

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of THE)
CLEVELAND ELECTRIC ILLUMINATING COMPANY)
for Authority to Enter Into and Perform)
Leases Relating to the Beaver Valley) Case No. 87-1177-EL-AIS
Power Station Unit No. 2 and to Issue)
Unconditional Joint and Several)
Obligations in Connection Therewith.)

FINDING AND ORDER

The Commission finds:

- (1) Applicant is an Ohio corporation and a public utility as defined in Section 4905.02, Revised Code, subject to the jurisdiction of this Commission.
- (2) This Application, as supplemented, is filed under and complies with the provisions of Section 4905.40 and 4905.41, Revised Code.
- (3) Applicant has requested the consent and authority of the Commission to enter into and perform leases (the "Leases") relating to those undivided ownership interests in the Beaver Valley Power Station Unit No. 2, including undivided ownership interests in certain of the common facilities at said Unit No. 2, all of which are the subject of sale and leaseback financing transactions by The Toledo Edison Company ("Toledo Edison") (the "Toledo Edison Financing Transaction"), and to issue its unconditional joint and several obligations in connection with said Toledo Edison Financing Transactions (the "Obligations"). In a separate Application, Toledo Edison has requested the consent and authority of the Commission to enter into the Toledo Edison Financing Transactions and to issue its Obligations in connection therewith on a joint and several basis with Applicant.
- (4) Applicant proposes to enter into and perform the Leases, on a joint and several basis, with one or more Owner Trusts (hereinafter called the "lessors" or the "Owner Trust"), which are parties to the Toledo Edison Financing Transactions, the beneficiaries of which will be equity investors in said Financing Transactions all as described in Exhibit 3 and in the Summary of Principal Terms and Conditions, Exhibit 5A to the Application as supplemented. Such investors will enter into one or more trust agreements with the Owner Trust which will take and hold title to the facilities sold by Toledo Edison. Funds to be used by the Owner Trust to purchase the facilities from Toledo Edison will be derived from the proceeds of (i) the sale of equity interests to the equity investors, and (ii) the issuance of debt made up initially of short-term bank loans as described in Exhibit 5B to the Application as supplemented and ultimately from the sale of long-term

debt by a funding corporation. Simultaneously with the sale of the facilities by Toledo Edison, the Owner Trust will lease the facilities back to the Applicant and Toledo Edison on a joint and several basis for a term of approximately 29 years for a stipulated rent. The rent will reflect the cost of equity and debt capital incurred by the Owner Trust in the sale and issuance of equity and debt. Rental payments could increase during the term of the lease by limited amounts upon the happening of certain contingencies. Under certain circumstances, the Applicant and Toledo Edison may elect or be required to terminate the lease, assume the obligations on the debt and/or repurchase the facilities at their fair market value or for a price based on other factors substantially as described in Exhibit 3 and in the Summary of Principal Terms and Conditions of the Application.

- (5) Applicant proposes to enter into and perform the Leases and to issue its Obligations in an amount not to exceed that stated in Exhibit 3A to the Application as supplemented provided that the initial rent percentages and the aggregate fees paid by Applicant in connection with these transactions do not exceed the initial rent parameters and the aggregate of the fee parameters as set forth in said Exhibit 3A.
- (6) The parameters are based on current and historical financial market conditions, financial analysis as well as the professional judgment of the Applicant. They are intended as a gauge of market expectations that provide a reasonable allowance for potential changes in financial market conditions between the time of Commission authorization and the actual consummation of the transactions. The authorization to enter into and perform the Leases and to issue the Obligations consistent with the parameters does not relieve the Applicant of its responsibility to negotiate and obtain the best terms available.
- (7) Applicant states that, under the agreements which will govern the ownership and operation of the facilities, it and Toledo Edison will act with full power and authority with respect to the facilities, to the exclusion of the Owner Trust and/or the equity investors, and will exercise all rights and perform all the duties and responsibilities under such agreements related to the operation of Unit No. 2. The Leases will confirm this authorization to the Applicant and Toledo Edison. The Owner Trust and the beneficiaries will be subject only to typical financing risks and not operational risks or responsibilities.

- (8) Applicant will obtain irrevocable letters of credit or similar credit supports from banks or other financial institutions which will support the Applicant's obligations under the Leases and thereby further reduce the financing costs of the Toledo Edison Financing Transactions by improving the credit-worthiness for the equity investors.
- (9) The proposed Leases and issuance of the Obligations are subject to certain conditions precedent including, but not limited to, the approval by this Commission, in a form and substance satisfactory to all parties, of the entering into and performing of the Leases and the issuance of the Obligations.
- (10) The entering into and performing of the Leases and the issuance of the Obligations, all on a joint and several basis, should result in an overall enhancement of credit supporting the Toledo Edison Financing Transactions. To the extent Applicant makes rental payments it will, through agreements with Toledo Edison, be entitled to a pro rata portion of the power and energy available from Unit No. 2. The cost of the power and energy thus obtained by Cleveland Electric should be lower for such power and energy than if it did not enter into and perform the Leases and issue its Obligations associated with the Toledo Edison Financing Transaction. Additionally, it is presumed that the improved credit-worthiness of Toledo Edison will, through the resulting improved financial standing of Centerior, reduce the cost of money to Cleveland Electric.
- (11) Applicant states that the principal reasons for structuring the proposed lease agreements as joint and several leases are to achieve an overall enhancement of the credit supporting the lease obligations and to provide additional flexibility for capacity rationalization as between itself and Cleveland Electric. The Commission considers the first reason as the basis for approval of this financing transaction. Approval of this transaction does not constitute a Commission determination as to the reasonableness of any reallocation of capacity nor is it a guarantee of recovery of any payment made pursuant to the Leases or Obligations which may result. Such a determination can only be made in a subsequent proceeding in which the effects of the reallocation can be evaluated.
- (12) Applicant, upon giving adequate notice to the lessors is expected to have the following options: (a) to renew the Leases for a fixed renewal term, (b) to renew the Leases for a fair market value renewal term, (c) to purchase the facilities, or, (d) to return the facilities to the

lessors. Applicant shall obtain the Commission's approval prior to Applicant's selection as to which of these options is to be exercised by the Applicant, at the appropriate time prior to the scheduled expiration of the lease term.

- (13) The entering into and performing of the Leases and the issuance of the Obligations do not appear to be unjust or unreasonable, and the terms thereof and the probable cost to Applicant, which are to be no less favorable than the terms described hereinabove, do not appear to be unjust or unreasonable.
- (14) The impact of the Leases and the issuance of the Obligations on Applicant's revenue requirements will be considered in the determination of required revenues in rate proceedings in which all factors affecting rates will be taken into account according to law.
- (15) The Commission is satisfied that consent and authority for Applicant to enter into and perform the Leases and to issue its Obligations in connection therewith, including entering into all necessary documentation, should be granted.

It is, therefore,

ORDERED, That Applicant, The Cleveland Electric Illuminating Company, is authorized to enter into and perform Leases in connection with The Toledo Edison Company's sale and leaseback financing transactions relating to Beaver Valley Unit No. 2 in an amount not to exceed that described in the Applicant's Application as supplemented, and to issue its unconditional joint and several obligations in connection therewith, including entering into all necessary documentation and including obtaining irrevocable letters of credit or similar credit facilities, provided that the initial rent and aggregate fees paid by Applicant in connection with these transactions do not exceed the initial rent parameters and the aggregate of the fee parameters set forth in Exhibit 3A to the Application as supplemented. It is, further,

ORDERED, That Applicant shall file a written report with this Commission as promptly as practicable after the entering into of the Leases authorized by this Order containing a summary of actual costs and expenses associated with the parameters stated in Exhibit 3A to the Application as supplemented. It is, further,

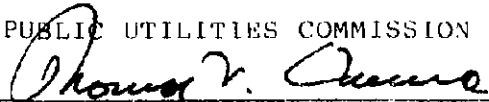
ORDERED, That Applicant shall obtain the Commission approval, at the appropriate time prior to the scheduled expiration of the lease term, as to which option (as referred to in Finding (12)) to be exercised by the Applicant. It is, further,

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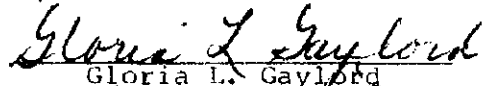
ORDERED, That nothing contained in this Order shall be deemed to be binding upon this Commission in any future proceeding or investigation involving the justness or reasonableness of any rate, charge, rule or regulation of the Applicant. It is, further,

ORDERED, That a copy of this Order be served upon all parties of record.

THE PUBLIC UTILITIES COMMISSION OF OHIO


Thomas V. Chema, Chairman


William H. Brooks


Gloria L. Gaylord


Ashley C. Brown



Alan R. Schriber

JB:dsc

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A True Copy


Nancy L. Wolpe
Secretary