$98,000,000

Pensions
The Companies' trusteed, noncontributory pension plans cover almost all full-time employees. Upon retirement, employees receive a monthly pension based on length of service and compensation. Pension costs for 1982, 1981 and 1980 were

$15,448,000, $15,311,000 and $14,931,000, respectively. Of those amounts, $10,350,000, $9,237,000 and $9,259,000, respectively, were charged to operating expenses. The balances were charged primarily to construction. Such costs include the amortization of unfunded past service costs on an actuarial basis over 30 years. The Companies fund pension costs accrued. A comparison of accumulated plan benefits and plan net assets from the two latest actuarial reports is as follows:

June 30	1982	1981
Actuarial present value of accumulated plan benefits:		
Vested	$157,014,000	$144,527,000
Nonvested	12,862,000	11,467,000
	$169,876,000	$155,994,000
Net assets available for benefits	$224,641,000	$213,749,000
Assumed rate of return for actuarial present value of accumulated plan benefits	8%	8%

The above total actuarial present value of accumulated plan benefits reflects pension benefits applicable to eligible employees based upon present salary levels and past years of service accumulated through the valuation date. This is the generally accepted reporting procedure currently set forth by the Financial Accounting Standards Board. The Companies' annual contributions to the plans, however, consider estimated ultimate salary increases due to inflation and other factors and the estimated total service expected to be accumulated by employees. This is a widely recognized funding technique and is consistent with the recommendation of the Companies' actuary. In addition, the actuary recommended, and the Companies utilized, discount rates of 7% and 6% during the twelve months ended June 30, 1982 and 1981, respectively, for funding purposes. Differences between funding bases and reporting requirements can have a significant effect on the comparisons above.

2 Terminated Construction Projects

In January 1980, the Companies and all other CAPCO companies terminated plans to construct the following four nuclear generating units—Davis-Besse No. 2 and No. 3, and Erie No. 1 and No. 2. Costs, including settlement of all asserted claims resulting from termination, unrecovered by the Company and Penn Power as of December 31, 1982 applicable to these units amounted to approximately $87,751,000 and $16,084,000, respectively.

The PUCO had authorized recovery of the applicable portion of the Company's then known share of the construction costs from its PUCO jurisdictional customers over a ten-year period beginning in February 1981. On July 15, 1981, however, the Supreme Court of Ohio ruled in a case involving another Ohio utility, also a co-owner of the terminated units, that under existing statutes the PUCO had exceeded its authority in allowing these costs as service-related costs in that company's rate case, even though the decisions to construct and terminate were both, when made, prudent and reasonable. Subsequent appeals to the U.S. Supreme Court by that company have been denied because of the lack of a properly presented Federal question. The utility has taken further action before the Ohio Supreme Court which may still have a bearing on the matter. As a result of the July 1981 Ohio Supreme Court decision, the PUCO disallowed the Company's recovery, as service-related costs, of the costs of the terminated units, effective August 1, 1981. Accordingly, the Company discontinued amortization of such costs on that date.

On November 3, 1982, the PUCO decided in the Company's then pending rate case to allow a rate of return above that which it otherwise would have allowed were it not for the July 1981 Ohio Supreme Court decision. Based on that order, the Company has resumed amortization of the costs of the terminated units applicable to PUCO jurisdictional customers over a ten-year period. Consumers' Counsel has appealed a similar decision in another utility's rate case to the Ohio Supreme Court. Whether the November 3, 1982 PUCO order will ultimately be appealed and sustained cannot be determined at this time.

In January 1983, the other Ohio utility referred to above received a rate order in a subsequent rate case which the utility has concluded does not provide a sufficient basis under generally accepted accounting principles for its continued amortization of the costs of the terminated units. Were the Company to receive a similar order and reach a similar conclusion in connection with the PUCO order in its current or some succeeding rate case, and no other basis for amortization could be found or anticipated, the Company would be required to write off that portion of the then unrecovered costs applicable to its PUCO jurisdictional customers. Such costs at December 31, 1982 approximated $83,559,000 ($53,613,000 net of income tax effect).

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

3 Leases

The Companies lease nuclear fuel, certain transmission facilities, computer equipment, office space and other incidental property and equipment under cancelable and noncancelable leases. Total rent expenses included on the Statements of Consolidated Income for 1982, 1981 and 1980 were $20,766,000, $20,731,000 and $9,373,000, respectively. The future minimum rental commitments as of December 31, 1982 for all noncancelable leases are:

1983	$ 23,299,000
1984	22,765,000
1985	20,488,000
1986	16,525,000
1987	14,030,000
Years thereafter	348,404,000

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

4 Capitalization

(a) Common Stock

Through the Dividend Reinvestment and Stock Purchase Plan, holders of common, preferred and preference stock and most of the Companies' full-time employees can acquire additional new shares of the Company's common stock by automatically reinvesting all or a portion of their dividends and by making optional cash payments. Purchases made with reinvested common stock dividends are made at a price equal to 95% of the average of the high and low market prices on the investment dates, and purchases made with optional cash payments are made at a price equal to 97% of such average. The purchase of common stock made with reinvested cash dividends on preferred and preference stock are made at a price equal to 100% of the average market price. At December 31, 1982, the Company had 3,031,794 shares reserved for issuance under this plan and 1,862,181 shares of common stock reserved for possible conversion of the $1.80 Preference Stock.

(b) Retained Earnings

Under the Company's indenture, the Company's consolidated retained earnings unrestricted for payment of cash dividends on the Company's common stock were $128,392,000 at December 31, 1982. Under Penn Power's Charter, $30,089,000 of retained earnings at December 31, 1982 were unrestricted for payment of cash dividends to the Company.

(c) Preferred and Preference Stock

The Company has 4,000,000 authorized and unissued shares of cumulative $25 par value Class A Preferred Stock.

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

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

The sinking fund requirements are $2,463,000 for 1983 and $4,900,000 for each of the years 1984 through 1987.

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

The sinking fund requirements will begin on July 1, 1984 and will amount to $900,000 for 1984 and $4,213,000 for each of the years 1985 through 1987.

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

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

Based on the amount of bonds authenticated by the Trustees through December 31, 1982, the Companies' annual sinking and improvement fund requirements amount to $22,504,000. The Company expects to deposit funds in 1983 which will be withdrawn upon the surrender for cancellation of a like principal amount of bonds, which are specifically authenticated for such purposes against unfunded property additions or against previously retired bonds. This method can result in minor increases in the amount of the annual sinking fund requirements. Penn Power expects to satisfy its requirements in 1983 by certifying unfunded property additions of 166-2/3% of the required amount.

As of December 31, 1982, the Companies' sinking and improvement fund requirements and maturing long-term debt for the next five years are:

1983	$ 42,424,000
1984	149,330,000
1985	75,647,000
1986	58,582,000
1987	183,582,000

The weighted average interest rates shown on the Statements of Consolidated Capitalization relate to long-term debt outstanding at December 31, 1982.

Total secured and unsecured notes outstanding at December 31, 1982 and 1981 exclude $74,353,000 and $75,686,000, respectively, of pollution control notes, the proceeds of which were then in escrow pending their disbursement for construction of certain pollution control facilities. Penn Power's obligation to repay the pollution control revenue bonds is secured by a series of Penn Power first mortgage bonds. The pollution control revenue bonds to which the unsecured notes relate are entitled to the benefit of irrevocable bank letters of credit of $159,802,000. To the extent that drawings are made under those letters of credit to pay principal of, or interest on, the pollution control revenue bonds, the Company is entitled to a credit on the notes. The Company pays an annual fee of 1/2%–7/8% of the amounts of the letters of credit to the issuing banks and is obligated to reimburse the banks for any drawings thereunder.

5 Long-Term Obligations

Ohio Edison Energy Trust (OEET)
In November 1980, OEET was created for financing part of the Company's investment in Beaver Valley Unit No. 2. OEET has two lines of revolving credit available to it for $400,000,000 and $100,000,000. The latter credit also serves as a stand-by facility in connection with OEET commercial paper sales; total borrowings under that credit and commercial paper outstanding may not exceed $100,000,000 at any time.

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

The Company accrues interest applicable to OEET which is subsequently capitalized, net of income tax effect. Interest on borrowings under the $400,000,000 line of credit is computed at the applicable prevailing prime interest rate plus 1/4%, plus a commitment fee of 1/2% on the unused portion of this line. No direct borrowings have been or are expected to be made against the $100,000,000 line of credit, but OEET has issued and has outstanding commercial paper supported by this facility. To the extent that borrowings are less than the $100,000,000 available under this line of credit, the Company must pay a commitment fee of 1/2%. Under the stand-by support, an irrevocable bank letter of credit has been issued upon which OEET pays a fee of 1/8% of the amount of commercial paper notes outstanding. The effective average interest rates on OEET borrowings were 14.8%, 18.7% and 21.4% during 1982, 1981 and 1980, respectively. Of the total OEET obligations outstanding at December 31, 1982 and 1981, $100,000,000 relates to outstanding commercial paper and the balance to borrowings under the $400,000,000 line of credit.

Nuclear Fuel Financing
In December 1981, Ohio Edison Fuel Corporation and Pennsylvania Power Fuel Corporation (corporations in which the Companies have no ownership interest) were created to provide funds for the procurement of nuclear fuel. The fuel corporations will lease the fuel to the Companies under separate fuel leases which require lease payments sufficient to permit the fuel corporations to repay the obligations. Under ordinary circumstances, the lease payments will be made at such time and in such amounts as will coincide with the burn-up of the nuclear fuel. Financing on behalf of the Companies of up to $135,000,000 and $30,000,000 is available through the Ohio Edison Fuel Corporation and Pennsylvania Power Fuel Corporation, respectively, either through revolving credit arrangements or the issuance of commercial paper, which is supported by bank letters of credit, or a combination of both.

In November 1982, the Companies also began participating in arrangements wherein the Central Area Energy Trust (CAET) finances the acquisition of nuclear material that will ultimately be used to fuel various CAPCO generating units. As part of these arrangements, the Companies have entered into purchase agreements whereby the Companies are unconditionally obligated to purchase their share of the nuclear material that has been financed from CAET in not less than two nor more than three years from the date of the agreement, unless the nuclear material reaches the point of fabrication, at which time the purchase commitment will then be due. Financing of up to $137,000,000 is available to CAET on behalf of the Companies. Of the increase in the Companies' nuclear fuel obligations during 1982, approximately $58,000,000 was the result of a transfer to CAET of nuclear material which was previously financed by a lessor under lease arrangements with the CAPCO companies.

The Companies accrue interest applicable to the nuclear fuel obligations which is subsequently capitalized, net of income tax effect. Interest on the fuel corporations' bank borrowings is computed at 110% of the applicable prevailing prime interest rate, plus a commitment fee of 1/8% on the available portions of the lines of credit. The fuel corporations also pay a 5/8% letter of credit fee on the aggregate amount of outstanding commercial paper. Interest on CAET purchase commitments are at rates which vary from 1-1/8% to 1-1/2% over the interest rate applicable to certain dealer placed commercial paper. The effective average interest rates applicable to nuclear fuel obligations were 12.6% and 13.9% in 1982 and 1981, respectively.

6 Notes Payable To Banks and Lines of Credit

The Companies have lines of credit with domestic banks that provide for borrowings of up to $235,000,000 at rates that vary from prime up to 105% of the prevailing prime interest rates. Short-term borrowings may be made under these lines of credit on the Companies' unsecured notes. All of the current lines expire December 31, 1983; however, all unused lines may be cancelled by the banks.

The Companies maintain cash balances on deposit with banks to provide operating funds, to assure availability of $90,127,500 of the lines of credit and for other banking arrangements. Such compensating balances, net of "float," are expected to be maintained at an average of approximately $3,000,000 and are not subject to any contractual restriction against withdrawal. The Companies are required to pay commitment fees that vary from a flat rate of 1/2% to a variable rate of 5% of the applicable prime interest rate to assure the availability of $99,000,000 of the lines of credit.

7 Commitments, Guarantees and Contingencies

Construction Program

The Companies' current budget forecasts reflect expenditures of approximately $2,700,000,000 for property additions and improvements from 1983–1987, of which approximately $637,000,000 is applicable to 1983. In addition, the Companies expect to incur additional nuclear fuel obligations of approximately $145,000,000 in 1983. The major portion of the Companies' construction activities during this five-year period relates to the CAPCO companies' program for the joint development of power generation and transmission facilities, and to bring the Companies' existing generating units into compliance with environmental regulations. The CAPCO companies have entered into other commitments (the Companies' share being $295,000,000, of which approximately $200,000,000 is applicable to the 1983–1987 period) for the supply of nuclear fuel in connection with the future commercial operation of nuclear generating units.

The Companies' financing programs during 1983 through 1987 will include the sale or issuance, from time to time, of appropriate additional amounts of first mortgage bonds, secured or unsecured pollution control and environmental notes and obligations, unsecured long-term notes, preferred stock, preference stock, common stock and proceeds from other long-term financing arrangements (see Note 5). The Companies are limited by their respective indentures and Charters as to the amount of additional first mortgage bonds and preferred stock they may issue.

Quarto Project

The Companies, together with the other CAPCO companies, have made long-term coal supply arrangements with Quarto. The CAPCO companies have agreed to severally, and not jointly, guarantee their porportionate shares of Quarto's debt and lease obligations incurred while developing and equipping the mines. The guarantees will remain even if environmental regulations prohibit the use of this coal. As of December 31, 1982, the Companies' share of the guarantee was $235,414,000 ($121,878,000—long-term debt; $79,190,000—lease obligations; and $34,346,000—short-term bank credit).

Under the terms of the coal supply contracts, which expire December 31, 1999, the Companies must reimburse Quarto for their shares of the costs of operating the Quarto mines, including those costs associated with mine construction, whether or not they receive coal from Quarto. The Companies' total payments under these contracts amounted to $80,709,000 and $94,379,000 during 1982 and 1981, respectively. The Companies' future minimum payments under the coal supply contracts related to mine construction costs are:

1983	$ 26,538,000
1984	25,920,000
1985	25,302,000
1986	24,684,000
1987	24,066,000
Years thereafter	245,245,000

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

Quarto project and conduct such additional studies of the economics of the project as are deemed warranted by the circumstances. Any action by the Company affecting the Quarto project as a result of such studies will now have to take into account the principles expressed in the Ohio Supreme Court decision referred to in Note 2.

The current price of Quarto coal to the Companies is based on, among other things, the actual production costs plus amortization of certain production expenses which were not included in the price of coal to the Companies during the development period, which ended on May 31, 1980. The current price of Quarto coal exceeds the current generally prevailing market price of coal. Reference is made to Note 1 for a discussion of PUCO and PPUC orders with respect to the cost of Quarto coal currently being recovered from customers. The Company believes that the PUCO method for recovery of the costs of Quarto coal, including recovery of the deferred costs, is appropriate under the reduced mode of operation of the mines because this method is consistent with the fuel procurement strategy for reducing the overall cost of coal for the Bruce Mansfield Plant. Despite the delay in the final resolution of this matter by the PPUC, management believes that its ultimate disposition by the PPUC will not have a material adverse effect upon the Company's consolidated results of operations.

An issue has been raised in the Companies' most recent rate cases before the FERC concerning the amount of the cost of Quarto coal that may be included in the Companies' charges for electric service to their wholesale customers.

Environmental Matters
Various Federal, state and local authorities regulate the Companies with regard to air and water quality and other environmental matters. The Companies estimate that compliance requires capital expenditures of approximately $488,000,000 for projects remaining to be completed. Of this amount, approximately $237,000,000 was spent prior to 1983, and $242,000,000 is included in the construction estimate given above under "Construction Program" for 1983 through 1987. If Penn Power is required to install off-stream cooling in connection with the operation of the New Castle Plant, costs estimated between $13,800,000 and $31,500,000, depending on the required thermal limitations, would be incurred. In addition, annual operating costs would increase substantially. Penn Power expects that the impact of any such capital and operating expenditures would eventually be reflected in its rate schedules.

Final regulations implementing certain provisions of the Clean Air Act Amendments of 1977 have now been promulgated which provide for the imposition of noncompliance penalties based on any economic benefit realized by the operator of a pollution source as a result of failure to comply with pollution control laws and regulations after January 1, 1981. The Companies filed Petitions for Review of these regulations. On January 7, 1983, the U.S. Court of Appeals for the District of Columbia upheld the validity of most of these regulations. The Companies did not achieve compliance with all such regulations by January 1, 1981 so that such penalties could be sought against them, but the Companies cannot determine at this time whether they will be or, if they are, the amount of economic benefit that could be established. If sought and imposed, such penalties could be significant. However, the Federal Environmental Protection Agency (EPA) has acknowledged in earlier settlements of proceedings involving the Companies' Ohio plants that its policy is to assign a low enforcement priority to companies in compliance with outstanding consent orders such as embodied in those settlements. Also, approval of a Pennsylvania State Implementation Plan revision, which was effective January 15, 1982, brings Penn Power's New Castle Plant into compliance with sulfur dioxide (SO_2) emission standards.

On December 19, 1980, the Commonwealth of Pennsylvania petitioned the EPA to make findings under Section 126 of the Clean Air Act. Section 126 provides a remedy for a downwind State that can show adverse impact because air pollution in an upwind State causes nonattainment of air quality standards in the downwind State. Pennsylvania's petition complains of excessive particulate and SO_2 emissions from a number of sources in Ohio and other states, including potentially all of the Companies' Ohio plants. The States of New York and Maine have filed similar petitions which have subsequently been consolidated with the Pennsylvania petition. The Section 126 proceeding could ultimately result in the revision of the particulate and SO_2 emission limitations for these plants, to make them more stringent. The Company is unable to predict the outcome of this proceeding.

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

Other Legal Actions and Complaints

In 1977, the Boroughs of Ellwood City and Grove City, Pennsylvania, filed a complaint against Penn Power, alleging that Penn Power, individually and in conspiracy with the Company and other CAPCO companies, has violated Sections 4 and 16 of the Clayton Act by restraining and monopolizing trade and commerce in alleged markets for electric power. Damages of $7,000,000 (to be trebled) and injunctions against the alleged unlawful acts are sought. In 1979, the Court granted summary judgment in favor of Penn Power as to certain allegations of the complaint. On February 14, 1983, Penn Power filed a Motion for Summary Judgment on the claims not dismissed by the Court's 1979 Order. On February 11, 1983, the Boroughs asked the Court to allow them to amend their complaint. Management is unable to predict the ultimate outcome of this action.

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

8 Extraordinary Income

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

9 Summary of Quarterly Financial Data

The following summarizes certain consolidated operating results for the four quarters of 1982 and 1981.

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

Three Months Ended	March 31, 1981	June 30, 1981	September 30, 1981	December 31, 1981
	(In thousands, except per share amounts)			
Operating Revenues	$308,837	$293,500	$337,249	$340,063
Operating Expenses and Taxes	254,891	237,668	270,449	264,260
Operating Income (i)	53,946	55,832	66,800	75,803
Other Income and Deductions	27,994	29,212	35,860	37,736
Net Interest and Other Charges	44,729	49,225	51,049	55,160
Income Before Extraordinary Items	37,211	35,819	51,611	58,379
Extraordinary Items	9,516	4,526	—	—
Net Income	$ 46,727	$ 40,345	$ 51,611	$ 58,379
Earnings on Common Stock	$ 38,354	$ 32,042	$ 43,369	$ 50,127
Weighted Average Number of Shares of Common Stock Outstanding	68,844	69,585	70,410	75,881
Earnings per Share of Common Stock:				
Before Extraordinary Items (after preferred and preference stock dividend requirements) (i)	$.42	$.40	$.62	$.66
Extraordinary Items	.14	.06	—	—
Earnings on Common Stock	$.56	$.46	$.62	$.66

(i) Results for the three months ended December 31, 1981 include a credit of approximately $7,012,000 ($.09 per share of common stock), net of income taxes, applicable to the reversal of previously accrued Pennsylvania Excise Tax on Gross Receipts (see Statements of Consolidated Taxes).

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

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

Adjusted for the Effects of Changing Prices For the Year Ended December 31, 1982 (In Thousands)	As Reported on the Primary Consolidated Statements	Adjusted for General Inflation	Adjusted for Change in Specific Prices (Current Cost)
		(Average 1982 Dollars)	
Operating Revenues	$1,429,626	$1,429,626	$1,429,626
Operating Expenses and Taxes:			
Operation and maintenance	846,100	846,100	846,100
Provision for depreciation and amortization	105,072	219,966	253,304
General taxes	114,569	114,569	114,569
Income taxes	94,245	94,245	94,245
Total operating expenses and taxes	1,159,986	1,274,880	1,308,218
Operating Income	269,640	154,746	121,408
Other Income and Deductions	160,247	160,247	160,247
Net Interest and Other Charges	234,316	234,316	234,316
Preferred and Preference Stock Dividend Requirements	34,233	34,233	34,233
Income from Continuing Operations (excluding reduction to net recoverable cost)	$ 161,338	$ 46,444(i)	$ 13,106
Increase in specific prices (current cost) of property, plant and equipment held during the year (ii)			$ 633,0:8
Reduction to net recoverable cost		$ (41,669)	(342,314)
Effect of increase in the general price level on property, plant and equipment			(299,065)
Excess of increase in the general price level over increase in specific prices of property, plant and equipment after reduction to net recoverable cost			(8,331)
Advantage resulting from the decrease in purchasing power of net monetary liabilities		106,804	106,804
Net		$ 65,135	$ 98,473

(i) Including the reduction to net recoverable cost, income from continuing operations adjusted for general inflation would have been $4,775,000.

(ii) At December 31, 1982, property, plant and equipment net of accumulated depreciation, adjusted for changes in specific prices (current cost) was $8,615,953,000, while historical cost (net recoverable cost) was $4,529,489,000.

Five-Year Comparison of Selected Supplementary Financial Data

Adjusted for the Effects of Changing Prices Year Ended December 31,	1982	1981	1980	1979	1978
	(Dollars in thousands, except per share amounts)				
Operating Revenues					
As reported on the primary consolidated statements	$1,429,626	$1,279,649	$1,080,869	$ 994,585	$ 862,956
Adjusted to average 1982 dollars	$1,429,626	$1,358,100	$1,266,123	$1,322,606	$1,273,769
Historical Cost Information Adjusted for General Inflation (In Average 1982 Dollars)					
Income from continuing operations (excluding reduction to net recoverable cost)	$ 46,444	$ 52,161	$ 24,478	$ 55,618	
Income from continuing operations per common share (excluding reduction to net recoverable cost)	$ .54	$ .73	$ .37	$ .95	
Current Cost Information (In Average 1982 Dollars)					
Income (loss) from continuing operations (excluding reduction to net recoverable cost)	$ 13,106	$ 25,925	$ (14,436)	$ 18,822	
Income (loss) from continuing operations per common share (excluding reduction to net recoverable cost)	$ .15	$ .36	$(.22)	$ .32	
Excess of increase in the general price level over increase in specific prices of property, plant and equipment after reduction to net recoverable cost	$ (8,331)	$ (197,439)	$ (308,443)	$ (355,655)	
Other Information					
Common stockholders' equity at December 31 at net recoverable cost (Average 1982 Dollars)	$1,471,796	$1,263,081	$1,188,228	$1,222,290	
Advantage resulting from the decrease in purchasing power of net monetary liabilities (Average 1982 Dollars)	$ 106,804	$ 228,464	$ 296,627	$ 328,800	
Cash dividends declared per common share—					
As reported	$1.76	$1.76	$1.76	$1.76	$1.76
Adjusted to average 1982 dollars	$1.76	$1.86	$2.04	$2.33	$2.58
Market price per common share at December 31—					
As reported	$14.00	$11.625	$11.875	$13.375	$14.875
Adjusted to average 1982 dollars	$13.84	$11.94	$13.29	$16.82	$21.20
Average consumer price index	289.1	272.4	246.8	217.4	195.4

The Consumer Price Index for All Urban Consumers (CPI-U) was used for converting actual dollars spent for property, plant and equipment into average 1982 dollars. This adjustment illustrates the estimated effect that inflation has had upon the Companies' principal assets.

The Handy-Whitman Index of Public Utility Construction Costs for the North Central Division and the Bureau of Labor and Statistics engineering indices were used to calculate the current cost of property, plant and equipment, excluding land. These indices were applied to actual dollars spent on large construction projects according to the year of expenditure. Current cost of all other construction projects was based upon original cost in the year of its transfer to plant in service. The current cost of land is the same as the computed amount adjusted for general inflation. The current cost adjustment reflects the approximate dollars that would have to be spent today to acquire property, plant and equipment identical to assets currently owned.

Depreciation expense was determined using the same rates and methods under general inflation and changing prices as the provision for depreciation reported on the primary consolidated financial statements. The accumulated provision for depreciation was estimated by using the Handy-Whitman Index. A theoretical reserve balance was estimated for each class of property by year that the property was placed in service. The index was then applied to each reserve balance for the respective year to determine the composite current cost accumulated provision for depreciation.

The total provision for income taxes has not been adjusted for general inflation or changing prices, in conformity with the reporting requirements of SFAS No. 33.

The reduction to net recoverable cost arises because the current rate making policies to which the Companies are subject allow recovery through revenues of only the historical cost of utility property. During inflationary periods, however, the investment necessary to replace that property will be more than its original cost. In order to properly reflect property, plant and equipment at its economic value to the Companies, the adjustment for reduction to net recoverable cost must be made due to the additional constraints present in the rate making process.

Consolidated net monetary liabilities consist primarily of long-term debt and preferred stock. During inflationary periods, net monetary liabilities will be repaid with dollars having less purchasing power than dollars had when the liabilities were originally incurred. Adjustment for the advantage resulting from the decrease in purchasing power of net monetary liabilities is necessary to adequately reflect these differences and serves to offset the adverse inflationary effects of replacing the Companies' property, plant and equipment.

Auditors' Report

Arthur Andersen & Co.
1345 Avenue of the Americas
New York, N.Y. 10105

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

We have examined the consolidated balance sheets and statements of consolidated capitalization of Ohio Edison Company (an Ohio corporation) and its subsidiary companies as of December 31, 1982, and 1981, and the related statements of consolidated income, retained earnings, capital stock and other paid-in capital, sources of funds for property additions and taxes for each of the three years in the period ended December 31, 1982. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note 2 to the consolidated financial statements, the Company has incurred costs related to four nuclear units which were terminated in early 1980. Pursuant to a Public Utilities Commission of Ohio (PUCO) order, the Company had been recovering applicable construction costs from its customers over a ten-year period. In light of a 1981 Ohio Supreme Court ruling, the PUCO did not allow these costs as service-related costs in the Company's most recent rate case, but did permit an increment to be added to the allowed rate of return to recover these costs. In 1982, another Ohio utility was granted a similar increment in the allowed rate of return, but that decision has been appealed to the Ohio Supreme Court by Consumers' Counsel. How this appeal will ultimately affect the Company's recovery of these costs from its retail customers is uncertain at this time.

In our opinion, subject to the effect of such adjustments, if any, that might have been required had the outcome of the matter referred to in the preceding paragraph been known, the financial statements referred to above present fairly the financial position of Ohio Edison Company and its subsidiary companies as of December 31, 1982, and 1981, and the results of their operations and the sources of funds for property additions for each of the three years in the period ended December 31, 1982, in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

February 8, 1983.

Consolidated Financial Statistics

	1982	1981	1980	1979	1978	1977	1972
General Financial Information		(Dollars in thousands, except per share amounts)					
Total Operating Revenues	**$1,429,626**	$1,279,649	$1,080,869	$ 994,585	$ 862,956	$ 796,289	$ 343,204
Operating Income	**$ 269,640**	$ 252,381	$ 169,383	$ 163,744	$ 123,945	$ 146,508	$ 76,155
Earnings on Common Stock	**$ 181,496**	$ 163,892	$ 101,403	$ 105,120	$ 61,259	$ 87,863	$ 49,130
Ratio of Earnings on Common Stock to Operating Revenues	**12.7%**	12.8%	9.4%	10.6%	7.1%	11.0%	14.3%
Times Interest Earned Before Income Tax	**2.02x**	2.11x	2.05x	2.31x	1.67x	2.38x	3.01x
Net Utility Plant at December 31	**$4,522,733**	$3,867,757	$3,435,267	$3,012,197	$2,717,820	$2,403,810	$1,173,233
Property Additions	**$ 774,233**	$ 568,044	$ 515,020	$ 476,746	$ 395,162	$ 358,105	$ 166,035
Capitalization at December 31							
Common Stockholders' Equity	**$1,488,371**	$1,229,044	$1,067,524	$ 970,110	$ 851,686	$ 867,292	$ 360,011
Preferred and Preference Stock Not Subject to Mandatory Redemption	**354,240**	304,240	306,905	306,905	306,905	261,905	119,905
Preferred and Preference Stock Subject to Mandatory Redemption	**152,560**	151,141	156,450	150,850	98,000	98,000	—
Long-Term Debt	**2,005,436**	1,759,771	1,594,384	1,410,782	1,343,195	1,189,821	629,140
Total Capitalization	**$4,000,607**	$3,444,196	$3,125,263	$2,838,647	$2,599,786	$2,417,018	$1,109,056
Capitalization Ratios at December 31							
Common Stockholders' Equity	**37.2%**	35.7%	34.2%	34.2%	32.7%	35.9%	32.5%
Preferred and Preference Stock Not Subject to Mandatory Redemption	**8.9**	8.8	9.8	10.8	11.8	10.8	10.8
Preferred and Preference Stock Subject to Mandatory Redemption	**3.8**	4.4	5.0	5.3	3.8	4.1	—
Long-Term Debt	**50.1**	51.1	51.0	49.7	51.7	49.2	56.7
Total Capitalization	**100.0%**	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Long-Term Obligations at December 31	**$656,655**	$447,484	$265,000	—	—	—	—
Cost of Preferred & Preference Stock Outstanding at December 31	**9.17%**	8.37%	8.38%	8.36%	7.99%	7.85%	5.40%
Cost of Long-Term Debt Outstanding at December 31	**10.69%**	9.99%	9.16%	8.13%	7.71%	7.45%	5.92%
Common Stock Data							
Earnings per Average Common Share	**$2.13**	$2.30	$1.52	$1.80	$1.19	$1.97	$1.91
Return on Average Common Equity	**13.5%**	14.6%	9.7%	11.2%	7.1%	11.7%	13.8%
Dividends Paid Per Share	**$1.76**	$1.76	$1.76	$1.76	$1.76	$1.715	$1.54
Common Stock Dividend Payout Ratio	**83%**	77%	116%	98%	148%	87%	81%
Common Stock Dividend Yield at December 31	**12.6%**	15.1%	14.8%	13.2%	11.8%	9.0%	6.7%
Price/Earnings Ratio at December 31	**6.6**	5.1	7.8	7.4	12.5	9.9	12.1
Shares of Common Stock Outstanding at December 31 (000)	**96,082**	78,676	68,526	59,622	52,120	51,207	25,695
Book Value per Common Share at December 31	**$15.49**	$15.62	$15.58	$16.27	$16.34	$16.94	$14.01
Market Price per Common Share at December 31	**$14.00**	$11.625	$11.875	$13.375	$14.875	$19.50	$23.125
Ratio of Market Price to Book Value per Share at December 31	**90%**	74%	76%	82%	91%	115%	165%

Consolidated Operating Statistics

	1982	1981	1980	1979	1978	1977	1972
Revenue From Electric Sales: (Thousands)							
Residential	**$ 497,941**	$ 442,267	$ 398,832	$360,273	$314,867	$284,512	$124,930
Commercial	**356,325**	308,599	268,788	240,458	205,901	191,381	87,844
Industrial	**383,535**	381,162	330,717	315,185	258,767	236,434	102,207
Other	**67,828**	53,993	50,420	42,607	46,471	31,744	14,785
Sub-total	**1,305,629**	1,186,021	1,048,757	958,523	826,006	744,071	329,766
Sales to Utilities	**101,688**	73,966	12,381	10,185	9,346	7,825	2,698
Total	**$1,407,317**	$1,259,987	$1,061,138	$968,708	$835,352	$751,896	$332,464
Revenue From Electric Sales—%:							
Residential	**35.4%**	35.1%	37.6%	37.2%	37.7%	37.8%	37.6%
Commercial	**25.3**	24.5	25.3	24.8	24.6	25.5	26.4
Industrial	**27.3**	30.2	31.2	32.5	31.0	31.5	30.7
Other	**4.8**	4.3	4.7	4.4	5.6	4.2	4.5
Sub-total	**92.8**	94.1	98.8	98.9	98.9	99.0	99.2
Sales to Utilities	**7.2**	5.9	1.2	1.1	1.1	1.0	0.8
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Kilowatt-Hour Sales: (Millions)							
Residential	**6,733**	6,747	6,801	6,650	6,501	6,334	5,023
Commercial	**4,996**	4,917	4,812	4,693	4,470	4,549	3,692
Industrial	**7,708**	9,352	8,909	9,830	9,600	9,671	9,250
Other	**1,227**	1,181	1,370	1,346	1,309	1,253	1,023
Sub-total	**20,664**	22,197	21,892	22,519	21,880	21,807	18,988
Sales to Utilities	**3,361**	2,465	502	441	429	422	284
Total	**24,025**	24,662	22,394	22,960	22,309	22,229	19,272
Customers Served at December 31:							
Residential	**873,877**	872,303	867,447	861,196	848,268	836,500	767,261
Commercial	**89,706**	89,231	88,505	87,425	86,410	85,002	80,219
Industrial	**1,048**	1,068	1,059	1,161	1,160	1,147	1,129
Other	**724**	711	704	693	689	682	557
Total	**965,355**	963,313	957,715	950,475	936,527	923,331	849,166
Average Annual Residential KWH Usage	**7,723**	7,760	7,870	7,780	7,724	7,637	6,668
Average Residential Price Per KWH	**7.40¢**	6.56¢	5.86¢	5.42¢	4.84¢	4.49¢	2.49¢
Cost of Coal per Million BTU	**$1.75**	$1.81	$1.50	$1.26	$1.16	$.96	$.36
Generating Capability at December 31: (Megawatts)							
Coal	**4,858**	4,907	4,899	4,861	4,861	4,861	3,939
Oil	**354**	354	364	423	423	423	132
Nuclear	**425**	425	425	425	420	420	—
Total	**5,637**	5,686	5,688	5,709	5,704	5,704	4,071
Sources of Electric Generation:							
Coal	**93.8%**	89.9%	98.7%	93.9%	90.4%	90.0%	99.8%
Oil	**0.1**	0.2	0.6	2.0	3.5	2.6	0.2
Nuclear	**6.1**	9.9	0.7	4.1	6.1	7.4	—
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Peak Load—Megawatts	**4,073**	4,148	4,210	4,105	4,038	4,134	3,530
Number of Employees at December 31	**7,885**	7,669	7,503	7,157	6,765	6,609	6,040

Stockholder Information

Stockholder Profile
At the end of 1982, 194,877 stockholders owned 96.1 million shares of our common stock. Approximately 33 percent of our stockholders are women, 25 percent are men and 31 percent are joint holders. The remaining 11 percent represent trusts, corporations, institutions, brokers and other investment groups.

Nearly 75 percent of our stockholders own 300 shares or less. They live in all 50 states and some foreign countries, but more stockholders reside in Ohio than in any other state, followed by New York, Florida, California and Pennsylvania.

Common Stock Dividend Increased
Effective the first quarter of 1983, the Company's Board of Directors increased the quarterly dividend on the common stock of Ohio Edison Company to 45 cents per share from 44 cents.

Dividends of 44 cents per share of common stock outstanding were declared by the Board of Directors for each quarter of 1982.

Dividend Reinvestment and Stock Purchase Plan Grows
The Company's Dividend Reinvestment and Stock Purchase Plan continues to be popular with stockholders. In 1982, about 15,500 stockholders joined the Plan, raising the total number of participants enrolled at the end of the year to 52,807, or 27 percent of all stockholders. By reinvesting $37.7 million in dividends and making optional cash payments of $21.7 million, they acquired more than 4.6 million shares of common stock during the year.

The Plan was expanded in 1982 to include preferred and preference stockholders. Participants may automatically invest all or part of their quarterly dividends to purchase shares of common stock at 95 percent of market value with common stock dividends, or at full market value with preferred and preference stock dividends. They may also buy, directly through the Company, additional shares of common stock at 97 percent of market value through optional cash payments of up to $40,000 per year.

As another stockholder benefit, the Economic Recovery Tax Act of 1981 provides that from 1981 through 1985, most participants of qualified dividend reinvestment plans such as Ohio Edison's may elect to exclude from their yearly income up to $750 per year ($1,500 on a joint return) of dividends that are reinvested. However, regulations have not yet been issued explaining how this exclusion applies to companies with return of capital dividends. We anticipate that a portion of common stock dividends paid during the next few years will be designated as a return of capital. Therefore, participants should consult their own tax advisers to determine the proper treatment of common stock dividends on their federal tax return.

Additional information about the Plan, and a Prospectus, can be obtained by contacting Ohio Edison's Stockholder Services.

Dividend Income Taxability
For 1982, 75 percent of common stock dividends were designated as a return of capital, and therefore nontaxable for federal income tax purposes. Preferred and preference stock dividends paid during 1982 were totally taxable. These figures are subject to final determination by the Internal Revenue Service (IRS) and stockholders will be notified in the event of a significant change.

Law Requires Withholding Taxes from Dividends
With the passage of the Tax Equity and Fiscal Responsibility Act of 1982, the IRS requires that 10 percent of most dividend payments be withheld for tax purposes, beginning with dividends paid after June 30, 1983. The withholding and reporting of this tax will be similar to that of income taxes currently withheld from wages.

Regulations issued on this withholding provision (subject to change) specified that withholding will not be required under the following circumstances:
- For dividends reinvested in common stock under the Company's Dividend Reinvestment and Stock Purchase Plan;
- For dividend recipients who during the previous year did not pay more than $600 in federal income tax ($1,000 on a joint return);
- For dividend recipients age 65 or older who during the previous year did not pay taxes of more than $1,500 ($2,500 for a joint return). On joint tax returns, the age qualification is met if either spouse has reached the age of 65 at any time in the year which the exemption certificate is filed;
- For dividends paid to corporations, tax exempt organizations, individual retirement accounts (IRAs), and other exempt recipients; and
- For that portion of the Company's dividends estimated to be a return of capital.

Except for participants in our Dividend Reinvestment and Stock Purchase Plan, who are having all of their dividends reinvested, all stockholders eligible for an exemption must have an exemption certificate on file with the Company. Exemption certificates will be sent during the second quarter to all stockholders, except those reinvesting all of their dividends. A certificate must be filed for each account eligible for an exemption and must be received by the Company at least 45 days prior to the record date for the dividends subject to withholding. Stockholders who have an exemption certificate on file with us, but no longer meet the requirements for exemption, must notify us so the certificate may be canceled.

Annual Meeting of Stockholders
Stockholders are cordially invited to attend the 1983 Annual Meeting on Thursday, April 28, at 10:00 a.m., local time, in the Company's General Office auditorium in Akron, Ohio. Those unable or choosing not to attend can vote on the items of business presented at the meeting by filling out and returning the proxy card that is mailed to each stockholder approximately 30 days prior to the meeting.

Additional Information Available
For other items of interest and sources of additional information, remove the pull-out stockholder reference card opposite this page. Also attached is a duplicate mailing notice. To help us reduce expenses by eliminating unnecessary duplicate mailings, please complete and return the postage-paid notice.

Ohio Edison Company
Stockholder Reference Card

For your future reference, remove this special stockholder information card, which may be kept with your account records.

Stock Listing

Ohio Edison Company common stock is listed on the New York and Midwest stock exchanges and traded on other registered exchanges under the "OEC" ticker symbol. Newspapers generally use the symbol "OhioEd" in stock listings.

Annual Meeting

The 1983 Annual Meeting of Stockholders will take place on Thursday, April 28, at 10:00 a.m., local time, in the Company's General Office auditorium in Akron, Ohio.

Transfer Agent and Registrar

To improve our services to stockholders and to reduce costs, we became the sole transfer agent for all classes of our stock in November 1982.

Transfer Agent:	Registrar:
Transfer Agent	BancOhio National Bank
Ohio Edison Company	One Cascade Plaza
76 South Main Street	Akron, Ohio 44308
Akron, Ohio 44308	

Availability of Form 10-K

A copy of our 1982 Annual Report to the Securities and Exchange Commission, Form 10-K, will be provided without charge to stockholders upon request. To receive a copy, please write to Gregory F. LaFlame, Secretary, Ohio Edison Company, 76 South Main Street, Akron, Ohio 44308.

Duplicate Mailing Notice

If you are receiving more than one copy of the Annual Report because of multiple holdings, please complete and return the duplicate mailing notice attached below.

Dear Stockholder:

If you receive more than one copy of the Annual and Quarterly reports in your household, and have no need for the extra copies, you can help our cost control program by completing and returning this card.

Eliminating duplicate mailings of Annual and Quarterly reports will not affect the mailing of dividend checks, proxy statements or other communications.

G. F. LaFlame, Secretary
Ohio Edison Company

Ohio Edison Company is hereby authorized to discontinue sending duplicate Annual and Quarterly reports to the account identified below.

____
Signature of Stockholder(s)

Please do *NOT* return this card if you are presently receiving only one copy in your household.

(Peel off and affix the name and address label from the back cover of the Annual Report to be discontinued.)

Additional Sources of Information

Information and assistance pertaining to individual holdings, dividend payments, dividend reinvestment and the transfer or registration of stock can be obtained by writing to Ohio Edison Company, Stockholder Services, 76 South Main Street, Akron, Ohio 44308, or by calling one of the following:

Dividend Reinvestment and Stock Purchase Plan information	(216) 384-5513
Nonreceipt of dividend checks	(216) 384-5199
Transfer Agent	(216) 384-7926
Other stock information	(216) 384-5509

Our Stockholder Services group has experienced employees dedicated to providing prompt and reliable service to stockholders. If you have a problem with any transaction, please write to the Supervisor of Stockholder Services at the above address.

No Postage
Necessary
If Mailed In The
United States

Business Reply Card
First Class Permit No. 1047 Akron, Ohio

Postage Will Be Paid By Addressee

Ohio Edison Company
Stockholder Services
76 South Main Street
Akron, Ohio 44308

Board of Directors

Donald C. Blasius
President of The Tappan Company, Mansfield, Ohio (appliances and furnishings). Member, Nominating Committee, Finance Committee.

Joseph S. Davis
President of The M. O'Neil Company, Akron, Ohio (department stores). Member, Compensation Committee.

William A. Derrick
Independent Electrical and Mechanical Engineering Consultant, also President of Leisure Industries, Inc., Sandusky, Ohio (developer of real estate and residential buildings). Chairman, Compensation Committee.

Dr. Lucille G. Ford
Vice President and Dean of Business Administration and Economics, and Director, Gill Center for Business & Economic Education, Ashland College, Ashland, Ohio. Chairman, Nominating Committee. Member, Finance Committee.

Robert L. Loughhead
President of Copperweld Steel Company, Warren, Ohio, and Executive Vice President of its parent, Copperweld Corporation, Pittsburgh, Pennsylvania (steel products). Member, Compensation Committee, Audit Committee.

Glenn H. Meadows
President of McNeil Corporation, Akron, Ohio (various manufactured products). Member, Compensation Committee, Audit Committee.

John Nelson
President of Commercial Shearing, Inc., Youngstown, Ohio (engineered metal components). Member, Compensation Committee.

Victor A. Owoc
Executive Vice President of Ohio Edison. Member, Finance Committee.

Justin T. Rogers, Jr.
President of Ohio Edison and Chairman of the Board of its subsidiary, Pennsylvania Power Company. Chairman, Finance Committee. Member, Nominating Committee.

Douglas W. Tschappat
Executive Vice President of Ohio Edison.

Frank C. Watson
President of The Youngstown Welding and Engineering Company, Youngstown, Ohio (nonferrous alloys). Chairman, Audit Committee. Member, Nominating Committee.

William C. Zekan
President of A. Schulman, Inc., Akron, Ohio (custom plastic compounds). Member, Audit Committee.

Officers

Justin T. Rogers, Jr.
President

Victor A. Owoc
Executive Vice President

Douglas W. Tschappat
Executive Vice President

Lynn Firestone
Senior Vice President

David R. Gundry
Senior Vice President

Robert J. McWhorter
Senior Vice President

Russell J. Spetrino
Vice President and General Counsel

Ronald D. Best
Vice President

Frank E. Derry
Vice President

Clyde W. Frederickson
Vice President

Donald J. List
Vice President

James D. Wilson
Vice President

H. Peter Burg
Treasurer

William A. Daniels
Comptroller

Gregory F. LaFlame
Secretary

Mark T. Clark
Assistant Treasurer

Warren G. Fouch
Assistant Comptroller

Charles N. Glasgow
Assistant Secretary

Joanne Martin
Assistant Secretary

Division Managers

John A. Gill
Akron Division

Anthony N. Gorant
Bay Division

James E. Markle
Lake Erie Division

Malcolm E. Cash
Mansfield Division

Robert L. Kensinger
Marion Division

N. Rod Monahan
Springfield Division

Robert E. Dawson
Stark Division

David C. Bixler, Jr.
Warren Division

Peter A. Fetterolf
Youngstown Division

Management Developments

Senior Vice President Robert G. Zimmerman retired on February 1, 1983, after 43 years with Ohio Edison. He was succeeded by former Akron Division Manager David R. Gundry as head of division operations, customer services and marketing. Two new vice presidents were also named by the Company's Board of Directors. James D. Wilson, former manager of the rate department, became vice president of rates and economic studies in April. And in October, former manager of marketing Ronald D. Best was named vice president of marketing.

As a result of Mr. Gundry's election to senior vice president, John A. Gill, former manager of personnel relations, was named Akron Division manager. Mr. Gill was succeeded by former Marion Division Manager Donald L. Rearick, and Robert L. Kensinger moved to manager of the Marion Division from director of business development.

W. Boyd Marvin, also with the Company 43 years, retired as Comptroller in October. His successor, William A. Daniels, had been director of plant accounting.

We were saddened in March by the passing of John R. White. His retirement as Ohio Edison Company president in 1979 came after 26 years of outstanding service. He will long be remembered for his contributions to the Company, the utility industry and our community.

New Board Members Elected

At the 1982 Annual Meeting of Stockholders in April, three new Board members were elected. Joseph S. Davis, president of The M. O'Neil Company in Akron, Ohio, John Nelson, president of Commercial Shearing, Inc., in Youngstown, Ohio, and William C. Zekan, president of A. Schulman, Inc., in Akron, Ohio, filled vacancies left by retired members John L. Feudner, Jr., D. Bruce Mansfield and Fred H. Zuck. The Board, by resolution, reduced the number of directors to 12, effective with the retirement in February 1983 of Robert G. Zimmerman as a director.

OHIO**EDISON**

76 South Main Street
Akron, Ohio 44308

1982 Annual Report

Duquesne Light Company

Annual Report 1982

DOPE 8304190381

People Power

1982 was a year like few others in the history of Duquesne Light Company. The severe economic climate brought with it added challenges that demanded the most dedicated and creative efforts by our employees. This annual report is dedicated to our employees—the real strength of the Company. On the following pages, we spotlight five of the many Duquesne Light people whose dedication extends to community service as well. Employees pictured on the cover are (left to right):

Top row: Donna Chappel, Professional Recruiter; Stephanie Cummings, Remittance Clerk; William F. Gilfillan, Jr., Vice President, Customer Services Division

Middle Row: William Whitworth, Hot Stick Crew Leader; Robert O'Hara, Environmental Engineer; Karen Parkhill, Senior Clerk

Bottom Row: Gary Brockman, Telephone Service Representative; Bob Scott, Residential Representative; Donald Lester, Statistical Accountant

Contents

The relocation of Duquesne Light's corporate headquarters was completed early in 1983. Because of the extremely competitive development situation in the downtown area, Duquesne Light was able to use its negotiating strength as a major tenant to secure an attractive 20-year lease at One Oxford Centre.

Financial and Operating Highlights—1982

Duquesne Light Company

	1982	1981	Percent Change
Financial			
Electric Operating Revenues (000)	**$746,462**	$786,229	− 5.1
Income From Continuing Electric Operations (000)	**$117,197**	$109,409	+ 7.1
Net Income (000)	**$116,882**	$108,871	+ 7.4
Earnings Per Share of Common Stock From Continuing Electric Operations	**$1.96**	$2.07	− 5.3
Dividends Per Share of Common Stock	**$1.90**	$1.85	+ 2.7
Shares of Common Stock Outstanding at Year End	**53,276,525**	45,302,520	+17.6
Operating			
Electric Plant (000)	**$ 3,024,554**	$ 2,786,172	+ 8.6
MWH Sales	**11,037,681**	13,633,742	−19.0
Peak Load Megawatts	**2,158**	2,522	−14.4
Cost of Fuel Per Million BTU	**167.9¢**	159.7¢	+ 5.1
Average BTU Per KWH Output	**10,853**	10,931	− .7
Annual System Output MWH	**11,662,379**	14,323,618	−18.6

Company Vice Presidents (left to right): Earl J. Woolever, Nuclear Construction Division; George I. Rifendifer, General Services Division; William F. Gilfillan, Jr., Customer Services Division; Charles M. Atkinson, Fiscal Division; Clifford N. Dunn, Operations Division; John J. Carey, Nuclear Division; and Roger D. Beck, Engineering and Construction Division.

To Our Stockholders

For the first time since 1958, Duquesne Light's revenues were less than in the previous year: $746,462,000 in 1982 compared to $786,229,000 in 1981. The national recession was magnified for us by a sharp drop in demand by the area's major steel producers.

Fighting the Recession
The continuing recession presents a challenge to your Company's management. Measures taken in 1982 to maintain the Company's financial health during this difficult period included cost savings programs which benefit both our stockholders and our customers.

Coal Profits
On February 20, 1981, the Pennsylvania Public Utility Commission (PUC) ruled that the Company's Warwick Mine should be taken out of rate base, so we considered selling the mine. However, the PUC also noted that if the Warwick mine is efficient enough to produce coal for less than the average price of comparable Pennsylvania coal, the Company may earn a reasonable return on its investment. Therefore, it makes good economic sense for Duquesne Light to retain ownership. Warwick Mine contributed about $2.5 million to earnings in 1982.

The price we charge our customers for Warwick coal is subject to an annual PUC audit.

Nuclear Unit Returns to Service
One development in our efforts to offset the effects of the economic downturn was the return to service of Beaver Valley Power Station Unit No. 1. The nuclear unit was out of service for the first half of 1982 for refueling and for modifications required by the Nuclear Regulatory Commission.

For most of the balance of the year, it operated at or close to 100 percent of its rated capacity. This nuclear unit generates power for less than one-third the fuel cost of our coal stations, saving substantial operating expenses.

Cost Savings Program
As in all good businesses, cost savings are an integral part of our day-to-day operation. Traditionally, each division and service department has been responsible for identifying and implementing ways to cut costs. In 1982, we initiated an experimental program that covers cost savings efforts by every employee in the Company.

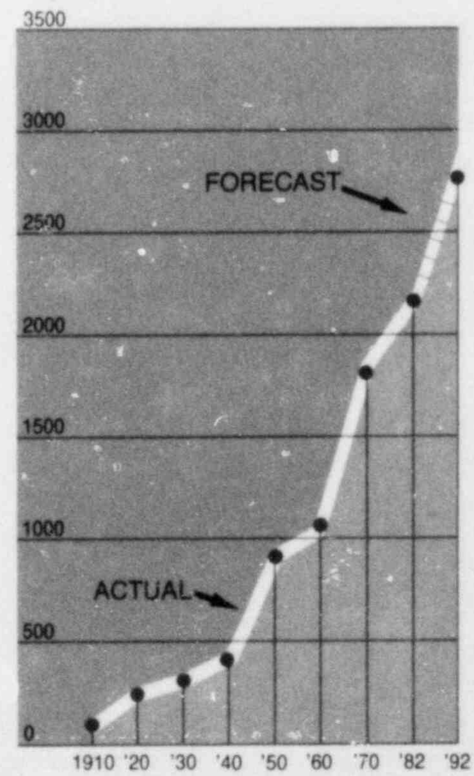
In the normal course of business, Company employees implement many cost savings measures throughout the year. The purpose of the new Cost Savings Program is to identify, document and record in a centralized place in the Company all of these cost savings actions and, in turn, provide encouragement for further cost reduction.

The program covers all Company activities and includes capital as well as operating and maintenance expenditures. Results are formally reported on a semiannual basis to the Chairman of the Board. In 1982, the results were gratifying: reductions during the year of $4.7 million in operating expenses and $3.6 million in capital expenditures.

Construction Reorganization
Early in the year, the Nuclear Construction Division was established to focus attention on our largest construction project, Beaver Valley Power Station Unit No. 2. The decision to establish this division was made because of the sizable investment the project represents and the desire to have personnel assigned to this project full-time.

This reassignment of responsibility preceded the reorganization of the Engineering and Construction Division. Project coordination and cost control in the E&C Division will be strengthened during 1983 through an expanded Project Management Department. This department will control and coordinate the division's projects from inception to completion, including functions such as scheduling, coordination among departments and budgeting.

ANNUAL SYSTEM PEAK LOAD
Megawatts



Management's decision to reorganize the E&C Division was later affirmed by a PUC mandated management audit which arrived at essentially the same conclusions in its recommendations. The PUC routinely orders such management audits so that utilities may have the opportunity to evaluate the opinions and recommendations of an experienced third party in conjunction with their continuing efforts to improve performance and cut costs.

Offsetting a Loss with a Gain
Although not caused by the recession, the decision to dispose of the major portion of the assets of our unprofitable subsidiary, Allegheny County Steam Heating Company (described on page 4), resulted in a $9.9 million after-tax loss. However, we were able to substantially offset this loss with a $9.6 million tax-free extraordinary gain.

The tax-free gain was made possible by taking advantage of an opportunity for a favorable exchange of equity for debt. Specifically, the Company exchanged 1,406,898 newly-issued shares of Common Stock for outstanding First Mortgage Bonds of various series with a face value of $29,852,000. The exchange resulted in an extraordinary gain of $9,609,000.

Inflation Moderates
On the brighter side of the country's gloomy economy was a significant reduction in the inflation rate during 1982. The benefits of reduced inflation are quickly felt in a capital-intensive industry such as ours in the prices we pay for equipment, vehicles and supplies.

Area Diversification
As we mentioned above, sales were depressed by the severe drop in demand by local industry, especially steel. However, the continuing diversification of the area's industrial base lessens the impact of this dramatic downturn.

While still working to revitalize our current industrial base, local area development groups have been attracting service businesses and high-technology companies in robotics, computers, microelectronics, instrumentation and optics. Pittsburgh, an important corporate headquarters center, ranks third among U.S. cities in total research and development expenditures.

Carry on the Tradition
"A new beginning" is a catchphrase that often is mentioned when a company relocates its headquarters. Not at Duquesne Light. Through our 100-plus years of operation, we have earned an excellent reputation for providing reliable service to customers. We see our relocation to One Oxford Centre as a means to build upon that already-strong foundation.

Scores of Duquesne Light employees worked long and hard to make our new headquarters a pleasant and efficient place to work. Early indications are that the new surroundings will enable all of us to do our jobs even better.

Another benefit for exempt employees is the recent introduction of a flexible 40-hour work week schedule. This plan will permit exempt employees some latitude to select their work hours while still meeting their job commitments and responsibilities.

Duquesne Light People
Credit for our longstanding record of reliability belongs to our Duquesne Light employees. They are an outstanding group, both personally and professionally. In the following pages you will see pictures of five Duquesne Light employees, and read about their activities, both on and off the job. In a way, this may tell you more about your Company than all the facts and figures of this report.

John M. Arthur

John M. Arthur
Chairman of the Board and President

February 17, 1983

Perspective of 1982

I Financial Matters

Revenues, Sales and Earnings—a Change in the Pattern
During 1982, our industrial customers used approximately 41% less electricity than in the previous year. The primary reason was the recession, which has hit the basic steel industry harder than many industries. Total sales were 19% lower. Commercial sales ran against the recessionary tide and increased 2%. Sales to residential customers were about the same.

Revenues decreased $40 million for the year, although the reduction was moderated by the rate increase that went into effect in mid-1981, the tariff provision covering rates for large businesses and industry, and sales of power to other utilities. The 1981 rate increase contributed to our 7% improved earnings from continuing electric operations.

Pittsburgh currently is in the midst of Renaissance II—a multi-billion dollar project involving public and private construction work in the greater downtown area. PPG Place (foreground) the 40-story future home of PPG Industries, will dominate the city's new skyline, which will include six other skyscrapers by the mid-1980s.

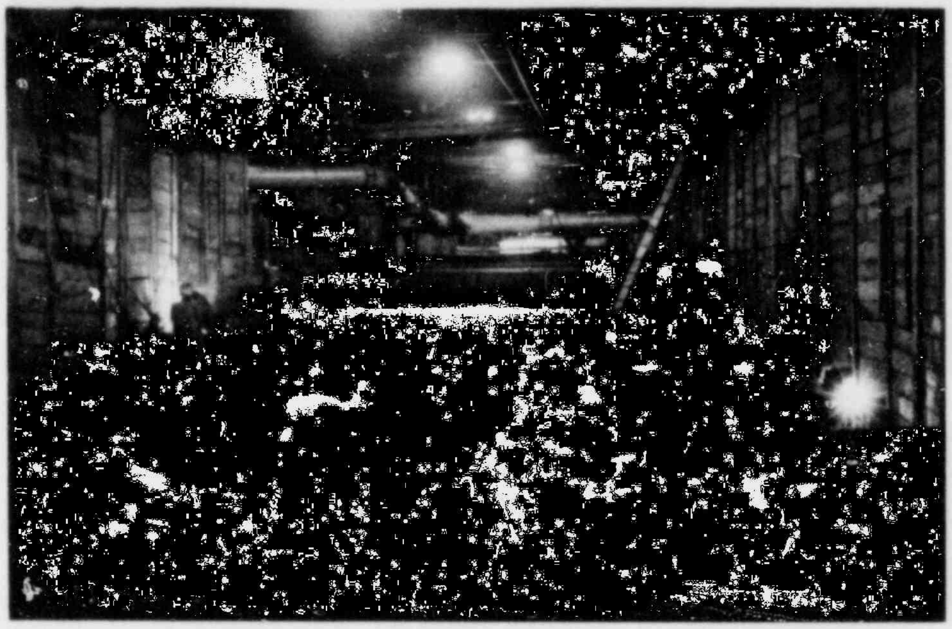
Steam Heating Affects Earnings
Losses connected with the operation of our subsidiary, Allegheny County Steam Heating Company (ACSH), and the decision to dispose of the major portion of its assets reduced 1982 earnings by 21¢ per share. On August 30, 1982 the Public Utility Commission (PUC) entered an Order authorizing ACSH to discontinue steam heating service effective May 31, 1983 and to dispose of certain of its assets.

The estimated loss from discontinued steam heating operations of $9,924,000, net of related tax benefits, was recognized in 1982 and included operating losses for the nine months ended September 30, 1982 and estimated operating losses from October 1, 1982 through May 31, 1983, the date a new steam-user group will take over the major part of the ACSH system. This loss was substantially offset by an extraordinary gain of $9,609,000 resulting from an exchange on December 22, 1982 of 1,406,898 shares of the Company's common stock for $29,852,000 principal amount of the Company's outstanding First Mortgage Bonds of various series.

The discontinuance of steam heating service of ACSH is expected to strengthen Duquesne Light financially. ACSH losses over the previous five years, 1977 through 1981, totalled about $3,041,000, and such losses would have continued or increased in future years.

Albert Grimes
"I love children," said Albert "Shindles the Clown" Grimes. "Not just certain ones, but all children." Al, an equipment operator from the Central-North T&D District, shows that love by donating his own time and money to entertain at children's birthday parties and charitable events, especially Muscular Dystrophy backyard carnivals. A 36-year Company veteran, Al began his hobby as "Shindles" as the result of a not-too-serious suggestion by a co-worker that he should have a clown costume made. "It was just a joke, believe it or not," recalls Al with a chuckle. "But I gave it a try and my interest and involvement grew from there. Now it's actually become a part of me. In fact, I think my family gets peeved a little because it seems like I spend two-thirds of my time with make-up on."

Sreerupa Mitra
A project engineer in the System Planning Department, Sreerupa Mitra has been with Duquesne Light since 1975. For the past year and a half, the Calcutta, India native has been actively involved with the Company Speakers' Team. Sreerupa and 20 other co-workers, representing a cross-section of the Company's major operating areas, volunteer their time to speak before community organizations. A typical presentation involves a brief talk, the viewing of a Company-produced movie and a free-form question and answer session. The key element of a Speakers' Team presentation is that it is personal. It provides an opportunity for a customer to conduct a one-on-one dialogue with the Company.



Construction of the downtown subway section of the Port Authority of Allegheny County's new Light Rail Transit System continues on schedule towards its projected November 1984 start-up date. The system will feature electrically-powered vehicles that will be constructed in the Pittsburgh area.

Recession, Rates and Development

Duquesne Light was able to find a small silver lining in the current recession; it became possible for us to use only our most efficient generating units. As the industrial consumption of electricity dropped, we were able to generate electricity almost entirely with coal and nuclear fuel and hold our costlier oil-fired generating equipment in reserve. We were then able to pass the savings along to our customers by reducing our Energy Cost Rate. The savings for the average residential customer was approximately $1.50 per month for the last six months of the year.

Despite the recession, substantial commercial construction continued in the Duquesne Light service area. Large projects completed or underway at year end included four high-rise office buildings in downtown Pittsburgh and two large suburban shopping malls. Our Area Development Department helped attract new business to Duquesne Light's two-county service area, adding about 3,000 new jobs in the area.

Cost Savings Program Payoff

In 1982, Duquesne Light established a cost savings program to identify and encourage cost saving ideas initiated within the Company. Each department is responsible for identifying, analyzing and documenting all cost savings measures for its area. The 1982 goal was a savings of $500,000 in operating costs. Documented savings were $4.7 million in operating expenses and $3.6 million in capital expenditures.

Dividend Reinvestment Plan Growth

The number of stockholders who applied their dividends to buy more stock under the Company's dividend reinvestment plan, instead of taking cash, grew 46% in 1982—from 23,300 to 34,066.

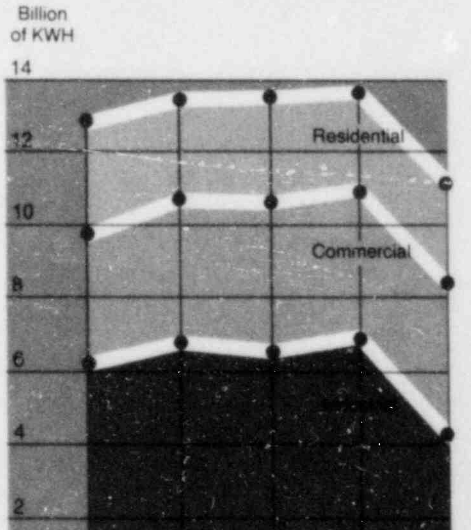
For an explanation of the plan, which was recently amended, and for necessary forms, write Duquesne Light Stockholder Relations Section, One Oxford Centre, 301 Grant Street, Pittsburgh, Pennsylvania 15279.

Construction and Financing

Capital expenditures for Duquesne Light totalled $231 million in 1982. Major projects included two large substations, a district operations headquarters building, special buildings for nuclear training and nuclear emergency response, and continued construction of Beaver Valley Power Station Unit No. 2 and Perry Units 1 and 2, in each of which the Company has a 13.74% ownership interest. About 22% of the money required to pay for such expenditures was generated internally; the remainder was raised by outside financing. This included:

1. On May 6, 1982, Duquesne Light issued $65,000,000 principal amount of 16¼% First Mortgage Bonds, Series due May 1, 2012. Net proceeds to the Company were approximately $64.4 million.
2. The Company issued 4,500,000 shares of Common Stock on August 10,1982. Net proceeds to Duquesne Light were approximately $59.5 million.
3. The Company issued 1,962,320 shares of Common Stock in 1982 pursuant to its Dividend Reinvestment Plan. In addition, 104,787 shares of Common

5-YEAR GROWTH KWH SALES

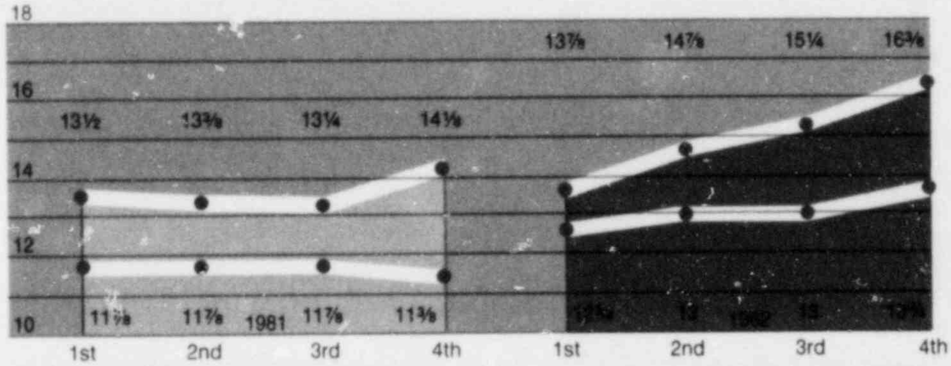


Stock were issued pursuant to the Company's Employee Stock Ownership Plan. Sales of Common Stock through these plans aggregated approximately $27.2 million.

The Rate Increase Picture

In 1981 we applied for a $100 million (15%) rate increase. On June 29 of that year, we accepted an option offered by the Pennsylvania Public Utility Commission (PUC) allowing us to put a $64.2 million rate increase into effect for service rendered on and after July 15, 1981. On April 15, 1982, the PUC gave its final approval to the increase. On April 30, 1982, the Company filed a new rate schedule that would increase revenues on an annual basis by $165 million, which was subsequently reduced to approximately $155 million. On January 28, 1983, the PUC entered an order allowing a total annual increase of $105.8 million.

HIGH/LOW COMMON STOCK



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

II Nuclear

An evaluation made in June by the Institute of Nuclear Power Operations (INPO) reaffirmed that the Beaver Valley Unit No. 1 is operated in a safe manner by qualified personnel. INPO is a nonprofit corporation created by the nuclear utility industry in 1979 to enhance the safe operation of the nation's nuclear power plants.

In February 1982, Beaver Valley Power Station held the first full-scale drill to test its Emergency Preparedness Plan. The station's performance was rated a success by both the Commonwealth of Pennsylvania and the Nuclear Regulatory Commission.

Oldest Nuclear Power Station Retired

President Eisenhower launched the peaceful use of nuclear energy when he switched the Shippingport Atomic Power Station into service in 1957. Duquesne Light operated the plant under government contract until October 1, 1982, when, having generated 7 billion kilowatt-hours of electricity with an excellent safety record, Shippingport was shut down for the last time.

Next step: the U.S. Department of Energy will remove the fuel and decommission the station. Some employees will continue to work at the Shippingport station for the next 4 or 5 years. Other station employees will be transferred to other Company locations including Beaver Valley Units Nos. 1 and 2. Some will continue training as licensed operators; others will form the nucleus of the supervisory staff at Beaver Valley Unit No. 2.

New Nuclear Construction Division Formed

In order to provide better control of the design and construction of Beaver Valley Unit No. 2, Duquesne Light created a new

Light-Up Night returned November 8, after a 10-year absence. Corporations and businesses throughout the "Golden Triangle" left lights on in their buildings until midnight, providing photographers and the general public with a panoramic view of the city. Light-Up Night was initiated in 1957 as a means to help usher in the Christmas season. It was discontinued in 1973 due to the OPEC oil embargo.

Harry Butler
During the day, Harry Butler is a hot stick crew leader in the Central-North District of the Transmission and Distribution Department. He's on a different type of "hot" crew during his off-the-job hours. Harry and his wife, Lois, serve as volunteers for the West Deer Fire Company. Men and women have been fighting fires side by side in West Deer since the mid-1970s. "The women handle the same chores as the men do and many of them have the added advantage of being able to respond to daytime fire alarms when many of the men are working," Harry said. "At our fire company, everyone shoulders an equal amount of responsibility."

Nuclear Construction Division. The Division Vice President, Earl Woolever, had previously been Vice President—Engineering and Construction. He picked up the construction project at a little over midpoint. Unit No. 2, expected to go on line in 1986, is now approximately 59% complete. Mr. Woolever's extensive nuclear experience goes back to the beginning of Duquesne Light's nuclear involvement when he helped design the Shippingport Atomic Power Station.

III Environment

Meeting Clean Air Goals

A new electrostatic precipitator was retrofitted on a power plant in West Virginia; work is in progress to replace another at a power plant in Ohio. Both plants are partly-owned by Duquesne Light; our share of the costs totalled $30 million.

Acid Rain: Will Haste Make $335 Million Waste?

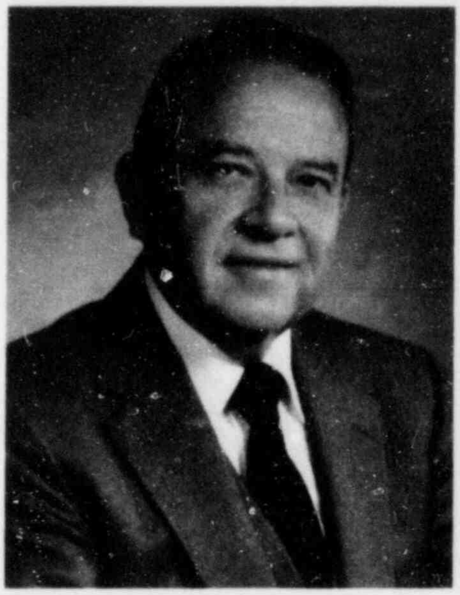
Bills addressing "acid rain" were considered by Congress during 1982. Although none progressed past committee stage, if certain of these bills were to be reintroduced and passed by Congress, it could require coal-burning power plants, especially those located in the middle and eastern parts of the country, to install "scrubbers" to remove sulfur from the stack gases.

This could cost Duquesne Light as much as $335 million, require an increase of 6% to 12% in customers' electric bills and threaten thousands of coal and steel industry jobs in this region. The Company believes that "acid rain" legislation is premature at this time, and that extensive scientific research must be completed before the nature, causes and effects of acid rain can really be understood.

IV Personnel, Internal Operations and Customer Relations

President Retires

Stanley G. Schaffer retired as President and as a Director of the Company effective February 1, 1983. Mr. Schaffer served the Company for nearly 42 years in various positions. From 1958 through 1966, he held various supervisory positions in the Company's Power Stations Department. In 1966, he was elected Vice President of Operations and Director of the Company. This appointment was followed in June 1967 by his election as Executive Vice President. In July 1968 he was elected President of Duquesne Light. The employees, Directors and Officers of the Company appreciate the dedication and guidance provided by Mr. Schaffer during his many years of service.



Stanley G. Schaffer

Duquesne Light has long had a good reputation, both locally and nationally, for its environmental control programs. At Phillips Power Station,electrostatic precipitators and flue gas scrubbers collect 99 percent of the fly ash before it can enter the station's stack. The accumulated fly ash, shown here, is mixed with scrubber sludge, stabilized, and then trucked to a site for proper disposal. It is interesting to note that in 1982, about 15 percent of each dollar received in revenue by the Company was expended for environmental control expenses.

Management Audit

As part of the Pennsylvania Public Utility Commission's (PUC) Management Audit Program, the PUC routinely orders management audits of utilities.

Duquesne Light Company's management audit was completed in the third quarter of 1982 by the consulting firm of Temple, Barker & Sloane, Inc. The 500 page audit report prepared by the consultant made many constructive recommendations, and the Company has decided to implement most of them.

Overall, the audit findings support the position that Duquesne Light is effectively managed by skilled and professional employees who provide reliable electric service at reasonable rates. The report gave our Company high marks for its record of service reliability (99.95%), sound financial management, effectiveness in coal buying, and the good performance of many departments.

Centrella Ziegler
Centrella (Cindy) Ziegler's daughter, Rita, had a problem. Her Junior Girl Scout group needed a troop leader. At the top of her likely list of candidates was good old mom. As all good moms do, Cindy, a file clerk/typist in the General Purchasing Department, "volunteered" her services. For the past three years she's been a special friend for a group of girls, ages 9-11, from the Hill District section of Pittsburgh. The group's many field trips included this visit to the Buhl Science Center.

Clemente Runas
On the job, Clemente "Clem" Runas is an equipment maintenance repairman, first class in the Substations and Shops Department Maintenance Shop. In his spare time, he serves as an emergency medical technician for the Deer Lakes Youth Organization. Clem's training for the Emergency Medical Technician certification involved 82 hours of classroom work and 20 hours of actual hospital procedure.

Data Processing Department

A new computer system with four times the capacity of the combined previously existing equipment was installed in November at the Company's Woods Run Computer Center. It gives the Data Processing Department the ability to better serve the operating departments and other service departments of the Company.

The Data Processing Department designed and implemented a new computerized system that records, stores and retrieves information on overtime hours, vacation time, and sick days for each department in the Company. The system greatly improves the accuracy and timeliness of this information for better management control.

A systems plan, covering the next three to five years, has been developed and is being implemented by the department. The plan identifies potential systems projects, resources and manpower requirements, establishes priorities and designs implementation programs.

Employees and Union Contracts

Experience is an important factor behind the management audit's recognition of our employees' professionalism. The average Duquesne Light supervisory employee has 15 years experience with the Company (yet is only 40 years old).

Our union represented employees are members of the International Brotherhood of Electrical Workers, AFL-CIO or the UMWA. Our two-year contract with the IBEW runs until October 1, 1983. Our hourly coal mine employees are covered by the industry-wide Bituminous Coal Wage Agreement, which runs until September 30, 1984.

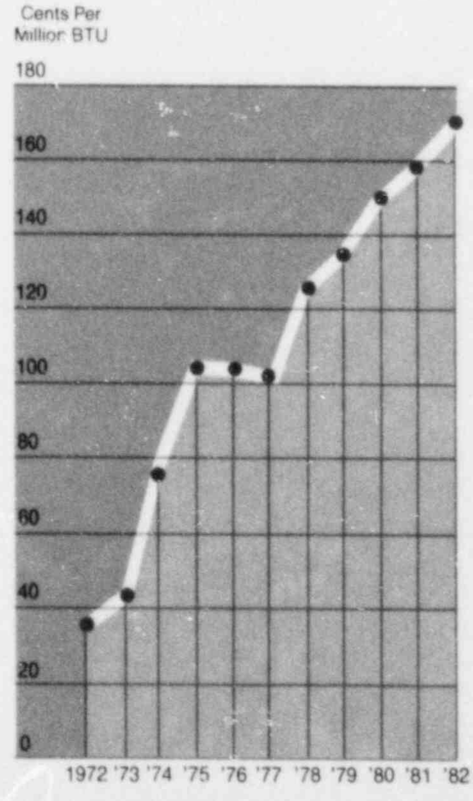
Duquesne Light had 4,960 employees at the end of 1982.

Construction of Beaver Valley Power Station Unit No. 2 (right) is approximately 59% complete. Duquesne Light owns 13.74 percent of Unit No. 2, which is scheduled to go on line in 1986. Like Unit No. 1 (left), Unit No. 2 is jointly owned by members of the Central Area Power Coordination (CAPCO) group but is being constructed and will be operated by Duquesne Light. For more information on CAPCO, see the inside back cover of this report.

Helping Customers Reduce Their Electric Bills

The desire to save on energy is much more widespread than the knowledge of how to do it cost-effectively. During 1982, Duquesne Light mailings offered residential customers a home energy audit that identifies the best opportunities for savings. We also conducted energy conservation seminars for residential customers and load management seminars for managers in business and industry. A Duquesne Light employee, Jane Cricks, serves as a radio hostess. Her weekly 90-minute question-and-answer show covers a wide range of energy conservation and homemaking topics.

COST OF FOSSIL AND NUCLEAR FUEL



New Headquarters Location

The recent relocation of Duquesne Light's headquarters into 13 floors of One Oxford Centre provides long-term relief from three problems: serious overcrowding in the old headquarters, high maintenance costs and low energy efficiency. (It would have been too costly to renovate our old headquarters.) Also, the new offices will give our employees a more productive, pleasant working environment. The downtown Pittsburgh office space market was extremely competitive at the time we were looking for space. We were able to negotiate a very favorable 20-year lease for our new corporate offices.

Company Report on Financial Statements

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

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

The accompanying consolidated financial statements have been audited by Deloitte Haskins & Sells, independent public accountants, whose appointment was approved at the 1982 Annual Meeting of Stockholders. Their examination was made in accordance with generally accepted auditing standards and included a review of the system of internal accounting controls and tests of transactions to the extent they considered necessary to provide reasonable assurance that the financial statements are not misleading and do not contain material errors.

The Board of Directors has an Audit Committee composed of four non-officer directors which met four times in 1982. The Audit Committee has the following duties and responsibilities: (1) recommend the independent public accountants; (2) review the planned scope and results of their audit and other services to be performed; (3) review the financial statements and the related report of the independent public accountants; (4) review with the officers, internal auditors and the independent public accountants the adequacy of the Company's system of internal accounting control, including their recommendations with respect thereto; and (5) review the planned scope and results of the internal audit function. The independent public accountants and internal auditors have full and free access to the Audit Committee and meet with it, with and without management being present, to discuss internal accounting controls, auditing and financial reporting matters.

C. M. Atkinson John M Arthur

C. M. Atkinson
Vice President
Fiscal

John M. Arthur
Chairman of the Board and
President

Opinion of Independent Certified Public Accountants

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

TO THE DIRECTORS AND STOCKHOLDERS
OF DUQUESNE LIGHT COMPANY:

We have examined the consolidated balance sheets of Duquesne Light Company as of December 31, 1982 and 1981 and the related statements of consolidated income, retained earnings, capital surplus and changes in financial position for each of the three years in the period ended December 31, 1982. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such consolidated financial statements present fairly the consolidated financial position of Duquesne Light Company at December 31, 1982 and 1981 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1982, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

February 17, 1983

Duquesne Light Company

Statement of Consolidated Income

For the Three Years Ended December 31, 1982

(Thousands of Dollars, Except Per Share Amounts)

	1982	1981	1980
ELECTRIC OPERATING REVENUES	**$746,462**	$786,229	$674,744
OPERATING EXPENSES:			
Fuel	**229,693**	242,871	202,797
Purchased power (sales)—net	**(23,172)**	16,189	18,524
Other operation	**126,151**	113,423	99,251
Maintenance (Note N)	**66,855**	63,106	60,401
Depreciation	**62,939**	60,854	53,316
Taxes other than income taxes (Note N)	**57,476**	57,694	47,637
Income taxes (Note H)	**71,213**	72,263	60,654
Total Operating Expenses	**591,155**	626,400	542,580
OPERATING INCOME	**155,307**	159,829	132,164
OTHER INCOME:			
Allowance for equity funds used during construction	**35,415**	24,619	22,325
Income taxes—credit (Note H)	**17,906**	14,462	10,011
Other income and deductions—net	**8,913**	3,467	4,424
Total Other Income	**62,234**	42,548	36,760
INCOME BEFORE INTEREST CHARGES	**217,541**	202,377	168,924
INTEREST CHARGES:			
Interest on long-term debt	**111,726**	97,404	80,558
Other interest	**3,471**	6,957	4,267
Allowance for borrowed funds used during construction, net of income taxes	**(14,853)**	(11,393)	(9,196)
Total Interest Charges	**100,344**	92,968	75,629
INCOME FROM CONTINUING ELECTRIC OPERATIONS BEFORE EXTRAORDINARY GAIN	**117,197**	109,409	93,295
DISCONTINUED STEAM HEATING OPERATIONS (Note C):			
Loss from operations of discontinued steam heating subsidiary	**(924)**	(538)	(333)
Loss on disposition of discontinued steam heating subsidiary	**(9,000)**	—	—
INCOME BEFORE EXTRAORDINARY GAIN	**107,273**	108,871	92,962
EXTRAORDINARY GAIN ON EARLY EXTINGUISHMENT OF BONDS (Note D)	**9,609**	—	—
NET INCOME	**116,882**	108,871	92,962
DIVIDENDS ON PREFERRED AND PREFERENCE STOCK	**22,701**	22,976	23,353
EARNINGS FOR COMMON STOCK	**$ 94,181**	$ 85,895	$ 69,609
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (000)	**48,236**	41,764	38,267
EARNINGS PER SHARE OF COMMON STOCK:			
Income From Continuing Electric Operations	**$ 1.96**	$ 2.07	$ 1.83
Loss From Discontinued Steam Heating Operations (Note C)	**(.21)**	(.01)	(.01)
Extraordinary Gain (Note D)	**.20**	—	—
Net Income	**$ 1.95**	$ 2.06	$ 1.82
DIVIDENDS DECLARED PER SHARE OF COMMON STOCK	**$ 1.90**	$ 1.85	$ 1.80

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

Duquesne Light Company

Consolidated Balance Sheet

December 31, 1982 and 1981
(Thousands of Dollars)

	1982	1981
ASSETS		
PROPERTY, PLANT AND EQUIPMENT:		
Electric plant:		
In service	$2,347,640	$2,202,613
Construction work in progress	675,621	582,734
Held for future use	1,293	825
Total electric plant	3,024,554	2,786,172
Steam heating plant (Note C):		
In service	—	23,371
Construction work in progress	—	210
Total property, plant and equipment	3,024,554	2,809,753
Less accumulated depreciation	504,680	477,009
Property, Plant and Equipment—Net	2,519,874	2,332,744
OTHER PROPERTY AND INVESTMENTS:		
Nonutility property (at original cost less accumulated depreciation of $308 and $278, respectively)	2,008	1,565
Miscellaneous investments	8,489	275
Total Other Property and Investments	10,497	1,840
CURRENT ASSETS:		
Cash and temporary cash investments (at cost which approximates market)	33,663	50,655
Accounts receivable:		
Customers (less reserve for uncollectible accounts of $2,270 and $2,242, respectively)	60,177	71,089
Tax refund	5,494	2,875
Other	21,284	20,386
Materials and supplies (generally at average cost):		
Coal	69,194	53,111
Other operating and construction	33,964	30,767
Deferred income taxes	7,265	—
Other current assets	13,851	12,000
Total Current Assets	244,892	240,883
DEFERRED DEBITS:		
Extraordinary property losses (Note B)	40,334	31,443
Deferred coal costs (Notes G and M)	18,338	15,669
Other deferred debits	49,476	45,998
Total Deferred Debits	108,148	93,110
Total	$2,883,411	$2,668,577

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

	1982	1981
LIABILITIES		
CAPITALIZATION (Note E):		
Common Stock (authorized—60,000,000 shares; outstanding—53,276,525 and 45,302,520 shares, respectively)	$ 53,277	$ 45,303
Capital surplus	649,376	550,244
Retained earnings	168,784	167,149
Total Common Stockholders' Equity	871,437	762,696
Non-redeemable Preferred and Preference Stock	156,137	156,137
Redeemable Preferred and Preference Stock, less sinking fund and purchase requirements	140,829	143,924
First mortgage bonds (less sinking fund requirements and current maturities)	1,006,637	983,870
Other long-term debt (less current maturities)	199,934	176,682
Unamortized debt discount and premium—net	(9,488)	(9,453)
Total Capitalization	2,365,486	2,213,856
CURRENT LIABILITIES:		
Long-term debt maturing within one year	12,500	14,000
Accounts payable	98,399	80,010
Accrued income taxes (Note H)	4,931	4,427
Other accrued taxes	13,658	18,381
Energy cost rate refunds	9,974	—
Accrued interest	27,497	24,342
Dividends declared	30,302	27,232
Sinking fund and purchase requirements (Note E)	10,987	9,733
Reserve for loss on discontinued steam heating operations (Note C)	2,698	—
Total Current Liabilities	210,946	178,125
DEFERRED CREDITS:		
Investment tax credits	126,447	109,866
Accumulated deferred income taxes	172,600	158,463
Other deferred credits	7,932	8,267
Total Deferred Credits	306,979	276,596
COMMITMENTS AND CONTINGENT LIABILITIES (Notes G, I, L and M)		
Total	$2,883,411	$2,668,577

Duquesne Light Company

Statement of Changes in Consolidated Financial Position

For the Three Years Ended December 31, 1982
(Thousands of Dollars)

	1982	1981	1980
SOURCE OF FUNDS:			
Continuing electric operations:			
Income from continuing electric operations before extraordinary gain	**$117,197**	$109,409	$ 93,295
Items not affecting working capital:			
Depreciation	**66,303**	63,560	56,156
Investment tax credit deferred—net	**17,335**	11,524	16,021
Income taxes deferred—net (noncurrent portion)	**18,466**	38,040	17,550
Allowance for equity and borrowed funds used during construction	**(50,268)**	(36,012)	(31,521)
Total	**169,033**	186,521	151,501
Discontinued steam heating operations	**(9,924)**	(538)	(333)
Items not affecting working capital (including depreciation: 1982, $595; 1981, $610; 1980, $581)	**(349)**	690	576
Total From Operations (excluding extraordinary gain)	**158,760**	186,673	151,744
Extraordinary gain on early extinguishment of bonds	**9,609**	—	—
Sale of bonds	**65,000**	80,000	110,000
Issuance of Common Stock	**107,369**	61,332	65,309
Nuclear fuel obligations	**24,221**	—	—
Increase (decrease) in notes payable	**—**	(35,000)	24,000
Construction costs reimbursed by trustees from proceeds of pollution control financings	**—**	50,000	3,223
Decrease in working capital (exclusive of current maturities of long-term debt) (a)	**30,312**	—	—
Total Source of Funds	**$395,271**	$343,005	$354,276
APPLICATION OF FUNDS:			
Construction expenditures (net of allowance for equity and borrowed funds used during construction)	**$231,022**	$178,942	$209,778
Dividends on capital stock	**115,247**	100,268	93,188
Reduction of first mortgage bonds	**43,852**	—	12,000
Sinking fund and purchase requirements	**2,691**	4,461	3,740
Deferred coal costs	**2,669**	15,355	314
Other—net	**(210)**	15,679	7,202
Increase in working capital (exclusive of current maturities of long-term debt and notes payable) (a)	**—**	28,300	28,054
Total Application of Funds	**$395,271**	$343,005	$354,276

(a) The components of working capital (exclusive of current maturities of long-term debt and notes payable) were as follows:

	1982	1981	1980
Current assets:			
Cash and temporary cash investments	**$ 33,663**	$ 50,655	$ 3,550
Accounts receivable	**86,955**	94,350	84,816
Materials and supplies and other current assets	**117,009**	95,878	111,892
Deferred income taxes	**7,265**	—	—
Total	**244,892**	240,883	200,258
Current liabilities:			
Accounts payable and accrued interest	**125,896**	104,352	87,297
Accrued taxes	**18,589**	22,808	30,023
Energy cost rate refunds	**9,974**	—	—
Dividends declared	**30,302**	27,232	23,889
Sinking fund and purchase requirements	**10,987**	9,733	10,591
Reserve for loss on discontinued steam heating operations	**2,698**	—	—
Total	**198,446**	164,125	151,800
Working capital at close of year	**46,446**	76,758	48,458
Working capital at beginning of year	**76,758**	48,458	20,404
Increase (decrease) in working capital (exclusive of current maturities of long-term debt and notes payable)	**$(30,312)**	$ 28,300	$ 28,054

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

Duquesne Light Company

Statement of Consolidated Retained Earnings

For the Three Years Ended December 31, 1982
(Thousands of Dollars)

	1982	1981	1980
BALANCE AT BEGINNING OF YEAR	**$167,149**	$158,546	$158,772
NET INCOME FOR THE YEAR	**116,882**	108,871	92,962
Total	**284,031**	267,417	251,734
DEDUCT:			
Cash Dividends Declared:			
Preferred Stock:			
4% Series	**1,100**	1,100	1,100
3.75% Series	**281**	281	281
4.15% Series	**291**	291	291
4.20% Series	**210**	210	210
4.10% Series	**246**	246	246
$2.10 Series	**336**	336	336
$8.64 Series	**2,271**	2,323	2,375
$7.20 Series	**2,520**	2,520	2,520
$8.375 Series	**2,512**	2,512	2,512
Preference Stock:			
$7.50 Series	**2,038**	2,119	2,195
$2.75 Series	**1,035**	1,177	1,426
$2.315 Series	**2,778**	2,778	2,778
$2.10 Series	**2,520**	2,520	2,520
$9.125 Series	**4,563**	4,563	4,563
Common Stock (Per Share: 1982—$1.90; 1981—$1.85; 1980—$1.80)	**92,546**	77,292	69,835
Total cash dividends	**115,247**	100,268	93,188
BALANCE AT CLOSE OF YEAR	**$168,784**	$167,149	$158,546

Statement of Consolidated Capital Surplus

For the Three Years Ended December 31, 1982
(Thousands of Dollars)

	1982	1981	1980
BALANCE AT BEGINNING OF YEAR	**$550,244**	$494,228	$433,984
Premium on common stock issued	**99,395**	56,196	60,693
Expense of issuing capital stock (debit)	**(263)**	(180)	(449)
BALANCE AT CLOSE OF YEAR	**$649,376**	$550,244	$494,228

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

Notes to Financial Statements

A. SUMMARY OF ACCOUNTING POLICIES:

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

Property, Plant and Equipment
The properties of the Company are carried at original cost and, with minor exceptions, are subject to a first mortgage lien. All maintenance and repairs and replacements of minor units of property are charged to income. Replacements of retirement units of property and betterments are charged to property. In connection with retirements, reserves are charged with the carrying value, plus dismantling charges, less salvage, of property retired. See Note C concerning disposition of the subsidiary's properties.

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

Allowance for Funds Used During Construction
In accordance with the uniform system of accounts prescribed by regulatory authorities, an allowance for funds used during construction (AFC) is included in construction work in progress and credited to other income for AFC attributable to equity funds and to interest charges for AFC attributable to borrowed funds, net of income taxes. AFC is a non-cash item and is computed using a composite rate, which is applied to the balance of construction work in progress and assumes that funds used for construction are provided by borrowings and by preferred, preference and common stock equity. The rate, compounded semi-annually, was 8.5%, 7.6% and 7.4% in 1982, 1981 and 1980, respectively. This accounting procedure results in the inclusion in property, plant and equipment of amounts considered by regulatory authorities as appropriate costs for the purpose of establishing rates for utility charges to customers.

Depreciation
The Company provides for depreciation of electric plant, exclusive of coal properties, on a straight-line basis determined in a manner consistent with applicable Pennsylvania law and with methods applied by the Pennsylvania Public Utility Commission in the determination of depreciation in rate proceedings. The Company provides for decontamination and dismantling costs for the Beaver Valley No. 1 nuclear generating unit in accordance with the provisions of the orders of the Commission. The Company is allowed to recover annual decommissioning annuity payments to provide for the decommissioning of the nuclear related components. Such costs are currently estimated to be approximately $30,000,000. The Company deposits certain revenues in a trust fund which has been established to pay for such costs. At December 31, 1982, $1,199,000 was included in the Decommissioning Trust Fund, which represents the aggregate value of revenue deposits and interest earned on investments made by the trustee. Provisions for depreciation and depletion of other Company property and the steam heating subsidiary's property are made on various bases such as tons of coal mined for coal properties.

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

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

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

The Nuclear Waste Policy Act of 1982 provides for the administration by the United States Department of Energy (DOE) of a nuclear waste disposal fund and an interim storage fund. The funds will be used to dispose of high-level radioactive waste and spent nuclear fuel from nuclear power reactors. Disposal costs will be borne by the owners and generators of such fuel and waste. Beginning on April 7, 1983 the Company will be required to provide for a fee of one mill per kilowatt hour on electricity generated and sold by its nuclear power plants in addition to a one-time fee for nuclear fuel used prior to April 7, 1983. The amount of the one-time fee and other related matters are the subjects of proposed DOE regulations and the method of providing for such fees has not yet been determined. Although no provision for such costs has been made at December 31, 1982, management believes that such costs should be recoverable from its customers.

Debt Discount, Premium and Expense

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

B. EXTRAORDINARY PROPERTY LOSSES:

In January 1980, the Company and the other CAPCO companies cancelled the construction of four nuclear generating units. The Company's share of the accumulated costs applicable to these units was $34,528,000 as of December 31, 1982. The Company has received approval from the Federal Energy Regulatory Commission (FERC) and the Pennsylvania Public Utility Commission (Commission) to amortize and recover from its customers these accumulated costs over a 10-year period beginning on January 29, 1983. A petition for reconsideration and modification has been filed by the Pennsylvania Consumer Advocate to the portion of the Commission's January 28, 1983 rate order allowing such recovery.

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

The Commission did not allow any return on the unamortized costs of either of the property losses.

C. DISCONTINUED STEAM HEATING OPERATIONS:

On August 30, 1982 the Pennsylvania Public Utility Commission entered an order approving the application by the Company's steam heating subsidiary, Allegheny County Steam Heating Company, to discontinue steam service to the public effective May 31, 1983 and to transfer to Pittsburgh Allegheny County Thermal, Ltd. (PACT) a major portion of the subsidiary's assets for nominal consideration. The order became final on September 30, 1982. The transfer of the assets is expected to become effective on May 31, 1983. In addition, a lease to PACT of a steam generating plant for nominal consideration became effective on January 3, 1983 after completion by the subsidiary of certain demolition work at the plant.

The provision for loss on the disposition of the subsidiary's assets is estimated to be approximately $9,000,000 (net of income tax benefit of approximately $8,712,000) and the loss from operations is approximately $924,000 (net of income tax benefit of approximately $1,028,000) for the nine months ended September 30, 1982. The provision for loss on disposition includes estimated operating losses for the subsidiary of $1,100,000 (net of income tax benefit of approximately $970,000) for the period October 1, 1982 through May 31, 1983. The 1981 and 1980 operating results have been reclassified to present separately the results of discontinued steam heating operations from continuing electric operations.

At December 31, 1982 assets and liabilities included in the consolidated balance sheet applicable to the discontinued steam heating subsidiary were not material. Revenues from discontinued steam heating operations for 1982, 1981 and 1980 were approximately $8,845,000, $10,996,000 and $15,071,000, respectively.

D. EARLY EXTINGUISHMENT OF BONDS:

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

E. CAPITALIZATION:

Capital Stock:

	December 31, 1982 Shares Outstanding	December 31, 1982 Amount	December 31, 1981 Shares Outstanding	December 31, 1981 Amount
Common Stock—$1 par value (1)	**53,276,525**	**$ 53,276,525**	45,302,520	$ 45,302,520
Capital Surplus:				
Premium on Common Stock		**$655,993,654**		$556,598,987
Capital stock expense (debit)		**(7,065,326)**		(6,607,112)
Other		**447,147**		252,261
Total capital surplus		**$649,375,775**		$550,244,136
Non-redeemable Preferred and Preference Stock:				
Preferred Stock—$50 par value (cumulative) (1)				
4% Series (2)	**549,969**	**$ 27,498,450**	549,969	$ 27,498,450
3.75% Series (2)	**150,000**	**7,500,000**	150,000	7,500,000
4.15% Series (2)	**140,000**	**7,000,000**	140,000	7,000,000
4.20% Series (2)	**100,000**	**5,000,000**	100,000	5,000,000
4.10% Series (2)	**120,000**	**6,000,000**	120,000	6,000,000
$2.10 Series (2)	**160,000**	**8,000,000**	160,000	8,000,000
$7.20 Series (3)	**350,000**	**17,500,000**	350,000	17,500,000
Preference Stock—$1 par value (cumulative) (1)				
$2.315 Series (4)	**1,200,000**	**1,200,000**	1,200,000	1,200,000
$2.10 Series (4)	**1,200,000**	**1,200,000**	1,200,000	1,200,000
		80,898,450		80,898,450
Premium on Non-redeemable Preferred and Preference Stock		**75,238,760**		75,238,760
Non-redeemable Preferred and Preference Stock		**$156,137,210**		$156,137,210
Involuntary liquidation value		**$155,998,450**		$155,998,450
Redeemable Preferred and Preference Stock:				
Preferred Stock—$50 par value (cumulative) (1)				
$8.64 Series (3)	**262,872**	**$ 13,143,600**	268,872	$ 13,443,600
$8.375 Series (3)	**300,000**	**15,000,000**	300,000	15,000,000
Preference Stock—$1 par value (cumulative) (1)				
$7.50 Series (3)	**268,920**	**268,920**	280,120	280,120
$2.75 Series (4)	**365,020**	**365,020**	385,100	385,100
$9.125 Series (3)	**500,000**	**500,000**	500,000	500,000
		29,277,540		29,608,820
Premium on Redeemable Preferred and Preference Stock		**113,027,160**		114,917,880
Purchase and Sinking Fund Requirements		**(1,475,500)**		(602,500)
Redeemable Preferred and Preference Stock		**$140,829,200**		$143,924,200
Involuntary liquidation value		**$140,829,200**		$143,924,200

(1) Authorized shares: Common Stock—60,000,000; Preferred Stock—4,000,000; and Preference Stock—8,000,000.

(2) $50 per share involuntary liquidation value.
(3) $100 per share involuntary liquidation value.
(4) $25 per share involuntary liquidation value.

The following summary indicates the changes in the number of shares of Common Stock outstanding during 1982, 1981 and 1980:

	Year Ended December 31, 1982	1981	1980
Common Stock:			
Shares outstanding at beginning of year	**45,302,520**	40,166,083	35,550,000
Issuances:			
Common Stock sales	**4,500,000**	4,100,000	4,000,000
Dividend Reinvestment Plan	**1,962,320**	902,977	446,172
Employee Stock Ownership Plan	**104,787**	133,460	169,911
Exchanged for outstanding First Mortgage Bonds	**1,406,898**	—	—
Shares outstanding at end of year	**53,276,525**	45,302,520	40,166,083

The number of shares reserved at December 31, 1982 for issuance under the Dividend Reinvestment Plan and the Employee Stock Ownership Plan are 888,531 and 591,842, respectively. In January 1983, an additional 3,000,000 shares were registered for the Dividend Reinvestment Plan.

The outstanding Preference Stock of the Company is callable on not less than thirty days' notice at the following redemption prices plus accrued dividends: $7.50—redeemable at $112 through April 1, 1983; $105 through April 1, 1986; $103 through April 1, 1989; and $101 thereafter; $2.75—not redeemable prior to August 1, 1984 through certain refunding operations, otherwise redeemable at $27.75 through July 31, 1984; $26.50 through July 31, 1989; and $25.25 thereafter; $2.315—redeemable at $26.60 through March 31, 1986; $25.90 through March 31, 1991; and $25.25 thereafter; $2.10—redeemable at $26.40 through March 31, 1987; $25.70 through March 31, 1992; and $25.00 thereafter; $9.125—not redeemable prior to January 1, 1989 through certain refunding operations, otherwise redeemable at $100 plus the applicable redemption premium decreasing from $7.20 in 1983 to $.48 in 1998.

The outstanding Preferred Stock of the Company is callable on not less than thirty days' notice at the following redemption prices plus accrued dividends: 4%—$51.50; 3.75%—$51.00; 4.15%—$51.73; 4.20%—$51.71; 4.10%—$51.75; $2.10—$51.84; $8.64—redeemable at $107 through September 30, 1984; $104 through September 30, 1989; and $101 thereafter; $7.20—redeemable at $102.50 through March 31, 1987; and $101 thereafter; $8.375—not redeemable prior to April 1, 1983 through certain refunding operations, otherwise redeemable at $112 through March 31, 1988, and thereafter at $100 plus the applicable redemption premium decreasing from $5.03 in 1988 to $.34 in 2003.

Redeemable Preferred and Preference Stock: The shares of $7.50 Preference Stock are entitled to a non-cumulative purchase fund under which the Company offers to purchase annually at $100 per share up to 4% of the number of shares originally issued. The shares of $2.75 Preference Stock are subject to a cumulative sinking fund which will retire 55,000 shares by August 1 in each year at $25 per share. The Company may on a non-cumulative basis retire an additional 55,000 shares in each such year. The shares of $9.125 Preference Stock are subject to a cumulative sinking fund beginning with the year 1984 and continuing through 1997 inclusive which will retire 33,300 shares on January 1 in each year at $100 per share. The Company may, on a non-cumulative basis, retire an additional 33,300 shares in each such year, provided that the Company may not redeem through the exercise of this option more than an aggregate of 150,000 shares. The Preference Stock is entitled to quarterly cumulative dividends except that no dividends may be paid if dividends on any series of the Preferred Stock are accumulated and unpaid. In the event that six quarterly dividends on any series of Preference Stock are in default, the holders of the Preference Stock are entitled to elect two directors until all dividends in arrears have been paid.

The shares of $8.64 Preferred Stock are entitled to a non-cumulative purchase fund under which the Company offers to purchase annually up to 6,000 shares at not more than $100 per share. The shares of $8.375 Preferred Stock are subject to a cumulative sinking fund beginning with the year 1984 which will retire 12,000 shares on April 1 in each year at $100 per share. The Company may on a non-cumulative basis retire an additional 12,000 shares in each such year. The Preferred Stock is entitled to quarterly cumulative dividends. In the event that four quarterly dividends on any series of Preferred Stock are in default, the holders of the Preferred Stock are entitled to elect a majority of the Board of Directors until all dividends in arrears and current dividends have been paid.

The combined aggregate sinking fund and mandatory purchase requirements for the next five years as of December 31, 1982 are as follows:

Year Ending December 31,	Sinking Fund and Mandatory Purchase Requirements
1983	$2,775,500
1984	7,805,000
1985	7,805,000
1986	7,805,000
1987	7,805,000

The following summary indicates the changes in the number of shares of Redeemable and Non-redeemable Preferred and Preference Stock outstanding during 1982, 1981 and 1980:

	Year Ended December 31, 1982	1981	1980
Preference Stock:			
Shares outstanding at beginning of year	**3,565,220**	3,678,650	3,751,360
Purchases and redemptions —$2.75 Series	**(20,080)**	(103,750)	(61,150)
—$7.50 Series	**(11,200)**	(9,680)	(11,560)
Shares outstanding at end of year	**3,533,940**	3,565,220	3,678,650
Preferred Stock:			
Shares outstanding at beginning of year	**2,138,841**	2,144,841	2,150,841
Purchases—$8.64 Series	**(6,000)**	(6,000)	(6,000)
Shares outstanding at end of year	**2,132,841**	2,138,841	2,144,841

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

	December 31, 1982	December 31, 1981
Series due September 1, 1982 (3¼%)	$ —	$ 14,000,000
Series due September 1, 1983 (3⅝%)	12,000,000	12,000,000
Series due July 1, 1984 (3⅛%)	16,000,000	16,000,000
Series due April 1, 1986 (3½%)	20,000,000	20,000,000
Series due April 1, 1988 (3¾%)	15,000,000	15,000,000
Series due March 1, 1989 (4¼%)	10,000,000	10,000,000
Series due February 1, 1996 (5⅛%)	22,800,000	25,000,000
Series due February 1, 1997 (5¼%)	24,600,000	25,000,000
Series due February 1, 1998 (6⅜%)	34,700,000	35,000,000
Series due January 1, 1999 (7%)	30,000,000	30,000,000
Series due July 1, 1999 (7¾%)	28,947,000	30,000,000
Series due March 1, 2000 (8¾%)	30,000,000	30,000,000
Series due March 1, 2001 (7⅞%)	35,000,000	35,000,000
Series due December 1, 2001 (7½%)	26,461,000	35,000,000
Series due June 1, 2002 (7½%)	28,470,000	35,000,000
Series due January 1, 2003 (7¼%)	32,670,000	40,000,000
Series due July 1, 2003 (7¾%)	35,000,000	35,000,000
Series due April 1, 2004 (8⅝%)	44,100,000	45,000,000
Series due March 1, 2005 (9½%)	50,000,000	50,000,000
Series due June 1, 2006 (9%)	80,000,000	80,000,000
Series due April 1, 2007 (8⅜%)	97,400,000	100,000,000
Series due February 1, 2009 (10⅛%)	100,000,000	100,000,000
Series due January 1, 2010 (12¼%)	60,000,000	60,000,000
Series due September 1, 2010 (14¼%)	50,000,000	50,000,000
Series due June 1, 2011 (16%)	80,000,000	80,000,000
Series due May 1, 2012 (16¼%)	65,000,000	—
Total	1,028,148,000	1,007,000,000
Less:		
Current maturities—Series due September 1, 1982 (3¼%)	—	14,000,000
Current maturities—Series due September 1, 1983 (3⅝%)	12,000,000	—
Current sinking fund requirements	9,511,480	9,130,000
First Mortgage Bonds (less sinking fund requirements and current maturities)	$1,006,636,520	$ 983,870,000

Other Long-Term Debt:

Pollution Control Obligations:

Date of Issuance	Average Interest Rate	Serial Maturity or Mandatory Redemption Beginning	Final Maturity	December 31, 1982	December 31, 1981
September 21, 1972	5.49%	1983	2002	$ 24,000,000	$ 24,000,000
June 21, 1973	5.685%	1984	2003	12,000,000	12,000,000
October 25, 1973	5.755%	1984	2003	16,000,000	16,000,000
August 13, 1974	7.97%	1989	2004	14,000,000	14,000,000
April 2, 1975	7.50%	1993	2005	17,000,000	17,000,000
October 29, 1975	8.40%	1991	2005	18,000,000	18,000,000
September 29, 1976	6.90%	1994	2011	15,000,000	15,000,000
March 24, 1981	12.00%	2002	2011	50,000,000	50,000,000
Total				166,000,000	166,000,000
Less: Current maturities				500,000	—
Pollution Control Obligations (less current maturities)				165,500,000	166,000,000
Nuclear Fuel Obligations				24,221,187	—
5% Sinking Fund Debentures (authorized $20,000,000) due March 1, 2010				10,213,000	10,682,000
Total Other Long-Term Debt				$199,934,187	$176,682,000

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

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

Sinking fund requirements and maturities for the next five years for long-term debt outstanding, exclusive of the nuclear fuel obligations, as of December 31, 1982 are as follows:

Year Ending December 31	Sinking Fund Requirements	Maturities
1983	$10,161,480	$12,500,000
1984	10,326,480	16,700,000
1985	10,539,480	700,000
1986	10,551,480	20,700,000
1987	10,576,480	800,000

The sinking fund requirements in each year relate primarily to the First Mortgage Bonds, which requirements may be satisfied by the certification of property additions at 166⅔% of the Bonds required to be redeemed, and the pollution control obligations. The remaining sinking fund requirement relates to the 5% Sinking Fund Debentures. At December 31, 1982, sinking fund requirements for the 5% Debentures had been satisfied for 1983 and 1984, and the 1985 sinking fund requirement had been partially satisfied in the amount of $187,000.

Total interest costs incurred during 1982, 1981 and 1980 were $125,004,000, $111,331,000 and $91,091,000, respectively, of which $60,075,000, $42,982,000 and $37,788,000, respectively, were capitalized or deferred, including allowance for funds used during construction.

F. SHORT-TERM BORROWING ARRANGEMENTS:

At December 31, 1982 the Company had lines of credit with two banks totaling $15,000,000, all of which was unused. The range of interest rates under these lines of credit are from prime rate less one half of one percent to the prime rate. There are no commitment fees or compensating balances associated with these lines of credit. In addition, the Company has a $60,000,000 revolving credit agreement available to December 15, 1986, all of which was unused at December 31, 1982. Borrowings outstanding at December 15, 1986 may be converted to term notes payable in six equal semi-annual instalments commencing June 15, 1987 and concluding December 15, 1989. Interest rates fluctuate during the revolving and term periods, depending on the period of borrowings, at percentages in excess of prime, Euro-Rate or CD rates. During the revolving period there is a commitment fee of ½% per annum on the average unborrowed commitment. There is no commitment fee during the term period.

During the years ended December 31, 1982, 1981 and 1980 the maximum amount of short-term borrowings outstanding was $37,000,000, $60,140,000 and $63,500,000, the average daily short-term borrowings outstanding were $1,559,000, $28,341,000 and $23,408,000 and the weighted average daily interest rate applicable to such short-term borrowings was 15.39%, 17.58% and 12.47%, respectively.

G. DEFERRED COAL COSTS:

The Company and the other CAPCO companies have made long-term coal supply arrangements with Quarto Mining Company (Quarto), an unaffiliated company, to supply coal for the Bruce Mansfield Units. In December 1980 the Pennsylvania Public Utility Commission (Commission) instituted an investigation into the reasonableness of the cost of coal supplied by Quarto. By Interim Order entered January 12, 1981 the Commission directed that, pending conclusion of the investigation or further order of the Commission, the Company limit its recovery of the cost of Quarto coal through its energy cost rate to approximately the prevailing market price of similar coal rather than the actual cost of Quarto coal. At December 31, 1982 the unrecovered cost of Quarto coal reflected in the Company's records was approximately $18,338,000, including $1,486,000 applicable to Quarto coal in inventory. As required by the Interim Order, the Company is deferring the excess of the actual cost of Quarto coal over the cost allowed to be recovered through its energy cost rate until recovery of the actual cost is permitted by the Commission. If recovery of such excess is disallowed, the amount deferred would be charged to income in the year of disallowance. Thereafter, any excess of actual cost over the amount permitted to be recovered would be charged to income on a current basis. The deferrals and methods of ultimately recovering such deferrals were the subject of discussions between representatives of the Company and the Commission staff. Such discussions resulted in the filing with the Commission of a Stipulation Agreement, which sets forth a method intended to permit the eventual recovery of the accumulated deferrals of the excess of Quarto coal costs over market price. The administrative law judge assigned to the investigation entered an order, subject to review by the Commission, approving the Stipulation Agreement. On November 19, 1982 the Commission remanded the Stipulation Agreement to the administrative law judge for hearings. Management of the Company believes that the deferred costs were prudently incurred and that the eventual outcome of the Commission's investigation will not have a material effect on the Company's financial position or results of operations. The CAPCO companies are continuing to evaluate the economics of the Quarto arrangements and are considering various means for reducing production costs. See Note M to the financial statements.

H. INCOME TAXES:

Total income taxes in 1982, 1981 and 1980 were comprised of the following components:

	1982	1981	1980
		(Thousands of Dollars)	
Included in operating expenses:			
Currently payable:			
Federal	**$25,257**	$20,519	$12,990
State	**12,694**	13,680	5,335
Income taxes deferred—net:			
Federal	**13,997**	26,080	17,063
State	**(228)**	(1,057)	7,581
Investment tax credit deferred—net	**19,493**	13,041	17,685
Total	**71,213**	72,263	60,654
Included in other income (income taxes—credit):			
Currently payable:			
Federal	**(14,267)**	(11,523)	(7,977)
State	**(3,639)**	(2,939)	(2,034)
Total income tax expense	**$53,307**	$57,801	$50,643
Taxes currently payable—federal and state	**$20,045**	$19,737	$ 8,314
Taxes deferred—net	**13,769**	25,023	24,644
Investment tax credit deferred—net	**19,493**	13,041	17,685
Total income tax expense	**$53,307**	$57,801	$50,643

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

Sources of income taxes deferred and the tax effects were:

	1982	1981	1980
Excess of tax over book depreciation	**$14,490**	$12,672	$18,249
Fuel costs expensed on tax return and deferred on books	**(3,552)**	(3,062)	5,526
Investment tax credit carryforward recognized against income taxes deferred—net	**—**	16,932	(13,844)
Extraordinary property losses expensed on tax return and deferred on books	**3,019**	81	13,894
Other	**(188)**	(1,600)	819
Total income taxes deferred—net	**$13,769**	$25,023	$24,644

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

	1982	1981	1980
Computed federal income tax on continuing electric operations at statutory rate	**$78,432**	$76,917	$66,211
Increase (decrease) in taxes resulting from:			
Allowance for funds used during construction	**(23,123)**	(16,565)	(14,500)
Excess of tax over book depreciation	**1,131**	(577)	22
State income taxes, net of federal income tax benefit	**4,766**	5,229	5,876
Amortization of deferred investment tax credits	**(4,251)**	(3,663)	(3,090)
Other-net	**(3,648)**	(3,540)	(3,876)
Total income tax expense	**$53,307**	$57,801	$50,643

I. PRIOR YEARS' INCOME TAXES:

The Company's income tax returns are settled through 1970 with the exception of the percentage depletion issue discussed below. Income tax returns for 1971 through 1979 have been examined, and the 1980 and 1981 returns are being examined. The Internal Revenue Service assessed deficiencies regarding the Company's computation of percentage depletion on coal mined for 1956 through 1961 and proposed similar deficiencies for 1962 through 1979, as well as certain other issues of relatively minor importance for 1971 through 1979. The Company expects that an earlier court decision in favor of the Company concerning percentage depletion for the years 1956 through 1961 will serve as the basis for settlement of the issue for the years 1962 through 1979. Management of the Company believes that the settlement of federal and state taxes will not significantly affect the Company's financial position or results of operations.

J. EMPLOYEE BENEFITS:

The Company has trusteed retirement plans to provide pensions for all employees, except coal mine employees who are covered under a plan administered by the United Mine Workers of America. Information concerning the plan covering coal mine employees is not determinable and is not included in the data below. Pension costs are funded as accrued and include amortization of prior service costs over 30 years. Pension costs charged to expense or construction for the years ended December 31, 1982, 1981 and 1980 were $12,313,000, $10,083,000 and $9,392,000, respectively. The increase in pension costs in 1982 and 1981 is due principally to a plan amendment effective May 1, 1981, increasing pension payments to employees retired prior to October 1, 1979. The accumulated plan benefits and net assets available for benefits for the trusteed plans are presented as of the December 31 benefit information dates. The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 5% for each year.

	December 31,		
	1981	1980	1979
	(Thousands of Dollars)		
Actuarial present value of accumulated plan benefits:			
Vested	**$151,756**	$135,345	$126,308
Nonvested	**11,566**	10,750	10,562
Total	**$163,322**	$146,095	$136,870
Net assets available for benefits (at market value)	**$111,013**	$107,798	$ 91,167

The Company is liable under the Federal Coal Mine Health and Safety Act, as amended, and similar state laws for the payment of benefits to coal mine employees disabled by black lung and to their survivors and dependents. The estimated costs of providing such benefits, including amortization of prior service costs over the remaining estimated life of the Warwick mine, are actuarially determined and accrued on the basis of mine payroll costs and are deposited with a trustee. Such costs were $1,417,000, $1,524,000 and $1,494,000 for the years ended December 31, 1982, 1981 and 1980, respectively. At July 31, 1982 (the date of the latest actuarial valuation), the unfunded prior service cost for these disability benefits was approximately $23,670,000.

K. JOINTLY-OWNED GENERATING UNITS:

The Company, together with other electric utilities, primarily the CAPCO companies, has an ownership interest in certain jointly-owned units. Information regarding the Company's share of such jointly-owned units as of December 31, 1982 is as follows (thousands of dollars):

	Company's Interest				
Unit	Utility Plant in Service	Accumulated Depreciation	Construction Work in Progress	Percentage Ownership	Megawatts
Fort Martin No. 1	$ 45,833	$ 13,185	$ 187	50.0	276
CAPCO Units:					
Eastlake No. 5	49,900	9,861	582	31.2	198
Sammis No. 7	41,577	10,579	21,570	31.2	187
Bruce Mansfield No. 1	72,115	13,042	261	29.3	228
Bruce Mansfield No. 2	20,200	2,960	502	8.0	62
Bruce Mansfield No. 3	70,956	4,952	455	13.74	110
Bruce Mansfield Common and Shared Facilities	57,969	10,809	3,301		
Beaver Valley No. 1	321,339	41,576	15,522	47.5	385
Beaver Valley No. 2	18	—	186,437	13.74	114
Beaver Valley Common Facilities	43,847	3,999	35,366		
Perry No. 1	—	—	181,722	13.74	165
Perry No. 2	—	—	163,664	13.74	165
Total	$723,754	$110,963	$609,569		

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

L. LEASES:

Rental payments in 1982, 1981 and 1980 amounted to $17,679,000, $16,389,000 and $10,388,000, respectively, of which $15,393,000, $14,169,000 and $4,778,000 were charged to operating expenses. The Company has an undivided interest in nuclear fuel lease agreements for three CAPCO generating units. Rental payments are made monthly during the terms of the leases based on the amount of nuclear fuel leased and the amount of nuclear fuel burned. The nuclear fuel leases may be terminated by the lessees or lessors with notice as defined in the agreements or by casualty or certain other contingencies, including default by the lessees. In certain situations involving a termination, the lessees may be required to purchase the leased nuclear fuel at the higher of fair market value or unamortized cost. At December 31, 1982, the Company's share of the lessor's unamortized cost of the leased nuclear fuel was $106,968,000 and the Company expects to lease an additional $41,016,000 of nuclear fuel under current leasing arrangements. The Company finalized a nuclear fuel trust arrangement in 1982 which will provide an alternative method of financing nuclear fuel.

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

At December 31, 1982 minimum rental payments, based principally on estimated usage of nuclear fuel under lease and building rentals were as follows:

	(Thousands of Dollars)
1983	$ 29,474
1984	30,743
1985	24,307
1986	23,470
1987	19,646
1988-1992	80,229
After 1992	69,975
Total	$277,844

The Company accounts for all of its leases (exclusive of the nuclear fuel trust arrangement described above) as operating leases in accordance with the manner in which the Company's rates have been established by the Pennsylvania Public Utility Commission. If the noncapitalized financing leases were capitalized as of December 31, 1982 and 1981, property, plant and equipment-net would have been increased by $117,538,000 and $64,978,000, respectively, with related increases in current liabilities and long-term debt of $12,154,000 and $105,820,000, respectively, in 1982 and $4,722,000 and $60,644,000, respectively, in 1981. The impact on net income of capitalizing such leases in each year would not be material.

M. COMMITMENTS AND CONTINGENT LIABILITIES:

Construction

The Company's current estimate of construction expenditures, exclusive of nuclear fuel and allowance for funds used during construction, during the period 1983 through 1987 amounts to approximately $974 million, principally related to CAPCO generating units.

Quarto Mining Company (Quarto)

The Company and the other CAPCO companies have made long-term coal supply arrangements with Quarto, an unaffiliated company, to supply coal for the Bruce Mansfield Units. As part of these arrangements the individual CAPCO companies are severally, and not jointly, guaranteeing their proportionate shares of Quarto's debt and lease obligations incurred in connection with the development, equipping and operation of two mines from which the coal is supplied. At December 31, 1982 the Company had guaranteed the obligations of Quarto with respect to approximately $57,209,000 of indebtedness and had guaranteed lease obligations relating to approximately $28,999,000 of capital equipment for the mines. The Company expects that by 1984 it will have made further substantial guarantees with respect to additional indebtedness and leased capital equipment, the amount of which will depend on the actual costs of further development of the two mines. In general, it is contemplated that the purchase prices to be paid for the coal to be received under the foregoing arrangements will include amounts sufficient to service the obligations so guaranteed.

Under the terms of the coal supply contracts, which continue until December 31, 1999 with options to extend for ten additional years, the CAPCO companies must reimburse Quarto for their share of the costs of operating the Quarto mines, including those costs associated with mine construction, whether or not they receive coal from Quarto. The Company's total payment under these contracts amounted to $24,292,000 and $28,603,000 for the years ended December 31, 1982 and 1981, respectively.

The Company's estimate of future obligations for fixed costs associated with the Quarto coal supply arrangements are:

1983	$ 9,228,000
1984	9,021,000
1985	8,814,000
1986	8,608,000
1987	8,401,000
After 1987	86,245,000

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

Beaver Valley Replacement Power

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

On November 19, 1982 the Commission adopted an order nisi which ordered refunds of $12.5 million over a two-year period. The Company expects to appeal this order if it becomes final. The Company and outside counsel do not agree with the Commission's order, and no provision has been recorded by the Company for any such refunds. While the Company is unable to predict what action the Commission or an appellate court may ultimately take and although the amount of such refunds could be substantial, management of the Company believes that the replacement power costs were prudently incurred and that the eventual outcome of this matter will not have a material effect on the Company's financial position or results of operations.

Nuclear Insurance

The Company has coverage with American Nuclear Insurers ("ANI") and Mutual Atomic Energy Liability Underwriters ("MAELU") to provide primary property insurance coverage for Beaver Valley Power Station Units Nos. 1 and 2 in the amount of $500 million. The Company's interests in Perry Nuclear Power Plant Units Nos. 1 and 2 are also covered under policies issued by ANI and MAELU which are administered by The Cleveland Electric Illuminating Company, the CAPCO company which is constructing those units.

The Company is a member of Nuclear Electric Insurance Limited ("NEIL"), a mutual insurer established by the utility industry to provide Decontamination Liability and Excess Property Insurance in excess of $500 million for members' nuclear generating facilities. NEIL presently provides such excess coverage in the amount of $345 million plus 14% of the amount of the loss in excess of $500 million up to $1 billion. Under this policy the Company is subject to a retrospective premium assessment of approximately $2.8 million per year for a period of seven years in the event of accidents at nuclear plants of member companies if losses exceed premiums, reserves and other NEIL resources.

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

In addition, NEIL also provides insurance coverage for the extra expense of replacement power during prolonged accidental outages of nuclear plants. Coverage is provided for the Company's interest in Beaver Valley Power Station Unit No. 1 and, after a deductible period of 26 weeks, weekly payments of up to $1,187,500 are provided for one year and up to $593,750 for an additional year. If losses exceed accumulated funds available to NEIL, the Company could be assessed approximately $3,400,000 for payment of NEIL's obligations.

The Price-Anderson Amendments to the Atomic Energy Act limit liability to third parties to $560 million for each nuclear incident. Coverage of the first $160 million of such liability is provided through ANI and Mutual Atomic Energy Liability Underwriters ("MAELU"). The next $400 million is provided by retroactive assessments of up to a limit of $5 million per operating nuclear reactor per incident, but not more than $10 million per operating reactor in any calendar year. Based on its present ownership interest in one operating nuclear reactor, the Company's maximum potential assessment under these provisions would be $2.4 million per incident but not more than $4.8 million per calendar year.

Rate Matters

Effective July 15, 1981 the Company increased its rates by about $64.2 million annually in accordance with an option order of the Pennsylvania Public Utility Commission. On April 15, 1982 the Commission adopted its final order in the rate proceeding which determined that the option rate increase of $64.2 million annually was just and reasonable. The final order has been appealed to the Pennsylvania Commonwealth Court by the Pennsylvania Consumer Advocate and certain other complainants. Management believes that the ultimate resolution of this rate matter will not have a material adverse effect on the Company's financial position or results of operations.

On April 30, 1982 the Company filed with the Pennsylvania Public Utility Commission a new rate schedule affecting all classes of customers and estimated to increase annual revenues based on projected levels of business at December 31, 1982 by approximately $165 million (subsequently reduced to approximately $155 million). On January 28, 1983 the Commission entered a final order allowing an increase of $105.8 million beginning on January 29, 1983.

Other

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

N. SUPPLEMENTARY INCOME STATEMENT INFORMATION:

	Year Ended December 31,		
	1982	1981	1980
	(Thousands of Dollars)		
Maintenance	**$78,431**	$73,029	$71,697
Taxes other than income taxes:			
Gross receipts	**33,186**	34,980	30,012
Property	**14,139**	12,583	11,149
State capital stock	**6,601**	6,301	2,816

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

Charges for depreciation and amortization of intangible assets, royalties and advertising costs have not been shown as the individual amounts do not exceed 1% of total revenues.

The above amounts are exclusive of discontinued steam heating operations.

O. QUARTERLY FINANCIAL INFORMATION (Unaudited):

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

	1982 Quarter Ended				1981 Quarter Ended			
	March 31	**June 30**	**Sept. 30**	**Dec. 31**	March 31	June 30	Sept. 30	Dec. 31
Electric Operating Revenues (a)	**$207,398**	**$186,628**	**$181,720**	**$170,716**	$185,787	$184,928	$215,250	$200,264
Operating Income (a)	**41,662**	**38,480**	**40,223**	**34,942**	36,212	35,117	45,535	42,966
Income from Continuing Electric Operations Before Extraordinary Gain	**32,296**	**28,990**	**30,845**	**25,066**	23,717	21,599	32,655	31,440
Discontinued Steam Heating Operations (b)	**371**	**(484)**	**(9,811)**	**—**	823	(619)	(618)	(124)
Extraordinary Gain (c)	**—**	**—**	**—**	**9,609**	—	—	—	—
Net Income	**32,667**	**28,506**	**21,034**	**34,675**	24,540	20,980	32,037	31,316
Earnings Per Share:								
Income from Continuing Electric Operations Before Extraordinary Gain	**$.58**	**$.51**	**$.51**	**$.37**	$.44	$.39	$.66	$.57
Discontinued Steam Heating Operations (b)	**.01**	**(.01)**	**(.20)**	**—**	.02	(.01)	(.02)	—
Extraordinary Gain (c)	**—**	**—**	**—**	**.19**	—	—	—	—
Net Income	**.59**	**.50**	**.31**	**.56**	.46	.38	.64	.57

(a) Certain amounts previously reported as Operating Revenues and Operating Income for 1981 and the first two quarters of 1982 have been reclassified to set forth separately the results of the steam heating subsidiary as discontinued steam heating operations.

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

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

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

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

STATEMENT OF INCOME ADJUSTED FOR CHANGING PRICES

For The Year Ended December 31, 1982
(Thousands of Dollars)

	Conventional Historical Cost	Constant Dollar Average 1982 Dollars	Current Cost Average 1982 Dollars
Electric operating revenues	$746,462	$746,462	$746,462
Fuel	229,693	229,693	229,693
Purchased power (sales)—net	(23,172)	(23,172)	(23,172)
Other operation and maintenance expenses	193,006	193,006	193,006
Depreciation expense	62,939	143,093	157,314
Taxes other than income taxes	57,476	57,476	57,476
Income taxes	71,213	71,213	71,213
Other income and deductions—net	(62,234)	(62,234)	(62,234)
Interest charges	100,344	100,344	100,344
	629,265	709,419	723,640
Income from continuing electric operations (excluding reduction of property, plant and equipment to net recoverable cost)	$117,197	$ 37,043*	$ 22,822
Increase in specific prices (current cost) of property, plant and equipment held during the year**			$259,022
Reduction of property, plant and equipment to net recoverable cost		$(13,991)	(68,120)
Effect of increase in general price level			(190,672)
Excess of increase in general price level over increase in specific prices after reduction of property, plant and equipment to net recoverable cost			230
Gain from decline in purchasing power of net amounts owed		62,109	62,109
Net		$ 48,118	$ 62,339

*Including the reduction of property, plant and equipment to net recoverable cost, the net income on a constant dollar basis would have been $23,052.

**At December 31, 1982, current cost of property, plant and equipment, net of accumulated depreciation, was $5,252,097, while historical cost or net cost recoverable through depreciation was $2,521,882.

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

(In Thousands, Except Per Share Amounts)

	Year Ended December 31,				
	1982	1981	1980	1979	1978
Average 1982 dollars:					
Electric operating revenues	**$746,462**	$834,430	$790,391	$812,865	$831,951
Historical cost information adjusted for general inflation:					
Income from continuing electric operations (1) (excluding reduction of property, plant and equipment to net recoverable cost)	**37,043**	38,306	40,718	43,474	
Income per share from continuing electric operations (1) (after dividend requirements on preferred and preference stock)	**$ .30**	$ .33	$ .35	$ .37	
Net assets at year-end at net recoverable cost	**861,602**	783,287	775,267	790,097	
Current cost information:					
Income from continuing electric operations (1) (excluding reduction of property, plant and equipment to net recoverable cost)	**22,822**	22,695	22,497	20,777	
Loss per share from continuing electric operations (1) (after dividend requirements on preferred and preference stock)	**—**	$(.04)	$(.13)	$(.33)	
Excess of increase in general price level over increase in specific prices after reduction of property, plant and equipment to net recoverable cost	**230**	116,736	228,030	230,381	
Net assets at year-end at net recoverable cost	**861,602**	783,287	775,267	790,097	
General information:					
Gain from decline in purchasing power of net amounts owed	**62,109**	143,392	200,234	230,052	
Cash dividends declared per share of common stock	**$ 1.90**	$ 1.96	$ 2.11	$ 2.35	$ 2.55
Market price per share of common stock at year-end	**$14.75**	$14.06	$14.79	$18.11	$21.82
Average consumer price index	**289.1**	272.4	246.8	217.5	195.4
Historical basis:					
Electric operating revenues	**$746,462**	$786,229	$674,744	$611,547	$562,308
Cash dividends declared per share of common stock	**$ 1.90**	$ 1.85	$ 1.80	$ 1.76	$ 1.72
Market price per share at year-end	**$14.75**	$13.25	$12.63	$13.63	$14.75
Proven and probable coal reserves at beginning of year (tons)	**26,300**	28,100	29,900	30,650	31,650
Tons of coal mined	**942**	680	875	928	699
Average cost per ton of mined coal	**$31.62**	$35.10	$31.14	$28.71	$30.72

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

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

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

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

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

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

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

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

Duquesne Light Company

Selected Financial Data and Statistical Summary

(Thousands of Dollars, Except Per Share Amounts)

	1982	1981	1980	1979	1978	1972
SUMMARY RESULTS OF OPERATIONS						
Residential revenues	**238,496**	223,146	196,400	176,744	167,338	72,490
Commercial revenues	**263,374**	243,501	209,871	185,880	173,940	67,952
Industrial revenues	**225,292**	300,066	250,295	232,389	205,149	68,392
Street lighting and other revenues	**13,240**	12,383	11,052	10,370	9,942	4,389
Miscellaneous revenues	**6,060**	7,133	7,126	6,164	5,939	1,939
Total electric revenues	**746,462**	786,229	674,744	611,547	562,308	215,162
Operation and maintenance expenses	**399,527**	435,589	380,973	351,731	328,955	98,757
Depreciation	**62,939**	60,654	53,316	47,885	45,104	20,726
Taxes other than income taxes	**57,476**	57,694	47,637	46,956	41,471	17,073
Income taxes	**53,307**	57,801	50,643	41,592	37,802	16,666
Interest charges, net of allowance for borrowed funds used during construction	**100,344**	92,968	75,629	65,414	60,613	26,586
Other income, principally allowance for equity funds used during construction	**44,328**	28,086	26,749	21,587	17,868	10,109
Income from continuing electric operations before extraordinary gain	**117,197**	109,409	93,295	79,556	66,231	45,463
Loss (income) from discontinued steam heating operations	**9,924**	538	333	1,194	508	(530)
Income before extraordinary gain	**107,273**	108,871	92,962	78,362	65,723	45,993
Extraordinary gain	**9,609**	—	—	—	—	—
Net income	**116,882**	108,871	92,962	82,207†	65,723	45,993
Dividends on Preferred and Preference Stock	**22,701**	22,976	23,353	23,721	18,915	7,014
Earnings for Common Stock	**94,181**	85,895	69,609	58,486	46,808	38,979
Average number of common shares outstanding	**48,236**	41,764	38,267	32,239	31,464	16,691
Earnings per share of Common Stock:						
Income from continuing electric operations	**1.96**	2.07	1.83	1.73	1.50	2.30
Net income	**1.95**	2.06	1.82	1.81†	1.49	2.34
Dividends declared on Common Stock	**1.90**	1.85	1.80	1.76	1.72	1.66
PLANT						
Property, plant and equipment	**3,024,554**	2,809,753	2,604,333	2,380,805	2,201,805	1,255,726
Accumulated depreciation	**504,680**	477,009	424,653	386,479	349,668	247,162
Net property, plant and equipment	**2,519,874**	2,332,744	2,179,680	1,994,326	1,852,137	1,008,564
TOTAL ASSETS	**2,883,411**	2,668,577	2,447,163	2,222,537	2,068,753	1,082,412
CAPITALIZATION						
Common Stock	**53,277**	45,303	40,166	35,550	31,750	18,150
Capital surplus	**649,376**	550,244	494,228	433,984	387,185	174,955
Retained earnings	**168,784**	167,149	158,546	158,772	158,035	117,332
Non-redeemable Preferred and Preference Stock	**156,137**	156,137	156,137	156,137	156,137	96,134
Redeemable Preferred and Preference Stock	**140,829**	143,924	146,867	149,998	154,572	29,985
First mortgage bonds (less sinking fund requirements and current maturities)	**1,006,637**	983,870	918,230	808,830	721,710	503,910
Other long-term debt (less current maturities)	**199,934**	176,682	126,981	127,436	128,358	30,765
Unamortized debt discount and premium—net	**(9,488)**	(9,453)	(7,161)	(5,770)	(4,977)	—
Total capitalization	**2,365,486**	2,213,856	2,033,994	1,864,937	1,732,770	979,231
RESIDENTIAL SERVICES						
Average use per customer (kilowatt-hours)	**5,668**	5,698	5,770	5,629	5,765	5,297
Average revenue per kilowatt-hour	**8.361¢**	7.806¢	6.828¢	6.363¢	5.924¢	2.928¢
SALES OF ELECTRICITY (millions of kilowatt-hours)						
Residential	**2,853**	2,858	2,876	2,778	2,825	2,475
Commercial	**4,163**	4,069	4,024	3,870	3,786	3,460
Industrial	**3,902**	6,582	6,272	6,546	5,908	5,445
Street lighting and other	**120**	125	129	131	130	111
Total	**11,038**	13,634	13,301	13,325	12,649	11,491

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

	1982	1981	1980	1979	1978	1972
ENERGY SUPPLY AND PRODUCTION DATA						
Energy supply (millions of kilowatt-hours)						
Generated in system plants	**12,352**	13,914	13,485	13,884	12,252	12,136
Purchased and net interchange	**(689)**	410	541	125	1,089	150
Losses and company use	**(625)**	(690)	(725)	(684)	(692)	(795)
Total	**11,038**	13,634	13,301	13,325	12,649	11,491
Generating capability (thousands of kilowatts)	**3,144**	3,177	3,179	3,294	3,289	2,453
Peak load (thousands of kilowatts)	**2,158**	2,522	2,474	2,296	2,379	2,075
Cost of fuel per million BTU	**167.865¢**	159.660¢	149.768¢	131.779¢	125.349¢	36.844¢
BTU per kilowatt-hour generated	**10,853**	10,931	10,811	10,924	11,031	10,647
Average production cost per kilowatt-hour	**2.575¢**	2.354¢	2.202¢	1.913¢	1.919¢	0.522¢
NUMBER OF ELECTRIC CUSTOMERS— At End of Year						
Residential	**503,987**	503,044	500,466	496,005	491,698	468,425
Commercial	**49,320**	48,859	48,308	47,978	47,681	45,717
Industrial	**1,999**	2,016	2,005	1,975	1,932	1,727
Street lighting and other	**1,647**	1,713	1,725	1,746	1,747	1,794
Total	**556,953**	555,632	552,504	547,704	543,058	517,663

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

Capital Resources and Liquidity

Construction

Construction expenditures during 1982, exclusive of allowance for funds used during construction, were approximately $231 million. These expenditures were primarily for the construction of three CAPCO generating units in addition to improving and expanding production, transmission and distribution systems, pollution control equipment and some of the Company's nuclear fuel requirements. Additional nuclear fuel is being leased.

The Company currently estimates that it will spend, exclusive of nuclear fuel and allowance for funds used during construction, approximately $214, $234, $208, $174 and $144 million for each of the years 1983 through 1987, respectively. These estimates include an aggregate of approximately $2[illegible]8 million for the three jointly-owned generating units being constructed under the CAPCO arrangements, including related transmission facilities. See Note K to the financial statements.

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

Financing

The Company anticipates that funds required for planned construction expenditures in the next several years will be provided principally from the issuance of additional equity and debt securities and in part from cash becoming available from operations. The Company issued $65 million of 16¼% First Mortgage Bonds on May 6, 1982. Funds provided to the Company under its Dividend Reinvestment Plan in 1982 amounted to approximately $25.7 million and an additional $7.4 million was reinvested on January 1, 1983. On August 10, 1982 the Company issued and sold 4.5 million shares of Common Stock. Net proceeds from the sale of the Common Stock were approximately $59.5 million. Portions of the net proceeds from these issues were used to pay short-term indebtedness and the balance was applied to construction expenditures. In addition, the Company intends to file a registration statement in March 1983 for the sale of up to $60 million First Mortgage Bonds. The exact timing and amount of this sale will depend on market conditions. The Company currently estimates that approximately 65% of the funds required for its 1983 construction program will come from outside financing.

In addition to the funds required for the construction program, $14 million of long-term debt matured in 1982, and $12.5 million will be required for maturities of long-term debt in 1983.

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

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

Rate Matters

Effective July 15, 1981 the Company increased its rates by $64.2 million annually in accordance with an option order of the Pennsylvania Public Utility Commission. The final order which approved this amount has been appealed to the Pennsylvania Commonwealth Court by the Pennsylvania Consumer Advocate and certain other complainants.

On April 30, 1982 the Company filed with the Commission a new rate schedule affecting all classes of customers and estimated to increase annual revenues based on projected levels of business at December 31, 1982 by approximately $165 million (subsequently reduced to approximately $155 million). The Commission's final order allowed an increase of $105.8 million beginning on January 29, 1983. This rate filing used a future test year which should help reduce regulatory lag and improve liquidity.

Effective May 1, 1981 the Company's energy cost rate was changed from a historical cost basis to a projected cost basis, with provisions for subsequent adjustments to actual cost. This change reduced the time lag in the recovery of energy costs through revenues that existed in the previous net energy clause and significantly reduced deferred fuel costs. Any overcollections of revenues are refunded to customers.

Extraordinary Property Losses

In 1980 the CAPCO companies cancelled the construction of four nuclear generating units. In January 1983, the Commission approved the recovery of the accumulated costs from the Company's customers. See Note B to the financial statements.

On October 1, 1982 the Shippingport Atomic Power Station was removed from commercial operation after notice from the United States Department of Energy that it was planning to terminate operation of the light water breeder reactor core at the station as of that date. The Company has received approval from the Commission to amortize and to recover the net undepreciated cost from its customers over a ten-year period. See Note B to the financial statements.

No return was allowed on either of the property loss amounts.

Deferred Coal Costs

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

Beaver Valley Replacement Power

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

Allegheny County Steam Heating Company

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

Other

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

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

Results of Operations

Operating revenues from continuing electric operations increased (decreased) in the years 1980 through 1982 over the respective preceding years, for the following reasons:

	1982	1981	1980
	(Millions of Dollars)		
General rate increases	**$ 43.0**	$ 65.6	$34.3
Electrical consumption	**(62.3)**	10.5	5.5
Energy clause revenues	**(19.0)**	33.9	20.0
State tax adjustment and other	**(1.5)**	1.5	3.4
	$(39.8)	$111.5	$63.2

The above comparisons do not include revenues from discontinued operations of the Company's steam heating subsidiary. See Note C to the financial statements.

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

Sales of electricity decreased by approximately 19% for the year 1982 compared to 1981 due primarily to the severe economic recession in the Company's service area. Almost all of the decrease pertains to sales to industrial customers, particularly the steel industry, which decreased by approximately 41%. The economic recession is expected to continue to adversely affect sales through the first quarter of 1983 and beyond.

The decreases in operation (fuel, purchased power and other operation) and maintenance expenses in 1982 compared to 1981 were due to substantial reductions in fuel and purchased power expenses. The significant reductions in kilowatt-hour sales to industrial customers resulted in a surplus capacity situation. This available capacity and the requirements of neighboring utilities resulted in substantial net sales of power. Other operation expense increased in 1982 compared to 1981 due to a scheduled outage for refueling and modification work at Beaver Valley Unit No. 1 and increased customer, general and administrative expenses. In September 1980, the CAPCO companies placed Mansfield Unit No. 3 in commercial operation which increased operation, maintenance and depreciation expenses in 1981. Additionally, fuel expense increased in 1981 compared to 1980 due primarily to increased generation, higher fuel costs and increases in deferred energy expenses. Purchased power expense decreased in 1981 compared to 1980 due primarily to increased sales of power to other utilities, the availability of Mansfield Unit No. 3 as noted above and the above-average performance of Beaver Valley Unit No. 1. These increases in available generation were partially offset by the strike of the United Mine Workers of America in the second quarter of 1981. Other operation expenses increased in 1981 compared to 1980 due to expenses at Mansfield Unit No. 3, the effects of inflation and increased general and administrative expenses.

Taxes other than income taxes increased in 1981 primarily due to increased Pennsylvania gross receipts taxes, which vary in direct relationship to revenues, and as a result of increased capital stock tax expense. Fluctuations in income taxes are due primarily to changes in taxable income. See Note H to the financial statements. The effective income tax rate for the year ended December 31, 1982 was 31% and was 35% for both 1981 and 1980.

The increases in allowance for equity and borrowed funds used during construction (AFC) were primarily due to the increased cost of construction and increases in the AFC rate from 7.4% in 1980 to 7.6% in 1981 and to 8.5% in 1982. Return on investment in Warwick mine (which is permitted to be recovered through the energy cost rate to the extent that the actual cost per ton is less than the prevailing market price of similar Pennsylvania coal) and increased interest income resulting from increases in cash available for temporary investments were primarily responsible for the increase in other income and deductions-net in 1982 compared to 1981. Interest expense for each of the years 1982, 1981 and 1980 was higher due to increased total borrowings and higher average interest rates. The weighted average interest on all debt for 1982 was 9.6%, compared with 8.8% in 1981 and 7.8% in 1980. The increases in total borrowings were due to the issuance of additional debt to finance the Company's capital expenditures.

The adverse effect of the discontinued steam heating operations is reflected in the Statement of Consolidated Income. See Note C to the financial statements.

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

Earnings per share of Common Stock for 1982, 1981 and 1980 were adversely affected by increases in the average number of shares outstanding, which reduced earnings per share by $.31, $.18 and $.34, respectively.

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

Business of the Company

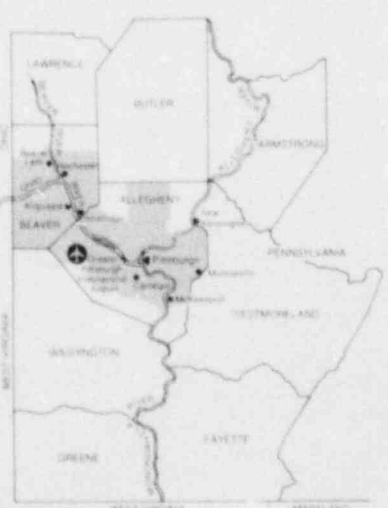
Duquesne Light Company is engaged principally in the production, transmission, distribution and sale of electric energy. The Company serves an area of approximately 800 square miles in Allegheny and Beaver Counties. This area, which includes the City of Pittsburgh, is located in Southwestern Pennsylvania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

Allegheny County Steam Heating Company, a wholly-owned subsidiary of Duquesne Light Company, provides steam heating service in the principal business section of the City of Pittsburgh. (See Note C to the financial statements for details regarding the discontinuance of steam service and the disposition of certain assets of the Steam Heating Company.)

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

Duquesne Light Company is an Equal Opportunity Employer.

Service Area



Duquesne Light Company Service Area

Common Stock Dividends

The Company has paid cash dividends on its Common Stock in each year since 1913 and on a regular quarterly basis (January 1, April 1, July 1 and October 1) in each year beginning in 1953 after becoming publicly owned. Quarterly dividends related to the four quarters of 1980 and the first two quarters of 1981 were paid at the rate of 45¢ per share. Commencing October 1, 1981 the quarterly dividend rate was increased to 47½¢ per share and was increased to 50¢ per share commencing April 1, 1983. Future dividends will depend upon future earnings, the cash position of the Company, construction requirements, rate regulation and other relevant factors. The Company expects that dividends will continue to be paid in the future.

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

No dividends or distributions may be made on the Common Stock if dividends or sinking or purchase fund obligations on the Preferred Stock or Preference Stock are accumulated and unpaid. Furthermore, the aggregate amount of junior stock payments which may be made in any 12-month period are in general limited to (1) 50% of consolidated net income for any period of 12 consecutive calendar months within the 15 preceding months if the effect of such payments would be to reduce the ratio of common stock equity to total capitalization to less than 20% or (2) 75% of such consolidated net income if the effect would be to reduce such ratio to 20% or more but less than 25%. No portion of retained earnings at December 31, 1982 was restricted by virtue of this provision. The approximate number of holders of Common Stock as of the February 25, 1983 record date for the 1983 Annual Meeting was 138,000.

Federal Income Tax Status of Common Stock Dividends

The Company estimates that portions of the Common Stock dividends paid in 1982 represent a return of capital and are not taxable as dividend income as follows:

Payment Dates	Taxable As Dividend Income	Not Taxable As Dividend Income
Jan. 1	86.56%	13.44%
Apr. 1	74.13%	25.87%
July 1	74.13%	25.87%
Oct. 1	74.13%	25.87%

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

Form 10-K Offer

If you are a holder or beneficial owner of any class of the Company's stock as of February 25, 1983, the record date for the 1983 Annual Meeting, the Company will send you, upon request and at no charge, a copy of the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year 1982 (including a list of exhibits). All requests must be made in writing to the Secretary, Duquesne Light Company, One Oxford Centre, 301 Grant Street, Pittsburgh, Pennsylvania 15279.

Board of Directors

John M. Arthur ‡
Chairman of the Board and President

Charles M. Atkinson
Vice President—Fiscal of the Company

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

Doreen E. Boyce*‡
Director, The Buhl Foundation

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

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

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

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

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

* Member of Audit Committee
† Member of Compensation Committee
‡ Member of Nominating Committee

Company Officers

John M. Arthur*
Chairman of the Board and President

Stanley G. Schaffer*
President

Charles M. Atkinson
Vice President—Fiscal

Roger D. Beck
Vice President—Engineering & Construction

John J. Carey
Vice President—Nuclear

Clifford N. Dunn
Vice President—Operations

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

George I. Rifendifer
Vice President—General Services

Earl J. Woolever
Vice President—Nuclear Construction

James O. Ellenberger
Controller

Ronald G. Males
Treasurer

Thomas Welfer, Jr.
Secretary

Richard J. Ciora
Assistant Treasurer

Lawrence P. Galie
Assistant Treasurer

Joan S. Senchyshyn
Assistant Secretary

*Stanley G. Schaffer retired as President and as a Director of the Company effective February 1, 1983. At the January 18 Board of Directors meeting, John M. Arthur was appointed to the position of President effective February 1, 1983, in addition to his present responsibility as Chairman.

CAPCO

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

Prior to 1980, ten generating units were committed under the CAPCO arrangements, which provided for joint ownership interests based on individual requirements. Duquesne Light shares in nine of these units. To date, seven are in service; three will be placed in service, one each in 1984, 1986 and 1988.

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

Duquesne Light Company

Beaver Valley #1
Nuclear—1976
Capacity: 810,000 KW
D.L. Ownership: 47.5%
D.L. Share: 384,750 KW

Beaver Valley #2
Nuclear—1986
Capacity: 833,000 KW
D.L. Ownership: 13.74%
D.L. Share: 114,454 KW

Pennsylvania Power Company

Mansfield #1
Coal—1976
Capacity: 780,000 KW
D.L. Ownership: 29.3%
D.L. Share: 228,540 KW

Mansfield #2
Coal—1977
Capacity: 780,000 KW
D.L. Ownership: 8.0%
D.L. Share: 62,400 KW

Mansfield #3
Coal—1980
Capacity: 800,000 KW
D.L. Ownership: 13.74%
D.L. Share: 109,920 KW

Ohio Edison Company

Sammis #7
Coal—1971
Capacity: 600,000 KW
D.L. Ownership: 31.2%
D.L. Share: 187,200 KW

The Cleveland Electric Illuminating Company

Perry #1
Nuclear—1984
Capacity: 1,205,000 KW
D.L. Ownership: 13.74%
D.L. Share: 165,567 KW

Perry #2
Nuclear—1988
Capacity: 1,205,000 KW
D.L. Ownership: 13.74%
D.L. Share: 165,567 KW

Eastlake #5
Coal—1972
Capacity: 635,000 KW
D.L. Ownership: 31.2%
D.L. Share: 198,120 KW

The Toledo Edison Company

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

1972-1982 Dimensions Magazine

In mid-year 1983, the Company plans to publish *Duquesne Light Dimensions* containing in-depth information concerning the Company. *Dimensions* will include an 11-year statistical review and a discussion of some of the important issues affecting Duquesne Light Company. For a copy of *Dimensions* write:

Duquesne Light Company
Public Information Department
One Oxford Centre
301 Grant Street
Pittsburgh, Pennsylvania 15279

Annual Meeting of Stockholders

The annual meeting of stockholders will be held at 10 A.M., Pittsburgh time, on Tuesday, April 26, 1983 in the second floor ballroom of the Hyatt Hotel at Chatham Center, Pittsburgh, Pennsylvania.

Transfer Agents and Registrars

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

Duquesne Light
One Oxford Centre
Pittsburgh, PA 15279